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BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE OF SELECTED MICROFINANCE BANKS IN KENYA

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Abstract: **The study sought to examine the effect of board characteristics on financial performance of microfinance banks in Kenya. It delves into the effect of board size, gender representation, and board independence on the financial standing of these institutions. Theoretical framework comprises of agency, resource dependency, institutional and stewardship theories respectively. Research data was collected over time frame 2015-2022. To illuminate the hidden patterns and relationships within the data, a panel of secondary data extracted from audited financial reports and records was subjected to rigorous scrutiny. The outcome unveiled a positive but statistically insignificant effect of board size on financial performance; board composition of the selected banks affected the selected microfinance banks' financial performance negatively with such effect being insignificant in Kenya; and board independence inversely but insignificantly affected these selected microfinance banks' financial performance in Kenya. The survey suggests that the management of selected microfinance banks in Kenya should contemplate reducing the size of the board to enhance financial performance.**

Keywords: **Board Characteristics, Board Size, Board Independence, Board Composition and Financial Performance.**

1. INTRODUCTION

1.1 Background of the Study

The ability of a corporation to uphold board characteristics criteria is just as crucial to an organization's financial performance as its efficacy, originality, and excellent governance (Sayari & Marcum, 2018). The use of board characteristics such as board size, gender and independence ideals may improve company's internal effectiveness as well as its financial performances (Arilyn & Kharismar, 2018). Significant worldwide corporate issues have mechanisms based on board features at their core (Musau, 2020). Ineffective disclosure procedures and lack of transparency reduce effectiveness of board characteristic processes, which has detrimental effects on effectiveness, prudent use of resources, financial outcomes, and long-term viability of organizations globally (Arilyn & Kharismar, 2018). Results of earlier researches on connections between board characteristics and financial performances are quite contradictory. Majority of data point to larger boards as being less successful than smaller boards. The argument concentrates on claiming that bigger boards may encourage individual board members to engage in free riding, among other things. Board of directors, who are responsible for managing company's performances, assessing management's effectiveness, and protecting and maximizing shareholders' funds, is entity's ultimate decision-making division (Sarkar & Sarkar, 2018).

Financial performance is an indicator of how well a company did at leveraging its resources to make money (Helms, 2016). Today, 155 million consumers worldwide are served by numerous of institutions, making microfinance a significant sector. In its most recent incarnation, microfinance is a mechanism that offers viable financial services to groups of people who are generally left out by traditional banking institutions (Yunus, 2017). Nevertheless, only a small portion of the world's impoverished are currently served through microfinance. Numerous studies have linked a lack of robust and long-lasting MFBs to lower outreach (Helms, 2016). Recent data indicate that governance poses a significant barrier to the expansion and sustainability of MFBs. In order to properly manage the risks that come with managing MFBs, there is a need for optimal financial performances. This is because taking risks is fundamental to microfinance sector, and board of directors are responsible for in charge of determining amount of risks that institutions assume (Benedetta, 2015).

Prior to COVID-19, China's microfinance sector was much more fragmented, but the pandemic's severe challenges have altered that picture and jeopardized the stability of the country's microfinance organizations (Meagher, 2020). Micro Finance Institutions (MFIs) encountered issues connected to liquidity as a result of the institutions' rapid decrease in repayment rates and the requirement to remove deposit balances (Meagher, 2020). The elimination of hunger, the promotion of health and wellbeing, and the promotion of economic stability are among the SDGs that Indonesian MFIs are acknowledged as supporting (ADB, 2017). The market for microfinance services is restricted as a result of increased competition from national banks (Hermanto, Suharto, & Umar, 2018). MFBs in India deal with issues like a lack of a variety of products, poor marketing, high interest rates, late or delayed payments from microloan customers, a lack of funding, disregard for the urban poor, and the expensive nature of transactions (Nasir, 2018).

