MAKERERE UNIVERSITY BUSINESS SCHOOL

OWNERSHIP STRUCTURES, CORPORATE GOVERNANCE AND
PERFORMANCE OF MFIs IN UGANDA

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Declaration

I, Saul Sseremba, declare that the work presented is an original copy and has never been presented for any other award of a degree in any institution of higher learning or for any other reason whatsoever.

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Dedication

To my loving wife Renelle, my daughter Rhesa and my dear Mum.
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Abstract

The purpose of the study was to examine the relationship between ownership structures, corporate governance and the performance of small MFIs in Uganda. Interest in this study was as a result of poor performance of these MFIs as indicated in the AMFIU Annual report of 2006. The study therefore sought to determine if this could be attributed to their ownership structures and therefore governance levels.

A cross sectional survey design was used to undertake this study using a sample of 69 MFIs from which responses from 44 MFIs were received; giving a response rate of 67.7%.

Findings of the study reveal that ownership structures and corporate governance are significant predictors of MFI performance accounting for 42.4% of the variance.

The study thus recommends that the MFIs should improve their ownership structures by increasing the number of legal persons as shareholders, reducing on the ownership concentration and clearly defining the limits of owners as far as management is concerned; because these have a positive impact on the corporate governance levels of the firm and therefore their performance. There must be total independence of the BOD so that the systems of the MFIs can be streamlined.
CHAPTER ONE
INTRODUCTION

1.1 Background to the study

Over the last few years, more and more attention has been devoted to microfinance by academics and practitioners interested in development issues, (Labie, 2001). However, past studies on corporate governance have not really addressed ownership and corporate governance issues in developing countries; more so in the areas of unregulated MFIs. This study in supplementing the past studies therefore tries to identify the extent to which the ownership and the corporate governance framework affect performance of lower level microfinance organizations in Uganda.

Conflict of interest between corporate insiders (controlling shareholders and managers) and outside investors is central to the analysis of the modern corporation in which insiders have less than full ownership of the cash flow rights of the firm, (Bearle and Means (1932) and Jensen and Meckling (1976)). These analyses suggest that the firm’s ownership structure is a primary determinant of the extent of agency problems between controlling insiders and outside investors, which has important implications for the performance of the firm, (Lemmon and Lins 2003). The importance and necessity of ownership is important in the case of MFIs. For effective governance of an organization defining ownership is important.

Ownership may be different looking into the nature of the organization. However, Chowdhury (2006) defines ownership as belongingness. Owners create, invest, shoulder legal responsibilities, take benefits and profits individually and as a group and when the organization winds up bear the consequential benefits or losses. In formal financial institutions and corporate sectors the ownership is decided by investment of financial resources. The ownership goes to the people
through the government if an organization is governmental; the ownership of voluntary organization goes to the people while no one owns the NGO MFIs since no individuals or groups invested money or took shares in the investment. Although in many cases donors invest money and the borrowers save money with MFIs, they don’t qualify to be owners. However, in the case of Grameen Bank, the clients are considered as shareholders of the bank, (Chowdhury 2006).

MFIs in Uganda are grouped into 6 categories (ranging from A - F) basing on the number of clients, loan performance, MFI good practice, loan portfolio among others. These institutions have varied ownership structures and this has therefore impacted on their corporate governance levels. Some of them are companies limited by guarantee with an NGO status, without an NGO status, a few are companies limited by shares, some are pure NGOs, while the majorities are savings and credit cooperative societies (SACCOS) (AMFIU 2005).

In addition, the relationship between Board and Management is also very important for making an organization effective and that can be ensured through clear understanding of strategic and operational role of these two important players, (Kyereboah-Coleman and Biekpe 2005). Governance indicates the mechanism by which powers and responsibilities are exercised by the involved parties in managing the organization for achieving its goals and objectives. For the last decade or so, corporate governance principles have imposed themselves as the basic rules for any well-run company to follow. This trend has been so tremendous; it now affects much more than just the traditional business companies for which these principles were originally designed. In a way, corporate governance even tends to be part of the globalization process, as it is often seen as a tool for standardizing the controlling vision for any major organization in the world, (Labie, 2001). In the aftermath of the large corporate scandals during the beginning of this decade (such as
Enron and WorldCom in the US, Parmalat and Ahold in Europe), a number of practitioners have called for more board diversity. In addition to improved monitoring via board independence, there are also arguments for greater diversity related to enhanced innovation capability, better global understanding, and better understanding of diverse customer needs, (Daily and Dalton, 2003; Robinson and Dechant, 1997).

In microfinance, governance is seen as a mechanism through which donors, equity investors and other providers of funds ensure themselves that their funds will be used according to the intended purposes (Hartarska, 2005). Indeed, microfinance practitioners have recognized that good governance is critical for the success of MFIs, (Campion, 1998; Otero, 1998). Greuning, Gallardo and Randhawa, (1998), stressed that the governance exercised by the board enhances institutional survival and moves an organisation beyond dependence on its funding visionary. On the other hand, the board can also push a firm towards imprudent growth and financial crisis.

It’s thus clear that an organisation’s performance is influenced by both the ownership structure and corporate governance (OECD 2004). The first goal of the MFIs is to reach more clients and poorer population strata; (Helms, 2006; Johnson et al., 2006). The second goal is to do this in a way that achieves financial sustainability and independence from donors. Firm performance therefore should be measured along both these dimensions. Lack of clear ownership structures and good corporate governance have been identified as bottlenecks in achieving the financial performance of MFIs and increase outreach of microfinance according to Rock et al; (1998); Labie (2001); Helms (2006); United Nations (2006); Otero and Chu (2002).

It should be noted that the 2003 MDI Act provides a wonderful opportunity for promoting Corporate Governance among MFIs in Uganda. The requirements therein for MFIs concerning
ownership (ownership structures of private capital), management, financial disclosure, and capital adequacy, help foster prudent management and thus improve performance. However, such good laws are not applicable to the MFIs that are not regulated which are the majority (Kansiime, 2009).

1.2 Statement of the Problem

Lower level MFIs in Uganda unlike their big and regulated counterparts are characterized by unclear ownership structures, founder member syndrome, low aptitude of the directors, and lack of independence from donor agencies among others. As a result of these, these MFIs have not been able to expand their network as well as serving more clients thereby stifling growth of rural finance and creating a high unmet need for financial services in rural areas, (AMFIU 2008). It is therefore against this background that the researcher sought to investigate whether the crude ownership structures and therefore the low levels of corporate governance practices among these MFIs in Uganda could be the explanation for their poor performance.

1.3 Purpose of the Study

The purpose of this study is to investigate the relationship between ownership, corporate governance and the performance of selected MFIs in Uganda.

1.4 Research Objectives

i. To examine the relationship between the ownership structures on the corporate governance practices in MFIs in Uganda.

ii. To determine the impact of the ownership structures on the financial performance of MFIs in Uganda.
iii. To establish the relationship between corporate governance and performance of MFIs in Uganda.

1.5 Research Questions
i. What is the relationship between the ownership structures on the corporate governance practices in MFIs in Uganda?
ii. What is the impact of the ownership structures on the financial performance of MFIs in Uganda?
iii. What is the relationship between corporate governance and the performance of MFIs in Uganda?

1.6 Scope of the Study

Geographical Scope
The study covered selected MFIs in Kampala district.

Subject Scope
This study focused on the relationship between ownership type, corporate governance and performance of MFIs in Uganda. Performance is analysed in terms of sustainability, outreach and profitability.

1.7 Significance of the Study
This study will help the following category of stakeholders;
The study will enable future researchers who will be interested in similar study to provide them with a wide volume of literature. It will widen the researcher’s understanding and knowledge of corporate governance and Microfinance Institutions in Uganda. The study will also help many
MFIs to appreciate the importance of ownership and corporate governance as far as performance of MFIs is concerned.

1.8 Conceptual Framework

The following conceptual framework developed after review of the extant literature will be used to investigate the research questions. It shows the ownership structure as the independent variable. It is evident from the studies of Shleifer and Vishny, (1997), Daily et al, (2003), Hansmann, (1996); Rasmussen, (1988), Grossman and Hart (1980), Jansson et al., (2004). White and Campion, (2002), Hishigasuren, (2006), Fernando, (2004); that a firm’s ownership structure has an impact on its level of corporate governance which in the due course impacts on its performance level. Ownership structures according to Xu and Wang (1997), Bolbol, Fatheldin, and Omran (2005) Lemmon and Lins (2003), Cueto (2007) can be divided into ownership mix which looks at the different categories of shareholders, and the ownership concentration which basically focuses on the percentage of owners with the largest share of the entity. Daily et al., (2003) and Gutierrez-Nieto et al. (2007) further assert that these different structures will have different levels of monitoring (corporate governance) and therefore different levels of performance.

