CORPORATE GOVERNANCE AND ITS IMPACT ON PERFORMANCE (SOCIAL AND FINANCIAL): EVIDENCE FROM MFIs IN ETHIOPIA

MSc. THESIS

SANI NISRANE MOHAMMED

WOLKITE UNIVERSITY, WOLKITE, ETHIOPIA

JULY, 2021

CORPORATE GOVERNANCE AND ITS IMPACT ON PERFORMANCE (SOCIAL AND FINANCIAL): EVIDENCE FROM MFIs IN ETHIOPIA

SANI NISRANE MOHAMMED

A THESIS SUBMITTED TO THE

DEPARTMENT ACCOUNTING AND FINANCE,

WOLKITE COLLEGE OF BUSINESS AND ECONOMICS, SCHOOL OF GRADUATE STUDIES

WOLKITE UNIVERSITY

WOLKITE, ETHIOPIA

IN PARTIAL FULFILLMENT OF THE

REQUIREMENTS FOR THE

DEGREE OF

MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

JULY, 2021

SCHOOL OF GRADUATE STUDIES

WOLKITE UNIVERSITY

This is to certify that the thesis entitled “Corporate Governance and its impact on Social and Financial performance of Ethiopian Microfinance institutions” submitted in partial fulfilment of the requirements for the degree of Master's with specialization in Accounting and Finance, the Graduate Program of the Department/School of Business and Economics, and has been carried out by SANI NISRANE Id. No BEGR/014/2012, under my/our supervision. Therefore I/we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

SITINA AKMEL__		05/07/2021___
Name of major advisor	Signature	Date
_____	_____	_____
Name of co-advisor	Signature	Date

SCHOOL OF GRADUATE STUDIES

WOLKITE UNIVERSITY

We, the undersigned, members of the Board of Examiners of the final open defense by SANI NISRANE have read and evaluated his/her thesis entitled "Corporate governance and its impact on social and financial performance of microfinance institutions in Ethiopia" and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfilment of the requirements for the degree of masters of Science in Accounting and Finance (MSc).

Name of the Chairperson	Signature	Date
Name of Major Advisor	Signature	Date
Name of Internal Examiner	Signature	Date
Name of External examiner	Signature	Date
SGS Approval	Signature	Date

ACKNOWLEDGEMENT

First and for most, I would like to express my gratitude and special thanks to the Almighty Allah for providing me the energy, insights and inspiration to prepare this thesis in the way that I want to be. Words lack strength to precise my gratitude to my esteemed advisor for incessant guidance, perspicacious thoughts, constructive comments and efforts to elucidate things clearly and easily throughout the long journey of preparing this thesis. Besides this, several people have knowingly and unknowingly helped me within the successful completion of this project. Thank you all for your insights, guidance and support.

Most of the results described in this thesis would not have been obtained without a close collaboration of the respondents and National bank of Ethiopia. I owe a great deal of appreciation and gratitude to all respondents who made possible the difficult task of 'data collection' easy for my research and to National Bank of Ethiopia for their priceless help and support.

Lastly, I would like to thank all those not mentioned by name that contributed and participated in one way or the other, knowingly or unknowingly for the successful completion and to make this work worth reading.

SANI NISRANE

DECLARATION

I hereby declare that this MSc thesis is my original work and has not been presented for a degree in the other university, and every one sources of fabric used for this thesis have been duly acknowledged.

Name: SANI NISRANE

Signature: _____

Date: _____

ABBREVIATIONS

AEMFI: Association of Ethiopian Microfinance Institution

BS: Board Size

SAC: Size of Audit Committee

CEOD: Chief Executive Officer Duality

CG: Corporate Governance

CLRM: Classical Linear Regression Model

EQB: Educational Qualification of Board

FS: Firm Size

MFB: Meeting Frequency of Board

MFI: Micro Finance Institutions

NBE: National Bank of Ethiopia

ROA: Return on Asset

GLP: Gross Loan Portfolio

NAB: Number of Active Borrowers

S.D: Standard Deviation

D.F: Degree of freedom

Prob: Probability

TABLE OF CONTENTS

LIST OF TABLES

Table Name **page no**

LIST OF FIGURES

Name of figure **page no**

ABSTRACT

The study was aimed to look at the effect of corporate governance attributes on the social and financial performance of in MFIs Ethiopia. Explanatory research design with quantitative research approach was employed to carry out the study. From 35 legally registered microfinance institutions at NBE and AEMFIs, 16MFIs were selected based on the availability of data to investigate the effect of corporate governance variables such as board size, board educational qualification, board experience in the financial sector, meeting frequency of the board, board audit committee size and CEO with dual responsibility on social (breath of outreach and depth of outreach) and financial performance of MFIs measured by Number of Active Borrowers, Gross Loan Portfolio and Return on Asset respectively. In addition to main explanatory variables, control variables MFIs Size were also included within the study variables. Both primary and secondary data were used in which primary data regarding board characteristics was collected through questionnaire and secondary data was obtained from MFIs, NBE and AEMFIs. Panel data covering six year from 2014-2019 was analyzed for sixteen microfinance institutions. The regression results revealed that board size, board educational qualification, meeting frequency and CEO with dual responsibility have positive relationship with financial performance of MFIs while board experience in the financial sector, board audit committee size and firm size has statistically negative relationship. Board educational qualification, meeting frequency, audit committee size and firm size have positive relationship with social (breath of outreach) while board size, board experience in the financial sector, and CEO with dual responsibility have negative relationship. Board size, Board educational qualification, audit committee size and firm size have positive relationship with social (depth of outreach) while board experience in the financial sector, meeting frequency and CEO with dual responsibility have negative relationship. Based on empirical result of the study, it is recommended that CEO with dual responsibility should be separate for better performance. Furthermore, in order to reduce the problem of management failures which put at risk the money obtained from the public and other sources, the governance mechanisms *of MFIs have to be effective* (i.e. *creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm's operational efficiency, returns on investment and or on equity and long term productivity).*

***Keywords**: Corporate Governance, Financial Performance, Social (breath and depth of outreach) performance, MFIs, Ethiopia*

CHAPTER ONE

1. INTRODUCTION

This chapter highlights the background of the study in regard to corporate governance, statement of the problem, objectives of the study, the research questions, research hypotheses, scope and limitation of the study, significance of the study and organization of the paper.

1.1. Background of the study

The development of microfinance institutions in Ethiopia may be a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the gov't encouraged the spread of Microfinance Institutions (MFIs) in both rural and concrete areas because it authorized them among other things, to legally accept deposits from the overall public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005). Thus, the MFIs provide for a market with an operationally acceptable demand level and where clients are often shielded from the unreasonable conditions of the informal money lenders. Such MFIs, however, charge high administrative costs and better charges for risk coverage, which is additional to the market interest rates, and taking advantage of the niche market for microloans (Sunita, 2003).

Good corporate governance system is necessary for any company who wants to put and meet its strategic goals. A corporate governance system is regularly a mixture of various systems. Corporate governance systems are the procedures employed by companies to solve corporate governance problems; however, the use of these mechanisms depends on the corporate governance system (Weimer &Paper, 1999). Corporate governance enhances the performance and ensures the performance of corporations. Its principles stimulate the performance of corporations by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm's operational efficiency, returns on investment and or on equity and long term productivity growth Kim et al., (2010); Akinboade and Okeahalam (2003).

Governance is about achieving corporate goals. For most MFIs, dual goals exist. One goal is to contribute to development. This involves reaching more clients and poorer population strata, the main outreach "frontiers" of microfinance (Helms, 2006; Johnson et al., 2006). The second goal is to try to this during a way that achieves financial sustainability and independence from donors. As measures for financial performance the researcher use return on assets (ROA). The outreach measures are the MFI's average outstanding loan and therefore the number of credit clients served. The average outstanding loan is a measure of the so called depth of microfinance, that is, the reaching out to the poorest segments of customers, and the number of credit clients may be a measure of breadth, for obvious reasons (Schreiner, 2002). Thus, the firm performance measures should cover a number of interesting features of the microfinance reality. Good corporate governance has been identified as a key bottleneck in strengthening MFIs' financial performance and increases their outreach (Rock et al., 1998; Labie, 2001; Helms, 2006; United Nations, 2006; Otero and Chu, 2002).

Without efficient companies or businesses, a country will not create wealth and employment (Akinboade and Okeahalam, 2003). They further argue that without investment, companies will stagnate and collapse. If businesses do not prosper, there will be no economic growth; no employment, no taxes paid and invariably the country will not develop. Developing countries - in particular, need well-governed and managed companies that can attract investors, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance, therefore, becomes a prerequisite for national economic development and performance of companies. Globally, especially in developing countries companies face various challenges in implanting corporate governance.

The corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources (Eyob, 2016). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the corporate is completing out its activities is additionally achieved by good practice of corporate governance mechanisms. The most important theories are the agency theory, stakeholders' theory and resource dependency theory.

The motives behind the research will: First, there is no sufficient literature relating to the effect of corporate governance attributes on both social & financial performance of MFIs. Second, the study on the effect of corporate governance variables on performance (social and financial) of the firm is also rare in Ethiopia. Hence, a comprehensive study that considers the scarcity of the study is required to enhance lack of research on the difficulty in Ethiopia which will broaden the literature regarding the concept of corporate governance mechanism and its effect. Therefore, a strong motivation to investigate empirically, the relationship between corporate governance and its impact on performance of MFIs was the main motivation of the study.

1.2. Statement of the Problem

Limited access to financial services is among the main problems impeding rural livelihood development (Hermes and Lensink 2007; Wijesiri et al. 2017). The problem is especially severe in developing countries, like as Ethiopia, mainly for 2 reasons. First, most of the conventional banks in the country are concentrated in urban areas, while more than 80% of the population is rural. Second, whenever available, the formal banking sector systematically excludes the agricultural poor thanks to the upper screening, monitoring, and enforcement costs of providing a little loan. Thus, a substantial number (more than 80%) of the poor in Ethiopia obtain financial services from informal lenders, who are ready to enforce loan contracts but at a high interest rate (Demirgucet al. 2018; Wolday 2004). In recognition of this, the Ethiopian government issued the first microfinance legislation in 1996. Since then, the number of clients, volume of the loan portfolio, and savings of MFIs has been increasing (Wolday 2004). Closer examination of the role of various governance mechanisms is important because MFIs managers control significant resources. The microfinance community has experienced some major failures because of inadequacies in its operations, including corporate governance (Labie, 2001). Given its tremendous outreach in recent years its future growth and financial sustainability depends on how well it is governed and if these corporate governance mechanism (appropriate board size, qualified board members, experienced board members, more than 12 meetings per year, appropriate size of audit committee and CEO with dual responsibility) are not followed it will result in to collapse and closure of these microfinance institutions.

Good corporate governance has been identified as a key bottleneck in strengthening MFIs' financial performance and increases their outreach (Rock et al., 1998; Labie, 2001; Helms, 2006; United Nations, 2006; Otero and Chu, 2002). Institutions that practice good corporate governance are more likely to achieve institutional objectives and goals. Good corporate governance should thus be of prime concern to owners and other stakeholders of those institutions. Governance issues in MFIs are not only essential but also an important variable in the bid to promote the wellbeing of the poor due to their increasing role in controlling significant resources. Resource provision is also significant as boards consist of people with different experiences, skills, and backgrounds. Board members bring different types of resources, such as advising, counseling, facilitating access to resources such as funding, and linking the organization to important stakeholders and/or other important entities.

According to the Centre for the Study of Financial Innovation (CSFI, 2008) and other researchers (Hartarska, 2005; Hartarska &Nadolnyak, 2007; Mersland & Strøm, 2009; Rock, Otero, & Saltzman, 1998), (cited in Thrikawala.S, 2013) the issue of corporate governance for MFIs is an emerging consensus to conduct more studies on corporate governance of MFIs to analyses the relationship between institutional success and corporate governance especially for developing countries. Now a day's financial sustainability of MFIs is the main objective than to the social mission and the issue of corporate governance on microfinance institutions becomes increasingly relevant (Campion, 1998).The influence of corporate governance on the MFIs' performance both (social and financial) at the same time has not been empirically studied in Ethiopia before, partly due to lack of data. The study aims to fill the gap by exploiting recently (2014-2021) released data from MFIs and NBE, yielding a unique panel data set of registered and licensed MFIs in a country. Thus, the researcher respond to the Morduch (1999); Hartarska (2005) request for more studies and, equally important, better data to analyze the relationship between corporate governance and performance (social and financial) in the microfinance institutions.

1.3 Objective of the Study

1.3.1 General Objectives of the study

The general objective of the study was evaluating corporate governance and its impact on performance (Social and financial) of MFIs in Ethiopia.

1.3.2. Specific objectives of the study

- To evaluate the corporate governance of Ethiopian MFIs.
- To find out the impact of corporate governance mechanisms (board size, Frequency of Board Meetings, board educational qualification, board experience in the financial sector, CEO duality and Size of audit committee) on performance of MFIs in Ethiopia.

1.4. Research Questions

The study tried to address the following questions.

Q1. How CG issues are addressed by Ethiopian MFIs in attaining their performance (social and financial) goals?

Q2 How do CG issues affect the social performance of MFIs in Ethiopia?

Q3. How do CG mechanisms affect the financial performance of MFIs in Ethiopia?

1.5. Research Hypotheses

In a broad sense, corporate governance is about how firm's should be governed so that they are run effectively and efficiently (strange, 2015). In cases where there has been absence of good corporate governance, many well performing companies have been known to collapse and indeed the current literature are generally in support of the point that right Corporate Governance brings about a positive influence on performance of organizations (OECD, 2015).

H1a: Board size has a significant negative impact on performance (social & financial) of microfinance institutions.

H1b: Educational qualification of the board members has a significant positive impact on performance (social & financial) of MFIs

H1c: Board members experience in the finance sector has a significant positive impact on the performance (social & financial) MFIs.

H1d: Frequency of board meeting has a significant positive impact on the performance (social & financial) of MFIs.

H1e: CEO with dual responsibility has a significant negative impact on the performance (social & financial) of MFIs.

H1f: Size of audit committee in the board has a significant positive impact on the performance (social & financial) of MFIs.

1.6. Scope and Limitation of the Study

This study mainly relies on corporate governance indicators accessed from the audited annual financial reports of microfinance institutions in Ethiopia. The financial performance of MFIs only measured by using accounting based measures. This study focused on specific corporate governance mechanisms in order to see their impacts on the social and financial performance MFIs in Ethiopia includes; - board size, frequency of board meetings, board educational qualification, board experience in the financial sector, CEO duality and size of audit committee, and firm size. The study period cover 6 years, ranging from (2014 to 2019 G.C) because of the availability of secondary data. One of the limitations of this study is it relies on accounting based measure of performance. The sample of the study includes 16 microfinance institutions out of thirty five registered and licensed MFIs currently operating in Ethiopia because of the availability of secondary data from those MFIs. In addition to that, for the regression variables the sample was not selected by employing random sampling technique. Simply they were selected based on the availability of data from 2014-2019 G.C.

1.7 Significant of the study

The aim of the study is to examine the relationship between corporate governance and performance of MFIs in Ethiopia. Hence, it is believed that the study will have invaluable importance for different actors in the corporate governance system as follows:

- The study contributes to MFIs by identifying relevant internal corporate governance issues and how this governance affects its performance.
- The government will use the study so as to come up with clear criteria of promoting CG of MFIs in Ethiopia. Policy makers may find the study useful as a basis of

formulating policies and procedures which can be effectively implemented for better and easier regulation of MFIs.

- Finally Researchers in particular and academic community in general will use the study as a stepping stone for further studies on the relationship between CG issues and MFIs.

1.8. Organization of the study

The remaining, chapter two briefly discusses and outlined the theoretical and empirical reviews of the literature. In addition it provides the conceptual framework of the study. The third chapter presents the research design, data source and type, data collection instruments, target population and sample of the study, and method of data analysis. The fourth chapter details the results and discussions of the study based on the data collected from secondary sources. It covers descriptive statistics that shows the current trend of governance in Ethiopian MFIs, correlation and regression results of the study. The last chapter provides findings of the study, summary and conclusion and recommendations based on the results of the study. Moreover, it presents directions for future researches.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. The Concept of Corporate Governance and its Definition

In early 17th century, the concept of corporate governance doesn't exist. This is because in those days, ownership was divided into small number of people (partnership) who also participate in the operations of the organization, so they can easily control and safeguard their interest (Ali, 2016).The study of corporate governance began with the work by Berle and Means (1932) cited in Coleman & Osei (2008) they tried to look at corporations and property rights. In that study, a fundamental agency problem in modern firms is described where there is a separation of ownership and control. The thrust of the argument is that firms are run by professional managers (referred to as agents) and are accountable to dispersed shareholders (referred to as principals). This view fits into the principal-agent paradigm where there is a divergence between the objective functions of firm managers and firm owners. In this scenario, the issue has always been how to ensure that the interest of shareholders and mangers are aligned ensuring a convergence of the different objective functions thereby reducing cost associated with principal-agent theory.

According to Rogers (2008), cited in Paul (2015) corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information Rogers (2008), stated that, corporate governance is about how to build trust and sustain confidence among the various groups that make up an organization. Depending up on the relative powers of owners, managers and capital providers, the concept of CG is defined and understood differently in different part of the world. A number of scholars have viewed corporate governance differently (Rediker, Seth, 1995; Shleifer, Vishny, 1997; and Keasey, Short, 2006). According to Mwasi (2011) weakness in corporate governance structure within microfinance institutions were cited as a reason for excessive risk taking, skewed incentive compensations for senior managers and the ascendance of a board culture that values short term gains over sustained long term performance. In contrast, in its widest sense (i.e. stakeholder model) CG is used to describe the network of relationships between an organization and its various stakeholders. However, it can be argued that there is

no need for such a distinction since both the models have identified corporate governance as a network of relationships between a company and its public through which the board is held accountable.

The corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources (Eyob, 2016). The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners. The direction side of corporate governance emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control side of the definition, on the other hand, emphasizes the responsibility of the board to oversee the executive management of the company in the execution of the plans and strategies. Lukwago (2012) stressed that good corporate governance promotes efficient management and hence help to maintain the MFIs reputation and maintains the clients‟ trust. Adeusi et al (2013) argued that corporate governance places the structure, processes and management mechanisms to enhance the firm's performance. Corporate governance of companies, regardless of the nature of the business whether it is governmental, Non-Governmental or private, has become a popular discussion topic in developed and developing countries. It further stressed that the sound governance will foster implementation of the MFIs goals and strategies and hence will maintain the MFI‟s health in terms of ensuring that it has the adequate human and financial resources and it will mitigate risks.

Corporate governance describes on how the organization should be operated based on the stakeholders‟ interests so as to improve firm performance Agumba (2008) cited in Magali & Lang'at (2014). Scholars assert that leaders following the good governance principles whether in MFIs or other institutions should operate in a democratic way. They should also act as stewards and agents for their clients, should use the organization resources and make good decisions for the benefits of clients and other stakeholders (Agumba 2008; Odera et al 2012; Lukwago 2012; Adeusi et al 2013). In the governance of Microfinance Institutions, a broad range of actors have an active role. The external factors include: Entities that oversee the

institutions‟ financial health, regulators and auditors, Providers of financing, shareholders, lenders, and depositors, Communities served by the institutions, Employees, and Clients.

