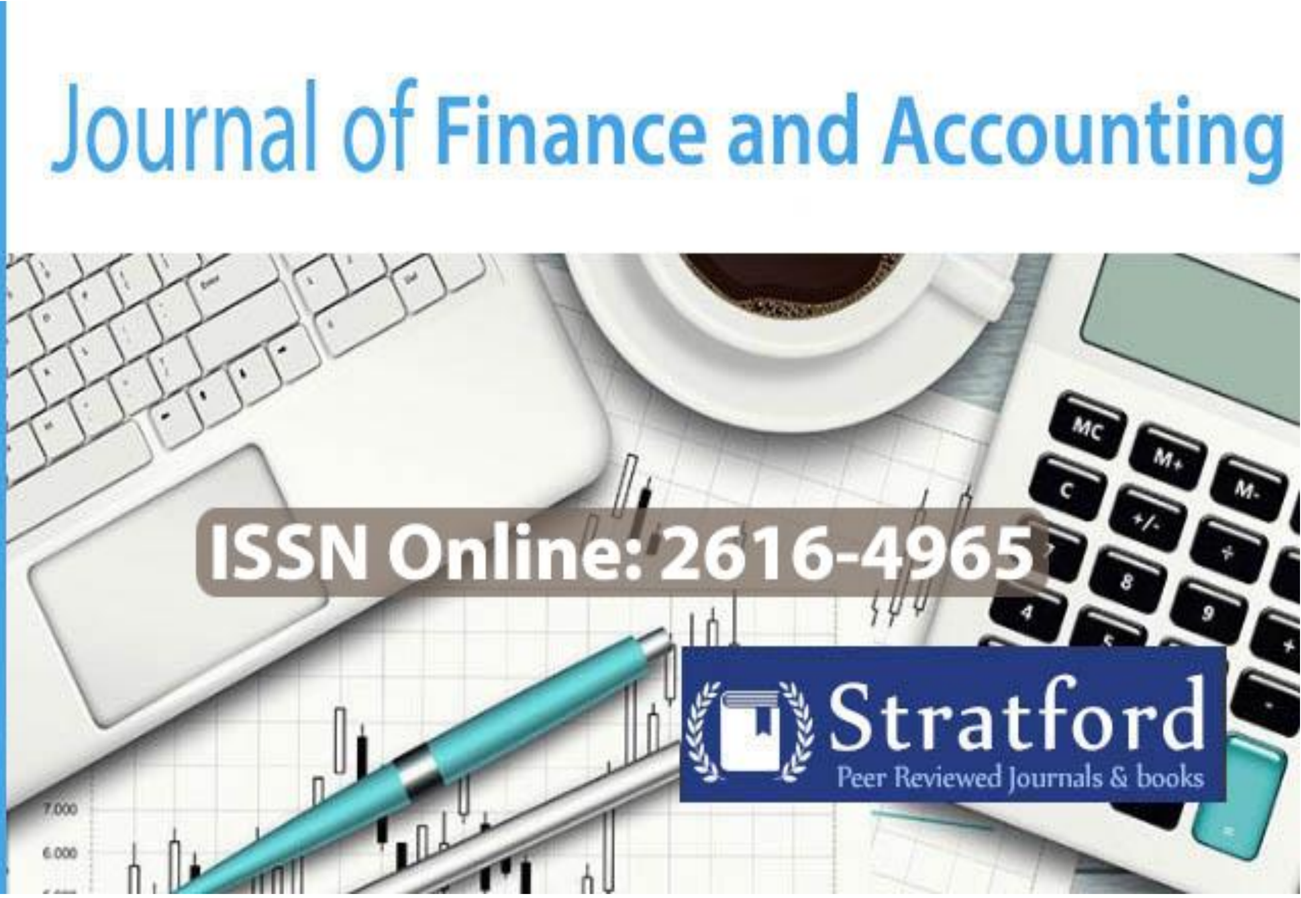

Corporate Governance Practices and Financial Performance of Microfinance Institutions in Rwanda: A Case Study of Microfinance Inkingi Ltd

Mr. Ntaganda George & Dr. Paul Munene Muiruri

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Corporate Governance Practices and Financial Performance of Microfinance Institutions in Rwanda: A Case Study of Microfinance Inkingi Ltd

[1*]Mr. Ntaganda George & [2]Dr. Paul Munene Muiruri
[1*]Department, Business Administration, Mount Kenya University, Rwanda
[2]PhD, Department, Business Administration, Mount Kenya University, Rwanda
***Email of the corresponding author: georgesntaganda@gmail.com**

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Abstract

The study was undertaken to investigate how corporate governance practices can influence the financial performance of microfinance institutions with a case study of microfinance inking ltd. This study specifically analyzed the effect of board size, gender diversity and CEO duality in the governance structures on performance of microfinance institutions. The descriptive method was used to collect data and the target population was forty-six, where 35 were the staff of INKINGI microfinance ltd 11 were members of the board. In data collection at the field, questionnaire and face-to-face discussion were used. To confirm the reliability, the research conducted a pre-test exercise before the actual data collection process. The validity was tested through experts in the domain of financial statements analysis and managerial decision making by asking the supervisor and other lecturers from Mount Kenya University. The researcher used the SPSS as tool of analysis, which helped to summarize the primary data into quantitative data and the researcher given the proper interpretation of the results basing on research objectives and questions. The analysis showed that board size, board independent and CEO duality were positively correlated with financial performance of Rwandan microfinance institutions (r= 0.810, p< 0.00 r= 00.706, p< 0.04 r= 0.623, p< 0.003 and r= 0.431, p< 0.00) respectively. Furthermore, the research showed that the board independence, gender diversity as well as board size have a considerable effect on financial contribution. According to the perception of the respondents, the results showed that corporate governance increases the profitability of the company, customer loyalty as well as extension of product line and services in the company. The study concluded that board size, board independent and CEO duality are important aspects to consider for better governance of microfinance. The study recommended that INKINGI microfinance ltd should improve their gender diversity for better corporate governance that provides diverse viewpoints, values and new ideas to the boards and provokes lively boardroom discussions. The management should appoint more women directors as they possess managerial skills like public relations, human resource and communication skills than operating and marketing skills.

Keywords: *Corporate governance practices, financial performance, microfinance institutions, Inkingi Ltd, Rwanda*

1.0 Introduction

According to Robert and Nell (2011) Governance related to an institution's internal operating and control procedures. It plays a key role in providing strategic direction helps the institutions in creating transparency and trust for investors and in attracting capital. Good corporate governance contributes to efficient management and to considering stakeholder interests, boosting the microfinance institution's reputation and integrity and fostering the customer trust. In last few years, Microfinance Industries significantly changes its shape, due to several reasons in which corporate governance also one of them plays a pivot role to enhance the performance of Microfinance institutions. Effective Governance of institutions is necessary due to its complex business as it provides thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve a living standard lead to socio and economic development of the country.

Majority of MFIs have a dual mission, i.e. a social mission to provide financial services to large numbers of low-income persons to improve their welfare, and a commercial mission to provide those financial services in a financially viable manner. Currently, few studies have been published on corporate governance in MFIs. Hartarska (2015) investigates the relationship between governance mechanisms and financial and outreach performance, using three surveys of rated and unrated Eastern European MFIs between 1998 and 2002. Governance mechanisms include board characteristics, CEO compensation, and ownership type. Hartarska (2015) includes several institutional and firm control variables and finds that a more independent board gives a better return on assets (ROA). However, a board with employee directors results in lower financial performance and outreach. The difference in financial performance and outreach between various ownership types is negligible.

