Factors that influence the social performance of microfinance institutions in Kenya

Simon Maina Waithaka

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DECLARATION

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

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Signature   Date

Simon Maina Waithaka

í í í í í í í í í í í í í .   í í í í í í í í í í í

Signature   Date

Prof. R. W. Gakure

JKUAT, Kenya

í í í í í í í í í í í í í .   í í í í í í í í í í í

Signature   Date

Dr K. Wanjau

JKUAT, Kenya

DEDICATION

To my family.

ACKNOWLEDGEMENTS

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ACRONYMS AND ABBREVIATIONS

AGM   Annual General Meeting.

AMFI   Association of Microfinance Institutions

CBK   Central Bank of Kenya

CEO   Chief Executive Officer

CERISE   The Microfinance Knowledge Network

CGAP   Consultative Group Against Poverty

CMA   Capital Markets Authority

GDP   Gross Domestic Product

MFI   Microfinance Institution

MFIs   Microfinance Institutions

MIS   Management Information System

MIX   Microfinance Exchange

NGOs   Non-governmental Organizations

OECD   Organization for Economic Co-operation and Development

ROK   Republic of Kenya

SACCOs   Savings and Credit Cooperative Societies

SPI   Social Performance Indicators.

SPM   Social Performance Management

SPSS   Statistical Package for Social Sciences

SPTF   Social Performance Task Force

UN   United Nations

ABSTRACT

The purpose of this study was to establish factors that influence the social performance of microfinance institutions with a specific focus on governance mechanisms. The study used an explanatory and descriptive research design on sample of 38 out of a population of 55 microfinance institutions MFIs with the respondents being the Chief Executive officer, Operations manager, a branch manager and a credit officer in each of them. Triangulation of data was applied in order to capture most aspects of the study variables. Results indicated that board characteristics were an important determinant of an MFIøs social performance. The study recommends improvement on governance through adherence to various corporate governance guidelines and practices. Similarly, leadership characteristics directly and positively influenced social performance hence the recommendation to have more experience CEOs as well as separation of roles of board chairman and the CEO. Stakeholder involvement improved the social performance for MFIs especially in cases where donor and clients were represented in the board. Accountability practices of MFIs were however found not to have significant   influence their social performance. The study thus recommended adoption by the industry of mandatory reporting requirements on the Social Performance. The study identifies best practices in the board characteristics, leadership characteristics and the involvement of stakeholders in the MFIs board as the key policy consideration areas in addressing the social performance of MFIs in Kenya. Additionally, the study thus highlights areas for further research around the key dimensions of SPI score, effect of regulation on SPI and the effect of leadership style on the social performance of MFIs. The research findings will be important for MFIs and industry stakeholder keen on implementing Social performance management.

CHAPTER ONE

INTRODUCTION

1.1 Background

This study investigated the factors that influence the social performance of Microfinance Institutions (MFIs) in Kenya. This chapter provides a background of the sector giving a global and a local perspective. The chapter also discusses the origins of social performance, it rationale and the current status of the SPM initiatives in Kenya. The research problem, objectives, research questions, justification, scope, limitations and definition of key terms used in the study are then stated.

1. 1. 1The Microfinance Industry

For commercial reasons, financial services have historically been targeted to the richer population of the society who have a greater capacity to repay loans and maintain savings. The poor had on the other hand remained typically either un-served or offered inappropriate financial services (Stewart, 2000). To overcome these obstacles, an approach to provide appropriate financial services to the poor clients, microfinance emerged in the last three decades. Wright (2001) observes that the growth of microfinance movement was out of several field programmes conducted in the 1970s in Asia,Latin America and Africa which proved that low income people who were willing to develop a micro-enterprise could repay their micro-loans while succeeding in business. Formal microfinance thus can be traced back to the pioneer work of Prof. Yunus øs Grameen Bank in Bangladesh and Accion international in Latin America in the late 1970s (Accion International, 2007; Chu, 2006; Ledgerwood, 1999; Christen, 1997).

The microfinance industry which was borne primarily out of a desire to help the worldøs vulnerable and poor has grown from a concept that the poor could be bankable (able to save and repay loans) to an integral part of the formal financial sector in many countries around the world (Campion, Linder, & Knotts, 2008; Okumu, 2007; Woller & Schreiner, 2006). The 2,060 microfinance institutions (MFIs) that reported to the Microfinance Information eXchange (MIX) market for 2009 have 92.7million borrowers, 65.3 billion in outstanding loans, 27.1billion savings and numbers are growing by 25 per cent a year, more in some countries (Gart, 2011). Total assets of these MFIs are estimated to amount to $32billion (Lascelles & Mendelson, 2009). Manderlier, Bacq, Giacomin, & Janssen (2009), conclude that microfinance can be considered as a major tool in order to reach the millennium development goals set up by the United Nations.

Campion et al.(2008) argue that with this high profile comes a need for the MFIs to demonstrtate that they are fulfilling their mission, as well as their broader social responsibilities. As social enterprises, MFIs have a dual nature,applying commercial principles to archeive social ends. This has created an inherent tension in the industry as MFIs struggle to balance social and financial objectives. Manderlier et al. (2009) concour that despite the largely recognized social benefits of MFIs, the sector is still facing the deep challenges such as the effective way to combine the social mission and the need for profit.

The sector has come under heavy criticism as a result of the much publicised microfinance crisis around the globe which include; Nicaragua in 2008,violent protests organised by a õNo payment movementö led to burning of several MFIsø buildings and taking hostage of MFI staff, in Kolar in 2009 the fire of delinquency provoked by the overheated lending environment spread fast, in Andra Pandradesh an astounding number of suicides among over-indebted clients of some of Indiaøs

biggest microfinance institutions was reported in 2010. Due to floods in Pakistan in 2010, the poverty stricken rural sector was unable to repay the existing loans and due to future uncertainty of repayments people were not in a position to borrow more from the MFIs, in Nigeria unsoundness of the MFIs in 2005, was attributed to the high level of non-performing loan resulting in high portfolio at risk which had impaired the capital and gross under-capitalization in relation to level of operations, in Bosinia and Hezegovinia, the sector suffered a downfall in 2009 as a result of high indebtedness among clients and the adverse effects of the global financial crisis, in Kenya ,cases of clients from draught stricken areas selling their only food to repay loans have been reported (Tambiah & Geake, 2011; Campion, Linder, & Knotts, 2008; Brook, Lloyd, & Syms, 2011; CMEF, 2011). This has led to the growth of a global movement for social performance management among the MFIs.

In Kenya, the microfinance sector emerged in the 1970s, and among the first institutions to offer microcredit was the National Council of Churches of Kenya and K-Rep. Currently, over 1000 institutions practice micro-lending. Many microfinance institutions have replicated the õGrameen modelö of delivering financial services to the low income households (Omino, 2005). The Association of Microfinance Institutions (AMFI) is the umbrella body of MFIs in Kenya and has a membership ranging from large to small institutions which have diverse legal status ranging from microfinance banks, wholesale MFI's, retail MFI's, development Institutions and Insurance companies which represent the entire landscape of the microfinance industry in Kenya. Currently AMFI has 55 members serving over 6. 5 million clients with an outstanding loan portfolio of over Kshs 29 billion (AMFI, 2012). The industry is thus key in the achievement of the financial inclusion goal in Vision 2030 of reducing the share of population without access to finance from 85 percent to 70 percent.

1. 1. 2 Social Performance Management

Social performance is the effective translation of an Institution's Social mission into practice. It addresses the question on whether the MFI is achieving it social goals (Campion et al., 2008) Social performance is a fairly recent industry development, in part a reaction to commercialisation and to recent criticisms of the assumption that microfinance always helps the poor, it is a movement towards the intentional inclusion of a social focus in microfinance programmes (Brook, Lloyd, & Syms, 2011; Campion, Linder, & Knotts, 2008). Most MFIs have a social mission(s) . The social value of microfinance relates to the way financial services improve the lives of the poor and excluded clients and their families and widen the range of opportunities for communities according to Microfinance Council of Philippines Inc (MCP) (2006). There has been increasing global attention and focus on social performance management with initiatives coming up and tools being developed to address Social Performance Management (SPM) issues. One such initiative is the Social performance Task Force (SPTF). The taskforce has set itself to define as precise as possible social performance and to address matters relating to measuring and managing social performance (Campion, Linder, & Knotts, 2008).

Kenya has not been left out in the global trend of MFI transformation to regulated institutions. The Microfinance Act, 2006 and the Microfinance Regulations sets out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Act became operational with effect from 2nd May, 2008 and so far eight institutions have been granted licenses to operate as deposit taking microfinance institutions (DTMs).

In Kenya, the Social Performance initiative was formally introduced by AMFI in 2009. It has engaged in making deliberate efforts to have SPM principles implemented in all MFIs across the country starting with its members. There is currently a pilot implementation on SPM by AMFI among fifteen institutions across the country after which twenty more will be taken through the process before a final countrywide role out (AMFI, 2012).

With the increasing commercialisation approach of MFIs and professionalization of the sector, the focus on social performance which sets apart MFIs from other financial instittion is being lost or sometimes taken for granted resulting into a õmission driftö among many MFIs. The governance of an MFI plays a major role in ensuring that the institution keeps to itøs mission (Ayuso & Argandona, 2007; CERISE, 2005; Guarneri, Moauro, & Spaggiari, 2011). Good governance is expected to underpin effective and efficient social performance within MFIs. Good governance refers to a system of people, values, criteria, processes and procedures that ensure that an organisation is managed properly. In addition, an organisation is guided towards its mission and vision while ensuring mechanisms are in place and put into practice in order to strike a balance between management and control and meeting the needs of stakeholders. (BBVAA Microfinance Foundation, 2011a; Desender, 2009; Gatamah, 2005).

Zheka (2006) argues that there is no single model of governance that works in all countries and all institutions. Indeed there exists many different codes of best practices that take into account specific legislation, board structure and business practices in individual countries. Nevertheless, there are standards that can apply across a broad range of legal, political, and economic environments. Corporate governance principles indicate the policies and procedures applied by firms to attain

certain sets of objectives, corporate missions and visions with regard to shareholder, employees, customers, suppliers and different regulatory agencies and the community at large (Ali & Wise, 2009). Globally, institutions follow the Organization for Economic Co-operation and Development (OECD) principles which draw their pronouncements from the Cadbury report of 1992. Locally, the Capital Markets Authority (CMA) has issued corporate governance guidelines to be followed by listed companies though they have received wide acceptance even among unlisted entities including MFIs.

This study examined the factors that influence social performance among Kenyan MFIs. It focused on the board characteristics, MFI leadership, stakeholder involvement and accountability practices.

1. 2 Statement of the Problem

While the MFI sector has been growing rapidly and outreach to date is impressive, the industry has faced major crises in various parts of the world. The crises experienced in the MFI sector in Nigeria in 2005, Nicaragua in 2008, India in 2010, Pakistan in 2010, Kolar, 2009 and in Bosnia and Herzegovina in 2009, all leading to massive loan default by clients and closure of MFIs has all been blamed on commercialisation of the MFIs (Brook, Lloyd, & Syms, 2011; Tambiah & Geake, 2011).

Many scholars have expressed concern that the commercialization of microfinance is leading to an over-preoccupation with profitability at the expense of poverty reduction and other development goals and tend to blame the MFIsø governance structures Consultative Group Against Poverty

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(CGAP), 2005; Ayuso & Argandona, 2007; Cull, Demirguc-Kunt, & Morduch, 2007; Beltratti, 2005). The microfinance literature is filled with theoretical argument as to what needs to be done to improve the social performance of MFIs. Literature (Aras and Crowther, 2007; Tambiah and Geake, 2011; and Ledgerwood & White, 2006) argue that in the MFI industry, the way an institution is governed is the primary differentiating factor between entities that report good performance and those that do not .

Consequently, literature has yet to adequately and exhaustively address the factors that influence an MFIøs social performance. There have been calls for more comprehensive theoretical and empirical investigations into the factors that determine an MFIøs social performance (Manderlier, Bacq, Giacomin, & Janssen, 2009 ; Ioannou & Serafeim, 2010,Hartarska, 2005; Mersland & Strom, 2007). This study differentiates itself by endeavoring to investigate, analyze, document and give recommendations on a wider range of factors that influence social performance among Kenyan MFIs.

1. 3 Objectives of the Study

1. 3. 1 General Objective
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 The general objective of this study was to establish factors that influence the social performance of Microfinance Institutions in Kenya.

1. **3. 2 Specific Objectives**

This study specifically sought to:

1. Establish whether the boards of directorsø characteristics influence a MFIsø social performance.

2. Examine whether MFIsø leadership characteristics influence its social performance.

3. Ascertain whether the involvement of stakeholders in an MFIøs board of directors affects its social performance.

4. Assess whether accountability practices influence the social performance in MFIs.

5. Establish the moderating effect of the size of an MFI in the relationship between factors that influence social performance.

6. Determine the moderating effect of the age of an MFI in the relationship between factors that influence social performance.

1. 4 Research Questions

The research endeavored to answer the following questions.

1. Do the boards of directorsøcharacteristics influence MFIsøSocial Performance?

2. Do MFIsøleadership characteristics influence their social performance?

3. Does the involvement of stakeholders in MFIsøboard affect their social performance?

4. Do accountability practices influence the social performance of MFIs?

5. Does the size of an MFI have a moderating effect on the relationship between factors that influence social performance?

6. Does the age of an MFI have a moderating effect on the relationship between factors that influence social performance?

1. 5 Justification

Microfinance has been growing rapidly over the past few years. The growth has however been accompanied by increasing complexity and risk of mission drift. A growing number of theoretical and empirical studies outline the importance of social performance in the MFI sector. Leading international organizations The Microfinance Knowledge Network (CERISE), CGAP, Social Performance Task Force (SPTF), and MIX have recognized that improving MFI governance will increase the industryøs resilience and sustainability (Ioannou & Serafeim, 2010; Otero, 2007). This study contributes to the existing body of knowledge on social performance by examining governance related factors that affect MFIsø social performance in Kenya. The study provided a profile of factors that influence the social performance which can be adopted by MFIs for improved social performance scores.

This study would not only benefit the MFI sector in Kenya, but it would be of significance for other African developing countries and especially the members of the East African community, that are culturally, economically, and politically similar to Kenyaøs. It would also benefit investors, decision makers, regulators, and researchers as well as assist policy makers to set new and improved standards for best practices. The framework developed in the study will be a useful tool to academics and other researchers wishing to assess factors that affect social performance of MFIs.

1. 6 Scope

The study was carried out on MFIs that are members of AMFI as they have formally interacted with the social performance principles. AMFI is currently working on a pilot SPM implementation

project with fifteen MFIs. In addition, these MFIs have some form of formal registration and governance structures. Currently, the membership stands at fifty-five institutions with branches countrywide (AMFI, 2012a).

1. 7 Limitations of the study

The results of this study are subject to limitations. The study tested the associations of the various indicators individually without providing direct evidence of causation. Causation was only established for the consolidated independent variables. This limitation was due to the large numbers of indicators (sub-variables) studied. In addition, the data set used comprised of members of AMFI who have are not under CBK or any other government regulation. This means that the AMFI members who under either CBK or other regulations were left out.

1. 8 Definition of Terms

For the purpose of this study, the variables and other terms used were defined in the context below:

Microfinance

This is the provision of banking services to lower óincome people, especially the poor and the very poor (Christen et al.,2003)

Microfinance Institution (MFIs)

A microfinance institution is an organization that offers financial services to the poor. This includes a wide range of providers that vary in their legal structure, mission, methodology and sustainability. They however share the common characteristics of providing financial services to a clientele poorer and more vulnerable than bank clients (Ledgerwood & White, 2006)

Executive Director

Director who is involved in the administrative or managerial operations of the company. He is an employee of the company (ROK, 2002; ROK, 1978)

Non-Executive Director

Director who is not involved in the administrative or managerial operations of the company (ROK, 2002; ROK, 1978).

Independent Director

An independent director is one who has had no relationship with a firm either as an employee, associated to an employee, adviser or consultant to the company in the last five years **(**ROK, 2002**).**

Social Performance (SP)

Social performance is the effective translation of an institution's mission into practice. The social value of microfinance relates to the way financial series improves the lives of poor and excluded clients and their families and widen the range of opportunities for communities (Aras & Crowther, 2007).

Social Performance Management (SPM)

Social performance management is the systematic assessment of performance relative to social objectives and use of this information to improve practice. It is about the achievement of a MFIs social goals and being socially responsible (Campion, Linder, & Knotts, 2008)

Social Performance Indicators tool (SPI tool)

The SPI tool is an open access tool that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The indicators are used to score the MFI's social performance based on targeting and outreach, products and services, benefits to clients and social responsibility (Bedecarrats, Lapenu, & Tchala, 2010).

Corporate Governance

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies (Cadbury, 1992). Good Corporate governance refers to a system of people, values, criteria, processes and procedure that ensure that an organisation is managed properly and that guides it toward its mission and vision (BBVAA Microfinance Foundation, 2011a).

Grameen model

Aghion and Morduch (2005) define this as a model pioneered by the Grameen Bank where individuals without collateral get together and form groups with the aim of obtaining loans from the lender. The loans are made individually to group members but all in the group face consequences should any of the members fall into serious repayment difficulties.

Mission Drift

Mission drift is when an institution evolves without the accord of its stakeholders, or when this evolution is not explicit or clearly chosen. It occurs when an Institution with a strong social objective transforms to a formal institution with a strong pressure of mobilizing financial resources and achieving sustainability quickly (Lapenu & Pierret, 2006)

CHAPTER TWO

LITERATURE REVIEW

2. 1 Introduction

The literature review provides an account of literature on board characteristics, leadership characteristics, stakeholder representation, accountability, size and age of an MFI plus social performance. The conceptual framework and the limitation in literature are also discussed. The literature is divided into the theoretical and empirical literature review. The theoretical review focused on governance and social performance theories while the empirical was on review past studies.

2. 2 Theoretical Review

Corporate governance theories are important especially in monitoring the performance of the management and the board (Heenetigala, 2011). The theoretical perspective relevant to this study is based on governance structures and reporting practices that are presumed to affect the social performance of a firm. The theories discussed are, the social entrepreneurship theory, the agency theory, stewardship theory, resource dependence theory, the slack resources theory, the stakeholder theory, the social contract theory, legitimacy theory and the social capital theory.

2. 2. 1 The Social Entrepreneurship Theory

Social entrepreneurship, commonly defined as ̵entrepreneurial activity with an embedded social purpose, has become an important economic phenomenon at a global scale (Austin, Stevenson, &

Wei-Skillern, 2006). Social entrepreneurs are change-agents who find new and innovative solutions and methods of achieving social impact (Ghosal, 2005). Social entrepreneurs do not just recycle pre-existing ideas. Instead, they are pioneers and visionaries who see possibilities for improvement and derive inventive means to deliver this improvement and make it a reality (Dees, Emerson, & Economy, 2011; Global Entreprenuership Monitor, 2006).

For example, the work of Muhammad Yunus, founder Grameen Bank, gave rise to the concept of Microfinance. This created a new paradigm and provided new possibilities for the role of finance institutions in modern society. Today, inspired by Yunusøs vision, many other microfinance institutions have been established around the world (Accion International, 2007; Chu, 2006). Social entrepreneurs are motivated by a desire to create sustainable social enhancement and work towards the betterment of society. Financial matters are important for the sustainability, return to stakeholders, and future investment in the enterprise, but the primary aim is social impact. The MFI sector faces a challenge of balancing both their social and financial mission. This forms the basis for addressing Social performance Management in the Microfinance Industry.

2. 2. 2 Agency Theory

The agency theory is concerned with ensuring that managerøs interests and action are aligned to those of the shareholders. It is based on the premise of inherent conflict of interest between the owners and management and thus forms the basis for introduction of strong governance mechanisms (Donaldson & Davis, 1991; Heenetigala, 2011). In agency theory terms, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to residual claimants, the owners fall below what they would be if principals, the owners

exercise control of the corporation. Brennan (2010) concours that under agency thoery firms are seen as a nexus of contracts negotiated among self intersted individuals under which managers are assumed to have multiple self interest . In addition to being interested in shareholder value, they will also value the job security, personal power, recognition by society, and the challenge of management to the detriment of the organisation.

Agency theorists argue that in order to protect the interest of stakeholders, the board of directors must assume an effective oversight function. It is assumed the that board's performance of its monitoring duties is influenced by effectiveness of the board, which in turn is influenced by factors such as board composition and quality, size of the board, duality of the CEO, board diversity ,accountability and board culture (Brennan, 2006 ; Uadiale, 2010; Sabana, 2005).

According to the agency theory, when the chairperson of an MFI assumes the role of CEO, namely acting as a decision maker and supervisor at the same time, the function of the board to minimize agency costs could weaken tremendously: in the end, corporate performance goes down (Wu, Lin, Lin, & Lai, 2009). Within a principal agent setting, a CEO can use their power to take decisions that are less in line with those desired by the principal, which are the shareholders in case of for-profit MFIs and the stakeholders in case of non-profit MFIs. More powerful CEOs can decide to take more extreme decisions because they benefit them or take less extreme decisions to reduce the risk of performing badly. CEOs of MFIs cannot diversify their risk across many MFIs, whereas stakeholders can diversify their risk. Therefore, stakeholders might prefer more risky projects than the CEO. Conversely, CEOs have little to gain from bearing more risk and everything to lose when the MFI goes bankrupt (Galema, Lensink, & Mersland, 2009).

Agency theorists see the primary function of boards of directors as monitoring the actions of managers on behalf of stakeholders through demanding for accountability (BBVA Microfinance Foundation, 2011b). For MFIs, since social performance for example offers no obvious direct financial benefit to the management who may be profit minded, the directors are more likely to invest in SPM because they have a duty to fulfill the organizations social mission. Following the agency theory logic, outsiders or independent directors will have a stronger interest in social performance than dependent directors. Boards dominated by independent directors will be more effective in monitoring and limiting managerial opportunism. Agency theorists thus suggest that a larger and more diverse board is a better monitor of managers because diversity increases independence (Kusyk & Lozano, 2007; Chhaochharaia & Grintesin, 2007).

Agency theorist predict that when the CEO also holds the dual role of the chairman, then the interest of the MFIs stakeholders in fulfillment of the social mission will be sacrificed to a degree in favour of managementøs interests and that the chairmanøs supervisory role is impaired. On the other hand, accountability, the size of the board and the number of independent directors has a positive relationship with level of an MFIøs social performance.

The theory is however criticized for assuming complete contracts which are not realistic given the information asymmetries, transaction costs and fraud which are insurmountable obstacles to efficient contracting (Brennan, 2010). In addition, the theory views the management as opportunist and does not factor in their competences and that of the board. Brennan (2010) argues that the the agency theory may be suitable for monitoring of managers role of boards,but does not explain the other roles of the board.

2. 2. 3 Stewardship Theory

The stewardship theory holds that the CEO essentially wants to do a good job, to be a good steward of the corporate assets, that they have an inherent motivation, working diligently to achieve good corporate performance, with interests similar to those of the stakeholders (Brennan, 2010; Donaldson & Davis, 1991 ; Aras & Crowther, 2007). Thus stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates their effective action (Donaldson & Davis, 1991). The board on the other hand contributes to the stewardship of the organization while giving unencumbered authority and responsibility to the management (Brennan, 2010).

Stewardship theory implies a more collaborative approach between management and MFI boards. Under this approach, empowering managers (stewards) of the firm to exercise unencumbered authority and responsibility enhances board management ties and decision making (Bennan, 2006). According to stewardship theory, executivesø responsibility may neutralize self interest behaviors derived from CEO duality, and they are even much more devoted to advance corporate performance (Wu, Lin, Lin, & Lai, 2009). Proponents of the theory agree that a MFIs CEO duality, and less involvement of independent directors bring in positive effects for an entityøs   social performance. While the agency theory treats managers as opportunistic people motivated by self-interest and calls for the clear separation of the roles of the board and management, the stewardship theory views the management as stewards whose motives are largely aligned with the objectives of their principals and calls for development of an effective cooperation working relationship between the managers and the board.

2. 2. 4 Resource Dependence Theory

Resource dependence theorists view a firm as an open system, dependent on external organizations and environment contingencies. Proponents of this perspective see boards as resource providers. By linking the firm with its external environment resources, the board helps reduce external dependency, diminish environmental uncertainty and lowers transaction costs and ultimately improves firm performance (Ayuso & Argandona, 2007).

Under resource dependence theory, the role of the MFIøs board of directors is seen as an effective means of obtaining scarce resources for the organization, including advantageous contacts, enhancing the legitimacy of the organization and accessing other scarce resources (Brennan, 2010). Both independent and dependent directors may bring important linkages and resources to the board, but directors who have ties to the current CEO/organization will be more motivated to provide resources (Ayuso & Argandona, 2007). Independent directors might be useful when firms need enhanced inter-firm partnership, legitimacy and may help obtain valuable resources and information.

Female CEOs tend to identify with the needs of MFI clients who are largely women (Mersland & Strom, 2007; Manderlier, Bacq, Giacomin, & Janssen, 2009; Ali & Wise, 2009). Increasing the board size, a female CEO, diversity of skills and experience, and use of board committees assists in linking the organization and its environment in securing critical resources including prestige and legitimacy (Bennan, 2006). Proponents of the theory propose a regular rotation of board members to ensure new ideas are brought to the board, resource dependency theory provides better arguments for including stakeholders directors as on the boards and ensuring they are adequately

remunerated as they are resource providers (Ayuso & Argandona, 2007; Ioannou & Serafeim, 2010; BBVA Microfinance Foundation, 2011b).

The resource based view of the firm treats reputation as an intangible economic asset contributing to a firm's sustainable competitive advantage. Reputation may facilitate a long-term stakeholder management, which may boost the competiveness of a firm either by increasing revenues, or diminishing costs (Leonardi, 2011). By communicating their social role, financial intermediaries may be able to extract more revenue from a pool of social alert consumers/donors. They are willing to pay more for services which are certified to be produced in the context of a process which looks at social responsibility, and is itself socially responsibility (Beltratti, 2005).

Based on the resource dependence theory, the extent of an enterprises need for resources may influence the mix of dependent and independent directors, the director's terms, board size, gender of the CEO, director's remuneration, their skills and experience, and their involvement in board committees. Independent directors can provide access to scarce resource; enhance partnerships and legitimacy and access borrowings thus positively contributing to the social mission of the MFI. Increasing the size and diversity of the boards assist in linking the organization and its environment in securing critical resources that will contribute to social mission achievement (Bennan, 2006).

2. 2. 5 Slack resources theory

The slack resources theory postulates that the level of resources that management devotes to social performance activities is driven by the accessibility of resources not required for other purposes. Originally described by Cyert and March (1963), slack resources are underutilized resources that

can be either obtained or redeployed for use by an organization. The underlying idea of slack resources is that no organization operates one-hundred percent efficiently and that a degree of extra resources is beneficial, since excess resources or slack allows organizations to have the wherewithal to respond to contingencies or to make programmatic changes.

The slack resources theory implies that better financial performance results can create some opportunities for entrepreneurs to behave more responsibly to social concerns (Sahin, Basfirinci, & Ozsalih, 2011). The bigger and older institutions will have more resources. This concept is perhaps best articulated in Jensen (1986) who suggested that management faced with holding cash in excess of their needs are likely to invest this free cash in a way that is at variance with maximizing the value of the firm . The theory can thus be applied in an MFI situation to argue that its   size and age determines the availability of slack resource that may be deployed in social performance.

2. 2. 6 Stakeholder Theory

Stakeholder theory (Freeman, 1984) has often emerged as the basis of the business case for social performance by emphasizing a firmøs relationships with critical stakeholders as contributors to better financial performance. The theory focuses on creating value for stakeholders through the integration of business and societal considerations. Stake holders have been defined as any group or individual who can affect or is affected by the achievement of the organizationøs objectives. Enterprises implement stakeholder management practices in order to meet the expectations of their stakeholders (Leonardi L,2011). The relationship between Social performance and profit maximization is best interpreted by abandoning the standard view of the firm as the shareholder

value maximizer and embracing the more recent view of the firm as the stakeholder value maximizer (Beltratti, 2005).

For MFIs, the board as the highest governance body has the responsibility of setting the values and standards within an MFI through their decisions regarding strategy, incentive and internal control systems. Thus a board that commits itself to SP and seeks to address the need of the diverse stakeholders may have to adapt its composition and functioning to this new role by including the various stakeholders as members.

According to the stakeholdersø theory, companies should design their corporate strategies considering the interest of their stakeholders- group and individuals who can affect or are affected by the organizationøs purpose (Freeman, 1984) . In this sense, stakeholders of a firm can be defined as individuals and constituencies that contribute either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers. For an MFI, it may pay attention to these groups for at least two reasons (Mori & Munisi, 2009). First, it can be considered that their demands have intrinsic values so that the MFI has the responsibility to meet their legitimate claims. Second, addressing the interest of stakeholders who are perceived to have influence can improve its profitability (Freeman, 1984; Donaldson & Werhane, 1983).

Some authors like Jensen (1986) and Ayuso and Argandona (2007), affirm that the main objective of social responsibility is to create value for stakeholders and fulfill responsibilities towards them. For a stakeholder firm to be viable over time, it must demonstrate its ability to both achieve the multiple objectives of the different parties to distribute the value created in ways that maintain their commitment.

According to Ayuso and Argandona (2007), three dimensions of board structure and composition are particularly important in reflecting the degree to which concern about stakeholders has been integrated into corporate decision making: the presence of stakeholders as directors, their appointment in monitoring or oversight board committees and existence of a committee composed mainly of stakeholders or dedicated to social performance. An MFI board is thus efficient if it generates maximum reward for all of the parties involved, including funders, creditors, employees, customers, authorities and other third parties affected by the institution's activities (BBVA Microfinance Foundation, 2011b). The stakeholder theory thus claims a positive relationship between them based on the idea that satisfying the interest of various stakeholders groups can result into improved social performance (Heenetigala, 2011; Sahin, Basfirinci, & Ozsalih, 2011).

On the other hand, diversity of stakeholders might lead to a lot of politics because of different conflicting interest. MFIs decisions makers should be aware that political behavior could lead to unsuccessful decisions and consequently poor organizational performance. They all need to defuse political tactics in order to achieve successful decisions (Elbanna, 2006). A direct way of defusing political behavior is through a balanced power structure in which each key decision maker (stakeholder involved) has a clear area of responsibility but in which the leader is the most powerful decision maker. This means a clear separation of the role of the CEO and the board chair (Mori & Munisi, 2009).

The stakeholder theory also support the inclusion of a higher percentage of independent board members who are more likely than the dependent ones to oppose a narrow definition of

organizational performance which focuses primarily on financial measures. They will tend to be more sensitive to the societal needs and may feel freer to advocate for unpopular decisions such as compliance with social performance principles (Ayuso & Argandona, 2007)

2. 2. 7 Social Contract Theory

The social contract theory sees society as a series of social contracts between members of the society and the society itself (Heenetigala, 2011). Donaldson and Werhane (1983) view social responsibility as a contractual obligation the firm owes to society. In an MFI context, this refers to the communitiesø expectation from their business to provide support hence leverage social performance. The basic idea is that the MFI-society relations are governed by moral contracts (Gary, Owen, & Adams, 1996). The social contract between them and society helps in defining what is and what is not right to do in a given society and forms support for the practice of Social performance among MFIs.

2. 2. 8 Legitimacy Theory

The legitimacy theory is a generalized perception or assumption that the actions of the entity are desirable, proper and, or appropriate with some socially constructed system of norms, values, beliefs and definitions (Heenetigala, 2011). The legitimacy theory like the social contract theory is based on an assumption of a contract between the organization and the society. Thus as stated by Deegan (2004),a firm receives permission to operate from the society and is ultimately accounTable to the society for how it operates and what it does because the society provides the authority to own and use natural resources and to hire employees.

Failure to comply with societal expectations may result in sanctions being imposed in form of restrictions on firms operations, resources and demand for its products. It thus supports social performance in the case of MFIs. Much empirical research has used legitimacy theory to study social and enviromental reporting and proposes a relationship between social performance and community expectations (Deegan, 2004; Aras & Crowther, 2007).

2. 2. 9 The Social Capital Theory

According to Coleman (1990), social capital is any aspect of social structures that creates value and facilitates the actions of the individuals within that social structure. The social capital theory views social capital as a phenomenon that contributes to individual and group outcomes. In general, these social phenomena refer to the social relations and /or trust existing between members of a group or society, as well as the advantages that follow from the normative ideas held by its members (Woolcock, 1988; Stewart, 2000) . Thus social capital theory refers to the idea that social relations create benefits for employees and groups through the social structure that links actors and their resources. The fundamental function attributed to social capital is then the ability of people to group together to obtain some collective benefit. Social resources theory focuses on the nature of the resources embedded within the social network (Cyert & March, 1963).

This study will examine the relationship between societal resources and social performance of MFIs based on the social capital theory at the organizational level. The social capital considered will be that of members of the board of directors, the CEO and other stakeholders involved in the management of the MFI. It is predicted that inclusion of individuals or groups in the management with diverse backgrounds hence adding internal or external social capital, will have a positive effect on the MFIs social performance.

2. 2. 10 Conceptual Framework

The conceptual framework hereunder illustrates the perceived link between the independent (governance factors) and dependent variable (social performance) moderated by the MFI size and age . Evidence from empirical research suggests that there are several governance variables that influence the social performance of MFIs. The variables considered to affect social performance in this study comprised of board characteristics, stakeholder involvement, and accountability. Similar conceptual framework models have been widely used to study effect of governance mechanisms on the performance of firms (Manderlier et al.,2009; Villiers, Naiker, & Staden, 2009; Ioannou & Serafeim, 2010; Sahin, Basfirinci, & Ozsalih, 2011; Heenetigala, 2011).

The common governance mechanism that were used as independent variables in this studies are board size, proportion of independent and dependent directors, existance of committees ,board composition, board tenure,CEO duality,female CEO,board memebrs education,CEO education,internal controls, legal ownership, political and legal enviroment. The independent variables have been the firms, financial performance,social performance, enviromental performance and corporate governance score. Ioannou and Serafeim (2010) uses indecies to measure the social performance, governance,and enviromental performance scores while Heenetigala (2011) uses the corporate social responsibility index to measure the social performance score hence justifying the use of such an index in this study. Size and Age of an enterprise were used as moderating variable based on the theretical and emprical literature reviewed. Past studies have yiedled mixed results on the effect of size and age of MFIs on different performance measures (Brennan, 2010; Krivogorsky, 2006; Mueller & Uhde, 2009)

Independent variables   Moderating variables   Dependent variable

Board of Directorsø Characteristics

- Board size
- Board terms
- Board committees
- Director remuneration
- Multiple directorship
- Board skills & experience
- Independence of directors

Leadership characteristics

- CEO duality
- Gender of the CEO
- CEO Qualifications & Experience

Stakeholders Involvement

- AGM
- Clients
- Employees
- Donors

Accountability practices.

- Annual reports
- Internal controls
- Internal & External audit

- Size of the MFI

- Age of the MFI.

Social Performance of an MFI.

Figure 2. 1: The Conceptual Framework

2. 3 Empirical Review.

The empirical literature review discusses previous studies that are relevant in examining factors that influence firm performance based on the identified variables.

2. 3. 1 Board Characteristics

An important mechanism of governance is the board characteristics. These are attributes that define boards. The board characteristics in this study were its size, length of board terms, existence of board committees, the level of director remuneration, boardsø skills and experience, and the appointment of independent directors to the board. Various international corporate governance guidelines give guidance on each of these characteristics (BBVA Microfinance Foundation, 2011b; BBVAA Microfinance Foundation, 2011a; Cadbury, 1992; OECD, 2004) while locally the Capital Market Authority (CMA) has issued guidelines on good corporate governance. The theories that apply to board characteristics are the agency theory, the stewardship theory, the resource dependence theory and the stakeholder theory.

Empirically, there is strong evidence that board characteristics predict firm performance. Zheka (2006) finds strong empirical support for a positive causal relationship between board quality and enterprise performance. This means that indeed organizations would benefit in terms of performance from raising their standard of boardøs characteristics. However, Manderlier et al.,øs (2009) study on nine board mechanisms using a data set of 59 MFIs from five Asian

countries,finds that not all affect performance and that none of the nine governance mechanisms seem to be an appropriate tool to enlarge the outreach of an institution. This study explores each of the named characteristicøs effect on social performance.

2. 3. 1. 1 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. BBVA 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 for 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 ómaking process given the characteristics of microfinance (Cherono, 2008;   BBVA Microfinance Foundation, 2011b;   Jacobs, Mbeba, & Harrington, 2007).

Agency theorist argues that in order to protect the principals interest, the board of director must assume an effective oversight function and this should determine the size of the board (Brennan, 2010). The resource dependence theory views the board members as a connection to external resources and thus advocate for larger boards while the stakeholder theory advocates for a more inclusive board which may end up being relatively larger (Tembo, Determinants of social

perfomance of Microfiance Institutions in Kenya,2011; Beasley, 2005). Organization psychology however suggests that as the size of a group increases communication and coordination problems increase leading to a poor group control (Sahin, Basfirinci, & Ozsalih, 2011). This would negate the spirit of stakeholder participation as suggested by stakeholder theory. The board size should thus be optimum to enable the board to effectively deliver their mandate.

Empirical evidence on the effect of the board size on performance is mixed. Manderlier et al. (2009) found that board size has a positive impact on operational efficiency, suggesting that a large number of directors positively influence the rationalization of operational costs. On the contrary, Bermig (2010) demonstrated that smaller boards are more effective in monitoring management and thus associated with better performance. He found a significant negative effect on the board size and earnings management suggesting that smaller boards are more efficient in monitoring. But benefits of this have to be compared with disadvantages when other dimensions of the firm performance are taken into account. Wu et al. (2009) also found that firm performance is negative and significant in relation to board size. The current study is aimed at establishing whether board size influences an MFIøs social performance.

2. 3. 1. 2 Board Terms

Board term describes the tenure of board members. Establishing a limit on the term of office for directors contribute 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 boardøs cohesion as a group, renewable terms of office of three to four

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years should be established to allow a small part of the board to be substituted each year. Jacobs, Mbeba, and Harrington (2007) argue that boards of MFIs should regularly examine the performance of individul 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 et al.,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 & Mulcahy, 2008).