2.2 Theoretical Review for Corporate Governance

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010). According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). To maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance. There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanism on firm's financial performance. The most important theories are the agency theory, stakeholder's theory and resource dependency theory (Maher & Andersson, 1999).

2.2.1 Agency Theory

According to Daily, Dalton, Canella (2003), cited as Pual (2015) there are two factors that influence the importance of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea. In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It "provides a useful way of explaining relationships where the parties‟ interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system" (Davis, Schoorman, Donaldson, 1997:24).

Agency theory is the most popular concept and has received greater attention from academics and practitioners (Habbash, 2010).The agency theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire mangers (agents) to manage the companies on behalf of them (Habbash, 2010). The agents are appointed to manage the day to day operations of the corporation. The separation of ownership and controlling rights results conflicts of interest between agent and principal. To solve this problem or to align the conflicting interests of managers and owners the corporate incurs controlling costs including incentives given for managers. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners‟ interests (Jensen & Meckling, 1976).

The concept of corporate governance presumes a fundamental tension between shareholders and corporate managers (Jensen & Meckling, 1976). While the target of a corporation's shareholders may be a return on their investment, managers are likely to possess other goals, like the facility and prestige of running a large and powerful organization, or entertainment and other perquisites of their position. Managers‟ superior access to inside information and the relatively powerless position of the numerous and dispersed shareholders, mean that managers are likely to have the upper hand (Fama & Jensen; 1983). Therefore, shareholders monitor and controls managers through their representatives such as board of directors. Boards of directors are considered as a crucial device to guard shareholders from being exploited by managers and help to effectively control managers once they attempt to maximize their self-interest at the expense of the company's profitability. Fama and Jensen (1983) argues that so as to attenuate agency problem that emanates from the separation of ownership and control the firms got to have a mechanisms that enables to separate the authority of decision management from decision control. This would reduce agency costs and ensures maximization of shareholders wealth by effectively controlling the power and self-centered decisions of management. From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring

management activities, controlling self-centered behaviors of management and inspecting the financial reporting process (Habbash, 2010).

Therefore, corporate governance mechanism like boards of directors and audit committees enables shareholders to closely monitor the activities of managers. Ineffective board and audit committee may give confidence for managers to pursue their own interests but effective board and audit committee can reduce deceptive behavior of managers by detecting fraudulent financial report and actively monitoring. According to the assumptions of agency theory corporate governance affect financial performance. As a consequence, enhancing corporate governance should result in improved financial performance. Taking agency theory into consideration, the study variables were identified with the aim of examining the impacts of corporate governance mechanism on financial performance. Board structure has relied heavily on the concepts of agency theory, that specialize the controlling function of the board (Habbash, 2010).

2.2.3. The Stakeholder theory

Juxtaposed with the agency theory is that the stakeholder theory. This theory takes account of a wider group of constituents rather than focusing only on shareholders (Mallin, 2010). The consequence of focusing on shareholder is that the maintenance or enhancement of shareholder value is paramount, whereas a wider stakeholder group, such as employee, providers of credit, customers, suppliers, government, and local community, is taken into account; the overriding focus on shareholder value becomes less self-evident. Nonetheless, many companies do strive to maximizing shareholder value and at the same time trying to take into account the interests of a wider group of stakeholders.

One rationale for effectively privileging shareholder over other stakeholders is that they the recipient of the residual free cash flow (Mallin, 2010), being the profits remaining once other stakeholders, such as loan creditors, have been paid. This means that the shareholders have a vested interest in trying to ensure that resources are used to the maximum effect, which in turn should be to the benefit of society as a whole (Mallin, 2010). Shareholders and stakeholders may favors different corporate governance mechanisms; the first favor the so called Anglo-American model of corporate governance values the shareholders rights, while the latter is

favored by the German model of corporate governance. Within this model, stakeholders such as employees, have a right enshrined in law for their representatives to sit on the supervisory board alongside the directors. The shareholders and the stakeholder group have a link to this study as far as the aspect of impact is concerned in terms of the conceptual framework.

2.2.4. Resource dependency theory

According to the resource dependency theory, directors bring resources like information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy which will reduce uncertainty which in turn reduces the transaction cost and the potential of linking the organization with the external networks. This provides opportunity to collect more information and even skills in various specialties. Lawrence and Lorsch, (1967) linked the resource dependency theory as an environmental influence on corporate governance and that they argued that successful organizations possess internal structures that match external environmental demand. Pfeffer, (1972) confirmed this argument and explained that board size and its composition is a rational organizational response to the conditions of the external environment and he further argued that external independent directors may serve to attach the external resources with the firm to beat uncertainty, which is extremely important for future sustainability. This was emphasized within the corporate governance which explains that a majority of external members could bring the foremost needed business skill into institutions. Further resource dependency theory was supported through appointment of external members to the board as a way of obtaining multiple skills and because of their opportunities to gather information and networking in various ways.

Each of the three theories is beneficial in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But, many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory Habbash (2010). Among the varied theories discussed, agency theory is that the hottest and has received the foremost attention from academics and practitioners. According to Habbash (2010), the influence of agency theory has been instrumental within the development of corporate governance standards, principles and codes. Mallin (2007) provides a comprehensive discussion of corporate governance theories and argues that the agency

approach is the most appropriate because it provides a far better explanation for corporate governance roles (as cited by Habash, 2010).

2.2.5 Stewardship theory

The stewardship theory draws on the assumptions underlying agency theory and the transaction cost economics theory. The work of Donaldson and Davis as cited by Mallin (2010) cautioned against accepting the agency theory as a given and introduced an alternative approach to corporate governance, which is the stewardship theory. The agency theory is relying on the control of managerial opportunism by having a board chair independent of the CEO and using incentives to bind the CEO interests to those of shareholders. The stewardship theory stresses the beneficial consequences on shareholders returns of facilitative authority structures which unify command by having roles of CEO and Chair held by an equivalent person. The safeguarding of returns to shareholders could also be along the track, not of placing management under greater control by owners, but of empowering managers to require autonomous executive action (Mallin, 2010) and (Kumar, 2010).

2.3 Theories on Performance of MFIs

There are two theories related to the analysis of performance of Microfinance Institutions. They are the welfarist theory and the institutional studies or financial approach theory (Youssoufou, 2002; Yaron, 1994; World Bank, 1989; Pischke et al., 1983).

2.3.1 The welfarist theory

This theory contends that a microfinance institution is regarded to be performing well when it is able to reach the greatest number of the poor people and provides them with financial services at a low cost (Youssoufou, 2002). This theory is considered to be “welfarist” because it leads to high unpaid rates and transaction costs, resulting in failure Joanna (2010) as discussed in her work titled Microfinance Handbook: institutional and financial perspectives. Based on this theory; the variables that are used to measure performance in this theory are outreach and impact. This approach focuses on the logic of subsidization. This theory is linked to this study by the fact that it helps to know what the measures of the performance of MFIs are; these are the outreach and the impact on the welfare of the customers. Outreach, as

Kereta (2007) says measures how the microfinance institution reaches a big number of clients and issues to them loans; if a microfinance does not increase the number of clients and the number of loans, then its performance is poor as far as outreach is concerned. The same author Kereta (2007) added by saying to reach many clients with high number of loans does not suffice, what matters more is how do those loans affect the living conditions of clients; the author refers to this as impact.

2.3.2 The institutional studies or financial approach theory

This second theory is an approach characterized by the will to liberalize financial markets. It completes with the first one by arguing that in order to evaluate performance of Microfinance Institutions, one has to combine the two theories using variables such as outreach and sustainability. According to these authors, a Microfinance Institution performs well whenever it bases itself on either financial outreach or financial sustainability. This second theory is similar to the study of Tvorik and McGivern (1997) about the determinants of organizational performance, since both of them have the same understanding of the concept of performance. They consider financial variables to decide whether or not a Microfinance Institution is performing well (World bank, 1989). To either achieve the sustainability and the real outreach, MFIs have to make an assistive programme to borrowers of money so that the loans may make a socioeconomic impact on their clients. If this is not achieved, MFIs will not get paid back the distributed loans in order to redistribute to others and so reach the outreach via sustainability.

2.4 Key Corporate Actors and Guiding Principles of Corporate Governance

The key corporate actors in corporate level are the board, management, shareholders and their relationships with each other as well as other stakeholders. According to Business roundtable (2016), the following core corporate governance guiding principles are supported:- The board is responsible for passing corporate strategies that are proposed to establish sustainable long term value, the board also appoints a chief executive officer (CEO), supervise the chief executive officer (CEO) as well as senior management in running the company's business, assigning capital budgeting for the long term financing of the company and investigate and manage risks encountered by the company.

Effective directors are persevere monitors, however they are not the manager of the company. They are not expected to duplicate the task of executive officers. We have to give much emphasize for the distinction or separation of over sighting activity with management of the company. The board of directors sets the “tone at the top “for ethical beliefs and concepts of the company. The board of directors must have at minimum of nine directors. The board members shall provide a collection of core competencies such as finance, insurance, accounting, legal, business administration, auditing, and investment management. The management of the company formulates and implements the strategy of the company, runs the company’s business under the board oversight for the aim of performing consistent long term value maximization, but not limited to performing the above tasks only the management responsibility considers strategic planning, risk management and financial planning.

The members of such committee not less than five and the committee should appoint its chairperson and secretary. The major responsibility of this committee is for the election of board of directors. An employee and this committee member not allowed for presenting himself or herself as a candidate.

2.4.1 Corporate governance in Ethiopia

According to NBE (2014), recent intended corporate governance guideline, corporate governance plays a vital role in maintaining the safety and soundness of financial system in financial sector in particular the benefit of corporate governances gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term Shareholders value, borrowers and other stakeholders interest. Introduction and development of corporate governance in Ethiopia is therefore a necessary but revolutionary change in the ownership philosophies, management and operations of Ethiopia companies.

Corporate governance in Ethiopia is not improving even though the Ethiopia economy is at a stage of transformation. This is evidenced by study of Ahmed (2012) who critically examines Ethiopia company law and found that the Ethiopia company law does not have adequate legislative provisions on governance issues associated with the separation of supervision and management responsibilities, and on the composition, independence and remuneration of

board of directors in share companies. Furthermore, there's a requirement to differentiate between corporate governance and company management in Ethiopia company law, wich the board should be suitably composed of non-executive and truly independent members who should be professionally competent.

In addition, Minga (2008) states that the status of corporate governance in Ethiopia is disappointing and noted that the Commercial Code of 1960 does not provide adequate legislative response to complex governance issues of the day, and he further states that key international conventions, codes and standards are not ratified; political parties own substantial number of business enterprises and operate in key sectors of the economy ownership concentration through pyramid structure introduces particular problems of agency and creates crony capitalism investor and creditor protection laws are inadequate; the absence of organized equity market is a serious void. Consistently, Kiyota, Peitsch, and Stern (2007) contended that the closed nature of the Ethiopia financial sector in which there are no foreign banks, a non-competitive market structure, and strong capital controls in place; and the dominant role of state-owned banks are the two major factors that may constrain Ethiopians financial development.

Similarly, Fekadu (2010) argues that the regulation of NBE isn't sufficient to guard minority rights, because the most objective of NBE is financial regulation and which is simply one aspect of governance. The study conducted by the Addis Ababa and Ethiopia Chambers of Commerce and Pectoral Associations (2009) on corporate governance in Ethiopia suggests that the introduction of a voluntary code of corporate governance in the country. It recommends that corporate governance law reform should consider key development policy aspects which match with the countries plans for poverty reduction and wealth creation. Good corporate reporting and disclosure are important aspects of sound corporate governance. According to World Bank (2007) in Ethiopia, however, there is no particular accounting standard regarding financial reporting and disclosure in Ethiopia.

2.4.2 The Concept of Microfinance

According to Lukago (2012), the founder of microcredit is Dr. Muhammed Yunus in 1976 in Bangladesh. The remarkable outreach of this movement in Bangladesh (which presently

covers not only credit but also a number of financial and non-financial services) has shown that extending credit and financial services to the poor is possible and profitable. The access of the poor to credit is additionally recognized as a crucial strategy in achieving the Millennium Development Goals of promoting gender equality, women's empowerment and poverty reduction. The World Development Report of 2000/2001 widely recommended the microcredit for poverty reduction and as a social safety net for the poor of the developing countries (World Development Report, 2001) cited in Eyob (2016). As New Year's Eve 2010, 3,652 microfinance institutions reported reaching 205,314,502 clients, 137,547,441 of whom were among the poorest once they took their first loan. Of these poorest clients, 82.3 percent, or 113,138,652, are women. (Microcredit Summit Report, 2012) cited in Eyob (2016).

Microfinance is high on the public agenda after the UN Year of Microcredit in 2005 and the awarding of the Nobel peace prize to Dr. Yunus and the Grameen Bank' in 2006. Microfinance is defined because the provision of monetary services, mostly savings and credit to the poor and low income households that otherwise don't have access to mainstream commercial banks (Rock et al., 1998). Ledgerwood (1999) defines microfinance as the provision of monetary services to low income clients. According to Robinson (2001) Microfinance is financial services primarily credit and savings provided to people that farm, fish or herd at a little scale and people who operate small enterprises. Microfinance industry is that the primary source of credit and saving to low income earners. The industry is currently growing rapidly and how they are governed therefore matters (Kyereboah & Biekpe, 2005). Stakeholders within the industry have recognized that good governance is a crucial element within the success of the MFIs (Campion, 1998); (Rock, 1998).

2.4.3 Microfinance Institutions in Ethiopia

The source of finance for micro enterprise in urban area and off and on farm activates in rural Ethiopia were confined only to informal sources of finance like moneylender, friends and relatives. Starting in the middle of 1980s following the drought of 1984/85, some nongovernmental organizations (NGOs) introduced the idea of saving and credit among poor people's as a strategy for rehabilitation and development. Later on, special government programs operated mainly in collaboration with the international financial institutes came into

the picture. Nonetheless, both type of program were operated in a scattered manner and lacked sustainability. (AEMFI,2003).

Similar to microfinance approaches in many other parts of the planet, MFIs in Ethiopia specialize in group-based lending and promote compulsory and voluntary savings. They use joint liability, social pressure, and compulsory savings as alternatives to conventional forms of collateral (SIDA, 2003). These institutions provide financial service, mainly credit and saving and, in some cases, loan insurance. The objectives of MFIs are quite similar across organizations. Almost all MFIs within the country have poverty alleviation as an objective. They specialize in reducing poverty and vulnerability of poor households by increasing agricultural productivity and incomes, diversifying off farm sources of income, and building household assets. Microfinance institutions functioning currently in Ethiopia demonstrate variety of strengths. Some of the major strengths include:

- The service provision is centered on urban and rural poor community to particularly play a role in alleviating the chronic problem of poverty in those areas.
- The amount of clients served is growing from time to time making it accessible for the needy partners.
- Regional distribution of the service is appreciable as microfinance institutions are operating altogether regional states of the country.

However, there are still big challenges facing the microfinance industry in Ethiopia. The first challenge is the inaccessibility of foreign capitals which may foster their loan portfolio. As a result, many MFIs are limited to certain category of services. Lack of clarity in ownership structures persists specially in some MFIs where private investors aren't the important owners of the MFIs though they're shareholders. Lack of skilled human power is also the common problem for Ethiopian Microfinance institutions and the industry is suffering from high turnover of experienced employees either for the need of better jobs or hates to work in rural areas where minimal facilities are provided as compared to urban areas which offer better living conditions (Yenesew 2012).

2.4.4 Corporate governance and microfinance institutions

According to Coleman & Osei (2008), traditionally, corporate governance has been associated with larger companies and the existence of the agency problem. Agency problem arises as a result of the relationships between shareholders and managers. Due to the separation between ownership and control of the firm, shareholders are faced with two choices at any point in time. The first, bothering on adverse selection, deals with their ability to pick the foremost capable managers. The second, which is invariably financial loss issues, bothers on the power of shareholders to institute the proper incentives for managers to align their objectives thereupon of the owners. The importance of governance for MFIs has assumed increasing importance. Because the grow of MFIs in their outreach, increase their assets, and in increasing numbers become regulated entities that can capture savings deposits, the change of ownership structure and the experience of some major failure has also played a very critical role in generating interest in the governance of MFIs.

2.4.5 Corporate Governance Issues specific to MFIs

MFIs have some unique characteristics that make the study of their governance more complicated. For example, they need to fulfill an outreach mission by serving poor clients, and many operate as NGOs, which makes them similar to non-profit firms. On the other hand, many MFIs are similar to banks because they are regulated or supervised by the same regulatory body and/or because they collect deposits. The organizational diversity of MFIs also makes the empirical study of their governance more difficult. This challenge is addressed by specifying several empirical models based on insights from the corporate governance literature, from the literature on governance in banks and from the literature on governance in non-profit organizations (Valentina, 2004).

2.4.6 Dual mission of MFIs

As the literature reveals, most MFIs originated with a mission that combines social and financial objectives. The social mission is to provide financial service to as many of lowest income groups among the population. On the other hand, the financial objective is to achieve financial self-sufficiency that enables sustained service delivery without dependence on

subsidies. The challenge here is the difficult task of balancing social and financial objectives .i.e. reaching large numbers of very low income peoples whiles at the same time generating profit and attracting private investors.

2.4.7 Ownership structure of MFIs in Ethiopia

Ownership of financial institutions in Ethiopia is set aside for Ethiopian nationals only. Proclamation No.84/1994 clearly states that financial institutions including MFIs should be owned by Ethiopian nationals. In other words, foreigners aren't allowed to participate within the MFIs; however, they will support the MFIs by providing fund as part of their objective of alleviating poverty and support development activities in the country. Amaha (2000) and SIDA (2003) claim that restriction of ownership in MFIs to Ethiopian nationals has led to the existence of nominal shareholders who nominally hold shares effectively provided by foreigners, and who do not have real stake in the MFIs.

The majority of MFIs are actually owned either by NGOs or Regional Governments. Individual owners except in only a few cases have merely posed as owners at the request of either an NGO or Regional Governments and therefore the ownership arrangements basically reflecting the promoters /investors behind them. ACSI, ADCSI, Benshangul, DECSI, Omo and OCSI are predominantly owned by regional government. When we look the share share of respective regional governments, ADCSI and Omo are largely owned by their respective regional governments with ownership share 96.7 percent and 80 percent respectively while ACSI, DECSI, and OCCSI have similar ownership with the same share of regional governments (25 percent) and for Benshangul 40 percent. On the other hand, AVFS, Agar, Metemamen, Shashemene, and Wisdom are truly individual owned MFIs in which owners expect profit from their share contribution. Bussaa, Eshet, PEACE and Wasasa also are institutions where individual ownership is high.

2.4.8 Issues of the Board of Directors

Board members aren't the owners of invested capital in most of MFIs in Ethiopia. Since they do not have a financial stake in the institutions, they need other positive incentives (Wolday, 2000). The lack of professionalism and MFI expertise and experience on some boards is also

another issue. Board members often are civil servants, social workers, and NGO representatives. While they often have a strong commitment for poverty alleviation and development, many board members do not have sufficient experience, skill and proper mix to oversee the policies and efficient management of MFIs. While they're dedicated and committed, they'll not always have a businesslike approach.

