THE EFFECTS OF BOARD CHARACTERISTICS ON MICROFINANCE INSTITUTIONS’ SOCIAL PERFORMANCE IN KENYA

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Abstract: With the growing competition of globalization, strategic decision makers have been faced with the competing interests of external and internal stakeholders such as greater diversity in corporate governance, undertaking more investments in corporate social responsibility and maximizing financial performance. As a result, strategic decision makers today must not only increase their financial performance, but also satisfy the increasing expectations of customers, suppliers and society as a whole. The objective of this study was to examine the effects of the board characteristics on the social performance among Kenyan MFIs. It focused on the board size, board terms, board committees, director remuneration, multiple directorship, boards’ skills and experience and the independence of directors. This study adopted positivist approach, deductive approach and explanatory research design. Population of the study consisted of all the MFIs registered by the AMFI as at 31st March 2012. Data was analyzed using quantitative and qualitative methods. Qualitative data was analyzed to yield descriptive, Pearson linear correlation coefficient, one way ANOVA, linear multiple regression and inferential statistics. The major findings of the study are: that a significant negative relation exists between social performance and board size, director remuneration, independence of directors while multiple directorship, existence of board committees are positively related. Length of board terms has no effect on the social performance of an MFI. Overall, the results show that MFIs in Kenya can improve their Social performance by improving on their board composition in line with the Capital Markets Authority guidelines.

Keywords: Social Performance Management Corporate Governance, Mission Drift, Corporate Governance

1.0 Introduction

With the increasing commercialisation approach of MFIs and professionalization of the sector, the focus on social performance which sets apart MFIs from other financial institution is being lost or sometimes taken for granted resulting into a “mission drift” among many MFIs. The governance of an MFI plays a major role in ensuring that the institution keeps to its mission (Ayuso & Argandona, 2007; CERISE, 2005; Guarneri et al, 2011). Good governance is expected to underpin effective and efficient social performance within firms. Good governance refers to a system of people, values, criteria, processes and procedures that ensure that an organisation is managed properly. In addition an organisation is guided towards its mission and vision while ensuring mechanisms are in place and put into practice in order to strike a balance between management and control and meeting the needs of stakeholders. It requires better organisation plans, goals, and strategies that better and fulfils an organisation’s processes more efficiently, consequently making it stronger and more competitive (BBVA Microfinance Foundation, 2011a; Desender, 2009; Gatamah, 2005).

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

Statement of the Problem

While the MFI sector has been growing rapidly and outreach to date is impressive, the industry has faced major crises in various parts of the world. The crises experienced in the MFI sector in Nigeria in 2005, Nicaragua in 2008, India in 2010, Pakistan in 2010, Kolar, 2009 and in Bosnia and Herzegovina in 2009,
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all leading to massive loan default by clients and closure of MFIs has all been blamed on commercialisation of the MFIs (Brook, Lloyd, & Syms, 2011; Tambiah & Geake, 2011). Many scholars have expressed concern that the commercialization of microfinance is leading to an over-preoccupation with profitability at the expense of poverty reduction and other development goals and tend to blame the MFIs’ governance structures (CGAP, 2005; Ayuso & Argandona, 2007; Cull, Demirguc-Kunt, & Morduch, 2007;Beltratti, 2005). Prior studies on governance and social performance have focused on a narrow set of board characteristics and one or two aspects of social performance. There have been calls for more comprehensive theoretical and empirical investigations into the factors that determine an MFI’s social performance (Manderlier, Bacq, Giacomin, & Janssen, 2009;Ioannou & Serafeim, 2010,Hartarska, 2005; Mersland & Strom, 2007). My study differentiates itself by endeavoring to investigate, analyze, document and give recommendations on the effect of board characteristics on the social performance among Kenyan MFIs.

Objectives of the Study

The overall objective of this study is to establish and document the effect of board characteristics on the social performance of Microfinance Institutions in Kenya by seeking to:

1. Establish whether the size of the board of directors’ influence an MFI’s social performance.
2. Evaluate whether the length of board members’ terms affects the social performance of MFIs
3. Examine whether the directors’ remuneration influences its social performance.
4. Investigate the effect of multiple directorships on the social performance of an MFI.
5. Ascertain whether the involvement of independent directors in an MFI’s board of directors affects its social performance.
6. Assess whether the number of board committees affect the social performance in MFIs.