Microfinance banks in African countries are crucial. MFBs, which are a component of the financial systems of many countries, have a favorable effect on the economic development of those countries, claim Okumu and Oyugi (2018). Profitability analysis has been crucial for this industry because of the sector's contribution to bettering efficient risk transfer and economic growth (Wanjiru, 2018). The effectiveness of these microfinance banks is impacted by several aspects of their oversight regulation. Consequently, some microfinance organizations may struggle and close their doors, while others prosper and offer big loans. Due to the rapid failure of MFBs in 2010, the Central Bank of Nigeria (CBN) in Nigeria canceled 103 licenses for microfinance institutions. This failure raises concerns about the MFBs' capacity to maintain a stable financial position in Nigeria. This is vital in building a good corporate governance structure and boost financial stability because MFBs continue to collapse as a outcome of poor management, insufficient internal control systems, and an absence of acceptable risk management (Chenuos *et al.*, 2018). MFIs are extremely important in Ghana, however many of these organizations are struggling to stay alive. As an example, the Bank of Ghana, the regulatory agency, revoked the licenses of almost 70 MFIs in 2015. Many MFIs around the country have battled to stay in business. The demise of about 100 MFIs between 2013 and 2015 also resulted in a variety of problems for its clients. Along with the psychological toll such tragedies have on the victims, the scenario erodes public confidence in the industry (Odoom *et al.*, 2019).

MFBs in Kenya started to lose money as soon as they were registered with the principal regulator, the country's central bank, in 2009. The performance of Kenya's microfinance banks is being threatened by both new players entering the microfinance sector and competition from commercial banks in the banking industry (Kahingo, 2018). Additionally, one of the major ways they make money is through loans, and as a result of clients' late loan repayments, their performance has been on the decline (AMFI, 2018). The bulk of these microfinance banking firms, according to Otieno, Nyagol, and Onditi (2017), have seen their profitability decline over time. Six out of the twelve MFBs with licenses reported losses in 2015, compared to two of the nine MFBs with licenses reporting a fall in 2014 (CBK, 2017). According to CBK (2019), just two of the thirteen MFBs registered between 2010 and 2018 did not record any losses. As of 2020 (CBK, 2021)), there were 14 microfinance institutions operating in Kenya that took deposits.

In order to achieve and maintain public trust as well as certainty in the financial structure, effective boards and corporate control procedures are crucial. As they affect how well the banking industry and global financial system work, they are crucial to excellent performance (Abu, Okpeh & Okpe, 2016). Theoretically, the stewardship perception, which contends that stewards are driven and content when the business achieves its goals, supports effects of board qualities on firm financial accomplishment. The hypothesis highlights the need of governance models that reward the steward and provide the greatest degree of independence based on trust (Lawal, 2012). The resource dependence approach, on the other hand, contends that external directors can get benefits through their connections with other businesses in addition to contributing their expertise by helping to supply the organization with the necessary resources, clients, and consumers (Sarkar & Sarkar, 2018). The agency assumption asserts that separation of ownership and management results in a disparity between the owner's and management's claims to benefits advantages, hence monitoring management decisions becomes crucial for the directors' board to safeguard owner benefits (Abu, Okpeh & Okpe, 2016).

1.2 Statement of the problem

Despite the exceptional example of microfinance, the organization's reputation and efficacy have suffered due to weak financial performance, which has sparked disagreement among the relevant stakeholders (Ngugu, 2020). Poor financial results have been affecting Kenya's microfinance institutions recently (Mwenda, 2018). Old Mutual Holdings purchased Faulu Microfinance, one of the reliable microfinance banks, in 2013. Since 2016, the ROA and ROE of these institutions have been marked by declining numbers. Because it increases banks' worries over their balance sheets, the decline in profitability is a major worry because it offers a risk of financial instability (Kenya financial stability report, 2017). In terms of ROA and ROE, Kenyan MFBs reported total loss of Ksh 1 billion in June 2020, down 30% from Ksh 0.7 billion in same year prior (CBK, 2020). ROA and ROE for MFBs fell by 13.6% in August, forcing these financial firms to modify their Ksh1.12 trillion (38%) loan book of Ksh2.9 trillion. Due to spike in bad debts fees of 150.8% and spending of 11.9% to Ksh404.1 billion, ROA and ROE (profits) of MFB sector declined before taxes by 17.2% to Sh134.1 billion on June 30, 2020 (Central Bank of Kenya, 2020).

Survey of empirical literatures showed that several research using various variables were conducted in both developed and developing economies. In Kenyan banks, income increased when all members of boards owned company equity, per Mandala, Kaijage, Aduda, and Iraya's (2018) research. While Bebeji, Mohammed, and Tanko (2015) discovered sizes of boards had adverse effects on ROE and ROA of Nigerian MFBs, Mbalwa, Kombo, Chepkoech, Koech, and Shavulimo (2014) discovered size of board had positive effects on financial performances of MFB. Nigeria was covered by Akpan and Amran in 2014, while Ntim (2015) focused on South Africa. However, Abu, Okpeh, and Okpe (2016) reached a decision that diversities of gender of boards had no effects on Nigerian MFIs. While Sherif and Anwar (2015) found frequency of board had positive effects on bank performances in MENA region, Johl, Kaur, and Cooper (2015) indicated that frequency of boards had negative effects on firm performances in Malaysia.