Villiers, Naiker, and Staden (2009) argue from their study that coercing directors into retirement results in waste of talent and experience. Similarly, Zheka (2006) suggest that extended tenure enhances the willingness of directors to expend effort towards company goals. Directors with greater tenure have acquired more knowledge about a firm and its business environment and this should improve their ability to effectively monitor (Villiers, Naiker, & Staden, 2009). In support Beasley (2005), Yang and Krishna (2005), and Chhaochharia and Grintesin (2007), find a positive relationship between increased director tenure and financial reporting quality. Further, Villiers, Naiker, and Staden (2009) show that firms with longer tenured directors are less likely to be the subject of hostile takeover bids.

However other studies point out that managers may be in a better position to influence director opinions the longer they know them (Wu, Lin, Lin, & Lai, 2009). Webb (2005) shows that the

participation of longer tenured directors in compensation decisions is associated with higher pay for the CEO, suggesting that longer tenured directors are more likely to make decisions in favour of the management. This line of argument suggests that the director tenure would be negatively related to effective monitoring. This study will examine the relationship between tenure and firm social performance without predicting the direction of their relationship.

2. 3. 1. 3 Board Committees

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 & 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 (Hattel, Henriquez, Morgan, & D'Onofrio, 2010; Jacobs, Mbeba, & Harrington, 2007; BBVA Microfinance Foundation, 2011b). Sahin, Basfirinci, and Ozsalih (2011) and 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.

BBVA Microfinance Foundation (2011b) advice that each institution must choose the suiTable number of committees for the boardøs work. Too many committees can result in too many meetings and excessive distribution of work. At the other extreme, too few committes can turn the board meetings in long tedious sessions with too little time to deal with issues sufficiently indepth in order to fulfill the assigned responsibilities effeciently. It further recommends that each committee must be formed by at least two directors and if necessary,a specilist staff to support the specific work carried out by the committee. The most common board committees are audit ,nominating and renumeration commitees (BBVA Microfinance Foundation, 2011b; Cherono, 2008; Hattel, Henriquez, Morgan, & D'Onofrio, 2010).

Prior studies have shown that the presence of board committes has a positive effect on a firm performance especially the financial performance as most critical processes and decisions are derived from board subcommittees (Heenetigala, 2011; Roche, 2005; Lefort & Urzua, 2008). Ayuso et al. (2007) found that the existance of a committee that is composed of stakeholders or that is dedicated to social performance was strategically important for intergrating stakeholders interest to collective decision making. The studies seem to all agree that as a result of the monitoring function of the board, board committes affect performance. This paper will explore the possible effects of the various board committees on an MFIs social performance.

2. 3. 1. 4 Director Remuneration.

In general, MFI board members are volunteers and do not receive honorarium for their services. More commonly, board members are reimbursed for travel and other expenses related to carrying out their duties. In an international sample of 12 selected MFIs, none pays fees or honoraria to their

boards (Hattel, Henriquez, Morgan, & D'Onofrio, 2010). MFIs with a strong sense of mission may choose not to pay compensation if they feel that a voluntary service by directors aligns with the institutionøs social commitment (Jacobs, Mbeba, & Harrington, 2007).

BBVA Microfinance Foundation (2011b), however advice that although many MFIs board members do not receive renumeration for their work, it is important to remember that often symbolic renumeration could help to increase the boardøs level of commitment, which is essential for good governance . 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, Mbeba, & Harrington, 2007).

There are MFIs in which the directors are so committed that no economic incentive is required. If there is compensation, it is considered good practice for this to include a variable part in accordance with target fulfillment. In some institutions, it is common practice to pay a fixed part for the directorøs participation at board committees meeting based on similar amounts that people with the same level of experience usually receive in similar organizations in the country. If an institution decides not to give board members economic remuneration, there should at least be non-monetary benefits to strengthen the relationship between the directors and the institutions, because board members must be motivated to devote their time and contribute their experience to the institutions according to BBVA Microfinance Foundation (2011b).

The board of directorsø compensation policy measures a company's management commitment and effectiveness towards following best practice corporate governance related to competitive and proportionate management compensation. It reflects a companyøs capacity to attract and retain executives and board members with the necessary skills by linking their compensation to individual or company-wide financial or extra financial targets (Ioannou & Serafeim, 2010). Director remuneration thus is expected to have an impact on the social performance of an MFI.

2. 3. 1. 5 Board Skills and Experience

Board skills and experience will be examined under two headings: Multiple directorship and board member qualifications and experience. Multiple directorships occur when a member of the board serves in more than one board. Board member qualifications and experience will focus on education and professional training as well as the years of experience in the microfinance industry.

2. 3. 1. 6 Multiple Directorships

Experience in serving on other boards is an added advantage in building a strong board as it means more exposure, connections to people in different key service and potential funding sources (Hattel, Henriquez, Morgan, & D'Onofrio, 2010). Manderlier et al. (2009) agree that appropriate exposure, knowledge and training of the board members can be considered as the three effective mechanisms in MFIs that positively impact their social performance.

CMA (2002) limits the number directorship held by one director to five,arguably to be more effective. Manderlier et al. (2009) concour with the resource dependence theory that tthe board through multiple directorships of its members avails the necessary knowledge and experience to

address the strategic demands facing the MFIs. Effective microfinance boards consist of directors with a wide range of skills such as social and commercials skills, or strategic and operational capabilities. The reputation hypothesis suggests that directors who hold significant roles in other firms have more reputational capital and are therefore more vigilant in exercising their monitoring responsibilities . Moreover, holding roles in other firmøs results in wider experience and background which should further improve director performance. On the other hand, busyness hypothesis suggest that directors who increasingly hold more responsibilities in other firms become too busy to adequately monitor firm management performance

Villiers, Naiker, and Staden (2009) study considers the impact of two measures of board reputation/busyness on social performance. In support of reputation hypothesis, Yang and Krishna (2005), Mori and Munisi(2009), and Arun and Annim (2010) found a positive relationship between firm performance and the number of directorship held by directors and firm officers. Zheka (2006) reports evidence consistent with the reputation hypothesis by showing that directors in firms prosecuted for environmental violations have fewer multiple directorships. Ioannou and Serafeimøs (2010) study on drivers of corporate social performance found that a board memberøs membership to charitable organizations makes the board and the organization more socially responsible due to exposure on similar activities.

However, other studies have linked multiple directorships to increased financial statement fraud (Beasley, 2005) and decreased firm value (Fich & Shivdasani, 2006; Jiraporn, Kim, & Davidson, 2008) providing evidence in support of the busyness hypothesis. While no prior study has focused on the impact of having more directors who have multiple directorship in other MFIs on its social

performance, this study posits that these directors also have the ability to make significant contributions by virtue of their wide exposure.

2. 3. 1. 7 Board Qualifications, Skills & Experience

According to BBVA Microfinance Foundation (2011b) and CMA(2002), the board must be formed by people with enough experience and skills to guide the institutions toward fulfilling its goals. The qualifications of the board members should be in line with the needs of the MFI. A balance of financial managerial skills, legal knowledge, knowledge of the target market and the social perspective should be considered when planning the incorporation of new members into the board (Hattel, Henriquez, Morgan, & D'Onofrio, 2010; Cherono, 2008; Jacobs, Mbeba, & Harrington, 2007). Manderlier et al. (2009) concour that the board through its members should collectively possess the necessary knowledge, experience and skills to address the strategic demands facing the MFIs. The resources dependence theory posits that effective boards consist of directors with a wide range of skills such as social and commercials skills or strategic and operational capabilities.

Prior studies show that the board members background has an effect on the performance of an MFI. Bermigøs (2010) study on earnings management found a significant positive effect of the percentage of bank representatives in the board indicating that the extent of earnings management increases with the appointment of a further bank representative to the supervisory board. This implies that bank representatives are keen to meet numbers such as debt covenants and earnings forecasts in order to meet the expectations of their employer. Thus, board members with corporate or finance background are associated with less earnings management.

Board members qualification and experience on SPM issues is thus likely to be positively related an MFIøs social performance.

2. 3. 1. 8 Board Composition

The temptation is great among young MFIs dominated by founding entrepreneurs for the founder to select board members on the basis of friendship or prior relationship. While this practice may provide support and counsel to the founder and a ready-made group of backers for new venture it leads to management dominated organizations lacking important checks and balances (Aras & Crowther, 2007; Dunn & Sainty, 2009). Board members whose primary loyalty is to the CEO may hesitate to challenge him or her or demand accountability, particularly if such members lack technical qualifications (Jacobs, Mbeba, & Harrington, 2007). The use of independent directors should be a priority for improving governance among MFIs. This practice is particularly important for committees such as the compensation and audit committees . Various governance guidelines recommend a balance between dependent and independent directors. The CMA (2002) and (BBVAA Microfinance Foundation, 2011a) recommend that the board should include at least one third of independent directors.

The stewardship theory suggests that a signficant proportion of dependent directors can better understand not only the business processes but also the enviromental factors. This contradicts the agency thoery and the resource dependence theory both of which argue that a large number of independent board members may contribute to the decision process,enhance the firmøs image and better performance (Sahin, Basfirinci, & Ozsalih, 2011; Dunn & Sainty, 2009).

Empirical evidence on the effect of outside director on company performance is mixed. Dulewiez and Herbert (2004) find no relatioship between the proportion of ndependent/dependent directors on a company's performance, Webb (2005) find that socially responsible firms have boards with more independent directors while Chapple and Ucbasaran (2007) find no relationship between the ratio of independent /dependent directors on the board to corpoarte social responsibility activity. The studies however relate to commercial enterprises and not MFIs. While studying MFIs however, Bermig (2010) found that, firm performance had a positive and significant relation to board independence and insider ownership. This study will focus on the effect of board composition on an MFI's social performance predicting a positive relationship as per the CMA guidelines and the overwhelming direction of the relationship as per theoretical and empirical evidence.

2. 3. 2 Leadership Characteristics

The lack of visionary leadership has been cited as the biggest challenge for the promotion of social performance management and is therefore key for this study (AMFI, 2012). The leadership characteristics discussed hereunder are; CEO duality, CEO gender, their levels of qualifications and work experience.

2. 3. 2. 1 CEO Duality

CEO duality concept is used to describe a scenario where the role of the CEO and chairman are performed by one person. When the CEO and chairman functions are performed by the same person there is CEO-Chairman duality (Sahin, Basfirinci, & Ozsalih, 2011). There should be clear separation of the role of the board chair and the CEO to allow the board to make independent,

responsible decisions, particularly on issues such as management performance and compensation (Cherono, 2008; Jacobs, Mbeba, & Harrington, 2007). When the CEO doubles up as the Chairman, it will be difficult to distinguish between the management and board's power thus negatively affecting the institution's governance (BBVA Microfinance Foundation, 2011b). The CMA (2002) stipulates that there should be a clear separation of the role and responsibilities of the chairman and CEO to ensure a balance of power and authority and provide for checks and balances such that no one individual has unfettered powers of decision making.

From the agency theory perspective, CEO duality impairs the effectiveness of monitoring activities and thus may weaken the performance of an MFI. On the other hand, the stewardship theory claims that the CEO duality creates a clear leadership role for the firm and therefore it may lead to better performance (Sahin, Basfirinci, & Ozsalih, 2011; Desender, 2009). Manderlier et al. (2009) using data from 59 MFIs from five Asian countries studied whether powerful CEOs, proxied by CEO/Chair duality influence the performance variability of the MFIs. They found that the CEO power only has an effect on MFI performance variability when there are no stakeholder electives on the board, while there is no effect of CEO power on performance variability when there are stakeholder electives on the board. Similar results were obtained by Galema et al.(2009). The results also indicated that an MFI with a powerful CEO is not only one with the worst performance; it is also one with the best performance. They concluded that for MFIs searching to maximize financial results powerful CEOs can help achieve this goal as long as they are controlled by stakeholder electives or other independent directors. The results indicate that MFIs with CEO duality have higher performance variability if CEOs have sufficient discretion. CEO duality has also been found to be negatively and significantly related to firm performance (Wu et al.,2009; Zheka, 2006; Bermig, 2010; Kaymak & Bektas, 2008), inferring that, under the condition that the

CEO serves as chairman, the board would most likely fail to be an objective supervisor, correspondingly, putting firms at a disadvantage.

On the contrary, other studies (Kula, 2005; Krivogorsky, 2006) are in favour of CEO duality, suggesting that it may improve corporate performance. However, Weir and Liang (2007) and Tanrioven, Kucukkaplan, and Basci (2006) find no relationship between CEO duality and company performance. All these studies focus on the general MFI performance. This study will focus on the effect of the CEO duality on social performance without predicting the nature of the relationship as previous studies have yielded mixed results.

2. 3. 2. 2 Gender of the CEO

Most of the MFIs serve female clients and thus having a female CEO may mean they are served better as she may understand challenges facing women. Some MFIs use gender as selection criteria for their CEO if the institutions mission deems it necessary for example, if the institution is dedicated to women empowerment (Manderlier, Bacq, Giacomin, & Janssen, 2009).

Though the governance guiding principles are silent on the gender of the CEO there has been a worldwide movement to empower women and the Kenyan constitution has provisions that are geared at ensuring women hold position of leadership. In other countries like Norway and Spain, the government has already enacted a law requiring all listed companies to fill 40% of their board seats with female directors. They are however silent on the gender of the CEO.

The stakeholder theory advocates for recruitment of a female CEO as they spend more time on monitoring activities. This would also serve to ensure that the interests of the female clients who make up the majority of the MFIs clients are well taken care of (Galema et al.,2009).

Studies conducted on the effect of as female CEO on performance have focused on different aspect of performance. Galema et al. (2009) ,Mersland and Strom (2007)and Bermig (2010) found that having a female CEO increases financial performance. Manderlier et al. (2009) while studying the impact of powerful CEO on MFI performance found that their gender had no effect on social performance. Bermigøs (2010) study on the effect of female directors on earning management found that they are associated with less earning managegment. Hartarska (2005) and Webb (2004) found that boards with higher proportion of women on the board reach more and poorer borrowers. This implies that female board members contribute to good governance as they are better monitors. This study will explore whether a female CEOs is associated with better social performance of an MFI in support of the proponents of the argument that women understand the needs on their fellow women who form the majority of their clients.

2. 3. 2. 3 CEO Qualifications and Experience

CEOs are often referred to as executives of the highest levels, entrusted with the responsibility of to provide leadership and strategic direction for the firm (Monem, 2008). In executing their role, CEOs contribute innate talent, entrepreneurial skills, and education in specific fields to the MFI. The individual as the operational leader for the institution and the representative of the entire staff to the board plays a key role in the long -term success of the institution and in the realization of the MFIs mission (Jacobs, Mbeba, & Harrington, 2007; BBVA Microfinance Foundation, 2011b). Proponents of the resource dependence theory argue that the qualifications and experience of the CEO is a resource that results into a better performing MFI. However, the argument would only hold if the CEOs are committed to the mission of the institution and apply themselves fully to its

achievement as suggested by the stewardship theory. The resource dependence theory thus seems to negate the argument of the agency theory (Beltratti, 2005; Dulewiez & Herbert, 2004).

The usefulness of CEO expertise in effective MFIs governance has been mostly studied in the context of how financial expertise affects financial reporting quality (Krishnan, 2005; Galema, Lenisnk, & Mersland, 2009; Bennan, 2006). However the ability of financial experts to oversee the effectiveness of social performance is questionable because their professional expertise is more suitable for monitoring financial performance . On the other hand CEOs with better understanding of the social performance management are arguably more adept in enhancing the MFIs social performance. Heenetigala (2011) provides strong support for this view by showing CEOs with legal background are more prevalent in firms where costs of environmental regulations are higher. On the basis of these arguments, its expected that CEOs with higher exposure on social performance will more carefully monitor social performance management issues, leading to better social performance. Though it would be expected that CEOs that hold directorship in other firms may perform better due to their exposure and experience, Villiers, Naiker, and Staden (2009) found that this did not hold and argue that it may be due to their efforts being distributed thinly between running their firms and monitoring the firm in which they hold directorship positions.

The highest academic achievement, professional experience of the CEO, and membership to other boards will be employed as indicators to measure the qualifications and experience of the CEOs (Galema, Lensink, & Mersland, 2009). Because of the conflicting evidence and views, the researcher will not specify the expected sign for the relationship between CEO qualifications and experience and social performance.

2. 3. 3. Stakeholders Involvement

Microfinance is characterized by a dual mission of double bottom-line: one of social responsibility (offering services to those excluded from the formal banking sector, fighting against poverty) and one that is financially ódriven (becoming sustainable). The stakeholders in an MFI are employees, clients, technical assistance providers, government representatives, donors, bank, local government and other external shareholders like institutional investors and private individuals (CERISE, 2005; Ayuso & Argandona, 2007; Beltratti, 2005). The definition and evolution of an institutionøs mission depends on the stakeholderøs . Thus, for example, donors, on-profit organizations and technical assistance providers may be particularly vigilant of the MFIs social mission, while private investors and employees may be more interested in generating dividends and improving working conditions (CERISE, 2005).

Good governance requires participation from the maximum number of stakeholders in making decisions. Diverse interests can be addressed by ensuring that each stakeholder has representation on the board of directors while managerial discretion can be limited by having stakeholdersø electives on the board. MFI stakeholder electives on the board exercise control such that the management takes less extreme decisions. MFI stakeholders have important roles in strategic decision making; their involvement in boards would likely enable the organizations to meet their two main objectives and also increase the ability to compete in the industry (CERISE, 2005; Chapple & Ucbasaran, 2007; Krivogorsky, 2006; Heenetigala, 2011). To compete in the industry, an organization needs to focus on attaining its competitive advantage which other organizations cannot copy easily. One strategy for the organization to get a competitive advantage is to have a close relationship with its stakeholders (Aras & Crowther, 2007).

According to Heenetigala (2011) the fundamental aspect of the stakeholder theory is to identify the stakeholders an organisation is responsible to. It focuses on respecting the multiplicity of the stakeholders as a way of maintaining an institutions initial strategic oreintation. The stakeholders theory suggests that if stakeholders are involved in decision making by being represented in the board, their interests will be satisfied thus improving the productivity, reputation and ultimately the social performance of an MFI. The theory therefore supports the implementation of social performance management in MFIs in a bid to meet the interest of stakeholders.

Empirical evidence has shown that the main effect of having no stakeholdersøelectives on the board on performance variability is negative. Galema et al.,. (2009) found positive significant results for the stakeholder representation and financial performance variability. This implies that powerful management who are not controlled by stakeholdersø electives increase performance variability probably because it is easier to reach a consensus with other board members when stakeholdersø electives are absent. Heenetigalaøs (2011) study on effect of stakeholder on performance supports the findings that a company that take stakeholders interest into consideration is likely to experience indirect economic benefits,such as increased productivity and better corporate reputation all impoving itøs social performance score. The effect of stakeholder involvement in the governance reflected by representation of clients, employees, donors, rating agencies, financiers, government representatives and other stakeholders will be studied with an anticipated positive relationship with social performance. This is based on the premise that satisfying interests of various stakeholder groups can result in improved social performance.

2. 3. 4 Accountability Practices

An accountability model explained by Gary and Maunders (1991) states that accountability involves the responsibility to undertake certain actions and responsibilities to provide an account for those actions. Similarly, the agency theory advocates for regular reporting, implementation of sound internal controls and external audit to put the management on check and the costs associated are referred to as agency costs. The board accountability and better quality financial reporting have gained prominence as a result of the financial scandals of the 1980s. The quality of board oversight, decision-making and strategy development is closely tied to the quality of information the management provides. In turn this is tied to the quality of accounting, MIS, and the system of internal controls implemented by the organization. CERISE (2005) cautions that the governance of an MFI must establsih procedures and act in a way that will make everyone in the institution accounTable as well create an enviroment of mutual trust between various stakeholders. This only comes with application of sound financial management principles which include regular reporting, internal controls and audit.

Good corporate governance guidelines require organizations to present an objective and understandable assessment of their operating position and prospects in line with International Financial Reporting Standards (IFRS). They also require the board to maintain a sound system of internal controls as well as annually appoint an independent external auditor in a formal and transparent manner at each annual general meeting (Cadbury, 1992; CMA, 2002; BBVA Microfinance Foundation, 2011b; BBVA Microfinance Foundation, 2011b). Strandberg (2005) adds that entities need to make meaningful disclosure of social, environmental, and ethical issues

and states that there should be transparency in terms of the boardøs social responsibility operations and status of the stakeholdersørelationship.

Transparency involves the timely disclosure of adequate information concerning a company's operating and financial performance and its governance practices . The higher the standards for timely disclosure and transparency a corporation has, the more it enables the stakeholders, creditors and directors to effectively monitor the actions of the management and the operating and financial performance. Strong transparency means that financial reporting facilitates a clear understanding of a company's true underlying financial conditions. A company's website might be an effective way of delivering company reports, summary reports and /or other investor relevant information available. Timely publication and or early publication is a plus to it accountability. If a company reports information to an independent auditor, it is considered to be material information subject to disclosure (Zheka, 2006; Aras & Crowther, 2007; Ayuso & Argandona, 2007).

From the agency theory, agency problems arise when managers act in their own interest, losing sight of the objectives agreed with the stakeholders or contributors of resources to the firm (Brennan, 2010; Heenetigala, 2011). This problem is made worse by more exaggerated information or asymmetry. In general finance systems, and in particular in the MFI sector, information asymmetry problems are bigger than other sectors, which is why good governance rules are of special importance for MFIs. Information asymmetry occurs when one of the parties in a relationship or contract has incomplete information compared to the other (BBVAA Microfinance Foundation, 2011a).

Prior studies on governance have focused on varying aspects of accountability. Bermig (2010) found that adoption of International Financial Reporting Standards leads to higher earnings

management which increases information asymmetry. This is contrary to the expectation that adoption of standard reporting practices would result in better and more accurate reporting. Yet the collapse of Enron and WorldCom point to high levels of information asymmetry. Wu et al. (2009) however found that firms with better financial reporting tend to perform well financially and act in a more social responsible manner. Studies on effect of internal controls and external audit on performance have shown that; the internal auditor plays an important role of providing an independent, objective assessment on the appropriateness of the organizations internal governance structure and the operating effectiveness of specific governance activities (Manderlier et al.,2009), and that if the company's external auditor is one of the five top world auditors, it would most probably indicate a better quality of disclosed information thus strengthen governance (Zheka, 2006; Beasley, 2005; Htay et al., 2011). The present study aims at investigating the relationship between implementation of sound accountability practices by producing annual reports, maintenance of proper internal controls and the carrying out of an independent external audit and an MFIøs social performance score.

2. 3. 5 Size of the MFI

The size of an MFI is a measure that describes its level of economic activity being fostered by economies of scale and scope (Mueller & Uhde, 2009). The resource dependence theory supports this proposition by arguing that as the size increases, more resources are available to pursue the MFIøs objectives. However there are also arguments that as the MFIs grow, they may be more susceptible to mission drift which may result in a more focus on profitability and sustainability at the expense of reaching more of the poorest of the poor (Zheka, 2006; Cull, Demirguc-Kunt, & Morduch, 2007; Mueller & Uhde, 2009).

Wu, et al. (2009) study on the effect of financial performance on social performance found that firms with better financial performance and larger size will be more socially minded thus perform better. Manderlier et al. (2009),Zacharias (2008) and Mueller and Uhde(2009) similarly, found that an MFIsø size has a high positive impact on the number of clients served as they reap benefits of diversification and economies of scale and scope and thus is positively related to social performance. Cull, Demirguc-Kunt, and Morduch (2007) however support the hypotheses of shift of mission with increase in size by providing empirical evidence that larger microbanks on average exhibit lower measures of outreach.

The logarithm of an MFIøs total net assets will be used as a proxy for the MFIs size and it is expected that size as a control variable will have a posive effect social performance. Prior studies relating to the size and performance have used similar measurements (Cull, Demirguc-Kunt, & Morduch, 2007; Mueller & Uhde, 2009; Manderlier et al.,2009 ; Bermig & Frick, 2010).

2. 3. 6 Age of the MFI

Some MFIs will definitely be older than others and thus more experienced due to the learning-curve effects resulting from learning by doing, the development of operating systems, experience and training of staff, and economies of scale, trial and error processes (Okumu, 2007). On the other hand, more recently established MFIs may benefit from the experiences of pioneers in microfinance and might preempt them (Mueller & Uhde, 2009). The age of an MFI may thus have an effect on MFI performance.

The resource dependence theory supports the preposition that the older MFIs will have access to better resources both capital and human thus will be expected to perform better. It will for example

have access to board members who are more experienced. Younger MFIs may however perform as well or better because sometimes they will be established by well experienced people who may be leaving their older MFIs to set up a new one with the benefit of all the experience and knowledge gained in the older MFIs. The slack resources theorist argue that better financial performance results can create opportunities for MFIs to behave more responsibly by addressing social performance issues (Sahin, Basfirinci, & Ozsalih, 2011; Lefort & Urzua, 2008).

Hermes, Lensink, and Meesters (2008) find empirical support for both propositions, i. e that an MFIs age negatively and positively affetcs its performance. Mueller and Uhde (2009) find support for the result that older MFIs may benefit from the learning- curve effects but find no support for the argument that recently established MFIs may absorb the experience gained from older ones and thus perform well. Prior studies have mainly focused on the relationship between financial performance and outreach and the age of the MFI. This study will seek to establish whether the age of an MFI has any relationship with its social performance score without predicting the direction of the relationship.

2. 3. 6 Social Performance

The microfinance sector has largely grown over the years riding on its dual mission, of meeting the social and financial objectives. Social performance for an MFI involves achieving their social mission, it also involves an MFIøs continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of their clients, the workforce and their families as well as the local community and society at large. Social performance management is the process of aligning an MFIøs strategic planning and operational systems to an understanding of

client vulnerability and poverty (Campion, Linder, & Knotts, 2008; Heenetigala, 2011 ; Rhyne, 2012).

The stakeholder theory explains how while the social contract theory, the slack resources, and legitimacy theory explain why social performance is important for entities like MFIs. The stakeholder theory advocates for meeting of all the stakeholdersø diverse and often divergent expectations in the MFI activities thus recommends the inclusion of the various stakeholdersø representatives in the governance on the institution (CERISE, 2005; Heenetigala, 2011). An MFIøs social viability can only be achieved when different stakeholders bridge different interest and reach a compromise. The slack resources theory links the firm financial performance to its social performance arguing that as a result of improved financial performance; firms get a greater freedom to invest in social responsibility (Sahin, Basfirinci, & Ozsalih, 2011). The social contract theory and the legitimacy theory impose the social responsibility consideration in an MFIs operation as a means justifying its existence while the slack resources theory advocates for investment in the social performance.

To evaluate social performance it is necessary to determine the constituents of good social performance using performance indicators which are measurable, relevant and important. Prior studies on social performance have mainly focused on the relationship between the financial and social performance of MFIs (Sahin, Basfirinci, & Ozsalih, 2011; Olayinka, 2010). Various studies on social performance have used different measures. Manderlier et al. (2009) in their study on the impact of corpoate governance mechanism on social performance use the number of active borrowers and the average loan size as a measure for social performance. Galema, Lensink, and Mersland (2009) use the average loan size. Arun and Annim (2010) use outreach to represent

social performance while Ruben and Schers (2007) analyse the breadth and depth of outreach. Sahin et al. (2011) use a corporate social responsibility index reported by firms in measuring their social performance which is made up of a number of social indicators. The social performance index appears to be more objective . The current study will use the CERISE Social Performance Indicators tool which give a firmøs social perormance index using four dimensions, targeting and outreach ,appropriateness of products and services, benefits to clients and social responsibility. This measure is more comprehensive as it includes all other separate measures used in prior studies in generating the score.

2. 4 Summary of Literature Review

From the above discussion, there are is a strong theoretical base for linking MFI governance to its social performance as demonstrated by the agency theory, stewardship theory, resource dependency theory, the slack resource theory and the stakeholderøs theory. On the other hand the use of a MFIs resource in social performance is justified by the Stakeholder theory, social contract, social capital and legitimate theory. This study will build on these theories in determining the   factors that influence on social performance of MFIs.

2. 5 Research gaps

Prior studies on governance and social performance have focused on a narrow set of board characteristics and one or two aspects of social performance. Mersland and Strom (2007) using data on 226 MFIs examined the internal and external corporate governance mechanisms on the MFIs performance and outreach. Manderlier, et al. (2009) studied the influence of corporate governance

mechanisms on social and financial performance of South Asian MFIs, the social indicator being the number of active borrowers. Sahin, Basfirinci, and Ozsalih (2011) examined the inter-relatioships between board composition characteristics, corporate social responsibility practice and social performance for public listed companies in Turkey using a corporate social responsibility index to measure social perfomance.

In Kenya, Tembo's (2011) study seeking to establish the determinants of social performance of MFIs in Kenya used a data from 34 MFIs registered under AMFI and with branches in Nairobi. The study examined whether the type of regulation, type of institution, network membership, size of the firm and age have an influence on the social performance of the MFIs. The study concluded that international networking and start up firms are more likely to have better social performance. The study however excludes governance of the MFIs which plays the key role of maintaining a balance between enhancing the financial performance of the institution and fulfilling their social mission.

Past studies are thus largely global but are inconsistent in selecting the examined characteristics, culminating in these studies investigating different board characteristics without controlling for all possible characteristics that could influence social performance (Ioannou & Serafeim, 2010; Manderlier, Bacq, Giacomin, & Janssen, 2009; Ali & Wise, 2009; Olayinka 2010) . Prior empirical studies on governance and performance have emphasized on the relationship between corporate governance mechanisms and financial performance with little emphasis on social performance using one or two indicators. The factors that influence the social performance of an MFI using a wide range of social performance indicators has therefore not been well analyzed in existing literature. This study will fill the gap by determining the factors that influence the social performance of MFIs using a wider range of indicators.

Table 2. 1: Relevant Literature on factors influencing the Social Performance of MFIs

Factor	Relevant literature
Board Characteristics	Mersland & Strom, 2007; Manderlier et al.,2009; Ayuso & Argandona, 2007; Zheka, 2006; Bermig & Frick, 2010; BBVAA Microfinance Foundation, 2011; Galema, Lensink, & Mersland, 2009; Wu et al.,2009; Villiers, et al.,2009; Sahin et al.,2,011; Heentigala, 2011; ROK, 2002.
Leadership characteristics	Mersland & Strom, 2007; Manderlier et al.,2009; Aras & Crowther, 2007; Ayuso & Argandona, 2007; Zheka, 2006; BBVAA Microfinance Foundation, 2011; Galema et al.,2009; Wu et al.,2009; Villiers, Naiker, & Staden, 2009 ROK, 2002 ; Dunn & Sainty, 2009.
Stakeholder Involvement	Hartarska, 2005; Mersland & Strom, 2007; Beltratti, 2005; Leonardi L. ,2011; Aras & Crowther, 2007 ; Ayuso & Argandona, 2007; Zheka, 2006; BBVAA Microfinance Foundation, 2011; Galema et al.,2009; Mori & Munisi, 2009; ROK, 2002 ; Wu et al.,2009)
Accountability	Mersland & Strom, 2007; Manderlier et al.,2009; Aras & Crowther, 2007; Ioannou & Serafeim, 2010 ; Arun & Annim, 2010; Ayuso & Argandona, 2007; Zheka, 2006; BBVAA Microfinance Foundation, 2011; Galema et al.,2009; ROK, 2002)
Size of an MFI	Tembo, 2011; Hartarska, 2005; Mersland & Strom, 2007; Leonardi L. ,2009; Ioannou & Serafeim, 2010 ; Arun & Annim, 2010; Bermig & Frick, 2010; Galema, Lensink, & Mersland, 2009; Wu et al.,i, 2009 ; Villiers et al.,2009.
Age of an MFI	Tembo, 2011; Leonardi L. ,2011; Hartarska, 2005; Ioannou & Serafeim, 2010 ; Arun & Annim, 2010; Galema et al.,2009; Villiers et al.,2009; Sahin et al.,2011.

CHAPTER THREE

RESEARCH METHODOLOGY

3. 1 Introduction

This chapter describes the research methodology used for this study. Since the aim of the study was to examine factors that influence an MFIøs social performance, the design of the methodology was based on prior research in relationships between governance and performance. The chapter describes the research design, population, sampling and data collection techniques employed.

3. 2 Research Philosophy

The study was anchored on the positivist research paradigm. The positivist paradigm views the researcher as independent of the study they are conducting. They view the reality as objective and measurable, human beings are assumed to be rational; research emphasizes fact and predictions to explain cause and effects (Heenetigala, 2011; Bryman & Bell, 2007). Through positivism and deduction, scientists routinely collect data for both quantitative and qualitative variables in an attempt to interpret, understand and explain social life (Sekaran, 2009). They place high priority in identifying causal linkages between and amongst variables (Amin, 2005; Cooper & Schindler, 2006). This research adopted the social scientist view in line with other studies on performance of MFIs (Bennan, 2006 ; Monem, 2008 ; Zheka, 2006).

3. 3 Research Design

According to Kothari (2004), research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection,measurement and analysis of data. Ghauri

and Gronhaug (2005) and Bryman and Bell (2007) concour that the research design is a plan or framework for data collection and its analysis which reveals the type of research (e. g exploratory,descriptive or causal). Research design is thus a plan of how the research will be carried out.

This study adopted an explanatory and descriptive survey research design. Explanatory studies are studies that are aimed at establishing causal relationship between variables. The emphasis in an explanatory study is to study a situation or a problem in order to explain the relationships between variables (Saunders, Lewis, & Thornhill, 2009; Bryman & Bell, 2007; Cooper & Schindler, 2006). On the other hand, a descriptive study is one that is undertaken with a view of offering the researcher a profile or to describe relevant aspects of the phenomena of interest from an individual, organization ,organizational, industry oriented, or other perspective (Sekaran, 2009; Bryman & Bell, 2007; Ghauri & Gronhaug, 2005; Emory & Cooper, 2003). The objective of the study was to establish and document factors that influence social performance of MFIs. An explanatory study design was suitable because the study sought to establish the relationship between the dependent and the independent variables. The descriptive design allowed for a description of the factors that influence the social performance of MFIs in Kenya. The design was also in line with other similar prior studies that sought to link performance to governance factors (Heentigala, 2011; Hossain & Neng, 2007; Tembo, 2011; Manderlier, Bacq, Giacomin, & Janssen, 2009; Nixon, 2011).

3. 4 Population

A population refers to the entire group of people or things of interest that the researcher wishes to investigate (Mugenda & Mugenda, 2003; Sekaran, 2009; Cooper & Schindler, 2006). In this study,

the population consisted of the 55 MFIs that had registered as members of the Association of Microfinance Institutions (AMFI) as at 30th June 2012 (AMFI, 2012a). AMFI is a network and umbrella body that is charged with policy framework within the wider microfinance industry in Kenya and thus is representative of the industry (AMFI, 2012b). Members of AMFI were selected because they were more likely to have resources, motivation and information to implement social performance as a result of the SPM initiative being run by AMFI. Furthermore, these MFIs are formally registered and thus can be assumed to engage in good governance practices and as well as being representative of the industry.

However, fifteen institutions belonging to the banking, SACCOs, and insurance industries, as well as deposit taking MFIs which are subject to regulation by government agencies were excluded from this population because the focus of the study was on non-bank MFIs. This was due to the special regulatory environment in which they operate and also to provide some degree of homogeneity among respondents. The exclusion was justified on the basis of the argument that regulation masks the efficiency difference across firms, potentially rendering governance mechanisms less important (Uadiale, 2010; Okumu, 2007; Singh & Davidson, 2003).

3. 5 Sampling and Sampling Technique

According to Saunders et al.(2009) the sampling frame is a complete list of all the cases in the population from which the sample will be drawn. A list of all MFIs registered as members obtained from AMFI formed the sample frame. To provide for a desirable degree of homogeneity among the respondents, the two development organizations were excluded since they are not microfinance Institutions per se. The sampling frame and sample selection is summarized in Table 3. 1.

Table 3. 1: Sampling Frame

Type of MFI	Number	Number sampled
Commercial Banks & SACCOs	5	0
Insurance Companies	3	0
Deposit taking MFIs	7	0
Development Institutions	2	0
Wholesale & Retail MFIs	38	38
Total	**55**	**38**

Source :AMFI (2012)

As result of the small number of MFIs remaining (38), it was possible to collect data from the entire population hence a census inquiry was used. A census is suitable when the universe is small and can be presumed to yield the highest accuracy as no element of chance is left since all items are covered (Kothari, 2004). The approach has been used in past studies with similar sampling frames (Tembo, 2011; Nixon, 2011; Heenetigala, 2011)

In order to test sampling adequacy, the Kaiser-Meyer-Olkin (KMO) which is an index for comparing the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients was used. A large value for KMO would indicate adequacy of relationship warranting factor analysis (Coopers & Schindler, 2006). The KMO statistic ranges from 0 to 1 with 0. 60 considered the minimum to conduct a factor analysis while 0. 70 is deemed most adequate (Amin, 2005) . For this study, all the components had a Kaiser-Meyer-Olkin (KMO) index of about 0. 6 indicating adequacy of the sample (Table 4. 4). The KMO index ranges from 0 to 1 with 0. 6 suggesting a minimum for good factor analysis. All the independent variables constructs were therefore found suitable for further analysis.

3. 6 Data Collection Instruments

Primary data was collected using a questionnaire and an interview schedule that combined information required on the MFI governance and social performance. A questionnaire is a data collection instrument consisting of a series of questions to which all the selected participants are required to respond (Bryman & Bell, 2007; Gay, 2002). A questionnaire was preferred in this study because it allowed for collection of standardized data which was easier to analyze, in addition to enabling access to a bigger group of respondents cost effectively (Zakimund, 2010).

The questionnaire on the independent variables was administered to the CEO of each selected MFI. It   consisted of a of list questions, category questions, ranking questions, a five-level point likert-style rating scale question and quantity questions. The list questions are useful when the researcher needs to be sure that the respondent has considered all possible responses, category questions are useful when collecting data about behavioral attributes, the scale questions are used to collect opinion data and are noted for their ease of completion, while quantity question are used to collect behavior or attribute data (Saunders, Lewis, & Thornhill, 2009; Sekaran, 2009; Zikmund, 2010). Similar past studies (Heentigala, 2011; Hossain & Neng, 2007;   Beasley, 2005) have used a combination of questions types in their questionnaires.

The interview schedule was used to gather information from three respondents per MFI (Operations manager, branch manager and a credit officer). It yielded an institutional social performance score based on the CERISE social performance indicators tool. The tool gives a social performance score based on an MFIøs targeting and outreach, the suitability of it products, how it benefits clients and its social responsibility (Woller, 2006). The SPI tool has been used extensively in social audit and

research and has established reliability and validity. As of May 2010 it had been used on 320 social audits from over 223 institutions in 53 countries worldwide (Bedecarrats, Lapenu, & Tchala, 2010; Tembo, 2011; Thys, Tulchin, & Ohrin, 2007). In the last years, multi-dimensional index based measurements have received greater general acceptance than one dimension measures (Sahin, Basfirinci, & Ozsalih, 2011; Arun & Annim, 2010).