Keysey, Thompson & Write, (1997), identified the constructs of corporate governance as board size and composition, CEO (manager) and director (board member) remuneration, board appointment, duality of the CEO, auditing among others. Performance as a dependent variable will be measured by looking at the firm’s outreach and sustainability. From the works of Gonzalez (1998), outreach will be ascertained by determining the ratio of the average loan size to the GDP as well as the number of active borrowers. Sustainability on the other hand will be measured using
accounting based indicators like ROA, AROA, and Operational sufficiency among others. These measurements are in line with the argument of Bhagat (2002) concerning long term studies.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter deals with what other scholars have written about ownership structures, corporate governance practices and their influence on performance firms with much emphasis to MFIs.

2.2 Corporate governance

Although corporate governance is now a buzzword, in 1990 it was a backwater. Despite some notable exceptions, such as the Cadbury Report in the UK in 1992, or the first King Report on Corporate Governance in South Africa in 1994, the rise of corporate governance began in the late 1990s.

Corporate governance has in one form or the other existed in business since the birth of the limited liability form of corporation. However, it was the pioneering work of Berle and Means that led to the development of the entire body of literature which focused on managerial expropriation of shareholder value. Different authors have studied corporate governance in different ways yet the primary contribution has been to the body of knowledge that has its genesis in the Berle and Means (1932) “Theory of separation of ownership and control”, (Praveen, 2004). Berle and Means (1932) tried to look at corporations and property rights. In their 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 managers are aligned ensuring a convergence of the different objective functions thereby reducing cost associated with principal-agent theory.

What stands out is that the nature of governance structure is predominantly determined by agency cost. Thus, the introduction of a good governance structure helps to discourage managers from working towards the achievement of goals that do not seek to maximize shareholders wealth. The argument by Fama and Jensen (1983) point to the fact the absence of governance controls would allow managers to pursue interests that are likely to deviate from that of the corporate owners.

There are two very distinct divergent views of what corporate governance; the stricter view and a broader one. The stricter idea is often called the “shareholder approach”; and the broader view is referred to as the “stakeholder approach”. While the shareholder approach focuses on the shareholders, the stakeholder approach takes the interest of all parties of a firm into consideration.

The phrase corporate governance is often applied narrowly to question the structure and functioning of the boards of directors, (Blair 1995). This view is found amongst some business scholars and management consultants. Donaldson (1990), looked at corporate governance as the structure whereby managers at the organizational apex are controlled through the board of directors, its associated structures, executive incentives and other schemes of monitoring and bonding. This view was also reflected by Hilmer (1993).

A number of definitions have been given to corporate governance. According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance on the other hand is concerned with the relationship between the internal governance mechanisms of
corporations and society’s conception of the scope of corporate accountability, (Deakin and Hughes, 1997).

Corporate governance is “the whole set of measures taken within the social entity that is; an enterprise to favour the economic agents to take part in the productive process, in order to generate some organisational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organisation”, (Maati, 1999). Kyereboah (2007), stressed that an understanding of this definition brings to the fore the core issue of incentive and control mechanisms that allow an organisation to develop while maintaining a balance between the interests of all parties. As in financial and economic literature, in microfinance, this has brought a strong focus on some pertinent issues.

It has also been defined by Keasey et al., (1997) to include “‘the structures, processes, cultures and systems that engender the successful operation of the organisations.’” The Cadbury Committee (Cadbury, 1992, p. 15) defined corporate governance as “‘the system by which companies are directed and controlled.’” From these definitions it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

Corporate governance systems may therefore be thought of as mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997).
2.3 **Principles of corporate governance**

According to Meisel (2007), key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization and if they are practiced, can enhance good organizational performance. He adds that in particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

However, Hovey and Naughton (2007), indicate that commonly accepted principles of corporate governance include the following:

**Rights and equitable treatment of shareholders:** Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings. In addition to that, Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are therefore issues about the appropriate mix of executive and non-executive directors.

**Integrity and ethical behaviour:** Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes
ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure.

Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company’s financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Becht, et. al, (2004) state that Issues involving corporate governance principles include: internal controls and the independence of the entity's auditors, oversight and management of risk, oversight of the preparation of the entity's financial statements, review of the compensation arrangements for the chief executive officer and other senior executives, the resources made available to directors in carrying out their duties, the way in which individuals are nominated for positions on the board and dividend policy.

Nevertheless "corporate governance," despite some feeble attempts from various quarters, remains an ambiguous and often misunderstood phrase. For quite some time it was confined only to corporate management. It is something much broader, for it must include a fair, efficient and transparent administration and strive to meet certain well defined, written objectives. Corporate governance must go well beyond law. In countries like India, a strident demand for evolving a code of good practices by the corporation, written by each corporation management, is emerging (Colley, Doyle, Logan, Stettinius, 2004). However, Meisel (2007), Hovey and Naughton (2007), Becht, Marco, Patrick Bolton, Ailsa Röell (2004), Colley, Doyle, Logan, Stettinius, W. (2004), do
not indicate how corporate governance affects organizational performance, a gap this study intends to fill.

2.3.1 Internal corporate governance controls and organizational performance

Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals. Examples include:

The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, *ex ante*. It could be argued, therefore, that executive directors look beyond the financial criteria, (Kyereboah 2007).

Balance of power: The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met, (Kyereboah 2007).
Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behaviour, (Kyereboah 2007).

2.3.2 External corporate governance controls

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include: competition, debt covenants, demand for and assessment of performance information (especially financial statements), government regulations, managerial labour market, media pressure and takeovers.

It should however be noted that, discussions on corporate governance have largely centered around large firms and in most cases in advanced economies. Stephen and Backhaus (2003) have highlighted that the problem of corporate governance is that of ensuring that enterprises operate in the interest of their owners and not the interests of managers and this emanates from the concept of separation of ownership and control, (Kyereboah 2007).

2.4 Overview of Microfinance

The origins of microfinance can be traced back to the cooperatives movements in Europe. It has since gained prominence in the 1980’s and the 1990’s under the championship of Dr. Muhammad Yunus through the Grameen Bank in Bangladesh. He adopted the group lending methodology in helping the poor especially the women and the physically handicapped in undertaking economic
activities. Similar trends were noticed elsewhere like in Indonesia, Bolivia, Kenya, and Ecuador among others.

The dramatic surge in interest stemmed from the remarkable success of Grameen Bank and Bank Rakyat Indonesia (BRI). MFIs record loan recovery rates of over 98% - far exceeding those at the best managed global banks. The best MFIs have consistently outperformed commercial banks in portfolio quality and returns on equity. The high loan recovery has been facilitated by education on the basic mechanics of group monitoring, the coincidence between collective good and individual welfare, and the resultant ingenuous use of group monitoring.

Lending to the poor took place at subsidized interest rates with little effort towards assessment of creditworthiness or monitoring of loans. These loans were largely cornered by those networked into the power structure, the intended beneficiaries often bypassed. As the loans were implicitly treated as grants by both lender and borrower, there was little effort towards monitoring the end use of funds. Loan recovery rates were extremely low. The loans were canalized through state-owned banks; this segment of lending was given a low priority, the perceived high-riskiness of loans kept a cap on the volume of disbursements.

Microfinance has undergone a revolution since its early days. From grants to help tide over immediate consumption needs, the intent of microfinance has changed to facilitating self-help and empowerment. It helps the poor and marginalized to escape the greed of loan sharks, by providing working capital to help set up sustainable small, often, micro sized enterprises. The clientele in most MFIs has been predominantly poor rural women with little formal education.
Microfinance is the “provision of financial services to low-income clients, including the self-employed” (Ledgerwood, 1999, p.1). These services may include savings, credits, insurance, payments, and social intermediation. They are performed by a variety of institutions, such as credit unions, savings and loan cooperatives, commercial banks, as well as NGOs and government banks. Beyond being “banking for the poor,” then, microfinance is viewed by many as an instrument of development. At the heart of the idea of microfinance is the belief that poverty can be reduced and eventually eliminated through provision of credit to those too poor to access to the formal financial system.

Microfinance can also be referred to as providing credit support, usually in very small amount, along with training and other related services to people with poor resources and skills but who are in position to undertake economic activities. The concept of the Microfinance essentially rests on the premise that Self-employment/enterprise information is a viable alternative means of alleviating poverty, lack of access to capital assets / credit acts as a constraint to existing and potential micro enterprise and the poor are able to save despite their low level of income Pandya (2003). From this perspective, the term microfinance could be defined as not simply banking; rather it involves making financial resources available to the productive poor.

