INFLUENCE OF CORPORATE GOVERNANCE ATTRIBUTES ON FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY

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A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER DEGREE IN BUSINESS ADMINISTRATION IN FINANCE OF KENYA METHODIST UNIVERSITY

SEPTEMBER, 2021

DECLARATION

I declare that this is my original work that has not been presented in any other university for examination purposes.

Signature---------------------------------- Date----------------------------

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BUS-3-0139-1/2019

DECLARATION BY THE SUPERVISORS:

This thesis has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this work to my lovely family, husband, and my three Children.

ACKNOWLEDGEMENTS

First and foremost, I would like to thank Allah for giving me good health while writing this thesis. I would also wish to express my gratitude to my supervisors: Doreen Mutegi and Michael Kiama for their guidance in writing this thesis. Finally, I would like to thank my classmates for their moral support in writing this thesis.

ABSTRACT

The issue of corporate governance is still a debate across the world, with some emphasizing its role in their firm performance whereas others underplay its role in some other business. The purpose of the current study was to establish the influence of corporate governance attributes on the financial performance of microfinance institutions in Nairobi. The specific objectives of the study were to: establish the influence of board size, board composition, chief executive characteristics, audit committee characteristics, and the firm's ownership type on the financial performance of Microfinance Institutions in Nairobi County. The study was guided by the stewardship theory, agency theory, and legitimacy theories. Nairobi city County MFIs (board members and CEOs and auditors) totaling 351 were considered for the study. Yamane formula was used to provide a sample of 187 respondents for the study. Primary data was collected through the drop and pick method through questionnaires, whereas secondary data was collected from financial newsletters, published financial statements. Data collected for the study was analyzed through descriptive analysis. Multilinear regression was conducted to establish the nature of the relationship between independent and dependent variables. Presentation of the results was done on tables and graphs. The study revealed that board size and financial performance had a significant relationship; board composition and financial performance had a significant relationship; chief executive characteristics and financial performance had a significant relationship; audit committee characteristics and financial performance had a significant relationship whereas ownership type and financial performance had an insignificant. The study concluded that board size, board composition, CEO characteristics, and audit committee had a positive and significant influence on the financial performance of MFIs in Nairobi County. However, ownership type did not significantly influence the financial performance of MFIs in Nairobi. The study recommended for an appropriate number of board members that were cos effective in decisions making, a good mix of directors of both executive and non-executive, men and women professionals and experienced members to ensure higher financial performance; CEOs who were independent, and well experienced in corporate governance knowledge; an audit committee that has financial professional skills and meets regularly to safeguard the institutions' assets and ownership comprising people who had the best interest of the institution.

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ABBREVIATIONS AND ACRONYMS

AC	Audit committee
BOD	Board of directors
CEO	Chief executive officer
CG	Corporate governance
GDP	Gross domestic product
ICT	Information communication and technology
KNBS	Kenya national bureau of statistics
MFIs	Microfinance institutions
MFIs	Microfinance institutions
NBFIs	Non-bank financial institutions
NGOs	Non-governmental organizations
OECD	Organization of Economic Co-operation and Development's
ROE	Return on equity
ROI	Return on investment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of corporate governance has become a debate across the world due to the challenges affecting the performance of multinational corporations. Large companies including micro-financial institutions have changed their practices and legislation across public and private corporations to address the way these institutions and companies are managed and therefore enhance their performance.

The challenge of corporate governance issues emanates from the agent to the principal relationship supported by the agency theory. The nature of the relationship between the owners of a company and the manners is in the form of agent and the principal relationship. In this relationship owners or investors in a company funds projects and all other undertakings of business undertaking whereas the issue of management is left primarily in the hand of managers who have great experience and knowledge in making returns from the financial investment committed by the investors or owners (Madison et al., 2017).

A crisis in corporate governance comes in when the managers fail to decide on the best interest of the investors, therefore, causing investors financial losses (Shi et al., 2017).

Corporate governance has attracted so much attention across the globe due to the many benefits associated with it. Effective Corporate governance serves different purposes including management of all stakeholders interests such as ensuring that customer satisfaction with the guidelines and services that are offered by the company, the suppliers also benefit from being paid in good time, the employees of the company also get their compensations in good time and adequately whereas on the other hand corporate governance plays a vital role in ensuring that the

company remains compliant with the regulatory environment such as health and occupational safety, environmental regulations as well as meeting statutory submissions such as paying of taxes (Edwin & Timothy, 2016).

Corporate governance also plays a role in ensuring that a company remains competitive through winning new clients, customers as well as sponsors through its set image. In the international financial markets companies with good corporate governance practices have higher chances of attracting foreign financial investments due to investors' confidence in the internal operations, on the other hand, many companies, especially in developing countries, are finding it difficult to attract foreign support as a result of questionable corporate practices (Li et al., 2016).

Effective corporate governance is perceived to be the solution across the globe in the assurance of the survival of companies and great economies. The world's companies’ giant's in the United States of America including; Enron, the Houston, Texas-based energy giant surprised many after their unethical and illegal operations came to light. These illegal operations involved allocating themselves hefty annual bonuses and luxurious allowances that ultimately led to the collapse of the companies. Other companies across the world were faced with similar challenges including Parmalat found in Italy where top management and directors of these companies collude to award themselves prestigious awards including luxurious cars and homes only for the shareholders to realize later that there had nothing left as earnings on their shares. Illegal actions included manipulating companies’ books of accounts to make them look good therefore attracting external investors only for them to realize financial information given was misleading (Prosman et al., 2016).

Corporate governance has been perceived as the solution to the global crisis on corporates' failure and economic shock and has since become a debatable issue all over the world. This is due to its

ability to dress major financial risks of companies. In the United States of America, for instance, big corporations including mortgage lenders (such as Bear Steers and JP Morgan) as well as investment banks (such as Freddie Mac and Fannie Mae) faced financial crises and financial losses as a result of not putting up in place corporate body that would guide the functioning of the company in the dire hours of needs. The concept of corporate governance gained further predominance through the Cadbury report that recommended the adherence to corporate governance practices to cushion against fraud as a result of increased business globalization that steered for increased accountability and better financial performance of companies. In India, the concept of corporate governance started gaining root as early as the year 2000 as a result of demand for transparency among corporate executives which is the subject of corporate governance.

The economic development of many developing countries can be attributed to the growth of microfinance institutions (MFIs) in this region. The low-income community in these countries has greatly benefited from these institutions from financial services such as technical assistance as well as loans for the development of businesses (Hartungi, 2017). Besides, these institutions provide other services that commercial banks find difficult to provide to low-income clients in society. These services include savings, insurance, microloans, payment services, transfers and remittances, and other deposit products and financial services (Hoque & Chisty, 2017).

In Africa as well they have warmed up to the provisions of corporate governance to address the challenges facing their corporations. Issues of corporate governance have become a common catchphrase among African companies on debates affecting financial performance for prospective investors and partnerships by foreign investors.

In Sub-Saharan Africa, the microfinance institutions are institutions that are geographically dispersed and have a broad range of financial services to provide to low-income clients,

cooperatives, postal and savings financial institutions, non-bank financial institutions, rural banks, and non-governmental organizations (NGOs) as well as some commercial banks (Brown, 2017). Several factors have promoted the growth of MFIs in Kenya. These factors include job creation, social welfare as well as the general economic improvement of the lives of the poor in the society. However, most MFIs find it difficult to be viable in the long term despite the growing interest in the sector and the subsidies offered to them. A survey found that 30% of locally initiated microfinance programs that were operating in 2001, could not lend capital after only two years of operation or they simply were not in operation (Bhatt et al., 2016). Moreover, most reports on microfinance programs and institutions indicate that without grants, subsidies, or external fundraising, most MFIs could not sustain their operations for long (Kimando, 2018). A key aspect that helps most MFIs to remain in business in a turbulent and ever-changing economy is by renewing their strategies to attain a competitive advantage over the other MFIs. To achieve this, most MFIs have made the process of acquiring loans simple and quick as well as providing cheap loans. However, these institutions face several challenges when trying to implement strategies that will enhance their growth (Lafourcade, 2019).

In Kenya, on the other hand, the central bank got speed with the situation of corporate governance crisis and resolve the formation of audit committees in these companies to address financial risks faced by those corporations, also, the regulator of commercial banks in Kenya ordered for the lowering of the chief executive officers shareholding in these companies to control his influence all these attempts geared toward reducing financial risks (Wagana & Karanja, 2017).

The wave of companies downsizing did not leave Kenya behind with major corporations including Blue shield insurance company coming to their knees with the cause being to do with corporate governance issues. In Kenya, like in any other part of the world, the concept of corporate

governance has become very popular through the capital market authority and it is through this concept that Kenya has remained an official ally of the commonwealth association for corporate governance. Both private and public companies have fallen victim to what corporate governance can cost a company. Kenya having adopted the principles of corporate governance of the Organization of Economic Co-operation and Development (OECD) has boosted the strengthening of these principles in Kenya. The prepositions by the OECD were further taken up back in the year 2000 by the capital market authority which made it compulsory for all companies listed at the Nairobi stock exchange to adhere to best principles on board composition, duality nature of CEO (separation of roles of chair and executive), the board size, the rights of the shareholders and the function of the audit committee.

A Microfinance institution (MFI) can be defined as the process through which financial services are provided to low-income and poor entrepreneurs (Gateway, 2018). These services are offered in different types depending on the service provider. Apart from financial services, development services are offered by some of the microfinance institutions. Some of these development services include social services and skills training. However, these services are not included in the definition as the focus is only on the financial definition of microfinance (Ledgerwood & White, 2018). From the definition of microfinance, one can define a microfinance institution as a formal organization which only focuses on the business of microfinance (Christen, 2013). Institutions that can be categorized as microfinance institutions vary from one country to another. However, the world is coming to a consensus on these institutions that may include state-owned development banks, financial cooperatives, and non-governmental organizations (NGOs), commercial banks, and some unlicensed and licensed non-bank financial institutions (NFBIs) whose primary focus is in providing services to the poor.

Kenya’s Economic survey (2017) has indicated that the performance of MFIs in Kenya has continued to decline from 2015 through 2017 which has been associated with high credit risks that result in high non-performing loans and MFIs borrowing at high-interest loans. The huge decline in profits among the MFIs has seen the central bank push for strict core capital measures and laws as well as governance rules as some of the laws to cushion further losses. The main purpose of the proposed amendment was to promote a more resilient, transparent, and stable microfinance sector that can adapt quickly and efficiently to emerging challenges, risks, and opportunities.

The study considered 25 MFIs in Nairobi county where a majority of them are found and the researcher can easily locate them and therefore easier to collect data.

1.2 Statement of the Problem

Corporate governance remains instrumental in the achievement of the economic wealth of countries across the globe by ensuring that financial and non-financial checks, policies, and controls are upheld to sustain the growth of companies. However, this does come easy as corporate governance calls for very high levels of ethical practices and transparency in the way businesses are managed (Bansal & Sharma, 2016). The Board of directors is also expected to act as a well-organized and coordinated team that helps in setting key strategies and ensuring that the management entrusted with managing the businesses does exactly that (Dam, 2018). One sensitive area that corporate governance needs special attention is in the financial sector due to the high number of stakeholders involved. MFIs are supposed to demonstrate financial health to build trust among investors/depositors, suppliers, employees, government, and other stakeholders (Bansal & Sharma, 2016).

However, MFIs are faced with a greater risk of financial fraud and losses. Kenya's financial sector witnessed the collapse of banks including Imperial Bank, Dubai Bank, and Chase Bank whose

subsidiary was Rafiki microfinance. The collapse incidence of Chase bank saw panic over the fall of Rafiki microfinance and therefore resulting in customers overwhelmingly withdrawing their deposit during that period. According to the central bank of Kenya report (2017) on bank supervision report, the banking sector of Kenya's micro-finance loss went as high as $7.31 million for the financial period that ended December 2017, the previous year 2016 the loss was $ 3.77 million. The sector that earlier the year of 2013 had reported profits instead saw a further increase in non-performing loans rise from $73.1million in 2014 to $99.1million in 2017, the customer deposits also went down to $394 in 2017 from the previous year 2016 deposit of $401.9. The huge decline in profits among the MFIs has seen the central bank push for tougher core capital laws and governance rules as some of the laws to cushion further losses. The main purpose of the proposed amendment was to promote a more resilient, transparent, and stable microfinance sector that can adapt quickly and efficiently to emerging challenges, risks, and opportunities.

Several studies have locally been conducted on CG however, none has considered the influence of internal attributes of CG on the performance of MFIs financially (Victor 2015) on CG and how the manufacturing firms listed in the Nairobi Stock Exchange perform financially; Opanga (2011) on CG and how insurance firms in Kenya perform financially). The study found contradicting results, the study by Victor noted that CG through corporate disclosure does not influence performance whereas Opanga noted that gender diversity is a significant factor that influences the financial performance of insurance companies This study seeks to bring to light the attributes of corporate governance that influence the financial performance by answering the question: which are the internal CG internal attributes that influence the financial performance of MFIs?

1.3 Research Objectives

1.3.1 General objective

To establish the influence of internal attributes of corporate governance on the financial performance of microfinance institutions in Nairobi County

1.3.2 Specific Objectives

i. To establish the influence of board size on the financial performance of Microfinance Institutions in Nairobi County
ii. To examine the influence of board composition on the financial performance of Microfinance Institutions in Nairobi County
iii. To determine the influence of chief executive characteristics on the financial performance of Microfinance Institutions in Nairobi County
iv. To establish the influence of audit committee characteristics on the financial performance of Microfinance Institutions in Nairobi County
v. To determine the influence of ownership type on the financial performance of Microfinance Institutions in Nairobi County

1.4 Research Questions

i. What is the influence of board size on the financial performance of Microfinance Institutions in Nairobi County?
ii. How does board composition influence the financial performance of Microfinance Institutions in Nairobi County?
iii. What is the influence of chief executive characteristics on the financial performance of Microfinance Institutions in Nairobi County?

iv. What is the influence of audit committee characteristics on the financial performance of Microfinance Institutions in Nairobi County?

v. How does the firm's ownership type influence the financial performance of Microfinance Institutions in Nairobi County?

1.5 Significance of the study

1.5.1 Management of MFIs

Top management is tasked with the responsibility of making key decisions of a company and also making policies that guide the vision of the company. The recommendations of the current study on what microfinance institutions ought to do as corporate measures helped in ensuring that the company improves its financial performance.

1.5.2 Future Scholars

To future Scholars who pursue corporate governance, they can use the empirical findings of the study in building their literature and also compare results, to generalize findings or contrast results.

1.6.3 Policy Makers in the Financial Sector

The policymakers in the financial sector such as the regulator of the financial sector can use the findings and the policy recommendations of the study to help in the better regulation of the sectors including the introduction of policies on corporate governance to safeguard shareholders' interest as well as financial boost to the MFIs.

1.6 Scope of the study

The study sought to establish the influence of corporate governance attributes i.e., board composition, audit committee characteristics, CEO characteristics, the board size, and ownership type. The study focused on MFIs in Nairobi County only. Secondary data for the study covered a period between 2018 and 2020.

1.7 Assumptions of the study

The study assumed that the respondents are well conversant with the topic of corporate governance and would offer her support by providing information relating to subject matters. On the other hand, the researcher assumes that a questionnaire as the major research tool is enough to collect data through the network that the scholar has built with microfinance institution management.

1.8 Limitations of the study

The study anticipated that the respondents who mainly were middle and few top-level managers of the companies would shy away from responding to the current study's questions due to sensitivity of the topic thinking they are being investigated for legal pursuit. However, the researcher assured the respondents that the study was only for academic purposes and the responses given would not incriminate them or information disclosed to competitors or parties that can use the information against them.

1.9 Operational Definition of Key Terms

Corporate Governance: The term CG refers to a system that exists in the organization as a set of principles and guidelines that helps the board of directors to effectively control the activities of management, therefore, taking the interest of the shareholders and hence reducing the moral hazard problems (Yermack, 2017).

