# THE EFFECTS OF BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE AMONG DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY

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A Research Project Report Submitted to the Department of Business and Entrepreneurship in School of Business and Economics in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration of South Eastern Kenya University

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## DECLARATION

This research project is my o	original work and has not been submitted for a degree
in any other university.	
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This research project has be	en submitted for examination with our approval as
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## ABSTRACT

With the growing competition of globalization, strategic decision makers have been faced with the competing interests of external and internal stakeholders such as greater diversity in corporate governance and maximizing financial performance. The objective of this study was to determine the effect of board characteristics on financial performance among Deposit Taking Microfinance Institutions (DTMFI's) in Nairobi County. This study focused on board characteristics: the board size, board terms, board committees and board remuneration. The target populations were the board members of the nine DTMFI's in Nairobi. A census was taken since the target population was considered small and therefore the sample size was 63. The study involved collection of primary data .The data was collected using structured questionnaire on the basis of the objectives of study. The data collected was analyzed using qualitative methods to yield descriptive statistics (percentages, mean and standard deviations) and quantitative data was analyzed using statistical data analysis techniques; correlation, ANOVA and multiple regression to test the effects of board characteristics on financial performance among the Deposit Taking Microfinance Institutions in Nairobi County. Results were presented in tables. Findings from correlation analysis indicated medium and positive correlation between board committees and board remuneration. The results on coefficient of regression equation revealed that all the variables were making statistically significant unique contribution to the prediction of financial performance where the board size (t=2.729; p< 0.05), board tenure/term (t= 3.778; p<0.05), number of board committees (t=2.217; p<0.05) and board remuneration (t=2.182; p<0.05). Board tenure/term's had the biggest beta value of -0.300 and therefore it made the strongest unique contribution in explaining financial performance when variance explained by all other variables in the model were controlled for. These results indicated that deposit taking microfinance institutions in Nairobi County can improve their financial performance by improving on the board characteristics to make monitoring more effective. Further research needs to be carried out to establish the challenges facing all microfinance institution in the whole country.

## **DEDICATION**

This project work is dedicated to my family for their constant source of support and encouragement during my study period. I also dedicate it to my lovely daughter Fiona who has constantly reminded me that I had to work hard. This work is also dedicated to my parents, Daniel and Cecilia and my brothers and sisters who have always loved me and encouraged me to work smart even in tough times. You are special people in my life.

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## LIST OF ACRONYMS

DTMFI``s - Deposit Taking Microfinance Institutions

- GA Government Agencies
- MFI Microfinance Institutions
- NGO Non Governmental Organizations
- **CBK** Central Bank of Kenya
- **NSE** Nairobi Stock Exchange
- **KWFT** Kenya Women Finance Trust
- **CE** Chief Executive
- **ROE** Return on Equity

## **DEFINITION OF TERMS**

Corporate governance - refers to the system by which corporations are directed			
	and controlled		
Corporate Boards -	are governance measures which are in place for		
	overseeing and monitoring the managers and making		
	sure those institutional goals are met accordingly		
Return on Equity -	refers to the amount of net income returned as a		
	percentage of shareholders equity		
Financial Performance - refers to the financial results of a firm expressed in			
	traditional financial accounting ratios.		

#### **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

The effect of corporate boards on firm financial performance has received considerable attention in the economic and finance literature in recent years. Perhaps the steadfast interest in board research is sustained by such issues as the important governance oversight role that boards are expected to play, the presumed frequency with which they are negligent in this role, and their association with high-profile corporate failures. This chapter gives the background of the study. It expounds on the statement of the problem, research objectives, justification and scope of the study. The study focused on the various DTMFT's that had been registered and Licensed by Central Bank of Kenya as at 31<sup>st</sup> December 2013.

#### **1.1 Background of the Study**

In 2006 the Parliament, through the Central Bank, enacted a Micro-finance Act which was effected on 2<sup>nd</sup> May 2008. The enactment deepened the financial market and enhanced access of financial services and products to all Kenyans. Primarily, the Act regulates the establishment of such institutions through licensing and supervision. The Act enabled taking deposits from the general public and hence promote competition, efficiency, and access. The market has two types of licensed micro finance institutions - Deposit Taking and Non Deposit Taking Institutions. Licensed Deposit Taking micro finance institutions – include;

Faulu Kenya Ltd, Kenya Women Finance Trust Ltd, Rafiki ltd, SMEP, Remu Ltd, UWEZO Ltd, and Century Ltd, SUMAC Ltd and U&I Ltd.

The issue of corporate governance has been a growing area of research especially among large, publicly listed firms. Corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community. For DTMFTS, corporate governance is about the respective roles of the shareholders as owners and the managers (the directors and other officers).Corporate governance refers to the system by which corporations are directed and controlled (Desender, 2009; Gatamah, 2005). The governance of a MFI plays a major role in ensuring that the institution keeps to its mission (Ayuso and Argandona, 2007). Good governance refers to a system of people, values, criteria, processes and procedures that ensure that an organization is managed properly. Good governance is expected to underpin effective and efficient social and financial performance within firms. It requires better organization plans, goals, and strategies that better and fulfils an organization's processes more efficiently, consequently making it stronger and more competitive. An important mechanism of governance is the board characteristics. These are attributes that define boards.

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The board characteristics in this study will be its size, length of board terms, existence of board committees, the level of board remuneration, and the appointment of independent directors to the board. Various international corporate governance guidelines give guidance on each of these characteristics (BBV Microfinance Foundation, 2011b; BBVA Microfinance Foundation, 2011a; Cadbury, 1992) while locally the Capital Market Authority (CMA) has issued guidelines on good corporate governance.

The various board characteristics include:-Board Size-the capacity of the board to function effectively depends on its size and although there is no optimum number of board members, extremes of size should be avoided.BBV Microfinance Foundation (2011b), recommends that a microfinance board should be big enough to incorporate the various skills and perspectives and boards of 5 - 9 directors are common. Boards with less than 5 members pose problems because the necessary skills are not usually found in such a small group, in addition, they will have difficulties finding the quorum required to take decisions. Boards with more than 9 members, unless they are very large institutions with lots of committees, are usually difficult to manage and do not have the right level of cohesion. However, boards must be small enough to accommodate the need for frequent meetings, ensure a high level of participation and involvement for a streamlined and effective decision - making process given the characteristics of microfinance (Cherono, 2008; BBV Microfinance Foundation, 2011b; Jacobs, Mbeba and Harrington, 2007).