Big international donor organizations and some microfinance networks, argue for self-sufficient microfinance institutions, meaning that they should be able to cover their costs by the revenue they get. As microfinance institutions reach financial self-sufficiency, they would be able to borrow from the commercial market and cut their dependency from donations and subsidies. In other words, a more commercial approach to microfinance practices is called for. The proponents of this ideology argue that this is the way for microfinance to access to a larger asset base to finance their
operations than by relying on donors, and thus to serve an absolutely greater number of poor people (Murdoch 2000; Bruck 2006; Ghosh and Van Tassel 2008).

Although the first MFIs appeared in Asia almost twenty years ago, they have since spread to Southeast Asia, Latin America, Africa and more recently to former socialist economies in transition and even the United States. BRI, Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) are the most famous microfinance institutions. There is no standard benchmark for microfinance institutions to fall back on. The organizational form, scope, funding sources evolved and adapted over time, in large measure through trial and error.

Poor and low-income households and individuals are the primary clients of microfinance institutions. They possess little, if any, wealth and cannot put up collateral to back loans. As they are completely marginalized from the formal financial sector, they do not possess a credit history. Banks deem these groups high credit risks, (Robinson, 2001). The limited resources at the disposal of the MFIs and the economic situation of the loan applicants preclude MFI employees from the traditional functions of screening, adjudicating and monitoring loan applications, (Robinson, 1998).

MFIs have substantial different characteristics including some related to the owners. To a large extent, MFIs have shareholders who are of a “mixed profile”; profit driven but also largely interested in social accomplishments and prospective viability of the institution. It must be noted that combining different types of shareholders may lead to some degree of incoherence in the priorities of the organisation; otherwise it has the potential of creating tension between different interest groups when deciding on organisational priorities, (Kyereboah 2007). In most cases, the boards of microfinance organisations are made up of shareholder representatives and of different
categories of individuals both internal and external. With regards to internal representatives, there is an apparent trend towards diminishing representation in order to avoid what is termed “a dominated internal coalition” in the organisation, Mintzberg et al. (1995). On the part of external representatives, there are several reasons why they deem it appropriate to be part of the board. For some, it is just a matter of prestige. However, some board members do also have resources and skills that could be employed to enhance the performance of MFIs, (Kyereboah 2007).

An MFI’s mission includes the improvement of the lives of the poor of the world through the provision of deposits and loans as well as various forms of outreach. In order to accomplish its mission, the MFI must address both private and public objectives. The MFI’s nature is very much affected by conditions in the country of its operation. Deposits, as well as loans, are usually small in size, thus affecting operational efficiency and the ability to raise capital. To fill the gap, the MFI must receive subsidies. These subsidies play the role of redistributing income to the poorest. However, this redistribution gives rise to an opportunity cost that the MFI must ultimately address. To have sustainability, then, the MFI must deal effectively with a variety of stakeholders, including customers, donors, investors, managers and staff, and society as a whole. Its performance, then, may be assessed separately and differently by each stakeholder (Schreiner, 1999).

The nature and objectives of microfinance institutions reveal that traditional measures used for the assessment of most other financial institutions are not applicable to this sector. In addition, the complicated environments in which MFIs operate point to the need for developing multifaceted, rather than single, assessment methodologies. This study proposes the development of measurements based on the Balanced Scorecard approach. The use of the approach is especially
meaningful in the case of MFI, since, in addition to measurement, the Balanced Scorecard can also be used as a strategic management system (Kaplan and Norton, 1996, p.10), something absolutely necessary for the sustainability of microfinance.

2.4.1 Corporate Governance practices among MFIs in the Sub-Saharan Africa

Microfinance corporate governance is high on the public agenda after the UN Year of Microcredit in 2005 and the Nobel Peace Prize to Mohammed Yunus and Grameen Bank in 2006. Christen et al. (2004) report an astonishing 500 million persons served, mostly with savings accounts, while the Microcredit Summit in the 2006-meeting in Halifax celebrated the milestone of 100 million borrowers reached.

Microfinance institutions (MFIs) in sub-Saharan Africa include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients: non-governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks. Overall, African MFIs are well positioned to grow and reach the millions of potential clients who currently do not have access to mainstream financial services, (Anne-Lucie Lafourcade, Jennifer Isern, Patricia Mwangi, and Matthew Brown 2005).

The microfinance sector in Africa is quickly expanding, and institutions have increased their activities. In fact, African MFIs are among the most productive globally, as measured by the number of borrowers and savers per staff member. These MFIs also demonstrate higher levels of portfolio quality, with an average portfolio at risk over 30 days of only 4.0 percent.

Despite the above impressive trends, the microfinance community has experienced some major failures where it clearly appeared that, among other reasons for these failures, the inadequacy of
governance practices was to blame. Second, the tremendous growth and the institutionalization process experienced by some organizations have provided an interesting area for further research aimed at improving internal control mechanisms, especially mechanisms linked to board action, (Labie 2001). In addition, operating and financial expenses are high, and on average, revenues remain lower than in other global regions. Efficiency in terms of cost per borrower is lowest for African MFIs. Technological innovations, product refinements, and ongoing efforts to strengthen the capacity of African MFIs are needed to reduce costs, increase outreach, and boost overall profitability.

When studying microfinance institutions (MFIs) in Africa, the focus is often on financial management or on credit methodology. However, for a few years, other issues have proven to be equally important. One of those is the governance structure adopted by these institutions. Corporate governance is becoming one of the safest ways to restore public confidence in MFIs. There is no question that corporate governance has a big role in solving the microfinance crisis. In Uganda for example, the 2003 MDI Act provides a wonderful opportunity for promoting Corporate Governance. The requirements therein for MFIs concerning ownership, management, financial disclosure, and capital adequacy, help foster prudent management. However, the good laws such as the MDI and FIA in Uganda are not applicable to the MFIs that are not regulated. This disparity creates a tension between complying with the regulations and the associated costs, because the regulated MFIs do compete with the unregulated MFIs for the same clientele. Moreover, some provisions of the MDI act are so stringent that they deter many competitive MFIs from becoming regulated entities.
The risk with corporate governance practices such as corporate social responsibility is that they are sometimes seen as cosmetic and time wasting activities. Moreover, the Ugandan national code of corporate governance recommends that the board of directors should ensure that a code of ethics is developed and endorsed. However, experience has shown that boards are not always willing to design and/or adhere to a rigorous code of ethics. As a result, it appears clear that the code should be designed and monitored by an external and independent institution.

The ICGU is not well known, and its activities are limited due to limited funds and poor publication. Most of the corporate governance organisations mentioned in this article have good programmes, but the latter are not adequately publicised as to catch the attention of many MFIs. Additionally, the AMFIU is confronting the challenge of maintaining high standards for the member companies, although it lacks the funding necessary to ensure effective supervision. Finally, the Government is a strong supporter of microfinance activities because of their role in reducing and eradicating poverty: this is the main reason why government is hesitant to interfere in microfinance operations, and it has often intervened too late and too little. In conclusion, it is important to stress that without corporate governance, MFIs stand to lose funding from investors, donors, and public trusts, with the possible worst case scenario of business closure. Companies must adhere to the laws and business ethics in order to build and restore public confidence, (Kansiime 2009).

2.4.2 Size, Structure and Composition of the Micro Finance Industry in Uganda

MFIs in Uganda consist of moneylenders, micro-finance agencies, Non Government Organizations (NGOs), rural farmers’ schemes and savings societies that provide savings and/or credit facilities to micro and small-scale business people who have experienced difficulties obtaining such services from the formal financial institutions. Their range of activities include; deposit taking, savings
schemes, small-scale enterprises, agriculture, real estate, group lending, retail financial services, giving advice on financial matters and training in business management.

MFIs in Uganda can be broadly categorized according to their respective stages of development. The majority of the micro finance institutions (i.e. category D) are small Community Based Organizations (CBOs), generally unaware of micro finance best practices, outside the micro finance information loop, focused on rural outreach but have minimum numbers of clients (Bank of Uganda 2000).

According to Bank of Uganda (2002), Proposals for Bank of Uganda Policy Statement on MFI Regulation.” the Ugandan Microfinance industry is now poised for considerable change – with the Micro Finance Deposit Taking Institutions (“MDI”) Act having been signed into effect in 2003, which will regulate most of the large MFIs (this responsibility falling to the central bank) and, more importantly, legalize financial intermediation by Microfinance institutions for the first time.

The MFIs are operating in a competitive environment. The Ugandan Microfinance industry is highly competitive, with the majority of the market (around 550,000 clients) being serviced by 8 or so financial institutions, of varying formality and commercial orientation.