Financial Performance: Financial performance refers to a subjective measure of how businesses can use their assets to generate revenues. Or the financial health of a company within a certain period and how it can compare itself with others in the same sector, such measures include returning

on equity, return on investment, and net profit margin (Wang & Sarkis, 2017).

Internal corporate

Governance attributes: The study used the term to refer to the corporate governance determinants including board composition, CEO characteristics, audit committee, board size, and the institution ownership type (Yermack, 2017).

Board Size: refers to the total number of directors who sit on the board (Hoque & Chisty, 2017).

Board composition: refers to how the boars are constituted in terms of what is the ratio or proportion of the number of no-executive vs total or board size. The composition also includes the proportion in terms of the presence of professional board members with legal and financial management skills (Bansal & Sharma, 2016).

CEO Characteristics: refers to the qualities of the CEO that may include years of experience in leadership as well as the gender of the respondents.

Audit Committee: the qualities in audit or audit type include the professional background of the auditor or the number of the meeting held by auditors present (Alkilani et al., 2019).

Ownership Type: Ownership type qualities include the proportion of the business owners of shareholders through the percentages of foreign ownership proportion in local companies or government proportion in private companies (Bansal & Sharma, 2016).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature is comprised of the theories that guide the area of corporate governance, conceptualization, and operationalization of research variables, research gaps, and a critical review of the literature.

2.2 Theoretical Review

Theories that guided the current study included stewardship theory, agency theory, and legitimacy theory to show the relationship that exists between the research variables on financial performance and corporate governance.

2.2.1 Agency Theory

The agency theory was first pioneered in 1976 by Jensen and Meckling. Jensen and Meckling noted that in a company there exist two parties who are the principal or owners and the agents or the managers. The owners are the investors who provide financial and other resources for the company to have financial resources to undertake projects. On the other hand, managers are people endowed with the skills to make returns from the investment committed by the investors or owners. The agents have the primary responsibility of formulating decisions that are in line with the interests of the owners by ensuring that the business is always financially sound and free from both internal and external risks, therefore, an assured survival. However not always that the managers act as expected by the owners, they may pursue selfish interests that compromise on the intended purpose and therefore threaten profitability or long-term survival of the company referred to as type one agency problem. In most cases, the problem of agency versus principal challenge on ownership and control problem may be overtaken by the ownership changing and taking more

control over management by owners taking more charge which is the ancient problem. However, in modern times we have management claiming more of shareholding and therefore creating a newer problem of principal versus principals and therefore conflict with the minority shareholders referred to as type two agency challenge. In such instances, the managers allocated themselves hefty perks or undertake faulty business decisions that have severely affect the financial performance of these companies (Shi, 2017).

In some instances where the conflict between the principal and agents persists whereby the principals' pursuit to maximization of their value and wealth and the selfish interests of the agents to extort the funds of the investors brings conflicts, in such cases the openers may draft a contract that protects their interests or else come up with a board of directors with desired qualities that oversee the functions of the company to ensure that the company pursues its core objectives which therefore means that the shareholders suffer an agency cost to ensure that their goals and visions are met.

2.2.2 The Stewardship Theory

Davis, Schoorman, & Donaldson, 1997 are the pioneers of the stewardship theory which postulated that there is no agency cost between the shareholders of an organization and the managers of that organization. It is held by the theory that there is a consensus of understanding between the managers and the shareholders in increasing the value of the business for their mutual benefit (Chrisman, 2019). The theory further holds that there should be a sound proposition of the board of directors comprising of the inside directors commonly referred to as executive directors and the outside directors commonly referred to as the non-executive directors. The executive directors are more preferred in making critical decisions of their company due to their grip and sound clear

understanding of the internal affairs of the company and therefore their presence is a good number is a good idea for corporate governance and therefore better performance (Zhang, 2018).

The stewardship theory indicates that managers of an institution are the stewards of the assets that they have control of once they are left on their own. A steward can be defined as a person mandated to manage another person's property. In this case, when the steward is an employee of a corporation, then the steward is managing the property of the corporation's shareholders. A steward manages the property of another individual to make sure that the objectives of the owners are achieved (Wilson, 2010).

The stewardship theory indicates that the managers are stewards who work to achieve the goals of the principals. It further indicates that the managers are not motivated by their own goals but their actions should be in line with the interests of their principals (Davis et al., 1997). The CEO of the institution together with the board of directors are portrayed as individuals who are willing to work towards achieving the goals of the firm despite their interests and those of the firm are different. The theory further stresses that in a family firm motivation is not necessary since the executive positions are controlled by the family. The absence of self-interests in leadership makes it easy for the company to achieve its objectives.

Furthermore, the stewardship theory has proved to act as a counter to the rational actions of the firm's management. The stewardship theory indicates that the managers and owners of the firm have no conflict of interest but they rather find ways in which these two parties can work together towards achieving the goals of the firm. It promotes the common interests of both parties instead of the agents focusing on their interests. The theory ensures that there is no case of abuse of power by the firm's management. The interests of the principals are aligned with the behaviors of the manager (Donaldson, 2008). The theory also holds that the duality of the CEO is a crucial

characteristic in the performance of an organization where the CEO runs the company and also sits on the board. This theory is however in conflict with the agency theory as earlier discussed.

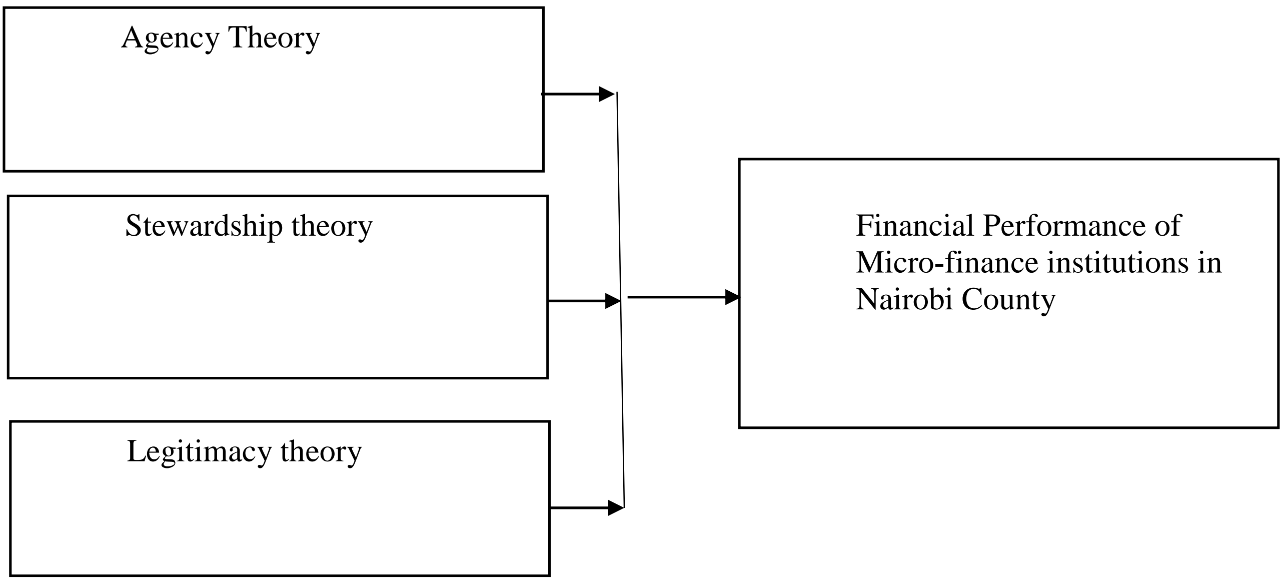
2.2.3 Legitimacy Theory

The legitimacy theory was first postulated by Dowling and Pfeffer in 1975. The theory holds that in institutions or organizations there are activities carried out for the company operating within the socially accepted norms, values, or beliefs (Joslin & Müller, 2016). A company must, therefore, carry out these routine activities to avoid moving away from what is the norm. According to this theory, the routine activities must be in line with the standards of the community of which the company is a part. The legitimacy theory also holds that there may occur a difference in the social value system and the firm's value system. However, such a case only happens when there is a question on the legitimacy of the firm. To maintain the legitimacy of the firm, the firm should educate the community on the performance and activities of the firm; the firm should change the perception of the community towards the firm; the firm should manipulate the public perception towards the firm by shifting the attention to other related issues and lastly, the firm should change the perception of the public towards the firm's performance (Lindblom, 1994).

The theory holds that it is the responsibility of the firm to inform the public of its activities and routines as well as explain the reasons why it exists within the set boundaries of the community (Frost, 2000). A company may, therefore, have a board of directors just to comply with the requirement of how it should be. The board is also expected to function in a particular way by governing the functions of the management and cushioning it against poor decisions.

Figure 2:1:

Theoretical Framework



Source: Author (2020)

2.3 Empirical Review

2.3.1 Influence of Board Size on the Financial Performance

Ghuslan and Saleh (2017) researched how the size of the board influences the financial performance of Australian Insurance firms. The measures of financial performance included profitability and return on equity. The study was descriptive and included 12 firms listed at the Australian stock exchange. The study established that a board with higher members of between 5 and 12 members had a positive impact on the financial performance of the firm compared to those with lesser members on the financial performance (equity and profitability). The study revealed that investors and creditors were more likely to give their funds to institutions with more directors because of easier accountability and protection of their funds than giving to a few who may collude therefore better returns on equity which intern resolves into better profits of the companies.

Isik and Ince (2016) sought to determine how the financial performance of Turkish banks was influenced by the size of their board. The study was cross-sectional and included 19 bank companies. The study investigated the monitoring costs associated with a different number of the board of directors in giving direction to the bank to realize greater value for the businesses. The study indicated that banks that had a bigger size of their board had higher monitoring charges that negatively affected financial performance; however, a small and well-constituted board of directors was efficient and quicker in decision making that increased the value for the bank.

Orozco et al. (2017) sought to determine how the reputational and financial corporate performance was influenced by the size of the board. The study focused on the top companies in Colombia as listed in the Business Monitor of Corporate Reputation. The study used an explanatory research design with the size of the sample used is 84 companies using their financial statement as the source of data. The data obtained was analyzed using correlation analysis. The study revealed that a large board size tends to have a low financial performance but a high corporate reputation performance. On the other hand, companies with a smaller board size have high financial performance.

Ifeanyi and Chukwuma (2016) sought to determine how board size influences the financial performance of manufacturing firms that are listed in the Nigerian stock exchange market. The study adopted an explanatory research design with the study focusing on 46 manufacturing firms that are listed in the Nigerian stock exchange market for the period 2003 to 2014. The study obtained primary data from 123 respondents who comprised of non-executive and executive directors as wells as Chief Executive Officers. Correlation analysis and descriptive analysis were done. The study revealed that the board size of a firm tends to influence its viability i.e. the larger the size of the board the less the viability of the firm. Besides, firms with smaller board sizes tend

to make more profits compared to those with larger board sizes. The study further recommended that to improve the performance of firms then they should ensure that they have a small board size. Furthermore, the guidelines dictating the constitution of the board should be regularly restructured to make sure that the objectives and needs of investors and shareholders are considered.

Haji et al. (2017) conducted research to determine how the size of the board influenced the financial performance of firms that are listed in the Nairobi stock exchange market. An exploratory research design was used in this study with data being obtained from the Nairobi stock exchange market bulletins and published annual reports from 2006 to 2015. The study targeted a population of 68 listed firms in the Nairobi stock exchange market. Inferential and descriptive statistics were used for data analysis. The study revealed that the size of the board positively impacted the firm's financial performance, i.e., the study indicated that a larger board size resulted in positive firm performance.

Ogada et al. (2016) conducted a study to assess how the financial performance of merged institutions in Kenya was influenced by the size of the board. A mixed methodology research design was adopted for this study with the study targeting a population of 51 financial service institutions that are merged in Kenya. Primary data was collected mainly by use of questionnaires with secondary data being collected by the use of a data collection template. Quantitative techniques such as descriptive analysis were used for data analysis. The study revealed that there exists a significant relationship between the financial performance of merged institutions and the board size. A relatively smaller board size tends to have a positive impact on financial performance. The study recommended that merged institutions should maintain a board size of 6 to 8 members to promote the financial performance of these institutions as well as unity and understanding among the board members.

2.3.2 Influence of board composition on the financial performance

Manyaga et al. (2020) studied the influence of the composition of the board on the financial performance of commercial banks that are in operation in Kenya. The study involved 43 commercial banks that operate in Kenya. The study was a casual effect study that intended to determine how the study variables related to each other. The study used a questionnaire for the correction of primary data and a data collection form for the correction of secondary data. The study revealed that a diverse composition of the board positively impacted financial performance. The study concluded that a board comprised of members with unique qualities and experience background, as well as disciplines including leadership, financial management, and law and compliance skills, had a lot to advise the CEO in ensuring that the company improves performance. Dam (2018) studied how board diversity influences the firm's financial performance by comparing firms from the United Kingdom and the Netherlands. The study noted that there are non-executive board directors who are not part of the management of a company, normally appointed to ensure that they supervise the actions of the executive directors. They are chosen because of their vast experience with the external environment and also in the reduction of agency costs in the companies. The non-executive director, therefore, plays a vital role in making sure that they safeguard the interest of the shareholders because they have no selfish interest in the way the company is managed. The non-executive members are therefore supported to be people of high integrity and independence, they should also be professionals who can investigate and question, listen as well as constructively debating on the challenges facing the performance of the organization.

Ali (2020) studied to establish whether the relationship between a firms' performance and its corporate governance can be mediated by the use of corporate social responsibility. The study was

conducted among 3400 firms listed with the shanghai stock exchange in china. The study was conducted through a panel regression and secondary data collected from 2009 to 2019. The results of the study revealed that including female directors positively impacted the financial performance of the firms with corporate social responsibility moderating the relationship. Therefore, the inclusion of female directors in strategic direction and policymaking had a positive influence on financial performance. Besides the study revealed that foreign investment in the firms had a positive impact on financial performance, with corporate social responsibility effectively moderating the relationship.

Muchemwa et al. (2016) carried out research to determine how the composition and size of a board affect the firm performance of companies listed in the Johannesburg stock exchange. The study focused on all firms listed in the Johannesburg stock exchange market from 2006 to 2012. An associative research design was adopted for this study. The study used published annual reports as the main tool for collecting data with data analysis being conducted using quantitative methods such as multiple regression analysis. The study revealed that there was an insignificant relationship between the firm performance and the size and composition of the board. It indicated that both the composition and size of the board were not significantly associated with performance measures such as Tobin’s Q and ROA in the South African context.

Atieno (2016) determined commercial banks' performance in Kenya from 2013 to 2015 was impacted by the composition of the board. A descriptive research approach was adopted in this study with the study targeting a population size of 42 commercial banks that were operational during this period in Kenya. However, only 25 banks were considered for this study. Secondary data was mainly used in this study with the data being collected from the published financial reports and statements. Data analysis was done using correlation and multiple regression analysis.

The study revealed that the board composition, size, and independence had a significant and positive influence on the performance of commercial banks in Kenya. However, the gender diversity of the board had a negative influence on the performance of the commercial banks. The study proposed that the commercial banks in Kenya should not make hasty decisions in appointing their board members to ensure that factors such as gender diversity, independence, and size of the board are taken into consideration.

Cherotich and Obwogi (2018) conducted a study to determine how the financial performance of firms listed in the Nairobi securities exchange was influenced by the board composition. A quantitative and descriptive research approach was adopted for this study where published financial reports for the period 2010 to 2017 were used to obtain secondary data. The study targeted a total of 55 companies that were listed in the Nairobi stock exchange in 2010. The study revealed that the gender composition of the board, CEO duality, and the independence of the board had significant effects on the financial performance of these companies. Besides, the study indicated that the size of the board had a non-significant effect on the financial performance of the companies. The study recommended that the firm should ensure that the same individual does not hold the CEO and board chair position but should rather appoint two different persons. Furthermore, the firms' female directors are included in the board and their proportion in the board should also be increased.