2.4.9 Other governance issues

In its 2000 working paper, Association of Ethiopian Microfinance Institutions (AEMFI) argues that governance issues are fundamentally the same in MFIs supported by regional governments and in others supported mainly by international NGOs. The report asserts that almost all MFIs in Ethiopia have government support and depend on donor support as a major source of loan funds. While this point may be well taken, it begs the question of a political overlay in MFIs ownership and policies and the possible use of public resources (donor funds) and state infrastructure to support a political agenda. Governance and ownership issues would be important to pursue in the context of moves towards privatization and the creation of rural micro-banks in the country.

2.5 Review of the Empirical Studies

2.5.1 Empirical Studies on Corporate Governance and financial Performance of MFIs.

This section of literature review concentrates on previous studies that have been conducted in relation to this study. There were mixed results concluded by previous studies pertaining to the relationship between corporate governance mechanisms and firms‟ financial performance. The important empirical studies are summarized below during this section.

Ahmad and Sana (2015) provide evidence models of the two-way relationship between corporate governance and financial performance of microfinance institutions of Asia. Using a panel of 173 microfinance institutions in 18 Asian countries between 2007 and 2011, a comprehensive corporate governance index (CGI) based, on seven corporate governance variables(Board size, Presence of Female Boards, Board Qualification, Local Directors, CEO/Chairman Duality, Female CEO, and Ownership Type) is being constructed as a proxy for the overall corporate governance mechanism of MFIs.

Mohammed et al (2014) studied the consequences of corporate governance on Microfinance Institutions financial sustainability in Kenya over a period of 11 years from 2000-2011. For this study explanatory research design was used in trying to establish the causal effect relationship between corporate governance variables (which were; board size, CEO duality, composition of the board and CEO gender diversity) and therefore the financial sustainability of the MFIs in Kenya (measured using ROA). According to the study corporate governance practices plays an important role in the operation of Microfinance institutions for enhanced financial sustainability and the findings of the study revealed that board diversity of a moderate board size with a considerable number of women is better placed to ensure independence of the board hence boosting financial performance. A moderate board size is likely to improve whereas more diverse board is likely to have better relations with other stakeholders. According to the findings of CEO duality, it was established that separation of board chairman and CEO positions is vital in MFIs because this minimizes the tension between CEO and board members thus influencing positively on the financial sustainability of MFIs and it also reduces conflict of interest from the CEO.

2.5.2 Corporate Governance and Social performance in Micro finance

The growth of the microfinance sector worldwide and the strong support the field receives from donor organizations make it imperative that good measures be put in place to ensure donor funds are put to good use. Existing literature shows that corporate governance is widely regarded as one of the path ways to improving the efficiency of MFIs (Mori et al., 2015; Beisland et al., 2014; CSFI, 2014; Mersland & Strøm, 2009).

Mori et al. (2015) investigated the relationship between board composition and outreach or social performance using data from MFIs in East Africa. They argue that four aspects of MFI boards are important in improving outreach of MFIs. These are the independence of board members, nationality of board members, gender, and whether or not the members were part of the original founders of the institution. Tchakoute (2015) conducted a study to determine the elementary board characteristics that influence the quality of MFI governance using data from MFIs rated by Planet Finance.

Hartarska & Mersland (2012) examined governance mechanisms that promote efficiency in outreach of MFIs. They found that efficiency of MFIs increased in relation to board size up to nine board members and then declined afterwards. Mersland & Strøm (2009) conducted a study showed that MFIs that had local directors as opposed to international ones, an internal board auditor, and a female CEO exhibited better financial performance. Hartarska (2005) investigated the association between governance and outreach as well as sustainability of MFIs. They found that performance-based remuneration of management did not improve performance of the MFIs and that paying lower wages for MFIs with strong social missions was detrimental to their outreach.

2.5.3 The relationship between Social Performance and Financial performance

A study by Hoepner et al. (2012) found that the relationship between social performance management and financial performance was in the form of an inverted U-shape. They argue that social performance management and social responsibility towards staff are important in order to sustain financial performance but their positive financial impact diminishes after a certain point. In addition, Hoepner et al. assert that although the initial costs of building clients protection systems are often very expensive, the efforts pay off once the "minimum critical mass" of client protection has been reached which ensures trust of clients and investors.

Meyer (2015) investigated the connection between social and financial returns in microfinance. Their results provided evidence to suggest that MFIs with greater outreach to the poor also earned higher portfolio yields. Gutierrez et al, (2009) investigated the association between social and financial efficiency and found a positive albeit low correlation between the two. The results from their sample showed that save for one exception, there were no MFIs that were socially efficient but financially inefficient.

Adhikary and Papachristou (2014) investigated the relationship between financial performance and outreach of MFIs using data from South Asian countries. They found that breadth and depth of outreach were positively related to profitability and efficiency. Adhikary and Papachristou did not find any negative association between financial performance and outreach goals.

2.5.4 Board Size and MFI Performance

Board size is that the number of directors during a given Microfinance. A microfinance board should be large enough to include the varied skills, including audit skills, legal knowledge, knowledge of the target market and social perspective so as to finish their work effectively (without overburdening members), to supply continuity, and to make sure quorums for meetings (council of Microfinance Equity Fund, 2012).

The size of the board is measured by the number of board members as has been done by many authors such as Hermalin and Weisbach (1999, 2002), (Ferede, 2012), (Akpan, 2015) and (Jensen & Meckling, 1976). In their various studies, the dimensions of the board has been seen to possess an inverse relationship with firm performance. Jensen (1993) argues that a larger board leads to less effective monitoring due to coordination and process problems inherent in large board size. Larger boards are often less participative, less cohesive, and fewer ready to reach consensus. Small board size was favored to market critical, genuine and intellectual deliberation and involvement among members which presumably might led to effective corporate deciding making, monitoring and improved performance (Lawal, 2012).

In contrast, a number of scholars have contended that larger boards have their benefits and when board size increases firm performance also goes up as more board members provide greater monitoring, advice and make available better linkages to the external environment (Chenuos, Mohamed, & Bitok, 2014). Moreover, Klein (2002) suggested that larger boards able to promote effective monitoring due to their ability to distribute the work load over a greater number of observers.

2.5.5 Board competency and MFI performance

Board Competency refers to Educational Qualifications of individual board members. Qualifications of individual board members are important for deciding. Board members with higher qualifications benefit the firms through a mixture of competencies and capabilities which helps in creating diverse perspectives to deciding. Presence of more qualified members would extend knowledge domain, stimulate board members to think about other alternatives and enhance a more thoughtful processing of problems. Members with higher educational

qualifications generally and research and analysis intensive qualification like PhDs in particular will provide an upscale source of innovative ideas to develop policy initiatives with analytical depth and rigor that will provide for unique perspectives on strategic issues (Joel, 2012). Ayalew (2007) stated that in Ethiopia, Board members of most MFI do not have awareness and hence don't apply best practice corporate governance in their MFIS.

Several studies have found a positive relationship between competencies and firm performance. Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat, et al., 2011). Board of directors is vested with the responsibility of ensuring that the shareholders' money isn't wasted, shareholders have a significant interest in ensuring that the board is staffed with well-educated and experienced directors (Gantenbein & Volonte). Moreover, Ferede (2012) found that the presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. Thus, board members educational qualification has a significant positive effect on Ethiopian banks financial performance. Therefore, the study argues there is a significant positive association between Board competencies and MFIs financial performance.

2.5.6 Board Experience in the Finance Sector and MFI performance

Board experience in the sector refers to board member who had any finance related work experience. Ayalew (2007) stated that in Ethiopia, Board members of most MFI do not have awareness and hence do not apply best practice corporate governance in their MFIs. Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998 as cited by Saat et al.2011).

Their paper claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance.

2.5.7 Meeting frequency of Board and MFI Performance

Meeting frequency refers to what proportion time Board meet on a year. For board to effectively perform its oversight function and monitor management performance, the board must hold a daily meeting. Measuring the intensity and effectiveness of corporate monitoring and discharging is that the frequency of board meetings (Jensen, 1993). Empirical findings on the effect of frequent board meetings and corporate performance show mixed results.

Some studies concluded more meeting frequency features a negative impact on the performance of MFIs. Vefeas (1999) reported a statistical significance and negative association between frequency board meetings and corporate performance. He also finds that operating performance significantly improves following a year of abnormal board activity. Meeting Frequency features a significant negative impact on ROA and an increasing in meeting frequency will reduce the ROA.

Whereas, Karamanou et al (2005) found a positive association between frequency board meeting and management earnings forecasts, using a sample of 157 firms in Zimbabwe from 2001-2003; Mangena & Tauringana (2008) report a positive relationship between board meeting frequency and corporate performance. Similarly during a study of the sample of 169 listed corporations from 2002-2007 in South African, a statistical significant and positive association between the frequency of committee meeting and corporate performance exist (Ntim & Osei, 2011). This implies that the board of directors in South Africa that meet more frequently tend to get higher financial performance.

2.5.8 Size of Board Audit committee

An audit committee is an operating committee of the board of directors charged with oversight of financial reporting and disclosure. Committee members are drawn from members of the company's board of directors, with a Chairperson selected from among the committee members. Its role includes choice and monitoring of accounting principles and policies, overseeing appointment, dismissal of external auditors, monitoring internal control process, discussing risk management policies and practice with management and overseeing the performance of internal audit function.

Internationally, the audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors fulfill its corporate governance and overseeing responsibilities in reference to an entity's financial reporting, control system, risk management system and internal and external audit functions. Its role is to supply advice and proposals to the board within the scope of its terms of reference / charter.

Empirical findings on the effect of size of audit committee and corporate performance show mixed results. Danoshana et al (2013) found that increasing Audit Committee Size will result high financial performance, because detailed discussion on the financial statement of the companies will lead to get more ideas regarding the reports and it will guide to increase the firm's performance. However, in Ethiopia banking industry, Ferede (2012) found that large number of audit committee has a negative and significant effect on financial performance. Thus, it is expected that there is a significant Negative relationship between size of audit committee and financial performance.

2.5.9 CEO duality

Here, CEO duality, unlike most of literature define, implies when a Chief executive officers became a member of the board of director. It is usual for the CEO of an organization to be a board member as well. If CEO is a member of the Board, CEO has higher credibility and authority with the board and community. However, it has its own drawback as it may create conflicts of interest, much influence on board decisions, board to rely too heavily on CEO's opinion, and Board may not adequately supervise/evaluate one of its own (Council on Foundations., 2004; 2006.).

Good governance demands there are clear lines between the duties and responsibilities of board members and those of the CEO. A high performing CEO should not need to be a board member to influence the direction of the organization at the highest level. However, empirical studies examining the effect of CEO become a member of the board on MFIs financial performance is scarce within the literature. Therefore, it is expected that there is a significant negative relationship between CEO with dual responsibility and MFI financial performance.

2.5.10 Firm size and microfinance institution's financial performance

The size of a firm refers the amount and variety of production capacity and ability of firm to possess or the package and the variety of services a firm can offer concurrently to its customers. The size of a firm is critical factor for determining the profitability of a firm due to the concept known as economies of scale, which can be launched in the traditional neoclassical view of the firm (Tewodros, 2018). In agreement with this concept, a positive link between firm size and profitability is anticipated.

Monicah (2015) defines the size of the organization inform that assets that it holds. Large firms are less disposed to insolvency; this is because such firms have diversified their investment segments and hence lower their risks. Low levels of bankruptcy allow larger firms to access high amounts of debt. Jensen (2007) has examined the relation between profitability and size of the firms operating in Iceland. The result of the analysis indicated that bigger firms have higher profitability as compared to smaller firms.

2.5.11 Summary of literature and research gap

This study aims at another step in the debate on the performance of Microfinance Institutions, as influenced by governance. The study covers the gaps in the study of Luzzi and Weber (2006) in terms of variables used to measure the performance of Microfinance Institutions. The study bases also on the Youssoufou (2002)'s recommendations of measuring the performance of Microfinance Institutions using also their impact on the living conditions of their clients. From the literature and the empirical studies reviewed, none measured the performance of MFIs combining its three variables to reach the critical Microfinance Triangle as Kereta said (2007).Those variables are impact, outreach and sustainability of performance evaluation of microfinance institutions. Here, Kereta (2007) said that to assess the performance of MFIs, one has to analyses its outreach to the poor, its sustainability and its welfare impact on living conditions of MFIs' customers.

In addition, from the studies reviewed many have studied the link between corporate governance and the performance of various industries but few have focused their studies on MFI industry. The little studies which concentrated on MFIs; they did not show the linkage of the variables of corporate governance to the triangle variables of the performance of MFIs. Thus, researcher respond to the Hartarska (2005) in his study, Governance and performance of Microfinance institutions in central and Eastern Europe and the newly independent states, requests for more studies and more importantly - better data to analyses corporate governance in the microfinance industry. No study before this explores governance and performance on such a broad (by the combinations of social and financial) level. This study contributes more knowledge on the relationship between the corporate governance and the performance of MFIs.

2.6 Conceptual Frame work of the Study

A number of studies have sought to investigate the relation between corporate governance mechanisms and financial performance such as Masood (2011), George and Johnson (2014) and Robert (2013). Most of the studies have showed mixed result without clear cut relationship. But the most important point is that corporate governance is the only means for companies to achieve corporate goals and strategies. Therefore, companies have to improve their strategies to effectively implement corporate governance practices.

So companies have to investigate what their corporate governance policy and practice has to be (David and Shahla, 2011). Many studies in corporate governance like Esra and Allam (2015), Masood (2011), Bawalya (2009); George and Johnson (2014) have done their add in huge companies with those countries that have organized market and exchange.

Corporate governance in Ethiopia was not much studied; some studies previously conducted in case of Ethiopia were concentrated in financial institutions specifically in commercial banks. In those studies corporate governance basic mechanisms were not covered sufficiently well and the numbers of observation were restricted in those studies. Kibrysfaw (2013) examined the effect of corporate governance on the financial performance of commercial banks by taking nine commercial banks out of eighteen commercial banks in Ethiopia. However, his study not covered basic corporate governance mechanism like

educational qualification of the board, firm size, the CEO dual responsibility of the company. Based on empirical literature on corporate governance and MFI performance above the researcher developed conceptual model as shown below:

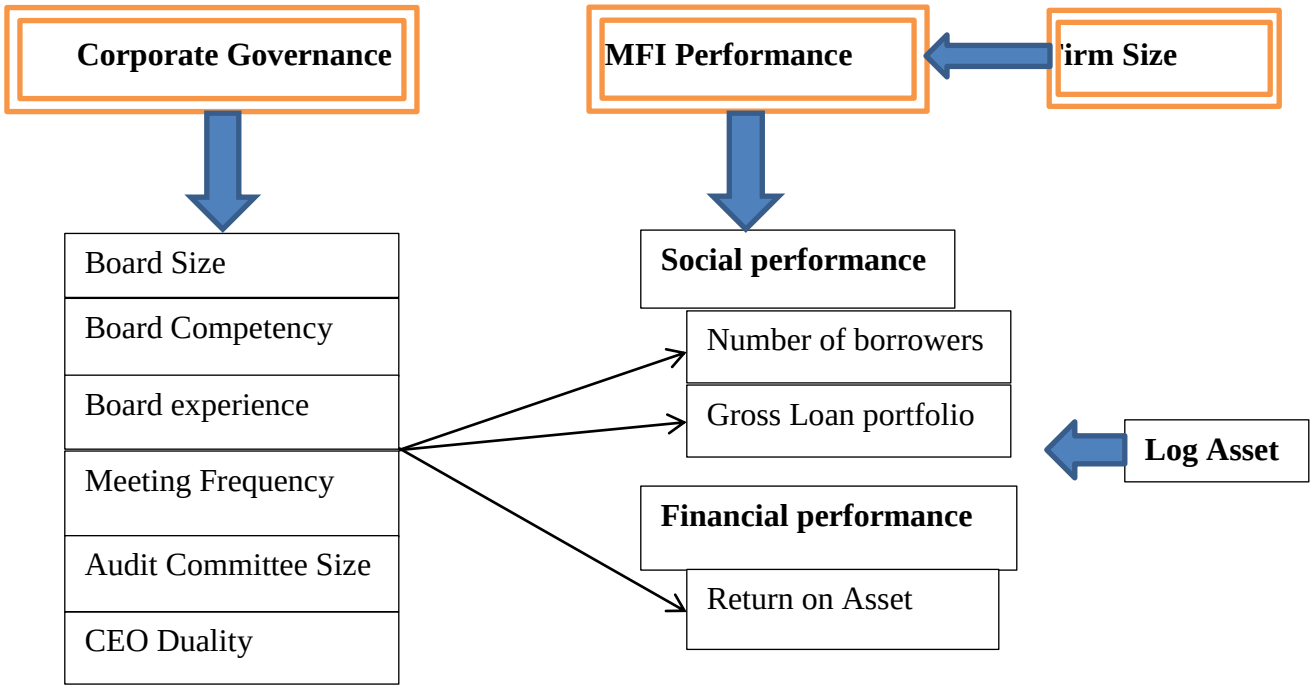


Figure 2.1 Conceptual framework of the study

Source: Conceptual framework constructed by the author

CHAPTER THREE

3. METHODOLOGY OF THE STUDY

3.1 Introduction

In this chapter, the study is concentrate on the methodology that the research plans to examine the relationship between corporate governance and performance (Social and financial) of MFIs in Ethiopia. The chapter on research methodology was presented all details on how the study was carried out. It clarifies the research design and approach, the population and sample of the study, data type, source and method of collection, data analysis as well as definition and measurement of variables and empirical research model specification.

3.2 Research Design and approach

The methodology to carry out the research is based on the objectives of the paper and the availability of relevant information. To confirm to the objective of this research, the primary aim of this study is to examine the impact of corporate governance on Ethiopian microfinance institutes social and financial performance. To achieve these objectives the study employed an explanatory research design with quantitative approach. The explanatory sort of research design helps to spot and evaluate the causal relationships between the various variables into account. According to Creswell (2003) there are three common approaches to business and social research namely, quantitative, qualitative and mixed methods approach. Quantitative research is a means for testing objective theories by examining the relationship among variables, on the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively and the mixed methods approach is the combination of Qualitative and quantitative approach.

Thus, in order to achieve the objectives stated in the preceding section, considering the nature of research problem and the research perspective, in this study the explanatory research design was employed to examine the impact of corporate governance on microfinance institution in Ethiopia over the period of 2014-2019.

3.3. Target Population and Sample of the Study

There are 35 MFIs which are licensed and operating in Ethiopia as of National Bank of Ethiopia and AEMFIs in 2021. In contrast, to undertake a regression analysis sixteen MFIs were selected based on the availability of six year data to represent the relevant attributes of the whole population. Therefore, this study incorporated only sixteen MFIs that have financial statements and report their financial and operational data to Association of Ethiopian Microfinance Institutions and National Bank of Ethiopia for the year 2014-2019 G.C and onwards for a regression analysis of regression variables. Thus, to make the balanced panel data structured, every cross section follows the same regular frequency with the same start and end dates. Besides, six years is assumed to be relevant because five years and above is the recommended length of data to use in most finance literatures and assumed to result in accurate and relevant information to make better decisions (Tewodros, 2018).