Board term describes the tenure of board members, establishing a limit on the term of office for directors contributes to the institutions good governance. Limiting the term of office encourages rotations and allows directors who do not show the expected level of performance to be replaced more easily. CMA (2002), recommends a three year term for all directors except the managing director. To preserve institutional memory and accumulated experience and to ensure that member rotation does not affect the board's cohesion as a group, renewable terms of office of three to four years should be established to allow a small part of the board to be substituted each year. Jacobs et al. (2007), argue that boards of DTMFIs should regularly examine the performance of individual members, the size of their board, the skills on the board and potential needs for adding to the board or rotating existing members. Board term and term limits are essential for effective governance and ensure the democratic participation of a broad range of members. The average among microfinance association ranges from two to four years (Hattel, Henriquez, Morgan and D'Onofrio (2010). In setting terms, the board must strike a balance between a tenure that is long enough to allow members to develop expertise that results in substantial contributions and to provide continuity of policy and practice, yet short enough to secure constant freshness of view point (Cherono, 2008; Donnelly and Mulcahy, 2008).

The board can set up the committees it deems necessary to help it perform its duties and assist it in matters that fall under their specific area of competence. The

committees must be set up and adapted in accordance with the needs. The board establishes the number of committees, their names and responsibilities, and can also appoint or remove their members from office and appoint or remove their respective chairmen from office (Aras and Crowther, 2007). The committees allow boards to make more effective use of their time by allowing board representatives to work on specific issues, determined by their skills, or interest. Cherono (2008), concur that effective use of committees can improve the quality and efficiency of the board and add that to be effective, their work, role, responsibilities and mandates must be clearly defined. The argument for the formation of board committees is supported by the resource dependency theory which views them as sources of additional resources.

Board remuneration is also another board characteristic. More commonly, the remuneration of the board of management is designed to be competitive compared to peers given the group's scale of business activities, operating environment, general economic conditions and performance. The remuneration of the board is decided upon by the entire supervisory board based on proposals prepared by the personnel committee. If required, outside advice is sought from independent external consultants. The personnel committee and the supervisory board consult with the chairman of the board of management as appropriate in assessing the performance and remuneration of the board of management. The chairman of the board of management is not present when his own remuneration is discussed. The key principles of board of management remuneration are as follows:-Support for

the groups strategy, alignment of pay and performance, variable remuneration focused on sustainability and alignment with shareholder interests. Members are reimbursed for travel and other expenses related to carrying out their duties. Compensation is important to help attract skilled people to the board who will be resourceful as per the resource based theory and to ensure that board members take their responsibilities seriously. It should be high enough to bring desired results without attracting members who wish to make compensation the object of their board service. Compensation can be benchmarked against fees paid by similar organizations in the same country (Jacobs *et al.*, 2007).

Financial Performance on the other hand refers to the financial results of a firm expressed in traditional financial accounting ratios. There are two main reasons for the widespread use of financial performance measure as a tool to measure performance. The first reason is profit:-profit articulates directly with the organization's long-term objectives which are almost always purely financial. The second reason is that properly chosen financial performance measures provide an aggregate view of an organization's performance (Thomsen and Pedersen, 2008). These results are reflected in the firms Return on Equity, Return on Assets and Earnings per Share. Among other financial measures ROE is a more superior measure on profitability and good indicator of corporate health since it indicates how well the management is doing. It is a good measure for investors.ROE is the ratio of net income to shareholders' Equity.

According to the 2013 report on the MFI sector in Kenya, the following were the profitability ratios for DTMFI's as measured by Return on Equity (ROE).

		Year	Year	Year	Year
Name of DTMFI	ROE	2009	2010	2011	2012
Faulu K DTMFI	ROE	-0.8%	-22%	2%	7.1%
KWFT ltd DTMFI	ROE	23.3%	12.6%	13.1%	8.2%
SMEP Ltd	ROE	23.1%%	1.8%	7%	10.3%
REMU Ltd	ROE	-	-	-13.6%	-7.4%
Rafiki DTMFI	ROE	-	-	-11.4%	3.6%
UWEZO DTMFI	ROE	-	2%	5%	7%
SUMAC DTMFI	ROE	-	5.6%	5.5%	3.2%
Century DTMFI	ROE	-	-	-	-23.9%

Table 1.1 ROE- DTMFI from 2009 to 2012

#### Source: 2013 Report on the MFI sector in Kenya.

From the statistics above majority of the DTMFT's after being licensed to deposit taking have shown a downward trend posting a negative growth while others have shown some variance taking to Deposit taking institutions and high operating costs, (Report on the MFI sector in Kenya, 2013).

The impact on the poor people may therefore be connected to how DTMFT's are organized and governed. Generally, the aim of the governance system is to efficiently achieve an institution's goals. Boards are one of the governance measures which are in place for overseeing and monitoring the managers and making sure that institutional goals are met accordingly (Thomsen, 2008). Boards help resolve agency problems between principals (owners) and agents (managers) (Fama and Jensen, 1983). Board members' incentives are aligned with those of the principals because of the provision that the board can be held legally responsible for failing to monitor effectively. Literature on the board points out that board composition is an important determinant of its effectiveness and the performance of an organization (Dalton, Ellstrand and Johnson (1998).

#### **1.2 Statement of the Problem**

Although DTMFT's have had tremendous outreach in recent years, their future growth and sustainability and their impact on the poor people may be connected to how well they are governed. Empirically, there is strong evidence that board characteristics predict firm financial performance. Some of the previous empirical studies found that various board characteristics were positively related to financial performance. Adams and Mehran (2005), examined the relation between board size and firm performance in the United States banking industry and found that in terms of profitability as measured by ROE. Equity Bank ltd ROE were as follows from year 2009 to 2012:- 19.6%, 29.3 %, 30.9% and 28.1% respectively. The results tabulated in table 1.1 for the 9 DTMFT's as compared to Equity Bank ltd results indicate slow growth on ROE. This has been attributed to their board characteristics on their transformation from non-deposit

board size had a positive effect on their performance. Ness, Miesing and Khang (2010), examined the influence of corporate boards on financial performance. Findings were that boards with greater number of outside directors and age or gender of board members had no relationship with financial performance. Board tenure and Chief Executive Duality were positively related to performance and therefore results were mixed. Additionally, Yermarck (1996), examined the relationship between board size and firm performance by using a sample of 452 large US listed firms, and found a significant negative relationship between them.

However, results from empirical studies reviewed on the relationship between financial performance and the various board characteristics were positive, negative and mixed. This implied that the effect of board characteristics on financial performance is inconclusive.

Further, most empirical studies have focused only on financial firms (Adams and Mehran, 2005; Yermarck, 1996), Firms listed on stock exchange (Langat, 2006; Kibuchi, 2010; Kihara, 2006; Marimuthu, 2009) and Microfinance institutions in general (Wanjau, 2007; Waithaka, Gakure and Wanjau, 2012; Omino, 2005). The sector of Deposit Taking within Microfinance tends to be ignored. It is against this backdrop that this study aimed to contribute to the existing literature by assessing the effects of board characteristics on financial performance among DTMFI's in Nairobi County.

