

Relationship Between Corporate Governance and Financial Performance of MFIs in Kenya

Sila Florence Ndinda^{1*}, Benjamin Ombok¹, Phillip Adoyo¹

¹Department of Accounting and Finance, Maseno University, Kenya

*Corresponding Author Email: silaflossy@gmail.com

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Abstract

The purpose of the study was to establish the relationship between corporate governance, proxied by the compensation package provided to members of the board of directors, and the financial performance of Micro Finance Institutions (MFIs) in Kenya for the period 2015 to 2022, during which the trend revealed inconsistencies, with a major decline in years between 2015 and 2022. The study employed a correlational research design within a quantitative framework. The target population comprised the 14 deposit-taking MFIs licensed by the Central Bank of Kenya during the study period. However, only 12 institutions had complete audited financial statements covering the entire period from 2015 to 2022. Therefore, all 12 eligible institutions were included in the analysis, while the remaining two were excluded because of incomplete data. Data were analysed using STATA statistical software. Regression results have indicated a significant negative relationship between corporate governance and financial performance ($\beta = -15.497$, $p = 0.000$). The null hypothesis was rejected, indicating that corporate governance has a statistically significant and negative effect on the financial performance of MFIs in Kenya. Specifically, a one-unit increase in board remuneration was associated with a 15.497-unit decline in Return on Assets, suggesting that excessive director compensation reduces rather than enhances financial performance in this context. This may be attributed to the persistent losses experienced by Kenyan deposit-taking MFIs during much of the study period, where higher board remuneration increased governance costs and consumed financial resources that could otherwise have been invested in lending operations, technological innovation, branch expansion, risk management systems, staff development, and customer acquisition. The adjusted coefficient of determination (Adjusted $R^2 = 0.308739$) indicated that board remuneration explained approximately 30.87% of the variation in financial performance among the sampled MFIs. The study concludes that board remuneration constitutes an important corporate governance variable in explaining financial performance among deposit-taking MFIs in Kenya. The study recommends that MFI management should review board remuneration structures to ensure that directors' compensation is aligned with institutional financial performance and long-term sustainability, since excessive board remuneration was found to have a significant negative effect on financial performance.

Keywords: *Corporate governance, financial performance, Board Remuneration*

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1. Introduction

The global microfinance sector exhibits significant regional variations in performance and operational scale (citation). According to the Convergence Report, South Asia leads in customer numbers, serving approximately 85 million borrowers, with India, Bangladesh, and Vietnam accounting for the largest client bases. In contrast, Latin America dominates in terms of loan portfolio size (US\$48.3 billion), followed by South Asia (US\$36.8 billion). However, performance metrics reveal unsatisfactory trends across regions. Portfolio quality declined significantly between 2010 and 2020 compared to the previous decade (2000–2010), while the number of borrowers decreased during the same period. The average annual growth rate of customer numbers fell from 20% between 2000 and 2010 to merely 7% in 2020, indicating a substantial slowdown in sector expansion (Convergence Report, 2020). Regional performance variations reflect differences in institutional characteristics, regulatory frameworks, and governance structures. Pakistani MFIs, for instance, have demonstrated remarkable resilience, with microfinance providers issuing 68% (6.9 million) of the 10.20 million active loans from regulated financial institutions, despite political instability and economic challenges (Pakistan Microfinance Network, 2019; Ahmad et al., 2019). This success has been attributed largely to strong corporate governance practices, including specific performance standards and enhanced governance guidelines established by the Pakistan Credit Rating Agency (PACRA) for non-bank microfinance companies (Javed & Khan, 2023).

