OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN UGANDA

BY

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DECLARATION

I declare that this thesis entitled "Ownership Structure, Corporate Governance and Financial Performance of Deposit Taking Microfinance Institutions in Uganda" is my work and has not been presented for a degree or any entire academic award in any university or institution of learning.

Signature of student: ………………………………………….

Name of student: ………………………………………………

Date: ……………………………………………………………….

APPROVAL

I confirm that the work compiled in this thesis was carried out by the candidate under my supervision and is submitted for further examination with my approval.

Signature of supervisor: ………………………….

Name of supervisor: …………………………….

Date: …………………………………………….

DEDICATION

To my parents, for your love, encouragement and support that you have given that has brought me this far. May God bless you abundantly.

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I wish to extend my profound gratitude to all people who have contributed to the successful completion of this thesis. Without their assistance and cooperation this work would not have seen the light of day.

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May God bless you all

ABSTRACT

The study set was sought to assess and identify the effectiveness of ownership structure, corporate governance and financial performance of deposit taking microfinance institution in Uganda. It was guided by the three specific objectives and tested three hypotheses, that included investigation whether there is a strong correlation between: i) the effect of ownership structure on the financial performance of deposit taking microfinance institutions, and ii) the effect of corporate governance on financial performance. Descriptive design was used in order to reveal connections, patterns and relationships since it allows for analysis of data to determine a pre-existing relationship and researcher makes no attempt to manipulate the independent variable. Annual Quantitative data (2011-2016) of selected DMI was used in this study. The results revealed that ownership structure positively and significantly affects financial performance ($p<0.05$). Similarly, corporate governance was also found to positively and significantly affect the financial performance of deposit taking microfinance institutions in Uganda. Basing on these findings, the study concluded that ownership structure and corporate governance have a positive and significant effect on the financial performance of DMIs. The study therefore made the following recommendations: the need for the management of deposit taking microfinance institutions to encourage shareholder ownership structure so as to ensure proper monitoring, accountability and improve performance, and the need for the management of deposit taking microfinance institutions to strongly encourage the inclusion of women and foreigners in their boards.

LISTS OF ACRONYMS AND ABBREVIATIONS

AMFIU Association of Microfinance Institution in Uganda

BC Board Composition

BOU Bank of Uganda

CAMEL Capital Adequacy, Asset Quality, Management Quality, Earnings Quality, And Liquidity

CEO Chief Executive Officer

CG Corporate Governance

DMI Deposit Taking Microfinance Institution

EPS Earnings Per Share

FE Fixed Effects

MFI Microfinance Institution

MNC Multinational Corporation

NBFI Non-Bank Financial Institutions

NGO Non-Governmental Organisation

NIM Net Interest Margin

REO Return on Equity

ROA Return on Asset

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background of the study, statement of the problem, objectives of the research, hypothesis, and significance of the study and the scope of the study.

1.1 Background of the Study

1.1.1 Historical Perspective

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

The dramatic surge in interest stemmed from the remarkable success of Grameen Bank and Bank Rakyat Indonesia (BRI). MFIs record loan recovery rates of over 98% - far exceeding those at the best managed global banks. The best MFIs have consistently outperformed commercial banks in portfolio quality and returns on equity. The high loan recovery has been facilitated by education on the basic mechanics of group monitoring, the coincidence between collective good and individual welfare, and the resultant ingenuous use of group monitoring. Lending to the poor took place at subsidized interest rates with little effort towards assessment of creditworthiness or monitoring of loans. These loans were largely cornered by those networked into the power structure, the intended beneficiaries often bypassed. As the loans were implicitly treated as grants by both lender and borrower, there was little effort towards monitoring the end use of funds. Loan recovery rates were extremely low. The loans were canalized through state-owned banks; this segment of lending was given a low priority, the perceived high-riskiness of loans kept a cap on the volume of disbursements.

Microfinance has undergone a revolution since its early days. From grants to help tide over immediate consumption needs, the intent of microfinance has changed to facilitating self-help and empowerment. It helps the poor and marginalized to escape the greed of loan sharks, by providing working capital to help set up sustainable small, often, micro sized enterprises. The clientele in most MFIs has been predominantly poor rural women with little formal education. Microfinance is the "provision of financial services to low-income clients, including the self-employed" (Ledgerwood, 2012, p.1). These services may include savings, credits, insurance, payments, and social intermediation. They are performed by a variety of institutions, such as credit unions, savings and loan cooperatives, commercial banks, as well as NGOs and government banks. Beyond being "banking for the poor," then, microfinance is viewed by many as an instrument of development. At the heart of the idea of microfinance is the belief that poverty can be reduced and eventually eliminated through provision of credit to those too poor to access to the formal financial system.

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

Big international donor organizations and some microfinance networks, argue for self-sufficient microfinance institutions, meaning that they should be able to cover their costs by the revenue they get. As microfinance institutions reach financial self-sufficiency, they would be able to borrow from the commercial market and cut their dependency from donations and subsidies. In other words, a more commercial approach to microfinance practices is called for. The proponents of this ideology argue that this is the way for microfinance to access to a larger asset base to finance their operations than by relying on donors, and thus to serve an absolutely greater number of poor people (Murdoch 2000; Bruck 2006; Ghosh and Van Tassel 2008). Although the first MFIs appeared in Asia almost twenty years ago, they have since spread to Southeast Asia, Latin America, Africa and more recently to former socialist economies in transition and even the United States. BRI, Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) are the most famous microfinance institutions. There is no standard benchmark for microfinance institutions to fall back on. The organizational form, scope, funding sources evolved and adapted over time, in large measure through trial and error.

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

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

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

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

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

MFIs in Uganda can be broadly categorized according to their respective stages of development. The majority of the micro finance institutions (i.e. category D) are small Community Based Organizations (CBOs), generally unaware of micro finance best practices, outside the micro finance information loop, focused on rural outreach but have minimum numbers of clients (Bank of Uganda 2000). According to Bank of Uganda (2002), Proposals for Bank of Uganda Policy Statement on MFI Regulation." the Ugandan Microfinance industry is now poised for considerable change – with the Micro Finance Deposit Taking Institutions ("MDI") Act having been signed into effect in 2003, which will regulate most of the large MFIs (this responsibility falling to the central bank) and, more importantly, legalize financial intermediation by Microfinance institutions for the first time. The MFIs are operating in a competitive environment. The Ugandan Microfinance industry is highly competitive, with the majority of the market (around 550,000 clients) being serviced by 8 or so financial institutions, of varying formality and commercial orientation.

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

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

1.1.2 Theoretical Perspective

The study was guided by the agency theory which was proposed by (Jensen & Meckling 1976). Agency theory argues that agency cost would arise when there is a separation between firm owners and firm managers. This is due to the conflict of goals between owners and managers. The conflict that forms agency problem is not only between shareholders and managers (principal – agent), but also between shareholders and shareholders (principal – principal), especially in developing countries (Dharwadkar et al., 2010).

The theory emanates from the fact that ownership and control of most modern firms is different. Jensen and Meckling (1976) drawn by the progress in property theory, agency and finance were motivated to come up with a theory on ownership of firms. They recognized the failure by literature on Economics to look at the organization structure of the firm. It basically looked at the firm as a 'black box' operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits. They defined the agency relationship as where the principal engages the agent to act on his behalf. They noted that if the agent and principal are all utility maximizers, the agent would act on his own self-interest. The principal needs to put in appropriate incentives and incur monitoring costs to ensure the agent serves his interest.

Managers in both private and state owned firms are assumed to maximize their own utility rather than that of the. In private firms this divergence is reduced through external mechanisms such as markets for managers, capital and corporate controls including internal mechanisms such as managerial participation in ownerships, reward systems and the board of directors. In state owned firms these mechanisms are virtually absent. This theory brings out an understanding to the relationship between ownership concentration, foreign ownership and performance. Agency problems are seen to be more in dispersed ownership as shareholders tend to free ride and hence are less effective in their monitoring leading to ineffectiveness in performance. On the other hand, foreign owners are depicted to have more capacity and resources hence increasing their monitoring capabilities. Their investment decisions also tend to be more informed since they seek the services of professional managers. Foreign ownership therefore, would lead to better performance.

1.1.3 Conceptual Perspective

The term ''ownership structure'' has two widely applied dimensions: ownership concentration and owner identity. Furthermore, the divergence of voting right and capital right allow shareholders to gain control with little equity involvement through mechanisms such as dual class equity, pyramiding, etc. Thus, divergence should be taken into consideration when analyzing the effect of ownership structure on firm performance.

Ownership structure, as a mechanism in corporate governance to facilitate increased efficiency of a firm, has been believed to effect firm performance for many years (Chen, 2012). The relationship between ownership structure and corporation performance is one that has received considerable attention in finance literature (Jiang, 2004).

Two dimensions are used to define ownership structure, ownership concentration and ownership mix (Gursoy and Aydogan, 2002). Ownership concentration refers to the share of the largest and is associated with monitoring cost and absolute risk (Pedersen and Thomsen 1999). Ownership mix is linked to the identity of the principal shareholder. Morck et al (2005), asserts that differences in ownership structures have two outcomes in relation to corporate governance.

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

Ownership is intrinsically linked to effective governance. Ideally, the board of directors consists of owners of represents the interest of owners. Aligning the interests of individual directors with interests of the MFIs is a key to effective governance (Otero, 2001).

Ownership may be different looking into the nature of the organization. However, Chen et al., (2012) defines ownership as belongingness. Owners create, invest, shoulder legal responsibilities, take benefits and profits individually and as a group and when the organization winds up bear the consequential benefits or losses. In formal financial institutions and corporate sectors the ownership is decided by investment of financial resources.

Wang and Xiao (2014) argues that the ownership goes to the people through the government if an organization is governmental; the ownership of voluntary organization goes to the people while no one owns the NGO MFIs since no individuals or groups invested money or took shares in the investment. Although in many cases donors invest money and the borrowers save money with MFIs, they do not qualify to be owners. However, in the case of Grameen Bank, the clients are considered as shareholders of the bank.