3.4 Data Type, Source and Method of Collection

This study used secondary sources of data which are basically quantitative. Data for board size, Educational qualification of the board, Board members experience in the finance sector, Frequency of board meeting, CEO with dual responsibility and Size of audit committee are obtained through questionnaire administered to MFIs CEOs or board secretaries. Secondary data was taken from audited annual financial report of 16 selected MFIs in Ethiopia, which is obtained from MFIs, NBE and AEMFIs. These financial reports were used for computing the social and financial performance of MFIs or their NAB, GLP and ROA. Panel data set which covers six years from 2014-2019 was used for this study. The situation often arises in financial modeling where having data comprising both time series and cross-sectional elements, and such a dataset would be known as a panel data or longitudinal data. The additional variation introduced by mixing the data in this way can also help to mitigate problems of multicollinearity that may arise if time series are modeled individually (Chris, 2008). Panel data regression models are being increasingly used by researchers in many fields since the panel data provides very useful information on the dynamics of variables behavior and by merging time series of cross-section observations, panel data provides more

informative data, more variability, less collinearity among variables, more degrees of freedom and more efficiency (Gujarati, 2004).

3.5 Method of Data Analysis

The data collected through the aforementioned tools could be analyzed using the method known as descriptive statistics, correlation and multiple panel linear regression methods. The descriptive statistics were used to quantitatively describe the important features of the variables using mean, maximum, minimum and standard deviations. Correlation analysis was used to identify the relationship among the variables. But it does not permit the researcher to make causal inferences regarding the relationship between variables (Marczyk et al., 2005). Based on diagnostics test results the study used both random effect and fixed effect model and General Least Square (GLS) multivariate regression analysis estimator is employed to analyze or evaluate the influence of each corporate governance practices on MFIs social and financial performance in Ethiopia and to test the hypothesis developed. The least square was conducted using Eviews9 econometric software package was used for analysis and the results are presented in tables and figures.

The variables were select based on alternative theories: agency theories and previous empirical studies related to corporate governance and firm performance. Accordingly, the theory and empirical studies, the independent, dependent and control variable of the study were identified in order to examine the effect of corporate governance mechanisms on MFIs performance.

3.6 Definition and Measurement of Variables

3.6.1 Dependent variable

3.6.1.1 Number of active borrowers (NAB)

Social (Outreach depth) performance is measured by the average loan outstanding and total number of borrowers served by MFIs., and the number of credit clients is a measure of breadth, that is how far the MFI reaches down the socio-economic ladder with products and services, for obvious reasons (Schreiner, 2002).

3.6.1.2 Gross Loan portfolio (GLPR)

The average outstanding loan is a measure of the so called depth of microfinance, that is, the reaching out to the poorest segments of customers. Adjusted gross loan portfolio/ Adjusted total asset.

3.6.1.3 Return on Asset (ROA)

Dependent variable (Financial Performance) is measured by annual Return on Assets (ROA) which is a standard finance literature measure of performance. The financial performance measurement of ROA was selected because of ROE weight net income only against owners‟ equity, it doesn't say much about how well: a company use it's financing from borrowing and issuing bonds, such as a company may deliver an impressive ROE without actually being more effective at using the share holders' equity to grow the company. ROA, its denominator includes both debt and equity, can help to see how well a company put both these form of financing. Padachi,(2006). The return on asset determines the management efficiency to use asset generates earning, and it is a better measure since it relates the profitability of company to the asset base. Therefore, this study attempt to measure MFIs financial performance by using ROA similar to most pervious researches.

It measures the overall efficiency of management.

$$\textbf{ROA} = \frac{\textbf{Profit after tax}}{\textbf{Total Asset}}$$

3.6.2 Control Variable

In this study size of MFIs is included to account its potential influence on Microfinance institutions social and financial performance in order to know the selected explanatory variables effect on Microfinance Institutions social and financial performance. This control variable is selected based on previous studies since in most of the previous studies firm size, firm growth rate and firms' leverage were used as control variables (Habbash, 2010). For the purpose of this study size of MFI was selected as a control variable of selected MFIs and measured as the natural logarithm of total assets at year-end.

3.6.3 Explanatory variables

The independent variables are variables that are used as a determinant of corporate governance of the sample Ethiopian microfinance institutions in this study. The independent variables of the study are board size, Educational Qualification of Directors, board members experience in the Finance sector, meeting frequency of board, CEO Dual responsibility, and size of audit committee.

3.6.3.1 Board size

Board size are often defined because the number of directors sitting on the board. Based on the agency theory limiting board size to a particular level is generally believed to be improving social and financial performance. The reason is that the advantage of larger boards is outweighed by the poor communication and deciding when the board size is just too large. Most of the previous studies found negative effect of board size on performance of firms (Al-Manaseer et al., 2012). For this specific study, board size is expected to influence MFIs performance negatively.

Hypothesis 1

H1a: Board size has a significant negative impact on performance (social & financial) of microfinance institutions.

3.6.3.2 Educational qualification of directors (EQD)

The expertise, competence and quality of a firm's board inevitably impacts on financial and social performance. The higher the quality, the better will be the performance of the firm. Educational qualification is vital determinant of board effectiveness. According to Rose (2007) as long as board members have a university degree/or equivalent skills, board members have sufficient human capital in order to understand and analyze information that is provided by management. Educational qualifications of individual board members are very important for board decision making (Amran 2011; Yasser; 2011). The monitoring role expected to be effectively implemented if the board members are qualified and experienced. It is measured by the number of board members who had college degree or higher from the total number of board members. The researcher expects that there is a significant positive

association between director's educational qualifications and the MFIs social and financial performance.

Hypothesis 2

H1b: Educational qualification of the board members has a significant positive impact on performance (social & financial) of MFIs

3.6.3.3 Board members experience in the financial sector (BEFS)

It is the number of directors who had earlier work experience in other Microfinance institutions or any financial institutions. Financial sector experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. (DeZoort, 1998 as cited by Saat et al 2011). It is measured by the numbers of board members who had financial sector experience. The researcher expects that there is a significant positive association between board members experience in the Finance sector and MFI social and financial performance.

Hypothesis 3

H1c: Board members experience in the finance sector has a significant positive impact on the performance (social & financial) MFIs.

3.6.3.4 Meeting Frequency of boards (MFB)

The frequency of board meetings measures the intensity of a board's activities, and the quality or effectiveness of its monitoring (Vefeas, 1999, p.116, Conger et al. 1998, p.142). A higher frequency of board meetings will result in a higher quality of managerial monitoring, which can impact positively on financial performance. It has been contended that regular meetings allow directors more time to confer set strategy and to appraise managerial performance (Vafeas 1999, p.118). It can help directors to remain informed and knowledgeable about important developments within the firm. This will place the administrators during a better position to timely address emerging critical problems (Mangena and Tauringana, 2006 p.12). In fact, Sonnenfeld (2002, p.107) suggests that regular meeting attendance is taken in to account an indicator of the conscientious director. Also, frequent meetings intermingled with

informal sideline interactions can create and strengthen cohesive bonds among directors (Lipton and Lorsch 1992, p.69). Frequency of board meetings measured by the numbers of Meeting how much time Board meets on a year during the period under review. The researcher expects the number of board meeting has a positive impact on Ethiopian Microfinance Institutions social and financial performance.

Hypothesis 4

H1d: Frequency of board meeting has a significant positive impact on the performance (social & financial) of MFIs.

3.6.3.5 Size of Audit Committee (SAC)

Size of an audit committee in a board refers to the total number of MFIs' audit committee members out of the total number of board of directors and affects MFI's performance and it is highly believed that it ensures effective monitoring (Kyereboah-coleman, 2007; Aldamen et al., 2011). It is also likely that if there is an audit committee in a board, it effectively communicates matters in the financial reporting process and helps problems to be resolved easily and timely. The researcher expects Size of an audit committee has a positive impact on Ethiopian Microfinance Institutions social and financial performance.

Hypothesis 5

H1e: Size of audit committee in the board has a significant positive impact on the performance (social & financial) of MFIs.

3.6.3.6 CEO Duality (CEOD)

Good governance demands there are clear lines between the duties and responsibilities of board members and those of the CEO. A high performing CEO should not need to be a board member to influence the direction of the organization at the highest level. Empirical studies examining the effect of CEO become a member of the board on MFIs financial performance is scarce in the literature. However, it has its own drawback as it may create conflicts of interest, much influence on board decisions, board to rely too heavily on CEO's opinion, and Board may not adequately supervise/evaluate one of its own (Council on Foundations., 2004; 2006.). The researcher expects CEO with dual responsibility has a significant negative relationship on MFI social and financial performance.

Hypothesis 6

H1f: CEO with dual responsibility has a significant negative impact on the performance (social & financial) of MFIs.

3.7 Empirical Research Model

To estimate the impact of corporate governance mechanisms on social and financial performance of the micro finance institution, the following general empirical research model similar to Brooks (2008) adopted.

$Yit = \beta 0 + \Sigma \beta K Xit + \varepsilon it$……(1)

Where: Yit represents the mean value of dependent variables, β0 is the intercept, βK represents the coefficients of the X variable and Xit represents the explanatory variables (BS, , EQD, BEFS, MFB, SAC, CEOD, and FS) εit is the error term.

The above general empirical research model is changed in to the study variables to find out the effect of corporate governance mechanisms on MFIs performance as follows: (Bathula, 2008, Belete, 2015, and Abdurazak, 2016)

NAB = βo + β1BSit + β2EQDit + β3BEFSit + β4MFBit + β5SACit + β6CEODit + β8FSit + Uit. ……. (2)

GLP = βo + β1BSit + β2EQDit + β3BEFSit + β4MFBit + β5SACit + β6CEODit + β8FSit + Uit. ……. (3)

ROA = βo + β1BSit + β2EQDit + β3BEFSit + β4MFBit + β5ACSit + β6CEODit + β8FSit + Uit. …….. (4)

Dependent variables

NAB =Number of active borrowers of the MFIs

GLP = Gross Loan portfolio of the MFIs

ROA= Return on asset of the MFIs

Independent variables

BSit = represents the Board size of MFI i for time period t.

EQDit = represents the educational qualification of the board of the MFI i for time period t.

BEFSit = represents the Board members experience of the MFIs i for time period t.

MFBit = represents the meeting frequency of the board of MFI i for time period t.

SACit = represents the Size of Audit committee of the board of MFI i for time period t.

CEODit = represents the CEO Duality of the board of MFI i for time period t.

Control variables

FSit = represents the firm size of microfinance i for time period t.

Table 3.1: Summary for Terms of Measurement

Variables	**Terms of Measurement**
Board Size (BS)	Number of directors sitting on the board
Educational qualification of directors (EQD)	Number of board members who had college degree or higher
Board members experience in the financial sector (BEFS)	Number of board members who served in the same capacity in other MFIs earlier
Meeting Frequency of boards (MFB)	Number of meeting how much time board meets on a year during the period
Size of Audit Committee (SAC)	Total number of audit committee out of the total number boards
CEO Duality (CEOD)	CEO and chairman are carried out by the same person.
Number of active borrowers (NAB)	Natural logarithm of (Number of active borrowers with loan outstanding adjusted for standardized written-off)
Gross Loan portfolio (GLP)	It measures how well an MFI is reaching to poorer clients.
Return on Asset (ROA)	Amount of profit after tax as a percentage of total asset
Firm Size	The Napierian logarithm of total assets at year end

Sources: Literature review Wondemalem (2018)

CHAPTER FOUR

4. DATA ANALYSIS AND DICUSSION

4.1 Introduction

This chapter presents the result and analysis of the finding of different methods used. The first section present descriptive statistics and summarizes the main features of the study variables in terms of mean, maximum, minimum and standard deviation. The second section deals with the correlation analysis and shows the degree of association between the study variables. The third section deals with the Classical Linear Regression Model Assumption test for classical linear regression model. The fourth section of this chapter analyzes regression result reports of Panel EGLS (Cross-section random effects) Method employed to evaluate the influence of each corporate governance practices on MFIs social and financial performance.

4.2 Impact of Corporate Governance on the Social and Financial Performance of MFIs

4.2.1 Descriptive Statistics of Regression Variables

This section discussed the descriptive statistic of each variable in the study based on panel data of microfinance institution from the year 2014 to 2019. The table 4.1 and 4.2 below present mean, median, maximum value, minimum value and standard deviation of regression variables. The variables include the dependent (return on asset, number of active borrowers and gross loan portfolio), independents (Board size, educational qualification of directors, board members experience in the finance sector, meeting frequency of board, dual responsibility of CEO and audit committee size) and control variables (MFIs size).

Table 4.1 Descriptive statistics for dependent variables

	ROA	NAB	GLP
Mean	0.132547	225709.6	1.67E+09
Median	0.092500	53068.50	1.82E+08
Maximum	0.423700	1516999.	1.55E+10
Minimum	0.007700	4039.000	7706943.
Std. Dev.	0.107974	359636.2	3.16E+09
Observations	96	96	96

Source: Eviews 9 Output

Table 4.2 Descriptive statistics for independent variables

	BS	EQD	BEFS	MFB	SAC	CEOD	FS
Mean	6.677083	5.729167	3.989583	10.07292	2.447917	0.687500	2.51E+09
Median	7.000000	6.000000	4.000000	10.00000	2.000000	1.000000	4.14E+08
Maximum	9.000000	9.000000	7.000000	13.00000	3.000000	1.000000	2.47E+10
Minimum	5.000000	3.000000	2.000000	8.000000	2.000000	0.000000	9633378.
Std. Dev.	1.364935	1.468828	1.309840	0.986699	0.499890	0.465946	4.83E+09
Observations	96	96	96	96	96	96	96

Source: Eviews 9 Output

As per the above table 4.1 the average mean value of return on asset for the Ethiopian MFIs is 13.25% mean value of 0.1325 with maximum and minimum value of 42.37% and 0.77% respectively. Meaning, among the sampled MFIs the most profitable MFIs achieved a profit of 42.37cents per a birr invested in the assets. On the other side, the least profitable MFIs achieved a profit of 0.77 percent (cents) per one birr investment. The standard deviation of return on asset is deviated 10.79% from the average mean13.25%.

More additional, standard deviation statistics for return on asset was 10.79% which shows that how individual values of return on asset in a data set vary from the mean of return on asset over the last six years by 10.79percent. Since ROA indicates the efficiency of the management of a company in generating net income from all resource of the institution, the higher ROA show that the company is more efficient in using its resources. Likewise during study period microfinance in Ethiopia generate 13.25 percent income on average from mobilizing their asset. When we compare this result with the previous finding Eyob (2016) and Wondemalem (2018) the mean value of 3.9% and 2.9%.which means that the result of this study is inconsistent with the previous study. This result implies that Ethiopian MFIs give more attention for financial performance than social performance for the last 6 years. When we compare this result from the previous finding, management of MFIs was more efficient to generate income from mobilizing their asset than both Eyob (2016) and Wondemalem (2018) findings which was 3.9% and 2.9%.respectivelly. The result implies that these MFIs have good financial performance.

The other dependent variables that measures social performance are number of active borrowers and gross loan portfolio. The average mean value of number of active borrowers

and gross loan portfolio for the Ethiopian MFIs is 225,710 and 1.67E+09 respectively, with maximum value of 1,516,999; 1.55E+10and minimum value of 4,039 poor clients; and Br7, 706,943 respectively. Meaning, among the sampled MFIs the most effective MFIs reached 1,516,999 poor clients and Br1.55E+10 gross loan portfolio. On the other side, the least MFIs reached 4,039 poor clients and Br 7,706,943gross loan portfolio. The standard deviation of number of active borrowers and gross loan portfolio is deviated 359636.2; and 3.16E+09 respectively from the average mean 225,710 poor client and 1.67E+09 gross loan portfolio.

The standard deviation statistics for number of active borrowers and gross loan portfolio was 359,636; and Br3.16E+09 respectively which shows that how individual values both number of active borrowers and gross loan portfolio in a data set vary from the mean of both number of active borrowers and gross loan portfolio over the last six years by 359,636 and Br3.16E+09 respectively. Since these indicates the efficiency of the management of a company in serving poor clients and providing loan from all resource of the institution insufficient. The higher NAB and GLP show that the company is more efficient in serving more clients and using its resources.

Table 4.2 shows the descriptive statistics of board size for corporate governance mechanism of social and financial performance of sample MFIs. On average 7 members with maximum and minimum board members of 9 and 5 respectively. The standard deviation indicates that for the sample MFIs board size varies by 1.4 from average board size of 7. The recommended optimal size of a board ranges from eight to thirteen as per ACCA, P1, 2012 and 7 as per the National Bank of Ethiopia; and usually the sample MFIs was below the recommended size of a board of the ACCA and equal to the National Bank of Ethiopia. This result was consistent with previous studies Belete (2015) and Wondemalem (2018) which was 6 and 7 average board size respectively. And inconsistent with Eyob (2016) which was 8 average board sizes. The possible reason is that most of governmental MFIs directors are politically appointee and most of them are not finished their election period.

The other explanatory variable is Educational qualification of directors in the sample MFIs as measured by number of directors who have collage degree or above. The average is 6 with maximum of 9 and minimum value of 3. This shows that board members are educated. The

standard deviation is 1.5 from the mean of sample MFI which is 6. The mean result is consistent with pervious finding of Eyob (2016) and Wondemalem (2018) which was 6, but inconsistent with Belete (2015) which was 5. The possible reason for most of MFIs boards of directors is educated to fulfill the NBE requirement which says that board member shall be qualified.

Regarding to board members experience in the finance sector, the sample Ethiopian MFIs have mean value of 3.989583 on average 4 with a maximum of 7 and minimum value of 2 as measured by the number of directors who had experience in the finance sector .This show is that the Ethiopian MFIs board of directors‟ experience in the finance sector is good for the last six years. The standard deviation is 1.3 from the average value of 4. The average mean value is inconsistent with the previous research result Eyob (2016) and Wondemalem (2018) their average experienced board members in the finance sector was 1. The possible reason for the large number of board members who had financial experience is that almost all the governmental MFIs board of directors is assigned.

Based on the above table 4.2 the meeting frequency of sample MFIs board of directors conduct averagely 10 times per year (mean=10.07292) with minimum of 8 times per year and maximum of 13 times per a year . The standard deviation is 0.986699 from the mean value of 10. There is an improvement on frequency of meeting on sample MFIs compare to the previous study Wondemalem (2018) which was board members meet 6 times per year. This result stile does not fulfill the requirement of NBE; board members shall be meeting 12 times per a year. The possible reason is that in the board member give inadequate attention to their responsibility for the last six years.

The size of audit committee of sample Ethiopian MFIs has an average 2 (mean= 2.447917) with a maximum value of 3 and minimum value of 2.The standard deviation is 0.5 from the mean of 2. The numbers of Audit committee consistent from the previous study result of Wondemalem (2018).