In Africa, MFIs have played instrumental roles in expanding financial inclusion and access to financial services for underserved populations. The Consultative Group to Assist the Poor (CGAP, 2019) reported that the average return on assets (ROA) for African MFIs reached 1.5% in 2018, exceeding the global average of 0.9%, suggesting progress in achieving social missions while maintaining financial viability (Mboe & Kavale, 2023). However, the Sub-Saharan African region has witnessed an increase in MFI failures. In May 2019, Ghana's Central Bank revoked licenses of 347 microfinance institutions, representing 72% of the country's MFI sector, citing insolvency and dormancy (Korankye, 2020). Governance challenges compound performance difficulties across the African region. Zimbabwe's MFI sector collapsed from a peak of 1,600 institutions in 2003 to merely 130 operational entities, reflecting systemic governance and regulatory failures (Masuka, 2019). Ugandan MFIs demonstrate prevalent governance deficiencies, with Ssekiziyivu et al. (2018) documenting ineffective boards, incomplete board committees, inconsistent respect for shareholder rights, and common accountability failures. The study identified critical governance challenges, including inexperienced boards of directors, limited individual influence, and poor board-management relations. Fundamental governance principles, including the presence of functioning boards, the separation of the chairman and CEO roles, and the protection of shareholder rights, remain inadequately implemented across many sectors of African MFIs.

Microfinance institutions occupy a strategic position in Kenya's financial ecosystem and broader economic development trajectory (Kariuki, & Muriithi, 2024). According to the Kenya Bureau of Statistics' Economic Survey Report 2021, MFIs contribute approximately 40% of GDP by providing financial services to micro, small, and medium enterprises (MSMEs), which in turn generate 80% of informal-sector employment. The Central Bank of Kenya (CBK) has strengthened regulation through microfinance-specific supervisory frameworks, with fourteen deposit-taking MFIs currently licensed to serve approximately 6.5 million customers. Despite the strategic importance of MFIs and increased regulatory attention, the sector has continued

to experience sustained financial deterioration. According to the CBK Annual Report 2023/24, total assets declined from KSh 69.7 billion in June 2023 to KSh 62.8 billion in June 2024, while gross non-performing loans increased from KSh 12.1 billion to KSh 12.3 billion. Customer deposits declined by 4.2%, the core capital to risk-weighted assets ratio fell below the statutory minimum requirement, and total losses before tax increased to KSh 2.2 billion compared to KSh 0.9 billion recorded in 2023 (CBK, 2024). The continued decline in financial performance despite regulatory reforms raises concerns about the effectiveness of corporate governance practices in enhancing MFIs' financial performance in Kenya, necessitating an empirical investigation.

1.1 Problem Statement

Microfinance institutions (MFIs) in Kenya serve as vital intermediaries in the financial system by providing credit and savings services to approximately 6.5 million customers, predominantly in the micro and small enterprise sector, which contributes approximately 40% of GDP and employs a significant portion of the informal sector workforce. Owing to this strategic importance, the Central Bank of Kenya (CBK) has strengthened prudential regulation and governance oversight of MFIs to enhance their stability, sustainability, and contribution to the country's financial inclusion agenda under Vision 2030. Despite these regulatory interventions and the sector's economic significance, Kenyan MFIs have continued to experience persistent financial performance challenges, as demonstrated by declining profitability, rising non-performing loans, weakening capital adequacy, and sustained operational losses. Between 2015 and 2022, the sector experienced persistent financial distress, with combined losses increasing from approximately KSh 377 million in 2016 to KSh 1.4 billion in 2018, and losses of KSh 980 million were still reported in 2022. The persistence of these losses threatens the sustainability of MFIs and undermines their capacity to serve their primary role.

1.2 Objective of the Study

- i. Establish the relationship between corporate governance and financial performance of MFIs in Kenya

1.3 Research Hypothesis

H₀₁: There is no significant relationship between corporate governance and financial performance of MFIs in Kenya