2.0 Literature Review

Board Characteristics

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

Empirically, there is strong evidence that board characteristics predict firm performance. Zheka, (2006) finds strong empirical support for a positive causal relationship between board quality and enterprise performance. This means that indeed organizations would benefit in terms of performance from raising their standard of board’s characteristics. However, Manderlier et al’s (2009) study on nine board mechanisms using a data set of 59 MFIs from five Asian countries, finds that not all affect performance and that none of the nine governance mechanisms seem to be an appropriate tool to enlarge the outreach of an institution. This study explores each of the named characteristic’s effect on social performance.

Board size

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

Agency theorist argues that in order to protect the principals interest, the board of director must assume an effective oversight function and this should determine the size of the board (Brennan, 2010). The resource dependence theory views the board members as a connection to external resources and thus advocate for larger boards while the stakeholder theory advocates for a more inclusive board which may end up being relatively larger (Tembo, Determinants of social performance of Microfinance Institutions in Kenya., 2011; Beasley, 2005). Organization psychology however suggests that as the size of a group increases communication and coordination problems increase leading to a poor group control (Sahin, Basfirinci, & Ozsali, 2011). This would negate the spirit of stakeholder participation as suggested by stakeholder theory. The board size should thus be optimum to enable the board to effectively deliver their mandate.

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

Board term describes the tenure of board members. Establishing a limit on the term of office for directors contributes to the institutions good governance. Limiting the term of office encourages rotations and allows directors who do not show the expected level of performance to be replaced more easily. CMA, (2002) recommends a three year term for all directors except the managing director. To preserve institutional memory and accumulated experience and to ensure that member rotation does not affect the board’s cohesion as a group, renewable terms of office of three to four years should be established to allow a small part of the board to be substituted each year. Jacobs, Mbeba, and Harrington (2007) argue that boards of MFIs should regularly examine the performance of individual members, the size of their board, the skills on the board and potential needs for adding to the board or rotating existing members.

Board term and term limits are essential for effective governance and ensure the democratic participation of a broad range of members. The average among microfinance association ranges from two to four years (Hattel et al, 2010). In setting terms, the board must strike a balance between a tenure that is long enough to allow members to develop expertise that results in substantial contributions and to provide continuity of policy and practice, yet short enough to secure constant freshness of view point (Cherono, 2008; Donnelly & Mulcahy, 2008).

Villiers, Naiker, and Staden (2009) argue from their study that coercing directors into retirement results in waste of talent and experience. Similarly, Zheka,( 2006) suggest that extended tenure enhances the willingness of directors to expend effort towards company goals. Directors with greater tenure have acquired more knowledge about a firm and its business environment and this should improve their ability to effectively monitor (Villiers, Naiker, & Staden, 2009). In support Beasley (2005), Yang and Krishna (2005), and Chhaochharia and Grintesin (2007), find a positive relationship between increased director tenure and financial reporting quality. Further, Villiers, Naiker, and Staden, (2009) show that firms with longer tenured directors are less likely to be the subject of hostile takeover bids. However other studies point out that managers may be in a better position to influence director opinions the longer they know them (Wu, Lin, Lin, & Lai, 2009). Webb (2005) shows that the participation of longer tenured directors in compensation decisions is associated with higher pay for the CEO, suggesting that longer tenured directors are more likely to make decisions in favour of the management. This line of argument suggests that the director tenure would be negatively related to effective monitoring. This study
will examine the relationship between tenure and firm social performance without predicting the direction of their relationship.

Board Committees

The board can set up the committees it deems necessary to help it perform its duties and assist it in matters that fall under their specific area of competence. The committees must be set up and adapted in accordance with the needs. The Board establishes the number of committees, their names and responsibilities, and can also appoint or remove their members from office and appoint or remove their respective chairmen from office (Aras & Crowther, 2007).