When we come to CEO duality, it is a dummy variable which was allocated 1 when the presence of CEO on the board affects the MFI performance and 0 when otherwise. The table 4.2 show that the 68% of sample Ethiopian MFIs response, the performance of MFI affected

by the presence of CEO in the board. This left only 32% of selected Ethiopian MFIs performance not affected by the presence of CEO in the board. When the roles of CEO and chairman of the board are merged, then the CEOs have more power and freedom in deciding making which could lead on to more risky decisions (Galema et al. 2012). Thus, CEO duality could mean lack of independent board in an institution which has been linked with worse financial and social performance (Hartarska, 2005; Coleman and Osei, 2008). The possible reason is that most of governmental MFIs directors are politically appointed.

When we see the control variable, the mean value of MFIs size Br 2.47E+10as measured by the natural logarithm of total asset are 2.51E+09 with maximum value of Br 2.47E+10 and minimum value of Br 9,633,378. The standard deviation of MFIs size among sample MFI is Br 4.83E+09. Compare to the pervious result of Belete (2015) and Wondemalem (2018) the average asset size is increase, the possible reason is that due to the increase number of branch in sample MFIs.

4.2.2 Correlation Analysis of ROA, NAB and GLP and CG elements

This section of the study presents the results and discussions of the correlation analysis. To identify the relationship among the variables of corporate governance and (financial and social) performance correlation coefficients were used.

The table 4.3 below was run by taking ROA, NAB and GLP as a dependent and other corporate governance elements and control variable as an independent variable. The correlation coefficient show the extent and direction of the linear relationship between considered corporate governance; social and financial performance proxy by ROA, NAB and GLP; of the sample Ethiopian MFIs during the study period .The correlation matrix show the relationship of ROA, NAB and GLP with board size, Educational qualification of the board, Board members experience in the finance sector, Frequency of board meeting, CEO with dual responsibility, Size of audit committee and MFI Size and the probability is shown in parenthesis with the correlation coefficient in the correlation matrix below in the table 4.3.

Table 4.3: Correlation Matrix of Dependent and Independent Variables

Correlation Probability	ROA	NAB	GLP	BS	EQD	BEFS	MFB	SAC	CEOD	FS
ROA	1									
NAB	-0.152193	1								
	(0.1409)									
GLP	-0.139679	0.890248	1							
	(0.1770)	(0.0000)								
BS	0.262230	0.253824	0.253879	1						
	(0.0103)	(0.0131)	(0.0130							
EQD	0.213266	0.330312	0.360686	0.888793	1					
	(0.0380)	0.0011	0.0003	0.0000						
BEFS	0.161870	0.286949	0.287424	0.813552	0.671660	1				
	(0.1171)	0.0048	0.0047	0.0000	0.0000					
MFB	0.217759	0.079664	0.098180	0.321652	0.179581	0.243713	1			
	(0.0340)	0.4428	0.3439	0.0015	0.0816	0.0173				
SAC	0.016873	0.358864	0.239150	0.592164	0.390379	0.662686	0.182030	1		
	(0.8711)	0.0004	0.0196	0.0000	0.0001	0.0000	0.0775			
CEOD	0.176856	-0.001901	0.033832	-0.131085	0.001049	-0.085850	-0.118150	-0.104575	1	
	(0.0864)	0.9854	0.7448	0.2054	0.9919	0.4081	0.2541	0.3132		
FS	-0.099462	0.373711	0.171349	0.193321	0.185566	0.168860	0.030667	0.219517	-0.172810	1
	(0.3376)	0.0002	0.0969	0.0605	0.0718	0.1019	0.7680	0.0326	0.0940	

Source Eviews 9 output

Based on the correlation matrix in table 4.3, the independent variable such as board size, and educational qualification of board positively and significantly correlated at 1% significant level with ROA, NAB and GLP. Board experience in the finance sector positively and significantly correlated at 1%, significant level with NAB and GLP. Meeting frequency of the board positively and significantly correlated at 5% significant level with ROA. Size of Audit Committee and Board experience in the finance sector has positive and insignificant association with ROA. Size of audit Committee has positive significant association with NAB but positive and insignificant association with GLP. And CEOD has positive and insignificant association with ROA, NAB and GLP.

Whereas, control variable (MFI size) measured by natural logarithm of total asset of MFI has negative and insignificantly correlated with ROA but positively and significantly correlated with NAB and positively and insignificantly correlated with GLP.

In general, the correlation analysis shows only the direction and degree of association between variables and it does not permit the researcher to make causal inference regarding the relationship between the identified variables. Therefore, it is not possible to explain the

relationship corporate governance variable and performance measure by controlling the influence of some selected variable using correlation analysis. As a result the main analysis is left for regression analyses that overcome the shortcoming of correlation analysis.

4.3 Classical linear regression model assumptions

The regression analysis used to examine the relationship between the CG mechanisms on the social and financial performance of MFIs in Ethiopia measured by NAB, GLP and ROA respectively. To enhance the quality of the econometric estimate, model diagnosis and robustness checks were made followed by presentation of regression results on the impact of corporate governance mechanism on performance of sample MFIs. The regression analysis enables the researcher to empirically test the proposed hypothesis and to achieve the research objective. Due to the attractive statistical properties that made it one of the most powerful and popular methods of regression analysis (Gujarati, 2004), the study used Ordinary least square (OLS). Therefore before the regression was run tests for fulfillment of the Basic Classical Linear Regression Model assumption (CLRM) would be tested. Consequently the basic CLRM assumptions tested in this study were error have zero mean, homoscedastic, Autocorrelation, normality and multicollinearity. In addition, remedial measure would be taken to resolve both Heteroscedasticity and Authocorrelatio problems by using autoregressive conditional heteroscedasticity (ARCH) method.

4.3.1 Diagnostic tests of the data set

The data sets were tested for the classical rectilinear regression model assumptions before running the model. According to Brooks (2008), there are five critical assumptions that must be met before utilizing OLS estimation in order to validly test the hypothesis and estimate the coefficient. The classical linear regression model assumptions and their diagnostic test are discussed below.

Assumption 1: The mean of the disturbance is zero

According to Brooks (2008) the mean of the disturbance will always be zero provided that there is a constant term in the regression. If a continuing term is included within the regression of y on x, this assumption will never be violated. So that these three models of the account term is included. As a result, this assumption was not violated for all cases.

Assumption 2: Homoscedasticity

It has been assumed that the variance of the errors is constant, σ2; this is known as the assumption of homoscedasticity. If the errors don't have a continuing variance, they're said to be heteroscedastic. Consequence of proceeding with the existence of hetroscedasticity is that, the OLS estimators will still give unbiased (and also consistent) coefficient estimates, but they are no longer blue that is, they not have the minimum variance among the category of unbiased estimators. Therefore, for the assumption to hold and to get efficient estimator, this test has been made for the three NAB, GLP and ROA models using the White test for heteroscedasticity and their results are indicated in the table 4.4,4.5 and 4.6 below. It is hypothesized that there is no heteroscedasticity in which the null and alternative hypothesis are summarized here under for these three models.

Table 4.4 White Test for NAB model

Heteroskedasticity Test: White			
F-statistic	1.591229	Prob. F(33,62)	0.0574
Obs*R-squared	44.02226	Prob. Chi-Square(33)	0.0951
Scaled explained SS	7.77E-20	Prob. Chi-Square(33)	1.0000

Source: Eviews 9 output

Table 4.5 White Test for GLP model

Heteroskedasticity Test: White			
F-statistic	1.490705	Prob. F(33,62)	0.0874
Obs*R-squared	42.47159	Prob. Chi-Square(33)	0.1250
Scaled explained SS	4.95E-33	Prob. Chi-Square(33)	1.0000

Source: Eviews 9 output

Table 4.6 White Test for ROA model

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.937379	Prob. F(7,88)	0.0730
Obs*R-squared	12.81900	Prob. Chi-Square(7)	0.0766
Scaled explained SS	275553.0	Prob. Chi-Square(7)	0.0000

Source: Eviews 9 output

If the P-values of these test statistics are considerably in excess of 0.05, then they give the same conclusion that there is no evidence for the presence of hetroscedasticity. However, if

the P-values for these tests are less than 0.05, suggests in this case, that there is evidence of heteroscedasticity. EViews 9 reports (on the above tables 4.4, 4.5 and 4.6) the F-statistic, the LR statistics and the results of the auxiliary regression on which they are based. Since the p - value in all cases is not significant or not less than 5 percent, it is clear evident that the errors are homoscedastic. Therefore, based on this statistic we fail to reject the null hypothesis that is indicated as there is no Heteroscedasticity for those three models.

Assumption 3: Covariance between the Error Terms over Time is Zero

The notion of autocorrelation defines that there is no serial correlation or autocorrelation among the disturbances $\beta 0$ entering the population regression function (Greene 2008). The covariance between the error terms over time (or cross-sectional, for that sort of data) is zero. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are "auto-correlated" or that they are "serially correlated". Therefore, to conduct the Breusch- Pagan LM test, the hypothesis is stated as follows.

Ho: No Autocorrelation ($\rho = 0$)

Ha: Autocorrelation ($\rho \neq 0$)

Table 4.7 Autocorrelation test for NAB model

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	182.4514	120	0.0002
Pesaran scaled LM	4.031218		0.0001
Pesaran CD	-0.375713		0.7071

Source: Eviews 9 output

Table 4.8 Autocorrelation test for GLP model

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	178.1527	120	0.0005
Pesaran scaled LM	3.753741		0.0002
Pesaran CD	-0.448114		0.6541

Table 4.9 Autocorrelation test for ROA model

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	183.3428	120	0.0002
Pesaran scaled LM	4.088762		0.0000
Pesaran CD	-0.799682		0.4239

Source: Eviews 9 output

Breush-Godfrey test was conducted for NAB, GLP and ROA models and found that there is no problem of serial correlation for the three models, meaning that the P-value (above table 4.7, 4.8 and 4.9) of the test result is 0.70, 0.65 and0.42 respectively, which is greater than 0.05. This means the null hypothesis was accepted which says that the error are uncorrelated with one another.

Assumption 4: Normality test (Errors are Normally Distributed)

The assumption of normality requires the disturbance to be normally distributed around the mean. This test has been conducted using the Jarque-Bera test. The p-value of the normality test should be bigger than 0.05 to not to reject the null hypothesis of normality at the 5% significance level (Brooks, 2008).

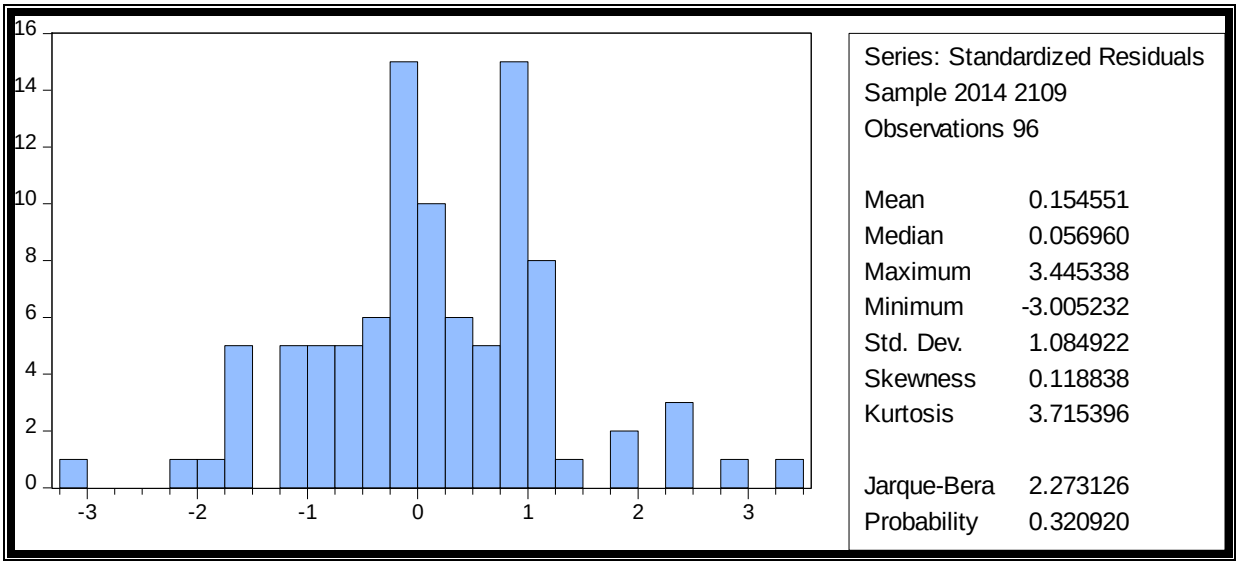


Figure 4.1: Normality test for Ethiopian MFIs' NAB model
Sources: Eviews 9 out put

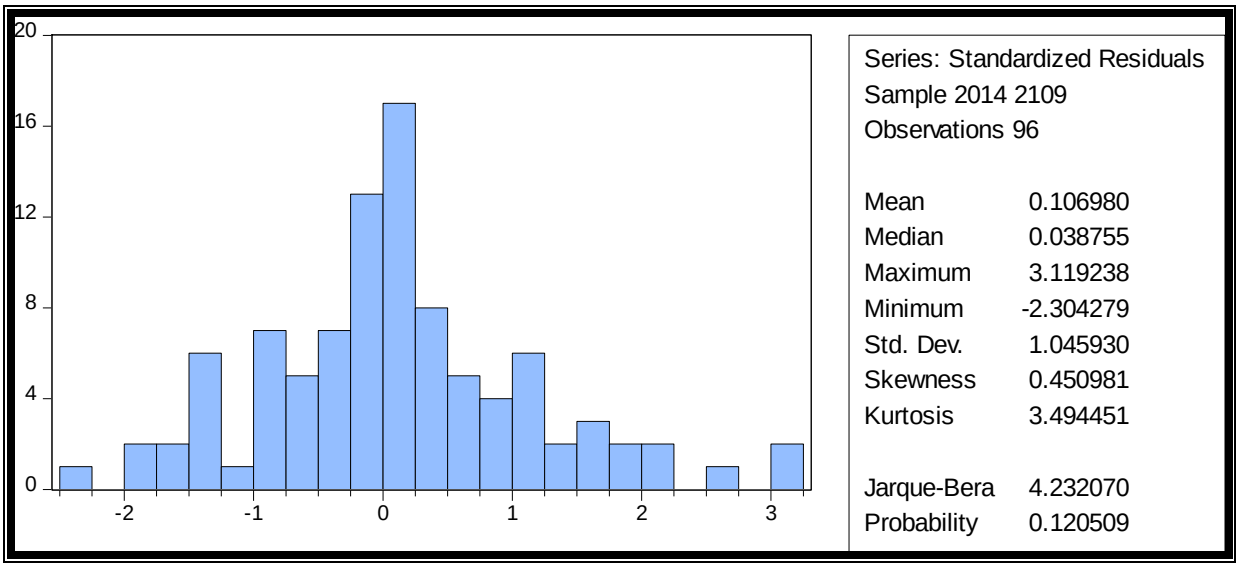


Figure 4.2: Normality test for Ethiopian MFIs' GLP model

Sources: Eviews 9 out put

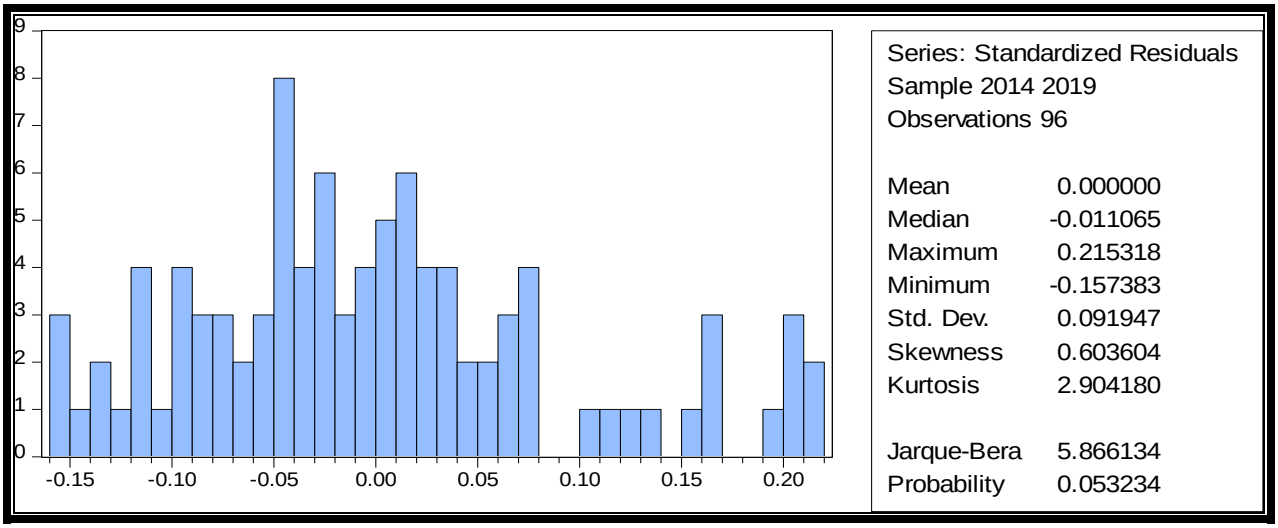


Figure 4.3: Normality test for Ethiopian MFIs' ROA model

Sources: Eviews 9 out put

As we can see in the figure 4.1,4.2 and 4.3 the P-value of 0.32, 0.12 and 0.053 respectively (greater than 0.05) which is insignificant for these three models and the researcher failed to reject the null hypothesis. Therefore, there's no normality problem on the info used for this study.

Assumption 5: Multicollinearity Test

When the explanatory variables are highly correlated with each other there is a problem known as multicollinearity. Multicollinearity in the regression model suggests substantial correlations among independent variables. According to Hair et. al (2006) the correlation coefficient below 0.8 may not cause serious multicollinearity problem. So accept the null hypotheses that the correlation coefficient between the independent variable should be less than 90%. As shown in the table 4.10 below, 0.890492 and 0.816490 are less than 90%; therefore, the null hypothesis is articulated as there is no very high multicollineriaty between the independent variables. If collinearity is high but not perfect, estimation of regression coefficients is possible but their standard errors tend to be large (Gujirat 2004).

Table 4.10 Covariance matrix estimation for regressors' of performance of MFIs

Covariance Analysis: Ordinary
Date: 05/26/21 Time: 16:03
Sample: 2014 2019
Included observations: 96

Correlation	BS	EQD	BEFS	MFB	SAC	CEOD	FS
BS	1						
EQD	0.890492	1					
BEFS	0.816490	0.660541	1				
MFB	0.322488	0.217136	0.220500	1			
SAC	0.461051	0.267308	0.585944	0.189180	1		
CEOD	-0.143788	-0.078825	-0.074379	0.027189	0.064964	1	
FS	0.241333	0.348756	0.283505	0.140617	0.239783	0.086672	1

Sources: Eviews 9 out put

Another test for checking multicollinearity is VIF.