According to Wei and Varela (2013), corporate Governance ‘’ is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society (oxford business dictionaries, 2000). The issue of corporate governance has become obverse and centre of the agenda for both business leaders and regulators all over the world. Shareholders are always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. The motivation of many shareholders for investment in businesses is profit not control (Kadivar, 2012). The principles of corporate governance include issues like measure of management, level of control and manner of interaction between the great and little shareholders.

A variable of corporate governance i.e. shareholders structure, and the relationship between shareholders structure (ownership structure) and the performance of firms is an important and continued subject in the field of financial management (Ezazi et al., 2011) for analyzing this relationship, up to now different aspects of ownership structure are considered, for instance being managerial or non-managerial shareholders, shareholders concentration or dispersion, being whole or retail, being internal (domestic) or being foreign shareholders, being institutional or individual shareholders. Several researches conducted on managerial shareholding and firms performance used different methodologies and report mixed result, for instance, some find positive relationship between managerial shareholding and firms performance (Oswarld & Jahera, 1991), Mehran (1995), while others find negative relationship (Slovin & Sushka, 2009).

Institutional shareholding is also important and plays a vital role in the governance of the firm moving from good to great. Institutional shareholders can be banks, mutual funds, insurance companies, clubs, societies, churches and mosque. A number of studies have sought to evaluate the link between institutional ownership and firm performance. However, their results are mixed.

For instance, some studies show that there is no relationship (Agrawal & Knoeber, 1996), Craswell *et al.* (1997), Loderer and Martin (1997), Navissi and Naiker (2006). In contrast, some find positive relationship between institutional ownership and firm performance (McConnell & Servaes, 1990), Chaganti and Damanpour (2011), Clay (2001), Hartzell and Starks (2003).

Microfinance corporate governance is high on the public agenda after the UN Year of Microcredit in 2005 and the Nobel Peace Prize to Mohammed Yunus and Grameen Bank in 2006. Christen et al. (2014) report an astonishing 500 million persons served, mostly with savings accounts, while the Microcredit Summit in the 2006-meeting in Halifax celebrated the milestone of 100 million borrowers reached. Microfinance institutions (MFIs) in sub-Saharan Africa include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients: non-governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks. Overall, African MFIs are well positioned to grow and reach the millions of potential clients who currently do not have access to mainstream financial services (Lafourcade et al., 2015).

Financial institutions' need activities that ensure that goals are consistently being met in an effective and efficient manner, (Aubrey 2004). Armstrong and Baron (1998), maintain that as a strategic and integrated approach to increasing the effectiveness of companies by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. According to Ledgerwood (2012), the performance of MFI is measured in many parameters. This includes: Portfolio Quality indicators: Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of MFIs. Some of the measures used include the repayment rates, arrears rate, Portfolio at risk, delinquent borrowers, loan loss reserve ratio, and loan loss ratio.

Financial performance was measured in terms of liquidity. According to Stoner (2003), financial performance is the ability to operate efficiently, profitably, survives, grow and react to the environmental opportunities and threats. Most Micro-finance Institutions have not attained financial stability as a result of not putting in place sound financial cost control portfolios and are relying on subsidies as their source of funds. A small number of Micro-finance Institutions are extending loans to individuals, at the same time most of the Micro-finance Institutions are taking deposits to cushion risks associated with non-repayment of loans.

Simon (1995) indicated that different management control systems will have different impacts on organization performance because different management control system often set by high level management is based on different strata or on how companies apply the interactive use of management control systems like financial budget.

1.1.4 Contextual Perceptive

In Uganda, the term microfinance is understood as a sub-sector of the financial sector which offers financial products aimed at low income households in both rural and urban areas. This product can be offered by any of the form of financial institution in the country, ranging from formal, semi-formal and informal financial institutions.

Microfinance are regrouped under four tiers, but Deposit Taking Microfinance Institutions are regrouped under third tier which is define like this: Tier 3 (Is there a mission drift in microfinance? Some new empirical evidence from Uganda (Darko, 2016). This refers to the class of microfinance institutions which are regulated under the Microfinance Deposit-Taking Institutions Act 2003. Institutions that fall under this category are known as Microfinance Deposit Taking Institutions. These institutions serve low income households with broad range of financial services. They offer lending and saving products to their clients, but cannot provide checking accounts or engage in transactions involving foreign currencies. Again, they provide services like money transfer and micro insurance to their clients. The minimum capital requirement for institutions which operate under this tiered approach is Shs500 million, equivalent to about US$ 250,000. Before mid-November 2013, there were four of these institutions in Uganda namely: FINCA Uganda Limited, Pride Microfinance Limited, Uganda Agency for Development (UGAFODE) Microfinance Limited, and EFC Uganda Limited.

1.2 Problem Statement

The deposit taking microfinance institutions (DMIs) in Uganda depend mostly on donor funding to support their financial performance (Stefan, 2010). Several of these DMIs have over the years closed their operations for lack of sustainable financial ability. Furthermore, some of these MDIs have been challenged by poor regulatory framework that has no ability to streamline and regulate the working code of MDIs. Due to such weakness, most MDIs have not been able to strive in the market due to unfriendly competition, hence affecting their financial performance and eventual closure (Stefan, 2010).

Furthermore, several studies by Isanzu (2015); Gadi et al., (2015); Gitundu et al., (2016); Kimunguyi et al., (2015); Wale (2015); Ogega (2014); Mugisha et al., (2015); and Wanjiru (2013) were conducted in different sectors including commercial banks, health sectors, microfinance institutions; however, none of the above studies was done in the sector of deposit taking microfinance, hence posing a contextual gap which this study investigated.

1.3 Purpose of the Study

The purpose of this study was to investigate, the relationship between the ownership structure, corporate governance and the financial performance of deposit taking institutions in Uganda.

1.4 Research Objectives

i. To determine the effect of ownership structure on the financial performance of Deposit Taking Microfinance Institutions in Uganda
ii. To establish the effect of corporate governance on the financial performance of Deposit Taking Microfinance Institutions in Uganda

1.5 Research Question

i. What is the effect of ownership structure on the financial performance of Deposit Taking Microfinance Institutions in Uganda?
ii. What is the effect of corporate governance on the financial performance of Deposit Taking Microfinance Institutions in Uganda?

1.6 Research Hypotheses

i. Ho_1: There is no significant effect of ownership structure on the financial performance of Deposit Taking Microfinance Institutions in Uganda

ii. Ho_2: There is no significant effect of corporate governance on the financial performance of Deposit Taking Microfinance Institutions in Uganda

1.7 Scope of the Study

1.7.1 Geographical Scope

The study covered deposit taking microfinance institution in Uganda.

1.7.2 Subject Scope

This study focused on the effect of ownership structure on the financial performance of Deposit Taking Microfinance Institutions in Uganda; and the effect of corporate governance on the financial performance of Deposit Taking Microfinance Institutions in Uganda.

1.7.3 Time Scope

This study looked at a period of 6 years, that is, from 2011 to 2016 using annual data.

1.8 Significance of the Study

This study contributes to the literature in three dimensions:

First by combining market based and standard accounting financial indicators as measures of firm performance to test the predictions of agency theory. Secondly, the study will provide new empirical evidence on the effect of ownership structure, corporate governance on deposit taking microfinance institutions.

The government through the regulators will be interested to know how the various owners may make decisions that may affect some sectors of the economy and come up with relevant regulations. Consequently, policy makers will pursue economic reforms that will influence the corporate policies to be geared towards the welfare of the nation at large and protection against minority investors. Scholars will have an insight of the relationship between various owners and corporate policies and the performance of these firms.

The results of this study will further sensitize financial managers on the influence that the various owners may have to the decisions they make with regard to the various corporate decisions such as dividend policy, investment policy and capital budgeting decisions.
Financial Managers will further identify whether minority investors have a role to play in the overall management of these firms. This study will also serve as a future reference for researches in the subject of ownership structure and financial performance.

1.9 Operational definition of keys terms:

Ownership structure: refers to ownership mix and ownership concentration.

Ownership mix/Ownership concentration: refers to DMI owned by the government

Corporate Governance: refers to board size, board composition, board gender diversity, and duality of the CEO

Board size: refers to the number of Board Members in the DMI.

Board composition: refers to the percentage of non-Ugandan directors in the Board as a measure of board independence.

Board Gender Diversity: refers to the percentage of DMI who's board members or CEO is a woman.

Duality of the CEO: refers to percentage of microfinance institutions having both the Chairman as CEO.

Financial Performance: refers to the profitability of the deposit taking microfinance institution

Profitability: refers to which a business or activity yields finance gain

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter reviewed literature from different authors according to the objectives of the study. The chapter was subdivided into three sections, namely: theoretical review, conceptual framework, and review of related literature.

2.1 Theoretical Review

There are several theories done by scholars in the fields of banking, but the study focused discussions on three financial theories in relation to the effect of ownership Structure on performance of commercial banks. Namely: institutional Theory, agency theory and the stakeholder theory. But the study premised on the agency theory.

2.2.1 Institutional Theory

This theory states that the institutional environment can highly impact the growth of formal structures in an organization, often more strongly than market pressures. Innovative structures that build up technical efficiency in early-adopting organizations are justified in the environment. Eventually, these innovations attain a level of legitimization where they become legal mandates. At this point organizations both new and existing will implement the structural form including schemes, rules, norms, and routines even if the form does not improve efficiency (Scott, 1995).

Since MNCs operate in various regions across the world with discrete political, social and economic environment they normally encounter varied pressures which end up influencing their competitive strategy and human resource management practices (Martinsons 1993; Zaheer 1995). Therefore, MNCs tend to react differently to challenges of the same nature. In as much as emerging economies such as Uganda have growth potential there are myriad of political, social and economic challenges which are a huge impediment for institutions trying to operate in such emerging economies.

According to Khanna and Palepu (2000), firms should develop business models that are less susceptible to problems. They highlighted that institution performance initially deteriorates with group diversification and afterwards increase once group diversification exceeds a certain threshold level. Since the methods applied in developed countries do not out rightly fit in the emerging markets, new tailored insights and strategies should be created. Both MNCs and local firms have divergent focus when faced with same challenges in emerging markets such as Uganda depending on the caliber of the company.