#### **1.3 Research Objectives**

#### **1.3.1 General Objective**

The general objective of the study is to establish the effect of board characteristics on the financial performance of Deposit Taking Microfinance Institutions in Nairobi County

#### **1.3.2 Specific Objectives**

- To establish the influence of board size on financial performance of Deposit Taking Microfinance Institutions in Nairobi county
- 2. To determine the role of the tenure of board members on the financial performance of Deposit Taking Microfinance Institutions in Nairobi County
- To establish the extent to which the number of board committees affect the financial performance of Deposit Taking Microfinance Institutions in Nairobi county
- 4. To establish the influence of board remuneration on financial performance of Deposit Taking Microfinance Institutions in Nairobi county

### **1.4 Research Questions**

- What is the influence of board size on performance of Deposit Taking Microfinance Institutions in Nairobi County?
- 2. What is the role of board members' tenure on the performance of Deposit Taking Microfinance Institutions in Nairobi County?
- 3. To what extent does the number of board committees affect performance of Deposit Taking Microfinance Institutions in Nairobi County?
- 4. What is the influence of board remuneration on performance of Deposit Taking

Microfinance Institutions in Nairobi County?

#### **1.5 Justification of the study**

The findings of the study will benefit the management of all the players in the Deposit Taking Microfinance sector by enabling them develop boards that drive the institution performances in the ever dynamic business environment. The findings will also assist new entrants in the Deposit Taking microfinance sector embrace good governance and adopt boards that steer their institutions to greater performance. The academicians and researchers will use the findings of this study as a basis for further research in assessing the effects of board characteristics on financial performance in other industries and sectors.

#### **1.6 Scope of the Study**

The conceptual scope lied on effects of board characteristics on firm financial performance among Deposit Taking Microfinance institutions. The specific context of interest was with reference to Deposit Taking Micro Finance Institutions with head offices in Nairobi. The research was limited to the core pillars of board characteristics such as: - board size, board terms/tenure, board committees and the amount of board remuneration for the Deposit Taking Microfinance Institutions in Nairobi County. Financial performance was be measured using Return on Equity (ROE). The CBK guidelines recommend number of board members to be a minimum of 3 members and maximum 7

members. The target population was the board members of the 9 Deposit Taking Microfinance Institutions in Nairobi who number 63.

#### **1.7 Limitations of the Study**

The major challenge faced by the researcher was getting the respondents especially the board members where appointments were booked prior to their meeting and sometimes fail to get them at all. This lengthened the time taken to collect data.

Given the type of work the respondents do, getting the questionnaires filled up was also a challenge, most of them took more than the expected time to fill in the questionnaires which resulted to back and forth movement of the researcher to collect them on different days with some of them failing to submit them back.

#### **CHAPTER TWO**

### LITERATURE REVIEW

#### **2.1 Introduction**

This chapter presents in the first section a review of the relevant theories that addressed the research objectives. The second section reviewed related empirical studies conducted globally and locally on the relationship between the various board characteristics and firm financial performance. Research gaps were also identified here which this study filled. Finally, the chapter presents the conceptual framework upon which this study was based on.

#### **2.2 Theoretical Review**

There are several theories that can be used to study boards and governance, depending on the research objectives. For the purpose of this study and research objectives, the agency theory and resource dependence theory was reviewed. These theories suited this study since the microfinance literature suggests that board roles broadly consist of monitoring (grounded in the agency theory) and advising (grounded in the resource dependence theory) (Dorado and Molz, 2005).

#### **2.2.1 Agency Theory**

Managers of companies may pursue their self-interests or may become opportunists. As agents, they may not act in the best interests of the principal or may only act partially in the interests of the principal. For instance managers may misuse their power by creating empires, may fail to take appropriate risk. Agency theory views corporate governance mechanisms especially board of directors as an essential monitoring device to try to ensure that any problems that may be brought about by the Principal – Agent relationship are minimized. The agency theory assumes that owners of an organization (Principals) and those that manage the Organizations (Agents) have different interests. Blair (1996), states that managers are supposed to be the "agents" of a corporation's "owners".

He further adds that managers must be monitored and institutional arrangements must provide some checks and balances to make sure that they (directors) do not abuse their power.

Fama and Jensen (1983), stated that owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests' .In this regard, boards are required to monitor managers on behalf of the owners. Jensen and Meckling (1976), stated that in performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests.

Hussein and Kiwia (2009), state that this theory suggests that board composition is important for effectively monitoring top management boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization.

#### **2.2.2 Resource Dependency Theory**

Hillman and Dalziel (2003), emphasized that board members are required to provide the organization with resources, in addition to monitoring. The provision

of resources is linked to the resource dependence theory. According to Pfeffer and Salancik (1978), this theory holds that organizations are interdependent in that they depend on each other and various actors for their survival as well as for resources. As a result, they need to find different ways of managing this dependence and ensuring they get the resources and information they need. From this perspective, the board is seen as one means of reducing uncertainty by creating influential links

(Hillman and Dalziel, 2003; Peng, 2004). Board members provide organizations with various resources through board members' skills, experience, and expertise. Pfeffer and Salancik (1978), also note that 'when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will invariably present it to others, and will try to aid it'. Diversity in the composition of boards is important if boards are to effectively provide advice and resources. Board members with different skills and experience and of both genders contribute to effective resource provision and to the beneficial performance of organizations. In summary, both theories advocate that boards should have a diversity of competent members who are able to effectively monitor top managers and provide organizations with the resources they need. By performing these roles, board members are able to positively influence the financial performance of organizations.

#### **2.3 Empirical Literature**

Empirically, there is strong evidence that board characteristics predict financial performance. Several studies have been carried out on the relationship between

board characteristics and financial performance both globally and locally. Omino (2005), examined the regulation and supervision of Microfinance Institutions in Kenya, and adopted descriptive research survey design and linear regression. In his findings he noted that savings and credit facilities are of great importance to the poor and also Medium and small Enterprises. He recommended emphasis on the sound development of MFTs as a vital ingredient for investment employment and economic growth. There being several institutional forms in the industry, and where majority of them strive to meet dual objectives, the governance system is seen as a means to MFI success (Labie and Mersland,2011).

Other empirical studies include a study by Langat (2006), on corporate governance structures and financial performance in firms quoted in NSE. He developed a regression model to test the relationship between financial performance and frequency of board meetings. The findings indicated a positive relationship between financial performance and frequency of board meetings. He also found that firms that pay high salaries and bonuses to the executives exhibited improved performance. His results did not find conclusive evidence for the shape of an optimal governance structure. The study recommended a clear separation of the roles of the board chair and chief executive officer for improved performance.

Kihara (2006), studied the relationship between ownership structure and financial performance of firms listed in the Nairobi Stock Exchange. He adopted a descriptive research design and a multiple regression model and found no significant relationship between ownership and firm financial performance. However, the study found a significant positive relationship between foreign share ownership and firm financial performance. He recommended outside directors indicating they were in a better position to challenge the chief executive officer and he recommended a minimum of 3 outside directors on the board.