3. 6. 1 Data Collection Procedure

A self administered questionnaire and an interview schedule were used to collect both the qualitative and quantitative primary data. This questionnaire was completed by the respondents themselves (Mugenda & Mugenda, 2003). A self administered questionnaire when hand delivered has the advantage of enabling a quick collection of responses and allows clarification of any doubts on the spot. In addition, the procedure allows the researcher to introduce the research topic and motivate the respondents to offer their frank answers (Sekaran, 2009).

According to Mugenda and Mugenda (2003) an interview schedule is a set of questions that the interviewer asks when interviewing. A structured interview which allows collection of standardized data was used to collect data for the SPI score (Kothari, 2004).Secondary data was obtained through review of the MFIs literature, AMFI literature, libraries, handouts and internet. The annual returns made by MFIs to AMFI had a wide range of data including governance and performance indicators. The secondary data was used for triangulation of data. Triangulation involves asking whether the data from the various sources leads to the same results. It allows for cross verification from more than two sources thus increasing credibility and validity of results (Gay, 2002; Bryman & Bell,

2007). The relevant approval to collect data was sought from the University and from the selected MFIs before the administration of the questionnaire and the interview schedule.

3. 6. 2 Key Areas of Questioning

The key areas of questioning were based on the research objectives. For the first objective on the influence board characteristics on social performance, the questions on governance were used to collect data on the board size, board tenure, the number of board committees, the board remuneration, multiple directorships of board members, board skills and experience and the number of independent directors. For the second objective on the effect of leadership on social performance, the key questions about the CEO were on their duality, their gender, skills and experience. While for the third objective on stakeholdersø involvement, information was sought on how the AGM is held, the nomination of clients, employees and donors as representatives in the board. For the fourth objective on accountability, information was collected on generation of annual reports, implementation of internal audit and the existence of internal and external audit functions.

3. 7 Pilot Test

A pilot test was conducted on a sample of twenty respondents drawn from five MFIs that were not included in the final study sample. The objective of the pilot study was to test the validity, and reliability of the data collection instruments. The results of the test were also used to refine the questionnaire to ensure respondents did not have problems in answering the questionnaire and that there were no problems in recording the responses.

3. 7. 1 Validity Test Results

Validity tests involve ascertaining the accuracy of the instrument by establishing whether the instrument focuses on the information they are intended to collect (Zakimund, 2010). Face validity refers to what the instruments superficially appears to measure, it assesses whether the test "looks valid" to the examinees who take it, the administrative personnel who decide on its use, and other technically untrained observers (Bryman & Bell, 2007). In order to ascertain face validity, the instruments were constructed and passed over to senior researchers for constructive criticism. Thereafter they were revised according to their comments.

Content validity is different from face validity. It refers to what the test actually measures and requires the use of recognized subject matter experts to evaluate whether test items assess defined content (Bryman & Bell, 2007). Content validity was achieved by subjecting the data collection instruments to an evaluation by a group of five microfinance experts who provided their comments on the relevance of each item on the instruments. The experts were required to indicate whether the item was relevant or not. The results of their responses were analyzed to establish the percentage representation using the content validity index. The content Validity formula by Amin (2005) was used in line with other previous studies (Cull, Demirguc-Kunt, & Morduch, 2007; Lefort & Urzua, 2008). The fomula is ;

Content Validity Index = (No. of judges declaring item valid)/(Total No. of items)

From Table 4. 2,the validity of test yeilded an average validity index score of 86%. This implied that the instrument was valid as emphasized by (Amin, 2005).

Table 4. 2: Content Validity Index

Rater	Total items	Valid items	Fraction
1	52	45	0. 86538
2	52	48	0. 92308
3	52	45	0. 86538
4	52	41	0. 78846
Average			**0. 86058**

3. 7. 2 Reliability Test Results

Reliability analysis was used to assess the internal consistency of the questionnaire for purposes of identifying those items in the questionnaire with low correlations in order to exclude them from further analysis. Through a pilot study on 20 respondents in five MFIs, the researcher established the reliability of the instruments. The internal consistency reliability was examined using the Cronbachøs alpha (Bryman & Bell, 2007). In general, a Cronbachøs alpha value of 0. 70 or higher is considered to be an acceptable (Sekaran, 2009). Theoretical and empirical literature however accepts a Cronbachøs alpha of 0. 4 as a minimum. Zheka (2006), Beltratti (2005) and Abdullah (2004) in their study adopt the use of a Cronbachøs alpha of 0. 4 as the minimum level for item loadings.

Reliability analysis for three likert scale constructs of the independent variables yielded a Cronbach alpha statistics of more than 0. 4 implying that the data collection instruments were reliable. In addition, most item correlations were reasonably high (all above 0. 4) hence all the sub-variables were reliably measured. The reliability statistics are shown on Table 4. 3.

Table 4. 3 Reliability Analysis of Variables

Scale	Sub-scale		Correlation item-total	Cronbachs alpha
	a	Experience and skills in microfinance	0. 505	
	b	Financial markets expertise	0. 706	
	c	Legal and regulatory expertise	0. 48	0. 792
Board skills and experience	d	Marketing	0. 547	
	e	Public relations	0. 467	
	f	Fundraising	0. 456	
	g	Philanthropy	0. 526	
	a	Provision of timely information	0. 658	
Statements about the	b	Provision of information on location	0. 502	0. 84
preparedness for AGM	c	Consideration of stakeholder expenses	0. 806	
	d	Provision of time and explanation	0. 786	
	a	Sound internal control systems	0. 436	
Statements on the levels	b	Formal auditor appointment procedure for	0. 413	0. 624
of accountability	c	Professional interaction with auditor	0. 486	

3. 7. 3 Factor Analysis of the Independent Variables

Factor analysis was carried out where components were extracted using principal components analysis. Factor analysis helps to reduce a vast number of variables to meaningful, interpretable, and manageable set of factors (Sekaran, 2009). As a rule of the thumb, factor analysis loadings should be 0. 7 or higher but for exploratory purposes, researchers use a 0. 4 as the minimum acceptable factor loading (Brown, 2006; Amin, 2005). All the likert scale questions were subjected to factor analysis.

Table 4. 4: Factor Analysis of the Independent variables

Scale	Sub-scale		Factor Loading	KMO
	a	Experience and skills in microfinance	0.827	
	b	Financial markets expertise	0.699	
	c	Legal and regulatory expertise	0.677	0.636
Board skills and experience	d	Marketing	0.67	
	e	Public relations	0.638	
	f	Fundraising	0.618	
	g	Philanthropy	0.528	
	a	Provision of timely information	0.889	
Statements about the	b	Provision of information on location	0.887	0.713
preparedness for AGM	c	Consideration of stakeholder expenses	0.775	
	d	Provision of time and explanation	0.551	
	a	Sound internal control systems	0.74	
Statements on the levels	b	Formal auditor appointment procedure	0.734	0.683
of accountability	c	Professional interaction with auditor	0.486	

3. 8 Data Analysis

The data was analyzed on the basis of the two main areas covered, namely governance and social

performance. Data collected was analyzed using both quantitative and qualitative methods. The raw

information was cleaned, edited and coded. Quantitative data was analyzed to yield descriptive and

inferential statistics. The normality of the data was tested using the Shapiro-Wilk statistic and the

Q-Q plots as the sample size is small and in line with previous similar studies (Manderlier, et

al.,2009; Dunn & Sainty, 2009; Bryman & Bell, 2007) Qualitative data after content coding was

organized into key ideas and themes for regression to test the hypothesized relationships. For the

purpose of empirical analysis, this study used descriptive statistics, the Independent samples t-test, and the logistic regression.

Descriptive statistics have been widely used in academic research on governance (Manderlier et al.,2009; Ioannou & Serafeim, 2010; Heenetigala, 2011). The independent samples t-test show the difference in the means of MFIs with a high SPI score and those with a lower one. This type of test is used when both the independent and the dependent variables are measured at ratio or interval scales and are continous (Mugenda & Mugenda, 2003; Amin, 2005) It has been used in previous studies to measure the strength of association between corporate governance and firm performance (Heentigala, 2011; Abdullah, 2004; Tembo, 2011; Uadiale, 2010).

The t-test was used to determine whether there was a differnce in the means of MFIs with a high SPI scoore compared with those with a low SPI score for each indicators and the composite variables. The resultant p values were used to establish whether the differences were significant. The results of the t-test were then graphically displayed.

Logistic regression analysis was used to determine whether the independent variables predicted the dependent variable (Bryman & Bell, 2007). Tembo (2011) and Sahin et al. (2011) are two recent similar studies on governance and performance that used regression analysis. The logistic regression analysis involved the use of the confusion matrix to analyze the effect of the constant and the moderating variables in the equation, as well test the predictive accuracy, sensitivity and specifity of the model. The Omnibus test of model coefficients was used to test the consistency of the model. The positive and negative predictive values for the model were computed using the

formula described in Wuensch (2011) to confirm it predictive accuracy. The odds ratio was used to determine the strength of association between the independent and the dependent variables. The logistic regression analysis was found suitable for use in this study because the independent variable was found unsuitable for parametric analysis on being tested for normality in line with previous studies (Villiers, Naiker, & Staden, 2009; Abdullah, 2004; Zacharias, 2008) .The overall logistic regression model that was utilized to test the relations was:

$$P(Y=1) = \frac{e^{(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6)}}{1 + e^{(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6)}}$$

Where: P(Y=1) – is the probability that an MFI has a high SPI score obtained using the SPI tool

e – the base of natural logarithm

X_1 – the MFI board of directors' characteristics.

X_2 – MFI leadership characterisitcs.

X_3 – Stakeholder involvement.

X_4 – Accountability of the MFI.

X_5 – Size of the MFI.

X_6 – Age of the MFI.

β_0 is the constant (Y- intercept), β_i - are the regression coefficeints of each X_i (i=1,2,3. 6)

The Statistical Package for Social Science Version 19 (SPSS) computer software was used for anlysis as it is robust and is able to carry out numerous statistical procedures and tests (Sekaran, 2009).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4. 1 Introduction

This study was motivated by the desire to analyze the factors that influence the social performance of microfinance Institutions in Kenya. The study employed various statistical tools to determine the various factors. The analysis begun with preliminary tests like tests for validity, reliability, and factor analysis and normality test for the dependent variable. Further analysis used descriptive statistics, independent sample t-tests and the logistic regression. The descriptive statistics were used to quantitatively describe the main features of the data collected. The independent samples t-test was used to compare the means for the variables for MFIs with high social performance and those with low social performance and report on the significance of the difference. A logistic regression model was used to determine whether the independent variables predicted the dependent variable. The chapter summarizes the research findings and discussions of the study.

4. 2 Response rate

The total number of questionnaires distributed was 152. Four questionnaires were administered to each MFI, one for the CEO, the operations manager, a branch manager and a credit officer. A total of 111 questionnaires were returned properly completed (Table4. 1). This represented an overall response rate of 73% (Table 4. 1). According to Bryman and Bell (2007), a response rate of 50% is acceptable to analyze and publish, 60% is good and 70% is very good. The 73% overall response rate achieved for this study was therefore very good.

Table 4. 1: Response Rate

Staff Cadre	Successful	Unsuccessful	Total	% of Successful
CEO	23	15	38	61%
Operations Manager	25	13	38	66%
Branch Managers	31	6	38	82%
Credit officers	32	4	38	84%
Total	**111**	**38**	**152**	**73%**

4. 3 Social Performance

The social performance of the MFIs based on the social performance indicators (SPI) scores were generated using the CERISE tool. The tool gives the SPI score as a percentage. This was used as the measure for social performance of the MFIs. For ease of analysis using the independent samples t-test, the scores were classified into Low SPI score (where it was less than 50%) and high SPI scores (where the score was more than 50%). The analysis results indicated that 64 out of the 111 MFI sampled had a high SPI score (58%) while the remaining 47 had low SPI scores (42%).

Normality Test for Social Performance

A test for normality using the Shapiro-Wilk test with Q-Q plots yielded a skewedness coefficient of -0. 014 and a Kurtosis coefficient of -0. 726. These two coefficients indicated that the Social performance scores obtained were not normally distributed as they were not between -0. 5 and 0. 5 (figure 4. 1). This further implied that the data was not ideal for parametric analysis including linear modeling (Bryman & Bell, 2007; Sekaran, 2009). The data was thus analyzed using a logistic regression model. The analysis is in line with prior studies by Manderlier et al. (2009) and Guarneri et al. (2011) who used logistic regression to establish the effect of governance of MFIs

on their social performance. The basis for using a logistic regression model was the non normality of the dependent variables in the studies.
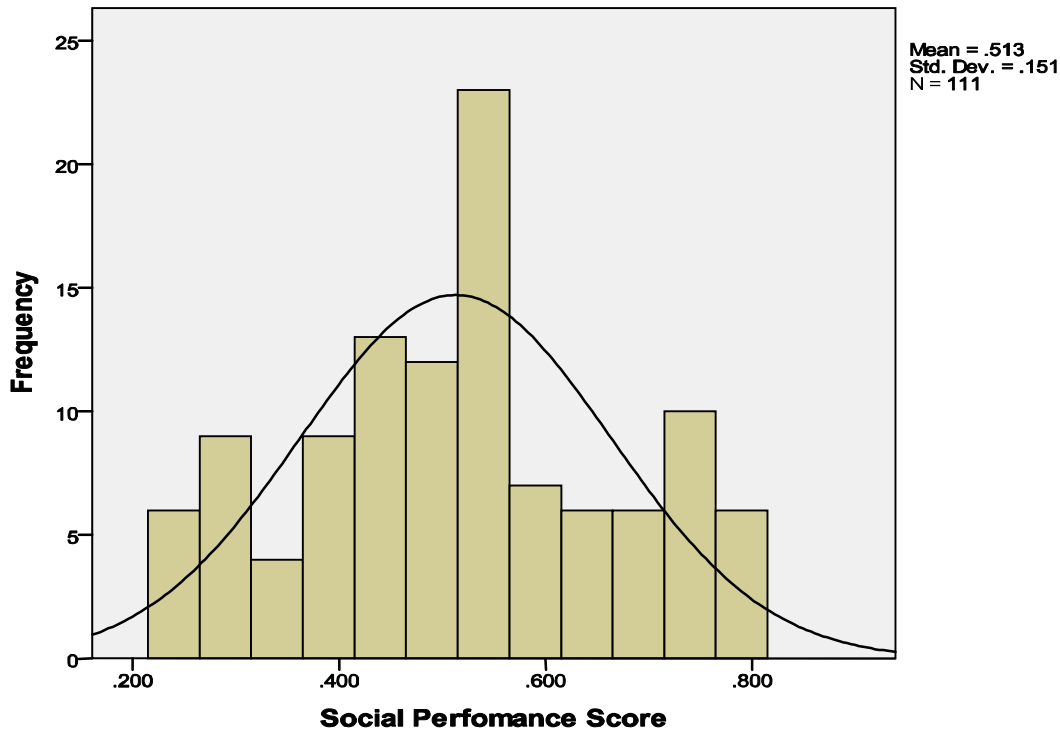
Figure 4. 1: Normality test for the SPI scores

4. 4 The influence of board characteristics on the social performance of an MFI.

The first objective of this study was to evaluate how board characteristics influence a MFIsø social performance. This objective was achieved by computing the descriptive statistics for the indicators of board characteristics namely: the board size, board terms, board committees, directorsø remuneration, multiple directorship, board skills and experience and independence of directors. Independent samples t-tests were carried out on the indicators to show the relationships and a plot for the means to show the direction of the relationship. From the independent sample t-test the

mean values for the indicators of each independent variable for MFIs with a high SPI score and those with a low SPI score was were compared. The tests were carried out for the individual variable indicators and for the composite variables.

4. 4. 1 Board Size

The study included the ascertainment of the size of the board of each the responding MFIs. The descriptive statistics as shown on Table 4. 5 indicate that out of the 111 respondents, 78% had between 7-9 board members, followed by between 10 -15 members at 14% as shown on Table 4. 5. Majority (85%) of the MFIs hence fall in the 5-9 board member category as recommended by various governance guidelines. The board size ranges from 4 to 15. The smallest board consists of between 4 and 6 members.

The study confirmed the findings of Sahin, et al. (2011) ,Heentigala (2011) and Desender (2009) who found that the average board size in MFIs to be between 5 and 9 while it contradicts findings Villiers et al. (2009) who found the average board membership for MFIs to be 10 which is slightly higher. Corporate governance guidelines argue that board of less than 5 members may face adequacy of skills challenges while more than 9 members may be difficult to manage (BBVA Microfinance Foundation, 2011b; BBVAA Microfinance Foundation, 2011a; Cherono, 2008).

The findings imply that MFI boards are relatively small which could be due to their size compared to other corporate entities. There is however possibly no ideal board size. The ideal size is likely to be different for each board. Each board needs to define its optimal capacity at any given time. As communication is affected by the size of a gathering, group dynamics may become a criterion for determining the size of an MFIøs board

Table 4. 5: Board size of the MFI

Board Size	Frequency	Percentage
4-6 members	8. 0	7. 2
7 -9 members	87. 0	78. 4
10 -15 members	16. 0	14. 4
Total	**111**	**100%**

An independent samples t-test was conducted to compare the size of the board for MFIs with high SPI scores and those with low SPI scores. There was a significant difference in the scores for MFIs with high SPI scores (M=3. 14, SD =0. 587) and MFIs those with low SPI scores (M= 2. 58, SD =0. 146); $t_{cal} > t_{rite}$, p <. 05 as shown on Table 4. 6. These results suggest that the size of the board has an effect on the SPI score of an MFI. Specifically, the results suggest that when an MFI has a larger board its SPI score is also higher.

Table 4. 6: Independent sample t-test for board size

Variable	High SPI score		Low SPI Score		t_{cal}	t_{crit}	Sig.
	Mean	Std Dev	Mean	Std. Dev			
Board Size	3. 14	0. 146	2. 58	0. 587	-6. 3896	1. 984	0. 0001

A plot of the means as shown in Fig 4. 2 revealed that boards with a higher mean exhibited a higher level of social performance. This implies that as board size increases, the level of social performance increases. The plot is a further confirmation of the positive relationship between the size of the board and an MFIøs SPI score. The past theoretical and empirical literature had mixed results.

These results are consistent with a study by Manderlier et al. (2009) which found that board size had a positive impact on operational efficiency. The findings however contradict findings by Bermig (2010) and Wu et al. (2009) who found firmsøperformance to be negatively related to the board size. The findings confrim the agency theorist view that favour a larger board size for effective oversight function (Beasley, 2005). The finding are also consistent with the resource dependency theory which views board members as connections to external resource thus advocating for larger boards (Tembo, 011).
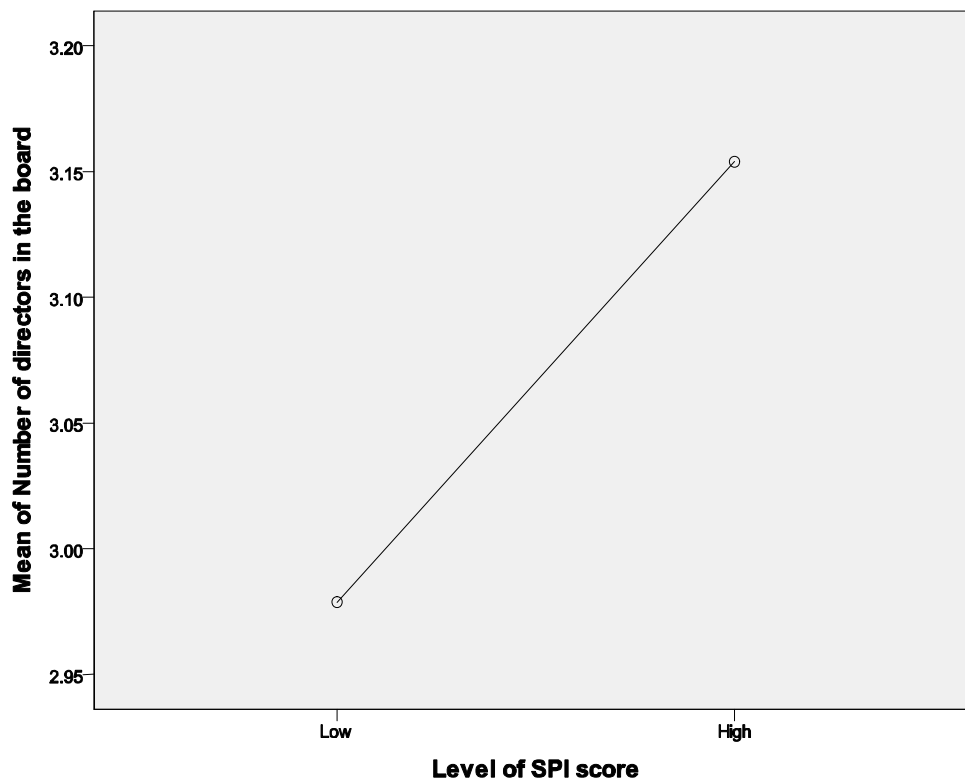
Figure 4. 2: A means plot for the board size against an MFI's SPI score

The results may be interpreted to mean that the board efficacy can be influenced by the board size with larger boards being more effective. Larger boards probably provide enough people to more easily manage the Social performance issues while dividing up the many responsibilities among the

many members. Larger board may also mean that more perspectives are represented including the social interests. Aras and Crowther (2007) however caution that bigger boards may not be able to engage every board member in a meaningful way. This would result in apathy and loss of interest. Meetings may also be difficult to schedule due to the members non availability.

4. 4. 2 Board Terms

With regard to the average terms of the board members, the study revealed that a third of the MFIs 33% did not have term limits for their board members. However a significant number, 29% had board terms of 2-3 years (Table 4. 7). The recommended board term is three years for all the directors except the managing director (CMA, 2002). Over half, 54% of the MFIs sampled do however have between 1-5 years board terms which is in line with the industry practice.

Table 4. 7 Length of board terms

Length of Board Terms	Frequency	Percentage
Maximum 1year	12	11%
2-3 years	32	29%
4-5 years	16	14%
Over 5 years	14	13%
No term limits	37	33%
Total	**111**	**100%**

An independent samples t-test was conducted to compare the board tenures for MFIs with high SPI scores and those with low SPI scores. The analysis revealed that there was no significant difference in the board tenures for MFIs with a higher SPI score (M=3. 45,SD =1. 447) and those with low SPI scores (M = 3. 06, S= 1. 451); $t_{cal} < t_{crit}$, p >. 05, as shown in Table 4. 8 . These results suggested that the board tenure does not influence the social performce of an MFI. The results

implied that there was no significant change in the social performance score with change in the board tenure.

Table 4. 8: Independent sample t-test for board tenure

| Variable | High SPI score | | Low SPI Score | | t cal | Tcrit | Sig. |
	Mean	Std. Dev	Mean	Std. Dev			
Board tenure	3. 45	1. 447	3. 06	1. 451	-1. 4014	1. 984	0. 1639

A plot of the means of the length of board terms however revealed boards with higher avarage board terms have better social performance scores (Fig 4. 3). Though the study reveals a positive relationship between the length of the board terms and the social performance of an MFI, the effect is insignificant. Prior studies have yielded mixed results on the effect of the board tenure on a MFIs performance. The current study findings confirm those of Zheka (2006) who found that extended board tenure would enhance efforts toward company goals thus improving performance and those of Beasley (2005) and Yang and Krishna (2005) who found a positive relationship between increased director tenure and financial reporting quality.
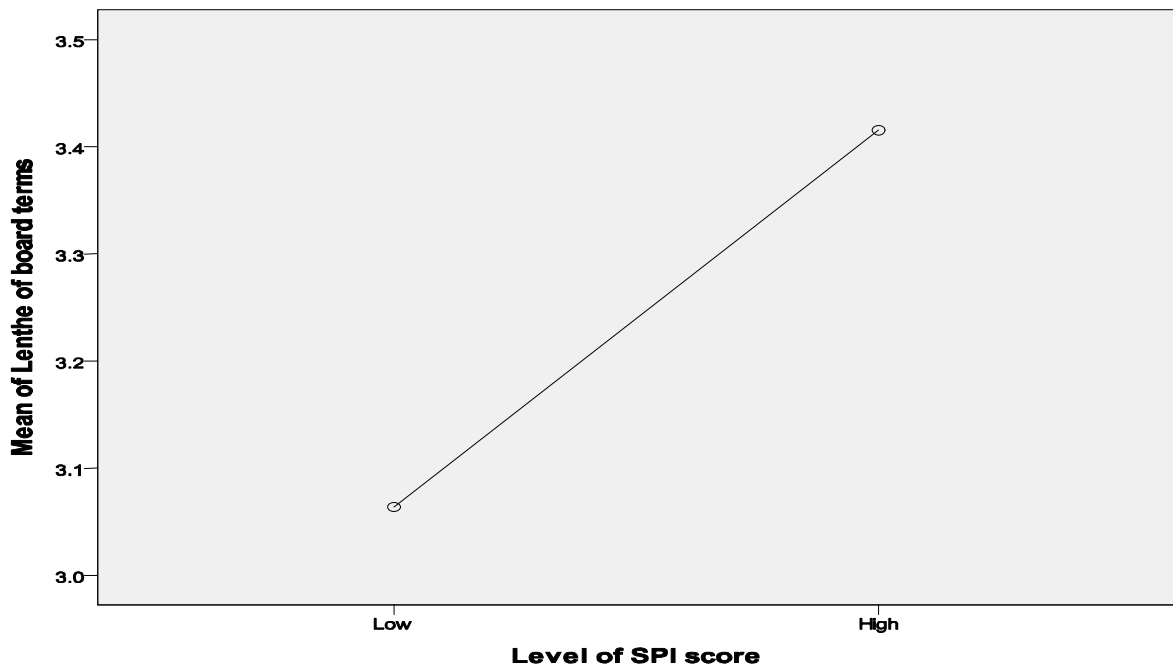
Figure 4. 3: A means plot for the length of board terms (tenure)

The extended board tenure could be interpreted to be sign of director commitment, experience, and competence hence yielding a better social performance for the MFI. The results may also mean that longer board terms enable the board members to gain a thorough understanding of the mission and vision of the MFI. They remain as the organization vision careers as the management changes over-time especially for organizations with a high staff turnover.

4. 4. 3 Board Committees

The study required a response on the number of board committees established by the sampled MFIs. The response for each MFI board analyzed as shown in Table 4. 9. Majority of the MFIs (73 %) had established between 2 and 3 board committees with the highest number (42%) having two

committees. The results indicate that only 12 MFIs out of the sample 111 had four committees making up only 11%.

Prior studies (Heentigala, 2011; Roche, 2005; Lefort & Urzua, 2008) have yielded an average of three committees per MFI. This is slightly higher than the average number of board committees established by MFIs boards in Kenya. This could be due to the fact that the studies are based on MFIs in India, Bangladesh and Pakistan where the MFI industry is bigger than it is in Kenya. Though the prerogative of the number of committees formed is on the hands of the board, good governance practice recommend the formation of at least three committees to allow boards make more effective use of their time (CMA, 2002; Cadbury, 1992; Cherono, 2008).

From the foregoing discussion, most of the MFIs in Kenya have less than the recommended minimum number of board committees. The small size of the MFIs boards may be the cause of the low   number of board committees formed. Board committees help it in carrying out its duties. In particular, they work on key issues in greater detail than would be possible at full Board meetings. Each committee reports proceedings and deliberation of their meetings the full board for further discussion and approval. Few board committees may mean that critical issues receive less attention.

Table 4. 9: Number of Board committees

No. of board committees	Frequency	Percentage
1	20	18%
2	47	42%
3	32	29%
4	12	11%
Total	**111**	**100%**

An analysis of the means of the number of board committees established by MFIs with high and low social performance was conducted. The independent samples t-test revealed no significant difference in the numbers of committees scores for MFI with high SPI scores (M= 2. 75, SD=0. 667) and those with low SPI scores (M=1. 74, SD = 0. 846); $t_{cal} < t_{crit}$, p >. 05 as reported on Table 4. 10. The results suggest that the number of committee established by an MFIøs board does have an effect on its SPI score. This implies that an increase in the number of committees established by an MFI will lead to a significant increase in its social performance score.

Table 4. 10: Independent sample t-test for number of committees

| Variable | High SPI score | | Low SPI Score | | t cal | t crit | Sig. |
	Mean	Std. Dev	Mean	Std. Dev			
No. of Committees	2. 75	0. 667	1. 74	0. 846	-7. 0311	1. 984	0. 1639

To establish the direction of the relations, a plot of the means was illustrated graphically as indicated in Figure 4. 4. The means plot showed that the number of committees was positively related to the social performance scores. The results therefore provide evidence that as the number of commitees increases,so does the social performance score for an MFI. The results confirm the positive relationship between the SPI score and the numebr of board committees as predicted from the theoretical and empirical literature review.

The findings confirm those of earlier studies which found that presence of board committees had a postive effect on firm perfomance and especially financial performance as most decisions were derived from board committees (Heenetigala, 2011; Roche, 2005; Lefort & Urzua, 2008). Ayuso

and Argandona (2007) found that the existance of committes composed of stakeholders was strategically important for intergrating stakeholdersø interest. The findings further support the resource dependence theory which views committees as sources of additional resources and thus advocates for more committees to improve performance.
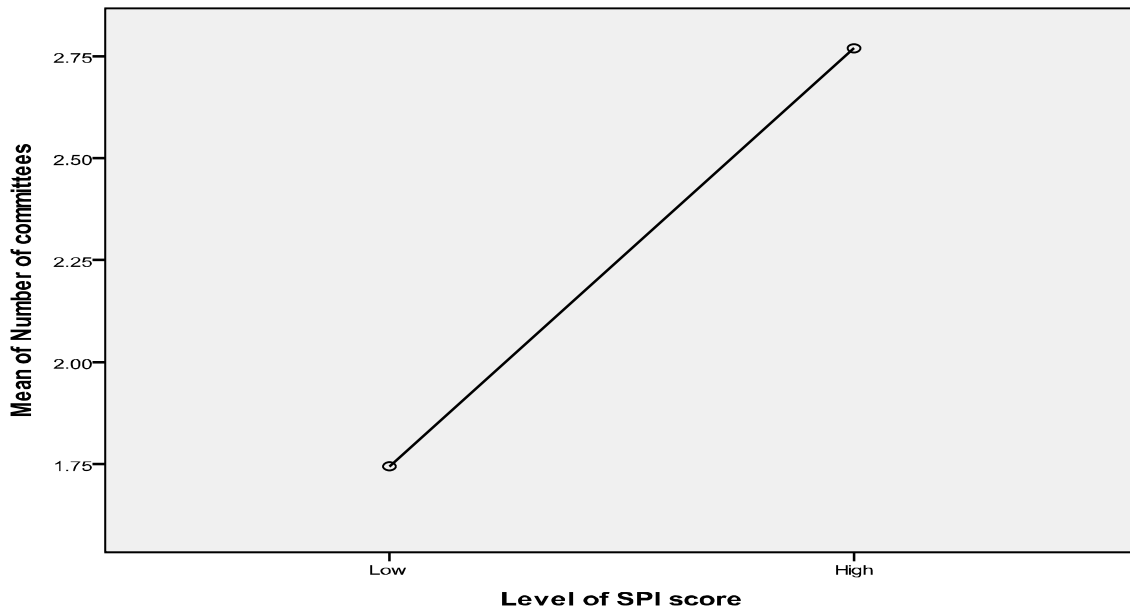
Figure 4. 4 A means plot for number of board committees.

The responsibility of the board committees is to help the board carry out its duties. The improvement of the SPI score with increase in the number of committees could be attributed to the more detailed greater consideration given to the social performance issues as a result of related delegation of responsibilities to the board committees. This is evidenced by a higher SPI score for MFIs that have social performance committees.

4. 4. 4 Directors' Remuneration

Analysis of the directorsø remuneration levels in Table 4. 11 indicate that 78% of the MFIs paid between 1-2 million as directorsø compensation in the last financial year. When the respondents

were asked whether in their opinion the director remuneration was competitive compared to other directors in competing sectors, 26% agreed that it was competitive while 30% were neutral and the remaining 23% disagreed (Table 4. 12).

The empirical results support the suggestion by BBVA Microfinance Foundation (2011b) and CMA (2002) that directors should be well remunerated so that they increase their level of commitment to the affairs of the MFI. MFIs operating as NGOs may however be an exception as most of their directors are volunteers who are reimbursed for travel and other related expenses incurred while carrying out their duties (Hattel, Henriquez, Morgan, & D'Onofrio, 2010).

The result however deviates from the expectation that MFIs which are mainly NGOs have board members who offer their services on a voluntary basis. This could be one of the reasons for the shift of focus by MFIs from their social mission to the financial sustainability. The fact that board terms are long thus reducing board members turnover could also be interpreted to mean that the remuneration is sufficient to attract and retain directors to run the MFI.

Table 4. 11:   Level of Director Remuneration.

Directors Compensation (Kshs)	Frequency	Percentage
1 -2 M	87	78%
3 -4 M	16	14%
4 -5 M	4	4%
5 -6 M	4	4%
Total	**111**	**100%**

Table 4. 12: Competitiveness of the Directors' Remuneration

Directors Compensation competitiveness	Frequency	Percentage
Strongly Disagree	8	7%
Disagree	25	23%
Neutral	33	30%
Agree	29	26%
Strongly Agree	16	14%
Total	**111**	**100%**

An independent samples t-test was conducted to compare the amount paid as director's compensation for MFIs with high SPI scores and those with low SPI scores. There was no significant difference in the scores for MFIs with high SPI scores (M=1. 31, SD =0. 588) and MFIs those with low SPI scores (M= 1. 34, SD =0. 867); $t_{cal} < t_{crit}$, p >. 05 as shown on Table 4. 13. These results suggest that the amount paid as directors' remuneration by MFIs has no effect it's the SPI score of an MFI. This means that on average, SPI scores for MFIs which pay higher amounts of director remuneration is not higher than for those that pay less.

Table 4. 13: Independent sample t-test for amount of director remuneration.

Variable	High SPI score		Low SPI Score		t_{cal}	T_{crit}	Sig.
	Mean	**Std. Dev**	**Mean**	**Std. Dev**			
Director Renum.	2. 75	0. 667	1. 74	0. 846	0. 2171	1. 984	0. 8285

A plot of the means of the amounts paid as directors' remuneration against the SPI score show a negative relationship between the two (Figure 4. 5). This means as the amount of remuneration increase, the SPI score decreases though the relationship is not significant.

The result thus contradicts earlier finding by Ioannou & Serafeim (2010) who in their study conclude that the remuneration levels of directors determines an organizations capacity to retain board members with the necessary skills. The finding also contradict the resource based theory which advocates for competitive renumeration packages for directors who are viewed as an important resource in order to attract and retain the best (Jacobs, Mbeba, & Harrington, 2007).
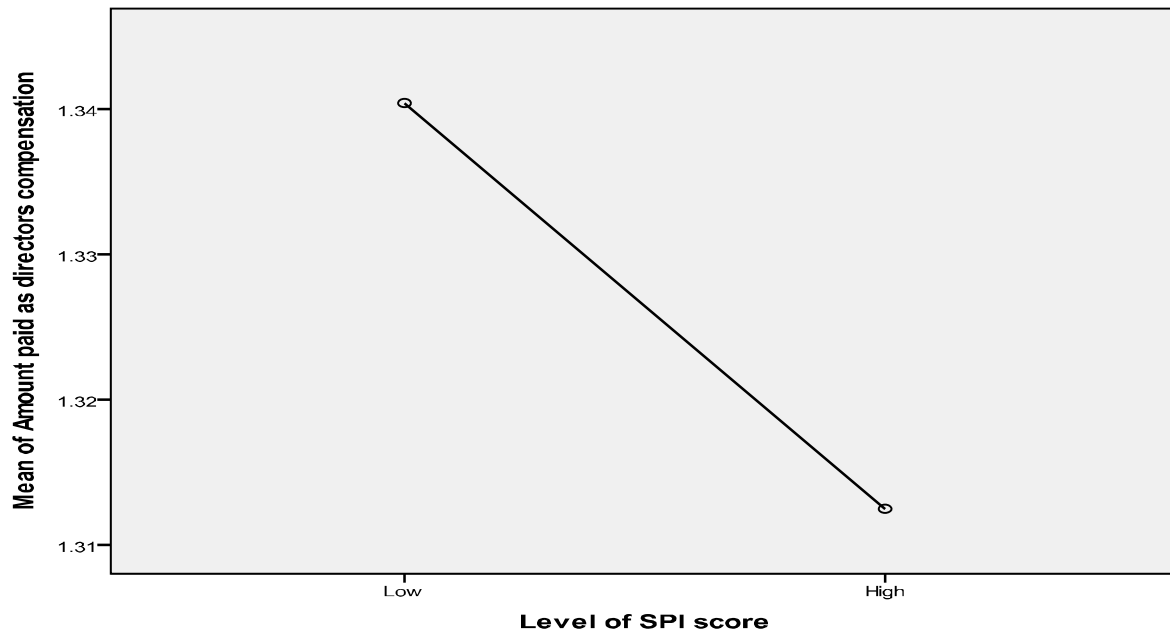
Figure 4. 5 A means plot for directors' remuneration

The findings imply that director remuneration though negatively related to the SPI score of an MFI is not significant. This may be due to the reason that directors who are attracted by the higher remuneration offered by MFIs may not focus on its social mission. The non significance of the relationship however, may mean that the level of remuneration does not really matter for the directors of MFIs.

4. 4. 5 Multiple Directorships

Almost half of the MFIs, 42% had their board members holding an average of 3 directorship positions in other organizations as shown in Table 4. 14. The highest number of multiple directorship positions held was 4 while the lowest was zero. Only 7% of the sampled MFIs had directors holding 4 multiple directorship positions. Majority (93%) of the MFIs had their directors holding between 0 and 3 directorship positions in other organizations.

Hattel et al. (2010) and Heentigala (2011) from their studies conclude that expereince in serving on other boards is an advantage in building a strong board. Multiple directorship should therefore be encouraged. The corporate governance principles limit the number of multiple directorship positions held by a board memebr to five (BBVA Microfinance Foundation, 2011b; CMA, 2002; Council of Microfinance Equity Funds, 2005). The MFIs sampled are therefore in compliance with this requirement.