Cull *et al.,* (2017) also investigate MFI financial performance and outreach by focusing on lending methodology. They use data from 124 MFIs around the world and find that financial performance improves, up to a point, with individual loans, and that MFIs concentrate more on individual loans. Governance variables, such as board characteristics or ownership type, are not considered. INKINGI Microfinance in its desire and objective is to be the venue for microfinance industry that is stronger and more active to the entire Rwandan society is poverty alleviation and integrity. In due course of the study, the researcher aimed at assessing how microfinance governance impacts the financial performance of microfinance institutions in Rwanda. This clearly reveals the main objectives of the study mostly and specifically on structures in terms of governance, process of how things in relation to finances are taken up and the overall performance of the microfinance.

During the last two decades, there was a tremendously development of the microfinance industry and its role in the economic growth of developing countries. This success can be attributed to their ability to grant small loans to those excluded from the formal banking sector due to lack of collateral (Fernando, 2009). In 1995, the Government of Rwanda launched the reform of the financial sector with the objective of creating an effective and efficient financial system. The major components of that reform included the strengthening of the legal and regulatory frameworks as well as the supervisory framework of the banking system, the introduction of new financial instruments, the liberalization of interest rates, and the opening up of the banking system to foreign banks (BNR 2015).

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1.1 Statement of the Problem

Poor corporate governance has been widely viewed and identified as one of the structural weaknesses in Microfinance Industry due to which they lose their trust and interest among the investors and other stakeholder thus leads to insufficiency of capital. According to David &Guler, 2012, Corporate governance is all about determining on the way of structural management and set up processes in order to avoid any linkages to finances. The microfinance sector has a crucial role to play in providing financial services in case they are well governed. From 2006 to 2009, central bank of Rwanda reported a closure of many microfinance institutions due to poor governance and that leads to losses of the clients. Inkingi microfinance has ppersistently had issue of corporate governance has affected the performance of microfinance institutions such that on March 13th 2018 when National Bank of Rwanda organized a training of heads of financial institutions on corporate governance about Board's capacity to understand the risks taken by management, lack of capacity of board to determine boundaries for risk taking by management and finally underdeveloped Internal structures for risk governance. However, due to poor governance and lack of good practices amongst microfinance institutions (MINECOFIN REPORT 2012), and the poor management of funds, nine microfinance institutions closed in June 2006. Studies done on corporate governance and the financial performance of microfinance institutions in Rwanda. Coleman and Biekpe (2008) studied the relationship between board size, board characteristics, board composition, CEO duality and firm performance of non-financial firms in Ghana. Kılıç and Kuzey (2016) study on contribution of women in conjunction with other variables like the board characteristics of some listed Turkish firms while Hartarska (2004) studied the governance and performance of microfinance institutions in Central and Eastern Europe and the newly independent states. There is no local study and it is towards the above-mentioned issues that this study was conducted on to carry out study on effect of corporate governance practices on the financial performance of Rwandan microfinance institutions.

1.2 Research Objectives

i. To identify the effects of board size on financial performance of Inkingi microfinance in Rwanda.

ii. To assess the effects of gender diversity on financial performance of Inking microfinance in Rwanda.

iii. To examine the effects of CEO duality on the financial performance of Inkingi microfinance in Rwanda

2.0 Literature Review

2.1 Empirical literature

2.1.1 Corporate Governance

Adekoya (2012) studied corporate governance reforms in Nigeria. The study used descriptive research design. The study found that have no specific legal basis, and are not legally binding. Thus, enforcement is generally left to the board of directors and external market forces. The content of codes has been strongly influenced by corporate governance studies and practices, this is because, they touch fundamental governance issues such as fairness to all shareholders, accountability by directors and managers, transparency in financial and non-financial reporting, the composition and structure of boards, the responsibility for stakeholders interests and compliance with the law. The study recommended a set of norms aimed at improving transparency and accountability among top managers and directors and underscore the significance and the positive relationship codes of good governance as contribution of good governance towards microfinance institutions

Hartarska (2015) study investigated the relationship between governance mechanisms and financial and outreach performance, using three surveys of rated and unrated Eastern European MFIs between 1998 and 2002. The study analyzed the data using a multiple regression model and Governance mechanisms include board characteristics, CEO compensation, and ownership type. The study found that several institutional and firm control variables and finds that a more independent board gives a better return on assets (ROA). However, a board with employee director's results in lower financial performance and outreach. The difference in financial performance and outreach between various ownership types is negligible. The study recommended that better corporate governance provides diverse viewpoints, values and new ideas to the boards and provokes lively boardroom discussions Bassem, (2009) found that governance related to an institution's internal operating and control procedures. governance plays a key role in providing strategic direction helps the institutions in creating transparency and trust for investors and in attracting capital. The study concluded that good corporate governance contributes to efficient management and to considering stakeholder interests, boosting the microfinance institution's reputation and integrity and fostering the customer

Christiana and Sugeng (2013) studied the effectivity of Internal and external Corporate Governance. The study analysed the data using a multiple regression model and used descriptive research design. The study found that good governance can help the microfinance institutions to prevent fraud and mismanagement, promote sound decision making, avoid costly fines and litigation, Create/maintain a positive corporate image, Attract and retain clients, Attract and retain financing and investment (from commercial banks). Kansiime (2009) examined the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability. The study used multiple regression model. The study observed that corporate governance as the way corporate power is exercised by an organization in the management of its portfolio of assets and resources, with objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its mission. The study further observed that corporate governance includes the structures, processes, cultures and systems that engender the successful operation of organizations.

Lapenu and Pierret (2006) found that when discussing governance, it is necessary to broaden the scope of study to include all stakeholders e.g. employees, managers, elected officials, clients, donors, bank partners, shareholders, the government, etc. however this study was limited to the board of directors and the CEOs of MFIs. Kyereboah-Coleman and Bike (2005) posited that companies have now realized that good governance generates positive returns to a firm and boost customer confidence. The study done by Gadi (2015) in the study of the impact of corporate governance on the financial performance of micro-finance banks in North Central Nigeria using the Pearson correlation established a significant relationship between earnings per share (EPS) and

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corporate governance practices (Board size, board independence, gender diversity and composition of board committees). The regression analysis showed that no significant relationship existed between corporate governance and bank‟s financial performance. The study used data gathered from annual reports and accounts of the 23 micro-finance banks out of a total population of 158 micro-finance banks. Hartarska (2004) studied the governance and performance of microfinance institutions in Central and Eastern Europe and the newly independent states. The study used data from three surveys that were conducted in 1998, 2001 and 2002.

Mori and Olomi (2012) in the study, effects of board on the performance of MFIs in Tanzania and Kenya, failed to find a significant difference in the performance between boards with internal board members versus those with external members. However, the study observed that local board members are associated with higher ROA and higher OSS. These findings contradict international literature which posits that international boards lead to good financial performance (Mersland et al., 2011). While international board members tend to push for sustainability, they also want the MFI to keep interest rates low, whereas nationals are more open to keeping interest rates high as a way of ensuring sustainability. The finding may also suggest that national board members‟ local knowledge may be important for MFIs‟ ability to manage costs and generate income

2.1.2 Board size

Coleman and Biekpe (2008) studied the relationship between board size, board characteristics, board composition, CEO duality and firm performance of non-financial firms in Ghana. The study employed secondary data based on the financial statements of all the 16 listed non-financial firms on the Ghana Stock Exchange for eleven-year period (1990 to 2001). The study analyzed the data using a multiple regression model, a modified version of the econometric model of Miyajima et al. (2003). The outcome of the study demonstrated different relationship in terms of positive, negative and no contribution. Sanda et al., (2013) in study a Nigerian board size and firm performance. The study carried out and based on board size found out that the size of 26 the board is positively related to ROA suggesting on the contrary that firms should have larger board sizes. This contradicts findings made by researchers such Board composition also had a negative impact on firms‟ profitability re-echoing the fact that the independence of a board is not really critical for the effective performance of any firm. The study which used regression analysis established that performance seemed to improve with size and after a point decreased. The proportion of women also had a positive effect on financial performance as the coefficient was positive and statistically significant in the operational self-sustainability equation. The proportion of women also had a positive effect on financial performance as the coefficient was positive and statistically significant in the operational self-sustainability equation.