A study by Kibuchi (2010), on the relationship between corporate governance and financial performance; a case of companies listed in NSE used a casual research design and multiple regression analysis to establish the relationship between corporate governance and financial performance. The results of the study were mixed with some aspects of corporate governance showing a positive relationship while others showed negative correlation. His overall conclusion was that corporate governance mechanisms do affect company performance as measured by Return on Equity (ROE). The study recommended that board size be maintained as small as possible as an increase in board size leads to a decrease in financial performance of the company. However, the management should ensure that the board size is optimal as a very small board can also be redundant and may not be efficient in governing the company.

Further Wanjau (2007), carried out a survey of the relationship between corporate governance and performance of Microfinance Institutions in Kenya and adopted descriptive research survey design and linear regression. He found out that there exists a relationship between different aspects of corporate governance and firm financial performance. The size of board was found to be positively correlated with turnover and disbursements. The study found a negative effect of board structure on turnover and disbursements specifically chief executive duality. It showed other factors other than board size; board composition contributed more to financial performance of firms. He recommended that it would be useful to find out what other factors were, especially in terms of policies based by boards and how these policies were actually implemented.

Adams and Mehran (2005), examined the relationship between Chief Executive (CE) Duality, Chief Executive tenure, board size and financial performance as measured by Return on Equity (ROE) in the United States banking industry. He adopted a correlation analysis and regression analysis. Findings were that board size was positively related to financial performance. Also, effects of CE Duality and tenure were also found to be significant. Recommendations from this study were that governance regulation should take unique features of bank governance into account.

Mak and Yuan (2001), examined board composition, leadership structure and board size using a sample of Singapore listed firms. They adopted a two stage least squares regression to estimate determinants of board characteristics. Findings indicated that leadership structure and board composition are related and that there were significant interrelations among board characteristics. Ness, Miesing and Kang (2010), examined the influence of corporate boards on firm financial performance in the new era of Sarbanes-Oxley .The study adopted

hypotheses testing. Results found were that was no relationship between financial performance and boards with greater number of outside directors. Similarly, they did not find any significance of age or gender of board directors on financial performance. However, they found significant positive relationship between financial performance and duality. Also they found significant positive relationship between financial performance and occupational expertise, board size, and board tenure. The study showed that duality (the role of the chief Executive Officer and chairman played by same person) had a positive influence on growth in return on assets and was a great contributor of harmony between corporate boards and executive management. Boards with educators had negative influences on revenue growth may be because of limited exposure to the business transactions. Boards with a high ratio of directors with finance expertise showed a decrease in revenue growth. They also found that boards with directors with average tenure is positively related to Return on Assets because of their experience suggesting that low turnover of board directors is good for the financial performance of the company. The results were mixed. The study recommended researchers to build on the findings and develop even greater insights of how board composition influences financial performance.

Waithaka, Gakure and Wanjau (2012), on the effects of board characteristics on microfinance institutions social performance in Kenya had strong empirical support. The study used survey research design and for purposes of empirical analysis it used descriptive statistics, Pearson correlation analysis and linear regression as the underlying statistical tests. Major findings were that a significant negative relation existed between social performance and board size, board remuneration and independence of directors. While multiple directorship and existence of board committees were positively related, the results show that MFT s in Kenya could improve their social performance by improving on their board composition in line with the Capital Markets Authority guidelines. This study recommended that large board sizes and that there should be more emphasis in the MFI boards on inclusion of more independent directors.

Yermarck (1996), studied the impact of board size on firm performance in the United Kingdom (UK) listed firms. He adopted the regression analysis and found that board size had a strong negative impact on profitability, Tobins's Q and share returns. From the findings he recommended small board sizes citing problems of poor communication and decision making which undermines the effectiveness of large firms. Further, Marimuthu (2009), empirically examined the effect of demographic diversity on board of directors with regard to financial performance. In this study hypotheses were tested. However, he failed to draw conclusive findings on effect of board of director's diversity and financial performance.

#### **2.4 Literature Overview and Research Gaps**

A critical analysis of empirical literature has shown that studies focused on financial firms in general, Adams and Mehran ,2005; Yermarck, 1996, listed firms, Langat, 2006; Kihara, 2006; Marimuthu, 2009, and Microfinance

Institutions in general, Wanjau, 2007; Waithaka, Gakure and Wanjau, 2012; Omino, 2005. The sector of .Deposit taking within Microfinance tends to be ignored. Adams and Mehran (2005), examined the relationship between Chief Executive (CE) Duality, Chief Executive tenure, board size and financial performance as measured using Return on Equity (ROE) in the United States banking industry and found that board size was positively related to financial performance. Also, effects of CE Duality and tenure were also found to be significant ;Yermarck (1996), studied the impact of board size on firm performance in the United Kingdom (UK) listed firms and found that board size had a strong negative impact on profitability, Tobins's Q and share returns.

Further, Kihara (2006), studied the relationship between ownership structure and financial performance of firms listed in the Nairobi Stock Exchange and found no significant relationship between ownership and firm financial performance. However, the study found a significant positive relationship between foreign share ownership and firm financial performance. Besides, Marimuthu (2009), he failed to draw conclusive findings on effect of board of director's diversity and financial performance.

Thus, results from empirical studies reviewed on the relationship between financial performance and the various board characteristics were positive, negative and mixed. None of the studies reviewed had concentrated on examining the relationship between financial performance and board characteristics while specifically focusing on board size, board tenure/terms, board committees and board remuneration and therefore the need for this study to establish the effects of board characteristics on financial performance among Deposit Taking Microfinance Institutions in Nairobi County. This study explored DTMFT's in particular since this was an area that needed further research and had been ignored.

#### 2.5 Conceptual Framework

The effects of board characteristics on financial performance among Deposit Taking Microfinance Institutions in Nairobi County were conceptualized as shown in Figure 2.1

#### **Board Characteristics**



#### **Independent Variables**

**Dependent Variable** 

#### Figure 2.1 Conceptual model

#### Source: Author (2015)

From Fig 2.1 the dependent variable of the study was the financial performance as measured by Return on Equity (ROE). The independent variables were board size, board tenure/terms, number of board committees and board remuneration which formed the board characteristics.

### **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the research methodology and techniques that the researcher used in carrying out the study which include the research design, the target population, sampling frame, sample size and sampling technique and finally the mode of data collection, processing and analysis.

#### 3.1 Research Design

This study used a survey research design. Since the study was on the effects of board characteristics on financial performance among Deposit Taking Microfinance Institutions in Nairobi County. The methodology for this study was based on a study by Waithaka, Gakure and Wanjau, 2012, on the effects of board characteristics on microfinance institutions social performance in Kenya.

### **3.2 Target Population**

The target population was the 9 Deposit Taking Microfinance Institutions in Nairobi who were registered and licensed members according to the CBK Annual Report (2013).

#### **3.3 Sampling Frame**

The sampling frame was from the list of all registered and licensed Deposit Taking Microfinance Institutions that was obtained from the CBK annual report for 2013. A census was taken since the target population was considered small.