Table 4. 14: Average multiple directorships

Average Multiple Directorship	Frequency	Percentage
0	20	18%
1	7	6%
2	30	27%
3	46	42%
4	8	7%
Total	**111**	**100%**

Comparison of the mean difference in the average number of multiple directorship for MFI with high SPI scores (M= 2. 45, SD=1. 126) and those Low SPI scores (M=1. 72, SD =1. 214) revealed that the two were different and that the difference was significant ($t_{cal} > t_{crit}$, p<0. 05) as shown in

Table 4. 15. This means that on average MFIs with a high SPI score have more of their directors serving in other boards compared to firms with a low SPI scores. This further implies that the number of multiple directorships held by the members of the board of an MFI has significant influence on its SPI score. The results confirm the positive relationship between multiple directorships and the SPI score as predicted in the theoretical and empirical literature reviewed (Ali & Wise, 2009; Aras & Crowther, 2007).

Table 4. 15: Independent sample t-test for multiple directorship

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Multiple Directorship	2. 45	1. 126	1. 7	1. 214	-3. 3543	1. 984	0. 0011

A plot of the means as shown in Fig 4. 6, revealed that the there is a positive relationship between the means. This implies that as the number of directorship positions held by MFIs board members in other organizations increases, the level of social performance increases.

These results are consistent with findings of studies by Krishnan (2005), Mori & Munisi (2009) and Arun & Annim (2010) who found a positve relationship between firm performance and the number of multile directroship positions held by directors. The findings confrim the argument of the resource dependency theory and the reputation hypothesis which postulate that multiple directorship creates reputational capital for the directors enabling them to offer a more effective oversight function (Beasley, 2005). The findings however contradict the business hypothesis which suggests that directors who increasingly hold more responsibilities in other firms become too busy to adequately monitor firm management performance (Manderlier et al.,2009).

The results suggest that directors who hold multiple directorship positions are associated with a higher SPI score probably due to the experience gained in sitting in the other boards. The findings render support for the need to appoint board members who can share experiences from other directorship positions held in other organisations. There should however be a limit to the number of multiple directorhip positions held by each director to ensure that they have enough time dedicated to the MFI.
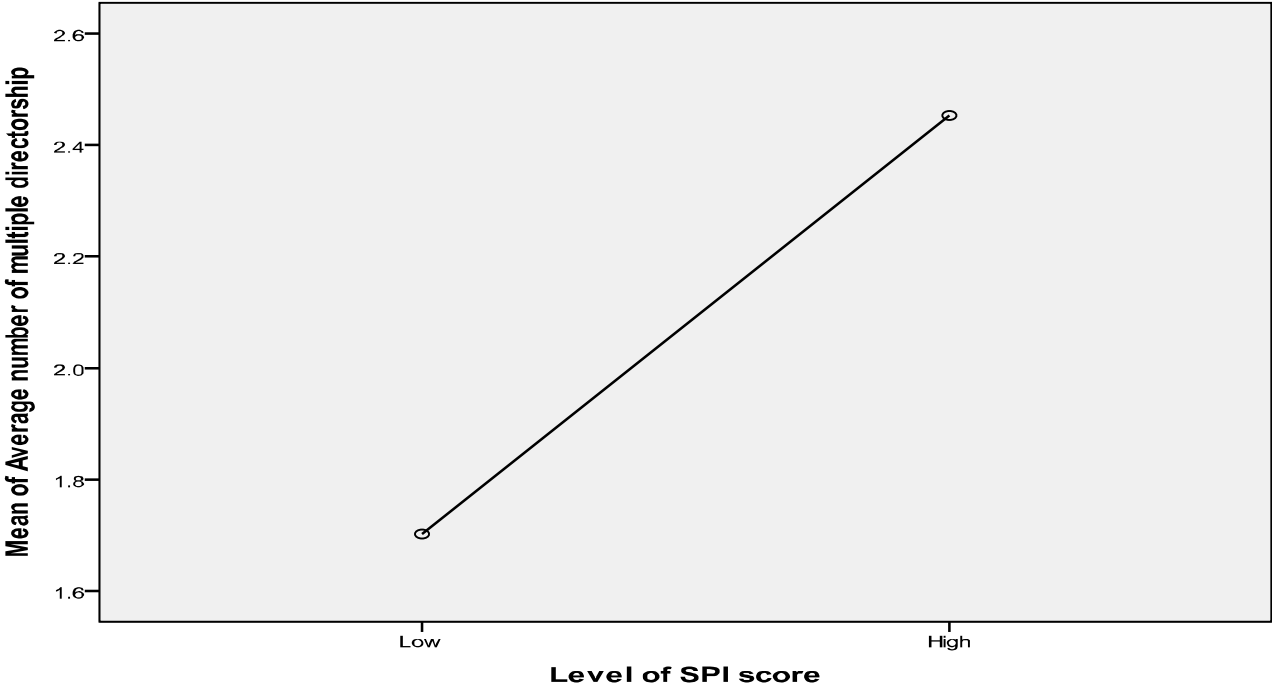
Figure 4. 6: A means plot for the average number of multiple directorship

4. 4. 6 Board Skills and Experience

Respondents were asked how they rated the skills and experience of their board members. Results in Table 4. 16 indicate that majority ,(76%) felt their board members had at least adequate experience and skills in microfinance, slightly over half (68%) felt they had at least adequate experience in financial markets expertise while less than half,(48%) felt their board had adequate

legal and regulatory expertise. A majority of the respondents rated their boards as having adequate and very adequate skills in Marketing, public relations, fundraising and philanthropy as shown by scores of 70%, 89%, 73% and 68% respectively (Table 4. 16). Good corporate governance principles advocate that boards should collectively posses the necessary knowledge, skills and experience to address the strategic demands of the organization (Aras & Crowther, 2007; Manderlier, Bacq, Giacomin, & Janssen, 2009). The results indicate that all the boards have almost an average mixture of the required skills with the least score being in the legal and regulatory expertise. Overall, majority (71%) of the respondents felt that their boards had very adequate experience and adequate skills.

Table 4. 16: Board skills and experience

Board Attribute	Very Adequate	Adequate	Not relevant	Inadequate	Very inadequate	Total
Experience and skills in MFI	17%	69%	6%	4%	4%	100%
Financial Markets expertise	17%	51%	21%	8%	3%	100%
Legal and regulatory expertise	19%	29%	21%	25%	6%	100%
Marketing	20%	50%	14%	6%	10%	100%
Public relations	21%	67%	5%	3%	4%	100%
Fundraising	12%	50%	17%	8%	13%	100%
Philanthropy	17%	50%	22%	8%	3%	100%
Average	**18%**	**53%**	**15%**	**9%**	**5%**	**100%**

4. 4. 6. 1 Board Skills and experience in Microfinance

An analysis of the difference of the mean of members of the board who had experience and skills in microfinance for MFI with high SPI scores (M =3. 29, SD=0. 822) and those with low SPI scores (M= 3. 94, SD= 0. 870) revealed that the two were not significantly different ($t_{cal} < t_{crit}$, p> 0. 05) as

shown in Table 4. 17. This means that though on average MFIs with a high SPI score have a smaller number of board members with experience and skills in microfinance compared to firms with a low SPI scores, there are not significantly different. Specifically, the results suggest that a higher number of directors with skills and experience in microfinance in an MFIøs board will not improve its social performance.

Table 4. 17: Independent sample t-test for board experience and skills in microfinance

	High SPI score		Low SPI Score				
Variable	Mean	Std. Dev	Mean	Std. Dev	t $_{cal}$	t$_{crit}$	Sig.
Skills in MFI	3. 29	0. 822	3. 94	0. 87	0. 088	1. 984	0. 93

A plot of the means as shown in Fig 4. 7, further confirms that there is a negative relationship between the means. This implies that as the number of board members with experience and skills in microfinance increases, the level of social performance decreases. These results contradict arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The findings also negate the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.

Figure 4. 7: A means plot for directors' experience and skills in MFIs

4. 4. 6. 2 Financial markets expertise

The analysis of the difference of the means of members of the board who had financial markets expertise for MFIs with high SPI scores (M =3. 47, SD= 1. 221) and those with low SPI scores (M =3. 51, SD = 1. 14) revealed though the two were slightly different, the difference was not statistically significant ($t_{cal} < t_{crit}$, p> 0. 05) as shown in Table 4. 18. This means that on average MFIs with a high SPI score have a smaller number of board members with financial markets expertise as compared to firms with a low SPI scores. Their effect is however not significant.

Table 4. 18: Independent sample t-test for director's financial markets expertise

	High SPI score		Low SPI Score				
Variable	Mean	Std. Dev	Mean	Std. Dev	t cal	t crit	Sig.
Financial Markets	3. 47	1. 221	3. 51	1. 14	0. 711	1. 984	0. 855

A plot of the means as shown in Fig 4. 8, further confirms that there is a negative relationship between the means. This implies that as the number of board members with financial markets expertise increases the level of social performance decreases. These results contradict arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The findings also negate the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.

Figure 4. 8: A means plot for directors' financial markets expertise.

4. 4. 6. 3 Legal and regulatory expertise.

An analysis of the difference of the mean of members of the board who had legal and regulatory expertise for MFIs with high SPI scores (M= 3. 00, SD =1. 098,) and those with low SPI scores (M= 3. 68, SD = 1. 27) revealed that the two were significantly different ($t_{cal} > t_{crit}$, p< 0. 05) as

shown in Table 4. 19. This means that on average MFIs with a high SPI score have a smaller number of board members with legal and regulatory expertise as compared to firms with a low SPI scores. The effect is significant.

Table 4. 19: Independent sample t-test for directors' legal and regulatory expertise.

	High SPI score		Low SPI Score				
Variable	**Mean**	**Std. Dev**	**Mean**	**Std. Dev**	**t cal**	**tcrit**	**Sig.**
Legal & Regulatory	3. 00	1. 098	3. 68	1. 27	3. 019	1. 984	0. 003

A plot of the means as shown in Fig 4. 9, further confirms that there is a negative relationship between the means. This implies that as the number of board members with legal and regulatory expertise increases, the level of social performance decreases. These results contradict arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The findings also negate the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.

Figure 4. 9: A means plot for directors' financial markets expertise

4. 4. 6. 4 Experience and skills in marketing

An analysis of the difference of the mean of members of the board who had experience and skills in marketing for MFI with high SPI scores (M=3. 66, SD=1. 057) and those with low SPI scores (M=3. 68, SD=1. 253) revealed that the two were different but the difference was not significant ($t_{cal} < t_{crit}$, p> 0. 05) as shown in Table 4. 20. This means that on average MFIs with a high SPI score have a smaller number of board members with experience and skills in marketing as compared to firms with a low SPI scores. The effect of experience and skills in marketing on the SPI score of an MFI was however not significant.

Table 4. 20: Independent sample t-test for experience and skills in marketing

Variable	High SPI score		Low SPI Score		t_{cal}	t_{crit}	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Marketing	3. 66	1. 057	3. 68	1. 253	0. 112	1. 984	0. 911

A plot of the means as shown in Fig 4. 10, further confirms that there is a negative relationship between the means. This implies that as the number of board members with experience and skills in marketing increases, the level of social performance decreases. These results contradict arguments by Hattel et al.(2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The finding also negates the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.

Figure 4. 10: A means plot for directors' experience and skills in marketing

4. 4. 6. 5 Experience and skills in public relations

An analysis of the difference of the mean of members of the board who had experience and skills in public relations for MFI with high SPI scores (M=3. 92, SD =0. 878) and those with low SPI scores

(M=4. 09, SD =0. 775) revealed that the two were not significantly different ($t_{cal} < t_{crit}$, p> 0. 05) as shown in Table 4. 21. This means that on average, MFIs with a high SPI score have a smaller number of board members with experience and skills in public relations compared to firms with a low SPI scores. The effect of these skills does not significantly affect the MFIsøSPI score.

Table 4. 21: Independent sample t-test for the board's experience and skills in public relations

Variable	High SPI score		Low SPI Score		t_{cal}	t_{crit}	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Public Relations	3. 92	0. 878	4. 09	0. 775	1. 016	1. 984	0. 312

A plot of the means as shown in Fig 4. 11, further confirms that there is a negative relationship between the means. This implies that as the number of board members with experience and skills in public relations increases, the level of social performance decreases. These results contradict arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The findings also negate the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.
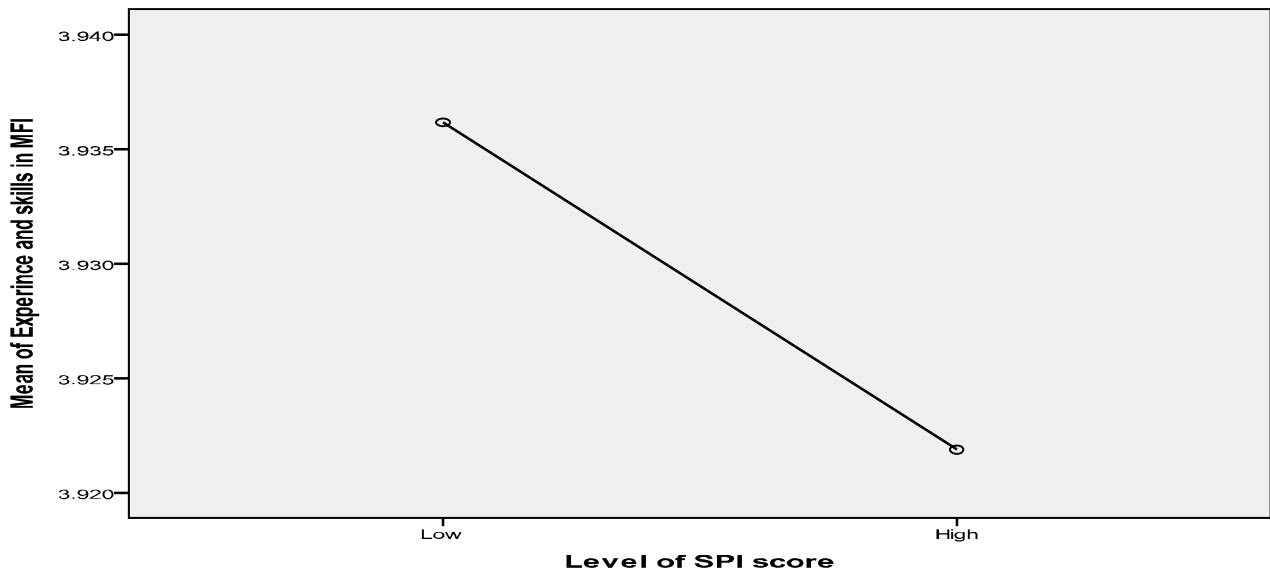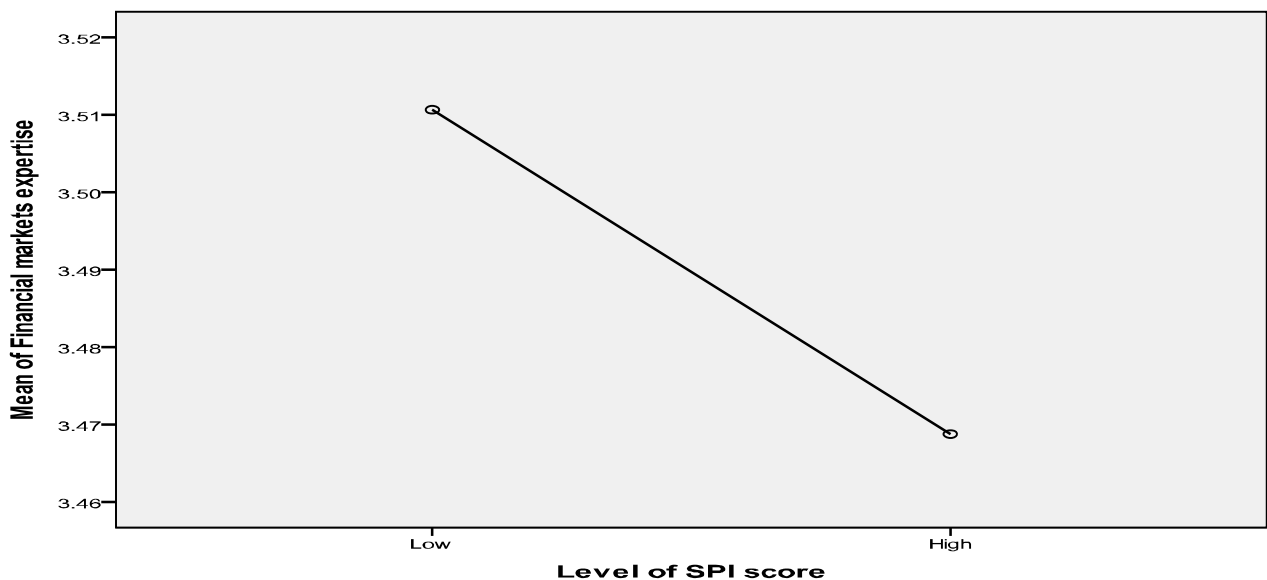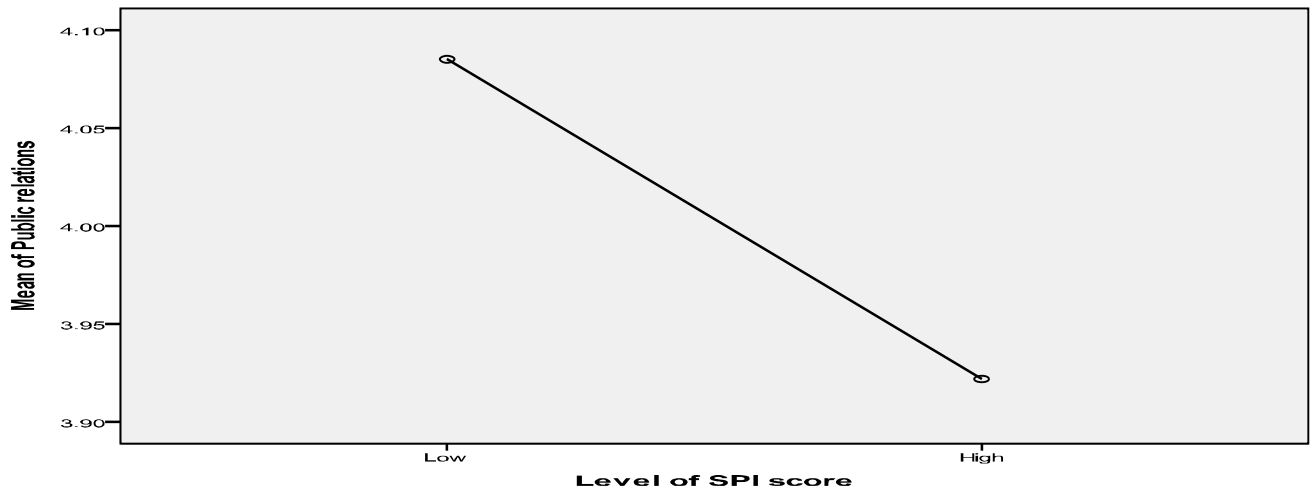
Figure 4. 11: A means plot for directors' experience and skills in public relations

4. 4. 6. 6 Experience and skills in fundraising

An independent samples t-test was conducted to compare the number of board members with fundraising skills for MFIs with high SPI scores and those with low SPI scores. The analysis revealed that there was no significant differnce in the board members with experience and skills in fundraising for MFIs with a higher SPI score (M=3. 44,SD =1. 207) and those with low SPI scores (M = 3. 36, S= 1. 169); $t_{cal} < t_{crit}$, p >. 05, as shown in Table 4. 23 . These results suggested that the number of board members with fundraising skills does not influence the social performance of an MFI. The results imply that there is no significant change in the social performance score with change in the number of board members with fundraising skills.

Table 4. 22: Independent sample t-test for fundraising skills

| Variable | High SPI score | | Low SPI Score | | | | |
	Mean	Std. Dev	Mean	Std. Dev	t cal	t_{crit}	Sig.
Fund raising	3. 44	1. 207	3. 36	1. 169	-0. 331	1. 984	0. 741

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A plot of the means as shown in Fig 4. 13, further confirms a positive relationship between the means. This implies that as the number of board members with experience and skills in fundraising increases, the level of social performance decreases. These results contradict arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al. (2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The finding offers no support the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.
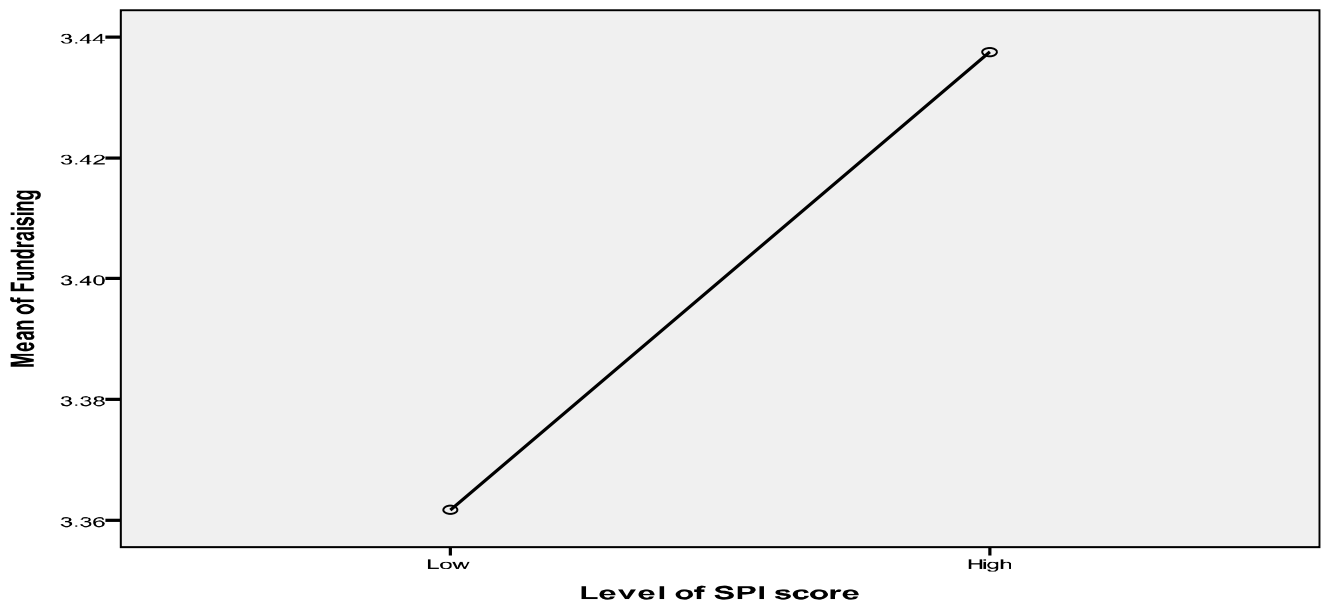
Figure 4. 12: A means plot for directors' experience and skills in fundraising

4. 4. 6. 7 Experience and skills in Philanthropy

An analysis of the difference of the mean of members of the board who had experience and skills in philanthropy for MFIs with high SPI scores (M=3. 91, SD =0. 921) and those with low SPI scores

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(M =3. 45, SD = 0. 904) revealed that the two were statistically different (t_{cal} > t_{crit}, p< 0. 05) as shown in Table 4. 23. The effect of board members with experience and skills in philanthropy on the MFIøs SPI score is significant. This means that on average MFIs with a high SPI score have a higher number of board members with experience and skills in philanthropy compared to firms with a low SPI scores.

Table 4. 23: Independent sample t-test for boards' experience and skills in philanthropy

| Variable | High SPI score | | Low SPI Score | | t_{cal} | t_{crit} | Sig. |
	Mean	Std. Dev	Mean	Std. Dev			
Philanthropy	3. 91	0. 921	3. 45	0. 904	-2. 617	1. 984	0. 01

A plot of the means as shown in Fig 4. 13, further confirms a positive relationship between the means. This implies that as the number of board members with experience and skills in philanthropy increases, the level of social performance increases. These results confirm arguments by Hattel et al. (2010), Cherono (2008), Jacobs et al.(2007) and Manderlier et al. (2009) that the board through its members should collectively posses the necessary knowledge, experience and skills to address strategic demands facing the MFI. The findings also support the resource dependency theory which posits that effective boards consist of directors with a wide range of skills in the sector.
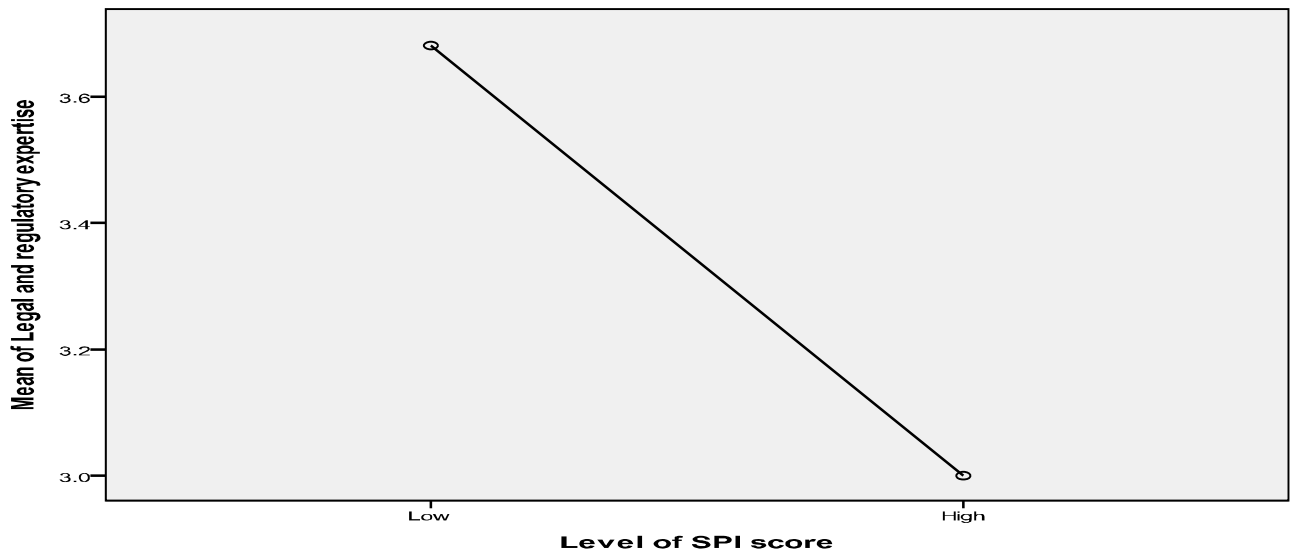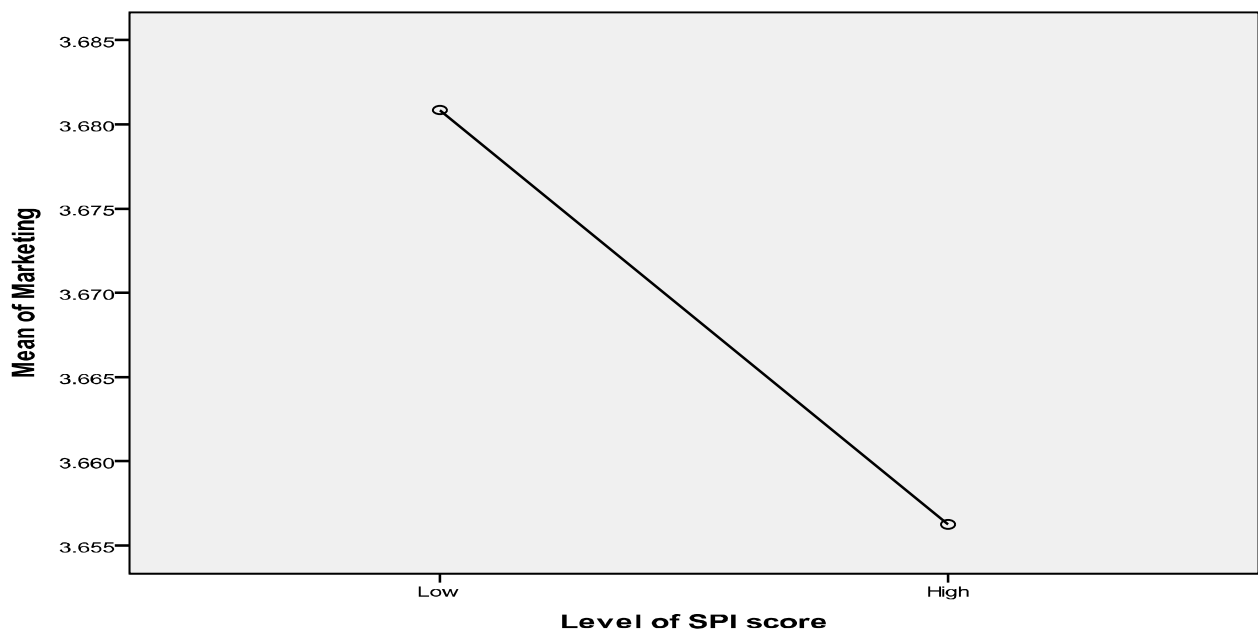
Figure 4. 13: A means plot for directors' experience and skills in philanthropy

The results for the independent samples t-test and a plot of the means failed to show significant difference in the SPI score for boards with skills in Microfinance, financial markets, marketing, public relations and fundraising. On the other hand boards with skills in philanthropy displayed a significantly higher SPI score. Legal and regulatory expertise was however found to be negatively related to a MFIs SPI score. The findings suggest that board members experience in philanthropy may be important for an MFI¢s ability to manage social performance. Legal and regulatory expertise may however be a hindrance to successful implementation of the social performance principles perhaps because they are still being developed. The findings however reflect the fact that majority of the analyzed skills and expertise are not a pre-requisite in board members recruitment probably because the Social performance field is still new.

4. 4. 7 Independence of Directors

The study included the identification of the number of dependent and independent directors in a MFIs board. The maximum number of dependent and independent directors were 4 and 14 while the minimum number of were 0 and 3 respectively (Table 4. 24). On average the sampled MFIs had 1 dependent director and 8 independent directors. The results indicate that most of the board members appointed in the sampled MFIs were independent.

The findings are in line with the best governance practice which advocate for inclusion of at least one third of independent directors for improvement of governance (BBVAA Microfinance Foundation, 2011a; CMA, 2002; Cadbury, 1992). The findings confirm those of past studies by Hossain & Neng (2007) Abdullah (2004) and Ayuso & Argandona (2007) who found that majority of the MFIs board members were independent. The results of this study suggest there may be a preference for recruitment of independent directors as directors of MFIs possibly because they are expected to act as better monitors and advisors. The independent directors may also have wider exposure and experience thus making them a resource to the board.

Table 4. 24:   Number of dependent and Independent director in boards.

Variable	Minimum	Maximum	Median	Mean
No. of Dependent Directors	0	4	1	1
No. of Independent Directors	3	14	8	8

A comparison of the difference in the average number of independent directors for MFI with high SPI scores (M= 8. 36, SD =3. 154) and those Low SPI scores (M=7. 23, SD =2. 556) revealed that the two were different and that the difference was significant ($t_{cal} > t_{crit}$, p< 0. 05) as shown in Table

4. 25. This means that on average MFIs with a high SPI score have more of their directors being independent compared to firms with a low SPI scores. This further implies that the number of independent directors in the board of an MFI has significant influence on the SPI score of an MFI.

Table 4. 25: Independent sample t-test for number of independence of directors

| | High SPI score | | Low SPI Score | | | | |
Variable	Mean	Std. Dev	Mean	Std. Dev	t cal	tcrit	Sig.
No. of Independent Directors	8. 36	3. 154	7. 23	2. 556	-2. 009	1. 984	0. 047

Further analysis by plotting the means as shown in Fig 4. 14 confirmed there was a positive relationship between the means. This implies that as the number of independent directors in the board increases, the level of social performance increases. These results are consistent with those of studies by Webb (2005) and Bermig (2010) who find significant positive relationship between the number of independent directors and social responsibility and general firm performance.

 The findings contradict the stewardship theory which advocates for a larger proportion of dependent directors on the board arguing that a significant proportion of dependent directors understand the business better. The results are however in support of the agency and resource dependency theories which agrue that a large number of independent board members may contribute better to decisions,enhance the firms image and therefore improve the organisations perfomance (Sahin, Basfirinci, & Ozsalih, 2011; Dunn & Sainty, 2009).
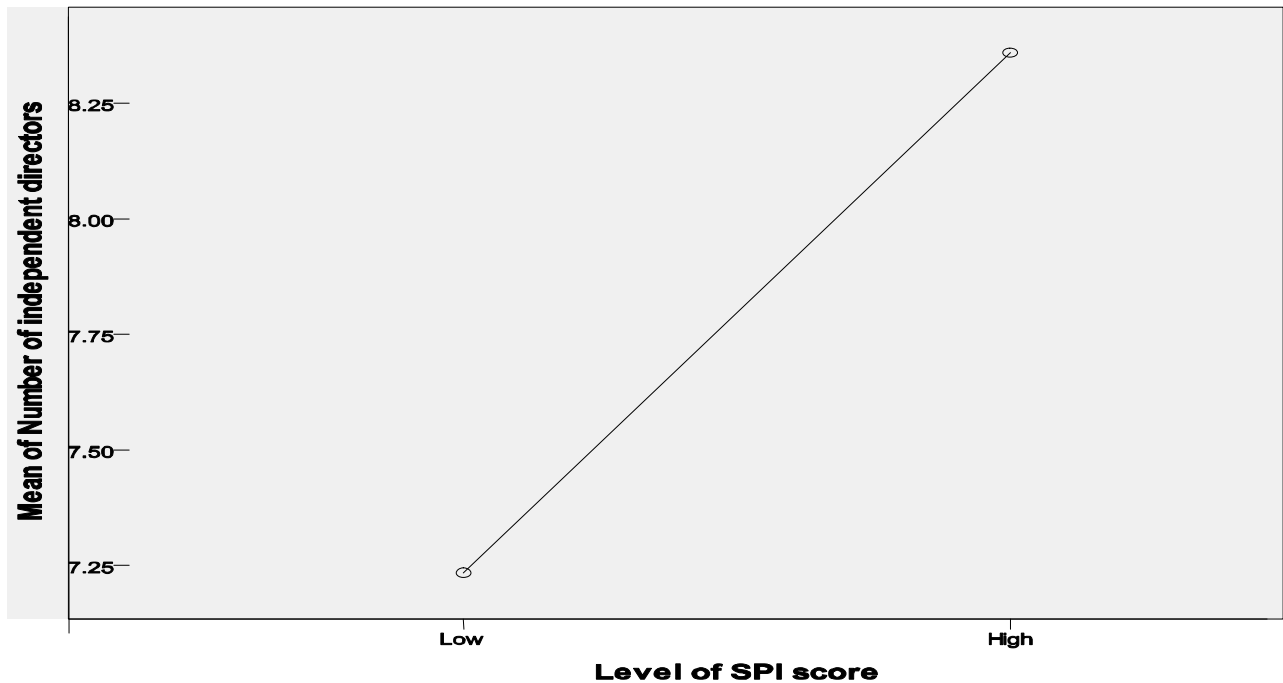
Figure 4. 14: A means plot for the number of independent directors in the board

The results suggest that the independent directors are better monitors and advisors in relation to social performance issues. This could be explained by the fact that the independent directors have greater exposure and experience gathered from their other commitments and interactions compared to their dependent colleagues. The independent directors thus can be said to enhance the board's supervisory role leading to better quality of social performance management and the overall attainment of a MFIs social mission.

4. 4. 8 Board Characteristics

An overall board characteristic composite score was obtained by weighting each of the indicators discussed above (board size, board terms, board committees, director remuneration, multiple

directorship, board skills and experience and independence of directors). The score was subjected to an independent sample t-test and the results for displayed graphically (Fig 4. 26).

The results from the t-test as reported in Table 4. 26 revealed that the means of the composite board characteristics score of MFIs with a high SPI score (M =27. 7, SD=7. 38) differ from that of those with a low SPI score (M=24. 99, SD=5. 28). The results further revealed that board characteristics and a MFIs SPI score are positively related in a statistically significant way ($t_{cal} >$ t_{crit}, p< 0. 05). These results imply that as the overall the board characteristics score improves, there is an improvement of the SPI score for an MFI.

Table 4. 26: Independent sample t-test for board characteristics

Variable	High SPI score		Low SPI Score		t_{cal}	t_{crit}	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Board Characteristics	27. 75	7. 383	24. 993	5. 286	-2. 177	1. 984	0. 032

Figure 4. 15 presents a plot of the means of the overall board characteristics score. The results are a further confirmation of the positive relationship between the sampled MFIs social performance score and the composite score for board characteristics.
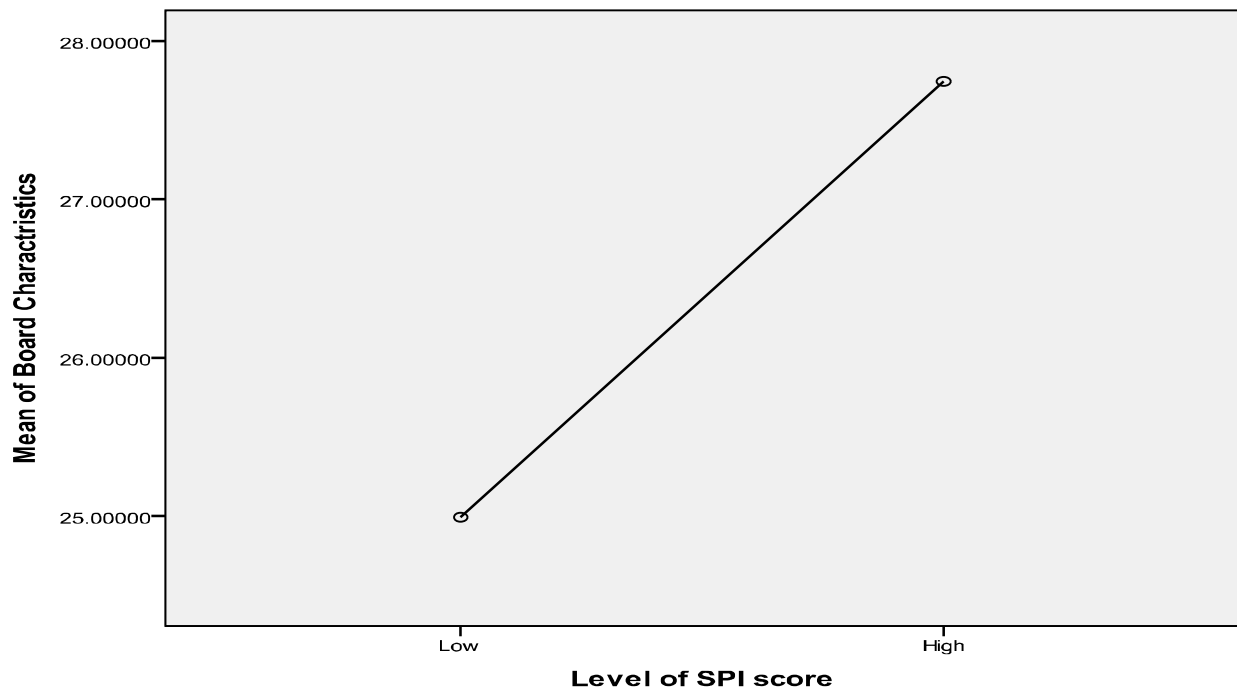
Figure 4. 15: Means of overall board characteristics

The results of the study suggest that board characteristics have a significant influence of the SPI score of an MFI. The board characteristics may thus equip the boards with better supervisory and monitoring skills which lead to better social performance management. The ability of the board to advise, and focus on the social mission of the MFI may be dependent on its characteristics namely board size, board terms, number of board committees, director remuneration, board skills and experience, number of multiple directorships potions held and the number of the independent directors in the board. These findings are corroborated by Bearsley (2005) and Manderlier et al. (2009) who have cited the board size, and terms as directly affecting a MFIs general performance. Similarly, Bermig (2010) demonstrated that smaller board sizes are more effective in monitoring and evaluation.