Sseremba (2006) indicated that ownership and corporate governance are significant predictors of MFIs‟ performance. The study undertook a cross sectional survey to establish the relationship between ownership structures, corporate governance and performance of MFIs in Uganda. The study used data from a sample of 65 MFI firms out of a population of 69 and analysed the data using Pearson;s correlation coefficient. The study established 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. The study found A strong significant positive correlation exists between fairness, transparency, accountability and perceived performance. The study recommended streamlining of the MFI systems, the board to be totally independent and the need to enhance corporate governance by improving fairness, transparency and

2.1.3 Gender diversity

Kılıç and Kuzey in their study on effect of corporate governance on the firm financial performance among Malaysian Public Listed Companies. The study uses descriptive research design carried measurement of the return on assets, the return on equity as well as the return on sales. The study found that the contribution of women in conjunction with other variables like the board characteristics of some listed Turkish firms revealed the positive effect of board gender diversity on the performance of the firms surveyed. Their findings used an instrumental variable based on regression analysis to investigate the association between board gender diversity and firm performance based on the sample covering the years between 2008-2012. They also indicate that the boards of the firms surveyed in this country, male-dominated and involvement of female directors in firm setting was positively associated with the financial performance of companies. Women clients are generally considered the best target market for MFIs as microfinance focuses on the provision of financial services to small informal sector businesses involved in self-employment which are mostly run by women.

Neema (2014) found evidence of improved performance in MFIs having more female members. The study further found that Expatriates influenced financial sustainability negatively perhaps because they bring easy donation or grants. Boards with higher proportion of insiders had fewer active borrowers and low ROA. The most surprising result here is that client outreach was negatively affected by the proportion of donor representatives on the board. This result confirms the notion that donors funding MFIs focus more on financial results. Boehe and Cruz (2013) found evidence of improved performance in MFIs having more female members. Many MFIs in Asia that work with the mission of women empowerment mandate could benefit by bringing female membership at all levels of the management including its executive level (Campion et al. 2008) as female CEO is better able to gather information from females then a male CEO (Mersland and strom, 2009). Even in sectors other than microfinance, presence of females in the top management team has been linked with the improved performance in the literature (Welbourne, 1999). Therefore, we define this indicator as value 1 if MFIs CEO is female, otherwise

2.1.4 CEO duality

Agency theory states that CEO duality brings more CEO entrenchment in the organization which hinders board's ability to effectively monitor management decisions while organization theory gives rationale in favor of CEO duality and states that it brings unity of command in organization and is beneficial. When the roles of CEO and chairman of the board are merged, then the CEOs have more power and freedom in decision making which could lead to riskier decisions (Galema et al. 2012). Thus, CEO duality could mean lack of independent board in an institution which has been linked with worse financial and social performance (Hartarska, 2005; Coleman and Osei, 2008). Lincoln and Field (2013) found that Board leadership structure is an important corporate

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governance mechanism, which is reflected in the positions of chairman of the board and CEO. Both agency theory and stewardship theory have addressed the leadership structure of the board. The study recommended separation of the role of CEO and chairman of the board according to in the agency theory which assumed that due to the agency problem, it is necessary to monitor the performance of the CEO and the board to protect the stakeholders' rights including shareholders. Female presence in boards is thought to be linked with increased MFI performance (Bassem, 2009) as women director's processes managerial skills like public relations, human resource and communication skills than operating and marketing skills (Thrikawala et al. 2013). Presence of gender diversity on boards also indicates that boardshave broader perspective (council of microfinance equity funds, 2012). This argument can also be supported by resource dependence theory. Adams and Ferreira (2009) found evidence of increased monitoring activities in firms having more gender diversity in their boards. This variable is measured as value 1 if MFI has female presence in board, or otherwise

2.2 Theoretical framework

2.2.1 Agency Theory

According to Wan and Idris (2002) Agency theory having its roots in economic theory was exposited by Alchian and Demsetzfurther developed by Jensen and Meckling. Agency theory is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers". In this theory, shareholders who are the owners or principals of the company, hires the gents to perform work. Principals delegate the running of business to the directors or managers, who are the agents to the shareholder. There others authors who argued that two factors can influence the prominence of agency theory. First, the theory is a simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested. The agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals. Such a problem was first highlighted by Adam Smith in the 18thcentury and subsequently explored by Ross. In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits (Forbes, 2011). Ndyamuba (2010) recommends in his study that adoption of product refinements and technological innovations is needed to reduce costs, increase outreach and enhance profitability. Hence the adoption of technological innovations as cited as greatly significant in combating operational costs which in effect affects the financial performance of any MFI. In their study, Labie and Périlleux (2008) found that corporate governance weaknesses in SACCOs were identified as major obstacles and that constrained overall development. The corporate governance weakness accounted to a large extent the performance of these SACCOs. According to Katera (2011), there is a need to enhance corporate governance by improving fairness, transparency and accountability to spur the performance of any corporate. A strong significant positive correlation exists between fairness, transparency, accountability and perceived performance. Similarly, in another research by DeSantis (2010), outreach and sustainability and the desire to continually improve on a service, was noted to strongly correlate to better Return on Assets.

2.2.2 Stewardship Theory

Stewardship theory is defined as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". A steward is a person who essentially wants to do a good job, to be a good steward of the corporate assets. This theory assumes that managers are basically trustworthy and attach significant value to their own personal reputation (Fernando, 2009). In contrast to agency theory, stewardship theory suggests that executives tend to be more motivated to act in the best interest of the corporation than in their own self-interest. Whereas agency theory focuses on extrinsic rewards that serve such lower- level needs as pay and security, stewardship theory focuses on the higher order needs, such as achievement and self-actualization. Stewardship theory argues that, over time, senior executives tend to view the corporation as an extension of them. Rather than the use of firm for their own ends, the executives are more interested in guaranteeing the continued life and success of the corporation. The relationship between the board and top management is thus one of principle and steward, not principle and agent. Stewardship theory notes that in a widely held corporation, the shareholder is free to sell his/her stock at any time. A diversified investor may care little about risk at the company level, preferring that management assume extraordinary risk so long as the return is adequate. Because executives in a firm cannot easily leave their jobs when in difficulty, they are more interested in a merely satisfactory return and put heavy emphasis on the firm's continued survival. Thus, stewardship theory would argue that in many instances, top management may care more about a company's long-term success than do more short-term oriented shareholders (Lex & James 1991).

2.2.3 The Stakeholder Theory

According to Freeman (2010) Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman incorporating corporate accountability to a broad range of stakeholders. In essence, stakeholder theory considers the firm as an input-output model by explicitly adding all interest groups: Employees, customers, dealers, government and the society at large to the component mix. Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve this include the suppliers, employees and business partners. And it was argued that this group of networks is important other than owner-manager employee relationship as in agency theory (Freeman, 1999). On the other end, Sundaram and Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention. he contends that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders.

2.3 Conceptual Framework

The conceptual framework of this study covered a number of variables such as dependent variable, independent variables and control variables. The dependent is made by the ROA (Return on Asset) explained by financial performance, independent variable is based on corporate governance made by gender composition, board size, board independence and board diversity whereby controlling variables is obtained through firm size (total asset), liquidity (current ratio), leverage (ratio of total liability to total asset). Figure 1 presents the conceptual framework.