2.2.2 The Agency Theory

This theory has its origins in the early 1930s when Berle and Means (1932) explored the corporate revolution. They revealed that at the early stage, corporations were managed by the founders themselves. As corporations grew, the owners sought external sources of financing. Hence, corporations issued equity. As a result, corporations became owned by external shareholders, where the evolution of separation between owners (ownership) and managers (control) commenced. There are three types of separation of ownership and control. The first is majority control. This is where some of the shareholders own majority of shares, and the remainders are widely diffused and only hold a portion of the shares. Hence, only the remainder shareholders are separated from control. The second is minority control, where ownership is widely spread. As such, the greater part of ownership is practically without control.

The third is management control. There is no existence of large minority shareholders which results directors or managers responsible in controlling the corporation. The third type of separation of ownership and control is known as Quasi-Public Corporation, which it has been resulted as the increment of owners. This happened because Quasi-Public Corporation get its supply of capital from a group of investors, known as investing public Berle & Means (2002). There are two types of investors, which are either as an individual, they invest directly in purchasing the corporation’s stocks or bonds, or invest indirectly by investing in insurance companies, banks and investment trusts, which will invest in corporate securities on behalf of the investors. Goergen and Renneboog (2001) argued that if there are insufficient monitoring mechanisms in a firm such as having a diffuse ownership structure (which is the opposite of the ownership concentration structure), it may lead to high managerial discretion which may increase the agency costs. As has been argued in the literature, the level of monitoring is a function of such variables as institutional ownership, block ownership by outsiders, the technology in place to monitor the managers and forecasted profit gain derived from the monitoring (Demsetz & Lehn 2005).

This theory is relevant to this study because the different type of ownership structure can have a important impact on the corporate governance and as result inefficient or under financial performance of deposit taking microfinance institution in Uganda due to the fact that according to the Agency theory, the top management would tempt to pursue their own interest at the expense of the enterprise. Managers of private banks will have greater intensity of environmental pressure and capital market monitoring which punishes inefficiencies and makes private owned firms economically more efficient (Lang & So, 2002).

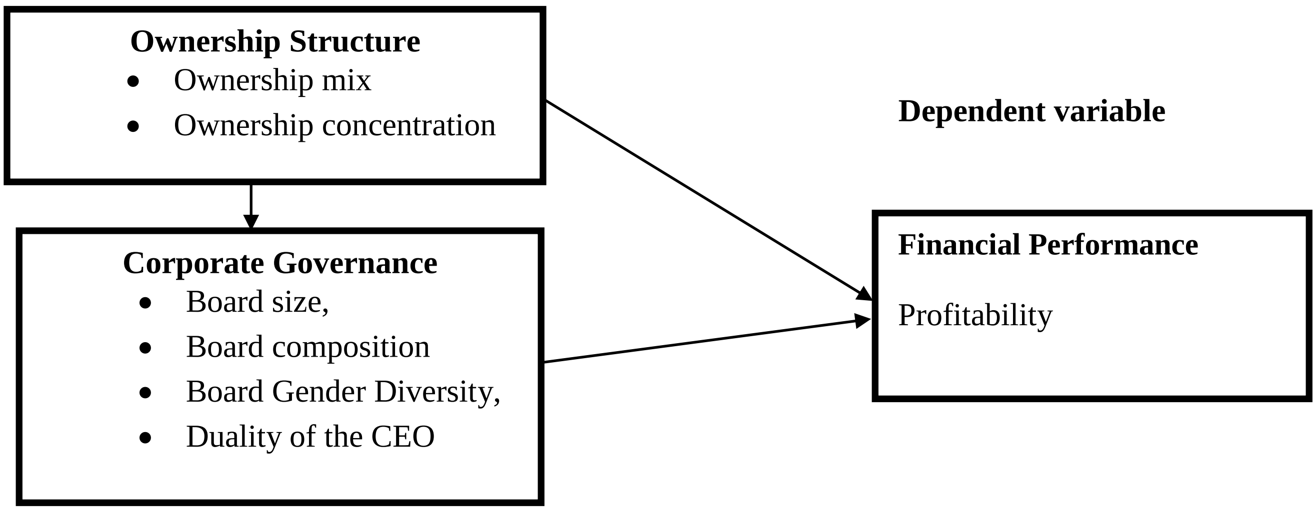
2.2.3 Stakeholder Theory

This theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) suggests that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Murtha and Lenway (1994) suggest that states are able to influence management because they control authority, markets, and property rights which are the main strategic resources by their involvement in the appointment of a firm's top management as well as board members and providing direct or indirect government subsidies and incentives. States involvement in the markets can negatively affect the degrees of openness (free market) or control (closed market). This influence can also manifest itself through property rights in countries where the government has undue powers in regard to property ownership.

The implication of this theory is that most of the policies and market approaches implemented by commercial banks owned by the government are highly subjective to government strategies being rolled out in that period. The assumption is that the state as the major stakeholder supplies resources to these banks but with a lot of 'strings attached'. Therefore, state owned banks will perform well if and only if the ruling government influences competitive strategies.

2.2 Conceptual Framework

Independents Variables



Source: adapted from; Isanzu (2015); Gadi et al., (2015); Gitundu et al., (2016); Kimunguyi et al., (2015); Wale (2015); Ogega (2014); Mugisha et al., (2015); and Wanjiru (2013).

Figure 1: Conceptual Framework for the Relationship between ownership structure and financial performance

The conceptual framework illustrated above shows that ownership structure measured using ownership mix, and ownership concentration, and corporate governance measured using board size, board composition, board gender diversity, and duality of CEO are the independent variables, while financial performance is the dependent variable measured using profitability. The effect of ownership structure when the firm uses either ownership mix or ownership concentration on the profitability of the firm can either be positive or negative. Similarly, corporate governance in terms of board size, composition, gender diversity and CEO duality can also affect the profitability of the microfinance either positively or negatively.,

2.3 Review of Related Literature

2.3.1 Relationship between Ownership Structure and Financial Performance

The divergence of shareholders voting right enables them to acquire and exercise control with considerably minimal involvement of equity. Monks and Minow (2013) highlighted that ownership concentration and financial performance are inversely related such that as ownership concentration of a firm increases, the financial performance decreases. The implication is that a rise in ownership concentration can decrease market liquidity as well as diversification of opportunities which consequently increases the cost of capital of a firm.

According to Jensen and Meckling (1976) the more equity owned by managers the more motivated they are to enhance the firm performance since the equity ownership serves as a monetary incentive. On the other hand, Morck, Shleifer and Vishny (2005) argue that managers with large equity ownership are very rich and powerful and they tend to have less interest in maximizing profit thereby decreasing the financial performance of the firm.

More equity ownership by the manager may decrease financial performance because managers with large ownership stakes may be so powerful that they do not have to consider other stakeholders interest. They may also be so wealthy that they no longer intend to maximize profit but get more utility from maximizing market share or technological leadership etc (Morck, Shleifer and Vishny (2005). A firm with many shareholders or block owners is more competent and well positioned to monitor and control the management of the firm which enhances efficiency and productivity thereby enhancing performance (Shliefer & Vishny, 1997).

Claessens (1995) and Claessens, Djankov and Pohl (1996) too found a positive correlation between ownership concentration and firms‟ performance. In particular, a firms‟ profitability is positively and significantly correlated with the fraction of legal person shares, suggesting that large legal person shareholders (institutional investors) have the incentive as well as the power to monitor and control the behavior of the management, and have played a significant role in corporate governance. Morck et al (2005), Holderness and Sheehan (1988), McConnell and Servaes (1990) in their various studies also tend to share the same view. These studies along with others seem to suggest that there is a positive correlation between shareholdings of large investors and firms‟ performance; and institutional investors appear to be more effective in monitoring firms‟ performance than individual shareholders (Xu & Wang 1997).

However, Demsetz and Lehn (1985) on the other hand, found no significant correlation between ownership concentration and accounting profit rates for 511 large corporations. The ownership-premise is that incentive problems between owners and managers are more pronounced in mutuals and diffused owned firms, but that the mutuals have an offsetting benefit of reducing adverse selection and moral hazard of customers (Hansmann, 1996; Desrochers & Fischer, 2012).

Grossman and Hart (1980) show that if a firm's ownership is widely dispersed, no shareholder has adequate incentives to monitor the management closely as the gain from a takeover for any individual shareholder is too small to cover the monitoring cost. Shleifer and Vishny (1986) develop a model to demonstrate that a certain degree of ownership concentration is desired in order for the takeover market to work more effectively. Thus, the market value of a firm rises as ownership concentration rises for legal persons as a group. Most legal person shareholders have a stake considerably larger than any individual's holding in the sample firms. Large legal person shareholders almost for sure possess seats on the board of directors and on the supervisor. Committee as well. Morck et al (2005) point out that managers respond to two opposing forces. Managers naturally tend to allocate a firm's resources in their own best interests at the expense of outsider shareholders. As management's equity ownership rises, however, their interests become more aligned with those of outside shareholders. The curve that shows the relationship between firms' value and inside ownership can be downward or upward sloping, depending on which of the forces dominates the other.

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

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

2.3.2 Relationship between Corporate Governance and Financial Performance

It is a fact that the objectives pursued by shareholders and corporate managers tend to be differing and contradictory with regards to their own interests. Consequently, this has nurtured the conception of a wide spectrum of approaches and processes ensuring that conflicting interest' spill-over are minimized. One of the compromises that have been given birth to address this divergence is corporate governance. At its very root, according to some researchers (Harris and Raviv, 2008, Larcker, Richardson and Tuna, 2007) the theoretical platform on which foundations of corporate governance is built is weak and as such finds itself deprived of any theoretical base. Tricker (2000) and Parum (2005) also have the same line of reasoning and conclude that studies carried out on corporate governance have not been consistent whether empirically, methodologically, or even theoretically. As such, a vast number of theoretical frameworks have seen the day, stemming from the fields of economics, finance, management or even sociology, so as to serve as a basis for researchers in their analysis of CG.

