

CORPORATE GOVERNANCE AND TRIPLE BOTTOM LINE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

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ABSTRACT

Statement of the Problem: Corporate governance plays a critical role in the sustainability of Microfinance Institutions (MFIs), which contribute to poverty reduction and financial inclusion. However, recent failures and declining performance of MFIs in Kenya have raised concerns about their governance structures. Between 2022 and 2024, only four of fourteen licensed MFIs reported profits, with the sector recording a combined loss of Ksh. 3.5 billion in 2024.

Purpose of the Study: This study examined the effect of board diversity and board committees on the financial, social, and environmental performance of Microfinance Institutions in Kenya.

Methodology: The study adopted an explanatory research design with a pragmatist philosophical approach. The target population comprised all 14 licensed deposit-taking MFIs registered with the Central Bank of Kenya. Primary data were collected using structured questionnaires administered to senior management, while secondary data were obtained from audited financial reports and regulatory documents. Data analysis employed descriptive statistics, correlation analysis, and hierarchical multiple regression.

Results: The findings revealed that both board diversity and board committees have moderate, positive, and statistically significant effects on TBL performance. Board committees showed a correlation coefficient of $r = 0.612$ ($p < 0.05$), while board diversity showed $r = 0.493$ ($p < 0.05$). Regression analysis indicated that a unit increase in board diversity leads to 0.298 increase in TBL performance, explaining 58.8% of variance, while board committees contribute 0.338 increase, accounting for 60.4% of variance.

Conclusion: Corporate governance mechanisms, particularly board diversity and committee structures, significantly enhance MFIs' capacity to achieve integrated financial sustainability, social outreach, and environmental responsibility, thereby reducing agency costs and aligning institutional actions with stakeholder interests.

Recommendations: MFI boards should strengthen diversity and establish specialized committees. Policymakers should develop Kenya-specific governance frameworks for MFIs and integrate TBL performance indicators into regulatory supervision to promote sustainable performance across financial, social, and environmental dimensions.

Keywords: *Corporate Governance, Triple Bottom Line, Performance, Microfinance Institutions, Kenya*

INTRODUCTION

In today's dynamic business environment, corporate governance has evolved beyond traditional financial performance to encompass long-term value creation and sustainability. Corporate governance refers to the systems, processes, structures, and practices that guide how institutions are controlled and directed, aiming to increase shareholder value, ensure accountability, and foster robust internal control systems (OECD, 2023). It involves effective governance among shareholders, stakeholders, and the board of directors, setting the framework for corporate objectives and performance monitoring (International Finance Corporation, 2023). The board of directors plays a critical role in formulating policies, providing strategic guidance, and overseeing daily operations to ensure that companies comply with regulatory frameworks and achieve long-term sustainability (CCG, 2024; OECD, 2023). This governance structure fosters trust, promotes transparency, and cultivates a culture of accountability, all of which are crucial for organizational success.

Agency conflicts often arise when there is insufficient oversight to align managerial decisions with shareholder interests, particularly in emerging markets where controlling and minority shareholders face complex governance dynamics (Jensen & Meckling, 1976; Bhaduri & Selarka, 2016). Weak governance mechanisms exacerbate these conflicts, leading to misalignment and inefficiency (Iqbal et al., 2019). To mitigate such issues, the Institute of Directors in South Africa (2023) advocates for fair treatment of stakeholders, management accountability, responsible decision-making, and transparency. The need for effective corporate governance became even more apparent after corporate financial scandals like Enron and WorldCom, which exposed the vulnerabilities in governance practices (Standards & Poor, 2004; Dibra, 2016). These failures led to reforms aimed at improving executive oversight at the international level, highlighting the importance of good governance in ensuring long-term organizational stability (Vinten, 2002; Huu, 2011).

In the microfinance sector, corporate governance principles were formulated in response to financial crises and the imminent risk of collapse, as evidenced by the failures of MFIs in Latin America and the Andhra Pradesh microfinance crisis in 2010 (Marulanda et al., 2010; Vishwakarma, 2015). In Kenya, several financial institutions, including Trust Bank, Meridian Bank, and Chase Bank, collapsed due to poor governance structures, prompting regulatory bodies

such as the Central Bank of Kenya, Capital Markets Authority, and Centre for Corporate Governance to establish governance frameworks (Ochego et al., 2019; Waweru & Prot, 2018). These frameworks focus on ensuring the proper functioning of governance mechanisms such as board diversity and committee structures. As MFIs continue to grow, integrating governance structures that align financial, social, and environmental performance has become crucial to their long-term sustainability.