Awinja (2017) sought to assess how the performance of the banking industry in Kenya is influenced by the board composition. This study used an explanatory and descriptive research design with questionnaires being used as the main tool of data collection from a total of 127 respondents. The sample size comprised of CEOs, executive, and non-executive directors as well as company secretaries. The study focused on only 11 banks listed in the Nairobi stock exchange

market. Data analysis was then done by use of Microsoft Excel and SPSS programs. The study revealed that a board that is comprised of members with high levels of experience positively influences the board's effectiveness and in turn the performance of the banks. This study proposed that banks should appoint board members with a high number of experience years since they have a wider knowledge of the banking industry.

2.3.3 Influence of Audit Committee on Financial Performance

A study that was carried out by Bansal and Sharma (2016) on 349 financial and non-financial firms relating to the financial performance from 2005 to 2012 and corporate governance noted that the financial performance of gulf countries depended on government shareholding, audit type, size, and composition of the board.

Alkilani et al. (2019) studied the influence of internal corporate governance mechanisms among 135 Jordan companies. The study was both causal and descriptive. The study variable included audit committee characteristics, board and CEO characteristics against financial performance. The results of the study indicated that there existed a significant relationship between the firm performance and the audit committee size whereas its independence, regularity of holding meetings, size of the board, non-executive directors, and CEO duality had a non-significant effect on the financial performance of the companies.

Mugwe (2018) sought to assess the effectiveness of the audit committee on the performance of commercial banks in Kenya. A descriptive research design was adopted for the study with the main tool for data collection being questionnaires. The study targeted a population of 210 respondents who were comprised of members of the audit committee. Through random sampling, a sample size of 60 respondents was obtained. Data analysis was then done by the use of SPSS and Microsoft Excel. The findings of the study revealed that both the composition and independence of the audit

committee influenced the performance of these commercial banks i.e. the independence of the audit committee promotes integrity and objectivity in the committee and at the same time ensures that the integrity of the auditor's opinion and recommendations is maintained. The range of expertise and diversity of the experience in the audit committee also influenced positively the process of financial reporting.

Kipkoech (2016) conducted a study to determine how the financial performance of companies listed in the Nairobi stock exchange for the period 2006 to 2011 was influenced by the size and experience of the audit committee. A descriptive research approach was used for this study with the data being obtained from the financial statements and reports published by these companies. The data obtained was analyzed by using qualitative methods such as multiple regression analysis. The study revealed that the firm performance was significantly influenced by the size and experience of the audit committee. The study indicated that an experienced audit committee promotes quality monitoring and at the same time reduces misreporting of the financial status of these companies. Besides, a larger audit committee size is according to this study not ideal since there will be members who will follow opinions made by other members instead of expressing their opinions. The committee size should not be small since it may lack expert advice.

Ibrahim et al., (2019) sought to understand how the financial performance of insurance firms in Kenya is influenced by the independence of the audit committee. The study focused on insurance firms licensed by the regulatory authority in Kenya where a total of 55 firms was used. A descriptive research design was adopted for this study with questionnaires being used to collect data from a sample size of 412 respondents. The sample size comprised board directors, CFOs, CEOs, internal auditors, and members of the audit committee. The study also used secondary data that was obtained from financial reports of these firms that were audited in the year 2017.

Inferential and descriptive statistics were used for data analysis with the firm performance in this study being measured by the use of Return on Equity and Return on Assets. The study revealed that the independence of the audit committee positively impacted the firm performance of these insurance firms since independent directors will always work to make sure that the shareholders are satisfied. The study recommended that it is very key to maintain a bigger size of independent directors in the audit committee to promote the firm performance of the insurance firms.

Oluoch and Karera (2018) conducted a study on how the characteristics of the corporate audit committee affect the financial performance of manufacturing firms in Kenya. A descriptive research design was adopted for this study with the study targeting a population of 766 firms for the period 2013 to 2017. Questionnaires were used in this study to obtain primary data while financial reports and statements were used as the main tools to collect secondary data. Data analysis was done through descriptive and inferential statistics such as multiple regression and correlation analysis. The study revealed that the composition of the audit committee and its regularity in holding meetings positively impacted the financial performance of the manufacturing firms in Kenya. Besides, the study indicated that the larger the audit committee the more the likelihood of the audit committee to lose focus, and therefore a relatively smaller audit committee size was preferred. The study proposed that companies should regularly check on the composition of the audit committee to ensure that they have the knowledge and experience required in handling financial audit matters. Furthermore, the audit committee should ensure that regular meetings are held to check the compliance of the firms with the financial regulations.

2.3.4 Characteristics of the Chief Executive Officer and financial Performance

Ahmadi et al. (2018) studied the structure and diversity of the gender in a firm's board, the Chief Executive Officer Attributes, and firm performance among French CAC 40 listed firms. The main

tool for primary data collection was a questionnaire. The study was descriptive. The study noted that where the board was small with a chief executive officer that is still the chairman with more independent directors was likely to register a higher performance. An independent director who may be an outsider is good at pursuing the interest of the shareholders. On the other hand, a chairman who is a retired chief executive officer that owns a substantial shareholding is an ideal chairman that has good experience in management and therefore can offer good experience and advice to the current management in ensuring better business performance. This is in concurrence with the stakeholders' theory on the usefulness of duality in reducing agency costs.

Adrian Cadbury's report of 1992 as discussed by Saidu (2019) noted that it is important to have an independent board that can only come from a mix of a board with external directors who are not the managers of the company in question. On the other hand, the CEO of the company must not be the chair of the board. Finally, it is important for both the management to understand their separate role and the fact that they should work interdependently in promoting the financial performance of the organization.

Kyaitha and Nzioki (2017) researched how the practices of corporate governance influence the financial performance of housing cooperatives in Kenya. The study was descriptive and involved 15 housing companies that are operational in Kenya. The findings of the study revealed the need to have an independent CEO from the office of the board of chair this clear distinction in roles would be key in ensuring that there was no one with overwhelming power to take control of companies activities without the need of the other, these actions are therefore important in minimizing frauds and thus safeguarding shareholders' interests safe which implies better financial performance.

Kaur (2018) sought to determine how the characteristics of a chief executive officer affect the firm performance of Indian firms. A descriptive research design was used in this study with primary data being collected by the use of questionnaires. The researcher in collaboration with his assistants administered the questionnaires. The study focused on a sample size that comprised of few selected Nifty 500 firms. The study revealed that the job-related and demographic characteristics of a CEO had a significant impact on the firm performance. Besides, the study sought to determine firm performance was influenced by the CEO's remuneration. The study found that there exists a positive relationship between CEO remuneration and firm performance. The study indicated that firms needed to put more emphasis on the remuneration of proficient CEOs to ensure that they are not tempted to go and work elsewhere where compensation is much better.

Emmelina and Setyaningrum (2019) investigated the financial performance of firms from six ASEAN countries i.e. Thailand, Vietnam, Singapore, Malaysia, Philippines, and Indonesia was impacted by the CEO's characteristics. The study used data obtained from 235 firm-year observations with this data being analyzed using quantitative methods such as regression analysis. The study indicated that the CEO's tenure and age tend to influence the firm performance positively whereas the CEO's gender, professional certification, and advanced education has no significant impact on the firm performance.

Fujianti (2018) sought to establish how a company's performance is influenced by top management characteristics. The study focused on public companies that are listed in the Indonesian stock exchange market. A sample size of 40 companies from different sectors was used where this sample size was obtained through the purposive sampling technique. Data analysis was done by use of quantitative methods such as correlation analysis and multiple regression where the data used in this study was obtained from the Indonesian stock exchange. The findings of the study

indicate that both the tenure and age of the top management of these companies were found to have a significant impact on the performance of these companies. However, the study did not provide enough evidence to indicate whether the composition of the top management in terms of gender had a significant effect on the performance of the companies. The study went further to recommend that the public companies in Indonesia should make sure that women are considered in the top management.

Oloo and Muturi (2016) sought to determine the effect of the characteristics of CEOs on the financial performance of companies that are listed in the Nairobi stock exchange market between the periods of 2008 to 2014. An explanatory research approach was used in this study with the study targeting all firms that were listed in the Nairobi stock exchange market during this period. Published annual financial statements and reports were used to obtain data for this study and data analysis was then done by the use of multiple regression analysis. The study revealed that both the CEO's level of education and age positively impacted the firm's performance. It indicated that age diversity and educational background influenced firm performance positively. It is recommended that there is a need for age diversity to benefit from the skills of young people.

2.3.5 Influence of Ownership Type on Financial performance

Garcia-Torea et al. (2017) sought to determine how the transparency of CSR reporting was influenced by the ownership structure using empirical evidence from Spain. The study was conducted among 156 companies in Spain. The study was both descriptive and inferential. The study revealed that where there was the duality of CEO, large board, and a small number of experts the financial performance of the Company was directly high. The study concluded that private companies operate through trust and mainly the directors or managers are the same so issues of

corporate governance don't arise. In this case, therefore, everyone is accountable and works towards increasing the value of the business.

Obonyo (2016) researched how firms listed with the Nairobi stock exchange were influenced by the composition of the board, manager’s characteristics, and ownership. The results of the study revealed that ownership concentration negatively impacted the financial performance of these firms. Conclusions from these study indicated that there is a need to attract shareholders with diverse characteristics to have shareholders with unique qualities and skills that impacts positively on the business performance. The study recommended for the management to own shares in the company so that they become more careful in running affairs of the company because any financial loss would mean that they also suffer devaluation on their earning.

Hu et al. (2018) studied ownership influence and CSR disclosure in China among firms listed on the stock exchange between 2001 and 2015. The study was causal. The study indicated that state ownership, supervisory board, and concentrated ownership positively impacted the financial performance whereas managerial ownership negatively impacted the financial performance of these firms.

Yahaya and Lawal (2018) sought to assess how the ownership structure affected the performance of deposit money banks in Nigeria. A descriptive research design was used in this study with the study focusing on 15 banks listed in the Nigerian stock exchange. Nigerian deposit money banks' audit reports from 2008 to 2016 were used to obtain secondary data for the study. The study indicates that the financial performance of Nigerian deposit money banks was significantly impacted by the institutional ownership structure. The other ownership structures were found to have an insignificant effect on the financial performance of the banks. The study recommends that

shareholders should continue using their resources and experience so that they can control abuse of power by the management which could affect the performance of the banks.

Ozer and Ozen (2018) sought to establish how the financial performance of enterprises was affected by the ownership structures using performance indicators that are based on accounting. The study focused on a total of 112 enterprises listed in the Borsa Istanbul stock exchange for the period of 2006 to 2014. The study used an associative research design with performance indicators such as ROE and ROA being used. Data analysis was done by use of quantitative methods such as multiple regression analysis. The findings of the study indicated that the ownership structure of enterprises had a significant effect on the financial performance of these enterprises based on the ROE and ROA performance measures.

Gikama et al. (2018) sought to establish how the financial performance of quoted non-financial firms that are operational in Kenya was affected by the ownership structure. The study focused on firms listed in the Nairobi stock exchange from 2008 to 2017. The study targeted a total of 42 firms but only 35 firms had the consistency of data which is a very key component for balanced panel regression. A longitudinal quantitative research design was adopted for this study and also used Tobin's Q and ROCE as the financial performance measures. The study revealed that managerial, institutional, and retail ownership structures had a significant relationship with the financial performance of the firms that had these types of ownership structures. The study further proposes that a managerial structure of ownership should not be encouraged to reduce their control over the other shareholders since it may result in poor financial performance.

Nyambura (2016) carried out a study to determine how ownership structures affected the financial performance of sugar manufacturing companies that are operational in Kenya. This study used a descriptive research approach with the data being obtained from analyzing the consolidated

financial reports of the sugar companies from 2008 to 2015. Data analysis was done by use of quantitative methods such as multiple regression and correlation analysis. In this study, the coefficients of the regression model were found to be significant indicating that the financial performance of these sugar companies was influenced by their ownership sizes and ownership structures. The study recommended that further studies be conducted in this area to determine how the financial performance of different firms was influenced by factors such as different types of debt.

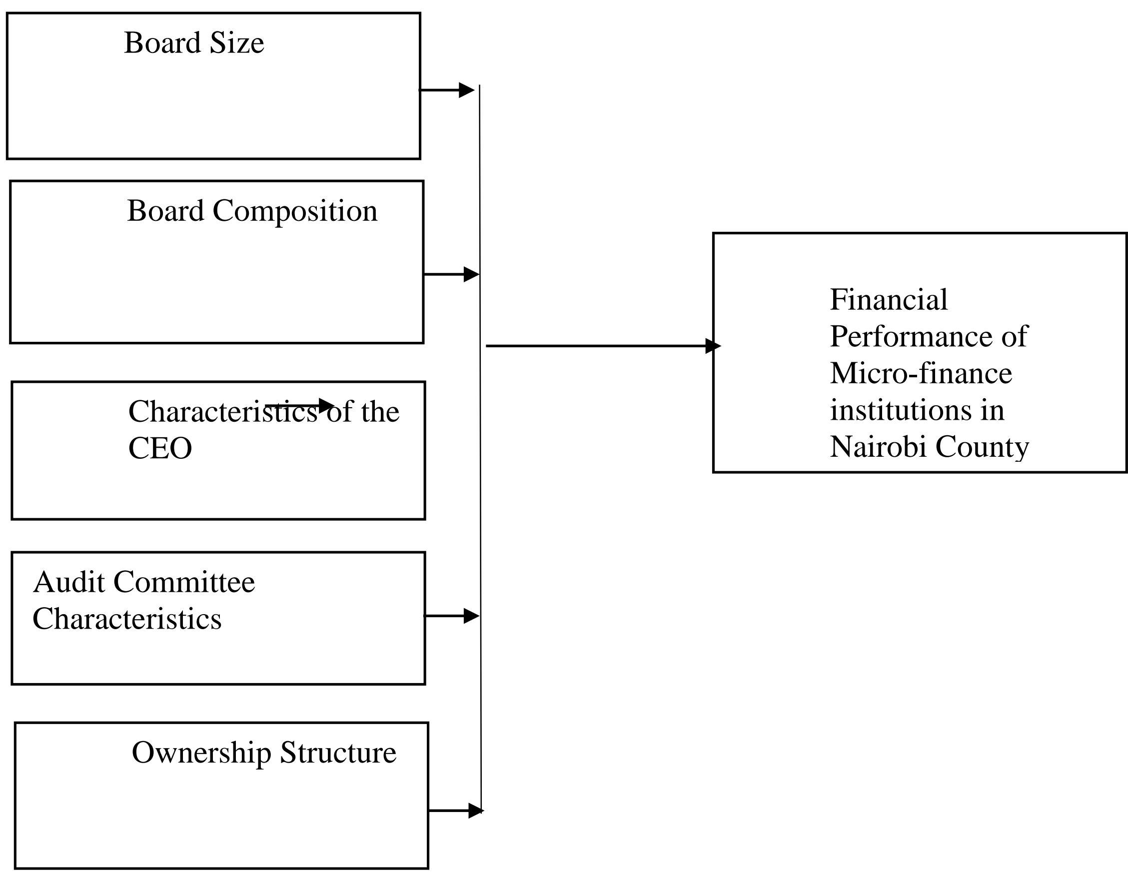
Kibet and Kisaka (2016) investigated the performance of firms at NSE as a result of different forms of ownership between the years 2007 and 2013. Data from the central bank and the website of NSE revealed that ownership structure affected the performance of the companies. A regression model was adopted in this study. The findings of this study indicated that the financial performance of privatized companies was significantly influenced by the ownership structure. In light of this, the study recommended that the Privatization Commission of Kenya should come up with other ownership structures of these companies to make sure that private investors have more control and have also the right to a vote in decision making in matters relating to the company.

2.4 Conceptual Framework

The relationship is shown in the conceptual framework in figure 2.1 below.

Figure 2:2:

Conceptual Framework



Source: Author (2020)

2.4.1 Board Size

The major purpose of a BOD is to have a team that can effectively make decisions much quicker through faster communication and effectively coordinating their task to achieve better decision making which therefore remains substantive in discussions and debates. In this case, therefore, it is important to have a smaller time that is not costly as easier for them to monitor business activities other than having a big team that is slow in decision making and costly to the company (Tulung, & Ramdani, 2018).