4. 5 The influence of Leadership Characteristics on the social performance of an MFI.

The second objective of this study was to examine the influence of leadership characteristics on an MFIøs social performance. This objective was achieved by an analysis of the descriptive statistics for the CEO duality, gender of the CEO, and the CEOøs qualifications and experiences. The significance of the effect of each indicator on SPI was established by comparing the mean values of the independent variables for MFIs with a high SPI score and those with a low SPI score. The independent samples t ótest was used to compare the means. The tests were carried out for each of indicators used to measure leadership characteristics and for the composite variable. The details of the results are discussed below.

4. 5. 1 Chief Executive Officer (CEO) Duality

The study sought to find out whether there was a clear separation of the roles of the CEO and the board chairman. CEO duality exists where the Chairman of the MFI doubles up as the CEO. The study found that 96% of the MFIs had their chairman as non executive directors as shown in Fig 4. 16. This means that majority of the MFIs did not have CEO duality hence had the chairman of the board and the CEO with separate and distinct roles.

The study largely corroborated what is reported in the previous studies (Manderlier, et al.,2009; Galema et al., 2009; Zheka,2006) that most of the MFIs have separated the roles of the CEO and the board chairman. This implies that majority of the MFIs did not have CEO duality and hence comply with the various corporate governance guidelines. Best practices recommend that the

chairman should be non executive hence separating their role from that of the CEO (CMA, 2002; BBVAA Microfinance Foundation, 2011a).

The board of directors is set up to monitor managers on the behalf of the stakeholders. The effect of the separation of the role of the chairman and the CEO is likely result in the board effectively exercising their supervisory role. This would result in the establishment of unity of command at the head of the MFI would thus allowing the firm to send a reassuring message to stakeholders.
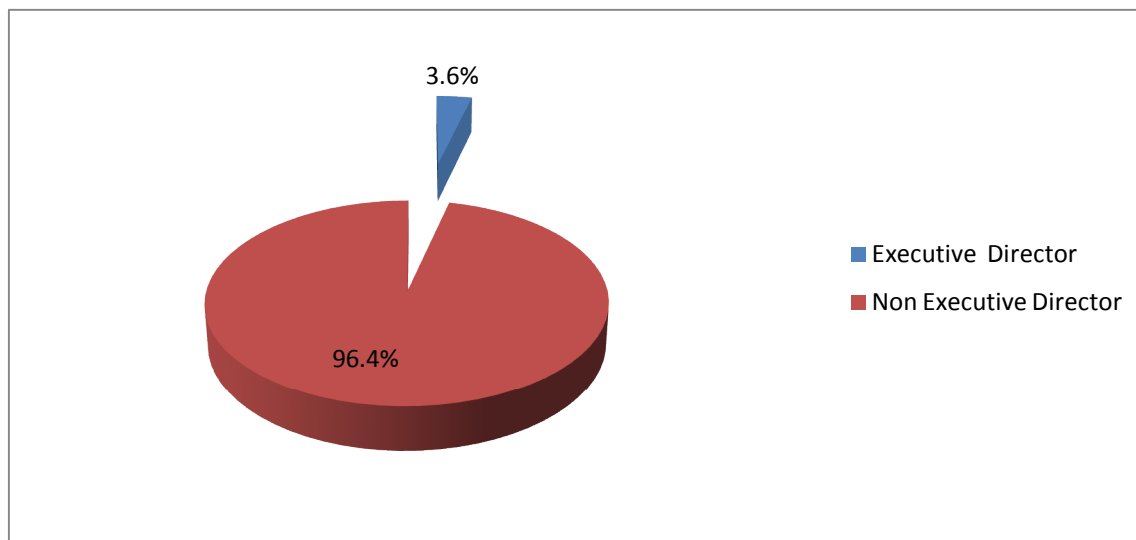
Figure 4. 16: CEO Duality

Table 4. 27 presents the results of a comparison of the difference in means for MFIs without CEO duality for MFIs with high SPI scores (M=2. 00, SD =0. 00) and those with low SPI scores (M=1. 91, SD=0. 282) using an independent samples t-test. The analysis revealed a significant difference between the two groups ($t_{cal} > t_{crit}$, $p < 0.05$). This means that on average MFIs with a high SPI score have separation of leadership roles between the Chairman and the CEO. The results suggest

that when the role of the chairman and the CEO are separated, the social performance of MFIs improves.

Table 4. 27: Independent sample t-test for CEO duality

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
CEO Duality	2	0	1. 91	0. 282	-2. 418	1. 984	0. 017

Examination of the data further analysis by plotting the means as shown in Fig 4. 17 confirmed there MFIs with a higher SPI score had a higher mean on CEO duality. This implies that as the number of MFIs where there is separation of the role of the CEO and the board chair, the social performance score is higher. This can be attributed to the agency theorists perspective that CEO duality impairs the effectiveness of monitoring activities thus weakening the performance of an MFI (Sahin, Basfirinci, & Ozsalih, 2011; Desender, 2009).

Scholars, Wu et al. (2009), Bermig (2010), and Kaymak & Bektas (2008) found similar results in their study on the effect of CEO duality on the general performance of the MFIs. This was a further confirmation that under the conditions that the chairman also serves as the CEO, the board would most likely fail to be objective thus putting the MFI at a disadvantage (Kula, 2005).

The results could be due to a CEO who is also the chairman exerting undue influence on the board thus compromising their oversight and governance roles. On the other hand, the separation of the CEO and chairman's role could mean that the board is able to independently offer their supervisory

role while furthering the interest of the stakeholders. This may be the reason for better social performance among MFIs that have defined clear roles for the CEO and the Chairman of the board.
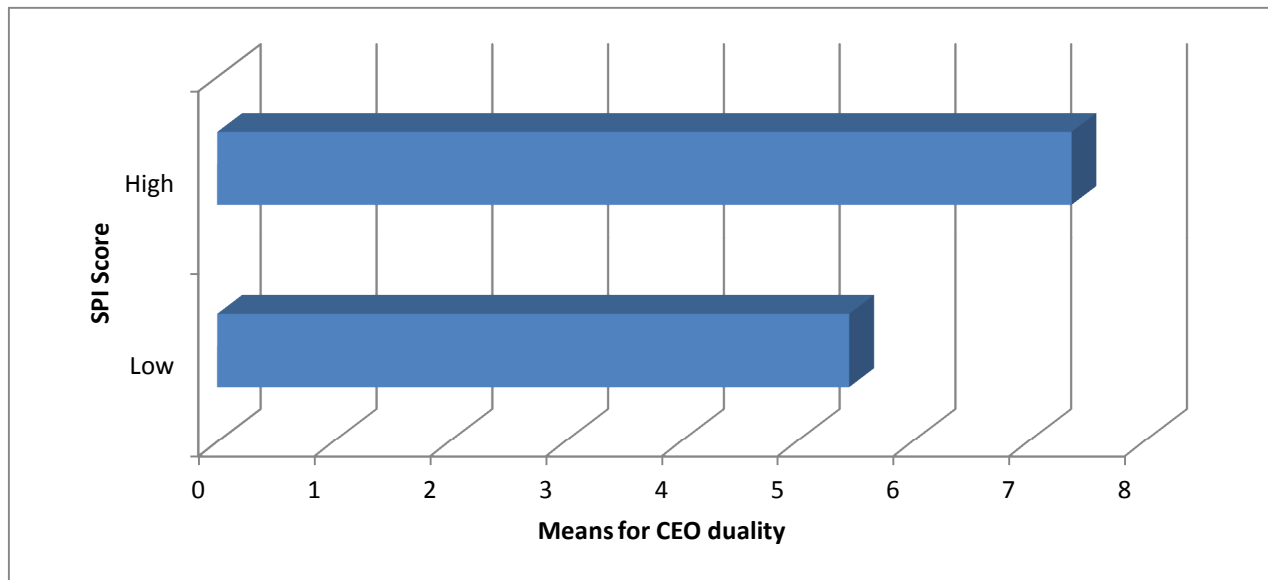
Figure 4. 17: A means plot of CEO duality

4. 5. 2 Gender of the CEO

This research focused on how the gender of the CEO affected the SPI score of an MFI. Figure 4. 18 is a presentation of the responses to the question on the gender of the CEO. The study results indicated that majority (86 %) of the CEOs were men while the remaining 14% were women (Fig 4. 18). The results further indicate that a majority of MFIs that were focused on promoting the welfare of female clients were still male headed.

The results of the study lender support to earlier findings by Bermig (2010) and Brennan N. M.,(2010) who found that majority of the MFIs were male headed even though most were began to support the plight of poor women. The two authors argue that most of the poor women lack the

collateral to enable them to borrow from formal financial institutions thus they end up as MFI clients. They argue that women CEOs would better understand the needs of their fellow women and thus should be CEOs of the MFIs as advocated by the stakeholdersøtheory.

The results may be attributed to the patriarchal nature of the Kenyan society. The results are however contrary to the expectation from the theoretical literature reviewed. The literature stipulates that since most MFIs clients are women, female CEOs would dominate the sector as they are considered to better understand the problems their fellow women face (Manderlier, et al.,2009 ; Webb, 2005; Bermig, 2010).
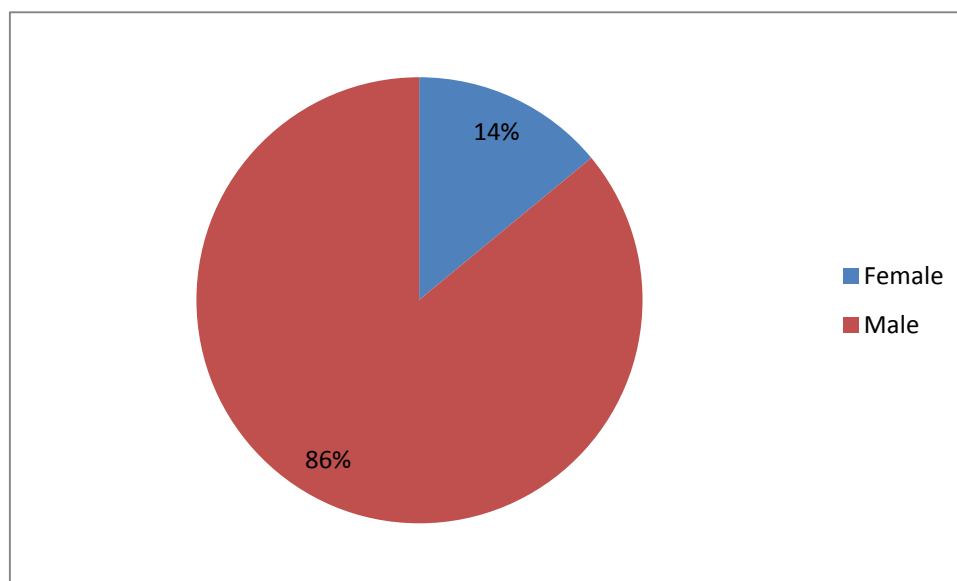
Figure 4. 18 Gender of the Chief Executive Officer

An independent samples t-test was conducted on the gender of the CEO for MFIs with a high SPI scores and those with a low SPI scores (Table 4. 29). There was no significant difference in the CEO gender for MFIs with high SPI scores (M=1. 19, SD=. 393) and those with low SPI scores (M=1. 09, SD=0. 282); ($t_{cal} < t_{crit}$, p> 0. 05). These results suggest that the gender of the CEO has no

significant influence on the social performance of an MFI. It does not therefore matter whether the MFIs are female or male headed in as far as social performance is concerned.

Table 4. 28:   Independent sample t-test for CEO gender.

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
CEO gender	1. 19	0. 393	1. 09	0. 282	-1. 52	1. 984	0. 131

Further analysis by plotting the means as shown in Fig 4. 19, confirmed MFIs with a high social performance had a higher mean for the CEO gender. The insignificance of the relationship implies that the gender of the CEO does not affect an MFIøs level of social performance. These results were contrary to the expectations discussed in the literature review where it was argued that female CEOs would have the interest of their clients in mind as majority of them are women (Manderlier et al.,2009). The findings   contradict the stakeholder theory which advocates for recruitment of female CEOs as they spend more time on monitoring activities (Galema, Lensink, & Mersland, 2009). The results however confirm the findings by Manderlier et al. (2009) who while studying the effect of CEO on performance found that gender did not have significant influence.
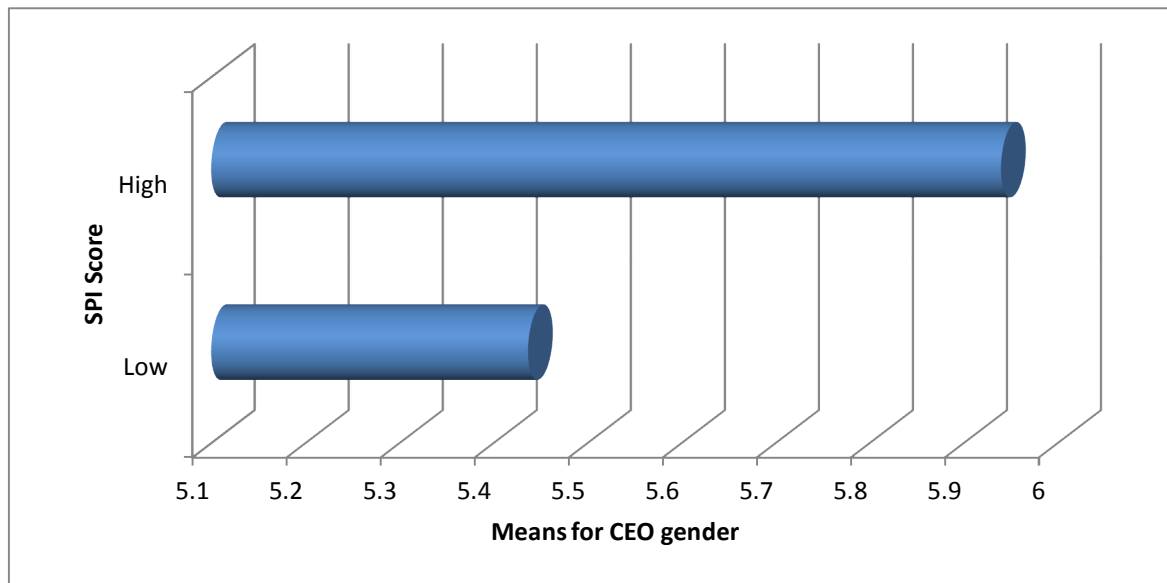
Figure 4. 19: A means plot of CEO gender

The results imply that the gender of the CEO does not matter as far as the monitoring of the SPI indicators is concerned. This could be due to the fact CEOs are committed to the achievement of the mission of their MFIs irrespective of their gender. This may have been further enhanced by the inclusion in their performance evaluation of some or all the social performance indicators. This would mean that they have to perform well in the social performance indicators as a basis of their continued employment and in determining their levels of remuneration.

4. 5. 3 Chief Executive Officer qualifications

An analysis of CEO qualifications as shown in Figure 4. 20 revealed that that the majority 60% of the CEOs had a Masters degree, 29% had first degree, and 7 % had diplomas while 4% had doctorate degrees as the highest academic achievement. The results indicate that most of the CEOs (93%) had at a University degree as the highest education qualification. Only 2 of the 38 CEOs (4%) had their highest academic qualification being diplomas.

The results contradict earlier findings by Mori and Olomi (2012) who conclude that since MFIs serve the lower end of the market,they are run by less qaulified staff. The finding are however not surprising and could be explained by the rapid expansion in University education in Kenya. This has resulted in a rise in the working class adults going back to school due to availability of various flexible programmes that address their needs.

The resource dependence theory views the CEO qualification as a resource that should have a positive contribution to overall performance of an MFI. Education plays a key role in management skills transfer and in understanding and promoting society change (Brennan N. M.,2010).
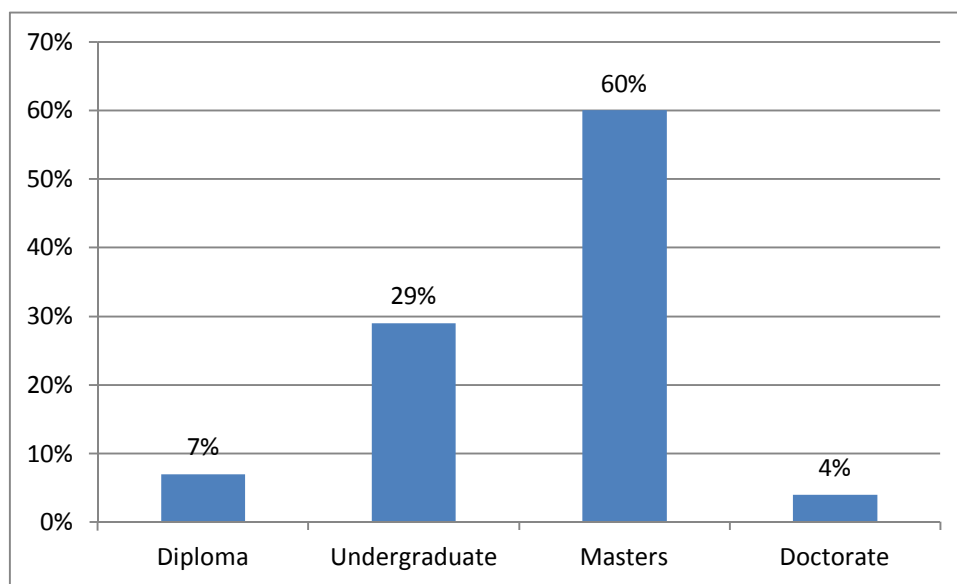
Figure 4. 20: A graph representing the Chief Executive Officer Qualifications

Table 4. 29 shows the application of an independent samples t-test to compare the means of MFIs with a low SPI scores (M=2. 63, SD =0. 745) and those with a high SPI scores (M=2. 57, SD=0. 580) based on the qualifications of their CEOs. The analyses reveals that there is no significant difference between the two groups ($t_{cal} < t_{crit}$, p> 0. 05). This means that although on average, MFIs

with better SPI scores have more educated CEOs, their qualifications did not have a significant effect on the score. This further implies that an MFI led by a not so highly qualified CEO may perform just as good as on led by a highly qualified CEO.

Table 4. 29: Independent sample t-test for CEO qualifications

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
CEO qualifications	2. 63	0. 745	2. 57	0. 58	-0. 387	1. 984	0. 7

A plot of the means as shown in Fig 4. 21 confirmed that MFIs with a high SPI score had higher average CEO qualifications compared to ones with a lower SPI score, though their difference was insignificant. The results contradict the expectations based on the resource dependence theory where qualifications of the CEO are viewed as a resource that would be applied to improve the performance of an MFI (Dulewiez & Herbert, 2004; Beltratti, 2005).
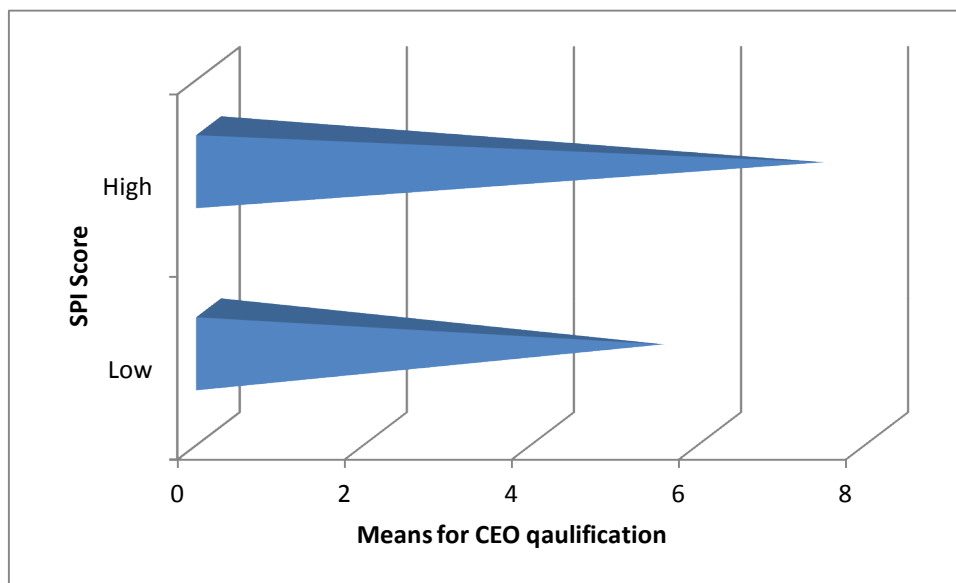
Figure 4. 21: A plot of means of CEO qualifications

The results further contradict the findings of studies on the influence of CEOs education on firm performance (Zheka, 2006; Bennan, 2006; Pascal & Mersland, 2012). Past studies have compared education (based on the level of highest academic achievement) attained by the CEOs) and firm performance. They found that there was no difference in firm performance between those firms managed by CEO with MBA and those firm managed by CEOs without a graduate degree. Furthermore, they found that there was no difference in performance of firm between those managed by CEOs from the prestigious school and those from less prestigious school.

Drawing from the resource based theory and the findings of this study, the CEO could be viewed as is unique, resourceful personnel having managerial characteristics and social performance experience. The interactions of these managerial characteristics with strategic decision making processes enable the MFIs they manage to have better SPI scores which is key in their strategic direction.

4. 5. 4 Chief Executive Officer professional background

This study sought to establish the professional background of the CEO in order to relate it with a MFIs social performance. The survey results indicated that almost half (48%) of the CEOs had accountancy as their professional background, 25% had a background in banking while 22% had a background in finance. Only 5% had a background in engineering. Majority (95%) of the CEOs were therefore found to be either bankers, accountants or with finance background (Fig 4. 22).

The study confirms the finding of Pascal & Mersland (2012) and Mersland & Strom (2007) who found that most of the CEOs of MFIs had business related background. They conclude that

professional experience is a key consideration in the hiring of the CEO which is a key attributes of a MFIs performance.

The results obtained may be attributed to the fact many financial institutionsø require specialized skills that are numeracy related thus attracting accountants, bankers and people with a finance background. The results indicate that perhaps in recruiting their CEOs, MFIs boards prefer those with business experience as they will have an understanding of the various business scenarios. This could translate to better organization resource management for improved performance.
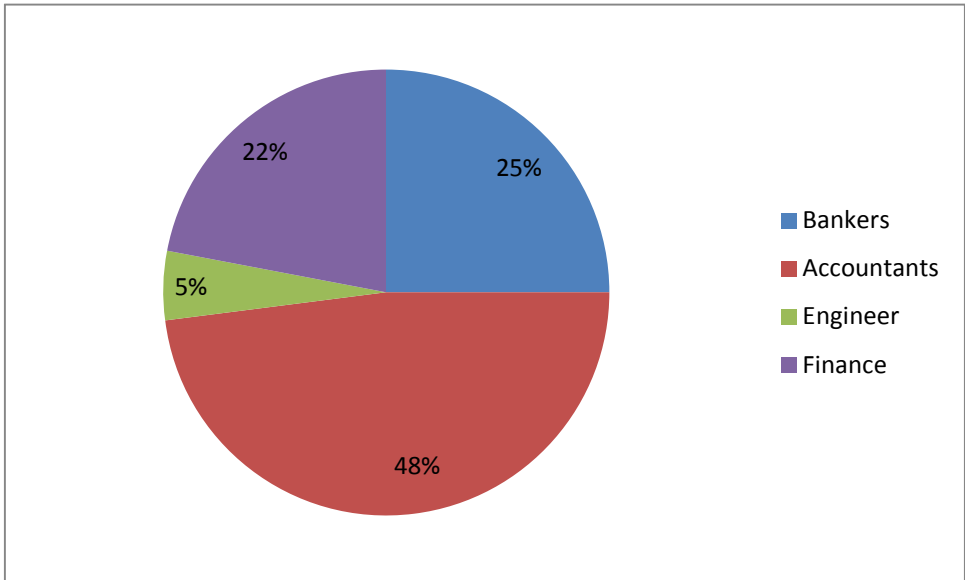
Figure 4. 22: Professional background of CEOs

4. 5. 5 Chief Executive Officer work experience

The study included the identification of the working experience of the CEO who was part of the study. As indicated in Figure 4. 23, shows that a majority of the CEOs 50% had between 6-10 years of work experience, while 22% and 21% had between 11-15 years and between 16-20 years

respectively (Figure 4.23). Proponents of the resource dependence theory argue that the qualifications and experience of a CEO would be a resource which should be reflected in an MFIøs better overall performance. The findings confirm those of earlier studies on the CEOøs qualification and experience (Heenetigala, 2011 ; Woller G. ,2006).
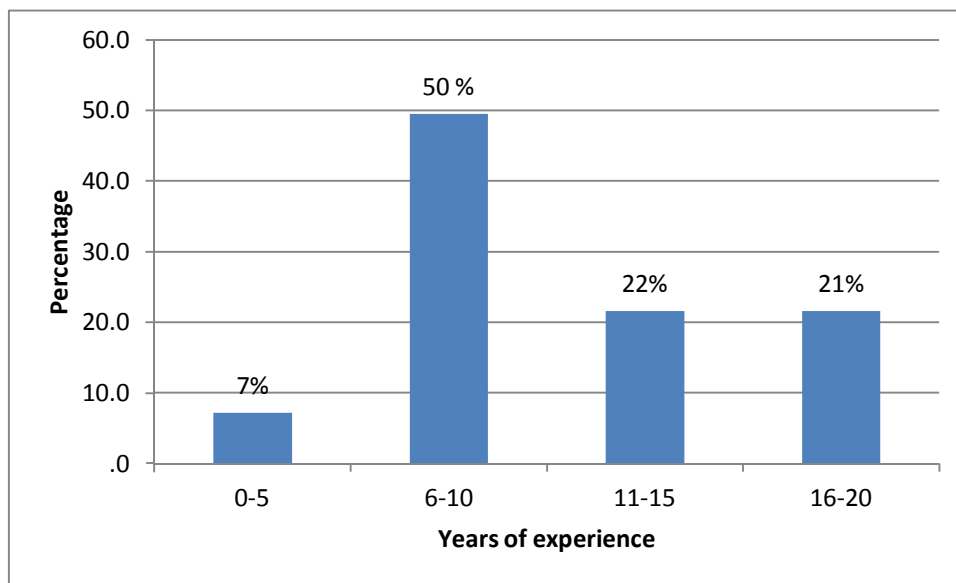
Figure 4. 23: Work experience of CEOs

A Comparison of the mean difference in the average number of years of the CEO experience for MFIs with high SPI scores (M=9. 67, SD=4. 69) and those Low SPI scores (M=4. 29, SD=2. 66) revealed that the two were different in a statistically significant manner (t $_{cal}$ > t $_{crit}$, p< 0. 05) as shown in Table 4. 30. This means that MFIs with a high SPI score have on average more experienced CEOs compared to firms with a low SPI scores. This further implies that as the average number of years of the CEO experience increases, so does an MFIøs SPI score.

Table 4. 30: Independent sample t-test for CEO experience

Variable	High SPI score		Low SPI Score		t cal	t crit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
CEO experience	9. 67	4. 69	4. 29	2. 66	-7. 059	1. 984	0. 0001

Further analysis by plotting the means as shown in Fig 4. 24 confirmed there was a positive relationship between the means. This implies that as the number of years of CEO experience increases, the level of social performance increases. These results are consistent studies by Krishnan (2005), Pascal & Mersland (2012) and Bennan (2006) who find significant a positive relationship between the usefulness of the CEOs experince and financial reporting qaulity. The findings support the resource dependence theory which views the CEOǿs experience as a resource that results into a better performing MFI (Beltratti, 2005).
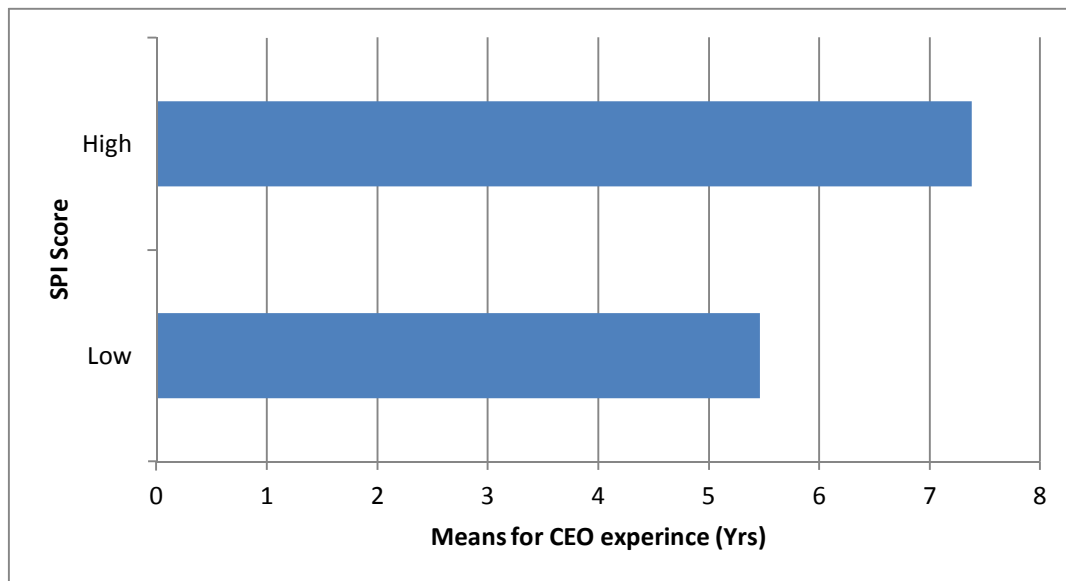
Figure 4. 24: Comparison of means of CEO experience

The results imply that a CEOøs professional background and work experience improve the MFI social performance score. This could be due to the improved managerial skills acquired with more years of experience in the industry. The results could also be attributed to their thorough understanding of the MFI business and the target market which leads to better performance both on the social and financial fronts.

4. 5. 6 Leadership characteristics

An overall leadership characteristic composite score was obtained by allocating a statistically weighted score to each of the indicators discussed above (CEO duality, gender of the CEO, CEO qualifications and experience). The score was subjected to an independent sample t-test and a plot of the means graphically displayed. The results from the t-test as reported in Table 4. 31, showed that means of the composite leadership characteristics score of MFIs with a high SPI scores (M=7. 38, SD=1. 97) differ from that of those with a low SPI scores (M=5. 46, SD=7. 38). The t-calculated value of -5. 557 is greater than the critical t value of 1. 984 for a two tailed test indicating a high level of significance at 0. 0001<p=0. 05. The results suggest that leadership characteristics have an effect on the social performance of MFIs. Specifically, the results suggest that an improvement in the composite leadership characteristics score of an MFI leads to improved social performance.

The argument from the resource based theory is that the CEOøs education qualification, professional qualification and experience enable them to deploy their knowhow and improve the social performance of the MFI (Pascal & Mersland, 2012; Mersland & Strom, 2007). The results

confirm findings from earlier studies which identify the CEO characteristics as positively to an

MFIs performance (Ali & Wise, 2009; Heentigala, 2011; Ioannou & Serafeim, 2010).

Table 4. 31: Independent sample t-test for leadership characteristics

Variable	High SPI score		Low SPI Score		t_{cal}	t_{crit}	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Leadership Characteristics	7. 3847	1. 979	5. 4603	1. 528	-5. 557	1. 984	0. 0001

Figure 4.25 presents the plots of the means for the overall leadership characteristics score. The results are a further confirmation of the positive relationship between the sampled MFIs social performance score and the composite score for leadership characteristics. The results imply that as the overall the leadership characteristics score improves, there is an improvement of the SPI score.

The leadership characteristics profile the quality of the CEO which can be associated with good social performance of an MFI. The results could be explained as resulting for a better understanding of the MFIs strategic choices   that positively influences its social performance. The positive significant relationship between leadership characteristics and the Social performance of an MFI is vital because it implies that if the leadership is improved, MFIs will be able to meet their social mission.
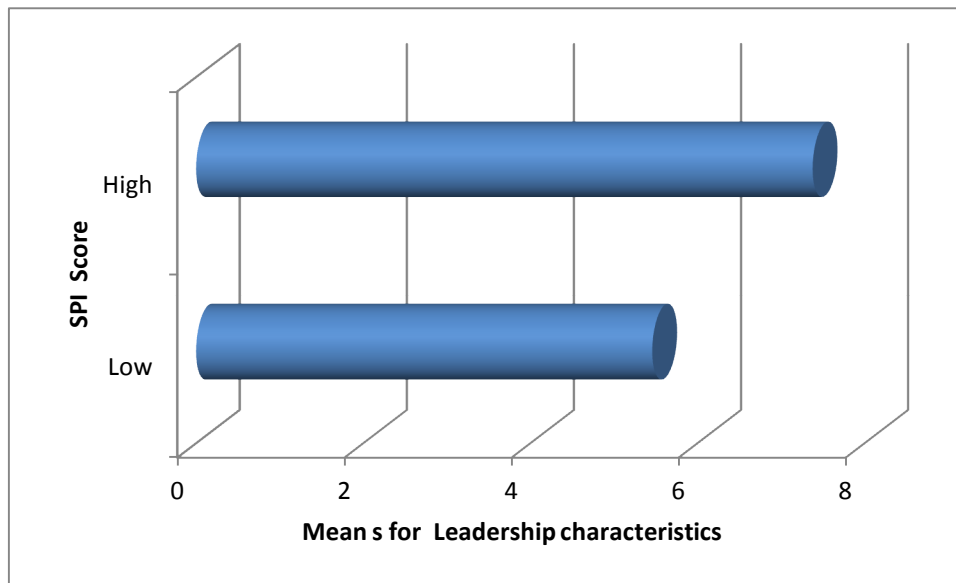
Figure 4. 25: A plot of means for overall leadership characteristics

4. 6 the influence of stakeholder involvement on an MFIs Social Performance

The third objective of this study was to ascertain whether involvement of stakeholders in a MFIs board of directors affects its social performance. This objective was achieved by an analysis of the descriptive statistics for the stakeholder involvement in the AGM, the number of clients, employees, and donorsø representatives appointed in the board of the MFI. The significance of the effect of each indicator on SPI was established by comparing the mean values of the independent variables for MFIs with a high SPI score and those with a low SPI score. The independent samples t ótest was used to compare the means. The tests were carried out for each of indicators used to measure stakeholder involvement and for the composite variable. The details of the results are discussed below.

4. 6. 1 The Annual General Meeting

The respondents were required to answer to the question on whether their MFIs held annual general meetings (AGM). Figure 4.26 illustrates that a majority (80%) of the MFIs held their AGMs every year. MFIs that did not hold AGM formed 20% of the total number of respondents. The annual general meeting is typically the only time during the year when the stakeholders and executives interact. Stakeholders may use annual general meetings as an opportunity to express their concerns. The findings indicate that a majority of the MFIs complied with the CMA guidelines which require entities to hold an AGM and hence observe good corporate governance practices. The AGM normally avails a forum where the various stakeholders are given an opportunity to participate in major decisions of the organization (BBVAA Microfinance Foundation, 2011a; CMA, 2002).

A study by Manderlier, et al. (2009) on a sample 59 MFIs in South Asia on the frequecny of board meetings found that the board met at an average of five time each year inclusive of the AGM. They conclude that the number of meetings is determined by the stage of growth of the MFI and the complexity of its management. AGMs were however found to be a mandatory requirment for all the MFIs. Most of the past studies on the AGM have focused on the number of board meetings held per year (Beasley, 2005; Krivogorsky, 2006; Heentigala, 2011).
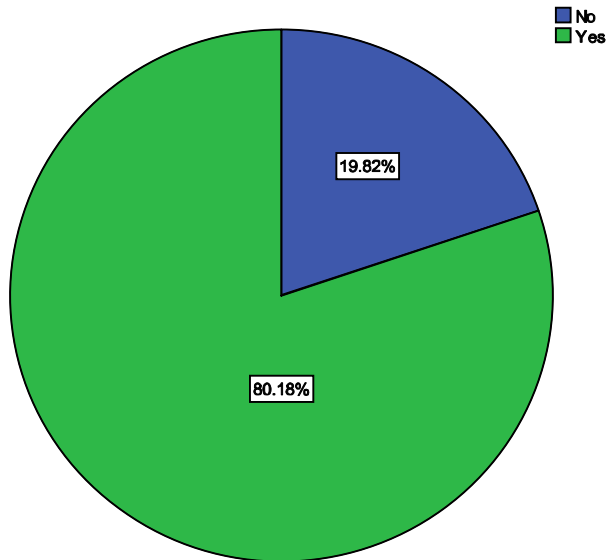
Figure 4. 26: Indication of whether Annual general meetings held

The study further sought to know whether the AGM was conducted in accordance with good corporate governance guidelines in terms of information supplied to the stakeholders, consideration of expenses and time allocated for questions. Results in Table 4.32 indicated that a majority of the MFIs (89%) agreed that the stakeholder were supplied with sufficient, accurate and timely information about the AGM. A majority (93%) agreed that the board considered the stakeholdersø expenses and convenience in selecting the location and venue of the AGM and that in most MFIs (92%), the directors provide sufficient time and explanations for questions on company performance.