Though to some (for instance Stiles and Taylor 2002), these piecemeal attempts to understanding CG leave them skeptic about the actual function of the BOD in a company, others like Solomon and Solomon (2004) have adopted an optimistic position and consider that these differing frameworks share commonalities on a theoretical base. The well-known and widely discussed theories are the Agency cost theory (interested readers are referred to Berle and Means, 1932; Jensen and Meckling 1976), the Stakeholder theory (see Freeman et al., 2004; Kiel and Nicholson, 2003b; John and Senbet 2014); the stewardship theory (Donaldson, 1990; Pfeffer, 1972) and the resource dependency (Ruigrok et al., 2006).

In several studies governance variables have been found to have somewhat inconclusive results with regards to various performance measures. The influence of corporate governance on the MFIs' performance has not been empirically studied before, partly due to lack of data (Hartarska 2015). Corporate governance however, has been noted to have a visible impact on the performance of firms. In examining this relationship, board characteristics such as the size of the board, its independence, and whether the CEO combines as the board chairman, among others have been used as governance indicators.

Small board sizes have been noted to improve firm performance, Ellstrand and Johnson (2014); Hamid (2013); Lipton and Lorsch (1992), Yermack (1996), Eisenberg et al. (2011), Mak and Yuanto (2003), Sanda et al. (2005). However, Kyereboah (2007), in his study, argues that board size is positively related to profitability and negatively related to outreach. In addition to that, he concurs with other studies that independence of a board is positively related to profitability and outreach of MFIs.

Some researchers have found support for the relationship between frequency of meetings and profitability. Others have found a negative relationship between the proportion of external directors and profitability, while others found no relationship between external board membership and profitability. Regarding, “board independence”; measured by the proportion of outsiders on a board. The argument is that the larger the proportion of outsiders on a board, the more independent the board is. Studies on the impact of this variable on firm performance have been largely inconclusive. Early work by Fama and Jensen (1983) contends that independent directors provide a means to monitor management activities through an increased focus on firm financial performance. Lee, Rosenstein and Rangan (Lee *et al.*, 1992) support this view and provide evidence that boards dominated by outside directors are associated with higher returns than those dominated by insiders.

Similarly, Pearce and Zahra (1992) point out that there is a positive correlation between the proportion of independent directors and firm financial performance. Baysinger and Butler (1985) report that changes in board composition over a ten-year period from 1970s to 1980s had a causal relationship with accounting performance. In addition, Millstein and MacAvoy (1998) find a statistically significant relationship between active, independent boards and superior firm performance. Independent boards are therefore considered better able to monitor the CEO on the behalf of the owners.

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

When it comes to decisiveness, larger and more heterogeneous boards can bring about higher decision costs (Mueller, 2003). A reason for this is that a larger board may induce members to free ride in monitoring, giving the CEO a freer position. Yermack (1996);Eisenberg et al. (2011); Bhren and Strim (2005) report that larger boards are associated with lower firm performance, measured as Tobin's *Q* or ROA, and Hartarska (2015) adds the same negative result in ROA regressions for MFIs. Adams and Mehran (2003) give contrary evidence for banking firms in the USA. Larger boards improve Tobin’s Q significantly, but show no significance for ROA.

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

Kyereboah in his 2007 study notes that; the position of CEO and board chairman must be separated stressing the importance of the two-tier board structure in firm performance. It is evident therefore that corporate governance structures influence the performance of the microfinance Sector. Indeed, within the governance structures the two-tier board structure is seen to be more effective compared to the one-tier system. The separation of board chairman and chief executive officer minimises the tension between managers and board members and thus influences positively the performance of MFIs. Furthermore, the powers of the CEO have been examined in detail. The conclusion is that, in situations where a CEO doubles a board chairman, it leads to conflict of interest which increases the agency costs thereby stifling performance. The literature therefore has been in favour of two people holding these two critical positions in an organisation, (Steinwand, 2000). In addition to that, Hartarska (2015) while investigating the relationship between governance mechanisms and financial performance utilized three surveys of rated and unrated east European MFIs from three random samples in the period 1998 to 2002. She finds that a more independent board has better ROA, but a board with employee directors gives lower financial performance and lower outreach.

A CEO/chairman duality may be a sign of CEO entrenchment (Hermalin and Weisbach, 2012), that is, the opposite of independence, since then the CEO may pursue policies that give him private benefits. However, Brickley et al. (1997) did not find that firms with a CEO- Chairman split outperformed those with a CEO-chairman duality. On the other hand Oxelheim and Randy (2003) found that firm performance was better in firms with international directors which they consider to be an indication of independence. Other studies reiterate that when there is a conflict of interest as a result of a CEO doubling up as board chairman leading to higher agency costs, performance is worse. The results show that CEO duality has negative impact on both profitability and outreach and confirms earlier studies by Berg and Smith (1978), Sanda et al. (2005), Daily and Dalton (1992), and Brickley et al. (1997). Furthermore, Yermack (1996) argues that firms are more valuable when the CEO and board chair positions are separate. He however notes that while this variable is significant in explaining profitability, it is insignificant in explaining outreach.

2.3.3 Corporate Governance

Although corporate governance is now a buzzword, in 1990 it was a backwater. Despite Some notable exceptions, such as the Cadbury Report in the UK in 1992, or the first King Report on

Corporate Governance in South Africa in 1994, the rise of corporate governance began in the late 1990s. Corporate governance has in one form or the other existed in business since the birth of the limited liability form of corporation. However, it was the pioneering work of Berle and Means that led to the development of the entire body of literature which focused on managerial expropriation of shareholder value. Different authors have studied corporate governance in different ways yet the primary contribution has been to the body of knowledge that has its genesis in the Berle and Means (1932) "*Theory of separation of ownership and control"*, (Praveen, 2004). Berle and Means (1932) tried to look at corporations and property rights. In their study, a fundamental agency problem in modern firms is described where there is a separation of ownership and control. The thrust of the argument is that firms are run by professional managers (referred to as agents) and are accountable to dispersed shareholders (referred to as principals). This view fits into the principal-agent paradigm where there is a divergence between the objective functions of firm managers and firm owners. In this scenario, the issue has always been how to ensure that the interest of shareholders and managers are aligned ensuring a convergence of the different objective functions thereby reducing cost associated with principal-agent theory.

What stands out is that the nature of governance structure is predominantly determined by agency cost. Thus, the introduction of a good governance structure helps to discourage managers from working towards the achievement of goals that do not seek to maximize shareholders wealth. The argument by Musa (2016) point to the fact the absence of governance controls would allow managers to pursue interests that are likely to deviate from that of the corporate owners.

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

The phrase corporate governance is often applied narrowly to question the structure and functioning of the boards of directors, (Blair 1995). This view is found amongst some business scholars and management consultants. Donaldson (1990), looked at corporate governance as the structure whereby managers at the organizational apex are controlled through the board of directors, its associated structures, executive incentives and other schemes of monitoring and bonding. This view was also reflected by Hilmer (1993). A number of definitions have been given to corporate governance. According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors.

Corporate governance on the other hand is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability, (Deakin and Hughes, 2013). Corporate governance is "the whole set of measures taken within the social entity that is; an enterprise to favour the economic agents to take part in the productive process, in order to generate some organisational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organisation", (Maati, 1999). Kyereboah (2007), stressed that an understanding of this definition brings to the fore the core issue of incentive and control mechanisms that allow an organisation to develop while maintaining a balance between the interests of all parties. As in financial and economic literature, in microfinance, this has brought a strong focus on some pertinent issues.

It has also been defined by Keasey et al., (2010) to include the structures, processes, cultures and systems that engender the successful operation of the organisations. The Cadbury Committee (Cadbury, 1992, p. 15) defined corporate governance as the system by which companies are directed and controlled. From these definitions it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

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

According to Meisel (2007), key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization and if they are practiced, can enhance good organizational performance. He adds that in particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.However, Hovey and Naughton (2007), indicate that commonly accepted principles of corporate governance include the following; Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings. In addition to that, Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

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

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

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

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

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

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

Balance of power: The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met (Kyereboah 2007).

Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behaviour (Kyereboah 2007).

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include: competition, debt covenants, demand for and assessment of performance information (especially financial statements), government regulations, managerial labour market, media pressure and takeovers. It should however be noted that, discussions on corporate governance have largely centered around large firms and in most cases in advanced economies. Stephen and Backhaus (2003) have highlighted that the problem of corporate governance is that of ensuring that enterprises operate in the interest of their owners and not the interests of managers and this emanates from the concept of separation of ownership and control (Kyereboah 2007).

2.3.3.1 the agency theory and the Role of Women in the Boardroom

Agency theory is concerned with the inherent conflicts between the interests of agents (directors and senior managers) and the interests of the principals (owners) whose capital is at risk. Boards perform an important dual role as both monitors and advisers (Adams and Ferreira, 2007). There is evidence that female board members are likely to take a more active role compared to their male counterparts (Virtanen, 2012). Women are also more likely to ask questions in the boardroom (Bilimoria and Wheeler, 2000), to debate issues (Ingley and Van der Walt, 2005), to exhibit participative leadership and collaboration skills (Eagly and Johnson, 1990) and to apply higher ethical standards (Pan and Sparks, 2012). The ability of women to influence board decisions seems to increase with their numbers, particularly for boards with more than one woman (Fondas and Sassalos, 2000) or three women (Konrad and Kramer, 2006; Torchia et al., 2011). There is also evidence that female board members are better prepared for meetings

(Pathan and Faff, 2013) and that they attend more board meetings (Adams and Ferreira, 2009). The weight of evidence from these studies suggests that female directors can enhance board monitoring and thereby improve firm performance

2.3.4 Financial Performance

Apart from ownership of the firm, there are other factors that have been researched and are deemed to have significant influence on the performance of a firm. According to Aburime (2009) the significance of profitability of banks can be assessed both at the microeconomic and macroeconomic levels. At the microeconomic level, profit is the fundamental driving factor enhancing competition in banks and a necessity for successful banking in the highly competitive banking industry. The implication is that the main objective of every bank management is to capitalize on profit.