2.4.2 Board Composition

The issue of the board of directors rose as a result of increased global frauds and crises in companies. The board of directors was therefore set with the role of ensuring proper business control, services, and strategies design. Therefore, to enhance the financial performance of a company, the board of directors must have good characteristics (Isik et al., 2016).

For the current study, the executive directors' proportion to non-executive directors as well as the diversity in experience of the board of directors and presentation of affiliated directors were measures of board composition among MFIs in Nairobi County.

2.4.3 CEO Characteristics

Johann (2018) expresses the need to have an independent CEO from the office of the board of chair this clear distinction in roles is key in ensuring that there was no one with overwhelming power to take control of companies activities without the need of the other, these actions are therefore important in minimizing frauds and thus safeguarding of shareholders interest which implies better financial performance (Bui et al., 2019).

2.4.4 Audit Committee Characteristics

The audit committee should have desirable characteristics of being an independent team, the audit committee should hold meetings frequently, and of optimum size to be coordinated in achieving desired traits that ensure that the company remains proactive by assessing risks and keeping the company free from errors as well as revealing frauds before matter go out of hand (Madawaki & Amran, 2017).

2.4.5 Ownership Type

Ownership type is a crucial concept in corporate governance. The ownership is mainly in two forms that included dispersed and concentrated ownership. Under the dispersed ownership the company also encourages outside investors or shareholders to own the company whereas under the setup of concentrated ownership the business is mainly owned by family members or close business associated. The major predicament with the concentrated ownership is the fact that majority shareholders tend to take charge and control business which may be a major drawback on the side of minority shareholders who may feel that their voices are not regarded in the decision-making process (Abdallah & Ismail, 2017).

A major argument put across is regarding concentration and control in the company. There is a perception that when the major shareholders take control of management many investors are expected to come in due to the view that when shareholders are in control of the management, their actions are likely to be in line with the companies interests and therefore increasing the value of the shareholders and improved performance of an organization.

2.5 Operational Framework

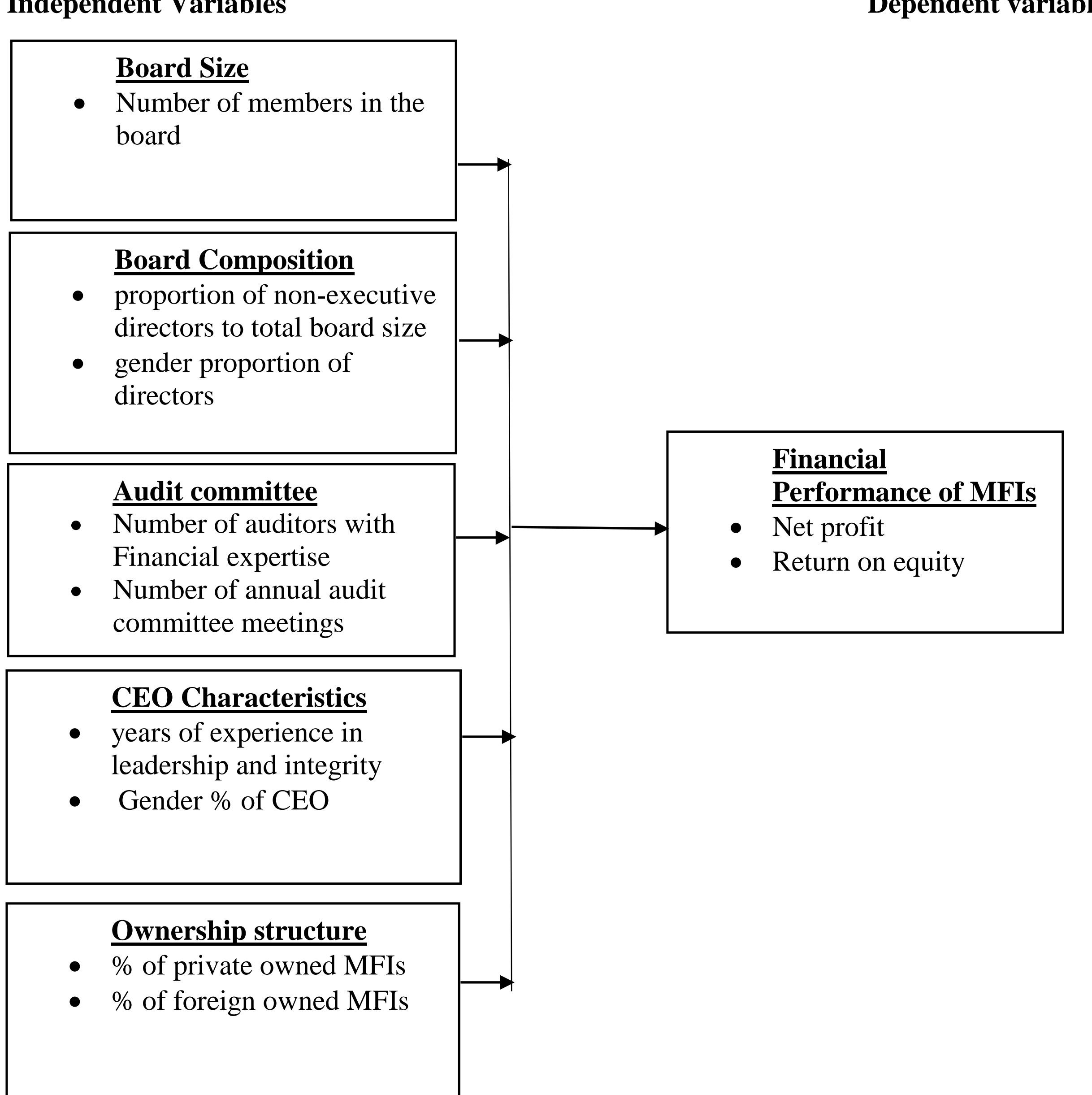
The current study aims to determine how the financial performance of microfinance institutions in Nairobi County is influenced by the internal attributes of corporate governance. The study's

independent variables include the size of the board, board composition, and audit committee characteristics, characteristics of CEO, and ownership type of the firm. The dependent variable on the other side is financial performance.

The size of the board was calculated by the total number of people on the board; the composition of the board was calculated by the ratio of executive versus non-executive, number of business associates and professionals/experts in the board; audit committee characteristics to be calculated by the number of firm auditors, number of board committee meetings; CEO Characteristics to be measured by gender proposition of CEO and years of experience; Ownership structure to be measured by whether the MFI is privately-owned, public MFI, foreign ownership proportion. Financial performance was measured by net profits, return on equity over four years from 2016 to 2019.

Figure 2:3:

Operational Framework



2.6 Research Gaps

The topic of how corporate governance influences financial performance is still debatable. Evidence from the literature review posited conflicting results on how board size affects financial position without particular criteria existing on the appropriate size for effective performance and hence financial performance. The current study, however, believes that with effective corporate governance a company can increase its value through the market that in turn positively impacts return on investment, profitability, and return on equity of the firms.

The studies carried out mainly focus on a single attribute of corporate governance, the current study, however, focused on several attributes including board composition, the board size, ownership structure, and the duality nature of the CEO on the financial performance of microfinance institutions in Nairobi County.

Studies have established the existence of the relationship between board composition and financial performance. A clear definition of the CEO roles and the chairmanship of the board was important in improving financial management in the organization. The effect of board size and composition has given mixed reaction results. Some of the studies carried out using financial statements proved that there exists a relationship between the return of an organization and the independence of its board with organizations that had a board that was independent revealing better returns and dividends as well as higher profits. However, the firms that had limited their board size revealed lower returns and profits. These studies are therefore proof that there are not yet conclusive studies on how corporate governance affects the financial performance of an organization.

There are mixed results on how corporate governance affects financial performance some showing negative whereas others showing the existence of positive relationships. On the other hand, a majority of studies were conducted in developed countries where there are different macro-

environment, macro-environment well as regulatory environments. It would therefore not be right to justify the studies as general and representative of cases in developing countries that are faced with unique challenges, different macro-micro environments, and different regulatory environments in the financial sector.

The studies reviewed also are mainly from multinational institutions or commercial banks it would, therefore, be useful to understand the nature of the relationship that exists between the financial performance of MFIs in Nairobi County and the attributes of corporate governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the different methods that were used in developing this research project. It contains the research design and instruments used in this study, the validity and reliability of the research instrument, the sample size as well as the target population about which inferences were made by the researcher, the technique used to obtain the sample size, procedures, and tools used to collect data and finally, this chapter will present the methods that the study implemented to collect and analyze data as well as present its findings.

3.2 Research Design

The current study was descriptive. Descriptive research design enables the collection of data from the field without manipulation at all by reporting the same analyzed data also without manipulation. Dikko (2016) supported the use of descriptive research design as appropriate for both quantitative and qualitative data.

3.3 Target Population

The Kenya national bureau of statistics (2019) noted that there are 25 MFIS in Nairobi County (see list attached as appendices). All 25 MFIs in Nairobi County were considered for the study. There are 251 board members, 25 CEOs MFIs, 75 auditors working for the MFIs in Nairobi County (Delloite- Kenya, 2020). Therefore, the target population for the study was 351 as shown in the following population distribution table.

Table 3.1:

Population Distribution

Category	Number
Directors	251
CEOs	25
Auditors	75
Total	**351**

Source: Delloite-kenya Survey (2020)

3.4 Sampling Design

Abutabenjeh and Jaradat (2018) noted that sampling techniques to mean methods used by research in the determination of the elements to be used as a representative sample. The sample should also be able to give independent observation and be well conversant with the study variables. The study used the Yamane formula to determine sample size. According to Yamane (1967) with a margin error and the population, the following formula can be used in arriving at a sample size

Yamane Formula, $n = \frac{N}{1+N(e^2)}$

Where n is the correct size of the sample, N is the target population, e is the margin of error. Therefore, the sample size was determined as follows. Within a margin error of 5%, the formula gave a sample size of 187 respondents.

$n=351/ [1+351(0.05*0.05)] = 351/1.875= 186.66$ which is 187 to nearest figure.

The sample was distributed proportionately through the respondents' categories.

Board members 250/351*187=134

CEOs 25/351*187=13

Auditors 75/351*187=40

Table 3.2:

Sample Distribution

Category	Number	Sample size
Directors	251	134
CEOs	25	13
Auditors	75	40
Total	**351**	**187**

A random sampling procedure was also done to ensure an equal chance of respondents being selected (Fowler Jr, 2018).

3.5 Data Collection Procedure

Data for the current study was both secondary and primary data. Primary data was collected by a questionnaire through the drop and pick method among the respondents at their place of work. According to Thanasegaran, (2009) a research questionnaire is used to obtain more reliable data without manipulations within a short time. The data collection instrument had seven sections. The first section collected demographic data, the second section sought data on the first objective, the third section on the second objective, the fourth section on the third objective, the fifth section on the fourth objective, the sixth section on the fifth objective whereas the seventh section on the fiancial performance. Protocols on COVID-19 were observed such as sanitizing of hands, wearing of face masks, and keeping social distance to enhance response. The first week was for dropping questionnaires among the CEOs, auditors, and directors of the MFIs. The researcher explained the purpose of the study to the respondent and assure them that the data was only for academic purposes. The researcher followed up daily for the three weeks to ensure that many respondents are reached due to the nature of top management and directors being busy. This helped in having a good response rate.

The researcher also collected secondary data from the financial newsletters and also published annual financial statements through data collection forms. Collected data was on the profits made by the institutions and return on equity ratios.

3.6 Pilot Study

3.6.1 Reliability of Research Instrument

Piloting for the current study was conducted before the actual study to test for the reliability and validity of the research instrument. The Yamane formula was used to determine the Pilot size: 5% (351-187) = 8.2 which are 8 respondents. Reliability refers to the internal consistency of a tool used in data collection. Reliability was measured through Cronbach's alpha that was set at 0.7 similarly Dikko (2016) used Cronbach's alpha on a similar study.

3.6.2 Validity of Research Instruments

Validity refers to practices of ensuring that the research instrument is free from errors and ambiguity (Thanasegaran, 2009). In the current study, validity was achieved through seeking the opinion of research experts in the university and proof the reader as well as administering it first in the field and realizing whether respondents are giving responses correctly and easily. Besides, construct validity was established through KMO and Bartlett tests which are supported by Thanasegaran, 2009 as an appropriate validity statistical measure of construct validity. A measure on KMO runs from 0 to 1, measures that are towards 1 are deemed more adequate for further analysis. 0.7 is set as a criterion for a valid instrument. In this study therefore all indicators which did not meet 0.7 criteria were dropped as a weak measure. On the other hand, the Bartlett test was tested on a 5% margin. In case the generated Bartlet value generated was less than 0.05 then it was deemed fit for further analysis. The study also adopted previous questions from past scholars to improve the instrument's validity.

3.7 Data Analysis and Presentation

Data that was collected was cleaned and entered into SPSS and also coded. Data for the current study was analyzed through descriptive and inferential statistics because the data was purely quantitative. The descriptive analysis involved the use of percentages, frequencies standard deviation, maximum, minimum and mean. The study also used inferential statistics to establish the nature of the relationship that exists between financial performance and the internal attributes of corporate governance through a multilinear regression. The significance level was set at 5%. results indicating lower levels of significance indicated a significant relationship whereas those giving results higher than 0.05 revealed an insignificant relationship. Diagnostic tests conducted before regression analysis included: normality tests using Kolmogorov-Smirnov and Shapiro-Wilk test, set criteria for both tests was at 0.05, values that were below 0.05 indicated that there was non-normal distribution of data. Linearity tests was also conducted using graph to find out if the independent and the dependent variable had some relationship. Heteroscedasticity tests was also carried out using the scatter plots to establish the randomness of the variables in the study, the existence of randomness indicates heteroscendassticity. Multi-collinearity was also conducted through as tests of independenc through value inflation factor (VIF) values below 5.0 indicated lack of multi-collearity whereas values close to 10.0 indicated serious multi-collearity. Auto-correlation was tested through Durbin –watson, values between 1.7 and 2.3 shown lack of multi-collearity whereas values below 1.7 shown postive auto-correlation however, values above 2.3 shown negative auto-correlation. Ccorrelation analysis through Pearson correlation was also used for tests of independence values above 0.8 shown strong presence of correlation.

The hypothesis set were all null therefore, hypothesis tests included the tests of significance at *p-value* of 0.05, values obtained which were lower than 0.05 indicated that the variables were

significant and therefore null hypothesis were rejected. Besides, p-values that were higher than the set criteria of 0.05 indicated that there was no significant relatonship therefore the null hpothesis was accepted. Conclusions were therefore made based on the acceptance or the rejecting of the null hypothesis. The study carried out both bivariate as well as multi-variate linear regression. The simple linear regression was of the following form:

$Y= \alpha+\beta_1X_1+\epsilon$………………………..i

$Y= \alpha+ \beta_1X_2+\epsilon$………………………..ii

$Y= \alpha+ \beta_1X_3+\epsilon$………………………..iii

$Y= \alpha+ \beta_1X_4+\epsilon$………………………..iv

$Y= \alpha+ \beta_1X_5+\epsilon$………………………..v

The overall model was of the form $Y= \alpha+\beta_1X_1 + \beta_1X_2+ \beta_1X_3+ \beta_1X_4+ \beta_1X_5+\epsilon$………………vi

Where: α = is a constant

Y=Dependent Variable (Financial performance of MFIs),

β_1…………… β_5 = regression coefficients of independent variables

X_1 =Size of board

X_2 = Board composition

X_i= CEO characteristics

X_4 = Audit committee characteristics

X_5= Ownership type

ϵ = error term

Presentation of the analyzed data was done by use of tables, pie charts, and the interpretation of results done narratively.

3.8 Ethical Consideration

In carrying out the study the research was cautious not to cause any harm or conflict to the respondent by following ethical research practices. The researcher introduced first to the respondents and explained the purpose of the survey to the respondent. The researcher also presented both NACOSTI and research permits from the university. The researcher gave assurance to the respondents that the data that they gave was only used for academic purposes and therefore not to be given to any other party.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

The purpose of the study was to establish the influence of internal corporate governance attributes on the financial performance of MFIs in Nairobi County. The objectives of the study were to establish the influence of board size on the financial performance, examine the influence of board composition on the financial performance, and determine the influence of chief executive characteristics on the financial performance, establish the influence of audit committee characteristics on the financial performance and determine the influence of ownership type on the financial performance.