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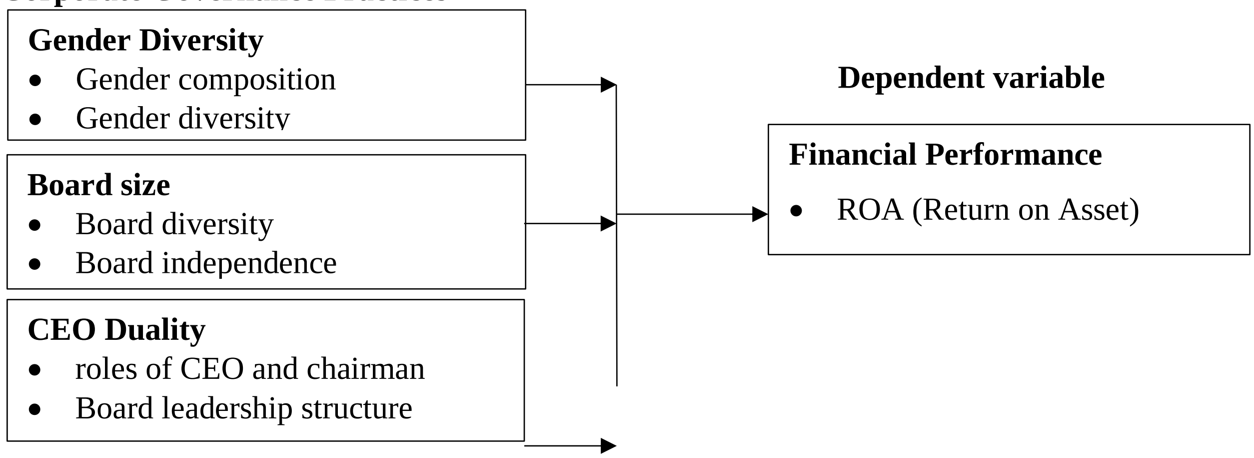
Figure 1: Conceptual Framework

Independent variables

Corporate Governance Practices



3.0 Research Methodology

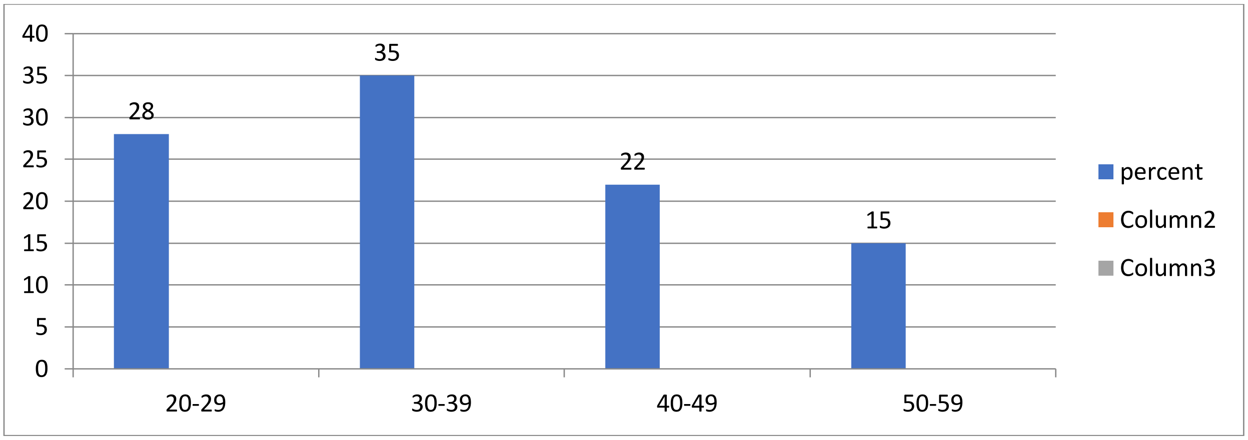
The study used descriptive method and analytical method. The descriptive method was used at the time of data collection and specifically it helped the researcher to identify the link existing between particular incidences. The descriptive design which is qualitative helped the researcher to describe the situation of the study according to the findings and then, formulate important recommendations as well as suggestions. Analytical method which is quantitative was used in the interpretation of the study results and this was done statistically. The study collected the data from Inkingi microfinance institution. The motive for using data from Inkingi microfinance institution was due to the fact that this institution has performed well and maintained a good reputation. The research was carried out in Kigali city. SPSS was used in analyzing the quantitative data. The researcher summarized data using descriptive statistics like graphs, percentages and frequencies which enabled the researcher to meaningfully describe the distribution of scores and measurements.

4.0 Research Findings and Discussion

4.1 Demographic Characteristics of Respondents

The Age of the respondents at INKINGI Microfinance ltd is summarized in Figure 2

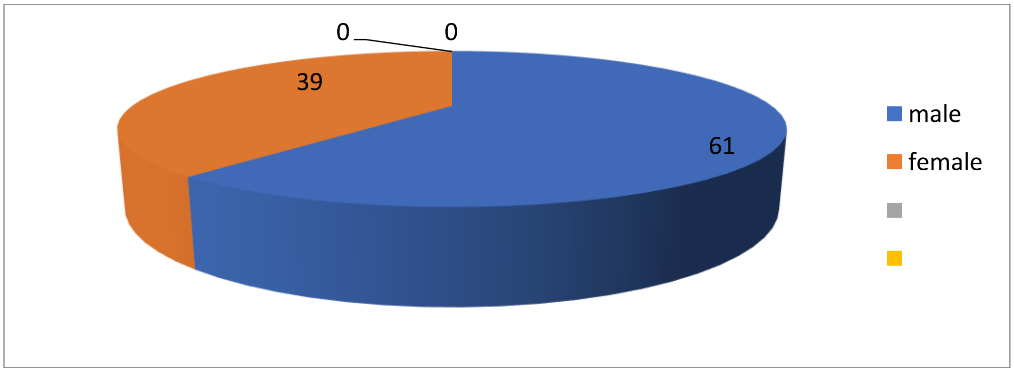
Figure 2: Age of the respondents at INKINGI Microfinance ltd



Source: reports of Inkingi microfinance

Based on the results above in Figure 2 among the staff and board members of inkingi microfinance ltd a big number of them is in the range of 30-39 this is represented by 35%, followed by those in 20-29 represented by 28%, then 40-49,50-59 represented by 22% and 15% respectively. This shows that the big part of the staff and board members are in the active age and this is a good point because they have energy to work, can work extra hours and this may lead to the financial performance of the institutions especially in microfinance sector where the clients are located in different areas. Further, gender of the respondents at inkingi microfinance is depicted in Figure 3

Figure 3: Gender of the respondents

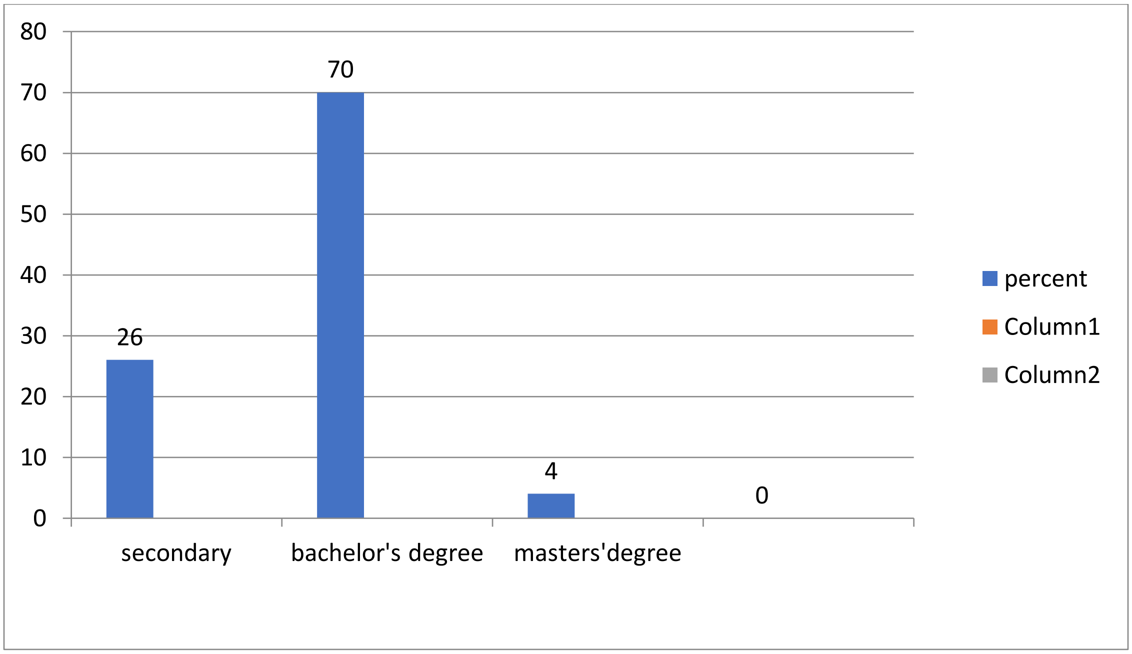


Source: reports of inking microfinance

Based on the Figure 3 both sexes are represented where we have male that are represented at a percentage of 61% and 39% that represents female. This shows that both sexes are represented the views were captured from both male and female. My recommendation is that microfinance INKINGI should increase the number of female staff, since they are good at customer care and marketing.