There are three major indicators used to measure profitability of commercial banks. The first one is Return on Assets (ROA) which is a ratio of Income to the total assets of the bank. ROA indicates the ability of the bank to realize return on its sources of fund to generate profits. Secondly, Return on Equity (ROE) is the net profit divided by shareholders' equity and is expressed in percent. It indicates how efficient the bank is utilizing funds invested by the shareholder. The thirdly, Net Interest Margin (NIM) indicates the difference between interest income and interest expense as a percentage of total assets. It reflects the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds (Khrawish, 2011).

CAMELS rating system was developed by the Federal regulators in United States of America to assess the overall condition of banks in 1979. Initially the rating was referred to as CAMEL which is an acronym of five component measures of performance namely: Capital adequacy, Asset quality, Management Quality, Earnings Quality, and Liquidity. In 1996 the sixth component- Sensitivity to market risk was added (Siems & Barr, 1998). Dash & Das (2009) did a CAMELS analysis of the Indian Banking Industry by comparing the performance of twenty-nine state owned banks with that of twenty-nine foreign banks between 2003 and 2008. The findings concluded that foreign banks performed much better than state owned banks. The study underscored that the two factors of the CAMEL parameters that contribute to the best performance of the foreign banks were the management soundness and profitability.

According to the type of financial institution under study, and they core operational doing and the service giving by them , our study will be more focus on only 4 determinants of financial performance :

Capital Adequacy

Capital adequacy is the capital level required to maintain balance with the operational, credit and market risks exposure of the financial institution in order to accommodate potential losses and safeguard the debt holders of the financial institution. Bank supervisors use the capital-risk asset ratio to measure the capital adequacy (Karlyn, 1984).

Capital adequacy as a component of CAMELS rating focuses on the management ability to deal with marginal capital needs, the nature of the composition of the balance sheet, the quality of capital and ability to access sources of capital including capital markets, the volume of assets and capability of acquiring loans (Uniform Financial Institutions Rating System, 1997).

Asset Quality

Most banks usually fail owing to poor quality of their assets. Loans are the riskiest assets of a bank with most of the loan losses arising from delinquent loans. Non-performing loans ratio and provision to loan losses reserve are the best indicators of asset quality. Financial institutions are regulated to cushion the bad debts by having adequate provisions to the loan loss reserve (Frost, 2004).

Asset Quality is the extent of financial strength and risk in the assets of a bank which comprise of loans and investments. Asset quality indicates the credit risk levels associated with the assets. A comprehensive evaluation of asset quality is one of the most important components in assessing the current condition and future viability of the bank. Asset quality as a component of CAMELS rating is based on the trend, comparison, quality, diversification and level of loans issued by the bank and investment portfolios, credit rating resulting from off-balance sheet transactions and the ability of the bank to identify and recover risky assets. Grier (2007)

Management Quality

Management quality refers to the ability and competency of the management to detect, evaluate, and mitigate the risks associated with the business activities of the financial institution and also ensure that the operations are compliant with the set rules and regulations (Uniform Financial Institutions Rating System, 1997). According to Grier (2007) management is regarded as an integral element in the CAMEL rating since it is fundamental in the success of a bank. Management quality is rated upon the quality and level of supervision by the institutions board of directors and management, adherence to internal policies and adequacy of the internal controls, the leadership and quality of the directors, tendencies towards self-dealing and overall performance of the bank.

Earning Quality

Earnings quality refers to the amount, trend and factors influencing the sustainability of earnings. Poor management can result in significantly high losses in loans leading to high level of market risks. Adequate management ensures that the financial institution registers better future performance in earnings which should be given equal or greater value than previous performances (Uniform Financial Institutions Rating System, 1997). Consistent profits develop public confidence in the financial institution, the earnings cushions the bank from loan losses and ensures that the allocated provisions are adequate and most importantly enhances shareholders' value. Profitability ratios are usually used to evaluate the ability of a bank to generate earnings from revenue and assets. As a CAMELS rating component the focus is mainly on the quality, level and sources of earnings, adequacy of retained earnings that provide enough capital to the bank, the efficiency of the bank in terms of levels of operational costs, ability of the bank to budget effectively and manage information systems and also the earnings exposure to foreign exchange, price and interest rates risks (Grier, 2007).

Liquidity

Liquidity refers to the ability of the institution to cater for its financial obligations both in the present and in the future. Since financial institutions derive income by raising short-term deposits at lower interest rates and issuing loans and also investing these funds in long-term at higher rates; there is the risk of the bank mismatching its lending interest rates (Rudolf, (2009). A bank should always have sufficient liquidity sources compared to present and future needs, and also have assets that can easily be converted to cash without undue loss. Liquidity as a component of CAMELS rating is based on efficiency of the bank to convert its assets to cash without undue loss, the extent of diversification of funding sources, the stability of the deposits and competency of the bank to monitor and control its liquidity positions. Grier (2007)

2.5 Related Studies

Isanzu (2015) conducted a study on the effect of ownership structure and financial performance in two Chinese banks. This study aimed at investigating the relationship between state-owned and joint venture type of ownership structures by testing whether or not there is a difference in their performance. The study used quantitative methods to find out if there was a significance difference in performance of two types of firms namely State Owned and Joint venture. The variables used were Return on asset, Return on Equity, Capital Adequacy, Nonperforming Loans and Earnings per Share. Further, T-test was used to test the difference in performance of the two types of firms. The results have revealed that there was no significant difference in performance between the two types of ownership structure. Statistically, the performance of state-owned and joint ventures was the same. This meant that the efforts to radicalize the state-owned companies have paid off by eliminating the impact of ownership structure on financial performance of the firm.

Gadi et al., (2015) conducted a study in the impact of corporate governance (CG) on microfinance bank's financial performance in Nigeria. It utilized secondary data which were obtained from the annual reports and accounts of the twenty three microfinance banks. The data generated for the study were analyzed using Pearson correlation coefficient, ordinary least square regression. The analysis of data determined whether the following corporate governance functions – Board Composition (BC) and the Composition of Board Committees (CBC) had significant relationship with banks financial performance. Earnings per share (EPS) and return on assets (ROA) were used as proxies for financial performance. The Pearson correlation showed that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis showed that no significant relationship existed between corporate governance and bank's financial performance. However, there were areas of non-compliance which included the appointment of Executive Directors and Managing Directors and sometimes Chief Executive Officer as Board committee members. Finally, the study recommended that, board of directors of microfinance banks should adhere strictly to the provisions of the code of corporate governance on Board Composition (BC) and Composition of Board Committees (CBC).

Gitundu et al., (2016) investigated the effects of ownership and corporate governance reforms on efficiency of privatized companies in Kenya for the period 2007-2013. Data was extracted from financial reports. A unit root test examined stationarity of data. A fixed effects (FE) regression model with a robust standard error option was used to control for firm specific effects which could bias results. The results indicated government ownership had a negative effect on cost and technical efficiency. Local institutional investors influenced technical efficiency positively. Large individual shareholders had a positive influence on cost efficiency while dispersed ownership influence cost efficiency negatively. Both non-executive and women directors influenced cost efficiency positively. This study recommended further reduction of state and dispersed ownership to pass more ownership and control to institutional investors.

Kimunguyi et al., (2015) conducted a study on the effect of corporate governance on financial performance of NGOs in health sector in Kenya, applying agency theory. The study adopted time series research design and applied stratified sampling technique on a sample size of 270 NGOs. Data analysis was done by applying descriptive and linear regression statistical analysis. Regression results revealed that corporate governance had significant influence on financial performance of NGOs in health sector in Kenya and tests for significance also showed that the influence was statistically significant ($r=0.342$). Embracing corporate governance practices therefore positively influenced financial performance of NGOs in health sector in Kenya.

Wale (2015) conducted a study on the effect of governance dimensions such as board diversity, external governance and ownership structures on the sustainability and outreach performance of Ethiopian MFIs. A panel data of 13 MFIs for 6 years (2003-2008) was used for the study. The result indicated that more women on board of directors helped in depth of outreach whereas board members with a financial skill and local businessmen reduced depth of outreach. Regulation had an opposite effect in that it reduced sustainability without curtailing depth of outreach. Rating of MFIs activity by rating agencies was found to have a good effect of increasing sustainability and at the same time cater for more women borrowers. On ownership structure it was found that MFIs dominantly owned by individual investors lends less to women and more profitable indicating the commercial orientation of their operation.

Ogega (2014) conducted a study on the effects of ownership structure on financial performance of commercial banks in Kenya. Secondary data is on bank ownership and accounting data from financial annual reports of all the respective banks from the NSE and in the CBK website for a period of five years between the year 2009 and 2013. Multiple regression analysis was used to determine the effect of ownership structure on the financial performance of commercial banks in Kenya. From the findings the study revealed that ownership structure positively affects the financial performance of commercial banks in Kenya. The study also revealed that there was strong positive relationship between ownership structure and financial performance of commercial banks in Kenya. The study further revealed that a unit increase in foreign ownership would lead to increase financial performance of commercial banks in Kenya. The study found that domestic ownership of the bank significantly affects the financial performance of commercial banks in Kenya. From the finding the study concludes that government ownership significantly affect the financial performance of commercial banks in Kenya. From the finding the study revealed that a unit increase in ownership concentration would lead to increase in financial performance of commercial banks in Kenya.

Mugisha et al., (2015) investigated the effect of corporate governance on financial performance of commercial banks in Rwanda. The study has four objectives which determined how board size, CEO duality, institutional ownership, board composition affect financial performance of commercial banks in Rwanda. The study adopted a descriptive research design which assisted to examine the effect of corporate governance on financial performance of commercial banks. The key findings for this research were showing that board independence, board composition, institution ownership do not have an effect on financial performance since the majority of respondent had disagreed the effect of corporate governance variables on the financial performance of commercial banks. The analysis of variance had shown that corporate governance variables were not significant predictors to explain the increase of profitability represented by return on asset and return on equity since the p value was 0.447 and 0.186 respectively. The study concluded that there was no effect between corporate governance using board size, board composition CEO duality as well as institutional ownership were not predictors of financial performance and recommended the regulatory body of commercial banks in Rwanda to provide guidance on the use of corporate governance practices which may impact positively the financial performance of commercial banks.