Table 4. 32 Annual general meeting procedures

Board Attribute	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
Supply of sufficient, accurate and timely information	57%	32%	8%	1%	2%	100%
Consideration of expenses	36%	57%	5%	1%	1%	100%
Time and explanations	49%	43%	6%	0%	1%	100%
Average	**18%**	**53%**	**15%**	**9%**	**5%**	**100%**

A further analysis using the independent samples t-test was carried out on the AGM attributes as shown in Table 4.33. A Comparison of the means of the various AGM attributes for MFIs with a high SPI score with those with low SPI score revealed that only the provision of sufficient time and explanations for questions on company performance was significant at 95% level of significance ($t_{cal} > t_{crit}$, $p < 0.05$) while provision of sufficient information on date, location and agenda was significant at 90% level of significance). The difference in means of the other AGM attributes was found to be insignificant ($t_{cal} < t_{crit}$, $p > 0.05$). The results imply that MFIs where board provides stakeholders with timely information on date, location and agenda and sufficient time and explanation for questions on the company performance have a higher SPI score.

 This could be due to the fact that members are able to fully participate in the AGM deliberation when they have sufficient information on the agenda, location and date of the meeting. The same could be said of the provision of time by the directors to respond to questions on the MFIøs performance. The results indicate the provision of timely information to stakeholders is not significant. This may be probably because sometimes even when advance information is sent to them, they have no time to read and understand it. Similarly, the consideration of the stakeholder

expenses and convenience when selecting the location and venue of the AGM may not be significant probably because most MFIs are NGOs which require stakeholders serve on a volunteer basis.

Table 4. 33: Comparison of means of AGM attributes

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Sufficiency of information	4. 53	0. 992	4. 21	0. 72	-1. 869	1. 984	0. 064
Timeliness of information	4. 17	1. 149	4. 32	0. 629	0. 795	1. 984	0. 428
Consideration of expenses	4. 33	0. 778	4. 19	0. 576	-1. 016	1. 984	0. 312
Sufficiency of explanations	4. 56	0. 794	4. 17	0. 601	-2. 839	1. 984	0. 005

Figure 4. 27 presents the plots of the means for the overall the various AGM attributes considered. The results further that there is a difference in the means of the attributed for MFIs with a low SPI and those with a high SPI score. The figure indicates that in MFIs with a high SPI score have higher means on provision of sufficient information, consideration of expenses for the stakeholder and sufficiency of time and explanation for questions. The results also suggest a positive relationship between these attributes and the social performance score. This could probably be due to the fact that when sufficient information on the date, location and agenda of the AGM is provided more stakeholder are able to attend and actively participate in the meeting, The consideration of expenses and convenience when selecting the agenda may also be a motivation for greater participation and representation by the stakeholders. Provision of sufficient time and explanations for questions on the MFI performance may also result in fuller participation by the stakeholders in decision making.

Greater participation be stakeholder will have a positive effect on the social performance of the MFI as stipulated by the stakeholder theory (Freeman, 1984)

Figure 4. 27: Plot of the means of overall AGM attributes
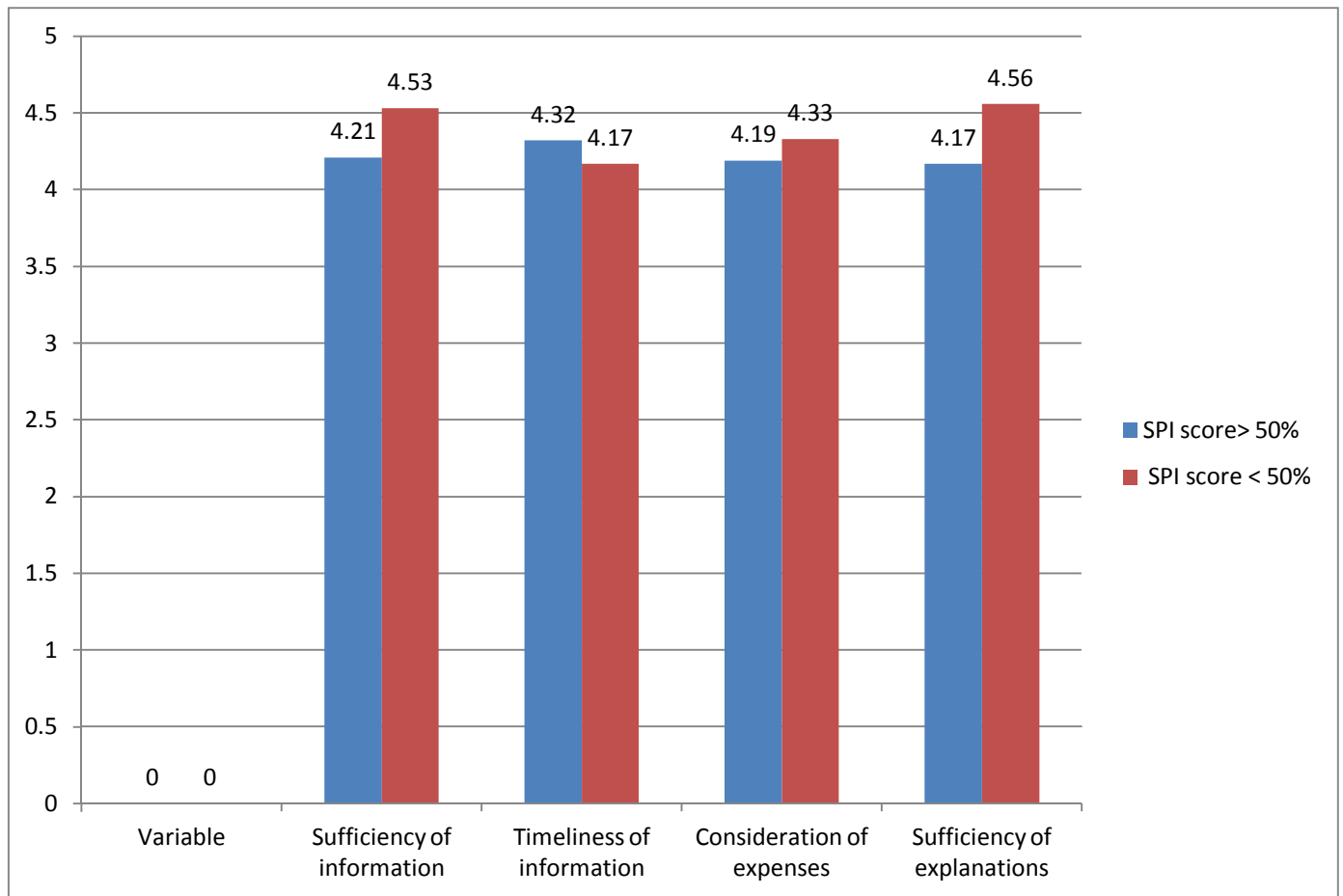
On the other hand, the plot of the means on timely provision of information points o a possible negative relationship of the attribute with the SPI. The results indicate that provision of timely information on the AGM and sufficient explanations for questions raised are the only AGM attributes that have a significant relationship with the SPI score of an MFI of all the four considered. The results point to the possibility of a positive relationship between the sampled MFIs

social performance score and the various AGM attribute as outlined in the CMA act and various guidelines on governance.

4. 6. 2 Number of board members appointed to represent stakeholders in an AGM.

The study sought to establish the number of members of the board appointed to represent various stakeholders in the AGM. The results displayed in Figure 4. 28 show that majority of the MFIs had had 0-2 members of the board appointed to represent stakeholders in an AGM. About a third of the MFIs (34%) had between 6- 9 members appointed to represent stakeholders in the AGM while 11% had between 3-5. Only 1 % of the MFIs had no stakeholder representative appointed in the AGM.
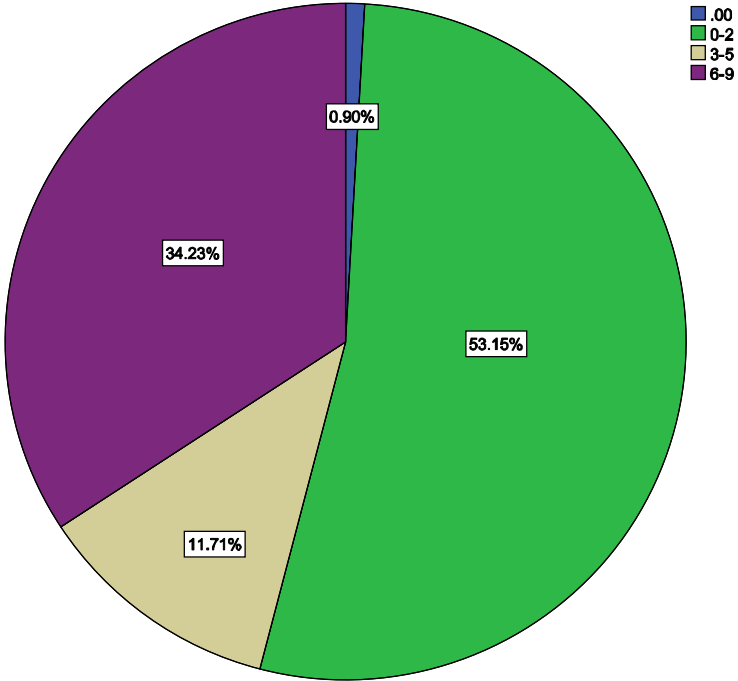
Figure 4. 28: Appointment of board members for stakeholders in AGM

An independent samples t-test was carried out to establish whether there was a significant difference between the means SPI score of MFIs with a high SPI scores (M=3. 38,SD=3. 369) and those with a low SPI scores (M=3. 64,SD =3. 313) based on the inclusion of a stakeholder representative in the board. The results in Table 4.34 indicated that though the means were different, the difference was not significant ($t_{cal} < t_{crit}$, p> 0. 05). This means that MFIs with a high SPI score have on fewer directors representing stakeholders appointed at the AGM compared to firms with a low SPI scores. This further implies that as the average number of directors appointed to represent stakeholders at the AGM increases, the SPI score for an MFI declines. This finding was contrary to the expectation that representation of stakeholders in the board would improve the SPI score as they have an opportunity to not only front but further their social interest (CERISE, 2005).

Table 4. 34: Independent sample t-test for stakeholder representation in the board.

Variable	High SPI score		Low SPI Score		t cal	t$_{crit}$	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Stakeholder rep.	3. 38	3. 369	3. 64	3. 313	0. 41	1. 984	0. 683

A plot of the means confirms the negative sign of the relationship between the number of directors appointed by stakeholders in the AGM and the SPI score of an MFI (Fig 4. 29). This implies that as the number of stakeholder representatives in the board increases, the level of social performance decreases. The results are however not significant (p > 0. 05) implying that the effect of stakeholders appointed in the AGM on the social performance of an MFI is not significant.

These results contradict the stakeholder theory by Freeman (Freeman, 1984) and findings of studies by Desender (2009) and Dulewiez & Herbert (2004) who found stakeholder representation to have

a positve impact on an MFIs social performance. The responsibility of the board of directors is to establish procedures and themselves act in a way that will make everyone in the institution accountable, as well as create an enviroment of mutual trust between the various stakeholder representatives (CERISE, 2005).

The results could however be different because of the inclusion of the clause õappointment at AGMö as most MFI indicated they do not have director appointments at the AGM. The results may however be dependent on the type of stakeholders appointed and their expectations (profitability or social mission). Accoridng to CERISE (2005),the most succesful MFIs will achieve profit to satisfy investors while finding a way to renumerate the contributions of all other people involved in making the institution work.
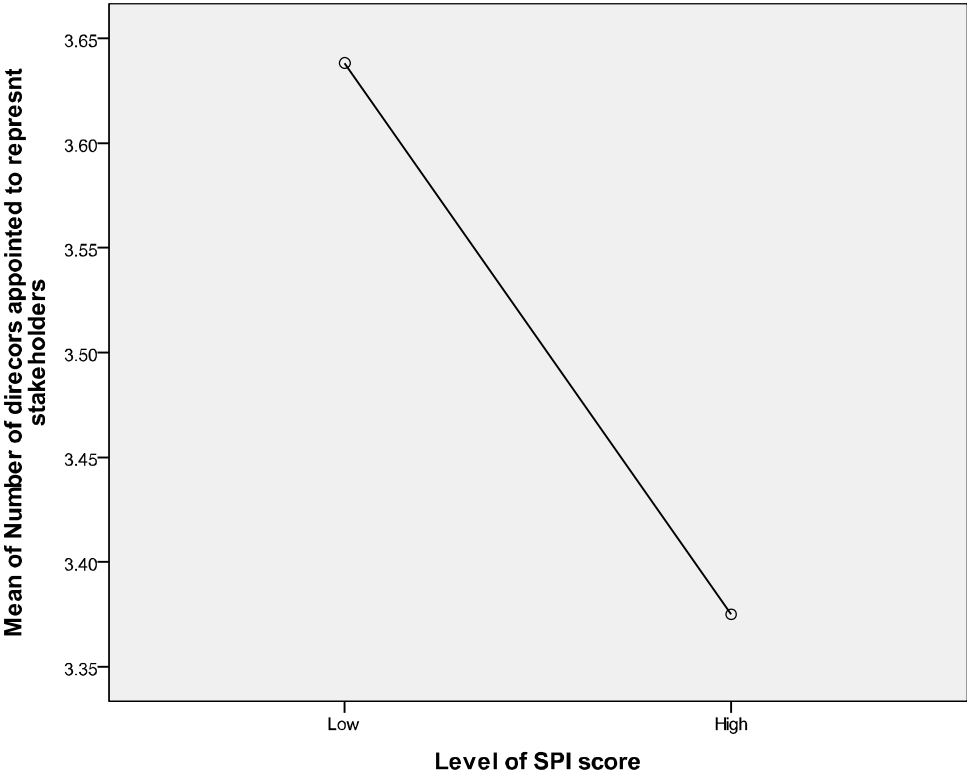
Fig 4. 29: A means plot of the number of directors appointed to represent stakeholders

4. 6. 3 Number of board members appointed to represent the clients in the board

This study sought to establish the number of clients appointed as members of the various MFIs board. From Fig 4. 30, majority of the MFIs 99 out of the 111 did not have board members appointed to represent clients. Eight of the MFIs had one client appointed in the board to represent clients while only four had two client representatives. The average client representation on the boards was less than 1.

According to CERISE,(2005), the presence of a high number of clients representatives in the board makes them want to optimize on the services provided by the institution while limiting their costs. This observation is supported by findings from the study by Kaymak & Bektas,(2008) whose study on Turkish Banks revealed client representation is more prevent in member based organisations.
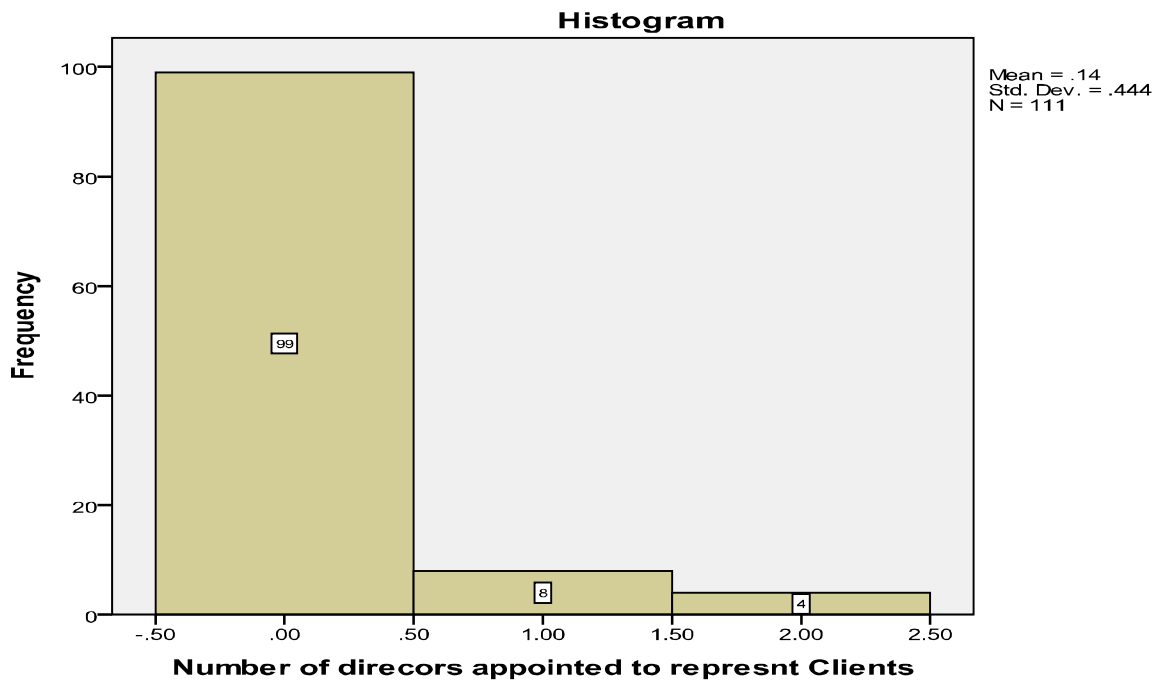
Figure 4. 30: Appointment of directors to represent clients

An independent sample t-test was carried out to establish if significant difference exits between the means of client representation in the board for MFIs that have a high SPI scores (M=0. 25, SD=. 056) and those that have low PSI scores (M=0. 001, SD=0. 0001). The results in Table 4. 35 indicate that significant difference exist between means of MFIs with high SPI score and those that have a low SPI score (t $_{cal}$ > t $_{crit}$, p< 0. 05). The finding revealed that MFIs with a higher SPI score have a higher mean compared to those that have a lower score. The findings imply that a higher level of clientsø representation in the board of an MFI contributes to a better SPI score.

Table 4. 36: Independent sample t-test for clients' representation in the board

Variable	High SPI score		Low SPI Score		t $_{cal}$	t$_{crit}$	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Clients representative	0. 25	0. 563	0	0	-3. 038	1. 984	0. 003

The plot of the means for MFIs with a high SPI score and those with a low SPI score (Figure 4. 31) further confirms a positive relationship between an MFIøs SPI score and client representation in the board. This implies that MFIs that have higher number of clients representative will have better social performance compared to those that fewer numbers of client representation.

The findings are consistent with the stipulations of the stakeholder theory and the finding of the empirical study by Abdullah (2004) who observed that client involvement as members of the board significantly involved an MFIs outreach to poor clients. Sahin, et al. (2011) and Ayuso & Argandona (2007) contend that clients representation make the board more effective in moniroing Social performance issues because they are more concious about the demands of the other MFI stakeholders.

Fig 4. 31: A means plot of the number of directors appointed to represent clients

The positive relationship between the number of clients' representative in the board and the social performance of an MFI is probably due to more emphasis being put on clients interests. The SPI score for an organization with clients' representation in the board could be also explained by their involvement in analyzing what is at stake when defining the social mission. The clients' representative seeks to optimize the services provided by the institution. The overall impact would be more client friendly policies and products thus improving the overall social performance ranking of the MFI.

4. 6. 4 Number of board members appointed to represent employees

The practice of employee representation on an MFI's board is not uncommon. This study looked at the number of employee representative appointed in the board. From the figure 4. 32, the majority of the MFIs (77%) had no employee representative at the board level. The findings revealed that 10% of the MFIs had 1 employee, 10% had 2 representatives and 7% had three members of the board appointed to represent employees (figure 4. 32).

The findings support the argument of the agency theory. The agency theory views the employees as seekers of their own interest and recommends for the close monitoring of their actions (Chhaochharaia & Grintesin, 2007). According to CERISE (2005),employee seek decent woroknig conditions by limiting operational risks. The stakeholder theory on the other hand recognizes them as key stakeholders who should be well represented in the board.

The result indicate that majority of the MFIs in Kenya do not have employee representation probably because they start as NGOs share capital structure which would allow for employee participation through share ownership. The small percentage of employee representation in MFI board could reflective of the low level of employee satisfaction which had led to very high labour turnover in the industry as observed by Brook, Lloyd, & Syms (2011).
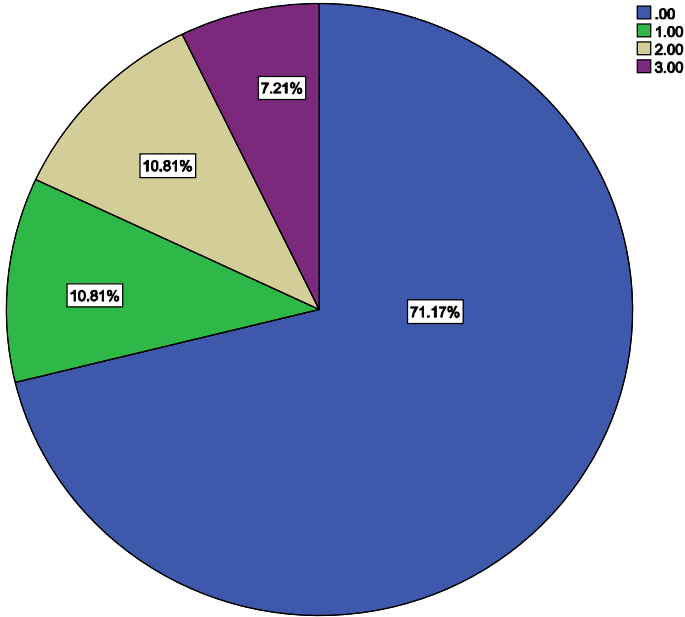
Figure 4. 32: Appointment of directors to represent employees

The responses on the number of employee representative in the board were subjected to further analysis using an independent samples t-test. The independent sample t-test of the responses indicated (Table 4. 37) that the means SPI score for MFIs with a high scores (M=0. 437, SD=0. 870) and low SPI scores (M=0. 681, SD=1. 044) indicate that the two are different. The difference is however not significant (t_{cal} < t_{crit}, p> 0. 05). The results show that though there is a positive relationship between the level of employee representation and the MFIs SPI score, the relationship is insignificant. The findings suggest that employee representation in the board of directors of an MFI does not affect its social performance.

The findings were inconsistent with those of Bedecarrats, et al. (2010), Ali & Wise (2009) whose finding on employee representation on boards revealed a positive relationship. The findings contradict the stakeholder theory (Freeman, 1984) which views employees as stakeholders in and organization and whose involvement in the board would ensure that their interests are well addressed resulting into a higher SPI score.

Table 4. 36: Independent sample t-test for employee representation in the board

| | High SPI score | | Low SPI Score | | | | |
Variable	Mean	Std. Dev	Mean	Std. Dev	t cal	t crit	Sig.
Employee representative	0. 4375	0. 87	0. 681	1. 044	1. 336	1. 984	0. 184

A graphical illustration of the relationship between the means of MFIs with high and low SPI scores was presented in Figure 4. 33. The figure revealed that there is a negative relationship between the number of employees appointed as representative in the board and the social performance score of an MFI.

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The findings imply that an increase in the numbers staff appointed as employee representatives in the board results into a lower SPI score. The findings suggest that an employee representative on a firmøs board, though they have through knowledge of operational details, does not provide a channel for the flow of valuable information and a means for monitoring management decisions. It could mean that the boardøs monitoring role is best exercised in the absence of staff amongst them.
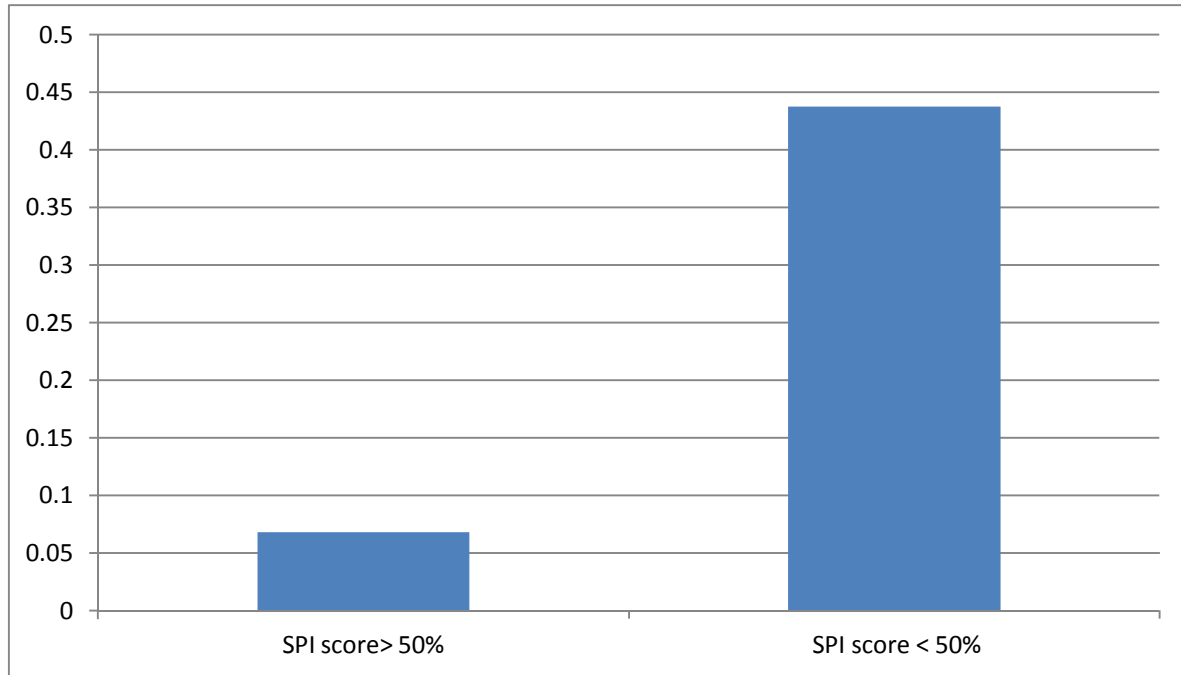
Fig 4. 33: A means plot of the number of directors appointed to represent employees

4. 6. 5 Number of board members appointed to represent donors

Donors of especially non-profit organizations are known to be particularly vigilant on a MFIs social mission. This study sought to establish the level of donor representation in the MFI and its effect on the Social performance. An analysis of the descriptive statistics as shown in Fig. 4. 34 revealed that 67 of the respondent did not have a donor representative; only for respondent stated they had nine donor representatives in their board. This represents only one MFI.

The results confirm the finding by (Hartarska, 2005) whose analysis of MFIs in Central and Eastern Europe revealed that most of their boards did not have donors as members. She explains that even for MFIs that start as being fully funded and owned by donor agencies, they will normally have a clear divestiture plan. Most of the NGOǿs started as projects are finally handed over to the government or community (Accion International, 2007; Beasley, 2005).

The results imply that donors may not want to be involved in the management of the MFIs they start in the long term probably because of the risk of the mission drift and the changing nature of the MFI industry. In addition, the presence of donors may affect the sustainability of the organizations as the clients end up viewing the loans as free donations (Cherono, 2008). Donor participation in the board of especially the older MFIs may be minimal.

Number of direcors appointed to represnt donors or funders
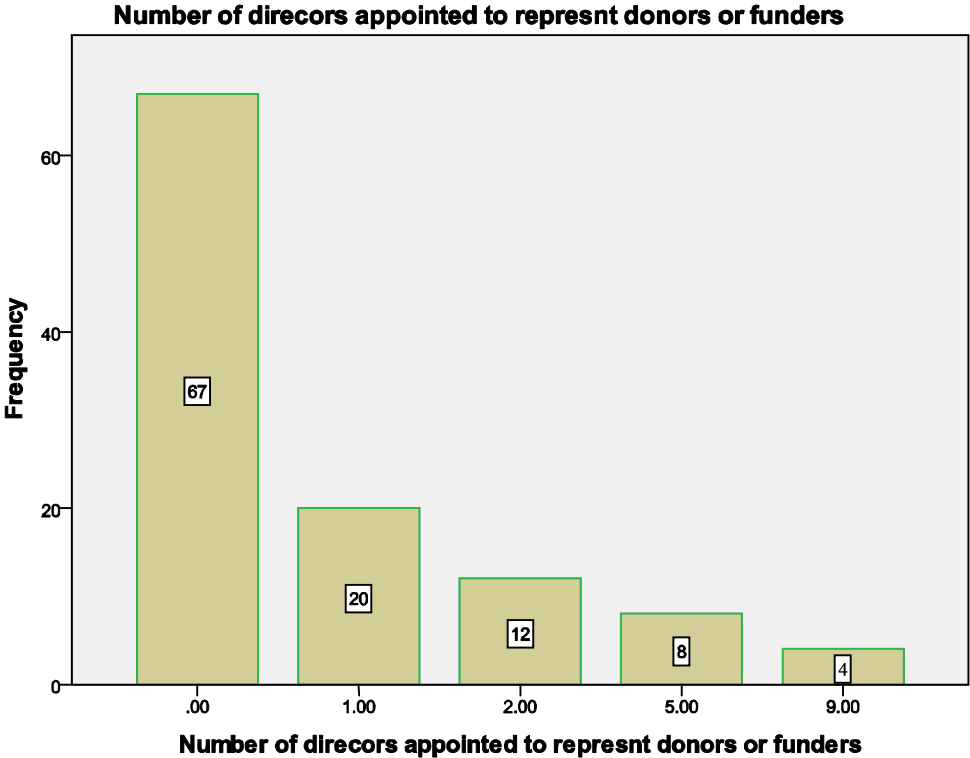
Figure 4. 34: Appointment of directors to represent donors

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The results from the response on the number of donor representatives were subject to a further analysis using the independent samples t-test. The results from t-test of the means for the MFIs with high SPI scores (M=0. 687, SD=1. 270) and low SPI scores (M=0. 1. 617, SD=2. 70) Show that there is a significant difference between the two ($t_{cal} > t_{crit}$, $p < 0. 05$). The average number of board members appointed to represent donors for MFIs with a high SPI score higher than that for those with a low SPI score (Table 4. 37). This means that boards of MFIs with a higher representation of donor tend to have better SPI scores compared to those that have a low representation.

The findings are consistent with the Zheka (2006) and Zacharias (2008) conjecture that major donors monitor nonprofit organizations at least in part through their board membership leading to better social performance. The findings further agree with earlier finding by Ioannou & Serafeim (2010) and Wu, et al. (2009) who from their studies conclude that the donor representation improves the social performance of MFIs. The findings confirm those of Hartarska (2005) who found that replacing one board member with a donor improved the outreach of the MFI by 35%. From the findings, the stakeholders theory is supported as it argues the inclusion of the various stakeholder in the boards of MFIs serves to enhance their interest.

Table 4. 37: Independent sample t-test for the number of donor representatives.

Variable	High SPI score		Low SPI Score		t cal	t crit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Donor representatives	0. 687	1. 27	1. 617	2. 707	2. 412	1. 984	0. 18

A plot of the means of the number of donor representative in the board against the MFIsøSPI score shows a positive relationship between the two (Figure 4. 35). This means that as the number of

board members appointed to represent donors increase, the SPI score increases significantly. The result thus confirms the stipulations of the stakeholder theory which argues that the representation of the various stakeholders in the governance of the institutions leads to a better consideration of their interests.

Overall, the study found a significant statistical association between the presence of donors representatives on the board and indicators social performance. This may be due to the emphasis that the donors may have on the social performance of the MFI. Donors may offer more financial support toward social performance initiatives by the MFI, sometimes diverting attention from sustainability. The ability of donorsø representative to raise funds may bring in easy money in furtherance of the social mission of the MFI. This could be due to the reason that donor representatives are able to front their interest and influence the direction of an MFIs investment of the resources they contirbute. Donors are known to bring a list of conditions that are attached to their funding and thus determine the activities of many organisations (Gary & Maunders, 1991).
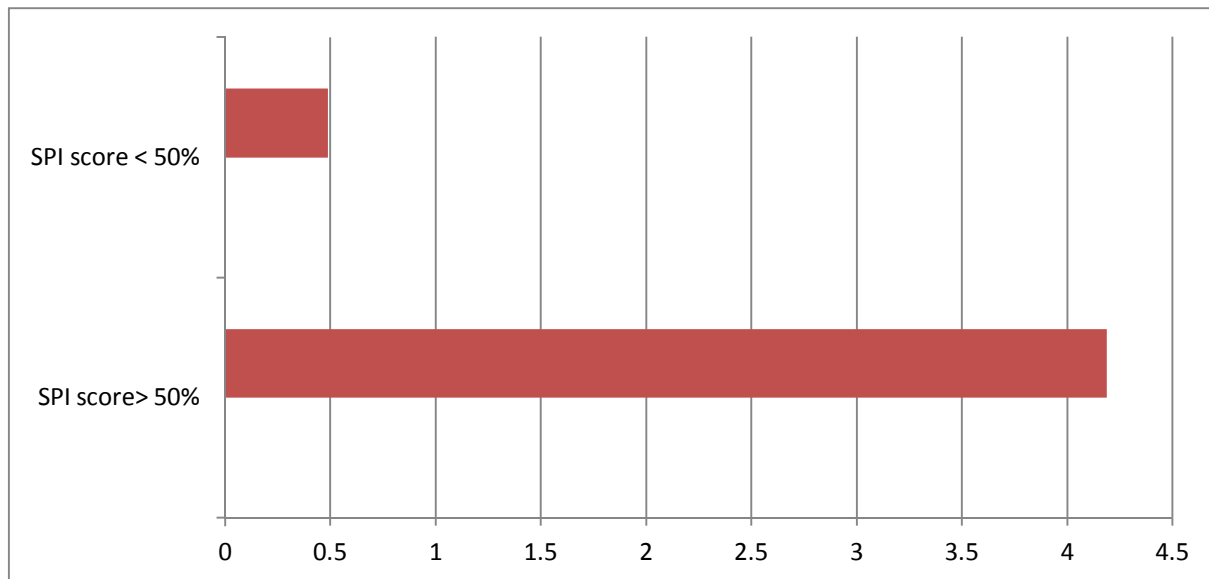
Fig 4. 35: A means plot of the number of directors appointed to represent donors

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4. 6. 6 Effect of the overall Stakeholders involvement on an MFI's SPI score

An overall stakeholder involvement score composite score was obtained by weighting each of the indicators discussed above (the number of directors appointed to represent stakeholders in an AGM, the MFI clients, employees and donors). The score was subjected to an independent sample t-test and a plot of the means graphically displayed. The results from the t-test as reported in Table 4. 38, show that means of the composite stakeholder involvement score of MFIs with a high SPI score (15. 839, SD=4. 571) differ from that of those with a low SPI score (M=10. 386, SD=4. 634). The results further revealed that board characteristics and an MFIs SPI score are positively related in a statistically significant way (t $_{cal}$ > t $_{crit}$, p< 0. 05). These results suggest that as stakeholder involvement in an MFI board really does have an effect on its social performance. These results imply that as the overall the stakeholder involvement score improves, there is an improvement of the SPI score.

Table 4. 38: Independent sample t-test for stakeholder involvement

Variable	High SPI score		Low SPI Score		t $_{cal}$	t$_{crit}$	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Stakeholder rep.	15. 839	4. 571	10. 386	4. 634	2. 412	1. 984	0. 001

Figure 4. 36 presents the plots of the means for the overall leadership characteristics score. The results are a further confirmation of the positive relationship between the sampled MFIs social performance score and the composite score for stakeholder involvement. The results imply that the involvement of stakeholders has a significant influence on the SPI score of the MFIs in line with the stakeholder theory (Freeman, 1984).

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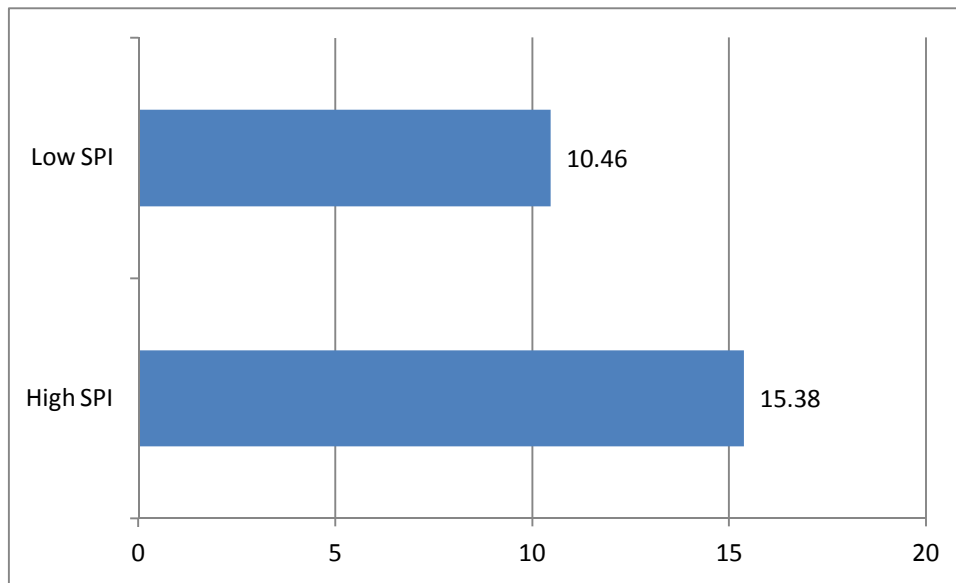
Figure 4. 36: A plot of means for overall leadership characteristics

The findings confirm the stakeholder theory which advocates for inclusion of various stakeholders in the board in order to improve social performance. The finding further support the resource based theory which is in favour of inclusion of board members from different backgrounds to improve the social performance of an organization. The result confirm earlier findings by Zheka (2006), Dulewiez and Herbert (2004) and Beltratti (2005)who found that inclusion of various stakeholders in the boards of MFIs improved both their financial and social performance.

The results imply that the inclusion of the different stakeholders as representatives in the board of directors results into improved social performance. This could be due to their involvement in defining the objectives of the MFI. The results further mean that board diversity should be encouraged as the various stakeholders welfare is catered for by a more inclusive board. The board has however to work consistently on ensuring there is a balance in pursuing the different stakeholdersøinterest for the overall benefit of the MFI.

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4. 7 The influence of accountability practices on the social performance of an MFI

The fourth objective of this study was to assess whether accountability practices influence the social performance in a MFIs. To capture the effect of accountability practices of MFIs on their social performance, respondents were required to answer questions relating to the manner in which annual reports are prepared, the implementation of sound internal control and the appointment of internal and external auditors. Each of the indicators was subjected to an independent sample t-test to allow for comparison of the means of MFIs with a high PSI score with that of MFIs with a low SPI score. A means plot for each was then drawn to display the relationship graphically. Using weight, the separate accounting practices indicators were combined to give a consolidated score which was subject to an independent samples t-test and the results graphically displayed. The score was then subjected to a logistic regression to determine the strength of the relationship.