Researchers have made some advances to our understanding of how different board characteristics affect a company's performance financially. In Kenya, an inquiry by Mwaura (2017) evaluated effects of board attributes on commercial banks profitability and discovered there is strong positive correlation. However, this study focused on commercial banks, not MFBs. Similarly, Owande (2016) examined how board structure affected commercial banks' monetary performance in 9 Kenyan cities and discovered it had favorable impacts. In contrast to board qualities and MFIs, this study focused on board formation and business banks. Tonui (2018) examined effects of characteristics of boards on financial execution of state partnerships in Kenya and concluded there is clear and significant links between board trademark and financial execution of state partnerships. State entities, not MFIs, were focus of this analysis. In Pakistani, Bashir, Sohail, Rasul and Mehbool (2018) examined board compositions and financial performances of commercial banks. Chijoke-Mgbame, Chijoke, and Boateng (2020)'s research on impacts of gender composition on financial performances of companies was done in Nigeria. Khan (2019) focused on effects of board sizes on listed UK enterprises. These studies reveal contextual gaps. Because Mandala, Kaijage, Aduda and Iraya (2018) employed correlational study design, there is methodological gap. Noja, Thalassinos, Cristea, and Grecu (2021) conducted their analysis using financial econometric model. In view of various contextual, conceptual and methodological research gaps, this study aims at assessing effects of board characteristics on financial performances of selected MFBs in Kenya

1.3 Objectives of the Study

This research was guided by a comprehensive framework of overall goals and a well-defined specific objective.

1.3.1 General Research Objectives

To evaluate the effect of board characteristics in driving the financial outcomes of microfinance banks in Kenya.

1.3.2 Specific Research Objectives

i. To examine the effect of board size on financial performance of selected MFBs in Kenya.

ii. To determine the effect of board composition on financial performance of selected MFBs in Kenya.

iii. To investigate the effect of the independence of board members on selected MFBs financial performance in Kenya.

1.4 Research Hypotheses

H_{01}: Board size has no significant effect on financial performance of selected microfinance banks in Kenya

H_{02}: Board composition has no significant effect on financial performance of selected microfinance banks in Kenya

H_{03}: Independence of the board members has no significant effect on financial performance of selected microfinance banks in Kenya

2. LITERATURE REVIEW

2.1 Theoretical Review

The agency hypothesis, which Jensen and Meckling (1976) first proposed due to inherent nature of ownership divided with managers, there is dispute regarding interests between principle (owner) and agent (manager). Hypothesis states that even if directors are allegedly coherent, they cannot be trusted to consistently behave in the interests of the company as a whole because they are also often regarded to be self-centered. Primary speculative framework that connects this supervisory position to firm performance theory is the agency theory (Muchemwa, Padia & Callaghan, 2016). The agency's hypothesis is criticized on the grounds that it assumes a coherent person is selfish and acts in that way only to reinforce their sense of worth. As a result, there is no belief and no system of Moral ambiguity, which does not compel the creation of systems for practical ethics (Jermias & Gani, 2014). It is appropriate for the study and was supported by it because of the role that agency theory plays in board characteristics and financial performance.

Pfeffer and Salancik (1978) put forth resource dependency theory. RDT states that because of their connections to outside world, directors have big influences on their company's ability to access resources. According to Speculation, directors of board provide companies with resources in form of knowledge, expertise, and skills in addition to having access to major clients and suppliers (Muchemwa, Padia & Callaghan, 2016). According to resource dependence theory, board of directors can be utilized as a tool to create links with the external environmental set in order to support the organization's efforts to close knowledge gaps in the areas where organizational goals are being achieved. RDT presupposes that a great board should be composed of individuals with wide range of ties from outside organizations, including as executives, maintenance experts, and public figures who promote company's reputation to acquire access to the essential resources (Muchemwa, Padia & Callaghan, 2016). In order to acquire access to vital resources for their development, this theory focuses on how autonomous firms select their deputies.