Wanjiru (2013) investigated the effects of corporate governance on the financial performance of listed companies at (NSE). Specifically, this study examined board size, board composition, CEO duality and leverage and how they affect the financial performance of listed Companies at (NSE). Firm performance was measured using Return on Assets (ROA) and Return on Equity (ROE). This study adopted a descriptive research design. Data was analyzed using a multiple linear regression model. The study found that a strong relationship exist between corporate governance practices under study and the firms' financial performance. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed firms.

2.6 Research Gaps

Several studies by Isanzu (2015); Gadi et al., (2015); Gitundu et al., (2016); Kimunguyi et al., (2015); Wale (2015); Ogega (2014); Mugisha et al., (2015); and Wanjiru (2013) were conducted in different sectors including commercial banks, health sectors, microfinance institutions; however, none of the above studies was done in the sector of deposit taking microfinance, hence posing a contextual gap which this study investigated.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

In this chapter, the research design, population of study, sample size determination and selection strategies, data collection methods and general data management approaches are presented. Any limitation of the study will be highlighted here.

3.2 Research Design

The study employed a descriptive research design to investigate the relationship between ownership structure, corporate governance and financial performance of the deposit taking microfinance institutions in Uganda. Descriptive design is one in which a group of people or items is studied by collecting and analyzing data from only a few people or items considered to be representative of the entire group. In other words, only a part of the population is studied, and findings from this are expected to be generalized to the entire population (Nworgu, 1991). Descriptive design is helpful in revealing connections, patterns and relationships since it allows for analysis of data to determine a pre-existing relationship and researcher makes no attempt to manipulate the independent variable (Mule, et al., 2013). According to Maxwell (1998) descriptive study is where information was collected without changing the environment. The reason for using descriptive study in this research was because it is widely used to demonstrate associations between variables and especially in studies involving collection of data using existing record.

3.3 Study Population

The study population was all the deposit taking microfinance institutions in Kampala. The researcher had targeted to use data for all deposit taking microfinance institutions listed by Association of Microfinance Institutions of Uganda and by central bank of Uganda which were actually four (4) in number. The data analysed was for the period from the year 2011 to 2016. The choice of this period was based on the data availability from various sources. The study investigated the entire study area and as such.

3.4 Sample Size

A sample is a portion of the total population (Rwegoshora, 2006). Sampling is a process of selecting a number of individuals or objects from the population such that the selected group contains elements representative of the characteristics found in the entire group (Kombo; Tromp, 2006). Impossible for us to make a sampling because of the number of deposit taking microfinance institution in Uganda (4) and the researcher was able to obtain data for all the 4 microfinance registered therefore no sampling was done.

3.5 Data Collection Techniques

This study employed annual secondary data which was collected by accessing public data from the reliable websites like: www.Bou.org (the website of the central bank of Uganda), www.Ugandabankers.org, and also via Deposit taking microfinance institutions microfinance institutions websites since some of the DMIs post their annual financial reports there. Secondary data's was also available from the library of the association of microfinance Institutions in Uganda which have an interesting all kind of documentation about DMIs in Uganda for more years. This means that all the study variables utilized quantitative data but annual type.

3.6 Model Specification

Empirical testing regarding the effect of ownership structure on financial performance and the effect of corporate governance on financial performance was suggested as shown using a Linear Model. The mathematical representations for the linear model are shown below:

Objective one: the effect of ownership structure on financial performance

$FP\ (NIM, ROA, ROE)_{it} = \alpha_{it} + \beta_{it}\text{Ownership Structure} + \mu_{it}$………………………… (1)

Objective two: the effect of corporate governance of financial performance

$FP\ (NIM, ROA, ROE)_{it} = \alpha_{it} + \beta_{it}\text{Corporate Governance (BDS, BDC, GENDER, DUAL)} + \mu_{it}$………………………… …. (2)

Where:

- ✓ α_{it} is the unknown intercept for each entity($_i$) and for a specific time ($_t$).
- ✓ β is the coefficient for that IV,

- ✓ μ is the error term (disturbance variable)
- ✓ t year under observation (6 years)
- ✓ Dependent variable FP (Financial Performance) represents ROA, ROE, NIM

ROA Return on Assets

ROE Return on Equity

NIM Net income margin

- ✓ Independent variable represents BDS, BDC, GENDER, DUAL, OWNER

BDS Board Size

BDC Board Composition

GENDER Gender (inclusion of women in the board)

DUAL (Both CEO and Chairperson of the board)

OWNER ownership structure

3.7 Measurement of Variables

The table below shows the variables, their symbols and how they are measured.

Table 3.1: Measurement of Variables

Variable	**Symbol**	**Measurement**
CEO Chairman duality	DUAL	This is an independent variable which is measured by the percentage of microfinance institutions having both the Chairman as CEO.
Board Size	BDS	This variable is measured by the number of Board Members in the DMI.
Ownership of DMFI	OWNER	This variable represents the legal ownership of the DMI. It is a dummy variable where 1 represents DMI is a shareholder firm or 0 if mix Ownership or ownership concentration.
Board Gender Diversity	GENDER	This is an independent variable which is measured by the percentage of DMI who's board members or CEO is a woman.
Board Composition	BDC	This variable is measured by the percentage of non-Ugandan

		directors in the Board as a measure of board independence.
Financial Performance	ROA	This dependent variable is measured as the Return on Assets (ROA). ROA is measured as the ratio of Earnings before Interest and Taxes to Total Assets (EBIT/TA).
	REO	Return on Equity (ROE) is the net profit divided by shareholders' equity and is expressed in percent. It indicates how efficient the DMI is utilizing funds invested by the shareholder.
	NIM	Net Interest Margin (NIM) indicates the difference between interest income and interest expense as a percentage of total assets. It reflects the gap between the interest income the DMI receives on loans and securities and interest cost of its borrowed funds

Source*:* Adapted from Siele (2013)

3.8 Data analysis and presentation

The effect and relation of independent variable toward dependent variable in this research was analyzed by using fixed and random effect model. Specifically, by using Hausman test. The decision rule for p-value (i.e. p=0.05) was that if the calculated value was less than 0.05, then there was a significant effect, however, there was no significant effect if the calculated value was more than 0.05.

3.9 Ethical Considerations

The researcher carried out this study with due regard to the issue of privacy and confidentiality to the DMIs. The research data used will not be shared with anybody that would use it for a competitive advantage but was purely used for academic purposes.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the analysis of the data gathered and interpretation thereof. It gives the demographic characteristics of the respondents and variables used.

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
Number of board members	6.00	8.00	7.1667	.75277	.567
Number of outside directors	1.00	3.00	2.0000	.89443	.800
Number of Women in the board	2.00	3.00	2.3333	.51640	.267
CEO_DUALTY	.00	1.00	.9166	.28232	.07971
OWNER	.00	1.00	.9166	.28232	.07971
ROA	4.80	7.90	6.1500	1.27083	1.615
ROE	4.60	8.80	5.9667	1.55906	2.431
NIM	19.40	22.60	20.3500	1.19624	1.431

The results presented in table 4.1 revealed that the average number of board members is 7.1667, which is very good since the minimum number for most organizations was 6 and the maximum number of board members was 8. Furthermore, the number of outside directors was fairly represented given the fact that the average number was 2, while the minimum and maximum numbers were presented by 1 and 3 respectively. In addition, the number of women in the board was averaged at 2, with the minimum and maximum over the years under survey being 2 and 3, respectively. Similarly, the study found that there was low CEO duality (manager playing the CEO role) and ownership mix. Furthermore, the results also indicated that ROA of the companies surveyed was quite high given the average of 6.1500, and the variance of 1.615. However, return on equity was low if the maximum and the minimum values are compared with the average of 5.9667. On the other hand, the net income margin was considerably high if the mean of 20.3500 is compared with the minimum and the maximum values.

4.2 Hausman Test Result

We have run the Hausman test for our work using different variables use as measuring toll of our DV (Financial performance): ROA ROE NIM and after testing, the result was that the RANDOM **EFFECT MODEL** was the suitable model for all the 3 variables. In appendix the Haussmann's result for all the Variables.

The Hausman' hypothesis was:

H0: random effect is appropriate

Ha: fixed model is appropriate

According to Baltagi, B.H. 2005 The decision's rule for a Hausman test was:

if

- ❖ Prob>5% we accept H0
- ❖ Prob<5% we accept Ha

4.3 The Effect of Ownership Structure on the Financial Performance of Deposit Taking Microfinance Institutions in Uganda

The first objective of this study was to determine the effect of ownership structures on financial performance in Deposit taking microfinance institutions in Uganda. Ownership structure was measured by shareholder or mixed ownership/ownership concentration. However, all the deposit taking microfinance institutions in this survey were shareholder firms. Table 4.1 gives the summary of the findings.

Table 4.2: The Effect of Ownership Structures on Net Income Margin of Deposit Taking Microfinance Institutions in Uganda

NIM	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-.7107213	1.493565	-0.48	0.634	-3.638056	2.216613
BDC	-5.475007	.9724673	-5.63	0.000	-7.381008	-3.569006
GENDER	2.768301	1.185103	2.34	0.019	.4455411	5.091061
DUAL	4.893689	3.685745	1.33	0.184	-2.330238	12.11762
OWNERSHIP	10.2705	3.684407	2.79	0.005	3.049195	17.4918
_cons	17.37064	8.775451	1.98	0.048	.1710713	34.57021

The results presented in table 4.2 revealed that ownership structure significantly affects net income margin (p<0.05). In other words, ownership structure has a significant influence on net income margin (financial performance). Furthermore, a unit change in ownership structure will cause a change in net income margin times 10 (i.e. x 10) (coefficient=10.2705). Therefore, this implies that ownership structure has a big influence on net income margin, hence rejecting the null hypothesis that there is no significant effect of ownership structure on the financial performance of deposit taking microfinance institutions in Uganda.