This high level of competition has led to the increased sophistication of clients, underpinned by their increased understanding of the credit market and the products available to them. Clients are able to easily switch between a wide range of products and for this reason; MFIs have to become more and more dynamic in developing products which suit the clients’ demands. Furthermore, the competitive environment has it increasingly difficult for weaker MFIs to survive. Given the high number of financial service providers and the limited resources available, the industry is likely to see consolidation in the medium to long term.
According to Bank of Uganda (2000), Annual Supervision Report Issue, (No. 2, December 2000), the legal status of MFIs in Uganda is categorized as follows: member based MFIs, local social NGOs, international social NGOs, companies limited by guarantee, church owned MFIs, government credit programs and companies limited by shares. However, the legal status of some MFIs was not clear and others could not state their legal status. This could be attributed to the poor organizational structure of those institutions.

A majority of the MFIs had some form of registration, either at the NGO board, ministry trade and cooperatives, of trade registrar of companies, registrar of cooperatives, apex body, district or sub-county levels. The eastern region had the largest number of registered MFIs, whereas the northern reported the least number of registered MFIs. Overall, over 77% of the MFIs covered in the survey were registered, hence, signifying some level of organization. (Bank of Uganda 2000)

2.5 Relationship between Ownership structure and Corporate Governance

The impact of regulation on corporate governance occurs through its effect on ‘the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Governance and ownership are related. Good governance means that the institution must have (owners) who care for its success and who are willing to sanction the board. (Kais Aliriani 2004).

The definition of ownership may be different looking into the nature of the organization. Chowdhury (2006) defines ownership as belongingness. Owners create, invest, shoulder legal responsibilities, take benefits and profits individually and as a group and when the organization winds up bear the consequential benefits or losses. In formal financial institutions and corporate sectors the ownership is decided by investment of financial resources. Although in many cases
donors invest money and the borrowers save money with MFIs, they don’t qualify to be owners. However, in the case of Grameen Bank, the clients are considered as shareholders of the bank. (Chowdhury, 2006)

Generally, ownership structures are identified by using some observable measures of ownership concentration (i.e. concentration ratios) and then making a sketch showing its visual representation. The idea behind the concept of ownership structures is to be able to understand the way in which shareholders interact with firms and, whenever possible, to locate the ultimate owner of a particular group of firms. Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). Ownership is therefore considered a major governance mechanism (Shleifer and Vishny, 1997; Daily et al., 2003). Similar to regular banking (Hansmann, 1996; Rasmussen, 1988), ownership of MFIs differs widely, (Labie, 2001).

The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Private suppliers are normally incorporated as member based Cooperatives (Coops), Non Profit Organizations (NPOs) or Share Holder Firms (SHFs). NPOs are often considered weaker structures since they lack owners with a financial stake in the operations (Jansson et al., 2004). The need for increased ownership control of MFIs is one of the arguments used to transform NPOs into SHFs (White and Campion, 2002, Hishigsuren, 2006, Fernando, 2004).

Oster and O’Reagan, (2003) point out that; Non-profit boards are typically comprised of outsiders and the proportion of outsiders as a measure of independence has too little variation to be useful in
explaining board efficacy. Owners usually demand accountability from the board. The source of funding of the institution, that could include owners, providers of capital, and other stakeholders, also influence the governance of the institution as they have their own requirements. In addition to their requirements for accountability, they also have other effects on the mission of the institution. For example, donors usually require the institution to have certain percentage of its clients to be women. Regulatory authorities play a significant role in defining the governance of the institution according to the prevailing regulations.

Institutions vary in their form, from NGOs to Cooperatives, to companies. The ownership and governance of each form vary as well. NGOs have no owners, and they usually attract donor funds, and hence their governance is affected by these factors. Many argue that since NGOs have no owners, this translates into weaknesses in governance. The argument is that since members have no equity, they are less motivated to ensure good governance of the NGO. There is, however, another motivation that is important but sometimes overlooked. That is the interest of the board members to maintain good reputation. This is especially important in NGOs. The lack of ownership does not always translate into a risky institution. There are good NGOs with good governance. On the other hand, there are some private sector organizations that failed because of flaws in governance.

Saving and credit association (cooperatives) are owned by their members, so it is assumed that they would take extra effort to ensure good governance to protect their investment and ensure that they continue to receive services.

In companies, shareholders contribute to the equity. Their motivation is usually to receive dividends. They are therefore motivated to ensure good governance to protect their investment and
ensure good returns. In addition, other investors in a company have motivations to ensure good governance because they need to protect their investment.

In microfinance institutions, the board has to assess the governance requirements, to whom the institution is accountable, and how the institution could live up to the expectations of these external actors. The board demands internal accountability from management and at the same time is accountable to external actors. The relation between the board and the external actors is dynamic and a good board has to continuously assess the situation in order to respond to the need of these actors.

Most of the requirements and issues of ownership and governance are true for other institutions as for MFIs. There is, however, one fundamental difference, MFIs have dual mission of attaining financial objectives as well as social ones. The main objective of most MFIs is to help the poor by providing them with financial services, while achieving financial self-sufficiency. Many MFIs were able to achieve their financial goals, and in order to reach more clients they mobilize more funds. Some have moved to become regulated institutions in order to attract savings. These institutions are facing more difficulties in balancing between the financial and social objectives. In an ideal situation, the board (which usually defines the objectives of the institution) will be balanced to reflect the dual mission. The composition of the board of directors could include people with social interest as well as business people who will emphasize the need for financial viability.

Although there is a concern about the governance of MFIs that are owned or run by NGOs, many of the most successful microfinance institutions are either NGOs or were established by NGOs. In
other cases NGOs have shares in them. These MFIs include ASA in Bangladesh, ABA in Egypt, BRAC in Bangladesh, KREP in Kenya and many others.

2.6 Relationship between Ownership Structure and Performance

Ownership comes strongly as far as performance is concerned. Different researchers have come up with different results regarding the impact of ownership on the performance of firms. NGOs tend to be more interested in achieving the social objective of reaching more poor people. Many NGOs are able to strike a balance between financial viability and outreach. On the other hand private sector investors seek profits from their investment. This means the “financial” objective will be a priority for them, and will push the MFIs in that direction. In a study that was carried out on Grameen replicas in Nepal however, two groups of replicas were included, NGO Grameens, and Government Grameens. The study concluded that NGO Grameen were much more efficient, and were able to achieve better sustainability, maintain good outreach, and avoid political interference, (Muzammel 1997).

Gutierrez-Nieto et al. (2007), using data from 30 Latin-American MFIs, found that NPOs are less efficient than non-NPOs. The ownership-premise is that incentive problems between owners and managers are more pronounced in mutual and diffused owned firms, but that the mutuals have an offsetting benefit of reducing adverse selection and moral hazard of customers (Hansmann, 1996; Desrochers and Fischer, 2002). Rasmussen (1988) historical bank reports indicate that mutual banks attract smaller customers and take on less risk than stock banks when regulation is weak. The SHFs are therefore expected show better financial performance than the NPO, while the NPO should be better in reaching the poor.
Claessens (1995) and Claessens, Djankov and Pohl (1996) too found a positive correlation between ownership concentration and firms’ performance. In particular, a firms’ profitability is positively and significantly correlated with the fraction of legal person shares, suggesting that large legal person shareholders (institutional investors) have the incentive as well as the power to monitor and control the behavior of the management, and have played a significant role in corporate governance. Morck et al (1988), Holderness and Sheehan (1988), McConnell and Servaes (1990) in their various studies also tend to share the same view. These studies along with others seem to suggest that there is a positive correlation between shareholdings of large investors and firms’ performance; and institutional investors appear to be more effective in monitoring firms’ performance than individual shareholders (Xu and Wang 1997).

However, Demsetz and Lehn (1985) on the other hand, found no significant correlation between ownership concentration and accounting profit rates for 511 large corporations. The ownership-premise is that incentive problems between owners and managers are more pronounced in mutuals and diffused owned firms, but that the mutuals have an offsetting benefit of reducing adverse selection and moral hazard of customers (Hansmann, 1996; Desrochers and Fischer, 2002).

Grossman and Hart (1980) show that if a firm's ownership is widely dispersed, no shareholder has adequate incentives to monitor the management closely as the gain from a takeover for any individual shareholder is too small to cover the monitoring cost. Shleifer and Vishny (1986) develop a model to demonstrate that a certain degree of ownership concentration is desired in order for the takeover market to work more effectively. Thus, the market value of a firm rises as ownership concentration rises for legal persons as a group. Most legal person shareholders have a stake considerably larger than any individual’s holding in the sample firms. Large legal person shareholders almost for sure possess seats on the board of directors and on the supervisory
committee as well. Morck et al (1988) point out that managers respond to two opposing forces. Managers naturally tend to allocate a firm's resources in their own best interests at the expense of outsider shareholders. As management's equity ownership rises, however, their interests become more aligned with those of outside shareholders. The curve that shows the relationship between firms' value and inside ownership can be downward or upward sloping, depending on which of the forces dominates the other.