The education level of the respondents at inkingi microfinance is summarized in Figure 4

Figure 4: Education level of the respondents



Source: reports of inkingi microfinance

According to the Figure 4 the staff and board members of inking microfinance ltd are educated where we have 70 % who have bachelor's degree, followed by 26 % who have finished secondary level but most of them are enrolled at university level and lastly 4% who have master's degree. This is good because it shows that all of them have basic knowledge which may help them to make decisions particularly in accounting domain and it shows that they are able to understand and analyze the financial statement for financial performance which is considered as an important tool in microfinance. I would advise the inkingi microfinance to encourage the 26% to complete their study because it would increase on the number of academicians and their performances.

The marital status of the respondents at inkingi microfinance is presented in Figure 5

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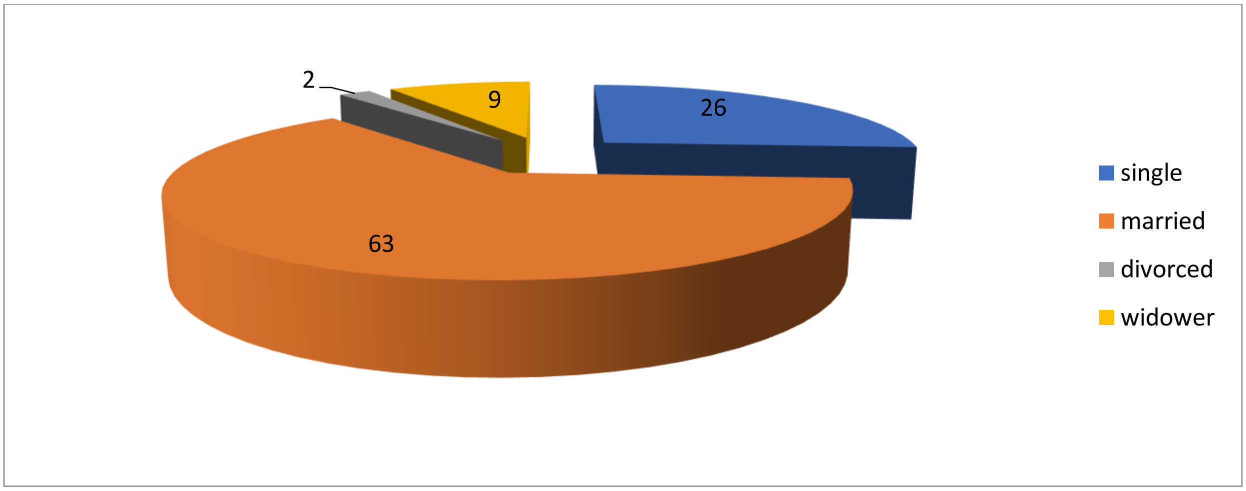
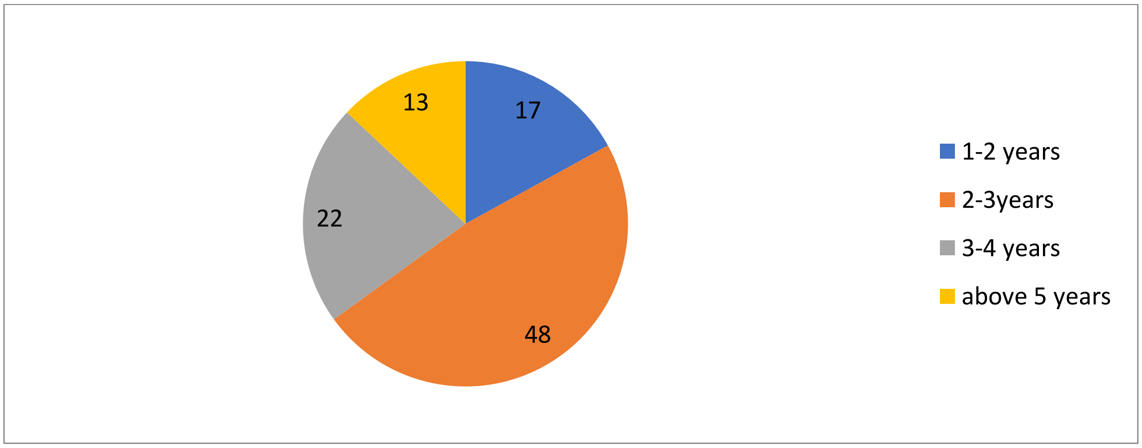
Figure 5: Marital status of the respondents



Source: reports of INKINGI microfinance

According to the Figure 5 the staffs and board members of microfinance have different marital status where we have married at a percentage of 63% and we have single at a percentage of 26 % divorced and widower are of small rate 2% and 9% respectively and this helps the microfinance because the married people are more stable than single in the working place.

Figure 6: Working experience of the respondents



Source: reports of inkingi microfinance

Based on the study results in Figure 6, the results from the respondents according to the duration passed in inking microfinance ltd, most of them have worked for 3 years where we have 48%, followed by those with 4 year in inking microfinance ltd at a percentage of 22%; the staff with 2 years are 17 %, and lastly 13% of the staff who are in inking microfinance for more than five years. This shows that most of the staff has worked within inking microfinance ltd for more than two years and as we know among the factors that may lead to the performance of the organization even working experience is included because the employees are doing what they know the constraints meet are known that is why microfinance inking ltd is performing.

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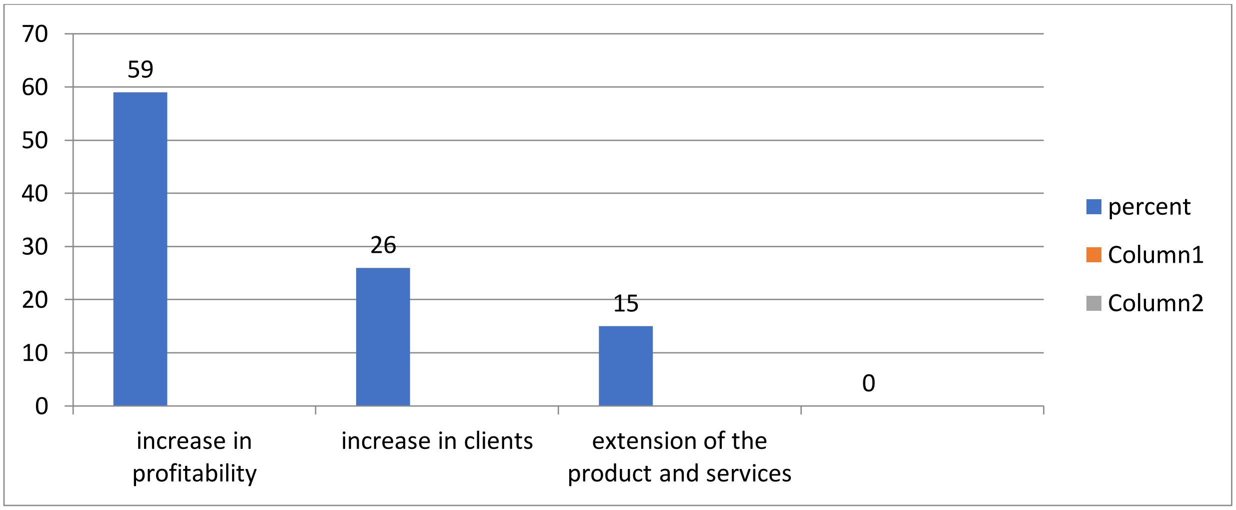
4.2 Presentation of findings