According to stewardship hypothesis, which Donaldson and Davies (1989) proposed, directors who are competent corporate stewards must act ethically and work cooperatively with all stakeholders to realize overall company's aims. The argument holds that managers behave as stewards, safeguarding and using shareholders' funds through business operations to further their own efficacy goals. As a result, the stewardship hypothesis contends that strong relationships between principals and stewards are unquestionably related to corporate performance (Tonui & Olweny, 2018). Stewardship hypothesis argues that better business performance would be associated with a higher proportion of executives as they logically strive to maximize owner profits. As stated by Hassan and Lukong (2012), decision-making process considers one's capacity to gather information and undertake a lengthy analysis. When a family or a state is the major owner, there is a principle dynamic owner, and boards may no longer be necessary, claim stewardship theory critics.

2.2 Empirical Review

2.2.1 Board Size and Financial Performance

Yasser, Entebang, and Mansor (2011) investigated relationships between qualities of boards and banks' financial success. They investigated 30 Karachi MFBs over the course of two years, 2008 and 2009. Selected banks provided secondary information on index, turnover and profit margin and ROE were employed as dependent variables, which also incorporated stewardship and agency theories. As explanatory variables, regressing size of board using system of economics, composition, audit committee, and CEO/Chairman duality was created. CEO/Chairman duality had no effects on ROE, while board sizes, audit committee, and composition all had favorable, substantial effects according to study findings. Conclusions agreed with those of earlier research. This research has several restrictions. Because Pakistan, where prior study was done, has distinct economic environment than Kenya, the study's inclusion of commercial banks as opposed to the present study's concentration on microfinance banks, is another restriction.

From NSE, five Nigerian commercial banks listed were surveyed by Bebeji, Mohammed, and Tanko (2015) during a nine-year period, from March 31, 2007, to March 31, 2015. They assessed ROA and ROE measurements of effects of makeup and size of boards on financial performances of Nigerian banks. From yearly assessments of banks, they gathered secondary data. Data was gathered and examined utilizing multivariate regression modeling and non-probability techniques for cross-sectional and time series data. In addition to using board size and composition as independent factors, ROE and ROA were also included as dependent variables. ROE and ROA were profit after tax to total assets and equity ratios, respectively. Directors from inside and outside the company made up the board. The study concluded that board size had adversely yet considerably impacted both ROE and ROA of commercial banks using stakeholders', stewardship, and agency theories. That indicated ROA and ROE decreased as board's size increased. However, board's composition significantly and favorably impacted ROE and ROA of selected banks. Overall, board composition had big impacts on how well banks performed. This study was conducted in Nigeria and utilized cross-sectional method of design on listed commercial banks. The present study was on MFBs in Kenya and utilized explanatory research design.

Mohamed and Atheru (2017) investigated board qualities on financial results of a Kenyan MFB. Surveys were distributed to participants to collect primary data from 96 bank's middle and senior management members. Questionnaires asked about diversity of boards in terms of gender, education, experience, and ethnicity as well as board size. Multiple regression models were utilized, and cross-sectional data were analyzed using SPSS statistical software. Applying theories of stakeholders, stewardship and agency, it was found that size of board had negative but significant impacts on financial performances. This result demonstrated that increase in board size decreased earnings. Financial leverage has impacts on both corporate governances and business performances. Although the prior study was on MFB, it only utilized primary data and focused on just one MFB, whereas the current study utilized secondary data to obtain information from thirteen (13) MFBs.

Khan (2019) conducted research on how sizes of board of directors' influences revenue produced by UK businesses. Navigating the labyrinth of corporate governance, researchers meticulously examined 85 companies listed on the London Stock Exchange in the United Kingdom over a five-year period. Through a rigorous process of data extraction from annual reports, board size data was painstakingly compiled. Employing SPSS software as their analytical compass, researchers embarked on a linear regression journey to unravel the complexities of board size dynamics. According to statistical analysis, there is negative correlation between number of board members and company's financial health. The current study examined the impacts of board sizes on MFBs in Kenya using multiple linear regression model. The prior research focused on UK-listed corporations and utilized linear regression model.