When legal persons own a small stake in a company, they may try to exert their influence on or collude with the management for undertaking business operations or investments that will benefit themselves but harm the firm's value in the long run. When their equity holding in the firm increases, their goal coincides with that of outside shareholders of maximizing the firm's value. The market value of the firm decreases first with legal person ownership as investors see the conflict of interests, and then increases when outside shareholders anticipate the convergence of interests at high level of legal person holdings. It is conjectured that legal person owners ensure managers to work in the interest of shareholder through direct control. Sitting on the board with a substantial portion of shares, large legal person shareholders are able to change the management team.

Expectedly, the size of the MFI has a significant positive impact on profitability. This is because a large firm has the ability to accommodate risk and to enhance productivity through diversification of products and services. This is corroborated by the asset structure implying that MFIs with a larger proportion of their assets representing fixed assets perform better in terms of both profitability and outreach. This may be due to the creation of branches across the nation and to furnish these offices with the needed equipment and logistics. In this case, the MFI also creates the opportunity of getting itself close to the customers. This invariably translates into increased
clientele base and profitability. Surprisingly, however, the study suggests that the size of an MFI has a negative impact on outreach and is highly significant. This could be explained by the fact that size does not necessarily ensure outreach if this is not put to efficient use, (Kyereboah 2007).

2.7 Relationship between Corporate Governance and Performance of MFIs

In several studies governance variables have been found to have somewhat inconclusive results with regards to various performance measures. The influence of corporate governance on the MFIs' performance has not been empirically studied before, partly due to lack of data (Hartarska 2005). Corporate governance however, has been noted to have a visible impact on the performance of firms. In examining this relationship, board characteristics such as the size of the board, its independence, and whether the CEO combines as the board chairman, among others have been used as governance indicators.

2.7.1 Board size and composition

Small board sizes have been noted to improve firm performance, Jensen (1993), Lipton and Lorsch (1992), Yermack (1996), Eisenberg et al. (1998), Mak and Yuanto (2003), Sanda et al. (2005). However, Kyereboah (2007), in his study, argues that board size is positively related to profitability and negatively related to outreach. In addition to that, he concurs with other studies that independence of a board is positively related to profitability and outreach of MFIs.

Some researchers have found support for the relationship between frequency of meetings and profitability. Others have found a negative relationship between the proportion of external
directors and profitability, while others found no relationship between external board membership and profitability.

Regarding, “board independence”; measured by the proportion of outsiders on a board. The argument is that the larger the proportion of outsiders on a board, the more independent the board is. Studies on the impact of this variable on firm performance have been largely inconclusive. Early work by Fama and Jensen (1983) contends that independent directors provide a means to monitor management activities through an increased focus on firm financial performance. Lee, Rosenstein and Rangan (Lee et al., 1992) support this view and provide evidence that boards dominated by outside directors are associated with higher returns than those dominated by insiders. Similarly, Pearce and Zahra (1992) point out that there is a positive correlation between the proportion of independent directors and firm financial performance. Baysinger and Butler (1985) report that changes in board composition over a ten-year period from 1970s to 1980s had a causal relationship with accounting performance. In addition, Millstein and MacAvoy (1998) find a statistically significant relationship between active, independent boards and superior firm performance. Independent boards are therefore considered better able to monitor the CEO on the behalf of the owners.

However, some scholars such as Patton and Baker (1987) question the resolve of outside directors to actively monitor top management who often select them as candidates for their board seats. Some recent studies offer hints that firms with a high percentage of independent directors may perform worse. Yermack (1996), reports a significant negative correlation between the proportion of independent directors and performance. Furthermore, Rosenstein and Wyatt (1997) argue that insiders are more effective because they have superior knowledge of the firm and its industry than
outside directors, and they are just as diligent as outside directors, given their legal responsibilities and their own interests in the firm. Similarly, Bhagat and Black (1999) also state there is no convincing evidence suggesting that greater independence results in better performance, but some evidence shows that firms with supermajority independent directors perform worse than others.

When it comes to decisiveness, larger and more heterogeneous boards can bring about higher decision costs (Mueller, 2003). A reason for this is that a larger board may induce members to free ride in monitoring, giving the CEO a freer position. Yermack (1996); Eisenberg et al. (1998); Bhren and Strim (2005) report that larger boards are associated with lower firm performance, measured as Tobin's Q or ROA, and Hartarska (2005) adds the same negative result in ROA regressions for MFIs. Adams and Mehran (2003) give contrary evidence for banking firms in the USA. Larger boards improve Tobin’s Q significantly, but show no significance for ROA.

2.7.2 The internal audit function

The internal auditor as part of the corporate governance provides independent, objective assessments on the appropriateness of the organization’s and the operating effectiveness of specific governance activities which are value enhancing. (Steinwand, 2000). Thus, an MFI allowing their internal auditors to report directly to the board leads to higher financial performance. The better the CEO and the board are informed by the internal board auditor; the better will be the financial performance of MFI.

2.7.3 Duality of the CEO as the Board Chairman

Kyereboah in his 2007 study notes that; the position of CEO and board chairman must be separated stressing the importance of the two-tier board structure in firm performance. It is evident therefore that corporate governance structures influence the performance of the microfinance
sector. Indeed, within the governance structures the two-tier board structure is seen to be more effective compared to the one-tier system. The separation of board chairman and chief executive officer minimises the tension between managers and board members and thus influences positively the performance of MFIs. Furthermore, the powers of the CEO have been examined in detail. The conclusion is that, in situations where a CEO doubles a board chairman, it leads to conflict of interest which increases the agency costs thereby stifling performance. The literature therefore has been in favour of two people holding these two critical positions in an organisation, (Steinwand, 2000). In addition to that, Hartarska (2005) while investigating the relationship between governance mechanisms and financial performance utilized three surveys of rated and unrated east European MFIs from three random samples in the period 1998 to 2002. She finds that a more independent board has better ROA, but a board with employee directors gives lower financial performance and lower outreach.

A CEO/chairman duality may be a sign of CEO entrenchment (Hermalin and Weisbach, 1991, 1998), that is, the opposite of independence, since then the CEO may pursue policies that give him private benefits. However, Brickley et al. (1997) did not find that firms with a CEO- Chairman split outperformed those with a CEO-chairman duality. On the other hand Oxelheim and Randy (2003) found that firm performance was better in firms with international directors which they consider to be an indication of independence. Other studies reiterate that when there is a conflict of interest as a result of a CEO doubling up as board chairman leading to higher agency costs, performance is worse. The results show that CEO duality has negative impact on both profitability and outreach and confirms earlier studies by Berg and Smith (1978), Sanda et al. (2005), Daily and Dalton (1992), and Brickley et al. (1997). Furthermore, Yermack (1996) argues that firms are more
valuable when the CEO and board chair positions are separate. He however notes that while this variable is significant in explaining profitability, it is insignificant in explaining outreach.

2.8 Conclusion

Dittmar and Mahrt-Smith (2007) show that good corporate governance is able to double the value cash holdings of firms as compared to poorly governed firms. It is also shown that well governed firms have their cash resources better “fenced” in and that firms with poor corporate governance structures dissipate excess cash more quickly. In other studies, Pinkowitz et al. (2006) in their study on governance, cash and dividends show that good corporate governance enhances the value of cash holdings. Thus, it is clear that poorly governed institutions are less efficient in their performance. The different measures of corporate governance employed each have the ability to substantially influence the ability of investors to pressurize management to efficiently use resources available to microfinance institutions (MFIs). It is believed that, good governance generates investor goodwill and confidence. Good corporate governance therefore has been identified by most scholars as an important factor in strengthening MFIs’ financial performance and increasing their outreach (Rock et al., 1998; Labie, 2001; Helms, 2006; United Nations, 2006; Otero and Chu, 2002).

The motivation behind this study therefore is to ownership, corporate governance and their impact on profitability and outreach of selected MFIs in Uganda using a unique data and to ascertain whether these follow standard finance literature or otherwise.
CHAPTER THREE
METHODOLOGY

3.1  Introduction

This section is a presentation of the frame work in which data collection and analysis was carried out for the study. It points out the research design, variables and their measurement, the target population, the sampling method used and instruments used in data collection. It also addresses data processing and analysis, reliability and validity analysis for the instruments used and the limitations of the study.

3.2  Research Design

A cross sectional survey design was used to study the ownership structures and corporate governance in MFIs with the objective of establishing whether they affect outreach, profitability and sustainability in MFI’s. The research involved the use of quantitative methods of data collection.

3.3  The Population

The unit of analysis for study was the MF organisations while the unit of inquiry was microfinance Board members, managers and members of these MFIs. These categories of respondents were chosen because they are believed to have adequate knowledge about the subject investigated. The target population for this study was 69 MFIs which are the members of AMFIU according to Kumwesiga, (2007).
3.4 Sample size and techniques

Table 3.1; showing the sample size.