The Triple Bottom Line (TBL) framework has gained prominence, emphasizing the need for organizations to measure both financial and non-financial performance, focusing on economic, social, and environmental sustainability (Das et al., 2025). TBL highlights the interconnectedness of profit, people, and the planet, urging corporations to integrate systems and processes that comply with laws and focus on the collective good of all stakeholders (Rodriguez-Fernandez, 2016). For financial institutions, incorporating environmental, social, and governance (ESG) factors into decision-making processes has become increasingly important, as investors, donors, and clients expect businesses to prioritize these aspects alongside financial performance (Menicucci & Paolucci, 2022). Effective corporate governance practices play a crucial role in achieving TBL goals, ensuring that firms consider economic, social, and environmental dimensions in their operations, thus fostering long-term value creation and societal impact (Madhani, 2017).

STATEMENT OF THE PROBLEM

Microfinance institutions (MFIs) are essential for providing financial and non-financial services to underserved populations, contributing to economic development. However, despite their rapid growth globally, the sector has faced recurrent crises, often rooted in weak corporate governance and inadequate risk management. For example, governance failures have led to the collapse of MFIs in regions such as Latin America (Marulanda et al., 2010), Andhra Pradesh in India (Vishwakarma, 2015), and other countries like Nigeria, Nicaragua, Bosnia, Morocco, and Ghana, resulting in loan defaults and institutional closures (Benedetta et al., 2015; Vishwakarma, 2015). In Kenya, while the MFI sector has also experienced growth, governance challenges persist. Recent data show a 4.8% decline in total assets of microfinance banks, largely due to a reduction in loan advances (Central Bank of Kenya, 2023), compounded by declining performance indicators such as profit before tax (PBT), return on assets (ROA), and return on equity (ROE).

In 2022, only four out of fourteen licensed microfinance banks reported profits, with the remaining banks incurring losses (Financial Sector Regulators, 2023). This performance trend continued in 2024, with a combined sector loss of Ksh. 3.5 billion (CBK, 2024), highlighting the urgent need for stronger corporate governance and enhanced regulatory frameworks.

The global challenge of climate change further complicates the objectives of MFIs, which are essential for poverty alleviation. The World Bank (2015) projected that climate change could push over 100 million people into extreme poverty by 2030, posing a direct threat to the mission of MFIs (Dowla, 2018). If MFIs fail to address these emerging environmental risks, they may not only hinder Kenya's Vision 2030 and its Sustainable Development Goals (SDGs) but may also entrench poverty further. The need for MFIs to integrate environmental considerations into their corporate governance is pressing, especially considering the sector's role in promoting financial inclusion and sustainable development.

While there has been substantial research on the relationship between corporate governance and MFI performance, most studies focus on financial and social dimensions. Recent studies have extended this to examine the double bottom line, incorporating both financial and social performance (e.g., Hussain & Ahmed, 2024; Hermes & Hudon, 2019; Imran & Shafique, 2022). However, the intersection of corporate governance and the triple bottom line, which includes environmental performance, remains underexplored. A few emerging studies have investigated how governance structures influence environmentally responsible lending or green finance practices (e.g., Nursimloo et al., 2020; Rasel, 2021), but the link between corporate governance and the integrated triple bottom line remains largely unexamined. This research aims to address this gap by empirically linking corporate governance with environmental performance, alongside financial and social dimensions, in the context of Kenyan MFIs. Moreover, much of the existing literature uses cross-country data, which may obscure country-specific dynamics; this study addresses that limitation by focusing specifically on Kenya's microfinance institutions, which operate within a unique regulatory and operational context.

OBJECTIVES OF THE STUDY

General objective: To investigate the relationship between corporate governance and Triple Bottom Line performance of Microfinance Institutions in Kenya.

Specific objective:

Objective 1: To evaluate the relationship between board committees and MFIs Triple Bottom Line Performance.

Objective 2: To examine the relationship between board diversity and MFIs Triple Bottom Line Performance.

RESEARCH HYPOTHESES

H01: There is no significant relationship between board committee types and Triple Bottom Line performance of Microfinance Institutions in Kenya

H02: There is no significant relationship between board diversity and Triple Bottom Line performance of Microfinance Institutions in Kenya

LITERATURE REVIEW

The section presents the theoretical review and the empirical literature.