2. Literature Review

2.1 Theoretical Review

Agency cost theory, originated by Jensen and Meckling (1976) and extended by Fama and Jensen (1983), Grossman and Hart (1986), and Jensen (1986), provides the primary theoretical framework for this study. The theory posits that the separation of ownership and management creates an agency relationship in which owners (principals) delegate decision-making authority to managers (agents) who may not share owners' wealth-maximization objectives. This divergence of interests, combined with information asymmetry favoring managers, generates agency costs comprising monitoring expenditures by principals, bonding expenditures by agents to guarantee they will not harm principals, and residual losses from decisions that fail to maximize principal wealth (Jensen & Meckling, 1976). The theory identifies mechanisms to mitigate agency costs, each of which is directly relevant to this study: performance-based

compensation creates incentives for managers to maximize firm value, as their personal wealth becomes tied to organizational performance (Jensen & Murphy, 1990). This proposition grounds the operationalization of corporate governance through board remuneration in this study. When compensation contracts are well-designed, boards are incentivized to monitor management effectively and pursue value-maximizing strategies. When contracts are poorly designed or influenced by managerial power, compensation becomes a mechanism for rent extraction, reducing institutional performance (Bebchuk & Fried, 2004; Core et al., 1999).

Ownership concentration reduces agency costs by providing large shareholders with both the incentive and the power to monitor management (Shleifer & Vishny, 1986). However, this mechanism introduces principal-principal conflicts between controlling shareholders and minority owners when dominant shareholders prioritize private benefits of control over firm-wide value maximization (La Porta et al., 1999). The operationalization of ownership structure through foreign representation in this study captures a specific dimension of ownership identity, one where information asymmetry between foreign and local stakeholders may simultaneously weaken monitoring capacity and introduce governance inefficiencies.

Financial leverage as a disciplining device constrains managerial discretion by creating contractual obligations to debt holders, reducing free cash flow available for discretionary expenditures, and increasing the bankruptcy risk that motivates managers to prioritize financial performance (Jensen, 1986; Harris & Raviv, 1991; Grossman & Hart, 1982). This mechanism is theoretically central to the study's fourth objective: it provides the agency-theoretic foundation for treating financial gearing as a moderating variable that conditions the effectiveness of other governance mechanisms.

MFIs' heavy reliance on debt financing (with documented leverage ratios exceeding 70% in many Kenyan MFIs) creates conditions in which agency theory's leverage-as-discipline mechanism should operate powerfully. High leverage increases bankruptcy risk, forcing managers to prioritize financial performance over other objectives. Debt holders' monitoring complements shareholder oversight, potentially strengthening the effectiveness of governance. However, excessive leverage may constrain strategic flexibility so severely that even well-governed MFIs underperform, suggesting non-linear leverage effects requiring empirical investigation.

Agency theory provides the theoretical foundation for conceptualizing financial gearing as a moderating variable, the study's primary theoretical contribution. If debt serves as an additional monitoring mechanism (Jensen, 1986), then gearing should interact with other governance mechanisms to influence performance. Specifically, gearing may enhance the effectiveness of board remuneration by constraining managers' ability to extract rents, or leverage may condition the effect of ownership concentration on performance by altering the monitoring intensity required of shareholders. These interaction effects represent empirically testable implications of agency theory that remain unexamined in MFI contexts.

Further, agency theory emphasizes monitoring and incentive alignment but provides limited guidance on when each mechanism proves most effective. The theory does not specify optimal compensation levels, ideal ownership concentration thresholds, or leverage ratios beyond general principles. Moreover, mechanisms may interact in complex ways: high leverage may enhance or substitute for shareholder monitoring, depending on the institutional context, debt-holder sophistication, and enforcement mechanisms. These interaction effects, the focus of this

study's moderation hypotheses, represent relatively unexplored territory within agency theory requiring empirical investigation.

Agency theory is most applicable to commercialized MFIs that pursue profit maximization alongside social objectives, operate under regulatory supervision, and are held accountable by external shareholders for financial returns. The theory proves less applicable to pure NGO-type MFIs where donor governance substitutes for shareholder monitoring and social impact metrics dominate financial performance. The Kenyan MFI comprising CBK-licensed deposit-taking institutions, the present study area represents predominantly commercialized entities where agency theory should apply strongly

2.2 Empirical Review

Recent empirical studies relate wealth maximization to return on assets. Hassan and Giouvriss (2022) relate accounting performance measures to profitability and wealth maximization, establishing that ROA is the most appropriate operational measure of wealth-maximization outcomes for financial institutions because it captures the actual returns generated by asset deployment and reflects the efficiency with which management converts resources into revenue. On the other hand, Wicaksari (2024) asserted that return on assets significantly influences profit growth, confirming that asset-based profitability is not only a contemporaneous measure of institutional performance but also a forward-looking indicator of wealth accumulation capacity. Therefore, there is a clear, empirically supported link between wealth maximization and return on assets, thereby validating the dependent variable's theoretical grounding.