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample</th>
<th>Respondents (3 from each)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>9</td>
<td>9</td>
<td>27</td>
</tr>
<tr>
<td>B</td>
<td>12</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>C</td>
<td>21</td>
<td>19</td>
<td>57</td>
</tr>
<tr>
<td>D</td>
<td>21</td>
<td>19</td>
<td>57</td>
</tr>
<tr>
<td>E</td>
<td>6</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>65</td>
<td>195</td>
</tr>
</tbody>
</table>

From the sampling frame of 69 MFI’s, a sample of 65 MFI’s was selected based on a sampling table designed by Krejcie & Morgan (1970). In categories C and D, MFIs were selected using random sampling while in A, B and E, all the MFIs were visited.

A total of three (3) officers; 1 branch manager, 1 Board member and the Board chairman, were selected purposively from each selected MFI to make a total of 195 officers. Since these respondents were equipped with adequate knowledge on the subject matter.

3.5 Data sources

Data was collected from both primary and secondary sources.

3.5.1 Primary data

Questionnaires were used to obtain information from the respondents. They were based on the objectives of the study. Questionnaires are popular with researchers because information can be obtained fairly, easily and the questionnaire responses are easily coded, (Amin (2005). The researcher carried out personal interviews to collect data from the respondents. The questions were planned in advance and the researcher used an interview guide. Interviews were used because it was easy to fully understand someone's impressions or experiences, or learn more about their answers in the questionnaires.
3.5.2 Secondary data

Secondary data particularly statistical data was obtained from microfinance institutions’ document statements and internal reports, AMFIU reports, Uganda Institute of Banker’s Library and Bank of Uganda Library research reports and publications.

3.6 Data collection instruments

Questionnaires were used to obtain information from the respondents. These were based on the objectives of the study. The researcher also carried out personal interviews to collect data from the respondents. The questions were planned in advance and the researcher used an interview guide. Interviews were used because it was easy to fully understand someone's impressions or experiences, or learn more about their answers in the questionnaires. Statistical data was obtained from microfinance institutions’ document statements and internal reports, AMFIU reports, Uganda Institute of Banker’s Library and Bank of Uganda Library research reports and publications.

3.7 Reliability and Validity of the instruments

A pretest of the research instrument to establish its validity was done. To determine internal consistency and reliability, Cronbach’s Alpha Coefficient was used as an index for reliability, (Cronbach 1951). A questionnaire was given to individuals to give their opinion regarding the relevancy of the questions using a 5-point Likert scale. The results are indicated in the table below;

Table 3.2: Showing the reliability and validity of instruments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number Of Items</th>
<th>Cronbach Alpha</th>
<th>Content Validity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Structure</td>
<td>10</td>
<td>.623</td>
<td>.714</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>39</td>
<td>.717</td>
<td>.775</td>
</tr>
<tr>
<td>MFI Performance</td>
<td>27</td>
<td>.841</td>
<td>0.741</td>
</tr>
</tbody>
</table>
The Reliability and the Validity values which are indicated by Cronbach Alpha and Content Validity Index were observed to be above 0.6 for all the variables of the study. This indicates that the scale was both reliable and valid.

### 3.8 Measurement of variables

**Ownership structure:** This is measured using the constructs including; the ownership mix and ownership concentration according to Diego Cueto, (2007) and Lemmon and Lins (2003).

**Governance:** Was done according to Kyereboah-Coleman and Biekpe (2005), Mersland and Strom (2007), using constructs namely; CEO duality, Board size, Board composition, Auditing function and directors’ remuneration among others. We measure board size using the number of board members of an MFI. With regards to board independence or composition we find the ratio of the number of non-executive directors (NEDs) to the board size. We measure CEO duality as a dummy taking the value of 1 when CEO combines as board chairman and 0 when two people occupy the two positions, while board competence as the number of university graduates on the board.

**Performance:** This was measured using accounting-based indicators of outreach and of financial performance. For more-appropriateness for longer run studies because managers may be able to manipulate financial statements for a year but their ability to manipulate statements in longer period is limited. Bhagat (2002)

**Sustainability:** the sustainability was measured using; ROA, ROE, AROA, Financial Self Sufficiency and Operational Self Sufficiency. Financial sustainability can be measured by calculating the Subsidy Dependence Index (SDI), (Kyereboah 007).
Outreach; the outreach is the basic purpose of microfinance institutions to provide large numbers of active poor people with quality financial services. It was measured by the MFI’s average loan size divided by the annual GDP per Capita (measure of depth) and the number of active credit clients / borrowers served (measure of breadth), (Gonzalez 1998). An institution giving big loans means that it is serving well-off clients while an institution giving smaller loans may be dealing with poor clients, (Peck et al 1995).

3.9 Data analysis and presentation
Questionnaires were sorted, numbered and data entered accordingly. Data was checked by the principal investigator for completeness and internal consistency, which was cleaned, edited, categorized, coded and summarized. Quantitative data was analyzed using SPSS packages of descriptive statistics. The relationship between ownership, corporate governance and organizational performance was analyzed using Pearson’s correlation coefficient.
CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter has the presentation, analyses and discussion of the research findings. The purpose of the study was to investigate the relationship between ownership, corporate governance and the performance of selected MFIs in Uganda.

4.2 Background Information

4.2.1 Institutional characteristics of MFIs

These characteristics relate to the MFIs that were surveyed in the course of the study.

4.2.1.1 Period the MFI operated in Uganda

The results in the table below indicate the Period for which the MFIs in the survey have operated in Uganda.

Table 4.1: Showing the period the MFIs have been operating

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>5</td>
<td>11.4</td>
</tr>
<tr>
<td>3 - 5 years</td>
<td>25</td>
<td>56.8</td>
</tr>
<tr>
<td>Valid 6 - 8 years</td>
<td>8</td>
<td>18.2</td>
</tr>
<tr>
<td>Over 8 years</td>
<td>6</td>
<td>13.6</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Results indicate that most of the MFIs have been operating for 3 – 5 years (56.8%) and only 13.6% for over 8 years. In addition, those that have been operating for less than 2 years and 6 – 8 years constituted 11.4% and 18.2% of the sample respectively.
4.2.1.2 Number of employees in the institution.

The table below indicates the number of employees in the surveyed MFIs

Table 4.2: Showing the number of employees in the MFIs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 50</td>
<td>38</td>
<td>86.4</td>
</tr>
<tr>
<td>51 – 100</td>
<td>3</td>
<td>6.8</td>
</tr>
<tr>
<td>Valid</td>
<td>101 -150</td>
<td>2.3</td>
</tr>
<tr>
<td>Over 150</td>
<td>2</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Results indicate that the majority of the MFIs employ between 1 to 50 people. This category accounted for 86.4% of all the MFIs under the survey. Those that employ between 51 and 100 people were only 6.8% while those between 101 and 150 and those employing more than 150 were 2.3% and 4.5% respectively.

4.2.1.3. Ownership Type

The results in the table below indicate the ownership type of the MFIs in which the survey was carried out.

Table 4.3: Showing the ownership types of MFIs

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Firm</td>
<td>4</td>
<td>9.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Non-Profit Organization</td>
<td>7</td>
<td>15.9</td>
<td>25.0</td>
</tr>
<tr>
<td>Valid</td>
<td>11</td>
<td>25.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Cooperative</td>
<td>22</td>
<td>50.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From the table, the majority of the Institutions are neither shareholder firms, not Profit organizations nor cooperatives, they are categorized as others and they take up 50.0% of the
institutions. Co-operatives take up only 25% of the institutions whereas nonprofit organizations and shareholder firms take up 15.9% and 9.1% respectively.

4.2.1.4. Number of Shareholders in the MFI

The results in the table below indicate the number of shareholders in the MFI.

**Table 4.4: showing the number of employees in the MFIs**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 10</td>
<td>2</td>
<td>4.5</td>
</tr>
<tr>
<td>11 – 20</td>
<td>3</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Valid</strong></td>
<td>15</td>
<td>11.4</td>
</tr>
<tr>
<td>21 – 30</td>
<td>13</td>
<td>29.5</td>
</tr>
<tr>
<td>Over 31</td>
<td>26</td>
<td>59.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Results indicate that the majority of the MFIs have shareholders above 31 in number. This accounts for 59.1% of the surveyed MFIs; and 29.5% of the MFIs have between 21 and 30 shareholders. 11 to 20 shareholders are only 6.8% and those between 1 to 10 People are only 4.5% of the shareholders in the sample.

4.2.2 Individual characteristics of respondents

4.2.2.1 Gender

The results in the table below indicate the gender of the respondents.