Table 4.11: VIF Test

Variance Inflation Factors
Date: 08/22/21 Time: 18:00
Sample: 2014 2109
Included observations: 95

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
BS	2.43E+09	289.4058	11.37167
EQD	1.29E+09	115.8214	7.002578

BEFS	8.65E+08	39.09520	3.765412
MFB	4.65E+08	124.2872	1.249470
SAC	2.92E+09	46.25393	1.836954
CEOD	2.00E+09	3.499373	1.105065
FS	2.24E-11	1.685007	1.330589
C	4.57E+10	116.7726	NA

Sources: Eviews 9 out put

Since all the variables VIF is less than 10 also 5 there is no multicollinearity problem in this panel data set.

4.3.2 Model Selection

This study used panel data models where the random effect and fixed effect models could be used to estimate the relationships among variables and thereby taking care of the omitted variables. Prior to go to doing the regression, deciding on whether the random effect model or fixed effect model was a vital phase of the research.

4.3.2.1 Fixed Effect versus Random Effect

The pooled OLS model doesn't give consideration for the various MFIs under consideration and the panel structure of the data. Which will combine 16 MFIs; consider all observation together run the regression by neglecting the cross section as well as the time serious nature of the data. Fixed effect model allows for heterogeneity or individuality among 16 MFIs by allowing having its own intercept value, but the intercept does not vary over time. In Random effect model the 16 MFIs have a common mean value for the intercept. Therefore, it is necessary to determine whether the fixed effect or random effect approach is appropriate. A common practice in corporate governance research is to form the selection between both approaches by running a Hausman test.

For accepting or rejecting the null hypothesis let's see Hausman test;-

Table 4.11 Hausman Test for NAB model

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.296574	6	0.0796

Sources: Eviews 9 out put

Table 4.12 Hausman Test for ROA model

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.721358	6	0.3474

Sources: Eviews 9 out put

The hausman test result shows in the above tables 4.11 and 4.12 for the two models, NAB and ROA were not statistically significant. The p-value of the test summary is 7.9% and 34.7% respectively and which is greater than 5%; indicate that the fixed effect Model is inappropriate for those two models. This means that the null hypothesis was accepted which say that the Random Effects model is appropriate.

Table 4.13 Hausman Test for GLP model

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	25.423908	6	0.0003

Sources: Eviews 9 out put

The hausman test result shows (See Table 4.13) for the model GLP was statistically significant. The p-value of the test summary is 0.0003% which is less than 5%; thus, we reject the null hypothesis that RE provides consistent estimates. This means that the alternative

hypothesis was accepted which say that the Fixed Effects model is appropriate for GLP. model.

4.3.3 Regression Results and Discussion

This section of the study presents the results and discussions of the regression output. The analysis was based on the results of the regression between the dependent variable and the independent variables. The regression analysis enables the researcher to empirically test the proposed hypothesis and to achieve the research objective. Thus, by conducting the appropriate diagnosis tests both Random-effect and Fixed-effect Model estimation was used in the model. The result of regression model that has been estimated the impact of corporate governance variables of the social and financial performance of selected MFIs in Ethiopia are analyzed and discussed in table 4.14, 4.15 and 4.16 below.

Tables 4.14: Regression results for Corporate Governance Variables of Breath of Outreach

Dependent Variable: NAB
Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)
Date: 08/19/21 Time: 22:25
Sample: 2014 2109
Included observations: 96
Convergence not achieved after 500 iterations
Coefficient covariance computed using outer product of gradients
Presample variance: backcast (parameter = 0.7)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
BS	-23663.49	14016.09	-1.688309	0.0914
EQD	21611.85	8560.126	2.524711	0.0116
BEFS	-20623.32	11165.21	-1.847105	0.0647
MFB	5447.225	5008.084	1.087686	0.2767
SAC	124433.9	15091.92	8.245068	0.0000
CEOD	-68008.23	12845.40	-5.294365	0.0000
FS	6.85E-05	1.35E-06	50.78400	0.0000
C	-162288.4	61584.18	-2.635229	0.0084
Variance Equation				

R-squared	0.762305	Mean dependent var	225709.6
Adjusted R-squared	0.743397	S.D. dependent var	359636.2
S.E. of regression	182177.3	Akaike info criterion	25.81622
Sum squared resid	2.92E+12	Schwarz criterion	26.11005
Log likelihood	-1228.178	Hannan-Quinn criter.	25.93499
Durbin-Watson stat	1.038963		

Source: Eviews 9 output

Table 4.15: Regression results for Corporate Governance Variables of Depth of Outreach

Dependent Variable: GLP
Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)
Date: 08/19/21 Time: 22:35
Sample: 2014 2109
Included observations: 96
Convergence not achieved after 500 iterations
Coefficient covariance computed using outer product of gradients
Presample variance: backcast (parameter = 0.7)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	46365665	1.17E+08	0.396187	0.6920
BS	50337069	17479263	2.879816	0.0040
EQD	3260955.	13216790	0.246728	0.8051
BEFS	-59391012	12586962	-4.718455	0.0000
MFB	-16768752	10606497	-1.580989	0.1139
SAC	14100454	22693244	0.621350	0.5344
CEOD	-59146964	22016843	-2.686442	0.0072
FS	0.636712	0.004971	128.0962	0.0000

Variance Equation

R-squared	0.989170	Mean dependent var	1.67E+09
Adjusted R-squared	0.988309	S.D. dependent var	3.16E+09
S.E. of regression	3.42E+08	Akaike info criterion	40.47814
Sum squared resid	1.03E+19	Schwarz criterion	40.77197
Durbin-Watson stat	0.546628		

Source: Eviews 9 output

Based on the regression result indicated in the Tables 4.14 and 4.15 the study found out that the estimated result of multiple regression analysis is at a good level where the R-squared is 76% and 98% of variation in NAB and GLP respectively, was explained by the independent variables of this study. In other word, only 24% and 2% of variation in NAB and GLP respectively, is due to other factors that are not included in study. Both the R-squared and the Adjusted R-squared values of the models in this study are found to be higher implying that they have more explanatory power.

Table 4.16: Regression results for Corporate Governance Variables of Return on Asset

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 08/22/21 Time: 18:30
Sample: 2014 2019
Periods included: 6
Cross-sections included: 16
Total panel (balanced) observations: 96
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.277053	0.089441	-3.097606	0.0026
BS	0.006658	0.020912	0.318399	0.7509
EQD	0.017139	0.016925	1.012601	0.3140
BEFS	-0.021840	0.011981	-1.822964	0.0717
MFB	0.034388	0.006690	5.140162	0.0000
SAC	-0.009101	0.022646	-0.401881	0.6887
CEOD	0.051298	0.046429	1.104862	0.2722
FS	-3.67E-12	3.07E-12	-1.197579	0.2343

Effects Specification

	S.D.	Rho
Cross-section random	0.082493	0.7093
Idiosyncratic random	0.052815	0.2907

Weighted Statistics

R-squared	0.276256	Mean dependent var	0.033518
Adjusted R-squared	0.218686	S.D. dependent var	0.060479
S.E. of regression	0.053458	Sum squared resid	0.251485
F-statistic	4.798568	Durbin-Watson stat	1.245934
Prob(F-statistic)	0.000131		

Unweighted Statistics

R-squared	0.195429	Mean dependent var	0.132547
Sum squared resid	0.891092	Durbin-Watson stat	0.351628

Source: Eviews 9 output

As per table 4.16, the R2 for model is 0.278808. About (27.88%) of variation in ROA was explained by the independent variables of this study. In other word, 72.12% of variation in ROA is due to other factors that are not included in study. Additionally, the R2 result indicates the overall goodness of fit of the model used in this study. Furthermore, Prob > chi2= 0.0000. The p-value indicates that the model is crucial. Therefore, that all the

coefficients are jointly zero is rejected. Hence, the change in dependent variable is fairly explained by the change in the independent variables of the model. Moreover, for panel data, R-Squared greater than 20% is still large enough for reliable conclusions (Ganka, 2010, Cameron Trivedi, 2009; Hsiao, 2007, cited in Nyamsogoro, 2010).

The F-statistics of the three models are 18.57, 738.66 and 4.86 respectively, and their P- value is less than 5%, all the three models variables are significant. All models are adequately describes the data. Here one can infer from the results of R-squared and F-statistics that the implemented models of this research is well fitted that corporate governance elements have a significant effect on MFIs' social and financial performance. The F-statistic shows the overall significance of variables in other words the significance of each models slope parameters jointly**.**

The overall reliability and validity of these three models was also further enhanced by the fact that the Prob (F-statistic) values being (0.000000) for these models, which indicates strong statistical significance. Thus the null hypothesis of the overall test of significance that all coefficients are equal to zero was rejected as the p-value was sufficiently low (less than 0.05).

4.2.4.1 Social and Financial performance: Results and Discussion

The results obtained using OLS regressions to test the relationships between the governance variables described above and several measures of performance for the MFIs sample. Table 4.14 and table 4.15 shows the results from regressions on the social performance of the MFIs, it gives the regression coefficients measuring the rate of change of the diverse dimensions of governance on the two measures of social performance considered: breadth of outreach measured by Number of active borrower meaning that the number of credit clients served by a microfinance institution; and depth of outreach measured by gross loan portfolio that is, the reaching out to the poorest segments of customers. Then start with social performance and then turn to financial performance measured by ROA (table 4.16).

4. 4Corporate governance: Results and Discussion

4.4.1 Board size

The regression result on table 4.14 shows that a negative coefficient association between board size and NAB of MFIs but board size affects NAB of Ethiopian MFIs insignificantly. As a result board size had insignificant impact on breadth of outreach performance of Ethiopian MFIs. Thus, the alternative hypothesis that states Board size has an impact on social (breadth of outreach) performance of MFIs is rejected. This result is consistent with that of Ejigu (2015) we don't found any significant effect of board size on breadth of outreach.

The second regression result on table 4.15 shows that a positive coefficient association between board size and GLP of MFIs but board size affects GLP of Ethiopian MFIs significantly. As a result board size had significant impact on depth of outreach performance of Ethiopian MFIs. Thus, the alternative hypothesis that states Board size has an impact on social (depth of outreach) performance of MFIs is accepted. This result is inconsistent with that Mersland, Roy and Strøm, (2005) a larger board tends to give smaller loans, showing that the larger the board, the lower is the average loan. Thus, in terms of outreach, boards should be large.

As shown above, table 4.16, this study found a positive (coefficient = 0.003839) and statistically insignificant (p-value of 0.8558> 0.05) association between boards size (BS) and return on Asset (ROA). It implies that the numbers of board of directors' have insignificant impact on the financial performance of sample Ethiopian Microfinance Institutions. Thus, the alternative hypothesis is rejected that the board size has a significant impact on the financial performance of MFIs. The result is consistent with Hartarska (2005) who found large boards reduce financial performance. Moreover, the finding support the argument of Fama & Jensen (1983) stating that an increase in board size leads to less effective communication and monitoring due to coordination and process problems inherent in large board size. Therefore, the alternative hypothesis is rejected and board size has significant effect on MFIs' financial performance

In general, the empirical result of this study is inconsistent with Mersland, Roy and Strøm, (2005) in terms of outreach, boards should be large. However, this runs counter to most financial performance results on board size within the literature, where larger boards are related to higher agency costs. The reason given is that members during a large board may free ride on other members monitoring, with the result that the general monitoring is weaker.

4.4.2 Educational Qualification of Directors

As shown in the above table 4.14 the finding of this study reveals that the relationship between educational qualification of directors (EQD) and number of active borrowers (NAB) has a positive coefficient and statistically significant (p-value of 0.0116). Hypothesis H1b predict that the EQD has significant positive impact on social (breath of outreach) performance, measured by NAB. Thus, the null hypothesis is rejected that the EQD have no significant impact on breadth of outreach performance of MFIs. The positive effect on breath of outreach is consistent with the study by Coleman and Osei (2008) who found a positive effect.

The above regression result table 4.15, reveal that the educational qualification of directors (EQD) has insignificant positive influence on MFIs social performance measured by GLP. Meaning that Educational qualification of directors (EQD) is not a vital factor that increases the MFIs' depth of outreach performance. So the null hypothesis which states board educational qualification has no impact on financial performance fails to reject. This result consistent with Joel (2012), a positive relationship also found between board members' educational qualification and performance of MFIs.

Board educational qualification, according to the regression result had statistically insignificant positive association with ROA (P-value =0.3151>0.05). The result of the multiple random-effect GLS regression of the model indicate that the high proportion of directors who had college degree or higher had no significant positive influence on the financial performance of MFIs. So the alternative hypothesis which states that board members educational qualification has an impact on financial performance is rejected. This implies that, the presence of qualified directors on the board no or minimal effect to improve the financial performance of MFIs.

The result of the study is consistent with prior studies made by different authors. Educational qualification affects the oversight and monitoring role of boards of directors and this also reduces agency cost as well; because directors are required to make an informed decision which requires a thorough understanding (Bassem, 2009; Lukwago, 2012; Mori, & Olomi, 2012; & Thrikawala, 2013). Their result indicates that board without appropriate educational qualification cannot contribute to the financial performance of MFIs. Moreover, the educational qualification of the board plays a big role at the time of study and interpretation of the data and data which is vital for the effective strategic guidance of the operation of MFIs and therefore the effective control or monitoring of management by board of directors.

4.4.3 Board Members Experience in the Finance Sector

As shown in the table 4.14 & 4.15, the finding of this study reveals that the relationship between board member experience in the finance sector and number of active borrowers (NAB) has negative coefficient (-9125.029), and statistically insignificant (p-value of 0.7606). The alternative Hypothesis H1c expect that board member experience in the financial sector (BEFS) has positive and significant impact on social (breadth of outreach) performance, measured by NAB of MFIs is rejected. The insignificant level of the board member experience in the finance sector does not support the alternative hypothesis. The insignificant effect of the board member experience in the Ethiopian MFIs breadth of outreach performance measured by NAB implies that board member experience in the finance sector has nothing to do with breadth of outreach performance of MFIs or its contribution for breadth of outreach performance is negligible. This result consistent with Ejigu (2015) board member experience has no significant effect on breath of outreach.

The second regression result on table 4.15 shows that a negative association between board member experience in the finance sector and GLP of MFIs but BEFS affect GLP of Ethiopian MFIs significantly. As a result BEFS had significant impact on depth of outreach performance of Ethiopian MFIs. Thus, the alternative hypothesis that states BEFS has a positive significant impact on social (depth of outreach) performance of MFIs is rejected. This result is consistent with that Mersland, Roy and Strøm, (2005) a larger board tends to give smaller loans,

showing that the larger the board, the lower is the average loan. Thus, in terms of outreach, boards should be large.

Board experience within the financial sector implies the board's job experience within the financial sectors. The regression result regarding board experience in the financial sectors and return on asset (ROA) is negative coefficient of (-0.020233) but statistically insignificant (p-value of 0.0969> 0.05). This implies that board experience in the financial sector is statistically not significance relationship with at 5 percent level of significance. The alternative hypothesis expects that board member experience in the financial sector (BEFS) has positive and significant impact on the financial performance of MFIs is rejected. The insignificant effect of the board member experience in the Ethiopian MFIs financial performance measured by ROA implies that board member experience in the finance sector has nothing to do with the financial performance of MFIs or its contribution for financial performance is negligible.

The empirical result obtained by this study has mixed result with prior studies, one finding that the upper the proportions of directors who had earlier working experience within the financial sector the better the financial performance of MFIs (Valentina, 2005; Bassem, 2009; & Durgavanshi, 2014). This means that what's applied in most developed countries can't be applied in developing countries. Regarding corporate governance system in developing countries, it had been not well developed and therefore the awareness concerning the governance principles under corporate governance wasn't well understood in developing countries including Ethiopia. As a result, board members of most of MFIs in Ethiopia do not have awareness of the concept of corporate governance and hence do not apply best practices of corporate governance in their respective MFIs. In addition, the board members of government owned MFIs play dual role in order that they perform political issue additionally to monitoring the activities of manager.

On the other hand, consistent with the finding of this study, the mere experience of the board within the financial sector cannot contribute to the financial performance of the firm. Moreover, most of the boards are recruited from outside that are function the member of various organizations in order that they're financially strong. The results of the study is according to the finding of Xie et al. (2001) found that outside directors with corporate background are more likely to be financially sophisticated and their presence is related to a reduced level of earning management. As a result, the null hypothesis is rejected and board experience within the financial sector has significant effect on the financial performance of MFIs.

4.4.4 Meeting Frequency of Boards

The regression result in the table 4.14 & 4.15 shows that meeting frequency of the board with number of active borrowers (NAB) breadth of outreach and gross loan portfolio (GLP) depth of outreach has a positive and negative association respectively but both has insignificant effect. The alternative hypothesis which states meeting frequency of the board has a significant impact on Ethiopian MFIs social both breadth and depth of outreach performance measured by NAB and GLP of MFIs is rejected. The insignificant level of this result is consistent with Abdurazak (2017) and Bonsa (2015) findings.

The concept of meeting frequency in corporate governance refers to the frequency of your time that the boards meet during a year. Boards should regularly meet in closed session without management present to debate matters which will be particularly sensitive regarding management (Council of Microfinance Equity Fund, 2012). Moreover, for board to effectively perform its oversight function and monitor management performance, the board must hold a regular meeting. The results of the regression depicts that meeting frequency is positively related to financial performance of MFIs. According to the study finding, it improves financial performance ROA with P-value = 0.0000 which is less than 5 percent and indicates the board meet more frequently the higher financial result of MFIs.

The finding of this study was in line with prior studies that one among the measure of board effectiveness in monitoring the activities of manager are often indicated by the frequency of meeting they performs (Karamanou & Vefeas, 2008; Mangena & Tauringana,2008; & Ntim & Osei, 2011). They conclude that frequent board meetings may result in higher qualities of management monitoring that successively impact positively on corporate financial performance. However, the finding of the study contrasted the results of Akpan (2015) that reports a statistical significance and negative association between frequency board meetings and company performance which suggests that the frequency of meetings reduced shareholders earnings as company incurred more financial expenses in terms of sitting allowance, travelling expenses, hotel accommodation and entertainment during meetings. As a result, the null hypothesis is rejected and board of directors' meeting frequency has significant effect on the financial performance of MFIs.

4.4.5 Audit Committee Size

As shown in the table 4.14, the finding of this study reveals that the positive relationship between audit committee size (SAC) and breadth of outreach measured by NAB, and statistically significant. The alternative hypothesis expects that audit committee size (SAC) has positive and significant impact on social (breadth of outreach) performance is accepted. The result of this study support the previous study, Hartarska & Mersland (2012) examined governance mechanisms that promote efficiency in outreach of MFIs.

The second regression result on table 4.15 shows that the finding of this study reveals that the positive relationship between audit committee size (SAC) and depth of outreach measured by GLP, but statistically insignificant. The alternative hypothesis expects that audit committee size (SAC) has positive and significant impact on depth of outreach performance. The insignificant level of the audit committee size does not support the alternative hypothesis. The insignificant effect of the audit committee size in the Ethiopian MFIs depth of outreach performance measured by GLP implies that audit committee size has little or nothing to do with the depth of outreach performance MFIs. The result of this study doesn't support the previous study Hartarska & Mersland (2012) examined governance mechanisms that promote efficiency in outreach of MFIs.