4.1.1 Response Rate

Flower (1994) defines a response rate as the number of people who participate in a study who gave usable responses in compiling reports out of the total targeted sample. The sample target for the study was 187 respondents from whom data concerning establish the influence of internal attributes of corporate governance on the performance of microfinance institutions in Nairobi County was collected. The response rate for this study was 93% as the total number of completed and returned questionnaires was 174 out of 187. To achieve this, the researcher ensured to make a personal visit to the respondents to remind them of the questionnaire. This collaborates with Bailey (2017) who postulated that an adequate response rate is greater than 50% but a good response rate is greater than 70%. From this argument, the 93% response rate for this study is ideal. Table 4.1 shows the response rate.

Table 4.1:

Response Rate

Response	Frequency	Percentage (%)
Responded	174	93
Not responded	13	7
Total	**187**	**100**

Source: Author (2021)

4.1.2 Data Reliability and Validity Tests

Both reliability and validity tests were conducted before the actual tests were carried out on the questionnaire. The results are discussed below.

4.1.2.1 Reliability Tests

Reliability tests were conducted to ascertain whether the questionnaire constructs were internally consistent. To achieve this goal Cronbach's alpha at a threshold of 0.7 was used in the study. The results of the study are shown in table 4.2.

Table 4.2:

Reliability Test

Variable	Cronbach's Alpha Value	Number of Items measured
Board size	0.784	1
Board composition	0.876	3
CEO characteristics	0.786	5
Audit committee characteristics	0.756	5
Ownership structure	0.804	2
Financial Performance	0.822	2
Overall	**0.831**	**18**

Source: Author (2021)

The above table revealed that board size was measured on a counting scale. Cronbach's scale revealed a 0.784 which revealed that it is a sufficient measure and acceptable. The question asked

was 'what is the number of board members that sit on board'. Similar results were revealed by Dikko (2016) who revealed Cronbach's alpha of 0.7 was suitable

The results of the table also revealed that board composition achieved a Cronbach score of 0.876 (with 3 items) which reveals that the measure was acceptable for further analysis. An example of the question was 'the proposition of non-executive to overall board size'. Similar results were revealed by Dikko (2016) who revealed Cronbach's alpha of 0.7 was suitable

The table also revealed that CEO characteristics had a Cronbach's alpha score of 0.786 (with five items of measure) which indicates that the construct was suitable for further analysis. An example of a question sought to provide the gender proportion of the CEOs in the MFIs. Similar results were revealed by Dikko (2016) who revealed Cronbach's alpha of 0.7 was suitable

The study also sought to determine the Cronbach score for audit committee characteristics, results of the study revealed a Cronbach's score of 0.756 (with five items of measure). The study in this part sought to establish the proportion of professional audit members with financial backgrounds. Similar results were revealed by Dikko (2016) who revealed Cronbach's alpha of 0.7 was suitable

The study also revealed on ownership structure a Cronbach's alpha score of 0.804 which is a suitable measure for further analysis(with two items of measure), finally, on financial performance, a Cronbach score of 0.822 was revealed which indicated that the measures were suitable, two items were used. Similar results were revealed by Dikko (2016) who revealed Cronbach's alpha of 0.7 was suitable

4.1.2.1 Validity Tests

Validity tests were conducted through Bartlett tests and KMO tests to ascertain constructs validity. Table 4.3 below shows the results of the study.

Table 4.3:

Construct Validity Tests

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.823
Bartlett's Test of Sphericity	Approx. Chi-Square	67.234
	df	173
	Sig.	.000

Source: Author (2021)

KMO scale runs between 0 and 1. The results on the table above revealed that the KMO score was 0.823 which is considered adequate for further analysis, a measure with a higher score towards one is preferred; besides bartlett score was 0.001 was generated which revealed that the instrument was adequate for actual analysis as it was significant 0.001 is less than 0.01. Similarly, Thanasegaran (2009) confirmed that KMO and Bartlett tests can be used as a validity statistical measure of construct validity.

4.2 Demographic Information

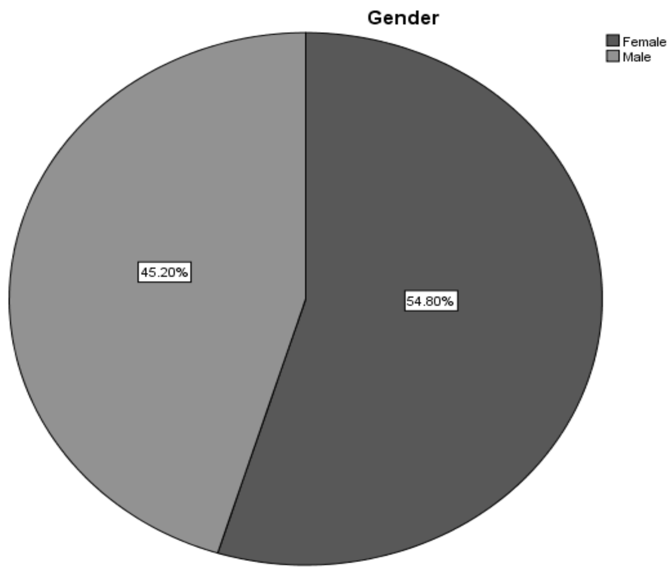
The study sought to find out the general characteristics of the respondents who participated in the study in this case therefore general aspects such as, gender, the position held, the education level, and working experience were considered. The table below shows the results obtained.

4.2.1 Gender of the respondent

The study seeks to determine the gender of the participants in the study. The study findings are shown in figure 4.1 below.

Figure 4.1:

Gender of the Respondent



Source: Author (2021)

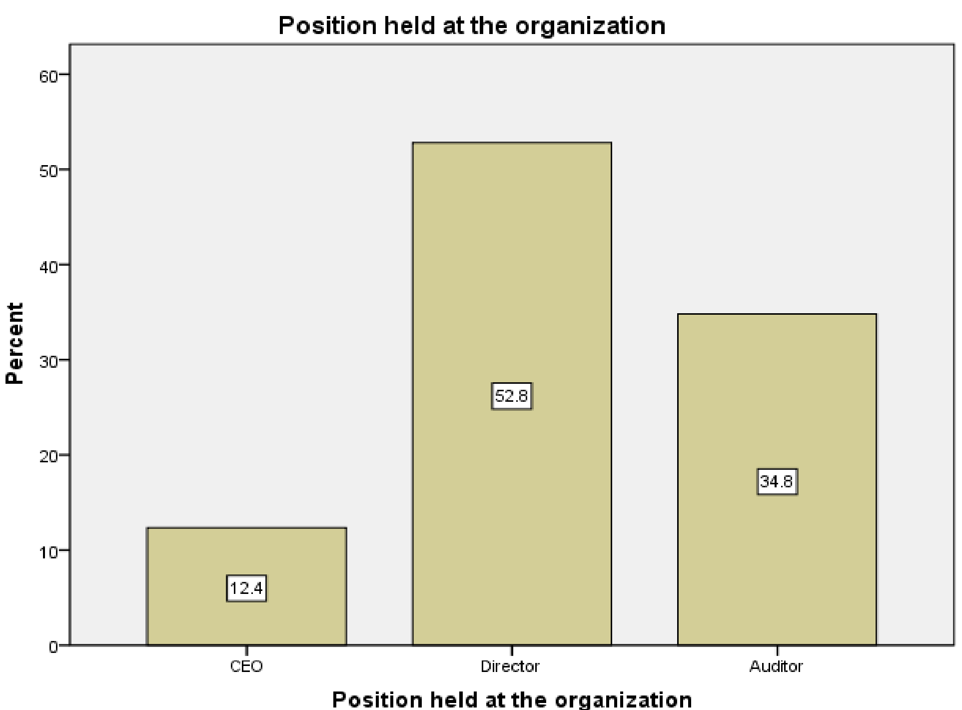
The figure showed that a majority of the respondent were female at 54.80% whereas only 45.20 % of the respondents were male. Microfinance in Kenya is dominated by female workers.

4.2.2 Position Held

The study seeks to establish what positions the respondents in the study held. The study findings are as shown in figure 4.2 below.

Figure 4.2:

Position Held at the Organization



Source: Author (2021)

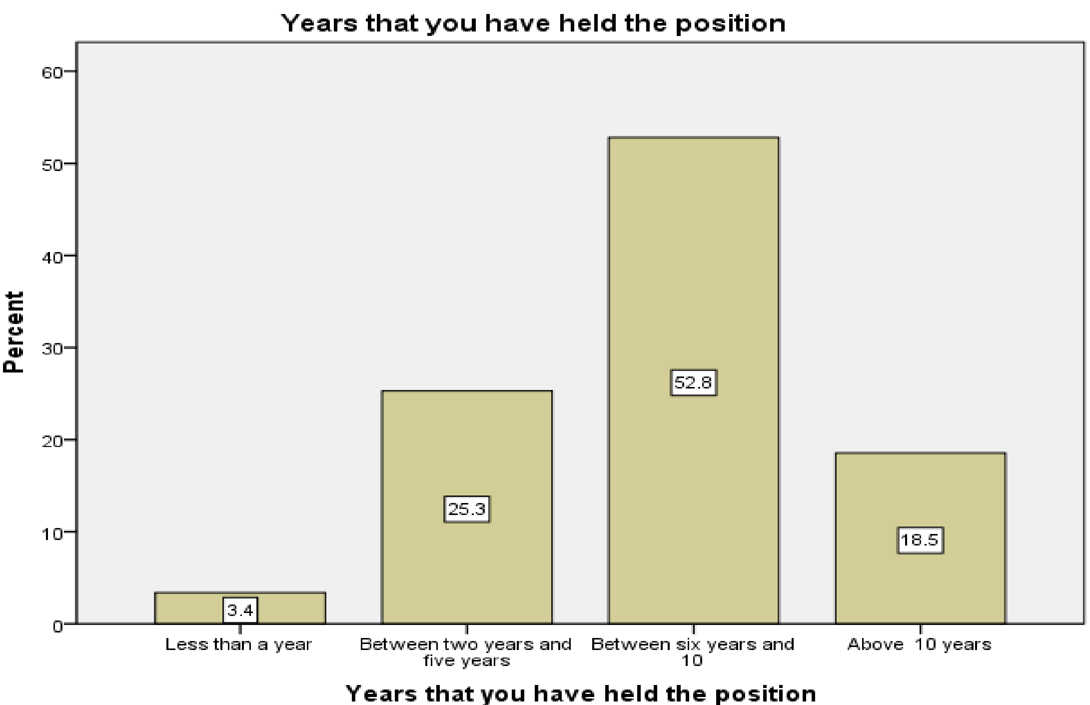
The study revealed that the majority of the respondents were directors of the institutions as shown by 52.8%, this was followed by 34.8% of the respondents who were auditors, and only 12.4% of the respondents were CEOs of the MFIs.

4.2.3 Working Experience

The study sought to determine how many years the respondents worked in the MFIs. The study findings were as shown in figure 4.3 below.

Figure 4.3:

Years of Work Experience



Source: Author (2021)

From the figure above, the highest percentage of the respondents had worked in the organization between 6 and 10 years as shown by 52.8%, this was followed by 25.3% of the respondents who had worked in the organizations for 2 to 5 years, followed by workers who had worked in the organization for a period above 10 years as shown by 18.5% whereas finally, only 3.4% of the respondent had worked in the company for less than one year, this is a clear indication that majority of the respondents were experienced and knew the strategic direction of the company in terms of corporate governance as well as financial performance.

4.3 Descriptive Statistics

Descriptive statistics were carried out on the study variables that included board composition, CEO Characteristics, audit committee characteristics, the board size, and ownership type.

4.3.1 Board Size

This section of the study sought to determine the number of directors who sit on the board. The results are shown in Table 4.4 below.

Table 4.4:

Board Size

Board Size	Frequency	Percent	Minimum	Maximum	Mean	Std. Deviation
10	4	16	10	16	13.80	1.885
11	6	24				
12	3	12				
13	5	20				
14	4	16				
15	2	8				
16	1	4				
Total	**25**	**100.0**				

Source: Author (2021)

Table 4.4 above indicated that the majority of the organizations had a board of 11 members as shown by 24%, this was followed by MFIs that had 13 board members as shown by 20%, this was followed by MFIs that had 14 and 10 members as shown by 16% each, followed by MFIs that had 12 members as shown by 12%, followed by ones with 15 as shown by 8% only 4% of the firm had 16 members in the board. This indicated that the majority of the MFIs had an average of 14 members as shown by a mean of 13.80, indicating that they were well constituted. The findings are in agreement with those of Ghuslan and Saleh (2017) who posited that a board size that had a higher number of members i.e., between 5 and 12 members positively influenced the firm's financial performance (profitability and equity) than those with fewer members of the board. The

study revealed that investors and creditors were more likely to give their funds to institutions with more directors because of easier accountability and protection of their funds than giving to a few who may collude therefore better returns on equity which intern resolves into better profits of the companies.

4.3.2 Composition of the Board of Directors

The study sought to establish the composition of board members in terms of the number of the proposition of non-executive board members, and the gender diversity of the board members. The results are presented on the following subheadings

4.3.2.1 Proportion of Non- Executive Directors in the Board

The study sought to establish the composition of non-executive directors versus executives on the board. Table 4.5 below indicates the findings of the study.

Table 4.5:

Proportion of Non- Executive Directors in the Board

Directors proportion	Frequency	Percent
Executive	60	65.21
Non-executive	32	34.79
Total	**92**	**100.0**

Source: Author (2021)

Table 4.5 above shown that there were many executive directors compared to non-executive directors. However, the table above revealed that 34.79% of the board is comprised of non-executive directors which is a clear indication of the supervision role by the no-executive directors in the MFIs as required by corporate governance to have an independent outsider sitting in the board as a non-executive board director. The findings are in agreement with those of Dam (2018) that there are non-executive board directors who are not part of the management of a company, normally appointed to ensure that they supervise the actions of the executive directors. They are

chosen because of their vast experience with the external environment and also in the reduction of agency costs in the companies. The non-executive director, therefore, plays a crucial role in making sure that they safeguard the interest of the shareholders because they have no selfish interest in the way the company is managed. The non-executive members are therefore supported to be people of high integrity and independence, they should also be professionals who can investigate and question, listen as well as constructively debating on the challenges facing the performance of the organization.

4.4.3 Gender Composition of the board of Directors

This section of the study sought to determine the gender proportion of directors who sit on the board of directors. The results are shown in Table 4.6 below.

Table 4.6:

Gender composition of the Board

Number of directors	Frequency	Percent
Male directors	47	51.2
Female directors	45	48.8
Total	**92**	**100.0**

Source: Author (2021)

Table 4.6 above revealed that the majority of the board remembers are male directors as shown by 51.2%, 48.8% of the MFIs board members were female directors; this revealed that the MFIs were almost evenly distributed. The findings are in agreement with those of Ali (2020) that including female directors on a firm's board, positively influences the financial performance of the firm with corporate social responsibility moderating the relationship. Therefore the inclusion of female directors in strategic direction and policies making positively influenced financial performance.

4.3.3 Chief Executive Officer Characteristics

This section of the study sought to determine the influence that CEO characteristics had on financial performance. Gender and duality functions were considered as variables of interest in chief executive characteristics.

4.5.1 Gender of CEO

This section of the study asked the respondents whether the CEO was female or male. The results are indicated in Table 4.7 below.

Table 4.7:

Gender of CEO

Duality role	Frequency	Percent
Male	7	63.6
Female	4	36.4
Total	**11**	**100.0**

Source: Author (2021)

From table 4.7 above it was revealed that the majority of the CEOs were men at 63.6% however female CEOs were at 36.4%, the results indicate that more firms have continued to accept the CEOs in their companies to be female which indicates a cultural acceptance and trust in female leadership. The findings are in agreement with those of Ali (2020) that the inclusion of females in leadership positions influences positively the financial performance of the firms with corporate social responsibility moderating the relationship. Therefore, the inclusion of female directors in strategic direction and policies making positively influenced financial performance.