Ozer et al. (2023) examined the relationship between board remuneration and firm performance among 76 non-financial firms listed on the BIST 100 in Turkey during the period 2018–2020. Using panel regression analysis on 210 firm-year observations, the study measured firm performance through ROA, ROE, and EPS. The results showed that board remuneration had a positive and significant relationship with firm performance (ROA ($\beta = 0.008$, $t = 1.89$, $p < 0.05$) and ROE ($\beta = 0.034$, $t = 2.43$, $p < 0.01$). The study recommended future studies to examine financial firms, expand the sample size, and undertake sectoral or regional comparisons. However, the study focused on non-financial firms, excluding the highly regulated financial sector, such as MFIs, in which compensation policies, governance structures, and performance objectives differ substantially.

Abebe et al. (2022) studied the effect of corporate governance on the financial performance of nine insurance companies in Ethiopia using panel data covering the period 2012–2020. The study adopted an explanatory research design and analyzed secondary data using the Random Effects model. The study examined the influence of board remuneration, board size, management soundness, financial disclosure, debt, and dividend policy on financial performance measured by Return on Assets (ROA) and Return on Equity (ROE). The findings showed that board remuneration had positive and statistically significant effects on financial performance (ROA = 0.00201; ROE = 0.01123), board size (ROA = 0.024; ROE = 0.045), management soundness (ROA = 0.1294; ROE = 0.3215), and financial disclosure (ROA = 0.1477; ROE = 0.0135). The study adopted the Random Effects model but did not present the results of the Hausman specification test to justify model selection over the Fixed Effects model. The present study applies the Hausman test to determine the appropriate estimation model.

Barde (2020) investigated the effect of executive compensation and executive share ownership on the financial performance of 14 listed deposit money banks in Nigeria using 168 bank-year observations from 2007 to 2018. The study employed an ex post facto research design and a robust Ordinary Least Squares (OLS) regression analysis. The findings showed that CEO pay had a positive and significant effect on financial performance ($\beta = 9.28$, $t = 2.40$, $p = 0.018$), while executive share ownership also had a positive effect on performance ($\beta = 0.011$, $t = 2.59$, $p = 0.010$). However, compensation paid to the highest-paid director had a significant negative effect on financial performance ($\beta = -1.75$, $t = -3.70$, $p = 0.000$), whereas compensation paid to the chairman had a negative but insignificant effect ($\beta = -7.26$, $t = -1.50$, $p = 0.137$). The study recommended linking CEO compensation to performance, monitoring chairman compensation, and increasing directors' ownership stakes to align their interests with those of shareholders. The study employed OLS regression but did not control for unobserved firm-level heterogeneity, despite examining 14 firms over 12 years.

Ajeigbe and Ganda (2023) conducted a study to investigate the implications of the COVID-19 pandemic on corporate governance, directors' remuneration, and sustainability performance among 42 companies listed on the Johannesburg Stock Exchange in South Africa for the period 2010–2021. The study measured performance using ROA. Using panel data and employing FMOLS and DOLS estimation techniques, the study found that COVID-19-related expenses had a significant negative effect on firm sustainability performance, governance, and directors' remuneration. Specifically, pandemic-related costs, remuneration costs, and debt-to-equity ratio ($\beta = -0.329$, $p < 0.01$) negatively affected performance. The study recommended strengthening remuneration schemes, cash reserves, and IT governance structures to enhance resilience during future crises. The study focused on listed firms in South Africa and was conducted during the COVID-19 pandemic, a period characterized by unprecedented economic disruptions that may have influenced directors' remuneration and firm performance. The findings may be crisis-specific and not generalizable to firms operating under normal business conditions.