#### 3.4 Sample Size and Sampling Technique

The Population was the 9 Deposit taking Microfinance Institutions. The CBK guideline on the recommended number of board members is a minimum of 3 members and maximum 7 members. Thus working with a maximum of 7 board members it was (7\*9 = 63) therefore the sample size was 63. A census was taken since the target population was considered small which included all the board members of all the DTMFFs.

#### **3.5 Data Collection Instruments**

The study involved collection of primary data on board size, board tenure/term, board committees and board remuneration. The data was collected using structured questionnaire on the basis of the objectives of study.

#### **3.6 Data Collection Procedure**

Data was collected using structured questionnaire on the basis of the objectives of study. It consisted of 6 parts: A, B, C, D, E and F .Section A sought company characteristics. Section B sought data on the board Size and C on board tenure/terms in the Deposit Taking Microfinance Institutions, D gathered data on board committees, Section E gathered data on board remunerations and F gathered data on Return on Equity for the year ended 2013 for all the 9 Deposit Taking Microfinance Institutions. The questionnaires were administered using drop - and pick - later method. The respondents were board members of all the 9

DTMFT's. It took three weeks period to collect data after which analysis was carried out.

#### **3.7 Pilot study**

A Pilot study was carried out within the city centre since all head offices were based in Nairobi, by administering 3 structured questionnaires to one Chief Executive Officer of UWEZO Deposit Taking Microfinance Limited and two board members to capture how responses were like and ascertain the correctness of the structured questionnaire. However this Chief Executive Officer and two board members were not administered with the final questionnaire.

#### **3.8 Data Processing and Analysis**

After collection of data, data was analyzed using qualitative and quantitative methods. Qualitative data was analyzed to yield descriptive statistics (percentages, mean and standard deviations) and quantitative data was analyzed using statistical data analysis techniques; correlation, ANOVA and multiple regressions to test the effects of board characteristics on financial performance among the Deposit Taking Microfinance Institutions in Nairobi County.

The multiple regression model was used to examine the relationship between financial performance and board size, board tenure/term, board committees and board renumeration since it was anticipated that there would be some interrelationship among some independent variables. The model was adopted because the result of the regression analysis was an equation that represented the best prediction of the dependent variable from several independent variables.

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Multiple regressions was utilized because it not only shows the direction of the relationship but also tells the strength of the relationship and the unique contribution that each independent variable makes towards the prediction of the dependent variable when the variance explained by all other variables were controlled for and hence found appropriate.

The regression model that tested the relationship was specified in equation (i).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_{3+} \beta_4 X_{4+} \epsilon_{...} (i)$$

Where

- $\beta_0$  is the constant or intercept
- $\epsilon$  is the error
- $\beta_{1-}\beta_{6-}$  are coefficients of the model
- Y is Return on Equity (ROE), where

ROE = Net Income/Shareholders Equity and

- $X_1$  is the board size
- X<sub>2</sub> is the board tenure/terms
- X<sub>3</sub> is number of board committees
- X<sub>4</sub> is the amount of board remuneration

Results were presented in tables.

### **CHAPTER FOUR**

## **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents analysis of data, interpretation and presentation of results on the effects of board characteristics on financial performance among deposit taking microfinance institutions in Nairobi County. Results were presented in tables and discussion carried out to explain the findings of the study.

#### 4.2 Response Rate

According to Mugenda and Mugenda (1999), a response rate of 50 percent is adequate for analysis and reporting. Response rate refers to the percentage of the study who responded to the questionnaire. In this study, 63 respondents of the sampled population participated in the study. This was a representative sample. Only questionnaires that was administered were returned, the response was as in table 4.1.

Table 4	l.1: R	esponse	Rate
---------	--------	---------	------

Category	Frequency	Percentage
Response	60	95.24
Non-response	3	4.76
Total	63	100

From the findings, 95.24% of the sample population responded to the questionnaire while 4.76 % did not.

## **4.3 Company Characteristics**

A survey was done for all 9 deposit taking microfinance institutions. Table 4.2 indicates the various types of products each DTMFI offers.

 Table 4.2: Products Offered

Name o DTMFI	of Product							
Faulu K DTMF	Loans and savings products							
KWFT DTMI	FI Loans and savings products							
Ltd								
SMEP Ltd	Retail/group financing, asset financing, credit to							
businesses and church banking								
REMU Ltd	Loans to individuals and voluntary savings							
Rafiki DTMFI	Diaspora banking, savings and loans							
UWEZO DTMF	Loans and savings to groups, individuals and Small							
	and Medium enterprises							
SUMAC DTMF	I Loans, Voluntary savings and Insurance							
Century DTMFI	Credit to agribusiness							
U&I	Micro business and Small and Medium enterprises							
Microfinance	financing.							
Bank Ltd								

All the 9 DTMFT's were found to offer savings and loans products to either individuals, groups small and medium enterprises and agribusiness

The number of years a firm has been in business shows the firm's ability to remain in business in the long-run. The number of years the DTMFT's have been in business was also examined and presented as shown in table 4.3.

Number	of	years	in	Frequency		Percentage
business						
0-1				1		11
2-3				7		78
Above 3				1		11
Total			9		100	

 Table 4.3: Number of years in business

From the findings in table 4.3 ,78% of the DTMFT's were found to have been in business for less than four years. Only 11% of the DTMFT's was found to have operated for less than 1 year and that was U&I microfinance. Another 11% was found to have operated for more than 3 years and this was Faulu Kenya Deposit Taking Microfinance which had operated for the longest period of 4 years as at end of year 2013.

Branch network and distribution was an indicator of business expansion either, locally, nationally or internationally. Branch network and distribution for all the 9 DTMFI's was also studied. The findings were presented in table 4.4

**Table 4.4: Number of branches** 

Number of branches	Frequency	Percentage
0-30	8	89
Above 30	1	11
Total	9	100

Findings from table 4.4 show that 89% constituted the percentage of DTMFT's that had their total number of branches between 0 and 30. Only 11% constituted DTMFT's that had their total number of branches above 30 and this was found to be KWFT Deposit Taking Microfinance which had the largest rural branch network.

An analysis of the number of active borrowers for all the 9 Deposit Taking Microfinance Institutions was carried out. These results were presented in table 4.5.

DTMFI`s number of	Frequency	Percentage
Active borrowers		
0-50,000	6	67
50,000-100,000	2	22
100.000	1	11
Above 100,000	1	11
Total	9	100

#### Table 4.5: DTMFI `s number of active borrowers

The findings show that majority of DTMFI's had their total number of borrowers ranging between 0-50,000 which constituted 67% of the total number of DTMFI's surveyed. Results show that 22% had active borrowers ranging between 50,000 - 100, 000, while 11% had active borrowers above 100,000.