**Table 4.5: showing the gender of respondents**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Valid</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>37</td>
<td>34.9</td>
<td>34.9</td>
</tr>
<tr>
<td><strong>Valid</strong></td>
<td>69</td>
<td>65.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Female</td>
<td>69</td>
<td>65.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>106</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The results indicate that majority of the respondents in the MFIs are female with 65.1% and the male respondents are only 34.9% of the sample.

4.2.2.2 Period as employee of the MFI

The results in the table below indicate the period the respondent has been an employee of the MFI.

Table 4.6: Showing the period respondents have worked for the MFI

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1yr</td>
<td>26</td>
<td>24.5</td>
</tr>
<tr>
<td>2 - 3 years</td>
<td>62</td>
<td>58.5</td>
</tr>
<tr>
<td>Valid 4 - 5 years</td>
<td>6</td>
<td>5.7</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>12</td>
<td>11.3</td>
</tr>
<tr>
<td>Total</td>
<td>106</td>
<td>100.0</td>
</tr>
</tbody>
</table>

From the table above, majority of the respondents have been in the MFIs for a period of between 2 to 3 years accounting for 58.5%. In addition, 24.5% of the respondents have been there for less than 1 year while those over 5 years and between 4 to 5 years are 11.3% and 5.7% respectively.

4.2.2.3 Position held in the organization

The results in the table below indicate the positions held by the respondent in the MFIs.

Table 4.7: Showing the position of the respondents in the MFI

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Executive</td>
<td>5</td>
<td>4.7</td>
</tr>
<tr>
<td>Senior Management</td>
<td>12</td>
<td>11.3</td>
</tr>
<tr>
<td>Valid Middle Level Management</td>
<td>42</td>
<td>39.6</td>
</tr>
<tr>
<td>Others</td>
<td>47</td>
<td>44.3</td>
</tr>
<tr>
<td>Total</td>
<td>106</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The results indicate that majority of the respondents held positions other than Middle level Management, Senior Management and Top Executive positions and these account for 44.3%.
39.6% and 11.3% held Middle level management positions as well as Senior Management positions respectively. The positions with the least respondents were the Top Executives with only 4.7% of the respondents.

4.2.2.4 Highest level of education attained

The results in the table below indicate the highest level of education attained by the respondents in the MFIs.

**Table 4.8: showing the level of education of the respondents**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>30</td>
<td>28.3</td>
<td>28.3</td>
</tr>
<tr>
<td>Degree</td>
<td>42</td>
<td>39.6</td>
<td>67.9</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>3</td>
<td>2.8</td>
<td>70.8</td>
</tr>
<tr>
<td>Others</td>
<td>31</td>
<td>29.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>106</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

From the table above, most of the respondents are Degree holders, accounting for 39.6%. Respondents holding other qualifications apart from Degrees, Diplomas and post graduates account for 29.2%. Diploma holders account for 28.3% whereas those who hold Post graduate qualifications account for only 2.8% of the sample.

4.3 Factor analysis for corporate governance

Factor Analysis was employed to determine the level of corporate governance in the Small MFIs in Uganda as shown in the table below. Factor analysis was used because of its ability to describe variability among observed, correlated variables.
Table 4.9: showing factor analysis results for the variables

<table>
<thead>
<tr>
<th>Factor Analysis results for Corporate Governance</th>
<th>Leadership and Balance of Power</th>
<th>Board Size and Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>The BOD members are aware that it is their right to access necessary information for decision making</td>
<td>.542</td>
<td></td>
</tr>
<tr>
<td>The Board of Directors always report to the shareholders at the AGM</td>
<td>.522</td>
<td></td>
</tr>
<tr>
<td>There is a clear document of the duties of the various board members</td>
<td>.805</td>
<td></td>
</tr>
<tr>
<td>The Board always has independent members</td>
<td>.776</td>
<td></td>
</tr>
<tr>
<td>Women are always well represented on the Board</td>
<td>.712</td>
<td></td>
</tr>
<tr>
<td>Ethical codes of conduct are highly upheld by the board members</td>
<td>.636</td>
<td></td>
</tr>
<tr>
<td>The executive and non executive directors have equal voting rights.</td>
<td>.507</td>
<td></td>
</tr>
<tr>
<td>The Size of the Board of Directors is adequate for effective execution of responsibilities</td>
<td>.585</td>
<td></td>
</tr>
<tr>
<td>The Board of Directors meets regularly and discusses issues pertinent to the MFI operations</td>
<td>.587</td>
<td></td>
</tr>
<tr>
<td>All Board members freely exercise their voting rights</td>
<td>.590</td>
<td></td>
</tr>
<tr>
<td>All Board members are appointed on contract basis</td>
<td>.507</td>
<td></td>
</tr>
<tr>
<td>There is a good relationship between senior management and foundation body</td>
<td>.684</td>
<td></td>
</tr>
<tr>
<td>No board members have been terminated or suspended</td>
<td>.600</td>
<td></td>
</tr>
<tr>
<td><strong>Eigen Values</strong></td>
<td>3.666</td>
<td>1.687</td>
</tr>
<tr>
<td><strong>Variance %</strong></td>
<td>45.826</td>
<td>21.091</td>
</tr>
<tr>
<td><strong>Cumulative %</strong></td>
<td>45.826</td>
<td>66.917</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>4.010</td>
<td>4.008</td>
</tr>
<tr>
<td><strong>Standard Deviation</strong></td>
<td>0.402</td>
<td>0.407</td>
</tr>
</tbody>
</table>

4.3.1 Leadership and Balance of Power

This component accounts for 45.826% of the Corporate Governance. Critical aspects of this component include; the BOD members’ awareness that it is their right to access necessary information for decision making (0.542) and the diligence of the Board of Directors to always report to the shareholders at the AGM (0.522). Other important issues on this component were indicated as having a clear document of the duties of the various board members (0.805) and
continually having independent members on the Board (0.776). From the results, it’s also evident that women are at all times well represented on the Board (0.712) and the upholding of ethical codes by the board members is always clearly stated (0.636). From the research, there is a clear indication that in this component of leadership and Balance of power, the executive and non-executive directors have equal voting rights (0.507).

4.3.2 Board Size and Composition

This component accounts for 21.091% of the Corporate Governance. Critical aspects of this component include; the adequate size of the Board of Directors, contributing to the effective execution of responsibilities (0.585), Board of directors meeting regularly to discuss issues pertinent to the MFI operations (0.587) and the fact that all Board members freely exercise their voting rights (0.590). The research further evidently shows that in this component, all Board members are appointed on a contract basis (0.507) and that there is a good relationship between senior management and the foundation body (0.684). It is further indicated that no Board members have been terminated or suspended (0.600).

From the results, it’s clear that leadership and balance of power is more important than board composition as far as corporate governance is concerned as per the Eigen Values of 3.666 and 1.687 respectively. In addition to that, Means for all the variable components i.e. Leadership and Balance of Power and Board Size and Composition are less than 5.000 that is 4.010 and 4.008 respectively. This is low and therefore calls for an intervention and improvement of these components in the small MFIs. This can be done by increasing training, increasing the diversity in the Board composition, increasing awareness of corporate governance among the different stakeholders in these small MFIs among others.
4.4 Correlation analysis

The Relationships between the study variables were examined using the Pearson (r) correlation coefficient. Correlation helps us to measure how associated or related two variables are. It determines if and in what way the two variables are related to each other. The purpose of doing correlations is to allow us to make a prediction about one variable based on what we know about the other variable.

Table 4.10: showing the correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Structure – 1</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Size &amp; Composition -2</td>
<td>.374**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leadership &amp; Balance of Power – 3</td>
<td>.329**</td>
<td>.322**</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Governance -4</td>
<td>.432**</td>
<td>.830**</td>
<td>.800**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>MFI Performance-5</td>
<td>.619**</td>
<td>.352**</td>
<td>.337**</td>
<td>.432**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

4.4.1 The relationship between the ownership structures and the corporate governance practices in MFIs in Uganda.

Results reveal that there was a significant positive relationship between Ownership Structures and Corporate Governance., (r = 0.432**, p<.01). This indicates that an improvement in the ownership structures in these MFIs will positively influence the corporate governance practices and vice versa. Results however indicate that this positive relationship between ownership and corporate governance is not very strong (0.432) meaning that other factors other than ownership may have a greater impact on corporate governance.
4.4.2 The relationship between the Ownership structures and performance of MFIs in Uganda.

Results indicate that the ownership structures have a significant positive relationship with the performance of these MFIs ($r = 0.619^{**}$, $p<.01$). This implies that owners of these small MFIs play a great role in their performance. In those MFIs where there were clear ownership structures, where there were more artificial persons as shareholders, where there was always consensus in management, performance was higher than in their other counterparts.