Aaron (2013) conducted a study titled "Structuring Board of Directors' Compensation Contracts: An Optimal Incentives Perspective" to examine the relationship between board of directors' compensation structure and subsequent firm performance for 40 Fortune 500 companies in the United States. Data were obtained from proxy statements filed in the EDGAR database. The study adopted regression analysis to examine the relationship between the percentage of performance-based compensation and firm performance, measured using cumulative abnormal returns. The sample consisted of 1,721 directors and 158 firm-year observations over 6-, 12-, 18-, 24-, and 30-month periods. The study found that performance-based compensation had a significant negative coefficient at various performance horizons, including 12 months ($\beta = -0.127$, $p < 0.001$), 18 months ($\beta = -0.194$, $p < 0.001$), 24 months ($\beta = -0.217$, $p < 0.001$), and 30 months ($\beta = -0.295$, $p < 0.001$). The study recommended that firms should design board compensation packages with a balanced mix of cash and performance-based incentives rather than relying excessively on equity-based compensation. The study examined how performance-based board compensation influences future firm performance across multiple time horizons. While the study provided evidence on the predictive effects of remuneration, it did not examine whether board remuneration is associated with contemporaneous financial performance.

Yeboah et al. (2021), in examining corporate governance mechanisms and firm performance (measured by ROA, ROE, EPS, and Market-based Tobin's Q) in Ghanaian listed firms, employing a quantitative research design, using panel data regression analysis, of data collected from annual reports of 38 companies listed on the Ghana Stock Exchange over the period 2006–2018, found that board composition, board size, board meetings, and shareholder concentration positively influenced firm performance, while board committees (board remuneration) had negative effect on performance. However, the existence of board committees, including audit, remuneration, and nomination committees, was negatively associated with firm performance. Although this study focused on the governance role of remuneration committees rather than the actual remuneration received by directors, it provided evidence on whether the existence of remuneration committees influences firm performance. This study did not establish whether board remuneration in itself influences firm performance. Ibrahim et al. (2019), while investigating the relationship between directors' remuneration, board size, and firm performance among Malaysian telecommunication firms, using multiple regression analysis of panel data obtained from five listed companies covering the period 2013-2017, found that directors' remuneration had a significant negative effect on firm performance ($\beta = -0.415$, $p < 0.05$). The study recommended aligning remuneration packages with firm performance and maintaining smaller boards to enhance monitoring effectiveness. This study, however, excluded other sectors of MFIs.

Ruparelia and Njuguna (2016) studied the relationship between board remuneration and financial performance in the Kenyan financial services industry, focusing on commercial banks, insurance companies, and investment companies listed at the Nairobi Securities Exchange from 2003 to 2013. Data were sourced from audited annual financial statements obtained from the NSE and the Capital Markets Authority (CMA). The study adopted a cross-sectional survey design complemented by pooled cross-sectional time-series data analysis. Panel data were drawn from 20 listed financial services companies spanning the 11-year period. Board remuneration was operationalized by director annual fees, while financial performance was measured using the proxies: return on assets (ROA), return on equity (ROE), dividend yield (DY), and earnings per share (EPS). The study found that in the banking sector, board remuneration significantly predicted only dividend yield ($p = 0.013$), while in the insurance sector, significant relationships were observed with ROA ($p = 0.013$) and ROE ($p = 0.036$). In the investment sector, board remuneration showed no significant relationship with any performance measure across all proxies.

Aluoch et al. (2018) studied the relationship between board activities and firm performance among listed firms in Kenya using panel data covering the period 2002–2016. The study utilized 750 firm-year observations and employed a longitudinal panel research design. Correlation analysis and Random Effects (RE) regression models were used to analyze the relationship between board activities (board tenure, board ownership, board tools, board meetings, board committees, committee meetings, and board remuneration) and firm performance measured by ROA and Tobin's Q. The results showed that board remuneration had a positive but statistically insignificant effect on ROA ($\beta = 0.01479$, $p = 0.218$) and Tobin's Q ($\beta = 0.049$, $p = 0.250$). The study concluded that most board activities had insignificant effects on firm performance and recommended that listed firms review and restructure their corporate governance practices by retaining effective board activities and eliminating ineffective ones. The study examined board remuneration as one of several board activity

variables, including board tenure, board ownership, board meetings, board committees, and committee meetings. However, it did not provide a focused analysis of the independent effect of board remuneration on firm performance.