4. 7. 1 Preparation of annual accounts in accordance with IFRs

The International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. Kenya is one of the countries in the world that has adopted the IFRs (Aras & Crowther, 2007). The study sought to establish whether the respondentsø annual reports and accounts prepared in accordance with the (IFRs). The results indicated that all the MFIs (100%) had their annual accounts and reports prepared in accordance with the IFRs.

It has been widely demonstrated by previous studies that most of the MFIs Kenya prepare their financial reports in accordance with the IFRS (Cull, et al.,2007; Fich & Shivdasani, 2006;

Heentigala, 2011) . From these studies, the rationale behind the common adoption of the IFRS was understandability and ease of comparision of different MFIs for different regions. The MFIs association with donors and investors has also been linked to the wide adoption of the IFRS to aid in easier interpretation and understanding of the financial reports (Desender, 2009; Yang & Krishna, 2005). The results indicate a high level of compliance with the CMA Act and other corporate governance guidelines which make use of the IFRS compulsory in preparation the annual reports for all registered entities (Cadbury, 1992; CMA, 2002; BBVA Microfinance Foundation, 2011b).

The results imply that reports and accounts prepared in accordance with the IFRs command greater acceptability nationally and internationally. Preparation of the reports compliant with the requirements of the IFRS may   aid the interpretation and understanding of financial information at the international level is often hindered by a multitude of factors, including the diversity of the accounting principles and rules governing the preparation of reports. As some of the MFIs are funded by international donors and investors, the 100% adoption of the IFRS might be as a result of the efforts to comply with their requirements. No doubt, financial statements prepared under IFRS will be more useful when they are used in an international context.

The results were subject to further analysis using an independent sample t-test. From the independent samples t-test, the means for MFIs with a high SPI score and those with a low SPI score were the same as shown in the Table 4. 39 (M=2, SD=0. 0). For equal means, the t-statistic cannot be computed because the means are the same. Similarly the t-calculated value and its level of significance cannot be calculated. This implies that the basis of the annual reports preparation

has not effect on the social performance of an MFI. This may be because the IFRs stipulate standard disclosures for all institutions irrespective of their size, age or performance.

Table 4. 39: Independent sample t-test for basis of annual reports preparation

	High SPI score		Low SPI Score				
Variable	Mean	Std. Dev	Mean	Std. Dev	t cal	tcrit	Sig.
Application of IFRs	2	0	2	0	0	1. 984	0

4. 7. 2 The effect of implementing sound internal control systems on a MFI's social performance

Respondents were required to give their opinion on whether the board had put in place a sound system of internal controls, a procedure for stakeholders to effect the appointment of independent auditors at each AGM, established a formal and transparent arrangement for maintaining a professional interaction with the MFIøs auditors and whether external audit is carried out in compliance with the international standards on Auditing. As indicated in Table 4. 40, the respondents attitude towards the extent to which their organizations were complying with various accountability requirements indicated that majority (91%) agreed that their institutions were compliant.

Table 4. 40: Respondents attitude towards compliance measures

	Strongly agree	Agree	Neutral	Disagree	Strongly disagreed
Documented internal control systems	40%	55%	5%	0%	0%
Procedure for appointing independent auditors	31%	55%	6%	6%	2%
Professional interaction with external auditors	41%	45%	14%	0%	0%
External audit carried out in accordance with ISA	60%	38%	3%	0%	0%
Average	**43%**	**48%**	**7%**	**2%**	**0%**

The results show high compliance levels by the board with requirements to maintain sound internal controls in the MFI. Previous literature also finds that when a firm experiences an internal control weakness, lenders also charge higher cost of debt as the risk rating of the organization goes up (Ard & Berg, 2010; Woolcock, 1988). The results also confirm earlier findings by Kostov (2005) from his stdudy on 53 MFIs that associated sound internal control systems with less fraudulent reporting and malpractices.

The mean for MFIs that have high SPI scores (M=4. 47, SD=0. 563) who have implemented sound internal controls systems was compared to MFIs that with low SPI scores (M=4. 17, SD=0. 564). Results of the independent sample t-test(Table 4. 41) for means for the SPI scores of MFIs with high and low SPI score show that there is a significant difference in the two (t $_{cal}$ > t $_{crit}$, p< 0. 05). The results indicate that implementation of sound internal control systems in MFIs have significant influence on its social performance. Specifically, the results suggest that implementation of sound internal controls in an MFI improves it social performance.

Table 4. 41: Independent sample t-test implementation of sound internal control systems

	High SPI score		Low SPI Score				
Variable	Mean	Std. Dev	Mean	Std. Dev	t cal	tcrit	Sig.
Internal controls	4. 47	0. 563	4. 17	0. 564	-2. 759	1. 984	0. 007

A plot of the means indicates a positive relationship between the existence of sound internal control systems and the SPI score of an MFI (Fig 4. 38). This implies that implementation of good system of internal controls increases, the level of social performance. These results confirm the agency theory which recommend for stricter monitoring of the management action to ensure that they serve the interest of the stakeholders. The results confirmed earlier findings that existence of documented sound system of internal controls contributed to lower incidence of adverse earning management in an MFI.

Figure 4. 38: A plot of means of sound internal controls

The result could be explained by the fact that internal controls ensure that the assets of organization are well managed which may end up being beneficial to the stakeholders. In addition as most MFIs depend on external sources of funds, sound internal controls may lower their risk rating thus enable them access cheaper funding. The implementation of sound internal controls over financial reporting is also likely to reduce information asymmetry about future performance of the firm both in financial and social performance terms.

4. 7. 3 The effect of existence of internal and external audit on an MFI's social performance

The internal audit function is critical in putting the management under constant check and ensuring compliance with laid down guidelines and procedures. The position reports directly to the board of directors. As indicated in the figure 4. 39, majority (89%) of the respondents had an established internal audit function. Only 11% of the MFIs had not established a fully fledged internal audit function. The respondents were also required to state whether their MFIs had external auditors. The results revealed that all the MFIs had appointed firms of Certified Public Accountants as their auditors in compliance with the law. The external audit indicator was therefore eliminated for further analysis.

The internal auditor provides independent, objective assessment on the appropriateness of the organization internal governance structure and operating effectiveness of specific governance activities (BBVAA Microfinance Foundation, 2011a; CMA, 2002; Manderlier et al.,2009). Previous literature has established that material fraud is indicative of a weakness of the internal audit function resulting to a breach of an MFIø internal control system (Ard & Berg, 2010).

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Consistent with this conjecture, Yang and Krishna (2005) find that MFIs that do not have the internal audit function receive adverse internal control opinions from rating agencies.

The results indicate that most of the respondents had complied with good corporate governance practice of maintaining an internal audit function. This may be as a result of the MFIs effort to indicate the level of seriousness accorded to strengthening of internal controls to the various stakeholders. The MFIs may also create the internal audit function to improve their risk rating and thus obtain cheaper funding.
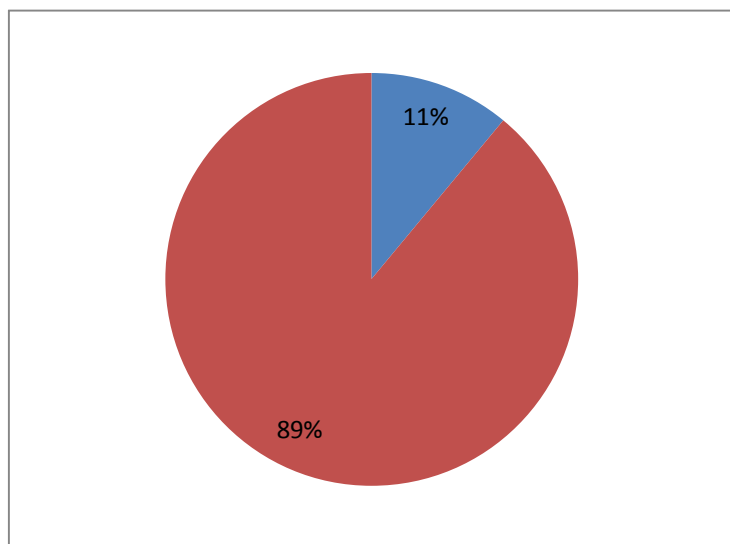
Figure 4. 39: Establishment of an internal audit function

Table 4. 44 shows a comparison of the means of MFIs with a high SPI scores (M=2. 00, SD=0. 00) and those with a low SPI scores (M =1. 74, SD=0. 441) based on the existence of the internal and external audit function in an MFI. The two means are significantly different (t $_{cal}$ > t $_{crit}$, p< 0. 05) as shown in Table 4. 42. The effect of the existence of the two functions on the social performance of the MFI is significant in determining an MFI SPI score. The results suggest that MFIs with better SPI scores have the internal and external audit functions. This could be explained by the fact that

the internal and the external auditor perform a watch dog role on behalf of the stakeholders thus in effects ensure their interests are taken care of.

Table 4. 42: Independent sample t-test for existence of the internal and external audit functions

Variable	High SPI score		Low SPI Score		t cal	tcrit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Internal & External Audit	2	0	1. 74	0. 441	-4. 642	1. 984	0. 0001

A graphical illustration of the relationship between the means of MFIs with high and low SPI scores was presented in Figure 4. 40. The figure revealed that there is a positive relationship in the existence of the internal and external audit function and the social performance score of an MFI. The findings support the agency theory which advocates for investment in agency costs by the principals to ensure that the management is put under check and to ensure they do not pursue their interest instead of those of their principals. The findings however contradict the stewardship theory which views the management as intrinsically motivated to perform the will of the stakeholders. The findings imply that the existence of the internal and external audit function ensure that the management are able to focus more on the social performance of the MFIs probably because the two report to a wider sphere of the stakeholders and not to the management.
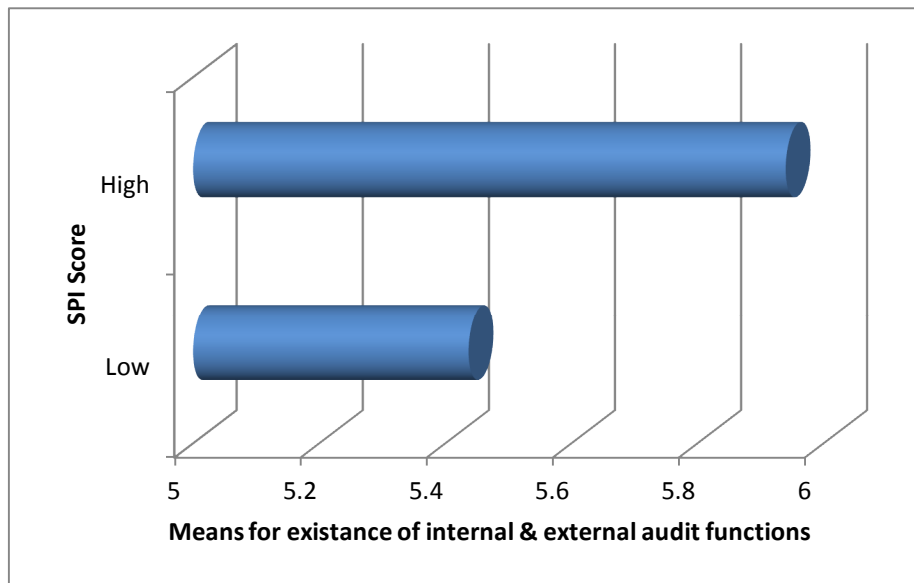
Figure 4. 40: A plot of means for existence of the internal and external audit functions

The results of this study show that although the use of external auditors is an industry wide practice, the existence of the internal audit function is still not universal among the MFIs in Kenya. . Further analysis reveals that existence of the internal audit function, result into improved social performance by the MFI. This may be as a result of the auditor efforts to monitor and report to the board issues of compliance with all the MFIs procedures including those related to social performance.

4. 7. 4 Effect of the overall accountability practices on an MFI's SPI score

The composite accountability practices score was obtained by weighting each of the indicators discussed above (the basis of preparing annual reports, implementation of sound internal control systems and the existence of the internal and external audit functions). The score was subjected to an independent sample t-test and a plot of the means graphically displayed. The results from the t-test as reported in Table 4. 43, show that means of   the composite accounting practices score for

MFIs with a high SPI scores (M=5. 94, SD=1. 75) do not differ significantly from that of those with a low SPI scores (M=5. 43, SD=1. 91); ($t_{cal} < t_{crit}$, p> 0. 05). These results suggest that overall accountability practices really do not have an effect on the social performance of an MFI. Specifically, the results suggest that an improvement in accountability practices in an MFI does not translate to its improved social performance as expected from the literature reviewed.

Table 4. 43: Independent sample t-test for overall accountability practices

Variable	High SPI score		Low SPI Score		t cal	t crit	Sig.
	Mean	Std. Dev	Mean	Std. Dev			
Accountability practices	5. 94	1. 75	5. 437	1. 913	-1. 419	1. 984	0. 153

The figure below (Fig 4. 41) presents the plots of the means for the overall accounting practices against the SPI scores. The results are a further confirmation of the positive relationship between the sampled MFIs social performance score and the composite score for stakeholder involvement. The relationship is however not significant implying that the selected accountability practices do not have a significant influence on the SPI score of the MFIs
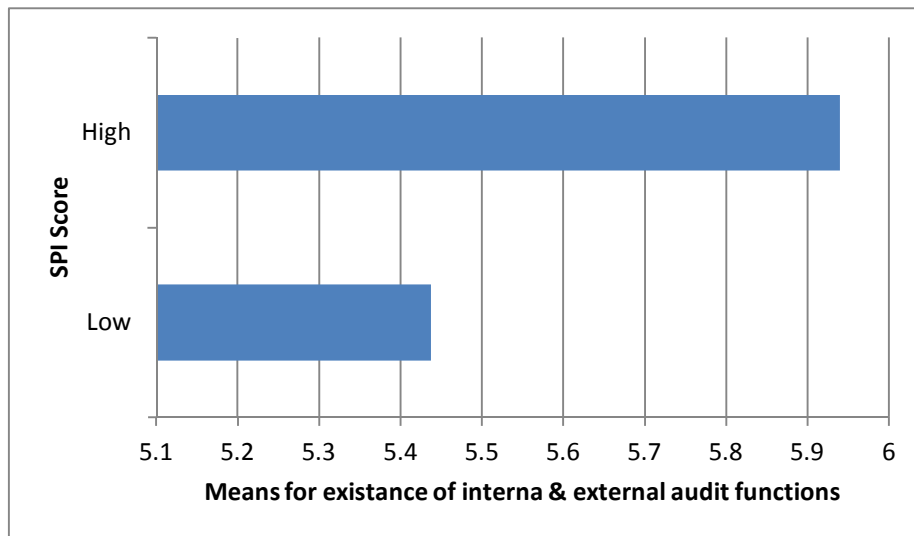
Figure 4. 41: Means of overall accountability

The results contradict the agency theory (Aras & Crowther, 2007) which emphasizes expenditure of agency costs to ensure that the actions of the management are closely monitored to ensure they are in line with those of the stakeholders. The findings also contradict the findings by Yang and Krishna,(2005) that accounability practices largely indicated the general level of performance of an MFI.

The finding are unexpected as accountability through regular reporting avails a system where stakeholders can keep the MFI on track and through which they participate in making major decisions (Frick & Bermig, 2010). The non significant relationship between the Social performance and the accounting practice may be because the accountability measures are largely financial. The industry is still working on formulating acceptable social performance management principles and standards for adoption (Campion, Linder, & Knotts, 2008).

4. 8 Logistic Regression on Factors Influencing SPI in MFIs

The logistic regression was used to further analyze the relationship between the dependent variable (SPI score) and the independent variables (board characteristics, leadership characteristics, stakeholder involvement, accountability practices) and the effect of the moderating variables (size and age of the MFI) of this relationship.

4. 8. 1 Prediction of MFIs' SPI scores based on the constant only (Block 0)

An analysis without any of the independent variables used in the model serves as a baseline for comparing the model with the independent variables included. The classification Table presents the results with only the constant included before any independent variables coefficients are included in the equation. Logistic regression compares the model with a model including all independent variables to determine whether the ladder model is more appropriate. Table 4. 45 indicates an overall percentage of 57. 7%. This implies that up to 57. 7% of the times, the level of social performance will be predicted correctly. The Table suggests that if nothing was known about the variables, a guess was made on the SPI and an MFI, it would be correct 57.7% of the time.

Table 4. 44: Classification Table based on the constant

		Predicted		
		Level of SPI score		
Observed		Low	High	Percentage Correct
Level of SPI score	Low	0	47	0
	High	0	64	100
Overall Percentage				**57. 7**

The variables not in the equation Table tell us whether each of the independent variables improves the model as shown in Table 4. 45. The results confirm a good prediction of the variables at 95% confidence level (significance of 0. 00). The inclusion of the independent variables in the equation will however be able to improve the accuracy of these predictions. The inclusion of the independent variables in the equation will however be able to improve the accuracy of these predictions.

Table 4. 45: Variables not in the Equation

	Score	df	Sig.
Accounting Practices	3. 875	1	. 049
Stakeholder Involvement	2. 862	1	. 091
Leadership Characteristics	8. 893	1	. 003
Board Characteristics	4. 334	1	. 037
Overall Statistics	21. 816	4	. 000

4.8.2   Prediction of MFIs' SPI scores based on the full logistic regression model

The prediction of the values of the dependent variable based on the full regression model is normally interpreted from Block 1 of the SPSS output. This presents the results when the predictors, board directors and leadership are included in the model. From this output, it possible to test the consistency of the model (omnibus test), the predictive accuracy of the model and a test of significance of the coefficients.

a) The predictive accuracy of the Logistic Regression Model

The classification and the predictive accuracy of the model were obtained for the classification Table below (Table 4. 46). The Table showed how the classification error rate had changed from the original 57. Results indicate the number of cases that are correctly predicted (26 cases are observed to have a low SPI score and are correctly predicted to be low; 57 cases are observed to have a high SPI score and are correctly predicted to be high). On the other hand, 21 cases are observed to have a low SPI score but are predicted to have a high score, while 7 cases are observed to have a high SPI score but are predicted to have a low score. The overall percentage score gives an indication of how well the regression model is able to predict whether an MFI has high or low SPI score. From the Table 4. 46, the model classified 74. 8% of all the MFIs correctly. This is an improvement compared to the 57. 7% obtained when the model analysis the constant only. This implies that by adding the IVs, the model prediction accuracy improves from 57. 7% to 74. 8%. The model was thus good but had to undergo further tests.

Table 4. 46: Classification Table for the model without moderating variables

		Predicted		
		Level of SPI score		
Observed		**Low**	**High**	**Percentage Correct**
Level of SPI score	Low	26	21	55. 3
	High	7	57	89. 1
Overall Percentage				**74. 8**

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b) Testing for consistency of the Logistic Regression Model

The Omnibus test of the model coefficients is used in logistic regression to test the ÷goodness of fitø of the model and hence determine if the model is useful (Frick & Bermig, 2010). The omnibus test coefficients give us the overall indication of how well the model performs over and above the result obtained from the output obtained with the analysis based on the constant only (Block 0). The test is based on the model Chi-square which is derived from the likelihood of observing actual data under the assumption that the model that has been fitted is accurate From the results on Table 4. 47, the model is highly significant (p<0. 05). Therefore, the model with the independent variables (Block 1) is a better than that which uses the constant only (Block 0) which assumes that all the MFIs would report a high SPI score. The chi-square is 24. 691 with 4 degrees of freedom. The asymptotic significance of 0. 001 was strong enough and less than p =0. 05 { 2 (4, N=111) =24. 691, P<0. 05}. This meets the threshold of asymptotic significance (Asymp. sig) for testing chi-square results. The indication is that the model has a good fit.

Table 4. 47: Omnibus Tests of Model Coefficients

	Chi-square	Df	Asymp. Sig.
Step	24. 691	4	0. 001
Block	24. 691	4	0. 001
Model	24. 691	4	0. 001

c) Sensitivity and specifity of the Model

The sensitivity of the model is the percentage of the sample interviewed that has the characteristic of interest (Wuensch, 2011). From the classification Table 4.46 (sect. 4.10. 1a), the sensitivity is 89. 1%. This implies that the model is able to classify 89. 15 of MFIs with a high SPI score correctly. On the other hand, the specifity of the model is the percentage of the group without the characteristic of interest (low SPI score) that is correctly identified (Wuensch, 2011). From the classification Table, the specifity of the model is 55. 3%. This implies 55. 3% of the MFIs were correctly predicted to have low SPI score.

d) Positive and negative predictive values

The positive predictive value (PPV) is the percentage of cases that the model classifies as having the characteristics that is actually observed in the sample. For the current model; this will be calculated using the following formula:

Positive Predictive value = <u>Number of MFI predicted to have a high SPI score</u>   X 100

Number of MFIs in the sample

$$= 57/ (21+57) \ X100 = 73\%$$

The positive predictive value is 73% indicating that of the MFIs predicted as having a high SPI score, the model accurately picked 73% of them.

The negative predictive value is the percentage of cases predicted by the model not to have the characteristic that is actually observed not to have the characteristic (Wuensch, 2011). In this

current research this would be the percentage of the MFIs predicted to have a low SPI score that are actually observed to have the same. The figure was obtained using the following formula

Negative Predictive value = <u>Number of MFI predicted to have a low SPI score</u>   X 100

Number of MFIs in the sample

= 26/ (26+7) X100 = 78%

The negative predictive value of the model is 78%. This implies that 78% of the MFIs predicted by the model to have a low SPI score are actually observed to have a low SPI score.

4. 8. 3 Testing the significance of the Logistic Regression model

The variables in the equation Table gives information about the contribution of each independent variable to the dependent variable. The Wald statistic and associated probabilities provide an index of the significance of each predictor in the model (Wuensch, 2011). From Table 4. 48, board characteristics, Leadership characteristics are both significant at 5% significance levels (p <0. 05), while stakeholder involvement is significant at 10% level of significance (p <. 01). Accountability is however not significant in the model (p >0. 01). This implies that the major factors influencing the SPI score of an MFI are its board characteristics, leadership characteristics and stakeholder involvement while accountability has no significant influence on an MFIs SPI.

Table 4. 49 represents values for the logistic regression equation for predicting the dependent variable from the independent variable. The estimates reveal the relationship between the independent variables and the dependent variable, where the dependent variable is on the logit scale. The results indicate a significant positive relationship between SPI and leadership characteristics (p< 0. 05) and a significant positive relationship with board characteristics (p<0. 05)

at 95% significance level. The positive relationship between stakeholder characteristics and SPI score is however significant at 90% level. The results suggest an increase in the leadership characteristics score leads to an increase in the SPI score, while on the other hand an increase in the stakeholder characteristics and board characteristics score would lead to a decrease in the SPI score. The beta coefficients estimates indicate the amount of increase (or decrease, if the sign of the coefficient is negative) in the predicted log odds of SPI = 1 that would be predicted by a 1 unit increase (or decrease) in the predictor, holding all other predictors constant. All variable except accountability has at least a p value of less 0. 1 thus are significant at 90% level. For accounting, p= 0. 477 meaning that the   coefficient (0. 096) is not significantly different from 0.

The   values on the variable in the equation table (Table 4. 49) are the equivalent of the   value obtained in a multiple regression analysis. They are the values to be used in the model to calculate the probability of an MFI having a high SPI score. These   values can either be positive or negative indicating the direction of the relationship between the independent variables and dependent variable. A positive   increases the likelihood of a high SPI score. Negative   values indicate that an increase in the independent variables score will decrease probability of the MFI recording a high SPI score and vice versa for positive   values. The   values were the logistic coefficients that were used to create the predictor equation as shown.

$$\text{Probability of a high SPI score by an MFI} = \frac{e^{(0.096\text{Accounting}) + (0.088 \times \text{Leadership})}}{1 + e^{(2.399 \times \text{Accounting})}}$$

4. 8. 4 Interpretation of the odds ratio

The odds ratios for the independent variable are the exponentiation of the coefficients represented by Exp ( ). The Exp ( ) column in Table 4. 48 represents the extent to which raising the corresponding measure by one unit influences the odds ratio. The odds ratio represents the change in odds of being in one of the categories of outcome when the predictor increases by one unit (Tabachnick & Fidell, 2007). Generally, an odds ratio = 1 implies that the probability of an event occurring between two situations is the same. An odds ratio greater than 1implies that the probability of an event occurring with a unit increase in the independent variable is higher than at the original value of the independent variable. If the odds ratio is less than 1the probability of an event occurring with a unit increase in the independent variable is lower than the original. Any increase in the predictor leads to a drop in the odds of the outcome occurring.

From Table 4. 49, the Exp ( ) value associated with accountability is 1. 101 and hence when an MFIøs accountability score increase by one unit, the odds ratio is 1. 201 times as large and therefore the MFI is 1. 01 times more likely to belong to the group of MFIs with a high SPI score. The variable is however not significant since P>0. 05. Stakeholders yielded an Exp ( ) value of 1. 0916. This implies that the SPI score of an MFI increase by 1. 0916 for an additional unit increase in the stakeholder involvement score all other factors being equal. Leadership yielded a high Exp ( ) score of 11. 007 implying that when an MFIøs score increase by one unit the odds ratio is 11. 007 and therefore if an MFI SPI scores increase by one unit will lead to leadership involvement by 11. 007. Board characteristics yielded Exp ( ) score of 1. 005. The odds ratio was used to measure the effect and hence rank the independent variables in order of their importance. Leadership was ranked

higher with Exp ( ) of 11. 007. The least was the board characteristic with an Exp ( ) of 1. 005. This implies that leadership characteristic was 11 times as important as board characteristics.

Table 4. 48: Variables in the Equation

	B	S. E.	Wald	df	Sig.	Exp( )
Accounting practices	0. 096	0. 135	0. 506	1	0. 477	1. 201
Stakeholder Involvement						1.
	0. 592	0. 155	14. 55	1	0. 069	0916
Leadership characteristics						11.
	2. 398	0. 963	6. 25	1	0. 013	007
Board Characteristics	0. 005	0. 003	3. 176	1	0. 008	1. 005
Constant	-12. 621	7. 651	3. 463	1	0. 033	0. 001

4. 8. 5 Summary of Logistic Regression Model

A logistic regression analysis was conducted in section 4. 11. 4a to predict the level of an MFIøs SPI score for the sampled MFIs using board characteristics, leadership characteristics, stakeholder involvement and accountability practices. A test of the full model against a constant only model was statistically significant. This indicated that the predictor reliably distinguished between MFIs with a high SPI score from those with a low SPI score.

Prediction success overall was quite high. Three out of the four independent variables made a unique statistically significant contribution to the model. The Wald criterion demonstrated that only

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leadership characteristics, board characteristics and stakeholder involvement made significant contribution to prediction of a MFIs level of SPI score. Accounting practices was not a significant predictor. The strongest of the predictor of the SPI score was leadership characteristics recording the highest odds ratio.

The study sought to examine whether larger firms are superior in social performance to smaller firms, or vice-versa, and whether older firms are superior in social performance to younger firms, or vice-versa. This was accomplished through the use of size and age as moderating variables. The size of an MFI has an adverse effect the predictive capacity of the logistic regression model. On the other hand the age of an MFI has a positive effect on the predictive capacity of the logistic regression model. This positive effect could be attributed to the learning curve effect whereby older MFIs benefit from their experience. The study findings confirm the predicted effect of the moderating variables, size and age of the MFIs on the model. The results indicate that larger MFIs tend to have lower SPI scores probably because they focus more on being sustainable due to their size.

4.9 The effect of Moderating Variables

The fifth objective was to determine the moderating effect of size and age of an MFI in the relationship between factors that influence social performance and social performance. Descriptive statistics were calculated for the two moderating variable namely: Age of the MFI and the size of the MFI. The effect of the moderating variable on the relationship between the various independent variables and the dependent variable was later examined using the logistic regression model.

4. 9. 1 Age of the MFIs.

The age of the MFIs that responded was analyzed. The results indicated that the youngest MFI was one and a half years old while the oldest was 40 years old. The median was 10 years while the mean age was 14. 3 years. The results indicate a wide variability in age among the AMFI members with some very young and others quite old. The older MFIs can be assumed to be more experienced in the field than the younger ones. The summary of this analysis is shown in Table 4.49 below.

Table 4. 49: Age of the MFI respondents

Variable	Minimum	Maximum	Median	Mean
Age of an MFI(yrs)	1. 5	40	10	14. 3

The results confirm the findings of Manderlier, et al. (2009) and Krivogorsky (2006) who found that majority of the MFIs were 10 and 15 years old. The resluts may be indicative of the rate of growth of the industry in Kenya showing that majority of the MFIs are young. The age of an MFI is critical in determing its size (Hermes et al., 2008). The age of the MFI may be a key determinant of its level of activity and stage of growth. In addition it could also determine the size of MFI measured in terms of the value of its total assets. The older MFIs will be expected to be bigger in size as well as have extra funds to invest in the social performance management. The older firms would also be expected to have embraced current market trends which includes SPM.

4. 9. 2 The Size of the MFIs

The size of the MFIs as indicated by the value of their net assets was ascertained and results indicated in Table 4. 50. The minimum value for the assets was 8. 1 Million while the maximum was 19. 7 billion. The median size of the MFIs was Kshs 453. 6 million. The size of an MFI is a measure that describes its economic activity with the bigger MFIs expected to have a high level of activity. The results show that there is a wide variability of the sizes of the sampled MFIs.

The results confirm the finding of Villiers, et al. (2009), Ayuso and Argandona (2007), and Manderlier, et al. (2009) who found the average size of the MFI to be Ksh 500 million. The studies all seem to agree that the key determinant of the size of an MFIs is its age as most started as NGOs with an initial grant from donors. Contrary arguments have been fronted by Ali & Wise (2009) who adduce evidence to attest to the fact that more younger MFIs have recently been started with bigger capital investments.

The size of the MFI could be an important moderating variable in the study because larger firm are likely to have more resources which can be devoted to Social performance as compared to the smaller firms. In addition the size of the MFI determines its position in the market. The bigger firms have the responsbility to be socially responsible as their activities are consipicous and they drive the market trends. The size of an MFI may thus determine extent to which it embraces the current industry trends.

Table 4. 50: Size of the MFI using asset value

Variable	Minimum	Maximum	Median	Mean
Net MFI Assets (Kshs)	8,108,640. 00	19,755,873,788. 00	453,687,660. 00	553,831,527. 00

The effect of the moderating variables, age and size of the MFIs was analyzed using the binary logistic regression model with inference being drawn for the classification Tables generate at each stage. The overall percentage was compared to the 74. 8% obtained with the independent variables only included in the equation.

a) The effect of the age of an MFI as a moderating variable on the model.

The effect of the moderating variable age of the MFI was analyzed by including the variable in the model. From the classification Table obtained, with the inclusion of the age of the MFI, the model correctly classified 72. 1% of cases overall compared to the initial 74.8% (Table 4. 51). This is a decline in the models capacity to correctly classify MFIs with a high SPI score. This implies that the inclusion of the age of an MFI in the model has an adverse effect on the thus has a moderating effect on the relationship between the independent and dependent variables as expected.

Table 4. 51: Classification Table with age as a moderating variable

		Predicted		
		Level of SPI score		
Observed		**Low**	**High**	**Percentage Correct**
Level of SPI score	Low	24	23	51. 1
	High	8	56	87. 5
Overall Percentage				**72. 1**

The results of this study disagree with those of earlier studies and expectations from theoretical literature review. The age of a firm is an important moderating variable in most finance and accounting studies, because larger firms have more resources and are able to devote these resources

to more diverse issues than smaller firms (Cull, Demirguc-Kunt, & Morduch, 2007; Hermes, Lensink, & Meesters, 2008; Christen R. ,1997). Consistent with this view, Villiers, et al. (2009) shows that larger firms are associated with stronger environmental performance.

The results reveal an adverse effect of the age of MFIs on the factors that determine the social performance of an MFI. This may be as a result of the shift of focus with the increase in the size of the MFI. This as explained by Campion et al. (2008) as being due to pressure from financiers of the growth for higher returns and sustinability of the MFI. Undoubtedly this would shift the focus of the organisation from pursuing the social mission to attaining fianical sustainability.

b) The effect of the size of an MFI as a moderating variable on the model

The effect of the moderating variable size of the MFI was analyzed by including the variable in the model. From the classification table obtained, with the inclusion of the size of the MFI in, the model, the overall classification score increase to 75.7% from 74.8% (Table 4. 52). This is an improvement in the predictive capacity of the model. The model as a result of the inclusion of the size of an MFI correctly classifies 75. 7% of MFIs with a high SPI score. This implies that the inclusion of the size of an MFI in the model has positively affected it. Thus, size of an MFI has a moderating effect on the relationship between the independent and dependent variables as expected.

Table 4. 52: Classification Table with size as a moderating variable

		Predicted		
		Level of SPI score		
Observed		Low	High	Percentage Correct
Level of SPI score	Low	27	20	57. 4
	High	7	57	89. 1
Overall Percentage				**75. 7**

The results for moderating effect of the age of an MFI are contrary to those for its size. Size seems to have a positive moderating effect on the factors that influence the social performance of an MFI. The results confirm findings of other earlier studies on the effect of age on organization performance (Abdullah, 2004; Ali & Wise, 2009; Cull et al.,2007). Theoretical arguments abound, relating the size of an MFI to its age thus forecasting a lower SPI score for the older bigger MFIs (Aras & Crowther, 2007). There is however no evidence linking the size of an MFI to its age as the size measured in term of the total assets is often determined by the initial and subsequent investment by stkeholders in the MFI (Hossain & Neng, 2007; Uadiale, 2010).

The learing curve argument may be invoked to explain why older firms perform relatively better than younger ones in terms of meeting their social objectives (Cyert & March, 1963). This could probably be because as the MFI matures, itøs able to focus more on its mission and goals which make clear with age and crystallization of a specific organization culture (Christen R. ,1997). In addition, older MFIs will have more experience staff, established policies and procedures, and other structures for doing business.

c) The effect of inclusion of both size and age as moderating variables in the model.

The inclusion of both age and size in the model result into a reduction of the predictive capacity of the model to 72. 1% (Table 4. 53). The model is therefore able to correctly classify 72. 1% of all cases overall. Comparatively, the overall predictive capacity of the model after the inclusion of both moderating variable declined 2. 7%. Therefore, the inclusion of the moderating variables in the model has an adverse effect on its predictive capacity. This confirms the expectation that the age and size and age of an MFI would have an effect on itø the SPI.

Table 4. 53: Classification Table with size and age as moderating variables

		Predicted		
		Level of SPI score		
Observed		**Low**	**High**	**Percentage Correct**
Level of SPI score	Low	25	22	53. 2
	High	9	55	85. 9
Overall Percentage				**72. 1**

The combined effect of the two moderating variables on the model is adverse. It implies that whatever gains are made by including the variable size in the model, are lost when size of the MFI is considered. Overall, however, the age of the MFI has a higher moderating effect on the study model than the size. The study however implies that the age and size of an MFI are important considerations in determining its social performance.

4. 10 The Optimal Model

The results of the study yielded a framework which explains the key factors that influence the social performance of MFIs in Kenya. The conceptual framework posits that the adoption of suitable board characteristics, selected leadership characteristics and involvement of certain stakeholders determine the social performance of an MFI. The Key board characteristics are the board size, number of board committees, multiple directorship and inclusion of independent directors in the board. Avoidance of CEO duality and employment of more experience CEO are the key leadership characteristics. Representation of clients and the donors in the boards of MFIs has a significant influence on the MFIs social performance too. The relationship between the independent and dependent variables is however affected by the age and the size of the firm. From the foregoing research findings, the revised study model is as shown in Fig 4. 42.

The results from the analysis revealed that the number of board members, number of board committees constituted, number of multiple directorship positions held by a directors and the number of independent directors in the board have a significant positive influence on the social performance of an MFI. The other sub-variable on board characteristics did not yield significant relations.

Under the leadership characteristics variable, on two of the predicted four sub-variable had significant relationship with the independent variable i.e. e. CEO duality and CEO experience. These two had a significant positive relationship with the SPI score of an MFI. Similarly, for the stakeholder involvement variable, representation of clients and donors in the board improves the SPI score of an MFI.

From the logistic regression analysis, the size and age of the MFI have a moderating effect on the relationship between Social performance and board characteristics, leadership characteristics and stakeholder involvement. They are therefore retained in the final model as they constitute a key consideration of factors that influence the social performance of MFIs in Kenya.