4.5.2 Practices of CEO influences on financial performance

This section of the questionnaire asked the respondents to give opinions as to the extent to which characteristics of a CEO including independence and gender influence the financial performance

of their MFIs. In carrying out this task a Likert scale questionnaire was ranging from 1 (no extent) to 5 (very great extent). The results are shown in Table 4.8 below.

Table 4.8:

CEOs Characteristics

Statement	**N**	**Mean**	**Std. Deviation**
the extent to which having an independent CEO influences financial performance	174	3.66	1.030
Effect of CEO Gender on financial performance	174	3.15	1.298
what is the effect of Years of experience of CEO on financial performance	174	3.89	.907

Source: Author (2021)

Table 4.8 above from a mean of 3.66, shows that to a great extent having an independent CEO influences financial performance; a mean of 3.15 indicated that the respondents were moderate as to the influence of gender of the CEO on financial performance; while a mean of 3.89 revealed that years of experience of the CEO had to a great extent influence on financial performance as shown by a mean of 3.89. The findings are in agreement with those of Kyaitha and Nzioki (2017 who argued for the need to have an independent CEO from the office of the board of chair this clear distinction in roles would be key in ensuring that there was no one with overwhelming power to take control of companies activities without the need of the other, these actions are therefore important in minimizing frauds and thus safeguarding shareholders' interests safe which implies better financial performance.

4.3.4 Influence of Audit Committee on financial performance

This section sought to determine the influence of the audit committee as the requirement of corporate governance on the financial performance of MFIs in Nairobi County. Of specific interest,

the section sought to find out the presence of an audit committee, frequency of audit committee meetings, and size of the audit committee.

4.6.1 Number of Members in the Audit Team

This section of the study sought to determine the number of audit members in the audit team in the MFIs. The study findings are shown in table 4.9 below.

Table 4.9:

Audit Members with a Background in Financial Management

Category	Frequency	Percent
2-4 members	9	30.0
5-7 members	19	63.3
8-10 members	2	6.6
Total	**30**	**100.0**

Source: Author (2021)

Table 4.9 above show that the majority of the MFIs had between 5 and 7 audit members with financial management skills as shown by 63.3%, this was followed by between 2 and 4 members as shown by 30.0%, only 6.6% of the MFIs had between 8 and 10 members with financial management skills. These results revealed that the audit committee has quite an adequate number of auditors who have skills in financial management and specifically matters touching audit and assurance which is a requirement of good corporate governance. MFIs in Nairobi County had a department with members of the audit team, internal auditors with the roles of ensuring that frauds are prevented before occurring, errors and frauds are detected and finally, measures are put in place to control frauds and errors. The findings are in agreement with those of Madawaki and Amran (2017) who argued that the audit committee should be of an optimum size to be coordinated in achieving desired traits that ensure that the company remains proactive through assessing risks and keeping the company free from errors as well as revealing frauds before matter go out of hand.

4.6.3 Frequency of Audit Members Meeting

This part of the questionnaire sought to determine the number of times that the audit committee members met annually. The results are shown in Table 4.10 below.

Table 4.10:

Annual Meeting Frequency

Times	Frequency	Percent
2-6 times	1	.6
7-9 times	41	23.6
10-12times	133	75.8
Total	**174**	**100.0**

Source: Author (2021)

Table 4.10 above show that the majority of the audit committee of the MFIs had met between 10 and 12 times in a year as shown by 75.8%, this was followed by the meeting of between 7 and 9 times as shown by 23.6%, only 0.6% met between 2 and 6 times. These findings reveal that the audit committee meets regularly to audit books to ensure they are free from frauds and errors. The findings are in agreement with those of Madawaki and Amran (2017) when they confirmed that the audit committee should have desirable characteristics of being an independent team, the audit committee should hold meetings frequently, and of optimum size to be coordinated in achieving desired traits that ensure that the company remains proactive through assessing risks and keeping company free from errors as well as revealing frauds before the matter goes out of hand.

4.6.4 Influence of Audit Practices on Financial Performance

This section sought to determine the extent to which the respondents agreed with statements on the audit committee practices in the MFIs. In carrying out the task Likert type questions were used whereby 1 was strongly disagreed whereas 5 was strongly agreed. Table 4.11 below indicates the results obtained.

Table 4.11:

Influence of Audit Practices on Financial Performance

	N	Mean	Std. Deviation
having a large audit team is good for financial performance	174	4.28	.679
Audit team meeting regularly	174	4.21	.644
we have an independent audit team	174	4.15	.583

Source: Author (2021)

Table 4.11 above revealed: the respondents agreed that having and large audit team is good for financial performance as shown by a mean of 4.28, having an audit team that has diverse auditors with quite an optimal number is better than a team that is shallow in composition. Broader and large size enhances better financial decision making and better performance; the respondents also agreed that the audit team met regularly as shown by a mean of 4.21; finally, the respondents agreed that they had an audit team that was independent as shown by mean of 4.15. The findings are in agreement with those of Madawaki and Amran (2017) when they confirmed that the audit committee should have desirable characteristics such as the audit committee meeting frequency, of optimum size to be coordinated in achieving desired traits that ensure that the company remains proactive to keep the organization free from errors as well as revealing frauds before matter go out of hand.

4.3.5 Influence of Ownership Type on Financial Performance

This section of the study sought to determine how different forms of business owners influenced the financial performance of MFIs in Nairobi County. Questions on type of ownership, decision-making structure of the company, and the role of stakeholders in the internal affairs of the institutions.

4.3.5.1 Nature of Ownership of MFIs

This part of the questionnaire asked the respondents to reveal the nature of ownership of their MFI. The results are shown in Table 4.12 below.

Table 4.12:

Ownership Control Local vs Foreign

Control in Percentage local	Frequency	Percent
100	15	60
80	3	12
60	1	5
40	4	15
Less than 20%	2	8
Total	**25**	**100.0**

Source: Author (2021)

Table 4.12 show that the majority of the MFIs were owned locally as shown by 60% where firms which were fully or 100% locally owned, this was followed by 15% of the MFIs that were 40% locally owned and 20% foreign-owned, followed by 12% of the MFIs that were owned 80% locally and only 20% foreign-owned. Finally, only 5% of the firms were 60% locally owned. This study revealed only a few of the MFIs were owned by foreigners majority of them were owned locally.

4.3.5.2 Public Vs Private Ownership

This section of the study sought to determine the ownership structure of the MFIs in Nairobi County in terms of private versus public ownership of the MFIs. Table 4.13 below indicates the results obtained.

Table 4.13:

Public Vs Private Ownership

Ownership structure	Frequency	Percent
Private	20	80
Public	5	20
Total	**25**	**100.0**

Source: Author (2021)

Table 4.13 above revealed that the majority of the MFIs in Nairobi County were privately owned as shown by 80% of the MFIs, only 205 of the firms were owned by the public sector.

4.3.5.3 Ownership Type Practices

This section sought to determine the extent to which the respondents whether agreed or disagreed with statements on practices of ownership in their organization. In doing this task the study used Likert-type questions with a scale running from 1 (strongly disagreed) to 5 (strongly agreed). The results are shown in Table 4.14 below.

Table 4.14:

Ownership Type Practices

Descriptive Statistics			
Statement	**N**	**Mean**	**Std. Deviation**
Making decisions in the company is reserve for private management	174	3.34	1.382
External individuals and institutions are interested in how internal affairs are run	174	3.90	1.053
We keep a record of how affairs are run for supervision by public	174	4.25	.771

Source: Author (2021)

The above table 4.14 showed that: the respondents were neutral as to making decisions in the company being a reserve for private management as shown by a mean of 3.34; the respondents also agreed that external individuals and institutions are interested in how internal affairs are run as shown by a mean of 3.90; respondents agreed that they kept records on how affairs are run for supervisory purposes by the public as shown by a mean of 4.25. The findings are in agreement with those of Ali (2020) who noted that foreign investment in the firms positively influenced financial performance, with corporate social responsibility effectively moderating the relationship.

4.3.6 Finacial Performance

4.3.6.1 Net profits

The study sought to determine the profits of the MFIs in Nairobi County. Findings are revealed in the table below on profit rage that was achieved through recording under the transformation of variables. Results are shown in Table 4.15.

Table 4.15:

Net profits

Profit range In 'M'	Frequency	Percent	Mean	Min	Max	Std. dev
75-175	15	60.0	191.9480	79.69	430.57	79.27075
76-275	6	24.0				
276-375	3	12.0				
376-475	1	4.0				
Total	**25**	**100.0**				

Source: Author (2021)

Table 4.15 above revealed that the majority of the MFIs had net profits range between kshs 75 and 175 million, this was followed by firms whose profits ranged between kshs 76 and 275 million, this was followed by firms whose net profit was between kshs 276 and 375m only 4% of the MFIs had their profits average between 376 and 475 million. The profit for the MFIs was 191.94 million with the lowest firm registering a profit of 79.69 while the highest registered kshs 430.57 million, which indicates low profits compared to the banking sector and MFIs in developed countries. The findings are in agreement with those of Kenya's Economic survey (2017) who have closely observed that the net profits of MFIs in Kenya have been on a decline.

4.3.6.2 Return on Equity

The study sought to establish the return of equity statistics for MFIs in Nairobi County. The study recorded the values in range for easier analysis. Table 4.16 below illustrates the results obtained.

Table 4.16:

Return on Equity

ROE range	Frequency	Percent	Mean	Min	Max	Std. dev
0.10-0.15	2	8.0	0.2476	0.12	0.37	0.0705
0.16-0.20	6	24.0				
0.21-0.25	8	32.0				
0.26-0.30	2	8.0				
0.31-0.35	4	16.0				
0.36-0.40	3	12.0				
Total	**25**	**100.0**				

Source: Author (2021)

Table 4.16 above revealed that the majority of the firms had their REO range between 0.21 and 0.25 as shown by 32%, this was followed by firms whose average ROE was between 0.16 and 0.20 as shown by 245, which was followed by firms whose average RPE was between 0.31 and 0.35 as shown by 16% only 8% of the MFIs had their ROE between 0.26 and 0.30. The study findings also confirmed that the mean ROE was 0.2476 with the minimum ROE being 0.12 and a maximum of 0.37. The MFIs in Nairobi are therefore reporting average performance which needs to be increased through financial management practices such as through proper corporate governance practices. Kenya's Economic survey (2017) revealed that the financial performance of MFIs in Kenya had been in the decline.

4.4 Diagnostic Tests

Assumptions for linear regression were conducted to ascertain whether the model was fit for linear regression. Among the tests that were conducted included the: Multicollinearity tests, correlation analysis, auto-correlation tests, normality tests and heteroscedasticity tests.

4.4.1 Tests for Independence

Independent variables are supposed to be independent as such. Lack of independence among the variables in a study would result in a change in one independent variable resulting in the change

of another variable which is a serious problem in regression analysis. Both correlation analysis and multicollinearity tests are conducted to address independence issues.

4.4.1.1 Multi-Collearity Test

Multi-collinearity test is a preliminary test for linear regression which is normally conducted to ascertain whether there is a problem with the independence of the independent variables. To ascertain multi-collinearity value inflation factor (VIF) and tolerance levels were used. Where there is multi-collinearity the VIF values are close to 10. However, values that do not have the problem of multicollinearity have values that are lower than 5.0. Table 4.17 shown the results

Table 4.17:

Multi-Collearity Tets

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board size	.969	1.032
	New employees are guided on their new roles and responsibilities	.928	1.078
	Board composition	.558	1.793
	Employees are paid their salaries at the right time	.514	1.945
	Chief executive characteristics	.493	2.028

Results in table 4.16 revealed that the VIF values for all the independent variables were below 2.028, therefore the independent variables did not suffer multi-collinearity problems.

4.4.1.2 Correlations Analysis

Correlation analysis is also used to confirm if there is a problem with the independence of the independent variables. Where there is a serious problem the values of Pearson correlation are close to 1, however, values that are much lower than 0.7 shows that there is no problem of independence or multi-collinearity. Findings are presented in Table 4.18.

Table 4.18:

Correlations Analysis

		Board size	Board composition	Chief executive characteristics	Audit committee characteristics	Ownership type
Board size	Correlation Coefficient	1.000				
	Sig. (2-tailed)					
Board composition	Correlation Coefficient	.083	1.000			
	Sig. (2-tailed)	.695	.			
Chief executive characteristics	Correlation Coefficient	.083	-.087	1.000		
	Sig. (2-tailed)	.694	.680	.		
Audit committee characteristics	Correlation Coefficient	-.114	.182	.294	1.000	
	Sig. (2-tailed)	.589	.383	.154	.	
Ownership type	Correlation Coefficient	-.270	.114	-.390	.454*	1.000
	Sig. (2-tailed)	.192	.587	.054	.023	.

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

Results in table 4.18 revealed that board size and board composition revealed (r=.083, p-*value* = .695 which was not significant); board size and Chief executive characteristics revealed (r=.083, p-value=0.694 which was not significant); board size and Audit committee characteristics revealed (r= -0.114, p-value=0.589 which was not significant); board size and Ownership type revealed (r= -0.270; p-value=0.192 which was not significant).

Board composition and Chief executive Characteristics revealed (r= -0.087, p-value= 0.680 which was not significant); Board composition and Audit committee characteristics revealed (r= 0.187,

p-value= 0.383 which was not significant); Board composition and ownership type revealed (r=0.114, p-value=0.587 which was not significant).

Chief executive Characteristics and audit committee characteristics revealed (r=.294, p-value= 0.184 which was not significant); chief executive characteristics and ownership type (r= -0.390, p-value=.054 which was not significant).

Audit committee characteristics and ownership type (r=0.454*, p-value=0.023 which was significant).

4.4.2 Test for Auto-Correlation

Auto-correlation is serious in regression analysis. Residual errors accumulated can cause errors in the estimation in the regression model. Auto-correlation is determined through Durbin Watson. Dubin Watson's scale ranges between 1 and 4. Values between 0 and 1.5 show negative auto-correlation whereas values 2.5 and 4.00 show negative auto-correlation. Values between 1.7 and 2.4 show there is no problem with auto-correlation. The results revealed a Durbin-Watson value of 2.023 therefore, the model did not suffer auto-correlation. Findings are shown in table 4.19.

Table 4.19:

Auto-correlation

	Durbin-Watson
dimension0	2.023

4.4.3 Normality Test

Tests for normality were conducted to establish whether the data from which the sample was obtained had a normal distribution. The study null hypothesis was that there is non-normal distributio distribution. Two tests conducted included the Kolmogorov-Smirnov and Shapiro-

Wilk. The significance level set was at 0.05, any observed value of the significance that was higher than 0.05 indicated non-normal distribution. The results are shown in Table 4.20.