3. Methodology

The study employed a correlational research design within a quantitative framework. The study utilised secondary quantitative panel data obtained from audited annual financial statements, corporate governance disclosures, and supervisory publications of the Central Bank of Kenya. The study was conducted in Kenya and focused on deposit-taking microfinance institutions (DTMs) regulated by the Central Bank of Kenya (CBK). The target population comprised the 14 deposit-taking MFIs licensed by the Central Bank of Kenya during the study period. However, only 12 institutions had complete audited financial statements covering the entire period from 2015 to 2022. Therefore, all 12 eligible institutions were included in the analysis, while the remaining two were excluded because of incomplete data. Data were analysed using STATA statistical software. Descriptive statistics and Pearson correlation analysis were used to summarise the data and examine preliminary associations among variables. Inferential analysis was conducted, and the results were presented using tables and graphical illustrations.

4. Results

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the study variables across the sampled 12 MFIs from 2015 to 2022 (96 observations).

Table 1: Summary of Statistics

	ROAS	BR
Mean	-0.091601	0.005161
Median	-0.024458	0.004114
Maximum	0.049724	0.030612
Minimum	-0.602041	0.000000
Std. Dev.	0.151091	0.005527
Skewness	-1.629767	2.035616
Kurtosis	4.760156	8.375703
Jarque-Bera	54.89083	181.8924
Probability	0.000000	0.000000
Sum	-8.793732	0.495438
Sum Sq. Dev.	2.168693	0.002902
Observations	96	96

Key: ROAS =Return on Assets, BR=Board Remuneration, FR= Foreign Representation, FG =Financial Gearing, CAR=Capital Adequacy Ratio. Source: Field Data, 2025

From Table 1, the financial performance of the sampled microfinance institutions (MFIs) in Kenya, as measured by their return on assets (ROAS), had a mean of -0.091601 with a standard deviation of 0.151091 during the study period. The negative mean confirms that the MFIs were on average loss-making over the study period, consistent with the nine consecutive years of losses documented in Chapter One. The relatively large standard deviation indicates significant heterogeneity in performance across institutions and years.

On the other hand, the corporate governance construct, board remuneration, measured by the ratio of directors' remuneration to total assets (BR), had a mean of 0.005161 with a standard deviation of 0.005527, indicating that directors' remuneration constitutes approximately 0.52% of total assets on average, with considerable variation.

4.2 Regression Results for Corporate Governance on Financial Performance

The objective of the study was to establish the effect of corporate governance on the financial performance of MFIs in Kenya. To achieve this objective, a null hypothesis (H01), which stated that corporate governance has no significant relationship with the financial performance of MFIs in Kenya, was formulated. A Fixed Effects panel regression model was employed to test the hypothesis. The regression output is presented in Table 2.

Table 2: Fixed Effect Regression Results for Corporate Governance on Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.010815	0.017738	-0.609712	0.5435
BR	-15.49695	2.351532	-6.590149	0.0000

R-squared	0.316016	Mean dependent var	-0.091599
Adjusted R-squared	0.308739	S.D. dependent var	0.151092
S.E. of regression	0.125621	Akaike info criterion	-1.290483
Sum squared resid	1.483377	Schwarz criterion	-1.237059
Log likelihood	63.94320	Hannan-Quinn criter.	-1.268889
F-statistic	43.43006	Durbin-Watson stat	0.656644
Prob(F-statistic)	0.000000		

Dependent Variable: ROA

Key: ROA-Return on Assets; BR-Board Remuneration, metric for corporate governance

The resulting model 4.4 is as follows:

$$ROA_{it} = -0.010815 - 15.49695BR_{it} + \mu_i + \varepsilon_{it} \dots\dots\dots (4.4)$$