Finally, the study also analyzed the number of depositors for all the 9 Deposit Taking Microfinance Institutions. These results were presented in table 4.6

DTMFI`s number of	Frequency	Percentage
Depositors		
0-200.000	7	78%
0 200,000		
200,000-400,000	1	11%
Above 400,000	1	11%
Tatal	0	100
1 otal	У	100

#### Table 4.6: DTMFI `s number of Depositors

The findings show that majority of DTMFT's had their total number of depositors ranging between 0-200,000 which constituted 78% of the total number of DTMFT's surveyed. Results show that 11% had their depositors ranging between 200,000 - 400, 000, while another 11% had their total number of depositors above 400,000.

#### **4.4 Empirical Findings**

The results on correlation and regression were analyzed here under.

#### **Correlation Analysis**

The Pearson coefficient was used to verify the existence or non existence of linear correlation between and among the quantitative variables. The matrix was presented on table 4.7

	Return				
	on				
	Equity	Board	Board	Board	Board
	(ROE)	size	tenure/terms	committees	remuneration
Return on					
Equity	1.000				
(ROE)					
Board size	.236	1.000			
Board	250	110	1 000		
tenure/terms	.332	.110	1.000		
Board	467	128	247	1 000	
committees	.407	.120	.247	1.000	
Board	307	254	254	380	1 000
remuneration	.307	.237	.237	.500	1.000

Two predictor variable are said to be correlated if their coefficient of correlation is greater than 0.5. and as shown in table 4.7, none of the predictor variables had coefficient of correlation between themselves of more than 0.5 hence all of them were included in the model. The matrix also indicated medium and positive correlation between board committees and board remuneration. Table 4.8 presents the model summary. It shows the R square value. The R square value indicated how much of the total variance in the dependent variable was uniquely explained by the independent variables.

#### **Table 4.8: Model Summary**

				Std.	Change Statistics					
				Error of	R					
		R	Adjusted	the	Square	F			Sig.	F
Model	R	Square	R Square	Estimate	Change	Change	df1	df2	Chan	ige
1	.918(a)	.843	.805	.51038	84.3	1.242	6	54	.000	

Predictors: (Constant), board size, board tenure/terms, board committees and board remuneration.

From table 4.8,  $R^2$  value indicated the explanatory power of the independent variables was 0.843. This meant that 84.3% of variation in ROE was explained by independent variables; Board size, Board tenure/terms, Board committees and Board remuneration while 15.7% was explained by other factors. The P - value of 0.000 (Less than 0.05) implied that at 5 percent significance this was a suitable prediction model. To assess the statistical significance of the result, it was necessary to look at ANOVA as presented in table 4.9

#### Table 4.9 ANOVA

	Sum of Squares	f Df	Mean Square	F	Sig.
Regression	.852	6	.213	1.242	.000
Residual	6.173	54	.171		
Total	7.025	8	.384		

Predictors: (Constant), Board size, Board tenure/terms, Board committees and Board remuneration.

From the output of the analysis, in table 4.9 the ANOVA returned a significant P - value of 0.000) this showed that there was correlation between the predictor variables board size, board tenure/terms, board committees and board remuneration.

#### **Regression Analysis**

A multivariate regression model as specified on page 26 equation (i) was applied to determine the significance of each of the four independent variables with respect to the Return on Equity (ROE). The results were presented in table 4.10.

#### **Table 4.10 Coefficients of Regression Equation**

	·	Unstandardized		Standardized		
		Coefficients		Coefficients	t	Sig.
		В	Std. Error	Beta		
(Constant)		.260	.460	·	0.565	.231
Board size	$X_1$	.131	.048	.254	2.729	.001
Board tenure/terms	$\mathbf{X}_2$	.170	.045	300	3.778	.000
Board committees	X <sub>3</sub>	.051	.023	.113	2.217	.002
Amount of board	$X_4$	.048	.022	.093	2.182	.000
remuneration						

The regression model after testing the relationship was specified in equation (ii)

 $Y = 0.260 + 0.131X_1 + 0.170X_2 + 0.051X_3 + 0.048X_4$  (ii) Constant = 0.260, shows that if – Board size, board terms/tenure, number of board committees and amount of board remuneration were all rated as zero, Return on

Equity (ROE) would be 0.260

 $X_1$ = 0.131, shows that one unit change in board size results in 0.131 units increase in Return on Equity (ROE).

 $X_2$ = 0.170, shows that one unit change in board tenure/terms results in 0.170 units increase in Return on Equity (ROE).

 $X_3$ = 0.051, shows that one unit change in board committees results in 0.051 units increase in Return on Equity (ROE).

 $X_4$ = 0.048, shows that one unit change in the amount of board remuneration results in 0.048 units increase in Return on Equity (ROE).

#### **4.4.1 Board Size and Financial Performance**

The first objective was to establish the influence of board size on financial performance of Deposit Taking Microfinance Institutions in Nairobi County. The result from Pearson correlations, Pearson's r was 0.236 which shows that there was small positive correlation between board size and ROE. From ANOVA table 4.9, p value was 0.000 which was less than 0.05; this meant that board size was statistically significantly correlated to ROE. Results from the regression equation show that the t Statistic was 2.729, p = 0.001 and since (t>2, p<0.05) it meant therefore that board size significantly affects ROE. Board size had a beta value of 0.254 and it was ranked second strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. The coefficient of X<sub>1</sub> was 0.131 which showed that one unit change in board size resulted in 0.131 units increase in ROE. This was a positive

change and showed that board size had a positive influence on financial performance.

#### 4.4.2 Board Tenure/Term and Financial Performance

The second objective was to investigate the role of board members' tenure on the performance of Deposit Taking Microfinance Institutions in Nairobi County. The result from Pearson correlations, Pearson's r is 0.352 which shows that there was medium and positive correlation between board tenure/term to ROE. From ANOVA table 4.9, p value was 0.000 which is less than 0.05; this meant that board tenure /term was statistically significantly correlated to ROE. Results from the regression equation show that the t Statistic was 3.778, p = 0.000 and since (t>2, p<0.05) it meant therefore that board tenure/term significantly affects ROE. Board tenure/term`s had the biggest beta value of -0.300 and therefore it made the strongest unique contribution in explaining financial performance when variance explained by all other variables in the model were controlled for. The coefficient of  $X_2$  was 0.170 which showed that one unit change in board tenure/term resulted in 0.170 units increase in ROE. This was a positive change and showed that board tenure/term had a positive influence on financial performance.

#### 4.4.3 Number of Board Committees and Financial Performance

Regarding the third objective which was to assess the extent to which the number of board committees affects the financial performance of Deposit Taking Microfinance Institutions in Nairobi County, result from Pearson correlations,

Pearson's r was 0.467 which shows that there was medium and a positive correlation between the number of board committees and ROE. From ANOVA table 4.9, p value was 0.000 which was less than 0.05; this meant that the number of board committees was statistically significantly correlated to ROE. Results from the regression equation show that the t Statistic was 2.217, p = 0.002 and since (t>2, p<0.05) it meant therefore the number of board committees significantly affects ROE. Number of board committees had a beta value of 0.113 and it was ranked third strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. The result indicate that, the number of board committees held affect to a great extent the financial performance of deposit taking microfinance institutions since this helps to efficiently guide and supervise processes in these institutions hence their success. The coefficient of  $X_3$  was 0.051 which showed that one unit change in board committees resulted in 0.051 units increase in ROE. This was a positive change and showed that board committees had a positive influence on financial performance.