The committees allow boards to make more effective use of their time by allowing board representatives to work on specific issues, determined by their skills, or interest (Hattel, Henriquez, Morgan, & D’Onofrio, 2010; Jacobs, Mbeba, & Harrington, 2007; BBV Microfinance Foundation, 2011b). Sahin, Basfirinci, and Ozsalih (2011) and Cherono (2008) concur that effective use of committees can improve the quality and efficiency of the board and add that to be effective, their work, role, responsibilities and mandates must be clearly defined. The argument for the formation of board committees is supported by the resource dependency theory which views them as sources of additional resources.

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

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

Director Remuneration.

In general, MFI board members are volunteers and do not receive honorarium for their services. More commonly, board members are reimbursed for travel and other expenses related to carrying out their duties. In an international sample of 12 selected MFIs, none pays fees or honoraria to their boards (Hattel, Henriquez, Morgan, & D’Onofrio, 2010). MFIs with a strong sense of mission may choose not to pay compensation if they feel that voluntary services by directors aligns with the institution’s social commitment (Jacobs, Mbeba, & Harrington, 2007).

BBV Microfinance Foundation (2011b), however, advice that although many MFIs board members do not receive remuneration for their work, it is important to remember that often symbolic remuneration could help to increase the board’s level of commitment, which is essential for good governance. Compensation is important to help attract skilled people to the board who will be resourceful as per the resource based theory and to ensure that board members take their responsibilities seriously. It should be high enough to bring desired results without attracting members who wish to make compensation the object of their board service. Compensation can be benchmarked against fees paid by similar organizations in the same country (Jacobs, Mbeba, & Harrington, 2007).

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

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

**Multiple Directorships**

Experience in serving on other boards is an added advantage in building a strong board as it means more exposure, connections to people in different key service and potential funding sources (Hattel, Henriquez, Morgan, & D’Onofrio, 2010). Manderlier et al (2009) agree that appropriate exposure, knowledge and training of the board members can be considered as the three effective mechanisms in MFIs that positively impact their social performance. CMA (2002) limits the number directorship held by one director to five, arguably to be more effective. Manderlier et al (2009) concur with the resource dependence theory that the board through multiple directorships of its members avails the necessary knowledge and experience to address the strategic demands facing the MFIs. Effective microfinance boards consist of directors with a wide range of skills such as social and commercials skills, or strategic and operational capabilities. The reputation hypothesis suggests that directors who hold significant roles in other firms have more reputational capital and are therefore more vigilant in exercising their monitoring responsibilities. Moreover, holding roles in other firm’s results in wider experience and background which should further improve director performance. On the other hand, busyness hypothesis suggest that directors who increasingly hold more responsibilities in other firms become too busy to adequately monitor firm management performance.

Villiers, Naiker, and Staden, (2009) study considers the impact of two measures of board reputation/busyness on social performance. In support of reputation hypothesis, Yang and Krishna, (2005), Mori and Munisi (2009), and Arun and Annim, (2010) found a positive relationship between firm performance and the number of directorship held by directors and firm officers. Zhaka, (2006) reports evidence consistent with the reputation hypothesis by showing that directors in firms prosecuted for environmental violations have fewer multiple directorships. Ioannou and Serafeim’s (2010) study on drivers of corporate social performance found that a board members membership to charitable organizations makes the board and the organization more socially responsible due to exposure on similar activities. However other studies have linked multiple directorships to increased financial statement fraud (Beasley, 2005) and decreased firm value (Fich & Shivdasani, 2006; Jiraporn, Kim, & Davidson, 2008) providing evidence in support of the busyness hypothesis. While no prior study has focused on the impact of having more directors who have multiple directorship in other MFIs on its social performance, this study posits that these directors also have the ability to make significant contributions by virtue of their wide exposure.