2.2.2 Board Gender Composition and Financial Performance

Influences of qualities of boards on financial results of Kenyan commercial banks were examined by Wachudi and Mboya (2012). Every one of Kenya's 42 banks was subject of their inquiry from 1998-2009. They performed stepwise regression analyses using diversities of boards as independent factor and ROA as dependent factor and discovered that commercial bank boards in Kenya were predominately made up of men. 8-typical membership had an average of one (1) female director. Gender diversity had little impacts on how well commercial banks performed. This study validated Campbell and Minguez-(2008) Vera's claim that boards with female directors are not penalized by markets. There were not many female board members, thus it was probable that their efforts would go unnoticed. Possibly, this clarified Tokenism Kanter decried (1977). If representation is less than 15%, there is tokenism in attempt to seem to uphold gender equality. Research made use of ideas of agency and tokenism. The previous study concentrated on commercial banks and utilized ROA as performance' indicator. This study considered MFBs and utilize ROE as performance measurement technique.

Impacts of boards' qualities on financial performances of Nigerian registered MFBs was assessed by Abu, Okpeh, and Okpe (2016). From yearly filings and declarations of 15 MFBs, secondary survey information for years 2005–2014 were collected using multiple regression method. CEO, independent non-executive board members, and representation of women on boards were found to have minimal effects on Nigerian MFBs. ROA and ROE were used as dependent variables, whereas CEO, women, independent, grey, and foreign directors were used as independent factors. They further discovered directors which were foreign had positive significant impacts on financial success, whereas grey members of boards had negative major consequences. They recommended that more foreigners be recruited to boards since they had expertise, ingenuity, and reputation necessary to review top management's decisions and improve financial results of Nigerian MFBs. The recent study was zero in on Kenyan MFBs for years 2015–2025 while this study focuses on Nigeria's listed MFBs for years 2005–2014.

Chijoke-Mgbame, Chijoke, and Boateng (2020) obtained data on gender compositions of board, auditing panel, and economic performances of Nigeria from all companies listed on NSE over eight-year period. Final samples consisted of

69 firm-year observations for 77 businesses. Annual reports of corporations were obtained from websites, and financial information was given by Thomson Reuters Eikon. Board data was given by Bloomberg. Study's findings demonstrated that having more women on staff greatly increases company's financial success. Previous study was done on Nigerian companies listed on NSE, and it was quite country-specific over an eight-year time frame. Consequently, focus of the current inquiry was on MFBs in Kenya over a nine-year time period.

In Middle East, relationships between gender diversity on boards and firm revenue dispersion was examined by Habash and Abuzarour (2022). Associations between financial success of Palestinian public firms and gender balance in their boardrooms were identified and investigated using panel data between 2008-2015. Official websites and annual reports of companies were used to compile data. The study employed a balanced annual panel dataset encompassing 30 listed companies and 150 observations over four-year periods. The findings unveiled a substantial discrepancy between the legal mandates for gender diversity in boardrooms and the actual representation of women on corporate boards. Notably, the study focused exclusively on gender diversity and revenue distribution of firms in the Middle East. The present study was on other board characteristics such as size and independence on MFBs in Kenya.

2.2.3 Board Independence and Financial Performance

Using dynamic panel threshold analysis, Mamatzakis and Bermpei (2015) investigated how shared board ownership affects performances of investment banks in US. From 2000-2012, profitability, ROA, and ROE served as dependent variables; explanatory variables included CEO duality and authority, independence, size, and ownership of boards. DEF Bank scope, 14A, monetary, and annual filings from 10-K Bankers were secondary panel data sources. In their investigation, they used steward and agency theories. Analysis determined an 8.54 percent threshold for board share holding. Increase in ownership had detrimental impacts on performances at 1% level of significance, according to banks whose board share ownership was below threshold. On the other hand, at 5% level of significance level, Efficiencies of 48 banks with board ownership of shares over threshold was good. This demonstrated how management's interests and those of companies were compatible. Performance was negatively impacted by sizes of boards. However, CEO power had favorable impacts on investment banks' performances, which was consistent with stewardship theory. Dynamic Panel analysis was utilized for the aforesaid study on investment banks in US. The current study was conducted using multiple regression analyses and based on context of MFBs in Kenya.