4.4.3 The relationship between Corporate Governance and performance of MFIs in Uganda.

Board Size and Composition and Leadership and Balance of Power which are both elements of Corporate Governance were both found to have a significant positive relationship with the Performance of these MFIs; ($r =0.352^{**}$, $p<.01$) and ($r = 0.337^{**}$, $p<.01$) respectively. However this relationship is not so strong for these small MFIs. This implies that although corporate governance affects performance positively, there are other factors that have a stronger influence on performance in these small MFIs than Corporate governance.

4.5 Regression Analysis

The regression model was used to determine the degree to which the Ownership Structure and the Corporate Governance can predict the changes in the MFI performance. Regression analysis helps us to determine the extent of the relationship between the variables and therefore helps to make predictions.
4.5.1 Regression Analysis of the Constructs

Table 4.11: showing regression analysis for the variables

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.648</td>
<td>.301</td>
<td>2.152</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>.373</td>
<td>.059</td>
<td>.533</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>.221</td>
<td>.076</td>
<td>.246</td>
</tr>
</tbody>
</table>

Dependent Variable: MFI Performance

R Square .436
Adjusted R Square .424
F Statistic 34.817
Sig. .000

From the table above that the Ownership Structures and the Corporate Governance can predict a 42.4% increment or decrease in the performance of an MFI. The MFIs according to the regression model should prioritize the idea of having an effective Ownership Structure (Beta = .533, sig. <.01) over the Corporate Governance (Beta = .246, Sig. <.01). This can be explained by the fact that once the ownership structure is in place and well functioning, the corporate governance levels will definitely improve since the two variables are positively correlated.

4.5.2 Regression for Factor Analysis

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.389</td>
<td>.339</td>
<td>4.099</td>
</tr>
<tr>
<td>Leadership &amp; Balance of Power</td>
<td>.177</td>
<td>.072</td>
<td>.247</td>
</tr>
<tr>
<td>Board Size &amp; Composition</td>
<td>.207</td>
<td>.069</td>
<td>.300</td>
</tr>
</tbody>
</table>

Dependent Variable: MFI Performance

R .434
R Square .188
Adjusted R Square .170
F Statistic 10.087
Sig. .000
Results from the table above indicate that Leadership and Balance of power together with Board size and composition predict 18.8% of the performance of MFIs surveyed. As far as MFI performance is concerned, more emphasis should be put on the board size and composition (Beta = .300, sig < .01) by these MFIs than leadership and balance of power (Beta = .247, sig < .01).
CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS OF FINDINGS

5.1 Introduction

The study focused on the relationship between ownership structures, corporate governance and performance of MFIs in Uganda. The study was carried out to find out whether the performance of the MFIs could be attributed to their ownership structures and therefore their corporate governance practices. This chapter is divided into four sections, discussion of findings, conclusions, recommendations and areas for further research. These sections are guided by the study objectives.

5.2 Discussion of findings

The discussion of the findings is in relation to the objectives of the study as stated in chapter one. These are discussed as follows;

5.2.1 Relationship between the ownership structures on the corporate governance.

The results obtained showed a positive relationship between Ownership structures and corporate governance practices in the surveyed MFIs. This implies that ownership structures do positively influence corporate governance practices among MFIs. These findings are in agreement with the findings of Shleifer and Vishny, 1997; Daily et al., 2003, Morck et al (1988), Holderness and Sheehan (1988), McConnell and Servaes (1990); among others who concluded in their various studies that Ownership structure positively impact an organisation’s corporate governance levels. It should however be noted that the relationship is not strong implying that corporate governance in these small MFIs is also influenced by some other factors other that ownership structures.
5.2.3 Relationship between Ownership structures and Performance of MFIs.

The study findings revealed that the ownership structures have a strong positive relationship with the performance of MFIs. In addition to that, performance of the MFIs varied significantly among the different ownership forms. These findings augment earlier studies by; Gutierrez-Nieto *et al.* (2007), Hansmann, (1996), Desrochers and Fischer, (2002), Rasmussen (1988), Claessens (1995), Claessens, Djankov and Pohl (1996), Morck et al (1988), Holderness and Sheehan (1988), McConnell and Servaes (1990), and Xu and Wang (1997) who in their various studies, along with others seem to suggest that there is a positive correlation between shareholdings of large investments and firms’ performance.

This implies that the ownership structures of these small MFIs play a great role in their performance. It is therefore important that the MFIs strive to have diverse ownership, separation between ownership and management of the firm, among others if their performance is to improve. In addition to the above, MFIs with a higher percentage of legal persons were found to perform better than their counterparts with lower percentages of legal persons. This could be as a result of increased monitoring by the corporate shareholders which may be lacking with the individual shareholders.

5.2.4 Relationship between corporate governance and performance of MFIs in Uganda.

From the study, it’s clear that there is a positive relationship between corporate governance and the performance of the MFIs. The two components of corporate governance; that is; Board Size and Composition and Leadership and Balance of Power were both positively correlated to the Performance of these MFIs.
Much as results show that the relationship is not very strong, MFIs that have better corporate governance structures outperform those that lack them. This is in agreement with earlier studies by Dittmar and Mahrt-Smith (2007), Rock et al., 1998; Labie, (2001); Helms, (2006); United Nations, (2006); Otero and Chu, (2002); which indicated that good corporate governance can double the value of firms as compared to poorly governed firms. It should however be noted that these MFIs should also focus on other factors which have a bearing on performance other than Corporate governance if they are to achieve sustainability and higher profitability.

5.3 Conclusions

In Uganda, microfinance is a new industry with numerous challenges. Many of these challenges stem from the way these MFIs are owned which affects the corporate governance levels thereby inhibiting their growth and performance. Governance of microfinance institutions is important to the growth of the industry. Good governance means guiding the institution to achieve its objectives while protecting its assets. The growth of MFIs’ assets, and that fact that some MFIs are mobilizing savings, makes governance a priority issue.

Governance is a function of good competent board that is accountable to the owners. It is the owners who usually define the governance function of an institution. MFIs have dual mission, the objective to outreach to the poor and on the other hand the objective to be sustainable. Any board will have a challenge to strike a balance between social and financial objectives. Board members, however, are selected by “owners”, who have different motives.

Some MFIs’ growth has stagnated while others have been pushed out of business simply because owners have interfered in their running thereby compromising their corporate governance practices which has in turn affected their performance. Results indicate that ownership structures do have a
positive relationship with both corporate governance and performance levels of these MFIs. It’s therefore true that those MFIs which have corporate shareholder tend to perform better than their other counterparts.

In addition to the above, results indicate that in those MFIs where BOD members can freely access information to aid in their decision making, where the BOD members are hired on a contract basis, and where the BOD has independent members, performance was higher than in those MFIs where the above were lacking. Unfortunately of the MFIs which were surveyed, those which were compliant with the above were the minority. This therefore could explain why their profitability levels are still low and why they haven’t been able to serve many clients.

5.4 Recommendations

MFIs must ensure that good corporate governance practices are adopted. This includes much more than just improving the control relationship between boards and managers. These small MFIs should strive to ensure that their boards are given autonomy so they can act independently and objectively. By this, the owners shouldn’t interfere in the operations of the board, the board should be balanced to have people with different expertise, board members should sit regularly to discuss issues pertinent to the MFI and there should always be cooperation between the board and management of the MFI.

The MFIs should increase the number of legal persons as shareholders, they should reduce the ownership concentration and the limits of owners as far as management is concerned should be drawn. This in a way will improve their performance as per the findings of the study.
In addition to that, MFIs should not ignore other factors which may have a bearing on their performance other than ownership and corporate governance. Factors like the MFIs’ capital structures, marketing, and human resources, among others should not be ignored.

Government should create a tier for these small MFIs where their activities can be monitored closely. In so doing, the ownership structures should be determined and the minimum levels of corporate governance set so as to protect the owners as well as the members who save with such institutions. By creating a separate tier, regulation should be increased so as to improve on the Corporate Governance levels of such firms.

Board members should have some knowledge on how the MFIs are operated. This will give them skills in taking decisions regarding the institutions. This therefore means that the selection of the Board members should also consider the qualifications. In addition, the Board members should constantly be trained so that they can fully understand their roles and duties.

5.5 Limitations of the study

In collecting data, the researcher encountered delayed responses from the targeted respondents due to their busy schedules while some were not willing to give the required information. In addition, financial constraints were encountered since the different MFIs visited were geographically dispersed.

5.6 Areas for further research

The researcher feels future researchers should explore more on the following areas;

i. How MFIs do Balance the profitability objective as well as serving the poor.

ii. The role of gender in microfinance and its impact on performance of MFIs.

iii. The effect of foreign BOD membership on the MFI value.
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