#### 4.4.4 Board Remuneration and Financial Performance

The fourth objective was to establish the influence of the amount of board remuneration on financial performance Deposit Taking Microfinance Institutions in Nairobi County. The result from Pearson correlations, Pearson's r was 0.307 which shows that there was medium and a positive correlation between board remuneration and ROE. From ANOVA table 4.9, p value is 0.000 which is less

than 0.05; this means that board remuneration is statistically significantly correlated to ROE. Results from the regression equation show that the t Statistic was 2.182, p = 0.000 and since (t>2, p<0.05) it meant therefore that board remuneration significantly affects ROE. Board remuneration had a beta value of 0.093 and it was ranked fourth strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. The coefficient of X<sub>4</sub> was 0.048 which showed that one unit change in board remuneration resulted in 0.048 units increase in ROE. This was a positive change and showed that board remuneration had a positive influence on financial performance.

### **CHAPTER FIVE**

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **5.1 Introduction**

This chapter presents summary, conclusions and recommendations of the study. It also made suggestions for further research.

#### 5.2 Summary

The objective of this study was to examine the effects of the board characteristics on financial performance among Deposit Taking Microfinance Institutions (DTMFT's) in Nairobi County. It focused on board characteristics such as board size, board terms, board committees and board remuneration, This Study adopted a survey research design. The target populations were the board members of the 9 Deposit Taking Microfinance Institutions in Nairobi. A census was taken since the target population was considered small therefore the sample size was 63. Data was analyzed using quantitative and qualitative methods. Qualitative data was analyzed to yield results. Quantitative data was analyzed using statistical data analysis techniques; correlation, ANOVA and multiple regression to test the effects of board characteristics on financial performance among the Deposit Taking Microfinance Institutions in Nairobi County.

From the findings, 95.24 % of the sample population responded to the questionnaire. The DTMFI's were found to offer savings and loans products to either individuals, groups, small and medium enterprises and agribusiness. Results

show that 78% of the DTMFT's were found to have been in business for less than four years. Regarding branch network for the various DTMFT's, results show that 89% constituted the percentage of DTMFT's that had their total number of branches between 0 and 30. Kenya Women Finance Trust Deposit Taking Microfinance was found to have the greatest rural networks. The findings show that majority of DTMFT's had their total number of borrowers ranging between 0-50,000 which constituted 67% of the total number of DTMFT's surveyed and also that majority of DTMFT's had their total number of depositors ranging between 0-200,000 which constituted 78% of the total number of DTMFT's surveyed.

Findings on correlation analysis indicated medium and positive correlation between board committees and board remuneration. The results on coefficients of regression equation revealed that all the variables were making statistically significant unique contribution to the prediction of financial performance where the board size (t=2.729; p< 0.05), board tenure/term (t= 3.778; p<0.05), number of board committees (t=2.217; p<0.05) and board remuneration (t=2.182; p<0.05). Board tenure/term`s had the biggest beta value of -0.300 and therefore it made the strongest unique contribution in explaining financial performance when variance explained by all other variables in the model were controlled for. Board size had a beta value of 0.254 and it was ranked second strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. Number of board committees had a beta value of 0.113 and it was ranked third strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. Board remuneration had a beta value of 0.093 and it was ranked fourth strongest unique contributor in explaining financial performance when variance explained by all other variables in the model were controlled for. The study revealed significant strong relationship between financial performance and board size, board tenure/term, number of board committees and board remuneration as measured by ROE in the regression results. Overall, the results indicated that deposit taking microfinance institutions in Nairobi County can improve their financial performance by improving on the board characteristics to make monitoring more effective.

#### **5.3 Conclusion**

The study was on the effect of board characteristics on financial performance among deposit taking microfinance institutions in Nairobi County. These variables on board characteristics included:- board size, board terms, number of board committees, and the amount of board remuneration. On the basis of these variables, the research questions were formulated. The study revealed a significant effect of board size, board tenure/term, board committees and amount of board remuneration on financial performance of DTMFT's in Nairobi county.

The study revealed medium and positive correlation between board committees and board remuneration. This relationship is however moderated by firm size. All the variables, board size, board tenure/term, number of board committees and board remuneration were found to significantly affect financial performance as measured by ROE in the regression results.

#### **5.4 Recommendations**

The study recommends that longer board terms/tenures so that experience would serve as an added advantage in building strong boards. The study further recommends that in line with the legal requirements stipulated in The Constitution of Kenya (2011), which requires public firms to have at least a third of senior officials from either gender, firms in the NSE should adopt change and uphold the law. Further research needs to be carried out to establish the challenges facing all microfinance institution both deposit taking and non deposit taking in the whole country.

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## **APPENDICES**

## **APPENDIX I: Research Questionnaire**

## **Section A: Company Characteristics**

- 1. Which year was this institution established?
- 2. How many branches does your institution have?
- 3. What is the total number of employees in your organization?

4. What products are offered in your organization?

Section B: Board Size

**Question: 1** 

To what extend do you agree with the following statements on board size as observed in your organization.

Please indicate by marking an (X) or a check mark ( $\sqrt{}$ ) in the column that appropriately fits your organization.

Key: 5 strongly Agree; 4 Agree; 3 Undecided; 2 Disagree; 1 strongly disagree

(i) Name of Organization.....

Board Size	5	4	3	2	1
Smaller board size enhance firm performance					
Board of directors that is large in size may need to deal with more					
conflicts among board members and thereby have difficulty in					
reaching consensus					
Large size boards are more adept at providing resources					
Larger boards benefit by providing effective oversight of					
management and available necessary resources so that larger					
boards may help in improving performance of an organization					
Large boards improve board performance by reducing CEO					
domination of the board					

Section: C Board tenure/term

2. Question:

To what extend do you agree with the following statements on the role of board term/tenure on financial performance as observed in your organization.

Please indicate by marking an (X) or a check mark ( $\sqrt{}$ ) in the column that appropriately fits your organization.

Key: 5 strongly Agree; 4 Agree; 3 Undecided; 2 Disagree; 1 strongly disagree

Board tenure/Tenure	5	4	3	2	1
Board term limits are essential for effective governance					
Establishing a limit on the term of office for directors contributes					
to an firms good performance					
Limiting the term of office for directors encourages rotations and					
replacement of non performing directors					
Long tenure allows board members to develop expertise that					
results in substantial contributions to the firm					
Extended term enhances willingness of directors to expend efforts					
towards the firms goals					
Coercing directors into retirement results into waste of talents and					
expertise					

Section D: Board committees

3. Question:

To what extend do the following statements affect financial performance as observed in your organization.