Board compositions and financial results of Pakistani commercial banks were examined by Bashir, Fatima, Sohail, Rasul, and Mehboob (2018). From 2008-2014, they took samples of 30 listed banks (public, private, and specialty banks). Leverage, board sizes, institutional ownerships, director independence, and annual general meetings were viewed as factors that were independent, whereas ROA, EPS, and ROE were regarded as dependent variables. Yearly reports from banks listed on Pakistan Stock Exchange were adopted to gather secondary panel data. Multiple regression analyses were used and found that board independence, size, and non-executive directors on boards had no impacts on EPS, ROA, or ROE. The study found that even though Pakistan has complex share ownership structure in place, its execution was difficult since results were inconsistent. Agency theory was used in the investigation. Prior study took place on commercial banks in Pakistan with time period of 2008-2014. This inquiry differs since it concentrated on MFBs in Kenya with time frame of 2015-2022.

Mandala, Kaijage, Aduda, and Iraya (2018) investigated relationships between composition of boards and financial performances of Kenyan MFBs. Secondary data panels on type, activity, composition, duality, and sizes of boards were gathered over ten-year periods (2006–2015) as explanatory factors, while ROA and revenue growth rate were used as dependent variables in correlational research strategy. Research looked at 3,989 financial businesses and five Kenyan authorities. It was found that largest influence on revenue growth rates occurred when there is shared ownership among board members, but other variables, In Kenyan financial institutions, factors including independence, CEO duality, size, and gender diversity did not significantly affect their financial results. Paradigms of agency, stewardship, upper echelons, and resource dependence were applied. The previous study adopted correlational research design and obtained information from years 2006-2015 while the recent study adopted descriptive research approach and obtain information from 2015-2022 which is more current.

Venturing into the realm of corporate governance, Noja, Thalassinos, Cristea, and Grecu (2021) embarked on a quest to unravel the intricate connections between board independence and the financial well-being of European enterprises. Utilizing secondary data spanning until the end of 2019 culled from the Eikon database, they meticulously examined a sample of 144 businesses representing the diverse landscape of 25 European nations. To delve into the depths of their investigation, they employed a combination of network analysis and financial econometric research methods. Analysis's findings showed that board independence had no appreciable impacts on firms' financial performances. This study addressed a research gap left by earlier study's use of financial econometric model for analysis by examining the data using descriptive statistics and inferential analysis.

3. RESEARCH METHODOLOGY

3.1 Research Methodology

Empirical links between characteristics of boards and MFBs' financial performances was established. Panel regression model is going to be utilized. Regression model for this study which matched section-specific study goals and hypotheses for further research was on the regression function below:

$FP_{it} = \beta0+\beta1BS_{it}+\beta2BG_{it}+\beta3BI_{it} +\varepsilon$

Where:

FP = Return on Equity

BS = Board Size

BG = Board Gender Composition

BI = Board Independence

t = Time Scope

i = Firm

$\beta_1 – \beta_4$ = Coefficients

ε = Error term

4. RESEARCH FINDINGS AND DISCUSSIONS

4.1 Descriptive Statistics

The presentation of the table offers a summary of the descriptive statistics for the analyzed information. The table also presents the minimum and maximum values, providing a range of values for each variable in the study. As a result, a summary of the result is provided in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial Performance	104	-.0794225	.1289847	-.58382	.04661
Board Size	106	7.915094	1.746386	4	12
Board Composition	107	.2167489	.1431753	0	1
Board Independence	104	.2875815	.1274526	.125	.625

Source: Study Data (2023)

The descriptive analysis findings unveiled mean financial performance of the designated microfinance banks stood at -0.0794225, accompanied by a standard deviation of 0.1289847. The dataset utilized for appraising the financial performance indicated that all data points fell within the spectrum of -0.58382 (the lowest value) and 0.04661 (the highest value). Additionally, the survey results indicated average board size of the chosen microfinance banks was 7.915094, with a standard deviation of 1.746386. The board size data ranged from a lowest of 4 to a extreme of 12. These findings imply that the board size influence on the selected microfinance banks in Kenya exhibits variability across the banks, as evidenced by the standard deviation value.

In the study, board composition was examined, and it was found that the mean average was 0.2167489, with a deviation of standard from the mean of 0.1431753. The data used for this assessment had a range of 0 to 1. Another factor considered was board independence, having average score mean of 0.2875815 and a deviation from standard mean of

0.1274526. This suggests that the data slightly deviated from the mean of the investigation. The range of values for board independence fell between 0.125 and 0.625.

4.2 Model Specification Test

Panel estimation explores the intricacies of a set of observations unfolding over a defined period. To discerningly evaluate the estimated parameters, both fixed and random effect models are meticulously examined, scrutinizing their potential discrepancies. The Hausman Test emerges as a beacon in this quest, casting light upon the validity of the effect random model over its fixed effect counterpart. The null hypothesis, the guiding principle of this test, champions the effect random model as the preferred choice. The illuminating outcomes of the test await revelation in Table 4.2.