This part presents the findings according to objectives of the study. It shows the findings on the effect of corporate governance practices on the financial performance of Rwandan microfinance institutions. It outlines the awareness of respondents from items related to study objectives. Information in this section was presented in form of tables and statistical techniques to discuss the findings for each objective

This objective was analyzed using primary data and secondary data. The analysis based on primary Data involves the perception of the respondents on how corporate governance increases the profitability of the company, customer loyalty as well as extension of product and service in the company. The perception is presented in figure representing the impacts of good governance in microfinance institutions. The summary on the impacts of corporate governance in microfinance institutions is depicted in Figure 7

Figure 7: Impacts of corporate governance in microfinance institutions



Source: primary data (2022)

According to the views from the board members and staff of inking microfinance institution, corporate governance has different impacts, at the first place, profitability option occupies 59%. This means that the board independence, gender diversity as well as board size have a considerable effect on financial contribution. The respondents have also showed that good governance increase the number of clients at 26 % as it is indicated in the above table. On the other hand, the respondents have confirmed that the product line and its services related can be extended by using good governance at 15% and this shows that, it influences financial performance. For microfinance without good governance, it is difficult for it to achieve financial performance of the company. The magnitude effect and significant value of each member in corporate governance was analyzed by using inferential statistics as it was shown in the secondary data analysis of key determinant values of financial performance.

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Table 1: Limitations faced by Board's members on financial statement

Limitations faced by members of the boards when they are analyzing financial statement	Frequency	percent
lack enough time to meet for unexpected circumstances	23	50
Misunderstanding between managers and members of the board	6	13
Unqualified members of the board	7	15
Personal interest of the members of the board	4	9
Experience and expertise	6	13
Total	46	100

Source: primary data (2022)

According to the Table 1, there are some limitations faced by the members of the board when they are analyzing financial statement for financial performance of inking microfinance ltd Misunderstanding between managers and members of the board ,Unqualified members of the board, Personal interests of the members of the board in this study, Misunderstanding between managers and members of the board 13%, lack enough time to meet for unexpected circumstances50%, personal interest of the members of the boards 9%, unqualified members of the board Experience and expertise 13% and personal interest 15%. The members of the board shared the view of lack of knowledge when they are analyzing financial statements because of lack of skills in accounting and this leads to the delay of some decisions because the staffs have a task to explain the financial statements to the members of the board before making any managerial decision in microfinance**.**

4.2.1. To identify the effect of board size on financial performance of Inking microfinance.

This objective was analyzed by using primary database on individual perception and secondary data based on probability testing. The respondents were asked to select the rate statement on the effectof board size on in relation to financial performance of Inking microfinance. The Likert-type scale was used to rate their responses on a 5– point scale ranging from 5 = Strongly Agree to 1 = Strongly Disagree.

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Table 2: Board Size and Financial Performance of Inking Microfinance

Statement on effect of board size on financial performance of Inking microfinance.	**Strongly agree** %	**Agree** %	**Un certain** %	**Disagree** %	**Strongly disagree** %	**Mean**	**SD**
Board diversity affect financial performance of MFI.	-	10	20	40	28	3.88	1.089
It is easier for larger boards to monitor their managers' activities more effectively	60.1	25.9	14.0	-	-	4.87	1.071
It is difficult the CEO to control the larger boards	7.0	64.2	17.8	3.1	7.9	4.57	1.062
Board composition also had a negative impact on firms	7.0	37.1	33.9	22.0	-	3.55	1.077
Board size improves the performance of a firm	-	58.2	6.8	18.0	17.0	4.65	1.045
Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management	7.0	47.1	7.9	4.0	34.0	4.044	1.073
members of the boards have enough capacity to facilitate relevant decisions making	48.0	22.0	7.0	12.0	11.0	4.68	1.034
presence of outside directors is positively associated with higher returns on investment.	26.0	47.0	-	24.0	3.0	4.61	1.047
Proportion of outside directors sitting on the board bring board independence	4.0	58.0	18.0	20.0	-	4.40	1.036

Source: primary data (2022)

According to Table 2, 10% of respondents agreed ,20% neither agreed nor disagreed 28% disagreed 40 % strongly dis agreed on statement that Board diversity affect Financial performance of MFI with mean of 3.88 and standard deviation of 1.089. The findings further found that 60.1% strongly agreed 25.9% agreed 14.0% neither agreed nor disagreed on statement that iit is easier for larger boards to monitor their managers' activities more effectively with mean of 4.87 and standard deviation of 1.071. On statement that it is difficult the CEO to control the larger boards 7.0 % of respondents strongly agreed 64.2% agreed 17.8 % neither agreed nor disagreed 3.1% disagreed while 7.9% strongly disagreed that it is difficult the CEO to control the larger boards mean of 4.57 and standard deviation of 1.062. On statement that Board composition also had a negative impact on firms7.0 % of respondents agreed strongly agreed 37.1% agreed 33.9 neither agreed nor disagreed 22.0 dis agreed with mean of 3.55 and standard deviation of 1.077. On board size improve the performance of a firm58.2% of respondents strongly agreed 6.8% agreed 18.0 % neither agreed nor disagreed 17.0 disagreed with mean of 4.65 and standard deviation of 1.045 that on board size improve the performance of a firm

On statement Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management 54.1 % of respondents agreed while 38% disagreed with mean of 4.044 and standard deviation of 1.073. On statement that members of the boards have enough capacity to facilitate relevant decisions making 60% of respondents agreed while 19% disagreed with h mean of 4.68 and standard deviation of 1.034. On presence of outside directors is positively associated with higher returns on investment63% of respondents agreed while 3% disagreed with h mean of 4.61 and standard deviation of 1.047 while on statement that Proportion of outside directors sitting on the board bring board independence.

4.2.2. To assess the effect of gender diversity on financial performance of Inkingi microfinance

This objective was analyzed by using primary database on individual perception and secondary data based on probability testing. The respondents were asked to select the rate statement on the effect of gender diversity on financial performance of Inkingi. The Likert-type scale was used to rate their responses on a 5– point scale ranging from 5 = Strongly Agree to 1 = Strongly Disagree.