**Board Composition**

The temptation is great among young MFIs dominated by founding entrepreneurs for the founder to select board members on the basis of friendship or prior relationship. While this practice may provide support and counsel to the founder and a ready-made group of backers for new venture it leads to management dominated organizations lacking important checks and balances (Aras & Crowther, 2007; Dunn & Sainty, 2009). Board members whose primary loyalty is to the CEO may hesitate to challenge him or her or demand accountability, particularly if such members lack technical qualifications (Jacobs, Mbeba, & Harrington, 2007). The use of independent directors should be a priority for improving governance among MFIs. This practice is particularly important for committees such as the compensation and audit committees. Various governance guidelines recommend a balance between dependent and independent
directors. The CMA, (2002) and (BBVA Microfinance Foundation, 2011a) recommend that the board should include at least one third of independent directors. The stewardship theory suggests that a significant proportion of dependent directors can better understand not only the business processes but also the environmental factors. This contradicts the agency theory and the resource dependence theory both of which argue that a large number of independent board members may contribute to the decision process, enhance the firm’s image and better performance (Sahin, Basfirinci, & Ozsalih, 2011; Dunn & Sainty, 2009).

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

Social Performance

The microfinance sector has largely grown over the years riding on its dual mission, of meeting the social and financial objectives. Social performance for an MFI involves achieving their social mission, it also involves an MFI’s continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of their clients, the workforce and their families as well as the local community and society at large. Social performance management is the process of aligning an MFI’s strategic planning and operational systems to an understanding of client vulnerability and poverty (Campion, Linder, & Knotts, 2008; Heenetigala, 2011; Rhyne, 2012).

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

To evaluate social performance it is necessary to determine the constituents of good social performance using performance indicators which are measurable, relevant and important. Prior studies on social performance have mainly focused on the relationship between the financial and social performance of MFIs (Sahin, Basfirinci, & Ozsalih, 2011; Olayinka, 2010). Various studies on social performance have used different measures. Manderlier et al (2009) in their study on the impact of corporate governance mechanism on social performance use the number of active borrowers and the average loan size as a measure for social performance. Galema, Lensink, and Mersland (2009) use the average loan size. Arun and Annim (2010) use outreach to represent social performance while Ruben and Schers (2007) analyse the breadth and depth of outreach. Sahin et al (2011) use a corporate social responsibility index reported by firms in measuring their social performance which is made up of a number of social indicators. The social performance index appears to be more objective. The current study will use the CERISE Social Performance Indicators tool which give a firm’s social performance index using four dimensions, targeting and outreach, appropriateness of products and services, benefits to clients and social responsibility. This measure is more comprehensive as it includes all other separate measures used in prior studies in generating the score.
3.0 Methodology

This study used a survey research design. Since the study was on the effect of board characteristics on social performance of MFIs in Kenya, the sampling frame was obtained from AMFI. Institutions belonging to the banking industry, insurance Industry, Development organizations and Deposit taking Institutions were excluded from the study from the population. This is due to the special regulatory environment that they operate making them more efficient (Ali & Wise, 2009). A sample consisting of members of AMFI was considered a good representation of the industry since AMFI is the umbrella body of all the MFIs in Kenya duly registered (AMFI, 2012a). A sample of 39 MFIs registered by June 2012 was used.

Information about the board characteristics was collected for the MFIs chief Executive officer using a self administered questionnaire. The Social performance score was obtained using a CERISE tool based interview schedule. The interview schedule was administered to each of the MFIs operations managers as they were best suited to handle the SPM issues as they work closely with the filed staff.

3.1 Dependent and Independent variables

The Dependent variable of the study was the social performance score represented by SPM score which was a percentage based on the CERISE tool. The independent variables were board size, board tenure, number of board committees, Director Remuneration, number of multiple directorship positions held, and percentage of independent director on the board.

3.2 Statistical Analysis

For the purpose of empirical analysis, this study used descriptive statistics, the independent sample t-test and the logistic linear regression as the underlying statistical tests. The regression analysis was performed on the dependent variable SPM to test its relationship between the independent variables. The regression model utilized to tests the relationship as follows.