Table 4.3: The Effect of Ownership Structures on Return on Assets of Deposit Taking Microfinance Institutions in Uganda

ROA	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-1.468299	.3858276	-3.81	0.000	-2.224508	-.7120912
BDC	2.225691	.2386116	9.33	0.000	1.758021	2.693361
GENDER	1.65089	.476239	3.47	0.001	.717479	2.584301
DUAL	1.463415	1.634089	0.90	0.370	-1.739342	4.666171
OWNERSHIP	-2.341528	.8896994	-2.63	0.008	-4.085306	-.5977488
_cons	8.796381	1.252337	7.02	0.000	6.341846	11.25092

The results in table 4.3B revealed that ownership structure has a statistically significant influence on return on assets (financial performance) ($p<0.05$). The results further revealed that a unit change in ownership structure negatively affects financial performance (return on assets) by two times (coefficient=-2.341528).

Table 4.4: The Effect of Ownership Structures on Return on Equity of Deposit Taking Microfinance Institutions in Uganda

The results presented in table 4.4 revealed that ownership structure has a statistically significant effect on return on equity ($p<0.05$). The results further revealed that ownership structure negatively affects financial performance (return on equity) only once (coefficient=-1.381643).

ROE	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-.7897356	.7287422	-1.08	0.278	-2.218044	.638573
BDC	2.173716	.2106595	10.32	0.000	1.760831	2.586601
GENDER	1.512986	.4407491	3.43	0.001	.649134	2.376839
DUAL	3.717734	1.432056	2.60	0.009	.9109567	6.524512
OWNERSHIP	-1.381643	.4965115	-2.78	0.005	-2.354787	-.4084979
_cons	2.070679	4.720942	0.44	0.661	-7.182198	11.32356

4.4. The Effect of Corporate Governance on the Financial Performance of Deposit Taking Microfinance Institutions in Uganda

The second objective of this study was to determine the effect of corporate governance on the financial performance of deposit taking microfinance institutions in Uganda. Corporate governance was measured using the number of board members (BDS), number of outside directors (BDC), number of women in the board (GENDER) and CEO duality (DUAL) (i.e. CEO is both chairperson of the board and general manager of the institution). Financial performance was measured using return on assets (ROA), return on equity (ROE), and net interest margin (NIM). Table 4.5 gives the summary of the findings.

Table 4.5: The Effect of Corporate Governance on the Net Income Margin of Deposit Taking Microfinance Institutions in Uganda

NIM	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-.7107213	1.493565	-0.48	0.634	-3.638056	2.216613
BDC	-5.475007	.9724673	-5.63	0.000	-7.381008	-3.569006
GENDER	2.768301	1.185103	2.34	0.019	.4455411	5.091061
DUAL	4.893689	3.685745	1.33	0.184	-2.330238	12.11762
OWNERSHIP	10.2705	3.684407	2.79	0.005	3.049195	17.4918
_cons	17.37064	8.775451	1.98	0.048	.1710713	34.57021

Decision rule: *the Significant effect is at (p=0.05)*

The results presented in table 4.5 revealed that CEO duality (DUAL) (p=0.184) and board size (BDS) (p=0.634) have no significant effect on net income margin (p=0.184). In other words, CEO duality and board size have no significant effect on financial performance of deposit taking microfinances. However, board composition (BDC)(p=0.000) and Gender (GENDER)(p=0.019) have a significant effect on financial performance (p<0.05). This implies that having women as members of the board is instrumental in enhancing the financial performance of the microfinance institution in terms of net income margin. Furthermore, having members of the board who are not from Uganda can necessarily bring in knowledge and experiences that can be useful in improving the financial performance of the microfinance institution.

Table 4.6: The Effect of Corporate Governance on the Return on Assets of Deposit Taking Microfinance Institutions in Uganda

ROA	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-1.468299	.3858276	-3.81	0.000	-2.224508	-.7120912
BDC	2.225691	.2386116	9.33	0.000	1.758021	2.693361
GENDER	1.65089	.476239	3.47	0.001	.717479	2.584301
DUAL	1.463415	1.634089	0.90	0.370	-1.739342	4.666171
OWNERSHIP	-2.341528	.8896994	-2.63	0.008	-4.085306	-.5977488
_cons	8.796381	1.252337	7.02	0.000	6.341846	11.25092

The results presented in table 4.6 revealed that only CEO duality have no significant effect on the return of assets of deposit taking microfinances (*p*>0.05). In other words, the fact that one is both the CEO and chairperson of the board does not guarantee an influence on the return on assets of an institution. However, board size, board composition and gender were found to significantly affect the return of assets of deposit taking microfinances (*p*<0.05). This is because, the bigger the board, the more likely it is to perform well, and the inclusion of women as board members can bring up the feminine expertise of how finances are grown and managed.

Table 4.7: The Effect of Corporate Governance on the Return on Equity of Deposit Taking Microfinance Institutions in Uganda

ROE	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
BDS	-.7897356	.7287422	-1.08	0.278	-2.218044	.638573
BDC	2.173716	.2106595	10.32	0.000	1.760831	2.586601
GENDER	1.512986	.4407491	3.43	0.001	.649134	2.376839
DUAL	3.717734	1.432056	2.60	0.009	.9109567	6.524512
OWNERSHIP	-1.381643	.4965115	-2.78	0.005	-2.354787	-.4084979
_cons	2.070679	4.720942	0.44	0.661	-7.182198	11.32356

The results presented in table 4.7 revealed that apart from board size; board composition, gender and CEO duality significantly affect the return on equity of deposit taking microfinances (*p*<0.05). This implies that financial performance of microfinances consistently need the inter-mix of Ugandan and foreign board members coupled with the inclusion of women. Other than that, the financial performance of microfinances can face a lot of difficulty in the microfinance market.

In summary, we see that net income margin is significantly affected by board composition and gender; while return on assets is affect by board size, board composition and gender; and finally return on equity being significantly affected by board composition, gender and CEO duality. Therefore, the above results reveal that board composition and gender affect all the determinants of financial performance (net income margin, return on assets, and return on equity).

CHAPTER FIVE
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of the study guided by the study objectives. The discussion was done by exploring the research findings relative to what other researchers in the fields that pertain to the variables have confirmed. The study was later concluded and appropriate recommendations accruing from the findings were made.

5.1 Discussion of Major Findings

5.1.1 The Effect of Ownership Structure on the Financial Performance of Deposit Taking Microfinance Institutions in Uganda

The first objective of this study was to determine the effect of the ownership structures on the financial performance of deposit taking microfinance institutions in Uganda. The study revealed ownership structure positively and significantly affects the financial performance of DMIs ($p<0.005$). The null hypothesis was rejected and the alternative hypothesis upheld. The above results show that shareholder ownership has a significant effect on the financial performance of the DMIs.

The above finding is consistent with the finding from a study by Arif (2014) who examined empirically, the influence of ownership structure on microfinance institutions' (MFIs) performance by using The Triangle of Microfinance model. According to ANOVA test, the results showed that ownership structure had an impact on the MFIs' performance, because ownership is an element of governance. However, Mommartz and Schor (2012) found that the lack of real owners of MFI does not necessarily result in unstable and risky institution. Furthermore, evidence from comparisons of Shareholder Firms and None profit organizations in other settings contradict the claim that shareholder owned banks perform better than others (Crespi et al. 2014).

In addition, Dadson (2012) did a study on concentrated share ownership and financial performance of listed companies in Ghana. Data on listed firms at the Ghana Stock Exchange over a period of ten years between 1999 and 2008 was used. The study used panel data regression analysis and performance was measured by using Tobin's Q and ROA. The findings showed that share ownership on the Ghana Stock Exchange is heavily concentrated in the hands of Ghanaians and that ownership concentration, institutional and insider ownership precipitate higher firm financial performance.

Furthermore, a study Duqi and Torlucciob (2013) examined the impact of different ownership identity on risk and performance of microfinance institutions (MFIs) in several developing countries. In particular, the study tested whether different types of shareholders such as banks, social investors, Government entities, institutional investors and others may differently modulate the social performance of MFIs, their financial sustainability, and riskiness. The results showed that different shareholders may have conflicting goals; some of them are interested in MFI profitability, others are more focused on social performance.

However, the above finding is inconsistent with that of Mwathi (2009) who studied the relationship between commercial banks' financial performance and their ownership structure. Using regression analysis, the study was centered on banks where the top 10 shareholders hold more than 50% of the shares for the period between 2004 and 2008 in Kenya. The findings showed that both private and state owned banks had a negative correlation with performance.

Furthermore, consistent with the above findings is the study of Morck et al. (2005) who found that negative entrenchment effects on firm performance is associated with high managerial ownership stakes. For example, in areas where legal protection of minority ownership is absent, concentrated ownership is likely to be accompanied by weak and nontransparent disclosures with negative implication for firm performance.

5.1.2 The Effect of Corporate Governance on the Financial Performance of Deposit Taking Microfinance Institutions in Uganda

The second objective of this was to establish the effect of corporate governance on the financial performance of Deposit Taking Microfinance Institutions in Uganda. The study found that corporate governance positively and significantly affects the financial performance of DMIs ($p<0.05$). Therefore, the null hypothesis was rejected and the alternative hypothesis was upheld. The positive effect could imply that the inclusion of women in the board and foreigners is a good ground to provide substantial expertise in the microfinance market.

This study agrees with that of Dutta and Bose, (2006) who found a statistically significant positive relationship between both the presence and the percentage of women on the board of directors and market value added (MVA) and firm value. However, the findings of Zahra and Stanton (2013) disagree with the current study since it found no statistically significant relationship between gender diversity and firm financial performance.

However, corporate governance is essentially about effective leadership, which is characterized by the ethical values of responsibility, accountability, fairness, and transparency. It is a good system that helps to give direction or control to companies. This implies that a clear and functioning corporate governance system can help a firm to attract investment, raise funds, and strengthen the foundation for firm performance. In addition, investors are often attracted to companies that disclose favourable corporate governance issues since they perceive well-governed firms to be less risky. Hence, a company with a sound corporate governance structure will have improved performance.