Table 3: gender diversity on financial performance of Inkingi microfinance

Statement on effect of gender diversity on financial performance of Inking microfinance.	Strongly agree %	Agree %	Un certain %	Disagree %	Strongly disagree %	Mean	SD
male-dominated and involvement of female directors in firm setting are positively associated with the financial performance of companies	41.0	36.0	-	20.0	3.0	4.75	1.143
MFIs could benefit by female leadership as females in an institution know better what kinds of products females like and how to target them	7.0	37.1	33.9	22.0	-	3.55	1.077
female CEO is better able to gather information from females then a male CEO	-	58.2	6.8	18.0	17.0	4.65	1.045
presence of females in the top management team has been linked with the improved performance	-	10	20	40	28	3.88	1.089
Gender diversity contribute good corporate governance in MFI	4.0	68.0	15.0	9.0	4.0	4.05	1.132
Presence of gender diversity on boards also indicates that boards have broader perspective	31.0	37.0	7.0	19.0	6.0	4.25	1.022
There is increased monitoring activities in firms having more gender diversity in their boards	13.0	47.0	4.0	24.0	12.0	4.16	1.013

Source: primary data (2022)

Table 3 indicated that 41.0 % of respondents strongly agreed 36% agreed 20 % disagreed 3.1% disagreed while 3% strongly disagreed that male-dominated and involvement of female directors in firm setting are positively associated with the mean of 4.75 and standard deviation of 1.143. On

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statement that MFIs could benefit by female leadership as females in an institution know better what kinds of products females like and how to 7 % of respondents strongly agreed 37.1% agreed 33.9 % neither agreed nor while disagreed 22% disagreed that male-dominated and involvement of female directors in firm setting are positively associated with the mean of 3.55 and standard deviation of 1.077. on statement that female CEO is better able to gather information from females then a male CEO 65% of respondents agreed 25% disagreed while 18% neither agreed nor disagreed with mean of 3.88 and standard deviation of 1.089 .On statement that presence of females in the top management team has been linked with the improved performance 10% of respondents agreed 68% disagreed while 20% neither agreed nor disagreed with mean of 4.05 and standard deviation of 1.132. Gender diversity contribute good corporate governance in MFI 72% of respondents agreed 13% disagreed while 9% neither agreed nor disagreed with mean of 4.05 and standard deviation of 1.132On statement presence of gender diversity on boards also indicates that boards have broader perspectivem68% of respondents agreed 25% disagreed while 7% neither agreed nor disagreed with mean of 4.25 and standard deviation of 1.022 There is increased monitoring activities in firms having more gender diversity in their boards 60% of respondents agreed 36% disagreed while 4% neither agreed nor disagreed with mean of 4.16 and standard deviation of 1.013

4.2.3 To examine the effect of CEO duality on the financial performance of microfinance institutions in Rwanda

his objective was analysed by using primary database on individual perception and secondary data based on probability testing. The respondents were asked to select the rate statement on the effect of CEO duality on financial performance of Inkingi. The Likert-type scale was used to rate their responses on a 5– point scale ranging from 5 = Strongly Agree to 1 = Strongly Disagree

Table 4: CEO duality o and financial performance of microfinance institutions in Rwanda

Statement on effect of CEO duality on financial performance of Inking microfinance.	% Strongly agree	% Agree	% Un certain	% Disagree	% Strongly disagree	Mean	SD
CEO duality brings unity of command in organization and is beneficial	60.1	25.9	14.0	-	-	4.87	1.071
When roles of CEO and chairman of the board are merged, then the CEOs have more power and freedom in decision making which could lead to more risky decision	7.0	64.2	17.8	3.1	7.9	4.57	1.062
CEO has been linked with worse financial and social performance	7.0	37.1	33.9	22.0	-	3.55	1.077
Board members and the staff of microfinance the procedure of making decision in inking microfinance ltd is clear and understandable	-	58.2	6.8	18.0	17.0	4.65	1.045
decisions making process of MFI is in the hand of the top management and board members by working together.	7.0	47.1	7.9	4.0	34.0	4.044	1.073

Source: primary data (2022)

On statement that CEO duality brings unity of command in organization and is beneficial 60.1% of respondents strongly agreed 25.9% agreed 14.0% neither agreed nor disagreed on statement that CEO duality brings unity of command in organization and is beneficial with mean of 4.87 and standard deviation of 1.071. The study further found that 7.0 % of respondents strongly agreed 64.2% agreed 17.8 % neither agreed nor disagreed 3.1% disagreed while 7.9% strongly disagreed that When roles of CEO and chairman of the board are merged, then the CEOs have more power and freedom in decision making which could lead to riskier decision mean of 4.57 and standard deviation of 1.062. On statement that CEO has been linked with worse financial and social performance7.0 % of respondents agreed strongly agreed 37.1% agreed 33.9 neither agreed nor disagreed 22.0 dis agreed with mean of 3.55 and standard deviation of 1.077. On board members and the staff of microfinance the procedure of making decision in inking microfinance ltd is clear and understandable 58.2% of respondents strongly agreed 6.8% agreed 18.0 % neither agreed nor disagreed 17.0 disagreed with mean of 4.65 and standard deviation of 1.045.

On statement decisions making process of MFI is in the hand of the top management and board members by working together 54.1 % of respondents agreed while 38% disagreed with mean of 4.044 and standard deviation of 1.073. Inkingi microfinance ltd is in the hand of the top management and board members by working together. Based on the views from the board members and the staff of microfinance the procedure of making decision in inking microfinance ltd is clear and understandable, some decisions are taken by board members such as increasing the salary of the employees, increasing the market value of shares, decision on dividends. On another hand some decisions that should be implemented in short term are taken by the top management such as day to day activities including solving the problems of the clients, managing the employees. This is a very important point because each organ is responsible for its attributions then after the top management has to prepare and to provide a report about the situation of the microfinance because not all the time board members are available at the head office. The Board's role is to oversee the management and governance of the Company and to monitor senior management's performance. The Chief Executive who is on the top of microfinance is responsible for the day to day management of the business, in line with the strategy and long-term objectives approved by the Board. The Chief Executive may make decisions in all matters affecting the operations, performance and strategy of the Group's businesses, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees, executive committees or subsidiary company boards. The magnitude effect of Board size towards financial performance was obtained by carrying out regression analysis found in probability values testing

4.2.4 Financial performance of MFI

his objective was analysed by using primary database on individual perception and secondary data based on probability testing. The respondents were asked to select the rate statement on the financial performance of Inkingi. The Likert-type scale was used to rate their responses on a 5–point scale ranging from 5 = Strongly Agree to 1 = Strongly Disagree

Table 5: financial performance of microfinance institutions in Rwanda

Statement on effect of financial performance of Inking microfinance.	**Strongly agree** %	**Agree** %	**Un certain** %	**Disagree** %	**Strongly disagree** %	**Mean**	**SD**
There is Increase in profitability due to good governance in this microfinance institutions	7.0	37.1	33.9	22.0	-	3.55	1.077
ROA ratio for this microfinance institutions is positive	4.1	67.9	15.0	9.0	4.0	4.05	1.132
There is Increase in clients due to good governance in this microfinance institutions	31.0	37.3.0	6.7	19.0	6.0	4.25	1.022

Source: primary data (2022)

According to Table 5, Majority of respondent agreed that.70 % of respondents agreed strongly agreed 37.1% agreed 33.9 neither agreed nor disagreed 22.0 dis agreed with mean of 3.55 and standard deviation of 1.077 that there is increase in profitability due to good governance in this microfinance institutions. The study further found that 4.1 % of respondents agreed strongly agreed 67.9% agreed 15 neither agreed nor disagreed 9% disagreed while disagreed 6% strongly disagreed with mean of 4.05 and standard deviation of 1.022 that ROA ratio for this microfinance institutions is positive ROA ratio for this microfinance institutions is positive The study further found that 31 % of respondents agreed strongly agreed 37.3% agreed 6.7% neither agreed nor disagreed 19% disagreed while disagreed 6 % strongly disagreed with mean of 4.25 and standard deviation of 1.022. Assessing the challenges faced by the board members in governance process. The respondents were requested to mention some challenges faced bythe members of board in their day-to-day activities in Microfinance. Their answers about these questions demonstrate that board members do lack enough time to meet for unexpected circumstances.