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

Where:
- \(P(Y=1)\) is the probability that an MFI’s have a high social performance score
- \(\beta_0\) is the intercept coefficients
- \(\beta_1…5\) are the coefficients of each of the independent variables
- \(X_1\) is the board size
- \(X_2\) is the board tenure/terms
- \(X_3\) number of board committees
- \(X_4\) Amount of director remuneration

![Board of Directors’ Characteristics](image)

![Social Performance of an MFI](image)

Figure 1: The Conceptual Framework

Independent variables

- Board size
- Board terms
- Board committees
- Director remuneration
- Multiple directorship
- Independence of directors
4. Data Analysis and Presentation of results

The results of the descriptive statistics, the independent t-test and the logistic regression are presented in the following paragraphs.

4.1 Descriptive statistics

This section of the study is devoted to presenting the results of the analysis performed on the data collected and to answer the research questions. Table 4.1 shows the descriptive statistics of all the variables for the study. The overall response rate was 97% as a total of 38 MFIs completed the survey out of the targeted 39. The mean SPM score was 52.5 while the average board size was 9 members. The average board tenure was 8 years while the remuneration was Kshs 3.5 million. On average, each MFI had 3 board committees. For the 38 MFI 33% of their board members were independent directors and all had at least eight of their directors holding directorship positions in other organizations.

4.2 The independent samples t-test

Board size
Comparison of the mean difference in the board size for MFI with SPI score greater than 50% (High SPI score) with those with less than 50% (Low SPI score) revealed that the two were different and that the difference was significant (t=-1.981, p<0.05) as shown in Table 2. This means that on average MFIs with a high SPI score have larger boards compared to firms with a low SPI scores. This further implies that the board size of an MFI has significant influence on the SPI score of an MFI.

Board Terms
An independent samples t-test analysis of the means of MFIs with high SPI score and those with low SPI score revealed that the difference between the means was not significant (t = -1.257, p>0.05) as shown in Table 2 below. This indicated that there is no significant change in the social performance score with change in the board tenure.

Board committees
An analysis of the mean of the number of board committees established by MFIs with high and low social performance reported a significant difference (t=-7.1, p<0.05). This implies that as change in the number of committees in established by an MFI will lead to a significant change in its social performance score. To establish the direction the relations a plot of the means was done.

Directors remuneration
Results of the independent sample t-test for means of MFIs with high and low SPI score show that there is a slight difference (of 0.03) between the means (Table 2). The mean for MFIs with a high SPI score is almost equal to that of those with a low SPI score. The means that on average, SPI scores for MFIs which pay higher amounts of director remuneration is not higher than for those that pay less. The difference in the means is also statistically not significant (t= 0.202, p<.05).

Multiple Directorships
Comparison of the mean difference in the average number of multiple directorship for MFI with high SPI scores and those Low SPI scores revealed that the two were different and that the difference was significant (t=-3.359, p<0.05) as shown in Table 2. This means that on average MFIs with a high SPI score have more of their directors serving in other boards compared to firms with a low SPI scores. This further implies that the number of multiple directorships held by the members of the board of an MFI has significant influence on the SPI score of an MFI. The results confirm the positive relationship between multiple directorship and the SPI score from the theoretical and empirical literature.
Independence of Directors

A comparison of the difference in the average number of independent directors for MFI with high SPI scores and those Low SPI scores revealed that the two were different and that the difference was significant ($t=-2.074, p < 0.05$) as shown in Table 2. This means that on average MFIs with a high SPI score have more of their directors being independent compared to firms with a low SPI scores. This further implies that the number of independent directors held by the members of the board of an MFI has significant influence on the SPI score of an MFI.

Board characteristics

An overall board characteristic composite score was obtained by weighting each of the indicators discussed above (board size, board terms, board committees, director remuneration, multiple directorship, board skills and experience and independence of directors). The score was subjected to an independent sample t-test and a plot of the means graphically displayed. The results from the t-test as reported in Table 2, show that means of the composite board characteristics score of MFIs with a high SPI score differ from that of those with a low SPI score. The results further revealed that board characteristics and an MFIs SPI score are positively related in a statistically significant way. These results imply that as the overall the board characteristics score improves, there is an improvement of the SPI score.