Table 4.2: Model Specification Results

	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Board Size	.0081192	.0192526	-.0111335	.0114884
Board Composition	-.2330912	-.2620407	.0289495	.0655228
Board Independence	-.2483834	-.075884	-.1724994	.1633656
Chi2(3)	2.10			
Prob>chi2	0.5516			

Source: Study Data (2023)

The outputs in Table 4.2 unfolded a compelling narrative: the null hypothesis, steadfastly defending the random effect model's supremacy, emerged as the preferred. This unwavering support for the random effect model was further reinforced by the analysis, which unambiguously favored its nuanced approach over the fixed effect model's rigid structure. The prob > chi2 value of 0.05516, a decisive triumph over the significance level of 0.05, firmly cemented the random effect model's reign as the preferred choice. Thus, the study wholeheartedly embraced the random effect model's elegance and adaptability.

4.3 Regression Analysis

Equipped with the insights gleaned from the Hausman test, the study embarked on exploring, employing a random effect regression model to dissect the research hypotheses. This model served as the foundation for constructing a panel regression model, a sophisticated tool that illuminated board characteristics effect on the performance of select Kenyan microfinance banks financially. The outcomes of this meticulous investigation are profoundly obtainable in Table 4.3.

Table 4.3: Regression Results

Financial Performance	Coef.	Robust Std. Err.	Z	P>z	[95% Conf.	Interval]
Board Size	.0192526	.0118623	1.62	0.105	-.0039971	.0425023
Board Composition	-.2620407	.0938262	-2.79	0.005	-.4459366	-.0781447
Board Independence	-.075884	.251051	-0.30	0.762	-.5679349	.4161668
_cons	.2716567	.8735654	0.31	0.756	-1.4405	1.983813
R-Square	0.1532					
Wald chi2(3)	9.95					
Prob > chi2	0.0190					

Source: Study Data (2023)

Drawing as of the outcome presented in Table 4.3, the random effect model was found to be significant in examining how board characteristics affect the financial performance of selected Kenyan microfinance banks. The Wald Chi-square value of 9.95, which corresponded to 0.0190 p-value indicated the model significant. The outputs also designated board characteristics had an effect that is significant on the banks' performance financially, with a R-square of 15.32%

illustrating that board characteristics accounted for a moderate proportion of the variations in the performance of selected Kenyan microfinance banks financially. The intercept of the regression line was positive, with a value of 0.2716567.

The effect of board characteristics was analyzed on the performance of selected microfinance banks in Kenya financially. The results indicated a coefficient for board size was statistically insignificant at the 5 percent level with 0.105 p-value, suggesting size of board has no effect that is significant positive on the selected Kenyan microfinance banks' financial performance. However, an enhancement in the board size would amount to the enhancement of the banks' financial performance by 0.0192526%. Board composition noted a negative effect that is significant on performance financially, having -0.2620407 as coefficient and a corresponding 0.005 p-value. This implies that an upsurge in board composition would pilot to a decline in performance by 0.2620407% financially for selected Kenyan microfinance banks. Board independence was establish having an inverse but statistically insignificant effect on performance financially, with a coefficient of 0.075884, indicating that an improvement in board independence would consequence in a fall of 0.075884% in the financial performance of the banks.

4.4 Hypothesis Testing

4.4.1 Board Size and Financial Performance of Selected Microfinance Banks

The survey's central aim was to unveil the effect of board size on financial performance of select Kenyan microfinance banks. This hypothesis, rigorously scrutinized at a 5% significance level, revealed an unwavering allegiance to the null hypothesis, suggesting that board size plays an insignificant role in shaping the financial fortunes of these institutions. While a positive effect emerged, it remained statistically insignificant, leading to the unequivocal conclusion that board size, despite its subtle influence, does not hold sway over financial performance of the banks. The outcome contradicts Yasser, Entebang, and Mansor (2011) who noted that board size significantly and positively affected performance of banks financially. Bebeji, Mohammed, and Tanko (2015) also concluded that board size had adversely yet considerably impacted both ROE and ROA. Mohamed and Atheru (2017) established that the size of board had negative but significant impacts on financial performances. Khan (2019) further unveiled an inverse linkage of the number of board members and company's financial health. The investigation's contradictory conclusions may have resulted from the various measurement methods used in the studies and the particular circumstances under which the research was conducted.