The finding of this study revealed that the size of audit committee is negative insignificant relationship with ROA. The alternative hypothesis, which says that Audit committee size has positive and significant impact on ROA, is rejected. The finding of this study is consistent with prior studies Bekana and Mohammed (2019), the size of audit committee is negative insignificant relationship with ROE. However, the finding is not consistent with studies of (Bassem, 2009; Lukwago, 2012; & Danoshana, & Ravivathani, 2013). They acknowledged that increasing audit committee size will result high financial performance; because detailed discussion on the budget statement of the businesses will cause to get more ideas regarding the reports and it'll guide to extend the firm's performance.

4.4.6 CEO Duality

As shown in the table 4.14 and 4.15, the finding of this study reveals that the negative and statistically significant relationship between CEO/chairman with both NAB (breadth of outreach) and GLP (depth of outreach). This implies that CEO with dual responsibilities has a negative significant effect on MFIs social performance. The alternative hypothesis expect that CEO with dual responsibilities has negative and significant impact on social performance both (breadth of outreach and depth of outreach), measured by NAB and GLP respectively of MFIs is accepted. This finding is inconsistent with Mersland and Strøm (2009) state that CEO/chairman duality has a positive influence on outreach of MFIs.

Based on table 4.16, the relationship between dual responsibility of CEO (CEOD) and return on asset (ROA) has a positive coefficient (0.055480) which is insignificant (p-value of 0.2616> 0.05) which means there is a positive association between CEO with dual responsibility and financial performance of MFIs as measured by ROA but the effect is statistically insignificant. The alternative hypothesis expects that there is a significant negative association between CEO with dual responsibility and financial performance. The insignificant level of CEO with dual responsibility does not support the alternative hypothesis. The possible reason for this result can be that if CEO is a member of the board there may be conflict of interest and agency problem may happen, that can be lead to decrease the returns to asset. The finding is inconsistent with Letenah (2015), the board chairman, by virtue of the

power vested in it, can divert the decision making process to his own preference and benefit. This in turn will adversely affect effective governance and firm performance.

In general, two studies have looked into the consequences of CEO duality (Gohar and Batool, 2015; Kyereboah and Osei, 2008) and find that this negatively affects financial and social performance of MFIs. One study (Mersland et al., 2015) investigates the contribution of the CEO being the founder/owner of the institution, showing that this positively contributes to financial and social performance.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSION

The objective of this study was to assess the current corporate governance practices and to measure the impact of corporate governance practices on social and financial performance of microfinance institutions in Ethiopia. This study tried to analyze the effects of corporate governance mechanisms on social and financial performance of sixteen sample MFIs in Ethiopia, with a data set covering six years period from 2014 to 2019. This study made use of both primary and secondary data in analyzing and interpreting the relationship between corporate governance mechanisms and performance (social and financial) of the sixteen sample MFIs. The data was obtained basically from audited financial statements of selected MFIs and supplementary data were also collected from NBE and AEMFI.

The findings of the study indicate that each one the company governance elements didn't affect the performance of MFIs within the same way. In order to be consistent with the objective of the research, the study identified variables of corporate governance mechanisms such as board size, educational qualification of the board, board members experience in the finance sector, frequency of board meeting, CEO with dual responsibility and size of audit committee and MFIs' size, as control variables. Correlations and multivariate analysis was also wont to determine whether there's a relationship between the variables to be measured (i.e. corporate governance and MFIs social and financial performance) and also to find out whether the relationship is significant or not.

As financial performance indicator the study used Return on Asset (ROA) as dependent variable. The table of descriptive statistics result indicates that the financial performance of sample MFIs are 13.48percent as measured by ROA, indicating that the sample MFIs are better in covering their operational costs by using their operational revenues than utilizing shareholders' funds. On the other hand, the descriptive statistics result of board characteristics of MFIs are generally characterized by having an average board size of 7, an average of 85.71percent of the directors have college degree and above, 57.14percent of directors were experienced in the financial sector and 28.57percent were member of audit committee. In

addition, the board meets on average 10 times in a year which is less than the suggestion by NBE which is 12times for meeting of MFIs per a year.

Correlations analysis table of the study depicts that board size, board educational qualification, board experience in the financial sector and board audit committee size and meeting frequency, are positively associated with ROA. However, CEO with dual responsibility was negatively correlated with ROA. Control variable MFIs size of sample MFIs is also negatively correlated with ROA. On the other hand, board size, board educational qualification, board experience in the financial sector, board audit committee Size and meeting frequency are positively correlated with NAB and GLP. In addition, MFIs size is positively correlated with NAB and GLP.

The hypotheses were tested from both random-effect and fixed-effect GLS regression models. According to the regression result of the study, from the explanatory variables board size, board educational qualification, board experience in the financial sector, board audit committee Size, and MFIs size were found to be insignificant regressors of financial performance of sample MFIs as measured by ROA at 10% significant level. Board educational qualification, board audit committee size, CEO with dual responsibility and MFI size has significant influence on breath of outreach performance measured by GLP while board size, board experience in the financial sector and meeting frequency has insignificant impact on breath of outreach performance. However, board size and MFI size has positive significant influence on depth of outreach while board experience in the financial sector and CEO with dual responsibility has negative significant effect on depth of outreach performance.

The result indicates that the larger board member, high proportion of directors who had college degree or higher and frequency of board meeting have a positive influence on the financial performance of MFIs. Therefore, there must be guidance for selecting directors for MFI boards based on their academic and professional qualifications. According to previous empirical study qualified board plays an important role in monitoring and overseeing the activities and decision of the firm. Regarding meeting frequency of the board, it’s positively and significantly influence on financial performance. This implies that boards should regularly meet in closed session to debate matters which will be particularly sensitive

regarding management which successively improve the financial performance of MFIs. Board experience within the financial sector and Size of audit committee has negative association with financial performance measured by return on asset (ROA). This implies the role of board members with experience within the financial sector are often extended to scale back the financial performance and impact for the betterment of MFIs' overall performance. The regression result of the study revealed that board audit committee size has negative relationship with performance as measured by ROA. This implies that when the amount of the board included within the audit committee is increase, the financial performance of MFIs goes in reverse direction. CEO with dual responsibility, according to the finding of the study has a positive relationship with financial performance of the sample MFIs.

The study found that there is a positive and significant relationship between the educational qualification of the board, audit committee size, and breath of outreach of MFIs measured by NAB and positive but insignificant relationship with depth of outreach measured by GLP. The result indicates that the high proportion of directors who had college degree or higher and audit committee size, have a positive influence on the social performance of MFIs. Therefore, there must be guidance for selecting directors for MFI boards based on their academic and professional qualifications. According to previous empirical study qualified board plays an important role in monitoring and overseeing the activities and decision of the firm.

Board experience in the financial sector and CEO with dual responsibility has negative association with social both breath of outreach and depth of outreach performance measured by number of active borrowers (NAB) and gross loan portfolio (GLP). This implies the role of board members with experience in the financial sector and CEO duality can be extended to decrease social performance. Regarding meeting frequency of the board, it is positively influence on breath of outreach while negatively influence on depth of outreach performance. This implies that boards should regularly meet in executive session to discuss matters that may be particularly sensitive regarding management which in turn improve breath of outreach performance of MFIs. According to the finding of the study Board size has a positive relationship with gross loan portfolio (GLP), but negative effect on breath of outreach (NAB)

performance of the sample MFIs. The result indicates that the larger board member, have a positive influence on increase in gross loan portfolio performance, but the number of active borrowers performance of MFIs goes in reverse direction.

According to the control variable, the study provides evidence that there total assets is impacted positively and significantly to social performance, but impacted negatively to financial performance.

To sum up, the results of the study indicated that good corporate governance structure plays a vital role in improving the financial performance of MFIs. This study presented the first evidence on the link between governance mechanisms and performance (social and financial) in microfinance institutions. Empirical result of the study evidenced that the corporate governance and its impact on social and financial performance is characterized by reasonable board size that reduce overburdening members that improve their monitoring, advising and making available better linkage to the external environment that results better financial and depth of outreach performance of MFIs except for breath of outreach. In addition, educational qualification of the board, influence both social and financial performance positively, but Board experience within the financial sector influence negatively. Board audit committee size influence negatively to financial performance but influence positively to social performance. Board meeting frequency influence financial and breath of outreach performance positively, but it influence negatively to depth of outreach performance. In addition, CEO with dual responsibility, influence to financial performance positively, but it influence negatively to social performance. Finally, agency theory offers a general good explanation of the associations between corporate governance mechanisms and performance of the firm. Further, this study concludes by highlighting the necessity of having a proper training and development in governance initiatives for MFI board to enhance the overall financial performance and social impact of the MFIs.

5.2 Recommendations

The foremost purpose of this study was to examine the impact of corporate governance on the social and financial performance of MFIs in Ethiopia. Both theoretical also as empirical evidence that support and against the findings of the study was reviewed. Based on the

findings of the study and conclusion arrived, the subsequent recommendations were forwarded to the concerned body.

First, compare to other sectors, effective governance within the financial sector is more important since the world needs great attention due to its importance keep on the track the country's economy. The main reason why financial sector needs greater attention regarding its governance is that they held money from the general public as deposit that they successively provide loans to the deficit parties who want to take a position in several investment areas. As a result microfinance institutions got to strengthen the company governance principles which guide the responsibilities of the board of directors, the chairpersons, CEOs, senior management, board appointed committees, auditors, shareholders and regulators. Because governance is claimed to be all about effective if it's transparent and accountable administration of affairs of an establishment by its management while protecting the interests of its stakeholders including shareholders, creditors, regulators and the public. More specifically, effective governance is needed for MFIs as they are the major economic driving force in developing economy like Ethiopia.

The following points are some of the major reasons why greater consideration regarding governance of MFIs is needed.

- Their major liabilities are generated from funds raised mainly through deposits from the general public, mainly from the poor that need greater fiduciary responsibilities on MFIs and its directors since depositors' funds need to be safeguarded.
- Like other financial institutions, MFIs also functioning intermediaries between savers and investors by lending funds they accept as deposit from the general public to the investors who need to spend on different area of economy.
- MFI is during a one among the members of monetary institutions; they have to perform their activities in a manner that keep public confidence since loss of charitable trust results in financial crisis that successively results in depression.

Second, good corporate governance within the MFIs plays a crucial role in improving their financial performance, improving transparency, accountability, sustainability, profitability, efficiency, effectiveness, responsibility and responsiveness to the changing

environments. Effective corporate governance depends on both structures and processes of control, content and specific individuals involved, particularly in the leadership. Board of director is that the major management organ which plays a critical role in ensuring good governance of MFIs to make sure their profitability and sustainability. Therefore, the laws and codes of conduct that have been recently designed to guide the conduct of firm regarding corporate governance should be designed and implemented so as to oversight the dimensions, composition, qualification and knowledge of the member that monitor the activity of the management. Third, publication of manual rules of corporate governance and make available for information the general public needs so as to profit from the appliance of rules by the management and employees and the various activities of the firm. To do so, NBE and AEMFIs needs to set up a unified corporate body burden with the responsibility of collecting corporate governance related data and constructing the relevant indices to facilitate corporate governance research in Ethiopia.

Fourth, on the basis of the above, the author recommended that the approach to microfinance governance be broadened by focusing to a greater extent on an MFI's stakeholders and the decision-making process within the MFI. This will likely yield a far better insight into the way during which MFIs are really managed. Fifth, educational qualification of the board directors plays an indispensable role in performing the boards' monitoring and supervising that in turn improve the social and financial performance of MFIs. Therefore, MFIs should give great consideration to possess board of directors with a university degree or above to get benefits from well qualified directors.

Sixth, board size must be kept as 7 to adhere the minimum requirement of National Bank of Ethiopia which is seven with an optimal level of better educational qualification, since large board size with better educational qualification is more effective in monitoring and overseeing the management and help to improve financial and depth of outreach performance.

Finally, the dimensions of audit committee should be small in order that there would be a smooth communication and an easy and transparent deciding process, which contributes in improving their outreach performance. As the result, audit should be appropriate in size to supply shareholders with periodic reports on changes affecting the shareholders within the

company, and held regular meetings with members of the board of directors ensuring that their role should be done to share in the responsibility. Because, as this study revealed, large size of an audit committee negatively affects financial performance and may not play its role effectively in mitigating the risk of fraud and misrepresentation of the knowledge and improve monitoring and transparency in operations which cause to timely and accurate reporting of the loan defaults and poor performance in MFI.

. Based on empirical result of the study, it is recommended that CEO with dual responsibility should be separate for better performance. Furthermore, in order to reduce the problem of management failures which put at risk the money obtained from the public and other sources, the governance mechanisms of MFIs have to be effective (i.e creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firm's operational efficiency, returns on investment and or on equity and long term productivity).

5.2.1 Suggestions for Further Research

The study is considered to be limited. First, it studies performance in MFIs in a period of six years only 2014-2019. Second, there are MFIs that are not accounted for lack of data mainly due to COVID-19. Hence, the result of this study cannot be generalized for all MFIs in Ethiopia. Despite the above limitations, this study contributes to the scarce literature on both social and financial performance of MFIs at the same time.

Lastly, the author suggests that future studies take a multidisciplinary approach incorporating both qualitative and quantitative research tools. Future studies should also use a broader range of variables (e.g. technology) and with extended datasets.

Given the revealing results of corporate governance practices as a determinant of social and financial performance of MFIs, policy makers and regulators should give special treatment to this sector while developing policies of corporate governance practices keeping in mind the specific nature of microfinance institutions in developing country like Ethiopia.

REFERENCES

Abayie, E., Amanor, K., & Frimpong, J. (2011). The measurement and determinants of economic efficiency of microfinance institutions in Ghana: A stochastic frontier approach. African Review of Economics and Finance, 2(2), 149-166.

Abdullah, H., & Valentine, B. (2009). Fundamental and ethics theories of corporate governance. Bassem, B. (2009).

Abdurazak H. (2017), corporate governance and its effect on financial performance ofEthiopian private commercial banks, MSC Thesis AAU.

ACCA. (2012). corporate governance: The board of directors and standing committees

Adeusi, S. O., Akeke, N. I., Aribaba, F. O. And Adebisi, O. S. (2013).Corporate Governance And Firm Financial Performance: Do Ownership and Board Size Matter? Academic Journal of Interdisciplinary Studies, Vol 2 No 3, 251-258. Doi:10.5901/Ajis.2013.V2n3p251.

AEMFI. (2014). Ethiopian Microfinance Institution Performance Analysis Report. Addis Ababa. Addis Ababa: AEMFI.

AEMFI. (2016). Organization statement: Association of Ethiopian Microfinance Institutions. Addis Ababa, Ethiopia.

Ahmad, N., & Sana I. (2015). Financial performance and company governance in microfinance: Who drives who? Evidence from Asia.

Ahmed Tura(2012). Overview Of Corporate Governance In Ethiopia: The Role, Composition And Remuneration Of Boards Of Directors In Share Companies. Vol. 6 No.1

Jeanneney, S., Hua, P., & Liang, Z. (2006). Financial Development, Economic Efficiency And Productivity Growth: Evidence From China. The Developing Economies, 44(1), 27-52. Http://Dx.Doi.Org/10.1111/J.1746-1049.2006.00002.X.

Alemayehu Yirsaw (2008), The Performance of micro finance institutions in Ethiopia: A case of six microfinance institutions", Addis Ababa University

Anne KeruboMwasi (2011), corporate governance practices in micro-finance institutions in Nairobi, Kenya, MBA thesis The University of Nairobi.

Assefa S. (2015), corporate governance rules in Ethiopia and Germany, Journal of central European.

Assefa, Esubalew, Niels Hermes, and Al jar Meesters. 2013. Competition and the Performance of Microfinance Institutions. Applied Financial Economics 23: 767–82.

Ayalew, F. (2007). Governance Practices Of Ethiopian Microfinance Institutons: A Study Of Selected Units. Addis Ababa: Addis Ababa.

Bassem, B. S. (2009). Governance and performance of microfinance institutions in Mediterranean countries. Journal of Business Economics and Management, 10(1), 31-43. http://dx.doi.org/10.3846/1611-1699.2009.10.31-43

Bathula, H (2008). Board Characteristics and firm performance: Evidence from New Zealand.

Belete Zegeye (2015), The Impact of corporate governance on Microfinance Institution Financial Performance in Ethiopia.

Brooks, C. (2008). Introductory Econometrics for Finance, New York, Cambridge University Press, CGAP. (2019). Sub Saharan Africa 2009: Microfinance Analysis and Benchmark report. Microfinance Information Exchange. Available at www.themix.org.

Cull R., D.-K. A. (2007). Financial Performance and Outreach: A worldwide Analysis of Leading Micro Banks. Economic Journal, vol.117, pp.107–133.

Cull R.D.-K.A. and Morduch J. (2008). "Does Microfinance regulation curtail profitability and outreach?" NYU Robert Wagner Graduate School of public service paper

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997), Toward a stewardship theory of management, Academy of Management Review.

Ebisa Deribie, Getachew Nigusie, & Fikadu Mitiku, (2013). Filling the breach: Microfinance. Journal of Business and Economic Management, 1(1), 010-017.

Ejigu, L. (2009). Performance analysis of sample microfinance institutions in Ethiopia. International NGO Journal 4(5), 287-298.

Eyob Melkamu, (2016). Effects of corporate governance on the financial performance of micro finance institutions in Ethiopia. M.Sc. Thesis. Addis Ababa University, Addis Ababa.

Fama, E., & Jensen, M. (1983). Agency problems and residual claims. Journal of Law and Economics, 26(2), 327-349. Field, A. (2005). Discovering Statistics Using SPSS. London, England: Sage publication.

Federal Democratic Republic of Ethiopia (1996), Proclamation to supply for the licensing and supervision of the business micro financing institutions, Federal Negarit Gazeta, 40/1996, Addis Ababa.

Fekadu, G 2010, Emerging Separation Of Ownership And Control In Ethiopiashare Companies: Legal And Policy Implications: Mizan Law Review, Vol. 4, And No.1.

Governance and performance of microfinance institutions in Mediterranean countries. Journal of Business Economics and Management, 10(1), 31-43.

Gujarati, D. (2004). Basic econometrics. New York, USA: McGraw-Hill Company publication.

Habbash, M. (2010). The effectiveness of corporate governance and external audit on constraining earnings management practice in the UK. Doctoral thesis, Durham University.

Hartarska, V. (2005).Governance and performance of microfinance institutions in Central and Eastern Europe and therefore the newly independent states.

Hartarska, V., & Mersland, R. (2012), What Governance Mechanisms Promote Efficiency in Reaching Poor Clients? Evidence from Rated MFIs, European Financial Management.

Hausman, J.A. (1978), Specification tests in econometrics, Econometrica, 46 No. 6, pp. 1251–1271.

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000), The Resource Dependency Role Of Corporate Directors, Journal of Management Studies.

Hussein Ahmed Tura, (2012), Overview of corporate governance in Ethiopia: The role, composition & remuneration of boards of directors in share companies, MIZAN LAW REVIEW.

Imam, M. & Malik, M. (2007). Firm Performance And Corporate Governance Through Ownership Structure. Evidence From Bangladesh Stock Market. International Review Of Business Research Papers, 3 (4), 88-110.