Table 6: Return on assets for the years from 2018 to 2021

	Year 2018	Year 2019	Year 2020	Year 2021
Net profit	2150000	2180000	23,30000	2740000000
Average assets	16500000	168,60000	2140000	24885000
ROA	$\frac{21,50000}{165,000,00}$ X100 = 12%	$\frac{21800000}{168,600,00000} X100 = 12\%$	$\frac{23,30000}{214,000,00000}$ X100 = 10%	$\frac{27,40000}{248,85000}$ X100 = 11%

Source: Secondary Data, 2021

Referring to the Table 6, it is noted that in company listed RSE, every RWF1 in assets generated 12%, 12%, 12%, 10% and 11% in profits in the years from 2018 to 2021 it is noted that from the year 2018 to 2021 ROA gradually decreased. Therefore, as ROA shows how the market share, customer loyalty, new customer attraction, customer satisfaction, profitability is being maintained by an institution

4.3 Inferential Statistics

4.3.1 Correlation Analysis

The results of the correlation analysis of corporate governance practices and the financial performance of Rwandan microfinance institutions is summarized in Table 7

Table 7: Correlation Analysis of corporate governance practices and the financial performance of Rwandan microfinance institutions

Variable		**ROA**	**Board size**	**CEO Duality**	**Gender diversity**
ROA	Pearson Correlation	1.000			
	Sig. (2-tailed)	0.000			
	N	46			
Board size	Pearson Correlation	0.810**	1000		
	Sig. (2-tailed)	0.000	0.000		
	N	46	46		
CEO Duality	Pearson Correlation	0.706	-0.751	1.000	
	Sig. (2-tailed)	0.004	0.002		
	N	46	46	46	
Gender diversity	Pearson Correlation	0.431	0.689	0.859	1.000
	Sig. (2-tailed)	0.001	0.004	0.00	
	N	46	46	46	46
Firm size	Pearson Correlation	0.623	0.0345	0.906	0.009
	Sig. (2-tailed)	0.003	0.001	0.002	0.000
	46	46	46	46	46

Source: primary data (2022)

The correlation between board size, CEO duality has strong positive correlation based on association (r= 0.810, p< 0.00 and r= 00.706, p< 0.04 with financial performance of Rwandan microfinance institutions respectively. Firm size has moderate positive correlation based on association (r= 0.623, p< 0.003 with financial performance of Rwandan microfinance institutions while Gender diversity strong had weak positive correlation based on association (r= 0.431, p< 0.00) with financial performance of Rwandan microfinance institutions

4.3.2 Regression Analysis

The ANOVA results are presented in Table 8

Table 8: ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	0.498	4	0.135	4.010	.002[b]
	Residual	4.192	42	.031		
	Total	46.690	46			

a. Dependent Variable: the financial performance of Rwandan microfinance institutions
b. Predictors: (Constant), board size, CEO duality, Gender diversity

Source: Primary data (2021)

The researcher also conducted the analysis of variance to determine the significance of the model. Table 8 shows the overall significance of the predictors in explaining the financial performance of Rwandan microfinance institutions. The model predictors are significant in explaining changes in the financial performance of Rwandan microfinance institutions with a 0.000 level of significance. The researcher was interested in establishing the amount of variance accounted for in model. The model between corporate governance practices and the financial performance of Rwandan microfinance institutions shows that model was significant since the p-value was less than 0.05without the interaction term, F (4, 42) 4.010, p<.002)

Table 9: Regression Model Fitness Results: Coefficient of Determination

Regression Statistics	
R	0.7609
R Square	0.6790
Adjusted R Square	0.6166
Standard Error	0.369

The findings in Table 9 revealed that board size , CEO duality, Gender diversity affect the financial performance of Rwandan microfinance institutions therefore the regression analysis (R2) of 0.6790 means that the findings show strong linear, positive, statistically important and good for performance of Rwandan microfinance institutions because the regression analysis is not less than 0.005The study further reveals that that board size , CEO duality, Gender diversity contribute 67.9% Performance of construction projects 32.1% is contributed by other factor.

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Table 10: Regression Analysis

Dependent Variable	Financial performance (ROA)					
Estimation method	Ordinary least Square (OLS) method: Parameters					
Variables	B	Std. Error	t	Sig.	95% Confidence Interval for B	
					Lower Bound	Upper Bound
Constant	12.667	1.785	7.097	0.006***	6.987	18.346
Board size	1.897	1.596	4.756	0.0057*	0.937	4.729
CEO Duality	1.289	1.011	-2.803	0.068**	-6.05	0.383
Gender diversity	1.695	6.909	3.665	0.755	-0.439	6.228

The result from the above table indicates that $Y_{it} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ becoming

financial performance=12.667+1.897 board size+1.289 CEO duality + 1.695Gender diversity

The interpretation of this is that when board size, CEO duality, Gender diversity are held constant financial performance is 12.667. Unit in board size will lead increase of financial performance with 1.897, while unit of CEO duality will lead increase of financial performance with 1.289 while unit of Gender diversity will lead increase of financial performance with 1.695

5.0 Summary of the Findings

The duties and responsibilities include Fiduciary, strategic, Supervisory, and Management Development of the company. The answer from both respondents and Board members working on behalf of Microfinance confirmed that the decisions making process of Inkingi microfinance ltd is in the hand of the top management and board members by working together. On the side of the views from the board members and the staff of microfinance the procedure of making decision in inking microfinance ltd is clear and understandable in increasing the salary of the employees, increasing the market value of shares as well as decision on dividends. On another hand the tests based on probability values with a reference to secondary data analysis showed that the body size in company is statistically significant at 5% according to its probability value of 0.0758 greater than 0.05 percentage level. The null hypothesis of this objective for non-linkage between board size and financial performance is rejected and postulate that a persistent increase of board size in the company will contribute to the development of the company in different angles like customer loyalty, market share and profitability option according to product line chosen by company.

The view from both respondents highlighted some limitations that prohibits the development of Inking. The mentioned limitation includes difficulties in analyzing financial statement for financial performance of inking microfinance ltd, miss understanding between managers and members of the board, Unqualified members of the board, Personal interests of the members of the board in this study and finally lack of expertise and personal experience towards corporate governance as well as lack enough time to meet for unexpected circumstances. As result of this finding, the mentioned limitations have to be taken into consideration for the development of Inkingi ltd. The management of the company has to consider different ways like including on the board personnel with special skills in financial management, report analysis, as well as persons with keen interest for company development.

Based on both primary and secondary data showed that all key determinants of corporate governance such as board size, board independence, gender diversity, liquidity leverage and firm size have a considerable contribution on financial performance. According to the perception of the respondents, the results showed that corporate governance increases the profitability of the company, customer loyalty as well as extension of product line and services in the company. These perceptions were confirmed by evidences showed by analysis from regression analysis of each variable of corporate governance. The analysis made on this objective showed that, the members of corporate governance have a big contribution on day-to-day operations of the company. Therefore, their tasks and functions have be promoted and developed in order to cater for the company interests.

6.0 Conclusions

From the result of this study on board size seem to provide the same conclusion: a fairly clear negative relationship appears to exist between board size and firm value. Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management. The result of this study indicate that the board size female, firm size and board diversity are significant positive relationship to the dependent variable (financial performance measured by ROA) as presented by their p value of which are less than the conventional probability of 0.05. These results can be attributed to the adoption and implementation of corporate governance practices. This shows that the corporate governance has an effect on the financial performance of microfinance banks in Rwanda as was also confirmed by a great number of respondents. The results of the study show that good corporate governance practices enhance financial performance and when these factors are capitalized, they enhance Inkingi Microfinance value.

7.0 Recommendations

Microfinance banks in Rwanda should embrace corporate governance practices for them to enhance shareholder wealth maximization and profitability. Microfinance institution through their prudential regulations should ensure that microfinance banks follow these regulations which ensure adequate risk management measures are followed not only in writing but in day to day operations of microfinance banks. The regulator should ensure that all corporate governance disclosures as stipulated in the act and Microfinance Regulation (2008) are fully followed, implemented and made in the annual reports. In addition, the regulators should also improve on the mechanisms of ensuring that the corporate governance disclosures in the annual reports are not simply statement of good intentions but are actually implemented at firm level. This will greatly improve the level of corporate governance adoption, implementation and by extension firm performance.

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