The results in Table 2 indicate that corporate governance, measured by board remuneration, is negatively and statistically significantly associated with the financial performance of MFIs in Kenya ($\beta = -15.497$, $p = 0.000$). The coefficient implies that holding all other factors constant, a one-unit increase in board remuneration (BR) is associated with a 15.49695-unit decline in

Return on Assets. The negative coefficient suggests that increases in board remuneration are associated with deteriorating financial performance among deposit-taking MFIs in Kenya. This finding implies that an increase in board remuneration consumes financial resources that could otherwise be allocated to productive activities such as lending operations, branch expansion, technological innovation, risk management systems, staff development, and customer acquisition. Given that Kenyan MFIs have experienced persistent losses throughout much of the study period, excessive remuneration packages may worsen financial strain, weaken capital position and undermine long-term institutional sustainability.

The statistical significance of the relationship is supported by a calculated t-statistic of -6.590, which exceeds the critical threshold of ± 1.96 at the 5 percent level of significance. This indicates that the observed relationship is unlikely to have occurred by chance. Additionally, the overall model was statistically significant as evidenced by an F-statistic of 43.43006 ($p = 0.0000$), implying that board remuneration is a significant predictor of financial performance among deposit-taking MFIs in Kenya. Further, the adjusted coefficient of determination (Adjusted $R^2 = 0.308739$) indicates that board remuneration explains approximately 30.87% of the variation in financial performance among deposit-taking MFIs, with the remaining 69.13% attributable to other factors not captured by the model. The explanatory power of the model is moderate, given that financial performance is influenced by several other factors, including ownership structure, capital adequacy, financial gearing, asset quality, operational efficiency, loan portfolio quality, macroeconomic conditions, competition, management quality, and other institutional factors. The findings therefore imply that board remuneration constitutes an important governance variable in explaining performance variations among Kenyan MFIs, although profitability is also influenced by several other institutional, financial, operational, and macroeconomic factors.

The results of the panel regression analysis presented in Table 2 (above) were used to test the hypotheses. The acceptance/rejection criterion for the null hypothesis was that, when the p-value was greater than 0.05, the null (H_{01}) could be accepted, but if the p-value was below 0.05, the null hypothesis could be rejected. Since the p-value associated with board remuneration was less than the 5 percent significance level, the null hypothesis (H_{01}), which stated that corporate governance has no significant relationship with the financial performance of MFIs in Kenya, was rejected. It is therefore concluded that corporate governance, measured by board remuneration, has a statistically significant negative relationship with the financial performance of MFIs in Kenya. The findings suggest that existing remuneration structures may not adequately align directors' incentives with institutional performance objectives, thereby increasing governance costs and reducing financial performance.

5. Conclusion

In view of the study findings, it can be concluded that there is a significant negative relationship between corporate governance and financial performance. High board compensation (director pay) and a company's financial performance are significantly and inversely related. This means that when directors receive excessive compensation, it can have a detrimental effect on the company's profitability and overall financial health; in other words, high board compensation is linked to a decline in MFIs' profitability.

6. Recommendations

The MFI management should ensure the remuneration committee has access to comprehensive data on market benchmarks and company performance so they can make well-informed decisions on board remuneration. Remuneration structures should be clearly linked to specific financial and governance performance metrics, such as portfolio quality, profitability targets, and capital adequacy ratios, rather than remaining fixed regardless of institutional outcomes. All components of board member pay, including base salary, bonuses, and other benefits, should be transparently disclosed in annual reports. MFI managers and board representatives should eliminate conflicts of interest and proactively communicate with shareholders about board compensation frameworks. They should also ensure that annual reports clearly disclose all components of board member pay, including base salary, bonuses, stock options, and any other benefits. Additionally, MFI managers and board representatives should eliminate any conflicts of interest and clearly communicate with shareholders regarding board compensation requirements.

The Ministry of Finance in Kenya should encourage MFIs to prioritize board composition by selecting members with relevant microfinance expertise and strong governance practices, and enforce regulations that promote a more performance-based compensation structure for board members, emphasizing strong alignment between board incentives and the MFI's long-term financial health.

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