Use scale1-5: 1-To a very extent, 2- To a great extent, 3-To a moderate

extent, 4- To a little extent, 5 - To no extent

Board committees	5	4	3	2	1
Number of board committees					
Number of meetings held by each board committee					
Audit committee nomination					
Financial monthly by committee					
Compensation committees participation in financial activities in					
the organization					

**Section E: Board Remuneration** 

4. Question:

To what extend do the following statements affect financial performance as observed in your organization.

Use scale1-5: 1-To a very extent, 2- To a great extent, 3-To a moderate extent, 4- To a little extent, 5 - To no extent

Board Remuneration	5	4	3	2	1
Compensation of board of directors helps attract skilled people to					
the board who are resourceful					
Non-monetary benefits strengthen relationship between the board					
of directors and the institution					

## Section F: Return on Equity for the year ended 2013

Kindly indicate the Return on Equity for the year ended 2013 figures for your Deposit Taking Institution for the one year mentioned below

Year	Return on Equity
2013	

To what extend do you agree with the following statements on financial performance as observed in your organization.

Please indicate by marking an (X) or a check mark ( $\sqrt{}$ ) in the column that appropriately fits your organization.

Key: 5 strongly Agree; 4 Agree; 3 Undecided; 2 Disagree; 1 strongly disagree

	5	4	3	2	1
Return on Equity					
The size of the board greatly influenced the Return on Equity for					
the year					
The number of committees enhanced the Return on Equity for the					
year					

## THANK YOU VERY MUCH FOR YOUR TIMELY RESPONSE

#### Appendix II: CBK Annual Report 2013 -List of Registered and licensed Deposit

#### **Taking Microfinance institutions**

Faulu Kenya DTM Limited Postal Address: P. O. Box 60240 – 00200, Nairobi Telephone: +254-20- 3877290 -3/7, 38721883/4 Fax: +254-20-3867504, 3874875 Email: <u>info@faulukenya.com</u>, <u>customercare@faulukenya.com</u> Website: <u>www.faulukenya.com</u> Physical Address: Faulu Kenya House, Ngong Lane -Off Ngong Road Date Licensed: 21st May 2009 Branches: 27

Kenya Women Finance Trust DTM Limited Postal Address: P. O. Box 4179-00506, Nairobi Telephone: +254-20- 2470272-5, 2715334/5, 2755340/42 Pilot Line: 070 - 3067000 Email: <u>info@kwftdtm.com</u> Website: <u>www.kwftdtm.com</u> Physical Address: Akira House, Kiambere Road, Upper Hill, Date Licensed: 31st March 2010 Branches: 24 SMEP Deposit Taking Microfinance Limited
Postal Address: P. O. Box 64063-00620 Nairobi
Telephone: 020-3572799 / 26733127 / 3870162 / 3861972 / 2055761
Fax: +254-20-3870191
Email: info@smep.co.ke info@smep.co.ke info@smep.co.ke
Website: www.smep.co.ke
Physical Address: SMEP Building - Kirichwa Road, Off Argwings Kodhek Road
Date Licensed:14th December 2010
Branches: 6

Remu DTM Limited Postal Address: P. O. Box 20833-00100 Nairobi Telephone: 2214483/2215384/ 2215387/8/9, 0733-554555 Email: <u>info@remultd.co.ke info@remultd.co.ke info@remultd.co.ke</u> Physical Address: Finance House, 14th Floor, Loita Street Date Licensed: 31st December 2010 Branches: 3

Rafiki Deposit Taking Microfinance Postal Address: 12755-00400 Nairobi Telephone: 020-216 6401 Cell - phone: : 0719 804 370/0734 000 323 Email: <u>info@rafiki.co.ke</u> Website: <u>www.rafiki.co.ke</u> Physical Address: : 2nd Floor, El-roi Plaza, Tom Mboya Street Date Licensed: 14th June 2011 Branches: 3 UWEZO Deposit Taking Microfinance Limited Postal Address: 1654-00100 Nairobi Telephone: 2212917 / 9 Email: <u>info@uwezodtm.com</u> Website: <u>www.uwezodtm.com</u> Physical Address: Park Plaza Building, Ground Floor, Moktar Daddah Street Date Licensed: 08 November 2010 Branches: 2

Century Microfinance Bank Ltd Postal Address: P. O. Box 38319 – 00623, Nairobi Telephone: +254-20- 2664282, 20 6768326, 0722 168721, 0733 155652 Email: <u>info@century.co.ke</u> Physical Address: KK Plaza 1st Floor, New Pumwani Road, Gikomba Date Licensed: 17th September 2012 Branches: 1

Sumac Microfinance Bank Ltd Postal Address: P. O. Box 11687-00100, Nairobi Telephone: (254) 20 2212587, 20 2210440 Fax: (254) 2210430 Email: <u>info@sumacdtm.co.ke</u> Website: <u>www.sumacdtm.co.ke</u> Physical Address: Consolidated Bank House 2nd Floor, Koinange Street Date Licensed: 29th October 2012 Branches: 1 U&I Microfinance Bank Ltd Postal Address: P.O. Box 15825 – 00100, Nairobi Telephone: (254) 020 2367288, Mobile: 0713 112 791 Fax: (254) 2210430 Email: <u>info@uni-microfinance.co.ke</u> Website: <u>http://uni-microfinance.co.ke/uni-microfinance/</u> Physical Address: Asili Complex Building 1st Floor, River Road Date Licensed: 8th April 2013 Branches: 2

## Appendix III: Return on Equity for all the Deposit Taking

Name of DTMFI	Return On Equity (ROE) – Year ended 2013
Faulu K DTMFI	7.1%
KWFT DTMFI Ltd	8.82%
SMEP Ltd	10.3%
REMU Ltd	-7.4%
Rafiki DTMFI	3.6%
UWEZO DTMFI	-
SUMAC DTMFI	3.2%
Century DTMFI	-23.9%
U&I Microfinance Bank Ltd	-

## Microfinance institutions Year ended 2013

#### **Appendix IV: Introduction Letter.**

School of Business & Entrepreneurship South Eastern Kenya University P.O. Box 176, Kitui

August, 2015

#### Dear Sir/Madam,

## **RE: LETTER OF INTRODUCTION**

I am a post graduate student in South Eastern Kenya University pursuing MBA (Finance). As part of the fulfillment of my degree programme, I am undertaking a research on "The effects of board characteristics on financial performance among deposit taking microfinance institutions in Nairobi county" I am therefore requesting you to assist me in collecting data by filing the attached questionnaire. The information collected is purely for academic purposes and I assure you that the same will be treated with strict confidentiality. A copy of this research paper will be made available to you upon request.

Your co-operation and assistance will be highly appreciated.

Yours Sincerely,

## Fridah Mutisya MBA Degree Student