Independent variables   Moderating variables   Dependent variable

```
┌─────────────────────────────┐
│ Board Characteristics       │
│                             │         ┌──────────────────────┐
│   • Board size              │         │  • Size of the MFI   │
│   • Board committees        │         └──────────────────────┘
│   • Multiple directorship   │
│   • Independence of directors│
└─────────────────────────────┘

┌─────────────────────────────┐                            ┌──────────────────────┐
│ Leadership characteristics  │                            │ Social Performance of│
│                             │                            │ an MFI.              │
│   • CEO  duality            │                            └──────────────────────┘
│   • CEO  Experience         │
└─────────────────────────────┘

┌─────────────────────────────┐         ┌──────────────────────┐
│ Stakeholders Involvement    │         │  • Age of the MFI    │
│                             │         └──────────────────────┘
│   • Clients                 │
│   • Donors                  │
└─────────────────────────────┘
```
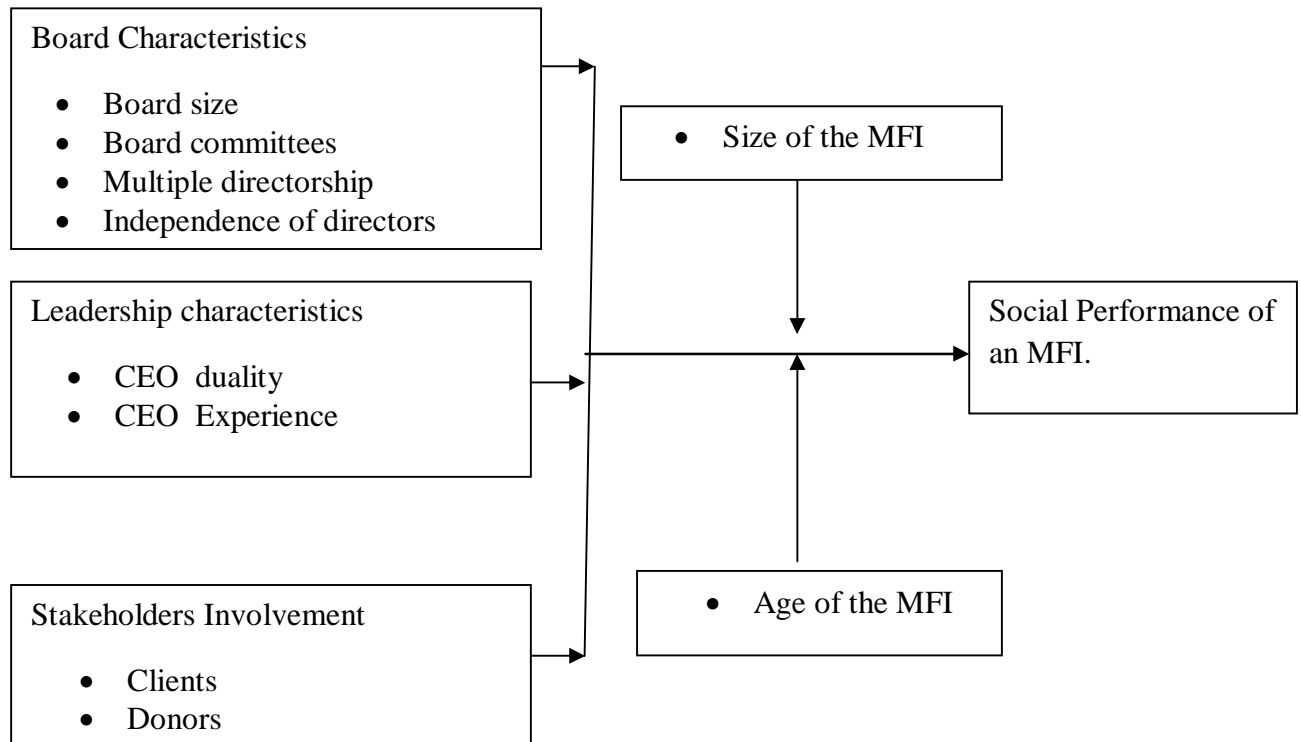
Fig. 4. 42: The revised Conceptual Framework

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5. 1 Introduction

The study sought to establish the factors that influence the social performance of MFIs in Kenya. This chapter summarizes the findings of both the literature and empirical study in order to answer the four study questions. The conclusions relate directly to the specific objectives/research questions of the study. The chapter further details recommendations for policy makers and makes suggestions on areas for further research. Each of the recommendation is linked up to each of the conclusions.

The study sought to answer the following research questions ;

1. Do the boards of directorsø characteristics influence MFIsø social performance?

2. Do MFIsø leadership characteristics influence its social performance?

3. Does the involvement of stakeholders in MFIsø boards affect their social performance?

4. Do accountability practices influence the social performance of MFIs?

5. Does the size of an MFI have a moderating effect on the relationship between factors that influence social performance?

6. Does the age of an MFI have a moderating effect on the relationship between factors that influence social performance?

5. 2 Summary of Findings

The overall objective of this study was to establish factors that influence the social performance of MFIs in Kenya. In order to answer the research questions raised to address this objective, it was necessary first to perform a review of related theoretical and empirical literature. This was followed by the methodology documented in chapter three. The methodology involved a pilot study on carefully selected MFIS that were isolated in order not to participate in the main study. The independent variables were tested for validity and reliability while factor analysis was used to identify factor loading for selection of relevant indicators. A normality test was performed on the dependent variable to inform the selection of the analysis method.

An independent samples t- test was used to establish the relationship between each independent variable and the dependent variable. A plot of the means was used to diagrammatically illustrate the direction of the relationship between variable. Each variable was analyzed separately by breaking it down to the various indicators, then as a composite score using weights. A logistic regression was generated to illustrate the predictive capacity of the whole model and the significance of each composite independent variable score. This model was used to test the relationship between SPI and all independent variables.

The findings of the study were used to answer the six research questions formulated from the specific objectives of the study. The questions sought to establish the influence of the four independent variables (board characteristics, leadership characteristics, stakeholder involvement and accountability practices) on social performance, and the moderating effect of size and age of

MFIs on the relationship. The following section presents answers to the research questions based on the study results.

5. 2. 1 How do the boards of director's characteristics' influence an MFI's social performance?

The study sought to establish the effect of board of directorsø characteristics on MFIsø social performance. Specifically, the study focused on the board size, board terms, board committees, directorsø remuneration, multiple directorship, board skills and experience and independence of directors. An exploration of available literature on the effect of the board characteristics on an MFIøs social performance indicated that they are related. The influence of board characteristic on the social performance of an MFI is further confirmed from empirical literature review. The key sub-variables under board characteristics that had a significant influence of the SPI score of an MFI were the board size, board committees, multiple directorships, and the number of independent directors in the board. Board terms, level of remuneration, skills, and experience were found to have no significant influence on the social performance of an MFI.

The finding of this study as determined from a plot of the means suggested a significant positive relationship between the overall board characteristics and the SPI score of an MFI. From the logistic regression analysis, the odds ratio for board characteristics was high implying that for every unit change in the board characteristics overall score, the MFI was more likely to report a high SPI score.

The findings on board characteristics were supported by the agency theory resulting to accountability to stakeholders (Brenna, 2010). Adequate accounting by the board protects the MFI operations being performed by the self interest action of the management (Uadiale, 2010; Sabana, 2005). This minimizes the agency costs. In addition, the relationship was supported by resource dependency theory which views directors as useful resources for organizational success (Ayuso & Argandona, 2007).

The results on board of directorsø characteristics and an MFIøs social performance suggested a strong relationship which was consistent with prior research. According to Ryhne (2012) and Olayinka (2010), SPI was significantly linked to an organizationøs success. Similarly, findings by Heenetigala (2011) and Sahin et al. (2011) also reported positive relationship. Board characteristics were also considered important from the point of view of Zheka (2006) and Manderlier et al. (2009). It was also found that adopting a recommended governance structure could result into effective board leading to higher Social Performance score, thus better management and investor confidence.

5. 2. 2 Do MFIs' leadership characteristics influence its social performance?

The study sought to establish whether MFIs leadership characteristics have any influence on the social performance of an MFI. Factors considered under leadership characteristics were; the CEO duality, gender, qualifications and experience. The findings of this study as evidenced by the independent samples t-test and a means plot suggest that leadership characteristics have a positive and significant influence on the SPI score for an MFI. A high overall leadership characteristics

score would therefore lead to a better social performance of an MFI. From the logistic regression analysis, leadership characteristics were found to be the strongest predictor of a MFIs SPI score. The odds ratio obtained indicated that MFIs with a high leadership characteristic score were over more likely to repost a high Social Performance Indicator (SPI) sore compared to those with a low leadership characteristic score. These research findings can be used to draw conclusions concerning finding new effective ways to promote social performance in MFIs.

According to Accion International (2007), the CEO of an MFI usually sets the leadership tone for their organization. They achieve this by working with the board to develop a mission or set of values and the policies and guidelines by which they operate the MFI. This in turn creates a minimum level of acceptance for employee behavior. The policies and guidelines also give the CEO and the board the ability to remove under-performing employees from the MFI hence stir it towards the attainment of its social mission (Bedecarrats, Lapenu, & Tchala, 2010; Campion, Linder, & Knotts, 2008).

The leadership characteristics are supported by the agency theory which stresses the importance of management accountability including stakeholders and resources. Prior empirical evidence on sub-variable reported separate leadership structure consistently outperforming (Desender, 2009). Whereas Galema, Lensink, and Mersland (2009) found no significant relationship between leadership and performance, the two could still be related. However, Manderlier et al. (2009) faulted some leadership characteristics; for example, gender as having no effect on social performance while Bermig (2010) altogether found that females are associated with less earning management. On the other hand Jacobs, Mbeba and Harrington (2007) pointed out to the resource

dependency theory and insisted that a CEO is a resource whose qualifications and experience can result into a better performing MFI.

5. 2. 3 Does the involvement of stakeholders in an MFI's board affect its social performance?

The effect of stakeholder involvement in an MFI's board was studied by analyzing the effect of appointing stakeholder representatives in an Annual General Meeting (AGM), client, employees and donor representatives in the board. The results indicated a significant positive relationship between stakeholder involvement and the MFI's SPI score. The results imply that an MFI's social performance score increase when different stakeholders' interests are represented by appointees in the board.

This study established that stakeholder involvement is significant in increasing the social performance of an MFI. To improve the social performance of an MFI, policies on inclusion of various stakeholder representatives in the board should be institutionalized as suggested by Cherono (2008). By involving stakeholders, MFIs create access to information and resources that stakeholders of the organizations possess, and build support for the implementation of their social performance goals. Indeed, the majority of prior empirical studies find a positive effect of stakeholder involvement on an MFI's social performance (Sahin, Basfirinci, & Ozsalih, 2011; Heenetigala, 2011; Ioannou & Serafeim, 2010).

The results of this study were supported by prior research on the relationship between stakeholder involvement and firm performances and the results were consistent with the study by Heenetigala

(2011) whose findings supported the fundamental aspect of stakeholder theory that an organization must identify stakeholders responsible to it, and that the stakeholders are involved in decision making by being represented in the organization board to improve productivity, reputation and ultimately, social performance. Chapple and Ucbasaran (2007) had also found that firms with separate leadership are associated with higher SPI. Gelema et al. (2009) also found positively significant results for stakeholder representation and financial performance variability.

5. 2. 4 Do Accountability practices influence the social performance of MFIs?

The study investigated the effect of accountability practices on the social performance of MFIs. The results from the logistic regression analysis indicated that the effect of accountability practices examined was not insignificant in the model. The results thus indicated that the level of a MFIs compliance with the stipulated requirements on accountability practice does not affect its social performance score significantly.

The results contradict the expectations from the theoretical literature review (CERISE, 2005; Ard & Berg, 2010) and findings from earlier studies (Bennan, 2006; Gary, Owen, & Adams, 1996). The argument and evidence from prior literature is that accountability is one of the key factors in MFI performance whether social or financial. They conclude that improving MFI accountability is one of the best approaches towards resolving issues in goal attainment. The argument has been seconded by corporate governance guidelines issued by various agencies (BBVAA Microfiance Foundation, 2011a; CMA, 2002; Cadbury, 1992) whose emphasis is on improving accountability for improved organisation performance.

The analysis of the accountability predictor and SPI suggested no significant relationship. The results of the study were inconsistent with the stakeholder theory because a low or non-significant score between accountability and social performance score indicated largely financial measures. Champion, Linder and Knotts (2008) indicated the need to work on formulating an acceptable standard of adoption to fairly predict the relationship between accountability and social performance. The results are also in support of Frick and Bermig (2010) who found low tracking systems through which stakeholders can keep track and participate in making decisions of the MFI. Lack of a visible SPI in the corporate governance guidelines requirements may be the reason for accountability not having an impact on SPI. This means that for SPI to have an impact on MFIs, they have a means of reporting to the stakeholder as supported by Aras and Crowther (2007), Heenetigala (2011) and earlier on CERISE (2005). The emphasis in the past has been on MFIs financial performance with less importance going to SPI.

5. 2. 5 Does the size of an MFI affect the relationship between factors that influence social performance?

When size is factored in the model, its overall predictive capacity improves. Thus, size of an MFI has a moderating effect on the relationship between the board characteristics, leadership, characteristics, stakeholder involvement, accounting practices and the social performance of an MFI. On the other hand, inclusion of the size of the MFI in the regression model, positively affects the relationship between the independent and dependent variables. When size is factored in the model, its overall predictive capacity improves

5. 2. 6 Does the age of an MFI affect the relationship between factors that influence social performance?

From the study, it was evident that the inclusion of the age of an MFI in the logistic regression model has an adverse moderating effect on the relationship between the independent and dependent variables. The inclusion of age of an MFI in the model thus negatively affect it predictive capacity. Thus, size and age of an MFI has a moderating effect on the relationship between the board characteristics, leadership, characteristics, stakeholder involvement, accounting practices and the social performance of an MFI.

5. 3 Conclusions

The findings from the study formed a suitable basis for concluding that MFIs can improve this SPI scores by improving their board characteristics, leadership characteristics and involving more stakeholders in the board. The results confirmed the importance of good governance, quality leadership and wider stakeholder involvement in the achievement of the objectives of an MFI.

1. The study concludes that board characteristics influence the social performance of an MFI and this could be through having a large board that is able to form various board committees to assist the board in its oversight role. It can also be concluded that board characteristics is an important determinant of an MFIøs social performance. The findings are support by the agency and the resource dependence theories which stress the importance of the boardøs accountability to shareholders. The theories recommend the strengthening of the board of directors for better social performance of the institution. Based on the findings of the study,

it can be concluded that improving board characteristics in line with the recommended governance principles will result to improved social performance for Kenyan MFIs.

2. Based on the empirical evidence and the results of this study, the second conclusion was that leadership characteristics have a significant influence on the Social performance of an MFI. The results imply that an MFIøs leadership characteristics directly and positively predicted its social performance in a statistically significant way. The key leadership characteristics sub-indicators that   make a positive contribution to the achievement of an MFIs social performance was the separation of the role of the Chairman, the CEO and the CEOøs work experience. The results contradict the agency theory which advocates for greater board involvement in the affairs of the MFI. On the other hand, the results, offers support for the stewardship and the social contract theory which view the leadership of an organization as having the capacity and obligation to ensure the organizations goals are achieved. It both collaborates the argument for the social contract   and social capital theorists that the CEOøs interests and actions should be aligned to those of shareholders while at the same time he has contractual obligations to cater for the societyøs interests.

3. Thirdly, the study concluded that stakeholdersø involvement was seen to improve with the appointment of clients and donor representative in the board. The involvement of various stakeholders in the running of the MFIs through representation in the board is thus key in improving its social performance. The board of the director holds the overall responsibility of putting policies in place to achieve the goals of the MFI. Successful implementation of the social mission of an MFI is dependent on involvement of key stakeholders in the

running of the affairs of the MFI. The involvement of stakeholders ensures that their interests are taken care of in the running of the institution. This conclusion is in line with stakeholder theory, resource dependency theory and social capital theory since there is creation of value for stakeholders, the boards of directors are held responsible for effectively optimizing scarce resources and social relations create benefits for both employees and stakeholders. It can thus be concluded that the presence of various stakeholdersø representatives on the board is an important determinant of the social performance of Kenyan MFIs.

4. The fourth conclusion was based on the findings on the effect of accountability practices in the social performance of an MFI. The study findings gave a basis for concluding that accountability practices and more specifically the production of annual reports, improvement of internal controls, and existence of internal and external audit have no significant effect on the social performance of an MFI. The influence of accountability practicesø on the social performance of an MFI is thus not significant. The findings contradict the agency theory and social contract theory which require close monitoring of utilization of resources by the board and management through demand for accountability. Adoption of accountability practices as recommended in the CMA regulations does not contribute to improved Social performance for MFIs in Kenya.

5. The results of moderating variables led to the conclusion that, the size of an MFI has a negative moderating effect on the overall regression model. The results imply that bigger

MFIs tend to invest less in their social performance management contradicting the social contract and the slack resources theories. The findings point to a need for further analysis of this variable as from prior research, bigger MFIs tend   in size and have more resources to invest in SPM (Sahin, Basfirinci, & Ozsalih, 2011 ; Ayuso & Argandona, 2007).

6. The results of age as a moderating variable led to the conclusion it has an overall positive effect on the predictive capacity of the regression model. Older MFIs perform better in social performance management in line with the social capital and the social contract theories. The findings point to a need for further analysis of this variable as from prior research, older MFIs tend to be bigger in size and have more resources (Sahin, Basfirinci, & Ozsalih, 2011 ; Ayuso & Argandona, 2007).

5. 4 Recommendations

To achieve improved social performance by MFIs, this study recommends that:

1. The overall board characteristics of an MFI should be improved based on good practices as stipulated in the various corporate governance guidelines and practices. More close attention should be paid on increasing the board size to the optimal number of board directors, more use of board committees, and appointment of directors who hold multiple directorship positions in other organizations and inclusion of more independent directors in the board. The emphasis should be on making the board as more independent as possible to enable them carry out their supervisory role, while taping on their experience in other organizations.

2. That the leadership structure of an MFI should allow separation of the roles of the chairman of the board and that of the CEO as stipulated in the CMA Act. In addition, when recruiting a CEO, a key consideration should be their experience in the industry.

3. That there should be more involvement of the various stakeholders in the board and especially client and donor representatives. By appointing clients and donors in the board, they get an opportunity to ensure that their interests are considered in all decisions.

4. That the industry adopts social performance indicators as mandatory reporting requirements for Kenyan MFIs. This recommendation is based on the finding of this study that accountability practices have no effect on an MFI's social performance. MFIs should find other means of improving their social performance since they will not gain much from reporting according to the international financial reporting standard, improving internal controls and by appointing internal and external auditor. This may only work towards improving financial performance.

5. Larger MFIs should be encouraged to invest more in social performance. This recommendation stems from the findings that the size of MFIs has a moderating effect on relationship between board characteristics, leadership characteristics, stakeholder involvement, accountability practices and their social performance. Stakeholders seeking to improve social performance for any Kenyan MFIs must establish its size.

6. The age of an MFI is an important consideration when studying the relationship between board characteristics, leadership characteristics, stakeholder involvement, accountability practices and an MFIøs social performance. Stakeholders seeking to improve social performance for any Kenyan MFIs must always consider the age as it has a moderating effect on the performance.

5. 5 Areas for further research

The current study tested the association of the various sub-variables with the SPI score of the MFI without determining possible causation. Further research may be needed to study the relationship between individual sub-indicators and the social performance of an MFI. In addition, the SPI tool generates the overall organization SPI score based on four dimensions namely: targeting the poor and excluded, adaptation of services, benefits to clients and social responsibility. The current study used the composite score to assess the social performance. There may be need for a more detailed study based on the key dimensions of the SPI score. In the sample selection, the regulated institution were left out on the assumption that regulation affects their governance. Future research can also address the question of whether regulation of MFIs leads to the drift from their social mission by comparing their social performance score with those of the unregulated MFIs.

5. 6 Practical and Policy Implications

The findings of this study indicate that MFIs in Kenya can improve their social performance through improving on their board and leadership structure as well as their stakeholder involvement. The summary of the SPM research provided in this study makes the whole concept of social performance clearer and more understandable. By identifying the key board and leadership

characteristics that contribute to better social performance, industry players and stakeholders can focus on improving these areas. The institutions social performance can thus be improved by investing on building institutional capacity on the identified areas. In addition, future institutional social performance diagnosis should lay special emphasis on the identified areas of leadership and governance as well as stakeholder involvement.

Even though the results show no significant relationship between an MFIøs social performance and it accountability practices, past empirical studies uphold the importance of accountability and its overall performance. This is further confirmed by the results of this study which reveal positive and significant relationships between the implementation of sound internal control systems and the existence of the internal audit function with the MFIøs social performance score. Perhaps with the envisaged development of universal reporting standards on social performance by the Social Performance Task Force (SPTF), accountability may become a significant determinant of the MFIs social performance.

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APPENDIX I: QUESTIONAIRE

Questionnaire on Governance (To be completed by the CEO)

Name of Respondentí í í í í í í í í í í í í í .. **Date**í í í í í í í í ..

Name of the MFIí .

A. Board of Directors' Characteristics

1. Age of the MFI in yearsí í í í í í í ..

2. Net Assets of the MFI Kshsí í í í í í í (as per last annual report)

3. Is your MFI headed by a board of directors?

( ) Yes ( ) No ( )

4. How many directors are currently in your board?

( ) 3 or fewer ( ) 4 or 5 ( ) 6 or 7 ( ) 8 or 9 ( ) 10 to 15 ( ) 16 or more

5. What committees has your board established to aid its governance

(a) Audit committee	( )	(b) ALCO	( )
(c) Finance committee	( )	(d) Human Resources committee	( )
(e) Nomination committee	( )	(f) Social performance committee	( )

6. (A) Are your non-executive directors paid fees for their service to your MFI?

Yes ( ) No ( )

(b) Is the directorsø fee linked to their performance?

Yes ( ) No ( )

(c) Would you say that the non-executive directorsø remuneration is competitive as compared to other directors in competing sectors?

Strongly Agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly Disagree	☐

Comments:

(d) Are your board remuneration procedures formal or informal?

Formal (   )   Informal   (   )

(e) Who approves your board remuneration procedures?

Shareholders ( ) CEO (   ) Board of directors (   ) Management (   )

7. (a) Are Board elections contested?

Yes ( )   No   (   )

(b). Of the total number of directors, how many are Dependent (employees of the company) and how many are Independent (not involved in administrative operations of the company.

No. of Dependent		No. of Independent directors	

8. (a) Indicate the number of board members with the following skills and experience.

Directors' skills	Number of Directors
Experience and skills in microfinance	
Financial markets expertise	
Legal and regulatory expertise	
Marketing	
Public relations	
Fundraising	
Philanthropy	

(b) In your opinion, which board skills are lacking in your board?

_____

9. (a) Are some of your directors currently directors in other organizations

Yes ( ) No ( )

(b) How many of your directors currently hold multiple directorships in more than 5 other companies? í í í í í í

10. (a) How long are the terms of the non executive board member

(i) Maximum 1 yr ( ) (ii) 2-3 yrs ( ) (iii) Over 3yrs ( ) (iii) No term limits ( )

(b) If there are term limits for your directors, what is the maximum number of terms a director can serve?

(i) Maximum one ( ) (ii) between one and three ( ) (iii) Over three ( )

B. Leadership characteristics

1. Is the chairperson of the board an executive director or are non-executive director?

☐ Executive director   ☐ Non-executive director

2. Is there a clear separation of the roles of the Chairman and the CEO?

Yes		No	
Reasons for your Answer:			

3. What is the gender of your CEO?

Male ( ) Female ( )

4. What is the highest level of academic achievement of your CEO?

( ) Diploma ( ) Undergraduate ( ) Masters ( ) Doctorate

5. What is the professional back ground of your CEO?. . . . .

6. (a)What is the work experience in years of your CEO?. . . . .

(c) Of the years stated above, which ones are microfinance related?. . . . .

C . Stakeholder involvement

1. Does the MFI hold an annual general meeting?
   Yes ( ) No ( )

2. Does the board provide stakeholders with sufficient, accurate and timely information that would enable them actively participate in major decisions?

Yes		No	

3. Indicate whether you agree with the following statements

Statement about the AGM	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Board provide shareholders/stakeholders with timely information on date, location, agenda					
Board consider shareholders/stakeholders expenses and convenience when selecting location and venue					
Directors provide sufficient time and explanation for questions on company performance.					

4. (a) Is there a formal procedure in the appointment of directors to the board?

    Yes (   ) No (   )

   (b) Of the total number of directors currently appointed, how many are (please put a number or a zero in each line)

í í í í í .. appointed as by shareholder/stakeholder representatives in an AGM

í í í í í .. appointed to represent the clients in the board.

í í í í í . appointed to represent the employees.

í í í í í appointed to represent donors or funders.

í í í í ... appointed to represent other stakeholdersí í í í í í (specify).

D. Accountability Practices

1. Are annual reports and accounts prepared in accordance with the International Accounting standards presented in every AGM

    Yes (   ) No (   )

2. Is the board supplied with relevant accurate and timely information to enable the board discharge its duties?

Strongly Agree ☐	Agree ☐	Neutral ☐	Disagree ☐	Strongly Disagree ☐
Reasons for your Answer:				

3. Has the board documented and maintained a sound system of internal controls to safeguard shareholders investments and assets?

Yes ( ) No ( )

4 . Has the board put in place a formal and transparent procedure for stakeholders to effect the appointment of independent auditors at each AGM?

Yes ( ) No ( )

5. Has the board established a formal and transparent arrangement for maintaining a professional interaction with the MFIøs auditors?

Strongly Agree ☐	Agree ☐	Neutral ☐	Disagree ☐	Strongly Disagree ☐
Reasons for your Answer:				

6 (a) Is the external auditor a member of ICPAK?

Yes ( ) No ( ) Not sure ( )

(b) Is the external audit carried out in compliance with the international standards on Auditing?

( ) Yes ( ) No ( ) Not sure

F. Social performance Score (from the SPI tool)

Dimension	% Score
Targeting and Outreach	
Product and services	
Benefit to clients	
Social responsibility	
TOTAL	

APPENDIX II: THE SPI TOOL INTERVIEW QUIDE.

Dimension 1 : Targeting and outreach

1. 1 Does the MFI select operating areas based on criteria of poverty/exclusion?

1. 2 What percentage of clients comes from poor/excluded areas?

1. 3 How does the MFI verify the poverty level of areas where it operates?

1. 4 Does the MFI serve clients living in rural areas?

1. 5 Does the MFI have regular service points located in areas where there are no other MFIs or bank branches?

1. 6 Does the MFI use a targeting tool to select poor clients?

1. 7 How does the MFI ensure that the tool is properly used by loan officers?

1. 8 Does the MFI measure the poverty levels of its entering/recently joined clients (less than one year in the program)?

1. 9 What percentage of all entering/recently joined clients are estimated to be below the poverty line, at the end of the reporting year?

1. 10 What percentage of clients are women?

1. 11 What percentage of clients is from socially marginalized and/or vulnerable groups?

1. 12 Does the MFI provide unsecured loans?

1. 13 Does the MFI provide loans with alternative forms of collateral in order to facilitate productive loans?

1. 14 Does the MFI provide small loans (Ö30% GNI per capita) to facilitate access for the poor?

1. 15 Does the MFI authorize small installments (< 1% GNI per capita)?

1. 16 Does the MFI allow the opening of saving accounts with very small amounts (Ö1% GNI)?

1. 17 Does the MFI encourage solidarity between the different branches of the institution or between the different loan products?

Dimension 2 : Products and Services

2. 1 How many different types of loan products does the MFI offer?

2. 2 Does the MFI provide emergency loans?

2. 3 Does the MFI provide loan products specifically tailored to clients' social needs?

2. 4 Does the MFI provide loans specifically tailored to clients' productive needs?

2. 5 Does the MFI allow local branches to adapt their products and services to clients' needs?

2. 6 Does the MFI propose voluntary savings products, directly or in partnership with other institutions, or actively promote savings?

2. 7 Does the MFI (or a partner financial institution) provide voluntary savings specifically tailored to clients' social needs?

2. 8 To what extent are the MFI's operations decentralized?

2. 9 Timely delivery: On average, how long does it take to disburse a first loan?

2. 10 What is the effective interest rate of the main loan product?

2. 11 Does the MFI use market research to identify the needs of clients and potential clients?

2. 12 What percentage of borrowers dropped out of the MFI during the last accounting year?

2. 13 How does the MFI obtain feedback from dropouts on their reasons for leaving?

2. 14 Does the MFI provide innovative financial services to more than 5% of its clients

2. 15 For regular financial transactions, do loan officers have to leave the MFI's premises to visit clients?

2. 16 Has the MFI developed linkages with other sectors and/or other actors outside the microfinance sector ?

2. 17 Does the MFI (or partnering institution) offer services related to enterprise management?

2. 18 Does the MFI (or partnering institution) offer services that address social needs?

Dimension 3 – Economic benefits for clients

3. 1 Does the MFI track changes in the poverty levels or economic status of clients over time?

3. 2 Did any of the staff participate in training or orientation sessions related to any aspect of SPM , during the reporting year?

3. 3 Does the MFI conduct performance appraisals of staff in relation to social performance management?

3. 4 Has the MFI taken corrective measures due to negative impacts on social cohesion or client welfare?

3. 5 Does the MFI have an explicit strategy to reduce costs of services as much as possible?

3. 6 Does the MFI have a formal policy on how clients benefit from profits generated by the MFI?

3. 7 Does the MFI adopt special measures or have special funds in case of collective disaster?

3. 8 Can MFI clients participate in decision-making?

3. 9 Are there elected client representatives at the governance level (board of directors)

3. 10 Is there an effective system to determine the rotation of client representatives?

3. 11 What percentage of all client representatives are women?

3. 12 At the client level or management level, does the MFI provide training and capacity building?

3. 13 Are these participatory bodies effective?

3. 14 Does the MFI help clients resolve problems beyond access to financial services?

3. 15 Does the MFI or partnering institution offer support services that specifically aim at women's empowerment?

3. 17 Has the MFI sought to increase clients' influence with local or national government?

3. 16 Does the MFI have effective strategies in place to communicate policy decisions to clients?

Dimension 4 : Social Responsibility

4. 1 Does the MFI have a clear salary scale based upon market salaries?

4. 2 What percentage of staff is employed with a long-term contract?

4. 3 Are training programs accessible to all types of employees?

4. 4 Can the employees participate in decision-making regarding strategic decisions of the MFI?

4. 5 Does the MFI provide health coverage for all its employees?

4. 6 Does the MFI have a specific policy with regard to women

staff?

4. 7 What percentage of the MFI staff left the MFI during the last 12 months?

4. 8 Prevention of over-indebtedness: What does the MFI do to avoid client over-indebtedness?

4. 9 Does the MFI ensure transparent communication on costs and fair pricing of its products?

4. 10 Does the MFI offers transparent and fair credit conditions and collection practices to its customers?

4. 11 Ethical staff behavior: Does the MFI ensure staff ethical codes of conduct are consistently

followed?

4. 12 Does the MFI have a complaint procedure for clients that is explained to them?

4. 13 Client confidentiality: Does the MFI safeguard privacy of clientsødata?

4. 14 Does the MFI have a policy defining social responsibilities to the community?

4. 15 Is the MFI proactive in promoting local social and economic development?

4. 16 Does the MFI have an environmental policy for clients/microenterprises it finances?

4. 17 Does the MFI have an environmental policy for its own organization's practices?

APPENDIX III: LIST OF AMFI MEMBERS

A. BANKS
1. K-rep Bank Ltd
2. Equity Bank
3. Co-operative Bank
4. Kenya Post Office Savings Bank

B. SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCO)

1. Unaitas Sacco Society ltd. (Formerly Muramati Sacco Society Ltd)

C. INSURANCE COMPANIES
1. CIC Insurance
2. Chartis insurance
3. Micro-ensure Advisory Services

D. DEVELOPMENT INSTITUTIONS
1. Swiss Contact
2. Women Enterprise Fund

E. DEPOSIT TAKING MICROFINANCE INSTITUTIONS

1. Kenya Women Finance Trust-DTM
2. Rafiki Deposit Taking Microfinance Ltd
3. Faulu Kenya DTM
4. SMEP DTM
5. Remu DTM Ltd
6. Uwezo DTM Ltd
7. Century DTM Ltd

F. WHOLESALE MICROFINANCE INSTUTIONS

1. Jitegemee Trust
2. OIKOCREDIT
3. MESPT

G. RETAIL MICROFINANCE INSTITUTIONS

1. Blue Limited
2. K-rep Development Agency
3. Eclof Kenya
4. KADET

5. BIMAS

6. SISDO

7. Micro Africa Ltd

8. Opportunity Kenya

9. Yehu Microfinance Trust

10. Fusion Capital Ltd

11. Canyon Rural Credit Ltd

12. One Africa Capital Ltd

13. Jitegemea Credit Scheme

14. AAR Credit Services

15. Agakhan Foundation Microcredit Programme

16. ADOK TIMO

17. Pamoja Women Development Programme

18. Juhudi Kilimo Co. Ltd

19. Musoni Kenya Ltd

20. Molyn Credit Ltd

21. Renewable Energy Technology Assistance Programme (RETAP)

22. Rupia Ltd

23. Taifa Options Microfinance

24. U&I Microfinance Ltd

25. Select Management Services Ltd

26. Greenland Fedha Ltd

27. Youth Initiatives ó Kenya (YIKE)

28. Biashara Factors

29. Platinum Credit Limited

30. Sumac Credit Ltd

31. Ngao Credit Ltd

32. Indo Africa Finance

33. Springboard Capital

34. Mini Savings & Loans Ltd

35. KEEF-Kenya Entrepreneurship Empowerment Foundation

APPENDIX IV: The t- Table

The t- Distribution											
two-tails	1	0.5	0.4	0.3	0.2	0.1	0.05	0.02	0.01	0.002	0.001
df 1	0	1	1.38	1.96	3.08	6.31	12.71	31.8	63.66	318.31	636.62
2	0	0.82	1.06	1.39	1.89	2.92	4.303	6.97	9.925	22.327	31.599
3	0	0.77	0.98	1.25	1.64	2.35	3.182	4.54	5.841	10.215	12.924
4	0	0.74	0.94	1.19	1.53	2.13	2.776	3.75	4.604	7.173	8.61
5	0	0.73	0.92	1.16	1.48	2.02	2.571	3.37	4.032	5.893	6.869
6	0	0.72	0.91	1.13	1.44	1.94	2.447	3.14	3.707	5.208	5.959
7	0	0.71	0.9	1.12	1.42	1.9	2.365	3	3.499	4.785	5.408
8	0	0.71	0.89	1.11	1.4	1.86	2.306	2.9	3.355	4.501	5.041
9	0	0.7	0.88	1.1	1.38	1.83	2.262	2.82	3.25	4.297	4.781
10	0	0.7	0.88	1.09	1.37	1.81	2.228	2.76	3.169	4.144	4.587
11	0	0.7	0.88	1.09	1.36	1.8	2.201	2.72	3.106	4.025	4.437
12	0	0.7	0.87	1.08	1.36	1.78	2.179	2.68	3.055	3.93	4.318
13	0	0.69	0.87	1.08	1.35	1.77	2.16	2.65	3.012	3.852	4.221
14	0	0.69	0.87	1.08	1.35	1.76	2.145	2.62	2.977	3.787	4.14
15	0	0.69	0.87	1.07	1.34	1.75	2.131	2.6	2.947	3.733	4.073
16	0	0.69	0.87	1.07	1.34	1.75	2.12	2.58	2.921	3.686	4.015
17	0	0.69	0.86	1.07	1.33	1.74	2.11	2.57	2.898	3.646	3.965
18	0	0.69	0.86	1.07	1.33	1.73	2.101	2.55	2.878	3.61	3.922
19	0	0.69	0.86	1.07	1.33	1.73	2.093	2.54	2.861	3.579	3.883
20	0	0.69	0.86	1.06	1.33	1.73	2.086	2.53	2.845	3.552	3.85
21	0	0.69	0.86	1.06	1.32	1.72	2.08	2.52	2.831	3.527	3.819
22	0	0.69	0.86	1.06	1.32	1.72	2.074	2.51	2.819	3.505	3.792
23	0	0.	0.	1.	1.	1.	2.	2.5	2.	3.485	3.768

	0%	50%	60%	70%	80%	90%	95%	98%	99%	99.80%	99.90%
		0.69	0.86	1.06	1.32	1.71	2.069		2.807		
24	0	0.69	0.86	1.06	1.32	1.71	2.064	2.49	2.797	3.467	3.745
25	0	0.68	0.86	1.06	1.32	1.71	2.06	2.49	2.787	3.45	3.725
26	0	0.68	0.86	1.06	1.32	1.71	2.056	2.48	2.779	3.435	3.707
27	0	0.68	0.86	1.06	1.31	1.7	2.052	2.47	2.771	3.421	3.69
28	0	0.68	0.86	1.06	1.31	1.7	2.048	2.47	2.763	3.408	3.674
29	0	0.68	0.85	1.06	1.31	1.7	2.045	2.46	2.756	3.396	3.659
30	0	0.68	0.85	1.06	1.31	1.7	2.042	2.46	2.75	3.385	3.646
40	0	0.68	0.85	1.05	1.3	1.68	2.021	2.42	2.704	3.307	3.551
60	0	0.68	0.85	1.05	1.3	1.67	2	2.39	2.66	3.232	3.46
80	0	0.68	0.85	1.04	1.29	1.66	1.99	2.37	2.639	3.195	3.416
100	0	0.68	0.85	1.04	1.29	1.66	1.984	2.36	2.626	3.174	3.39
1000	0	0.68	0.84	1.04	1.28	1.65	1.962	2.33	2.581	3.098	3.3
	0%	50%	60%	70%	80%	90%	95%	98%	99%	99.80%	99.90%

Confidence Level

APPENDIX V: THE CHI-SQAURE DISTRIBUTION TABLE

df^{995}	χ^2	χ^2	χ^2	χ^2	χ^2	χ^2	χ^2	χ^2	χ^2	χ^2
1	0.000	0.000	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	18.549	21.026	23.337	26.217	28.300
13	3.565	4.107	5.009	5.892	7.042	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	22.307	24.996	27.488	30.578	32.801
16	5.142	5.812	6.908	7.962	9.312	23.542	26.296	28.845	32.000	34.267
17	5.697	6.408	7.564	8.672	10.085	24.769	27.587	30.191	33.409	35.718
18	6.265	7.015	8.231	9.390	10.865	25.989	28.869	31.526	34.805	37.156
19	6.844	7.633	8.907	10.117	11.651	27.204	30.144	32.852	36.191	38.582
20	7.434	8.260	9.591	10.851	12.443	28.412	31.410	34.170	37.566	39.997
21	8.034	8.897	10.283	11.591	13.240	29.615	32.671	35.479	38.932	41.401
22	8.643	9.542	10.982	12.338	14.041	30.813	33.924	36.781	40.289	42.796
23	9.260	10.196	11.689	13.091	14.848	32.007	35.172	38.076	41.638	44.181
24	9.886	10.856	12.401	13.848	15.659	33.196	36.415	39.364	42.980	45.559
25	10.520	11.524	13.120	14.611	16.473	34.382	37.652	40.646	44.314	46.928
26	11.160	12.198	13.844	15.379	17.292	35.563	38.885	41.923	45.642	48.290
27	11.808	12.879	14.573	16.151	18.114	36.741	40.113	43.195	46.963	49.645
28	12.461	13.565	15.308	16.928	18.939	37.916	41.337	44.461	48.278	50.993
29	13.121	14.256	16.047	17.708	19.768	39.087	42.557	45.722	49.588	52.336
30	13.787	14.953	16.791	18.493	20.599	40.256	43.773	46.979	50.892	53.672
40	20.707	22.164	24.433	26.509	29.051	51.805	55.758	59.342	63.691	66.766
50	27.991	29.707	32.357	34.764	37.689	63.167	67.505	71.420	76.154	79.490
60	35.534	37.485	40.482	43.188	46.459	74.397	79.082	83.298	88.379	91.952
70	43.275	45.442	48.758	51.739	55.329	85.527	90.531	95.023	100.425	104.215
80	51.172	53.540	57.153	60.391	64.278	96.578	101.879	106.629	112.329	116.321
90	59.196	61.754	65.647	69.126	73.291	107.565	113.145	118.136	124.116	128.299
100	67.328	70.065	74.222	77.929	82.358	118.498	124.342	129.561	135.807	140.169