4.4.2 Board Composition and Financial Performance of Selected Microfinance Banks

The inquiry also required to interpret board composition effect on the performance of select Kenyan microfinance banks financially. With a sensitive observation set at a level of significance of 0.05, the null hypothesis, which asserted board composition insignificant effect on financial performance, was put to the test. The findings, however, unraveled a compelling narrative that board composition, with a p-value defying the 0.05 threshold, emerged as a formidable force shaping the financial destinies of these institutions. Consequently, the null hypothesis was dethroned, paving the way for the recognition of board composition's pivotal role in steering these banks towards financial success. This output corroborates Chijoke-Mgbame, Chijoke, and Boateng (2020) who averred that having more women on staff greatly increases company's financial success. The contradictions to the outcomes aligned from Abu, Okpeh, and Okpe (2016) who arrived at the conclusion that CEO, independent non-executive board members, and representation of women on boards were found to have minimal effects on Nigerian MFBs. the output opposed Wachudi and Mboya (2012) who discovered that gender diversity had little impacts on how well commercial banks performed. The observed variation from the findings could be ascribed to the different contextual grounds that the surveys were performed.

4.4.3 Board Independence and Financial Performance of Selected Microfinance Banks

The investigated aim was to evaluate board independence effect on the performance of selected microfinance banks in Kenya financially. An employed significance level of 5 percent was utilized to assess the null hypothesis, which stated that board independence has insignificant effect on the financial performance of Kenyan selected microfinance banks. Resulting from the results of the analysis, the null hypothesis was supported, indicating that board independence insignificant effect on the performance of these banks financially in Kenya. The product aligned with Bashir, Fatima, Sohail, Rasul, and Mehboob (2018) who noted that board independence, size, and non-executive directors on boards had no impacts on EPS, ROA, or ROE. Mandala, Kaijage, Aduda, and Iraya (2018) unveiled that largest influence on revenue growth rates occurred when there is shared ownership among board members, but other variables, In Kenyan financial institutions, factors including independence, CEO duality, size, and gender diversity did not significantly affect their financial results. Noja, Thalassinos, Cristea, and Grecu (2021) also uncovered that board independence had no appreciable impacts on firms' financial performances.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study's specific objectives unfolded a varying of conclusions. By meticulously investigating board characteristics effect on the performance of the selected microfinance banks financially in Kenya, the researcher delved to the elaborate dynamics of board characteristics. The outputs revealed that board size, contrary to expectations, exhibited a positive and insignificant effect on financial performance. This intriguing outcome led to the conclusion that changing board size would likely yield minimal effect on the health of these institutions financially.

Uncovering from the outcome, the study's findings unveiled a hidden truth noting that board composition held an inverse yet significant influence on the performance of the selected microfinance banks financially in Kenya. This intriguing revelation led to a profound conclusion that board composition acts as a pivotal force in shaping the financial fortunes of these institutions. In essence, gender balancing brings forth different ideological variation that could enhance the potential of the banks' performance financially.

The study's further delving into the data revealed that board independence, despite its potential to foster unbiased decision-making, had a surprisingly inverse, yet insignificant statistically, impact on the performance of the selected microfinance banks financially in Kenya. This counterintuitive finding suggests that board independence, while theoretically beneficial, has not played a significant role in shaping the financial fortunes of these institutions.

5.2 Recommendations

The investigation suggests the management of selected microfinance banks should contemplate reducing the size of the board to enhance financial performance. The survey unfolded board size positively and insignificant impact on performance financially. Therefore, by downsizing the board, the banks may improve their financial performance by reducing resources expended on maintaining the board's size.

Regarding the analysis of the specific objective, it was discovered that board composition had a negative and significant impact on the performance of selected microfinance banks in Kenya financially. Consequently, the survey suggests that the board composition should be adjusted to include more females, promoting gender balance in decision-making processes that significantly affect the performance financially of these Kenyan banks.

The outputs of the investigation revealed an inverse yet insignificant influence of board independence on the performance of selected microfinance banks financially in Kenya. This outcome inform the suggestion that policy that allows for the independence of the board should be reviewed to reduce the level of interference which could deter the executive directors from taking smart decisions that would lead to higher gains on shareholders returns in Kenya.

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