Table 4.20:

Test for Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Board size	.380	25	.106	.679	25	.091
Board composition	.449	25	.200	.565	25	.117
CEOs characteristics	.415	25	.120	.667	25	.112
Audit committee	.316	25	.081	.731	25	.070
Ownership type	.316	25	.110	.731	25	.095

a. Lilliefors Significance Correction

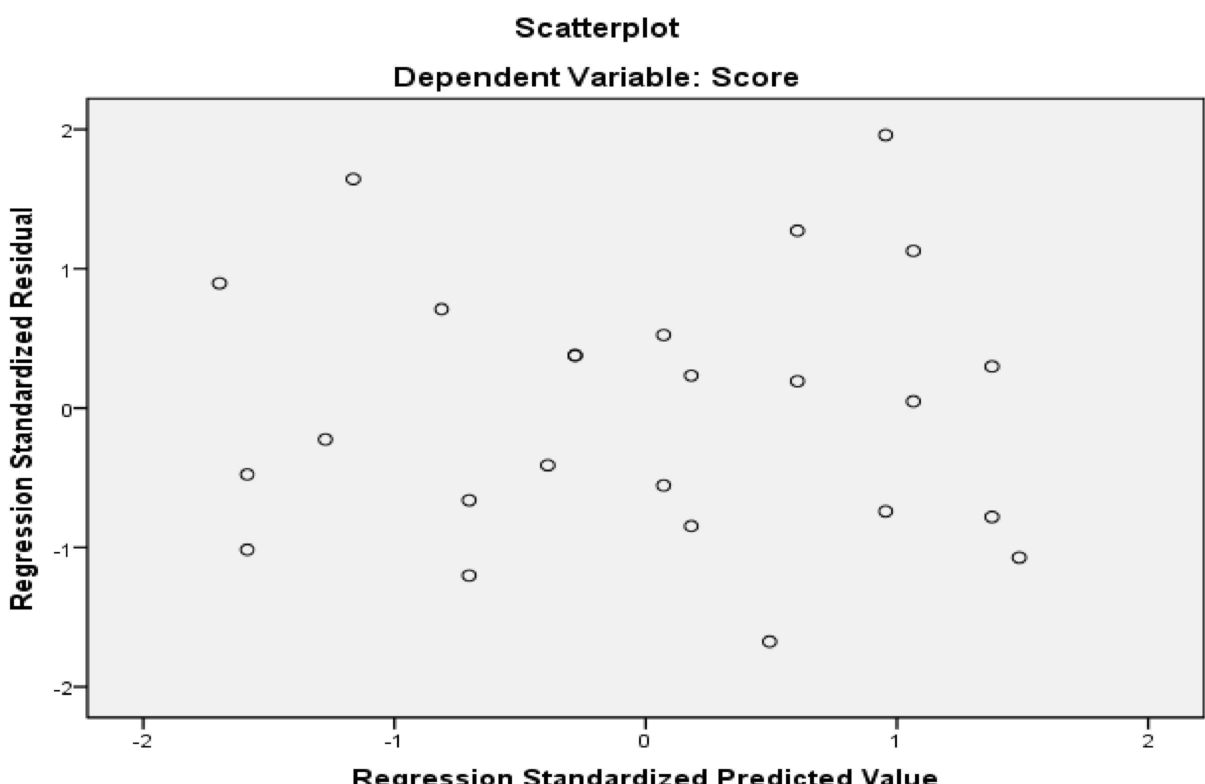
The results revealed that all the significance value for both Kolmogorov-Smirnov and Shapiro-Wilk were all greater than the set significance levl of 0.05, the results therefore indicated that the set null hypothesis that there was non-normal distribution of data was rejected.

4.4.4 Test of Heteroscedasticity

Test for Heteroscendascity was conducted among the study variables to establish whether the spread of the variables was uniform or followed a particular pattern. The data spread should be uniform and should not appear to follow a particular pattern. The results are shown in figure 4.4.

Figure 4.4:

Test for Heteroscendascitity



Results revealed that the spread of the data was uniform and did not follow a particular pattern therefore the rule for heterogeneity was not violated. The study, therefore, revealed that the regression model satisfies all the assumptions of linear regression.

4.5 Hypothesis Tests

4.5.1 Bivariate Regression Analysis

Simple linear regression analyses were conducted between one independent variable and the dependent variable at a time to establish whether the independent variable influenced the financial performance of MFIs in Nairobi.

4.5.1.1 Board Size and Financial Performance

The study sought to establish whether board size had a significant influence on the financial performance of MFIs. The results are presented under model, summary, ANOVA, and regression coefficients. Results are presented in Table 4.21.

Table 4.21:

Influence of Board Size and Financial Performance

Model Summary						
Model		**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	
dimension0	1	.873[a]	.761	.751	2.530	

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	469.817	1	469.817	73.398	.000[a]
	Residual	147.223	23	6.401		
	Total	**617.040**	**24**			

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	20.065	1.249		16.062	.000
	Board size	0.822	.446	.873	8.567	.000

a. Predictors: (Constant), Board size

b. Dependent Variable: Financial Performance

Table 4.20 revealed that board composition explains about 75.1% of the change in the variation of financial performance of MFIs in Nairobi County. The ANOVA results revealed an F-ratio value of 73.398 which was associated with a p-value of 0.001, therefore board composition significantly influences the financial performance of MFIs in Nairobi County.

The findings are in agreement with those of Bansal and Sharma (2016) who concurred that the financial performance of firms in gulf countries depended on government shareholding, audit type, size, and composition of the board.

Orozco et al. (2017) had different findings on a study that sought to determine the relationship that exists between the board size and the reputational and financial corporate performance. The

study focused on the top companies in Colombia as listed in the Business Monitor of Corporate Reputation. The study revealed that a large board size tends to have a low financial performance but a high corporate reputation performance. On the other hand, companies with a smaller board size have high financial performance

4.5.1.2 Board Composition and Financial Performance

The study sought to determine the influence of Board Composition on the Financial Performance of MFIs in Nairobi County. The results of the study are presented in table 4.22.

Table 4.22:

Influence of Board Composition on Financial Performance

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.536[a]	.287	.256	4.374

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	177.101	1	177.101	9.259	.006[a]
	Residual	439.939	23	19.128		
	Total	617.040	24			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	15.274	1.860		8.213	.000
	Board composition	0.921	.631	.536	3.043	.006

a. Predictors: (Constant), Board composition

b. Dependent Variable: Financial Performance

Table 4.21 revealed an R-square of 0.287, which revealed that board composition explained 28.7% of the change in the financial performance of MFIs in Nairobi County. An F-ratio of 9.259 was associated with a p-value of 0.006, therefore board composition was found to have a significant influence on the financial performance of MFIs in Nairobi.

The findings are in agreement with those of Dan (2018) who argued that including non-executive directors in the board is paramount and had a profound influence on the financial performance of firms, non-executive directors play key roles in ensuring that they safeguard the interest of the shareholders because they have no selfish interest in the way the company is managed.

The findings are also in agreement with those of Manyaga et al. (2020) when they studied how the financial performance of commercial banks in Kenya was influenced by the composition of its board. The study revealed a positive relationship between a diverse board of composition and financial performance. The study concluded that a board comprised of members with unique qualities and experience background, as well as disciplines including leadership, financial management, and law and compliance skills, had a lot to advise the CEO in ensuring that the company improves performance.

4.5.1.3 Chief Executive Officers Characteristics and Financial Performance

The study sought to establish the influence of Chief Executive Officers Characteristics on the Financial Performance of MFIs in Nairobi County. The findings are presented in table 4.23.

Table 4.23:

Influence of Chief Executive Officers Characteristics on Financial Performance

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
dimension0 1	.726[a]	.527	.506	3.563

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	325.005	1	325.005	25.597	.000[a]
	Residual	292.035	23	12.697		
	Total	**617.040**	**24**			

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	17.328	1.565		11.074	.000
	CEOs Characteristics	0.842	.562	.726	5.059	.000

a. Predictors: (Constant), CEOs Characteristics

b. Dependent Variable: Financial Performance

Results of the study shown in table 4.22 revealed an R-square of 0.527, therefore CEOs" characteristics explained 52.7% of the variations in the financial performance of MFIs in Nairobi county. ANOVA results revealed that an F=25.597 was associated with a p-value of 0.001 which implied that CEOs' characteristics significantly influenced the financial performance of MFIs in Nairobi County.

The findings are also in agreement with those of Kaur (2018) who conducted a study to establish how the characteristics of a chief executive officer affect the firm performance of Indian firms on a sample of few selected Nifty 500 firms revealed that the job-related and demographic characteristics of a CEO influence the firm performance significantly.

4.5.1.4 Auditor Committee Characteristics and Financial Performance

The study sought to determine the influence of audit characteristics on the financial performance of MFI in Nairobi County. The results are presented in Table 4.24.

Table 4.24:

Influence of Auditor Committee Characteristics and Financial Performance

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
dimension0 1	.873[a]	.761	.751	2.530

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	469.817	1	469.817	73.398	.000[a]
	Residual	147.223	23	6.401		
	Total	617.040	24			

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	20.065	1.249		16.062	.000
	auditor characteristics	-3.822	.446	-.873	-8.567	.000

a. Dependent Variable: Financial Performance

b. Auditor Committee Characteristics

Results in table 4.23 revealed that a Rsquare of 0.761, implied that auditor committee characteristics can explain about 76.1% of the financial performance in MFIs in Nairobi County. ANOVA results revealed an F-ratio of 73.398 which was associated with a p-value of 0.001, therefore auditor committee characteristics significantly influence the financial performance of MFIs in Nairobi.

The findings are in agreement with those of Bansal and Sharma (2016) who concurred that the financial performance of firms in gulf countries depended on government shareholding, audit type/characteristics, size, and composition of the board.

The findings are also in agreement with those of Oluoch and Karera (2018) who conducted a study to assess how the characteristics of the corporate audit committee affect the financial performance of manufacturing firms in Kenya revealed that there exists a positive and significant relationship between the financial performance and the composition of the audit committee and how often audit committee meetings are held. The study indicated that the larger the audit committee the more the likelihood of the audit committee to lose focus, and therefore a relatively smaller audit committee size was preferred.

4.5.1.5 Ownership Type and Financial Performance of MFIs

The fourth objective was to establish the influence of Ownership type on the financial performance of MFIs. The results are presented in Table 4.25.

Table 4.25:

Influence of Ownership Type on Financial Performance

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.296[a]	.088	.048	4.948

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.021	1	54.021	2.207	.151[a]
	Residual	563.019	23	24.479		
	Total	617.040	24			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.808	3.169		1.833	.080
	Ownership type	2.942	1.981	.296	1.486	.151

a. Predictors: (Constant), ownership type

b. Dependent Variable: Financial Performance

The results shown in Table 4.24 revealed a Rsquare at 0.088, which revealed that ownership type explains 8.8% in the variations of financial performance of MFIs in Nairobi County. Results on ANOVA revealed an F-ration of 2.207 that was associated with a *p-value* of 0.151, therefore ownership type does not significantly influence the financial performance of MFIs in Nairobi County.

Bansal and Sharma (2016) concurred that the financial performance of firms in gulf countries depended on audit type, total number, and composition of the board of directors. However divergent views were revealed by Ali (2020) who had views that foreign investment in the local firms positively influenced the financial performance with corporate social responsibility effectively moderating the relationship.

4.5.2 Multi-Linear Regression Analysis

Regression analysis was carried out to determine the relationship that exists between the dependent and independent variables of the study when considered together. Therefore, a multilinear regression was carried out through the entry method in SPSS. The results of the study were presented on the model summary, ANOVA, and regression coefficients.

4.5.1 Model Summary

The coefficient of determination is used to explain to what extent the dependent variables explain a change in the independent variables. The results of the study are explained in Table 4.26.

Table 4.26:

Joint Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
Dimension	1	.887[a]	.786	.730	20.646

a. Predictors: (Constant), the board size, board composition, chief executive characteristics, audit committee characteristics, ownership type

Table 4.25 showed that the coefficient of determination R squared value was 0.786. The results showed that change in financial performance could be explained about 78.6% due to the independent variables in the model that included: board composition, board audit committee characteristics, chief executive characteristics, and size ownership type. The R-square was an increase from previous bivariate model results as a result of an increase in the variables in the model.

4.5.2 Analysis of Variance (ANOVA)

The purpose of ANOVA in regression is to use the significance level to explain the variability of the regression model. The results of the study is shown in Table 4.27.

Table 4.27:

Joint ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	298.342	5	59.667	13.998	.000[a]
	Residual	80.989	19	4.262		
	Total	**379.331**	**24**			

a. Predictors: (Constant), the board size, board composition, chief executive characteristics, audit committee characteristics, ownership type
b. Dependent Variable: Financial performance

Table 4.26 revealed an F ratio of 13.998 (df= 5, 19) which was significant at a p-value of 0.001 that is lower than 0.05. The findings revealed that there are chances that the F critical value will fall within 0.05.

4.5.3 Regression Coefficients

The study sought to establish whether corporate governance practices influence the financial performance of MFIs in Nairobi County. The study carried out regression multi-linear regression analysis on both independent and dependent variables. The study results are shown in Table 4.27.

Table 4.28:

Joint Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-14.763	31.886		-.462	.004
	Board Size	.623	3.269	.567	.190	.000
	Board Composition	.369	.393	.314	.939	.023
	Chief Executive Characteristics	.406	.310	.370	1.309	.004
	Audit Committee Characteristics	.253	.509	.230	.497	.043
	Ownership Type	.136	.675	.138	.201	.358

a. Dependent Variable: Financial performance

Table 4.27 revealed that at constant when all other variables of corporate governance were not in play, the constant was associated with (β = -14.743, t= -0.462, p-value=0.004 which was less than 0.005).

Influence of Board Size on Financial Performance

Board size was associated with (β=0.623, t= 0.190, p-value=0.001 which was less than 0.005). The study found that there exists a positive relationship between financial performance and board size. An increase in board size by one unit results in a 0.623 increase in financial performance.

Influence of Board Composition on Financial Performance

Board composition was associated with (β =0.369, t=.939, p-value=0.023 which was less than 0.005). The study, therefore, revealed that there exists a positive relationship between the composition of the board and the firm's financial performance. Every unit increase in the number

of non-executive board directors results in a 0.369 increase in the financial performance of MFIs in Nairobi County.

The findings are also in agreement with those of Ali (2020) when studying whether the relationship between corporate governance and firms' performance at the shanghai stock exchange in China can be mediated by the use of corporate social responsibility. The study found including female directors in the board influences positively the financial performance of the firms with corporate social responsibility moderating the relationship. Therefore, the inclusion of female directors in strategic direction and also in policies formulation had a positive influence on financial performance. Besides the study revealed that foreign investment in the firms had a positive relationship on financial performance, with corporate social responsibility effectively moderating the relationship.

Influence of Chief Executive Officers on Financial Performance

The study revealed that chief executive officers' characteristics was associated with a (β =0.406, t= 1.309, p-value=0.004 which was less than 0.005). The study revealed that there exists a significant and positive relationship between the chief executive characteristics and the financial performance. A unit increase in the number of women results in a 0.406 increase in the financial performance of MFIs in Nairobi County. The findings are in agreement with those of Bui et al. (2019) who concurred that the CEOs need to be independent, transparent with unique qualities, these actions are therefore important in minimizing frauds and thus safeguarding shareholders' interest which implies better financial performance.

The findings are also in agreement with those of Emmelina and Setyaningrum (2019) who carried out a study to determine how the financial performance of firms from six ASEAN countries i.e. Thailand, Vietnam, Singapore, Malaysia, Philippines, and Indonesia was impacted by the CEO's

characteristics concurred that the CEO's tenure and age tend to influence the firm performance positively whereas the CEO's gender, professional certification, and advanced education has no significant impact on the firm performance.

Influence of Audit Committee Characteristics on Financial Performance

Audit committee characteristics was associated with a (β =0.253, t= 0.497, p-value=0.043 which was less than 0.005). The study, therefore, revealed that there exists a significant and positive relationship between audit characteristics and the financial performance of MFIs. A unit increase in desirable audit characteristics such as having a higher proportion of auditors with financial qualifications results in a 0.253 increase in the financial performance of MFIs in Nairobi County.

Influence of Ownership Type on Financial Performance

Finally, ownership type was associated with (β =0.136, t=0.201, p-value=0.358 which was greater than 0.005). The study, therefore, revealed that ownership type has no significant relationship with the financial performance of MFIs in Nairobi County. An increase in an indicator like a proportion of foreign vs total ownership of the MFIs has no significant influence on the financial performance of MFIs in Nairobi County.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This section is an attempt to articulate the summary of the findings based on the problem statement and purpose of the study. Besides, there are conclusions and recommendations made by the researcher based on the findings of the study.

5.2 Summary of findings

5.2.1 Board Size

The study revealed that the majority of the organization had a board of 11 members. Board size was associated with (β=0.623, t= 0.190, p-value=0.001 which was less than 0.005).

5.2.2 Board Composition

Besides, the study found that 34.79% of the boards had non-executive directors. Board composition was associated with (β =0.369, t=.939, p-value=0.023 which was less than 0.005).

5.2.3 CEOs Characteristics

The study also revealed that 36% of the CEOs were female. The study revealed that chief executive officers' characteristics was associated with a (β =0.406, t= 1.309, p-value=0.004 which was less than 0.005).