THEORETICAL REVIEW

The theories discussed in this section comprise of the agency theory, resource dependence theory, welfare theory and stakeholders' theory.

Resource Dependency Theory

Resource Dependency Theory, proposed by Pfeffer (1972), asserts that a firm's growth and sustainability are dependent on external resources. According to this theory, corporations face uncertainties in accessing the resources needed to address risks, which necessitates establishing linkages with other organizations in the environment. These linkages are crucial for reducing uncertainty and securing the critical resources that firms require. Resource Dependence Theory highlights how organizations manage their reliance on external resources to ensure sustainability and improve performance (Celtekligil, 2020).

The board of directors plays a key role in connecting firms to external resources. Larger boards, in particular, are seen as valuable sources of resources due to their extensive networks, which enhance firm performance by providing access to a variety of essential resources (Akram & Abrar-ul-Haq, 2022; Pfeffer & Salancik, 2015). Resource Dependence Theory hypothesizes that boards

with wide-ranging connections to the external environment can help corporations secure the resources necessary for success. When corporate boards are effectively utilized, they can significantly boost organizational performance, while underutilization can lead to reduced profitability (Jackling & Johl, 2009; Madhani, 2017).

In microfinance institutions (MFIs), the board's ability to manage external dependencies is critical, especially given their reliance on government grants, donor funding, and commercial sources like loans and equity (Simo et al., 2022). Research has shown that larger and more diverse boards can enhance MFI performance by providing expertise, networking opportunities, and access to resources, such as those related to environmental performance (Bhatt & Bhattacharya, 2015; Kalsie & Shrivastav, 2016). For example, female board members bring valuable insights into the unique needs of female clients, while international members contribute global expertise and expanded resources (Mori et al., 2015; Terjesen et al., 2016). In Kenya's MFIs, the effectiveness of corporate governance mechanisms like board composition and diversity plays a significant role in financial, social, and environmental performance, thereby supporting the relevance of Resource Dependency Theory in explaining these relationships.

EMPIRICAL REVIEW

Rasel (2021) explored corporate governance practices and their impact on the triple bottom line (TBL) performance of 127 microfinance institutions (MFIs) across five South Asian countries from 2009 to 2016. Using the Generalized Method of Moments (GMM) estimation technique to control for endogeneity, the study found that board independence and the choice of Big-4 auditors consistently influenced all three TBL dimensions: financial, social, and environmental performance. However, the study also noted that board gender diversity had no significant impact on the performance dimensions. This study underscores the importance of governance mechanisms like board independence in driving MFI performance, while also highlighting the limited impact of gender diversity.

Mori et al. (2015) examined the influence of board composition on the outreach performance of MFIs in East Africa, focusing on the presence of female directors, international directors, non-executive directors, and founding members on the board. Data collected from Kenya, Tanzania, and Uganda revealed that board gender diversity, international directors, and non-executive

directors positively influenced MFI outreach performance. The study highlighted that a higher proportion of female directors enhances outreach, owing to their unique understanding of the needs of female clients. However, no significant relationship was found between the presence of founding members and MFI outreach performance. This suggests that board composition plays a crucial role in enhancing social performance through improved outreach.

Dato et al. (2018) investigated how board committees affect the operational self-sufficiency, cost reduction, and client outreach of MFIs in Ethiopia. The study employed random effects estimation and found that larger boards, when coupled with well-structured committees, improved MFIs' operational self-sufficiency and outreach, especially to underserved clients. This finding aligns with Waithaka et al. (2013), who studied the role of board committees in Kenya and found a strong positive relationship between board committees and social performance. Both studies suggest that effective corporate governance, particularly in the form of board committees, can enhance the operational and social performance of MFIs, promoting greater sustainability and outreach.

Dixon-Fowler et al. (2017) and Elmagrhi et al. (2019) further extended the discussion on corporate governance and environmental performance. Dixon-Fowler et al. (2017) found a positive relationship between environmental board committees and corporate environmental performance in S&P 500 firms, indicating that dedicated environmental governance structures can improve sustainability efforts. Similarly, Elmagrhi et al. (2019) examined the impact of board gender diversity on environmental performance among Chinese publicly listed companies and found a positive relationship between the proportion of female directors and environmental performance. These studies highlight the increasing importance of environmental governance in shaping sustainable corporate practices and suggest that board diversity, particularly in environmental committees, can enhance corporate environmental responsibility.

CONCEPTUAL FRAMEWORK

Corporate governance variables include board diversity and board committees. The dependent variables in this study are financial performance, social performance, and environmental performance.