The current study is also in agreement with the results of a study by Gadi et al. (2015) who did an analysis on whether corporate governance functions: Board Composition (BC) and the Composition of Board Committees (CBC) have significant relationship with banks' financial performance. The Pearson correlation showed that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis showed that no effect exists between corporate governance and bank's financial performance.

Furthermore, Kimunguyi et al. (2015) in their study to establish the effect of corporate governance on financial performance of NGOs in health sector in Kenya found otherwise. Their regression results revealed that corporate governance had significant influence on financial performance of NGOs in health sector in Kenya and tests for significance also showed that the influence was statistically significant.

However, the current study disagrees with the finding of Vintila & Gherghina (2012) who conducted a study on the link between corporate governance and firm performance and found a negative relationship between corporate governance and firm performance using Tobin's Q, price to book value, and price earnings.

A similar study in Sri Lanka examined the relationship between corporate governance and firm performance among 100 listed firms on the Colombo Stock Exchange for 2010–2012 financial years found a negative association between board size and firm performance (Azeez, 2015). Furthermore, the correlation between corporate governance and firm financial performance was found by Li et al. (2015) to be mixed, prompting the conclusion that an executive's personality can affect both corporate governance structures and firm performance.

The above findings therefore show that there are mixed results in previous studies about the effect of corporate governance on the financial performance of a firm. This is because, the size of boards, the gender diversity of the board all influence financial performance differently. But all in all, it is important to appreciate that irrespective of board size and gender diversity, corporate governance is important in every microfinance institution that may want to have a good reputation both to the public and investors. Therefore, the board composition and gender inclusion in the board should be taken as a prerequisite to improve both board performance and financial performance of DMIs.

5.2 Conclusion

The study revealed ownership structure positively and significantly affects the financial performance of DMIs ($p<0.005$). The null hypothesis was rejected and the alternative hypothesis upheld. The above results show that shareholder ownership has a significant effect on the financial performance of the DMIs. The study concluded that oownership structure affects the financial performance of deposit taking microfinance institutions in Uganda.

The study found that corporate governance positively and significantly affects the financial performance of DMIs ($p<0.05$). Therefore, the null hypothesis was rejected and the alternative hypothesis was upheld. The positive effect could imply that the inclusion of women in the board and foreigners is a good ground to provide substantial expertise in the microfinance market. The study concluded that corporate governance affects the financial performance of deposit taking microfinance institutions in Uganda.

5.3 Contribution to New Knowledge

Several studies on ownership structure, corporate governance and financial performance among financial institutions by researches such as Isanzu (2015); Gadi et al., (2015); Gitundu et al., (2016); Kimunguyi et al., (2015); Wale (2015) were done in countries such as China, Nigeria, Kenya, Ethiopia, and Rwanda; however the results have been mixed. In this study, however, ownership structure was found to positively and significantly affect financial performance; while corporate governance, specifically board composition and gender was found to positively and significantly affect financial performance. The new knowledge added to literature of microfinance deposit taking institutions is that, both ownership structure and corporate governance affect the financial performance of these institutions positively.

The study focused on the effects of ownership structure, corporate governance on the performance of DMIs in Uganda. Some of the challenges the researcher faced include: the limited time period of the study; non – availability of data for some MFIs since some institutions are not willing to disclose financial information to the public, Many factors influence performance and not all of them have been controlled for; And making compiling a suitable financial data base difficult thus limiting the study to a few DMIs , The non-availability of complete ownership data of companies has been a constraint in assessment of ownership structure Most DMIs do not freely share their information on their operations.

5.4 Recommendations

Given the findings and conclusions drawn, the following recommendations are made thereof:

Objective one:

From the finding, the study recommends that there is need for deposit taking microfinance institutions to increase their ownership structure, as it was found that ownership structure positively affects the financial performance of the banks.

From the finding, the study recommends that there is need for the management of deposit taking microfinance to increase their domestic ownership, as it was found that domestic ownership significantly affect the financial performance of the banks.

The study revealed that a unit increase in ownership concentration would lead to increase in financial performance of the banks. Thus the study recommends that there is need for deposit taking microfinance to increase ownership concentration.

The management of deposit taking microfinance institutions should promote shareholder ownership structure so as to ensure proper monitoring, accountability and consequent improvement in the finance performance.

The government ownership and dispersed ownership should be reduced further to pass more ownership and control to institutional investors. The role of large individual investors should be enhanced as they have capacity to reduce costs.

Diversity in corporate boards should be enhanced to attract managerial and technical expertise from non-executive directors and women directors.

Objective two:

The management of deposit taking microfinance institutions should strongly encourage the inclusion of female and foreign members, that is, not too big, and not too small, so as promote board independence which will consequently lead to good governance and financial performance.

Furthermore, shareholders of deposit taking microfinance institutions should ensure that their banks' boards of directors comply with the provisions of the central bank codes of corporate governance, as well as other statutes. A board size of 5 members, subject to the maximum of 7, as allowed by the code of corporate governance is recommended.

Corporate governance should be used as a tool to help stem the tide of distress, as it entails conformity with prudential guideline of the government.

The board needs to comprise of well-educated people since they are actively involved in shaping firms strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms.

The study recommends that the board size and composition be considered since they affect the financial performance of the deposit taking microfinance institutions. The number of nonexecutive directors needs to be selected well since they affect financial performance of the firms.

5.5 Areas of Further Studies

The current study looked at only 6 years; hence the results might be fairly difficult to substantiate the effect of corporate governance on financial performance. Therefore, future studies should look at 20 years and above in order to provide comprehensive results.

Furthermore, future studies should be done on a comparative analysis between the corporate governance and financial performance of microfinance institutions and deposit taking microfinance institutions in Uganda.

Future studies should be also done on the growing role of women in the corporate governance of micro finance institutions due to the fact that many research actually gives to women a significant impact in good financial performance of financial institutions but it remaining to know clearly how this happen.

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APPENDIX I: SECONDARY DATA COLLECTION TEMPLATE

Table 1 Data collection Template

Name of the DMI	

	Variable	2011	2012	2013	2014	2015	2016
	INDEPENDENTS VARIABLES						
1	Numbers of board members (BDS)						
2	Numbers of outside Directors(BDC)						
3	Number of women in the board (GENDER)						
4	CEO duality 1 if yes and 0 if no (DUAL)						
5	ownership 1 if Mix and 0 if otherwise (OWNER)						

DEPENDENTS VARIABLES

6	**RAO= EBT-TA**						
	Earnings before tax						
	Total assets						
7	**REO = NP/SE**						
	Net profit						
	Shareholder equity						
8	**NIM=II-IE**						
	Interest Income						
	Interest Expense						

Source: Our Owner Conception

APPENDIX II: DATA COLLECTED

FINCA Ugandan Limited	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Numbers of board members (BDS)	6	7	7	8	8	7
Numbers of outside Directors(BDC)	1	1	1	2	3	2
Number of women in the board (GENDER)	1	1	2	2	3	3
CEO duality 0 if yes and 1 if no (DUAL)	1	1	1	1	0	1
Ownership 0 if Mix and 1 if otherwise (OWNER)	1	1	1	1	1	1
ROA	2.3%	1.8%	0.82%	6.6%	5.9%	3.9%
ROE	2.3	1.8%	2.4%	5.4%	17.7%	13.4%
Net income margin	24.7%	29.8%	27.1%	24.6%	25.1%	23.9%
Pride Microfinance Limited	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Numbers of board members (BDS)	6	6	7	6	6	6
Numbers of outside Directors(BDC)	2	2	2	2	2	2
Number of women in the board (GENDER)	3	3	3	3	4	4
CEO duality 0 if yes and 1 if no (DUAL)	1	1	1	1	0	0
Ownership 0 if Mix and 1 if otherwise (OWNER)	0	1	1	1	1	1
ROA	7.9%	10.6%	8.8%	9.3%	8.9%	8.5%
ROE	6.9%	9.2%	7.9%	7.3%	6.5%	6.2%
Net income margin	28.6%	31.7%	24.7%	24.1%	23.9%	23.1%
UGAFODE(Uganda Agency for development) Microfinance limited	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Numbers of board members (BDS)	6	6	6	7	8	8
Numbers of outside Directors(BDC)	0	0	0	2	2	2
Number of women in the board (GENDER)	0	0	0	0	1	2
CEO duality 0 if yes and 1 if no (DUAL)	1	1	1	1	1	1

Ownership 0 if Mix and 1 if otherwise (OWNER)	0	0	1	1	1	1
ROA	1.3%	1.6%	1.0%	2.1%	2.9%	2.4%
ROE	1.1%	1.0%	1.0%	3.6%	2.1%	2.4%
Net income margin	17.9%	18.1%	16.8%	19.1%	21.8%	22.0%
EFC Uganda Limited	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Numbers of board members (BDS)	6	7	7	9	9	8
Numbers of outside Directors(BDC)	3	4	4	4	4	5
Number of women in the board (GENDER)	2	2	2	4	4	3
CEO duality 0 if yes and 1 if no (DUAL)	1	1	1	1	1	1
Ownership 0 if Mix and 1 if otherwise (OWNER)	1	1	1	1	1	1
ROA	7.4%	7.8%	8.9%	10.3%	8.9%	16.6%
ROE	8.1%	8.4%	8.9%	10.3%	8.9%	16.6%
Net income margin	11.0%	10.8%	12.5%	10.7%	6.9%	9.4%

Data on overall average of the findings from: FINCA Ugandan Limited; Pride Microfinance Limited; UGAFODE (Uganda Agency for development) Microfinance limited; and EFC Uganda Limited

MDI	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Numbers of board members (BDS)	6	7	7	8	8	7
Numbers of outside Directors(BDC)	2	1	1	2	3	3
Number of women in the board (GENDER)	2	2	2	2	3	3
CEO duality 0 if yes and 1 if no (DUAL)	1	1	1	1	1	1
Ownership 0 if Mix and 1 if otherwise (OWNER)	1	1	1	1	1	1
ROA	4.8%	5.5%	4.9%	7.1%	6.7	7.9
ROE	4.6%	5.1%	5.1%	6.7%	8.8	5.5%
Net income margin	20.6%	22.6%	20.3%	19.6	19.4	19.6%