5.2.4 Audit Committee charactersitics

The study also found that majority of the MFIs had between 5 and 7 audit members with financial management skills. The majority of the audit committee of the MFIs had met between 10 and 12 times in a year. Audit committee characteristics was associated with a (β =0.253, t= 0.497, p-value=0.043 which was less than 0.005).

5.2.5 Ownership Type

The majority of the MFIs were fully locally owned (60%). Finally, ownership type was associated with (β =0.136, t=0.201, p-value=0.358 which was greater than 0.005). Finally, the study revealed that the majority of the MFIs had net profits range between kshs 75 and 175 million.

5.3 Conclusions of the Study

5.3.1 Board Size

The study concluded that board size significantly influences the financial performance of MFIs in Nairobi County. The study, therefore, rejects the null hypothesis that Board Size does not significantly influence the financial performance of MFIs in Nairobi County. Bansal and Sharma (2016) concurred that the financial performance of firms in gulf countries depended on the government size of the board. The study revealed an optimal number of board sizes resulted in better decision-making and therefore improved financial performance.

5.3.2 Board Composition

The study also concluded that board composition significantly influences the financial performance of MFIs in Nairobi County. The study, therefore, rejected the null hypothesis that: Board composition does not significantly influence the financial performance of MFIs in Nairobi County. The board of directors should be such that it has uniquely qualified directors with experience and skills to oversee the company operations. Having lawyers and professional accountants as well as business management experts is good for better financial performance. Dan (2018) also concurred that including non-executive directors is paramount and positive influenced the financial performance of firms, non-executive directors play key roles in ensuring that they safeguard the interest of the shareholders because they have no selfish interest in the way the

company is managed., the non –executive members who may be business experts and professional positively influenced the financial performance.

Similarly, Ali (2020) who sought to determine whether the relationship between corporate governance and firms' performance at the shanghai stock exchange in china can be mediated through corporate social responsibility revealed that including female directors positively impacted the financial performance of the firms with corporate social responsibility moderating the relationship. Therefore, the inclusion of female directors in strategic direction and policymaking had a positive influence on financial performance. Besides the study revealed that foreign investment in the firms had a positive impact on financial performance, with corporate social responsibility effectively moderating the relationship.

5.3.3 CEO Characteristics

The study concluded that CEO characteristics significantly influence the financial performance of MFIs in Nairobi County. The study, therefore, rejected the null hypothesis that: CEO characteristics do not significantly influence the financial performance of MFIs in Nairobi County. The independence of the CEO is an important factor for improving the financial performance of MFIs in Nairobi County. Kyaitha and Nzioki (2017) concurred through a study on how practices of corporate governance impacted the financial performance of housing cooperatives in Kenya that there was the need to have an independent CEO from the office of the board of chair this clear distinction in roles would be key in ensuring that there was no one with overwhelming power to take control of companies activities without the need of the other, these actions are therefore important in minimizing frauds and thus safeguarding shareholders' interests safe which implies better financial performance.

Similarly, Kaur (2018) who conducted a study to establish how the characteristics of a chief executive officer affect the firm performance of Indian firms on a sample of few selected Nifty 500 firms concurred that the job-related and demographic characteristics of a CEO influence the firm performance significantly.

Emmelina and Setyaningrum (2019) carried out a study to determine how the financial performance of firms from six ASEAN countries i.e. Thailand, Vietnam, Singapore, Malaysia, Philippines, and Indonesia was impacted by the CEO's characteristics concurred that the CEO's tenure and age tend to influence the firm performance positively whereas the CEO's gender, professional certification, and advanced education has no significant impact on the firm performance.

5.3.4 Audit Committee

The study concluded that the audit committee significantly influences the financial performance of MFIs in Nairobi. The study, therefore, rejected the null hypothesis that: audit committee characteristics do not significantly influence the financial performance of MFIs in Nairobi County. Auditors with a unique qualification in financial performance were desired for the better financial performance of MFIs in Nairobi County. The study concluded that an audit committee that is independent and whose composition is appropriate influenced the financial performance of MFIs. The independence of the audit committee promotes integrity and objectivity in the committee and at the same time ensures that the integrity of the auditor's opinion and recommendations is maintained. An audit committee with vast experience and expertise also positively impacted the process of financial reporting. Alkilani et al. (2019) in a study on the influence of internal corporate governance mechanisms among 135 Jordan companies revealed that the number of members of an audit committee had a significant relationship with firm performance whereas its independence,

how often the committee holds meetings, non-executive directors, CEO duality, size of the board did not have a significant impact on the financial performance of the companies.

5.3.5 Ownership Type

The study finally concluded that ownership type does not significantly influence the financial performance of MFIs in Nairobi County. The study, therefore, accepted the null hypothesis that: ownership type does not significantly influence the financial performance of MFIs in Nairobi County. Even where the MFIs increased the proportion of foreign ownership or a balance between the public and private ownership the financial performance of the MFIs did not change significantly. Private and foreign ownership did not result in the performance of MFIs in Nairobi County. Obonyo (2016) who studied the influence of ownership, board composition, and managers' characteristics among firms listed with the Nairobi stock exchange however revealed that there is a need to attract shareholders with diverse characteristics to have shareholders with unique qualities and skills that impacts positively on the business performance.

5.4 Recommendations of the Study

The study conducted both policy recommendations for the management and gave recommendations for future studies among scholars.

5.4.1 Policy Recommendations

5.4.1.1 Board Size

The study recommended an appropriate number of board members that were financially manageable and optimal in decisions making that is cost-effective and also ensures better financial performance. The guidelines dictate the constitution of the board should be regularly restructured to make sure that the interests of investors and shareholders are considered.

5.4.1.2 Board Composition

This study proposed that a good mix of directors in terms of gender proportion, both executive and non-executive, a good blend of professionals, and experienced members to ensure higher financial performance. The study recommended that the MFIs in Kenya should ensure appropriate decisions are made in appointing their board members to ensure that factors such as gender diversity, independence, and size of the board are taken into consideration.

5.4.1.3 CEO Characteristics

The study recommended a CEO who was independent, well experience in corporate governance, and is more transparent. The study also recommended for female CEOs to achieve better financial performance of the MFIs in Nairobi County.

5.4.1.4 Audit Committee Characteristics

The study recommended for an audit committee that was transparent, independent, with financial management qualifications to give a true position of the institutions and also safeguard the institution's assets and therefore better financial performance of MFIs in Nairobi County.

The study recommended that MFIs in Nairobi County should regularly check on the composition of the audit committee to ensure that they have the knowledge and experience required in handling financial audit matters. Furthermore, the audit committee should ensure that regular meetings are held to check the compliance of the firms with the financial regulations.

5.4.1.4 Ownership Type

The study recommended a mix of both local and foreign owners in the ownership structure to ensure global practices of financial management of the company and financial performance of the MFIs in Nairobi County.

5.4.2 Recommendations for Further Studies

The study recommended for a study to be done on corporate governance other sectors outside a financial sector to establish whether results are different or similar for generalization of observations.

Another study can also be carried out including more variables, our model could only explain 84.8%, and other variables not considered in the model explain variation in financial performance by 15.2% of the financial performance of MFIs in Nairobi County. Therefore the model needed the inclusion of variables to improve the specification.

Another study can also be conducted to understand the relationship that exists between internal controls and corporate governance in these institutions. Besides, a study can be conducted on how corporate social responsibility can be effectively used to mediate the relationship between financial performance and corporate governance in multinational corporations in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

THE BOARD OF DIRECTORS AND TOP MANAGEMENT

Dear Sir/ Madam

REF: COLLECTION OF DATA

My Name is MARIAM ABDI currently pursuing a Masters degree in Finance at Kenya Methodist University. To fulfill the requirement for the award of the degree being required to write a project on the ***Influence of Corporate Governance Attributes on Financial Performance of Microfinance Institutions in Nairobi*** **County**. Your support in filling this questionnaire of much held in the completion of this project.

Yours Faithfully,

Marriam Abdi

APPENDIX II: RESEARCH QUESTIONNAIRE

Instructions: tick where appropriate or give a brief description when open

Part One: Demographic Data

1. Gender Male ( ) Female ( )

2. Position held at the organization

CEO ( )

Director ( )

Auditor ( )

3. Years that you have held the position

Less than a year ( )

Between two years and five years ( )

Between six years and 10 ( )

Above five 10 years ( )

Part Two: Influence of Board Size on the Financial Performance of MFIs

4. How many directors are there on your board? ....

Part Three: Influence of Board Composition on the Financial Performance of MFIs

5. How many non-executive directors are there? ....

6. How many women are there in your board? …………………….

7. How many directors have a professional background in governance? …………………….

Part Four: Influence of CEO Characteristics on the Financial Performance of MFIs

8. For how long have been the CEO of the organization? ………………

9. How many women are there in your board? ………………

Using a scale of 1 to 5 where 1 is no extent; 2 is little extent; 3 is a moderate extent; 4 is a great extent and 5 is a very great extent. To what extent would you say is the influence of the following CEO characteristics on financial performance?

	Statement	No extent	Little extent	Moderate extent	Great extent	Very great extent
10	Having an independent CEO					
11	Having a CEO who is a lady					
12	Having a vast experienced CEO					

Part Five: Influence of Audit Committee characteristics on the Financial Performance of MFIs

13. How many members are there on the audit committee? ....

14. How many times does the audit committee meet annually? ....

Using a scale of 1 to 5 where 1 is strongly disagree; 2 disagree; 3 is a moderate extent; 4 is agree and 5 strongly agree. To what extent do you agree is the influence of audit committee characteristics on financial performance?

	Statement	Strongly Disagree	Disagree	neutral	Agree	Strongly Agree
15	Large audit team					
16	Audit meetings regularly					
17	An independent audit team					

Part Six: Influence of Ownership type on the Financial Performance of MFIs

18. What would you say is the own nature of your institution?

a. Local vs public

Locally owned ( )

Foreign owned ( )

b. public vs private

Public owned ( )

Private owned ( )

Part Seven: Financial Performance

19. Please provide the figures for the following financial year

Statement	**2018**	**2019**	**2020**
Net profits			
Return on Equity			

APPENDIX III: LIST OF MFIs IN NAIROBI COUNTY

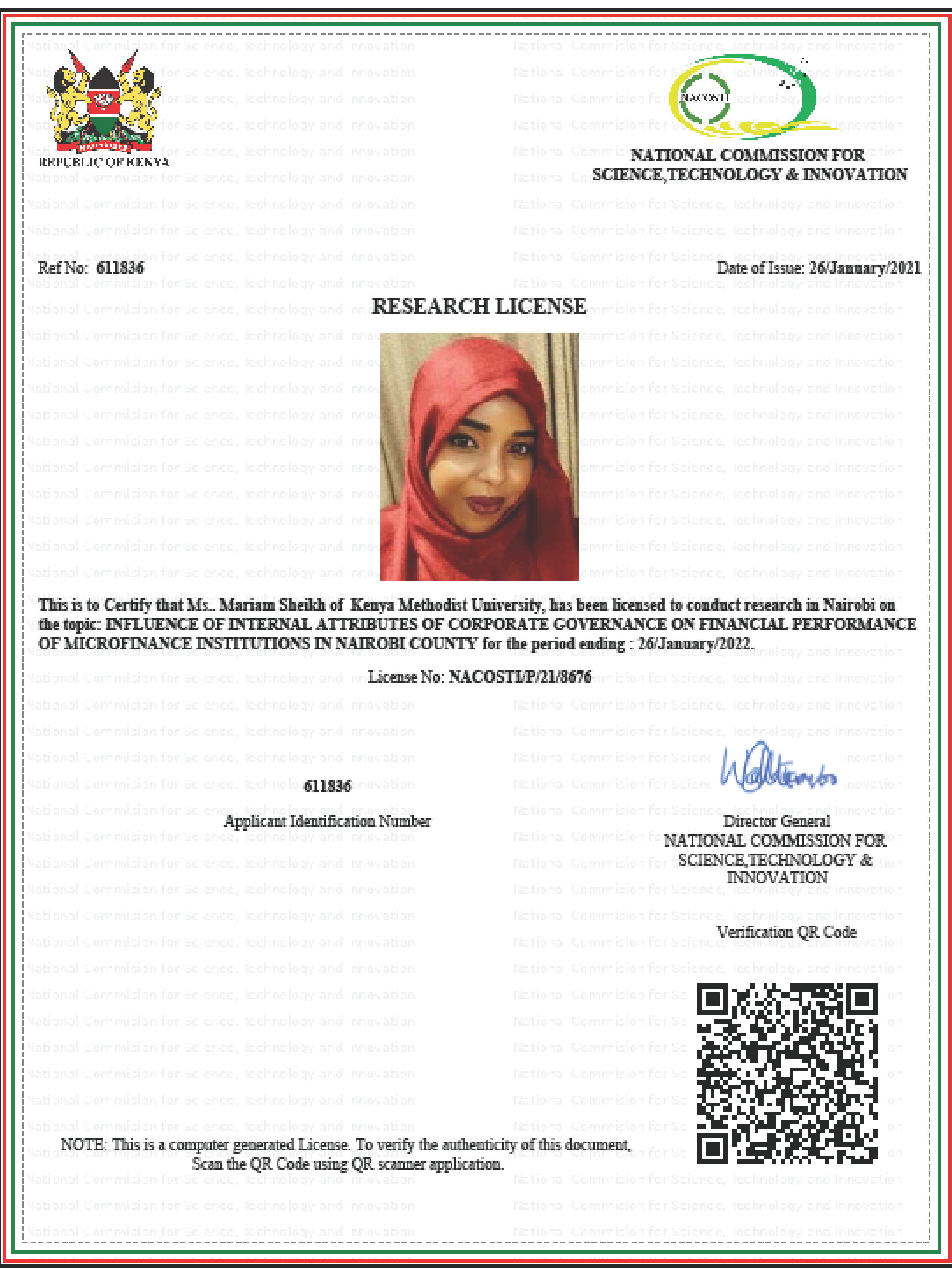
1. Daraja Microfinance Bank Limited
2. Choice micro fiancé bank limited
3. Century micro fiancé bank limited
4. Caritas microfinance bank limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Maisha Microfinance Bank Ltd
8. Rafiki Microfinance Bank Limited
9. Taifa Option Microfinance Bank Limited
10. Rupia Microcredit
11. Rafiki Microfinance Bank Limited
12. Platinum Credit
13. Musoni Kenya Microfinance Bank Limited
14. Micro Africa Kenya
15. KWFT DTM
16. Juhudi Kilimo
17. Jitegemea Credit
18. Greenland Fedha Microfinance Bank Limited
19. BIMAS
20. AAR Credit

21. Remu Microfinance Bank Limited
22.
23. SMEP Microfinance Bank Limited
24. Sumac Microfinance Bank Limited

25. Uwezo Microfinance Bank Limited

Source: Economic survey 2019

APPENDIX IV: RESEARCH LICENSE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Date of Issue: 26/January/2021

RESEARCH LICENSE

This is to Certify that Ms.. Mariam Sheikh of Kenya Methodist University, has been licensed to conduct research in Nairobi on the topic: INFLUENCE OF INTERNAL ATTRIBUTES OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY for the period ending : 26/January/2022.

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APPENDIX V: RESEARCH PERMIT

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KENYA METHODIST UNIVERSITY

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Our ref: NAC/ MBA/1/2021/2

21st JANUARY 2021

Commission Secretary,
National Commission for Science, Technology and Innovations,
P.O. Box 30623-00100,
NAIROBI.

Dear Sir/ Madam,

MARIAM ABDI **BUS-3-0139-1/2019**

This is to confirm that the above named is a bona fide student of Kenya Methodist University, undertaking masters in Business Administration. She is conducting a research titled: **INFLUENCE OF EXTERNAL ATTRIBUTES OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUIONS IN NAIROBI COUNTY.**

We confirm that this thesis proposal has been defended and approved by the university.

In this regard, we are requesting your office to issue a permit to enable her collect data for her masters dissertation.

Any assistance accorded to her will be appreciated.

Yours faithfully,

PROF. Evangeline Gichunge, PhD.
ASS DIRECTOR POSTGRADUATE STUDIES

KENYA METHODIST UNIVERSITY
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21 JAN 2021
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