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Impact of Corporate Governance Mechanisms on Firm's profit performance (In the Case of Ethiopian Micro Finance Institutions)

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ABSTRACT

This research examined the impact of corporate governance mechanisms on firm performance of Ethiopian Micro Finance Institutions. Data was collected from eight Micro Finance Institutions in the financial year 2013-2018 and multiple regression analysis was used to determine whether the existing corporate governance mechanisms influence the firm performance or not. The analysis was based on balanced panel data over a period. To achieve the objectives, variables Return on assets and Return on equity were employed as the key variables that measure the performance of firms. On the other hand board size, Board gender diversity, Frequency of Board Meetings, Board's political affiliation, were used as independent variables and firm size and firm leverage used as control variable to measure the corporate governance. The independent variable of the study explained 50.52 percent of ROA. And there is statistically significant relationship between Board gender diversity, Board Members Political affiliation and firm profit performance (ROA) at 5 percent level of significance. Generally, the result is similar to earlier studies that corporate governance has an effect on firm performance.

Keywords: corporate governance, Micro Finance, panel data and ROA

INTRODUCTION

1.1. Background of the study

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996.Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000).In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

MFIs operate in a niche market as they address the needs of those clients who are considered 'high-risk' by bigger banks. High-risk groups or individuals are characterized as those with very few assets, requiring very small loans, high degree of close follow-up, business appraisal and evaluation, as well as those engaged in activities whose income is fluctuating such as small-holder farmers or petty traders. Thus, the MFIs provide for a market with an operationally acceptable demand level and where clients can be protected from the unreasonable conditions of the informal money lenders. Such MFIs, however, charge high administrative costs and higher charges for risk coverage, which is in addition to the market interest rates, and taking advantage of the niche market for microloans (Sunita, 2003).

According to the national bank of Ethiopia as cited by ebisa,Getachew and fekadu (2013) the Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed Microfinance Institutions (MFIs), an emphasis on rural households, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven.. Different Microfinance Institutions currently operating in the country and they reaches 35 in number to day. The regional state governments and many local NGOs are shareholders in many of the MFIs. The three largest micro finance institutions account for 65% of the market share in terms of borrowing clients, and 74% by loan provision. These are Amhara (ACSI), Dedebit (DECSI) and Oromia (OCSSCO) Credit and Savings Institutions. Microfinance institutions are decisive way outs from the vicious circle of poverty particularly for the rural and urban poor in a country like Ethiopia where many people live barely below the absolute poverty line.

As different researchers said, performance of small firms and financial institutions are affected by good corporate governance practices. Despite this aspect, little attention has been paid to the research of corporate governance mechanisms in less developed economies in general and particularly in Ethiopia. The main objective of this study is to aware of the micro finance institutions of Ethiopia about the benefit of good corporate governance mechanisms and its impact on their profit that they will become a successes full institution.

1.2. Statement of the Problem

According to (abdul.g 2014) Corporate governance is dealing with "problems that result from the separation of ownership and control." From this perspective, corporate governance would focus on: the internal structure and rules of the board of directors; the creation of independent audit committees; rules for disclosure of information to shareholders and creditors; and, control of management. A recent academic survey began with the quote: "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Modern corporate governance started in 1992 with the Cadbury Report Cadbury was the result of numerous high profile company collapses and is concerned mainly with protecting weak and dispersed shareholders against self-interested directors and manager's. Corporate Governance is a step towards strengthening of the organization to face the challenges.Corporate Governance is to take over the role of the shareholders, stakeholders, vendors, suppliers & employees by the top Managers and CEO of the company.

This would involve that as stakeholders, vendors, suppliers & employees have invested their money, material, effort and faith in the company.Top managers and CEO should give importance to these business pillars. Corporate Governance is a process and device by which the capital market monitors the actions of corporate management, which means that the company is required to act in accordance with the listing agreement of Stock Exchanges and other monitoring agency

Given the importance of corporate governance, several studies have been conducted in developed countries on the relationship between corporate governance mechanisms and firms' financial performance and found mixed results (Bauer, et al., 2008; Ibrahim, et al., 2010; and Nichitean, 2011).However, most of the prior studies have been under taken on large firms operating within well organized corporate governance mechanisms in developed economic system.Varies governance mechanisms operate differently for different sizes of firms (Habbash, 2010, as cited by habtamu 2014).Therefore, it is difficult to generalize the same result from the findings of those studies for relatively small size institutions governance mechanisms (Mukhopadhyay, Mallik& D hamodiwala, 2012, Switzer&Tang, 2009).

The financial institutions, specially, the micro finance institutions are the subject to be analyze for many reasons. Firstly, even though information asymmetries exists in all sectors it is large in financial industries, since they are opaque than non financial firms (Levine, 2003).This greater informational asymmetry between insiders (micro financial institutions management) and outsiders (share holders and depositors), and their assets and activities amplifies the agencyproblem.Secondly, financial institutions have a dominant position in developing economic financial systems, and important engines of the economic growth (Levine, 1997).Hence, micro financial institutions failure would affect the entire financial system and economy. Thirdly, poverty and food insecurity are the main challenges and fundamental issues of economic and social development in Ethiopian(Gebrehiot, 2002, Befikadu, 2007, Trynos Gumbo, 2010, as cited habtamu(2014).According to the 2010/11 HICES of EFDR, the proportion of poor people in the country is estimated to be 29.6% in 2010/11.In2010/11, while the proportion of the population below the poverty line stood at 30.4 % in rural areas, it is estimated to be 25.7 % in urban area (HICE Survey 2010/11).