Isra Ahmed and Allam Hamdan (2015), the impact of corporate governance on firm performance: evidence from Bahrain bourse.

Kereta, B. (2007) Outreach and Financial performance analysis of Microfinance Institutions in Ethiopia, African Economic Conference, Addis Ababa.

Lukwago, J. (2012). Corporate Governance And Financial Performance/Growth Of Microfinance . Institutions In The Case Of Microfinance Institutions under the Association of Microfinance Institutions Uganda. Unpublished Bachelor Thesis, University Of Makerere

LUZZI, F. G., WEBER, S. (2006). Measuring the performance of Microfinance

Institutions. Geneva: CRAG.

Maher, M. And Anderson, T., (1999), Corporate Governance: Effects on Firm Performance and economic. Growth. Oecd, Paris, France

Mangena, M., & Tauringana, V. (2008). Corporate boards, ownership structure and Firm performance in an environment of severe political and economic uncertainty. British accounting association conference. Blackpool.

Masood, F. (2011). Corporate Governance and Firm Performance. International Sociality and Economic Development.

Mersland, R., & Strøm, R. Ø. (2009), Performance and governance in microfinance institutions, Journal of Banking and Finance.

Minga,N (2008) Rethinking Corporate Governance In Ethiopia African Peer Review Mechanism, Working Paper Series, Paper For A Conference On Corporate Governance In Africa, September 2008.

Mohammed A., et al. (2014), Effects of Corporate Governance on Micro Finance Institutions Financial Sustainability in Kenya, European Journal of Business and Management.

Ms. S. Danoshana and Ms. T. Ravivathani (2013), The impact of the company governance on firm performance: A study on financial institutions in Sri Lanka, Merit research journal.

Mori, N., Golesorkhi, S., Randøy, T., and Hermes, N. (2015), "Board composition and outreach performance of microfinance institutions: evidence from east Africa," Strategic Change: Briefings in Entrepreneurial Finance, Vol. 24, pp. 99–113.

Natioal Bank of Ethiopia. (2014). Corporate Goverance Directive. Addis Ababa.

National Bank of Ethiopia. (2015). Microfinance institutions supervision directorate. Addis Ababa.

Raheel, G., & Amna, B. (2015). Effect of corporate governance on performance of microfinance institutions: A case from Pakistan, emerging markets finance and trade, 51:sup6, S94-S106, DOI: 10.1080/1540496X.2015.1080559.

Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. Journal compilation Blackwell Publishing Ltd

Roy Mersland, R. ØysteinStrøm (2008), Performance and governance in microfinance institutions, Agder University, Kristiansand, Norway

Saat, N., Karbhari, Y., Heravi, S., & Nassir, A. (2011). Effective Oversight Roles Of Board Of Directors – The Case Of Listed Firms On Bursa Malaysia. World Review Of Business Research ,231-245.

Shegaw Mandaw (2018), corporate governance practices and its impact on financial performance of microfinance institutions in Ethiopia, MBA thesis DBU.

Tchakoute, H. (2010), "Is there a difference in performance by the legal status of microfinance institutions?" Quarterly Review of Economics and Finance, Vol. 50 No. 4, pp. 436–442.

Thrikawala, S. (2016). Corporate governance and performance of microfinance institutions: A comparative study in Sri lanka and India.

Waseem, A., Saleh, A., & Fares, A. (2011). The effect of corporate governance on the performance of Jordanian industrial companies. International journal of Humanities and Social Science, 1(4), 55-69.

Wolday A. (2008), "Corporate governance of the deposit taking microfinance institutions in Ethiopia", AEMFI, Addis Ababa, Ethiopia.

Yenesew Ferede (2012), corporate governance and financial performance of commercial banks in Ethiopia.

Youssoufou, C. (2002). Performance of Microfinance Institutions in Burkina Faso.

Helsinki: United Nation University Press.

……Section Break (Next Page)…….

Appendix 1a White Test for NAB model

Heteroskedasticity Test: White			
F-statistic	1.591229	Prob. F(33,62)	0.0574
Obs*R-squared	44.02226	Prob. Chi-Square(33)	0.0951
Scaled explained SS	7.77E-20	Prob. Chi-Square(33)	1.0000

Source: Eviews 9 output

Appendix 1b White Test for GLP model

Heteroskedasticity Test: White			
F-statistic	1.490705	Prob. F(33,62)	0.0874
Obs*R-squared	42.47159	Prob. Chi-Square(33)	0.1250
Scaled explained SS	4.95E-33	Prob. Chi-Square(33)	1.0000

Source: Eviews 9 output

Appendix 1c White Test for ROA model

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.937379	Prob. F(7,88)	0.0730
Obs*R-squared	12.81900	Prob. Chi-Square(7)	0.0766
Scaled explained SS	275553.0	Prob. Chi-Square(7)	0.0000

Source: Eviews 9 output

Appendix 2a Autocorrelation test for NAB model

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	182.4514	120	0.0002
Pesaran scaled LM	4.031218		0.0001
Pesaran CD	-0.375713		0.7071

Source: Eviews 9 output

Appendix 2b Autocorrelation test for GLP model

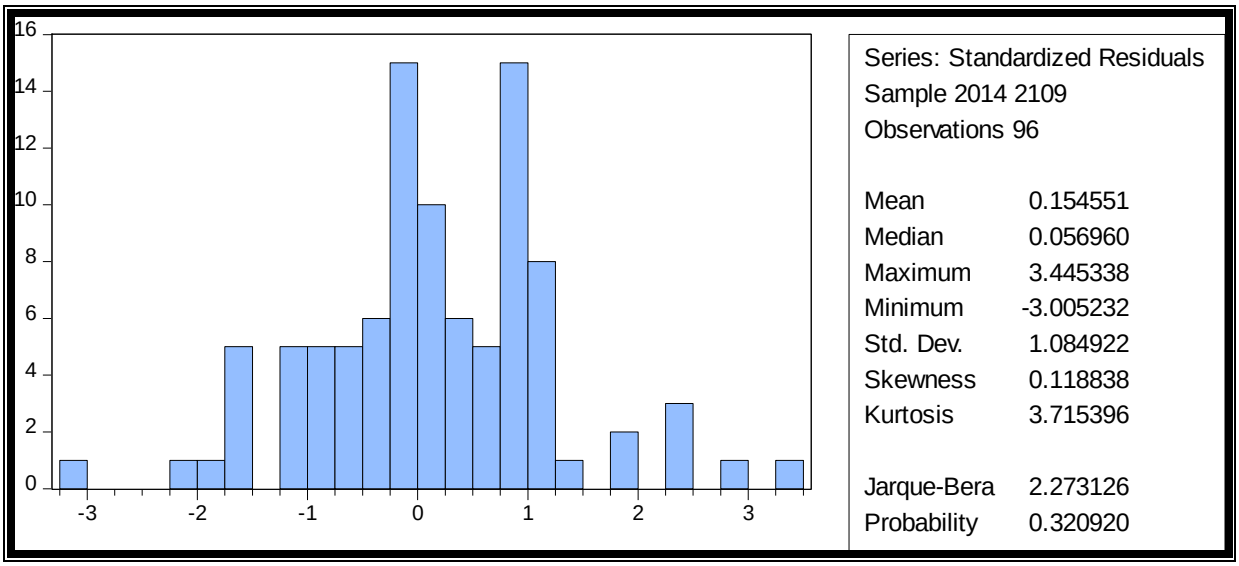
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	178.1527	120	0.0005
Pesaran scaled LM	3.753741		0.0002
Pesaran CD	-0.448114		0.6541

Source: Eviews 9 output

Appendix 2c Autocorrelation test for ROA model

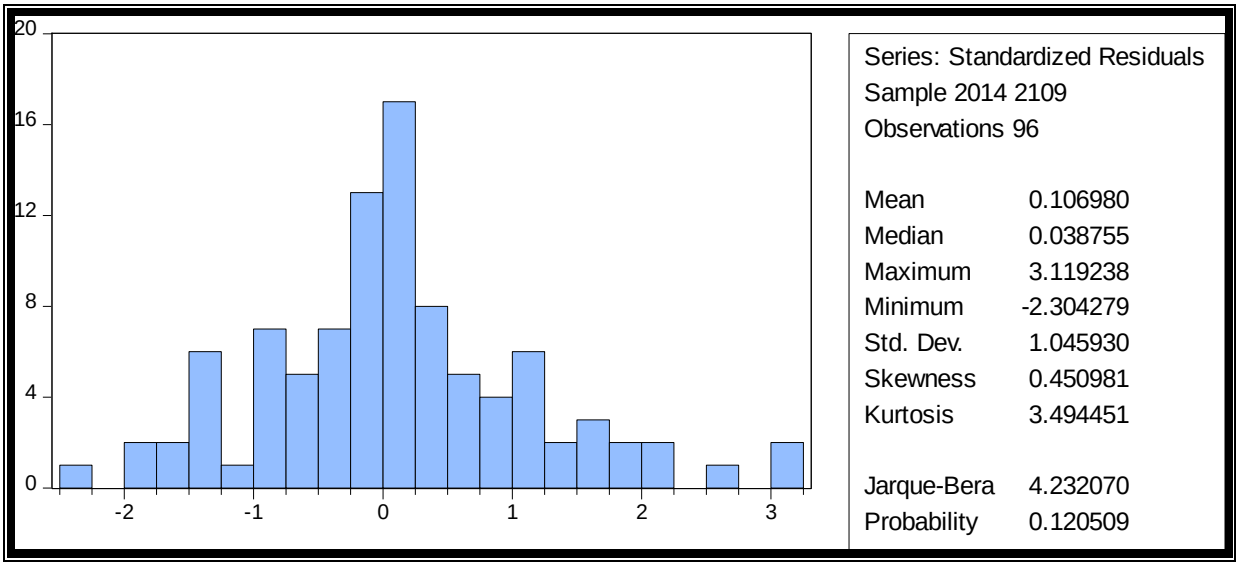
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	183.3428	120	0.0002
Pesaran scaled LM	4.088762		0.0000
Pesaran CD	-0.799682		0.4239

Appendix 2c Autocorrelation test for ROA model



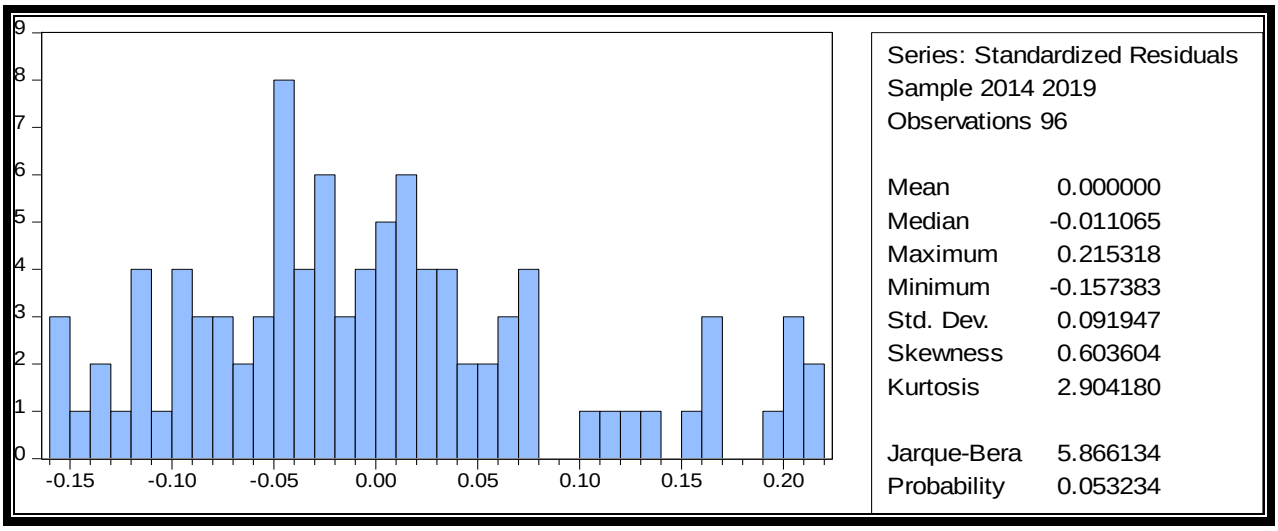
Appendix 3a Normality test for Ethiopian MFIs' NAB model

Source: Eviews 9 output



Appendix 3b Normality test for Ethiopian MFIs' GLP model

Source: Eviews 9 output



Source: Eviews 9 output

Appendix 3c Normality test for Ethiopian MFIs' ROA model

Appendix 4a Hausman Test for NAB model

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.815152	6	0.0662

Source: Eviews 9 output

Appendix 4b Hausman Test for GLP model

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	25.423908	6	0.0004

Source: Eviews 9 output

Appendix 4c Hausman Test for ROA model

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.721358	6	0.3474

Source: Eviews 9 output

Appendix 5a Regression results for Corporate Governance Variables of Breath of Outreach

Dependent Variable: NAB
Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)
Date: 08/19/21 Time: 22:25
Sample: 2014 2109
Included observations: 96
Convergence not achieved after 500 iterations
Coefficient covariance computed using outer product of gradients
Presample variance: backcast (parameter = 0.7)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
BS	-23663.49	14016.09	-1.688309	0.0914
EQD	21611.85	8560.126	2.524711	0.0116
BEFS	-20623.32	11165.21	-1.847105	0.0647
MFB	5447.225	5008.084	1.087686	0.2767
SAC	124433.9	15091.92	8.245068	0.0000
CEOD	-68008.23	12845.40	-5.294365	0.0000
FS	6.85E-05	1.35E-06	50.78400	0.0000
C	-162288.4	61584.18	-2.635229	0.0084

Variance Equation

R-squared	0.762305	Mean dependent var	225709.6
Adjusted R-squared	0.743397	S.D. dependent var	359636.2
S.E. of regression	182177.3	Akaike info criterion	25.81622
Sum squared resid	2.92E+12	Schwarz criterion	26.11005
Log likelihood	-1228.178	Hannan-Quinn criter.	25.93499
Durbin-Watson stat	1.038963		

Source: Eviews 9 output

Appendix 5b Regression results for Corporate Governance Variables of Depth of Outreach

Dependent Variable: GLP
Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)
Date: 08/19/21 Time: 22:35
Sample: 2014 2109
Included observations: 96
Convergence not achieved after 500 iterations
Coefficient covariance computed using outer product of gradients
Presample variance: backcast (parameter = 0.7)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	46365665	1.17E+08	0.396187	0.6920
BS	50337069	17479263	2.879816	0.0040
EQD	3260955.	13216790	0.246728	0.8051
BEFS	-59391012	12586962	-4.718455	0.0000
MFB	-16768752	10606497	-1.580989	0.1139
SAC	14100454	22693244	0.621350	0.5344
CEOD	-59146964	22016843	-2.686442	0.0072
FS	0.636712	0.004971	128.0962	0.0000

Variance Equation

R-squared	0.989170	Mean dependent var	1.67E+09
Adjusted R-squared	0.988309	S.D. dependent var	3.16E+09
S.E. of regression	3.42E+08	Akaike info criterion	40.47814
Sum squared resid	1.03E+19	Schwarz criterion	40.77197
Durbin-Watson stat	0.546628		

Source: Eviews 9 output

Appendix 5c Regression results for Corporate Governance Variables of Return on Asset

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 08/22/21 Time: 18:30
Sample: 2014 2019
Periods included: 6
Cross-sections included: 16
Total panel (balanced) observations: 96
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.277053	0.089441	-3.097606	0.0026
BS	0.006658	0.020912	0.318399	0.7509
EQD	0.017139	0.016925	1.012601	0.3140
BEFS	-0.021840	0.011981	-1.822964	0.0717
MFB	0.034388	0.006690	5.140162	0.0000
SAC	-0.009101	0.022646	-0.401881	0.6887

CEOD	0.051298	0.046429	1.104862	0.2722
FS	-3.67E-12	3.07E-12	-1.197579	0.2343
		Effects Specification		
			S.D.	Rho
Cross-section random			0.082493	0.7093
Idiosyncratic random			0.052815	0.2907
		Weighted Statistics		
R-squared	0.276256	Mean dependent var		0.033518
Adjusted R-squared	0.218686	S.D. dependent var		0.060479
S.E. of regression	0.053458	Sum squared resid		0.251485
F-statistic	4.798568	Durbin-Watson stat		1.245934
Prob(F-statistic)	0.000131			
		Unweighted Statistics		
R-squared	0.195429	Mean dependent var		0.132547
Sum squared resid	0.891092	Durbin-Watson stat		0.351628

Source: Eviews 9 output

Appendix 6: Questionnaire

1. Name of the Microfinance Institution _____

Part I: Please fill the number for each period for questions listed below.

Questions	Calendar					
	2014	2015	2016	2017	2018	2019
1. Total number of directors sitting on the board						
2. Number of board of members who had college degree and above						
3. Number of board of members who had experience in the finance sector like bank, insurance and other MFs						
4. The actual total number of board meeting hold per year						
5. Total number of Audit committee members under the board of MFIs						
6. Does the presence of CEO on the board affect MFI performance? Say “yes” or “No”						

Thank you such a lot for some time and cooperation once again!!

Appendix **7: List of Microfinance Institutions under Investigation**

No	Name of microfinance institution	Abbreviation	Year of establishment
1	Oromia credit and saving share company	OCSSCO	1997
2	Addis credit and saving institution	ADCSI	2000
3	Specialized promotional finance institution	SPFI	1997
4	Vision fund microfinance S.C	Vision	1975
5	Buussa Gonofa Microfinance S.C	Buusa Gonofa	1999
6	Poverty eradication and community empowerment	PEACE	1999
7	Meklit microfinance institution S.C	Meklit	1996
8	Eshet microfinance institution S.C	Eshet	2000
9	Wasasa microfinance S.C	Wasasa	2000
10	Harbu Microfinance Institution S.C	Harbu	2005
11	Dedebit Credit and saving Institutions S.C	DECSI	1997
12	Amhara Credit and saving Institutions S.C	ACSI	1997
13	Aggar Microfinance S.C	Aggar	1997
14	Sidama Microfinance S.C	Sidama	1998
15	Omo microfinance S.C	OMI	1997
16	Gasha Microfinance S.C	Gasha	1998

Source: Association of Ethiopian microfinance institutions (2021)

1. BIOGRAPHICAL SKETCH

The author Sani Nisrane Mohammed was born on the 02 February 1983 in Getta Woreda (Kebul Kebele), Guraghe Zone, SNNPR, Ethiopia. He attended his elementary education at Kebul Elementary School from 1978- 1983 and his Junior Secondary education at Kebul Junior Secondary school from 1984- 1985 and his high school was completed at Mugo Senior Secondary School from 1986- 1989. He joined the Hawassa university Health science college in 1998-2000 and obtained Diploma in Pharmacy on July, 2000. Also he joined the Hawassa university Main compass in 2006-2009 and obtained BA Degree in Accounting and finance on July, 2009. After graduation, he was employed in the Garage zone Getta woreda Quante Primary Hospital at 2009, then, in 2011 he was employed Getta Woreda administration Administrator up to 2012. Since 2000—2012 he was worked in different government sectors as a head office in Getta Woreda.