4.3 Logistic Regression Analysis

The SPI scores obtained did not meet the normality test implying that the data was not suitable for parametric analysis. The consolidated board characteristics score was subject to a logistic regression analysis. The odds ratio of 0.907 for board characteristics was less than 1 as shown on table 3. This means that for every unit in the board characteristics composite score, MFIs were 0.96 time less likely to report a high SPI score controlling for other factors in the model.

5.0 Conclusion

The aim of this study was to examine the effect of characteristics on an MFIs social performance score. In achieving this aim, the study obtained data on variables which were believed to have relationship with SPM from theoretical and empirical literature review. These variables included board size, board terms, board committees, director remuneration, multiple directorship, and percentage of independent directors. On the basis of these variables, the research questions were formulated.

Results from the study indicate that there is strong positive association between board size and SPM. This is consistent with the finding of (Tembo, 2011). The study reveals a positive association between independent director, board committees and an MFIs' social performance. The result is consistent with previous studies (Abdullah, 2004; Heentigala, 2011; Sahin, Basfirinci, & Ozsali, 2011; Bermig, 2010). A negative association was observed between SPM and the Director remuneration. The study revealed that there was no effect of the length of the board terms on the MFI’s SPM. The results indicate that large board size performs effectively. There is also evidence that a higher proportion of independent directors on the board have a positive impact on an MFIs social performance. However the effect of director’s remuneration and the number of board committees on SPM is negative.

Therefore this study recommends that large board sizes should be encouraged. The should be more emphasis in the MFI boards on inclusion of more independent director. This study may be improved by including more variables that may affect the social performance of an MFIs especially one based on inclusion of stakeholders on the board based on the stakeholder theory.
Table 1
Descriptive Statistics

<table>
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<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
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<tr>
<td>Board Size</td>
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<td>6</td>
<td>8.5</td>
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<tr>
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<td>Directors' Remuneration</td>
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<td>5.00</td>
<td>3.5M</td>
<td>1.49156</td>
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<tr>
<td>Percentage of Independent Directors</td>
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<td>5.00</td>
<td>33%</td>
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<tr>
<td>BDCOMM1NO</td>
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<td>1.00</td>
<td>4.00</td>
<td>3</td>
<td>.71212</td>
</tr>
<tr>
<td>Multiple Directors Total</td>
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<td>18.00</td>
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<td>SPM Score</td>
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<td>10.00</td>
<td>52.5%</td>
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<tr>
<td>Valid N (listwise)</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Independent sample t-test for board characteristics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Low SPI score</th>
<th>High SPI score</th>
<th>t-statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size</td>
<td>2.98</td>
<td>3.15</td>
<td>-1.981</td>
<td>0.038</td>
</tr>
<tr>
<td>Board tenure</td>
<td>3.06</td>
<td>3.42</td>
<td>-1.257</td>
<td>0.211</td>
</tr>
<tr>
<td>No. Of committees</td>
<td>1.74</td>
<td>2.77</td>
<td>-7.1</td>
<td>0.0000</td>
</tr>
<tr>
<td>Board remuneration</td>
<td>1.31</td>
<td>1.34</td>
<td>0.202</td>
<td>0.84</td>
</tr>
<tr>
<td>Multiple directorship</td>
<td>1.7</td>
<td>2.45</td>
<td>-3.359</td>
<td>0.001</td>
</tr>
<tr>
<td>Independence of directors</td>
<td>7.23</td>
<td>8.36</td>
<td>-2.074</td>
<td>0.04</td>
</tr>
<tr>
<td>Board Characteristics</td>
<td>24.99</td>
<td>27.75</td>
<td>-2.177</td>
<td>0.032</td>
</tr>
</tbody>
</table>

Table 3: Variables in the Equation

<table>
<thead>
<tr>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOD CHR</td>
<td>-0.097</td>
<td>0.037</td>
<td>6.931</td>
<td>1</td>
<td>0.008</td>
</tr>
</tbody>
</table>

REFERENCES


Gathai, E. W., Ngugi, J. K., & Waithaka, S. M. (n.d.).


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