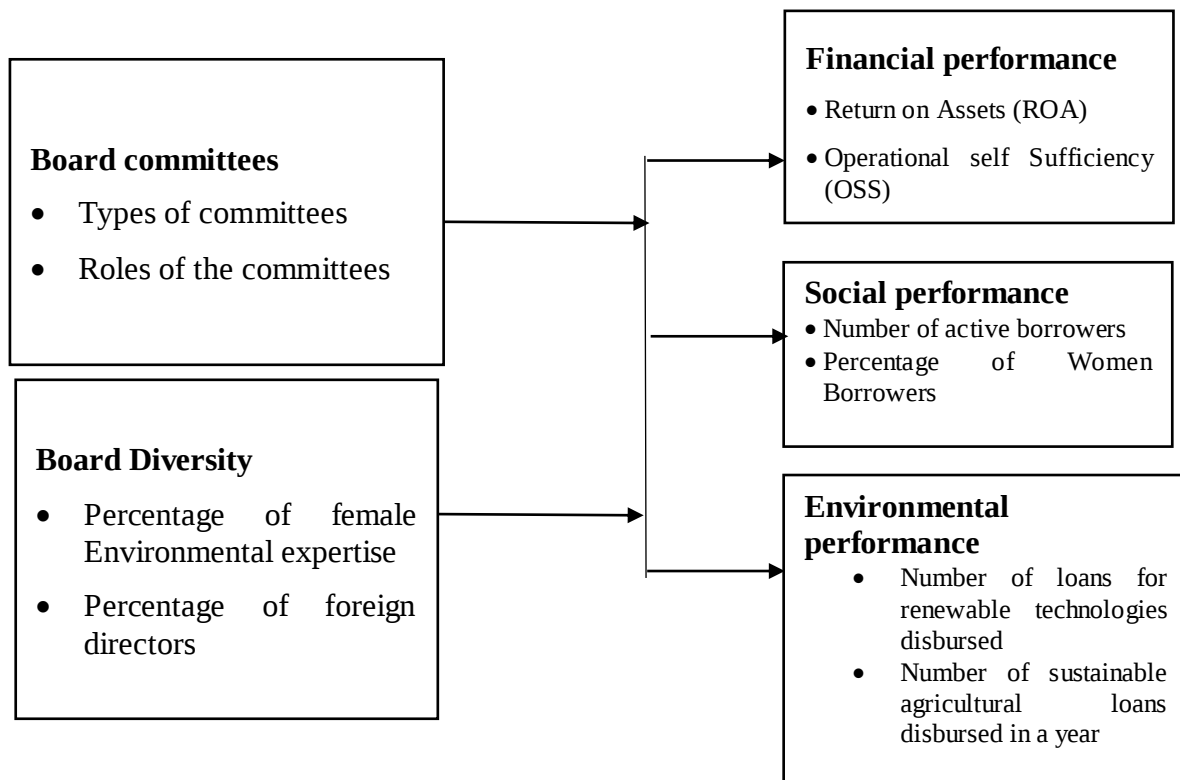


Figure 1: Conceptual Framework

METHODOLOGY

This study employed an explanatory research design, rooted in a pragmatist philosophical approach, combining both primary and secondary data to focus on practical outcomes and real-world implications (Creswell & Poth, 2016; Molina-Azorin, 2016; Shannon-Baker, 2016). The design was selected to explore causal relationships between corporate governance and microfinance institution (MFI) performance, enabling the testing of theoretical propositions and the examination of how independent variables influence performance outcomes (Saunders et al., 2019). The target population included all 14 registered deposit-taking MFIs in Kenya, supervised by the Central Bank of Kenya and members of the Association of Microfinance Institutions in Kenya (AMFI-K) as of December 31, 2024. Primary data were gathered through structured questionnaires administered to senior management, while secondary data were sourced from the Central Bank of Kenya's annual reports, MFBs' audited financial statements, and institutional websites. Quantitative data with cross-sectional elements were analyzed using univariate and hierarchical regression models to test individual and combined hypotheses, examining the effects

of board size, activity, diversity, committee types, independence, and internal audit quality on triple bottom line performance, with a regulatory framework as a moderating variable. Descriptive statistics (frequencies, percentages, means, and standard deviations) and inferential statistics (correlation analysis and multiple linear regression) were used for data analysis, with diagnostic tests for multicollinearity, normality, heteroscedasticity, and autocorrelation. Hypotheses were tested at a significance level of $\alpha = 0.05$, and data were analyzed using SPSS Version 26, with results presented in tables.

RESULTS AND FINDINGS

The section present results for the correlation and regression analysis.

Correlation Analysis

The study sought to assess strength and direction of associations between corporate governance and Triple bottom line performance. The analysis also considers the role of regulatory framework in these relationships by presenting correlation coefficients. Table 3 shows the correlation matrix.

Table 1: Correlation Matrix

		Board size	Board committee	Board activity	Board independence	Board diversity	Internal audit quality	Regulatory Framework	Performance
Board Size	Pearson Correlation Sig. (2-tailed)	1							
Board Committee	Pearson Correlation Sig. (2-tailed)	0.453	1						
Board Activity	Pearson Correlation Sig. (2-tailed)	0.308	0.607	1					
Board Independence	Pearson Correlation Sig. (2-tailed)	0.257	0.350	0.556	1				
Board Diversity	Pearson Correlation Sig. (2-tailed)	0.408	0.216	0.227	0.454	1			
Internal Audit Quality	Pearson Correlation Sig. (2-tailed)	0.356	0.409	0.536	0.302	0.551	1		
Regulatory Framework	Pearson Correlation Sig. (2-tailed)	0.385	0.451	0.606	0.409	0.354	0.252	1	
Performance	Pearson Correlation Sig. (2-tailed)	0.555	0.612	0.469	0.542	0.493	0.590	0.256	1
	N	73	73	73	73	73	73	73	73

Correlation is significant at the 0.05 level (2-tailed).

The Correlation Matrix above shows that corporate governance stands out for its moderate and statistically significant relationship with performance. As indicated by the coefficients of the constructs and their P-Values, board committees ($r=0.612$, $p < .05$) and board diversity ($r = 0.493$, $p < .05$). All the coefficients of the constructs range from 0.4 to 0.6 indicating that each of the construct has a moderate positive effect on performance of the MFIs, and this relationship is statistically significant since all the p-values are less than 0.05.

Regression Analysis and Hypotheses Testing

The study fitted multiple regression models to test the research hypothesis and to examine the relationship between corporate governance and Triple Bottom Line performance of MFIs in Kenya. This section presents the results of hypothesis testing and quantitative analysis, as well as the interpretation of relationships among the various variables under study. Although t-values are given, these are regression-derived tests of coefficients. With $n = 73$, they approximate z-values and remain valid for hypothesis testing in large-sample regression models.

H01: There is no significant relationship between board diversity and Triple Bottom Line performance of Microfinance Institutions in Kenya.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.635	0.601	0.588	1.205

a. Predictors: (Constant), board diversity

The table above shows that the value of R^2 is 0.588, implying that the model explains 58.8% of the variation in Triple Bottom Line performance of Microfinance Institutions in Kenya.

Table 3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.584	1	1.584	5.4464	0.003
Residual	20.94	72	0.2908		
Total	22.524	73			

The results showed that the F-statistic is 5.4464 with a p-value of 0.003, which is less than 0.05. This indicates that the simple regression model is statistically significant and could test the relationship between board diversity and Triple Bottom Line performance of Microfinance Institutions in Kenya.

Table 4: Regression Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	1.502	0.398	—	3.774	0.001
board diversity	0.298	0.096	0.825	3.109	0.003

Based on the results from the table, holding board diversity constant at zero, the Triple Bottom Line (TBL) performance of Microfinance Institutions (MFIs) would be 1.502, and a unit increase in board diversity would lead to a 0.298 increase in TBL performance, expressed as $Y = 1.502 + 0.298X_1 + e$. At a 5% significance level, board diversity had a p-value of 0.003, which is less than 0.05, leading to the rejection of the null hypothesis and confirming a significant relationship between board diversity and TBL performance of MFIs in Kenya. The study found that board diversity positively and significantly influences TBL performance, with a correlation of $r = 0.493$ and $p < 0.05$, indicating a moderate statistically significant effect. The univariate regression results showed that a unit increase in board diversity leads to a 0.298 increase in TBL performance, explaining 58.1% of the variation in MFI performance. This finding aligns with previous studies, such as Carter et al. (2010), who found that gender and ethnic diversity improve board oversight and decision-making, thereby strengthening financial performance. Similarly, studies by Terjesen et al. (2016) and Bear et al. (2010) demonstrate that diverse boards positively impact both financial and social performance, with the latter also highlighting increased corporate social responsibility engagement. Naciti (2019) further corroborates these findings by showing that board diversity enhances sustainability disclosures. Collectively, these studies emphasize that board diversity fosters more holistic organizational performance, integrating financial, social, and environmental priorities, as seen in regulated environments like MFIs in Kenya.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.777	0.604	0.589	1.28

The table above shows that the value of R^2 is 0.604, implying that the model explains 60.4% of the variation in Triple Bottom Line performance of Microfinance Institutions in Kenya.

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.9	1	1.584	5.5688	0.003
Residual	20.48	72	0.2844		
Total	22.38	73			

The results showed that the F-statistic is 5.5688 with a p-value of 0.003, which is less than 0.05. This indicates that the simple regression model is statistically significant and could test the

relationship between board committee types and Triple Bottom Line performance of Microfinance Institutions in Kenya.

Table 7: Regression Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	1.3	0.47	—	2.766	0.009
Board Committee	0.338	0.095	0.777	3.558	0.003

According to the table, holding board committee types constant at zero, the Triple Bottom Line (TBL) performance of Microfinance Institutions (MFIs) would be 1.3, with a unit increase in board committee types resulting in a 0.338 increase in performance, expressed as $Y = 1.3 + 0.338X_1 + e$, where β_1 represents board committee types. At a 5% significance level, the p-value for board committee types was 0.003, less than 0.05, leading to the rejection of the null hypothesis and concluding a significant relationship between board committee types and TBL performance in MFIs in Kenya. The study found that board committees positively and significantly affect TBL performance, with a correlation coefficient of $r = 0.612$ and $p < 0.05$, indicating a moderate statistically significant effect. Furthermore, univariate regression results revealed that a unit increase in board committee would lead to a 0.338 increase in TBL performance, explaining 58.9% of the variation in MFI performance. These findings align with previous studies (Mersland, Mori, & Dato, 2018; Brown & Caylor, 2006; Tarchouna et al., 2017), which emphasize the role of specialized board committees in enhancing financial and outreach performance. However, scholars like Adams & Mehran (2017) caution that poorly managed committees may introduce coordination costs or delays, and reverse causality may suggest that higher-performing MFIs have the resources to establish stronger committees. Despite the strong evidence of financial benefits, the role of committees in monitoring social and environmental outcomes, key components of TBL, remains unclear. These findings underline the importance of context, resources, and committee functionality in shaping the effectiveness of board committees in MFIs, indicating a need for further research on their contribution to all dimensions of TBL performance.

CONCLUSION

The study concludes that corporate governance, specifically through board committee structures and board diversity, significantly enhances the triple bottom line (TBL) performance of Microfinance Institutions (MFIs) in Kenya, enabling them to navigate complex regulatory environments more effectively. The findings show that strong governance mechanisms improve financial sustainability, social outreach, and environmental responsibility by bolstering decision-making, accountability, and strategic oversight. MFIs with clear governance frameworks experience better portfolio quality, increased transparency, reduced operational risks, and higher client retention, highlighting that effective governance not only ensures regulatory compliance but also promotes integrated performance across financial, social, and environmental dimensions. The study reinforces the explanatory power of Resource Dependence Theory, illustrating that diverse boards and specialized committees are vital in connecting MFIs to critical resources such as expertise, networks, funding, and regulatory legitimacy. By facilitating access to specialized knowledge in financial management, social performance, and environmental initiatives, governance practices help prevent mission drift and ensure that social and environmental goals are met alongside financial targets. Overall, these improvements in TBL performance demonstrate that governance functions as a key resource-provisioning mechanism, enabling socially-oriented organizations like MFIs to balance competing demands and achieve superior performance across multiple dimensions.

RECOMMENDATIONS OF THE STUDY

Based on findings and conclusions, this study recommends that Policy makers should enforce the compliance with the Capital Markets Authority (CMA) Code of Corporate Governance 2015 as well as BBVAMF Microfinance foundation and CMEF global good corporate governance principles that are tailored to the situation in MFIs. Similarly, policy makers should ensure a corporate governance policy framework is designed specifically for MFIs just as it is with the Mwongozo Code for state corporations in Kenya. For industry practitioners, the discovery that corporate governance approaches have a positive and statistically significant effect on the performance of microfinance institutions in Kenya has to inform their strategic vision at a basic level. Micro finance institutions boards are therefore encouraged to adhere to corporate governance guidelines regardless of whether there are fines or not as this will boost performance.

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