Micro finance institutions are serving most residents both in rural and urban areas.Thesepopulationis served by those micro finance institutions to alleviate poverty and improve the social and economic situations (Trynos Gumbo, 2010,Ebisa, Getach,Fikadu, 2012).The corporate governance mechanismsin Ethiopia have some weakness like less transparency, requirement for a board, firm performance and accountability measures and weak regulatory system (Hussein Ahmed,2012).

Finally, as far as the researcher, knowledge concerned there is no enough research that has been done to provide observed evidence particularly on the impact of corporate governance mechanisms on profit performance of microfinance institutions in Ethiopia. However, Habtamu (2014) studied on the impact of corporate governance mechanisms on firms' financial performance in Ethiopia by using multiple panel regression models. Board size and Board members educational qualification were used as an independent variables that affect financial performance of sample Mfi in Ethiopia. His finding indicates that board size significantly and negatively influence sample MFIs' financial performance as measured by return on asset and return on equity. In addition to these Habtamu (2014) indicated board members educational qualification significantly and positively influences the financial performance of sample MFIs. In the same way Assefaand Megbaru, (2014) explore the effect of corporate governance mechanisms on firms' financial performance with selection of sampled commercial banks in Ethiopia and the result indicated that board independence has positive association along with the two dependent variables used as an indicator of financial performance of commercial banks. It is significantly affiliated to return on asset and, return on equity at 10%, and 5% levels of significance. But they do not give enough attention to some variables such as, board gender diversity, frequency of board meeting board political affiliation and board size effect on profit performance of the firm in Ethiopia, especially on the micro finance institutions. Hence, given this gap, the study is conduct to add knowledge to the existing body of knowledge and to bridge the gap.

1.3. Objectives of the study

1.3.1. General objective

The overall objective of the study is examining the effects of corporate governance mechanisms on firm's profit performance in the micro finance institutions in Ethiopia.

1.3.2. Specific objectives

- To assess the performance of corporate governance mechanisms of micro finance institutions profit performance.
- To examine the effect of corporate governance mechanisms (board size, frequency of board meeting, board gender diversity and boards political affiliation) on the profitability of MFI.

1.4. Hypotheses

The hypotheses that are developed to test the study are the following:

H1: There is a significant relationship between board size and profit performance of micro finance institution.

H1: There is a significant relationship between board gender diversity and profit performance of micro finance institution..

H1: There is significant relationship between frequency of board meeting and profit performance of micro finance institution..

H1; There is a significant relationship between boards political affiliation and profit performance of micro finance institution.

1.5. Scope of the study

The study examines the impact of corporate governance mechanisms on firm's profit performance by taking evidences from micro finance institutions in Ethiopia for the period of six years, from 2013 to 2018.

2. Literature Review

2.1. Introduction

This chapter provides a review of the corporate governance, profit performance literature that is relevant for the study. The theories are fundamental to establishing the importance of investigating the firm profit performance and corporate governance relationships. Furthermore, the corporate governance literature review focused on the impact of board size, board gender diversification, board political affiliation and frequency of Board meeting. The literature review consist the two key accounting measures of firm's financial performance focusing on return on asset /ROA/ and return on equity/ ROE/.There is considerable body of empirical studies related to corporate governance.

Corporate Governance

The term "corporate governance " came in to use in the 1980s to broadly describe "the general principles by which businesses and management of companies were directed and controlled’’ (Dor et al.2011).It is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation.It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (kim&Rasiah, 2010).The aim of corporate governance is to ensure that corporations are managed in the best interests of their owners and shareholders (Ahmed, Alam, Jafar&Zaman 2008).Another essence of corporate governance is establishing transparency and accountability throughout the organization.This is feasible as corporate governance system is premised on a strict division of power and responsibilities between the shareholders through the annual general meeting, the board of directors, the executive management and the auditors.

Theoretical Framework

Corporate governance is the relationship among share holders, board of directors and the top management in determining the direction and performance of the corporation.It includes the relationship among the many players involved (the stake holders) and the goals for which the corporation is governed (kim&Rasiha, 2010).According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources.

The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners.It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders(Imam & Malik, 2007).So, maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance mechanisms.The most important theories in explaining corporate governance mechanisms on firm's financial performance are agency theory, stakeholder's theory resource dependency and gender diversity theory (Maher &Anderson).

Agency Theory

According to Habbash (2010), the agency theory is the most popular and has received greater attention from academics and practitioners.The agency theory is based on the principal-agent relationships.The separation of ownership from management in modern corporations the shareholders(principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire mangers(agent) to manage the corporation on behalf of them (Habbash,2010).The agents are appointed to manage the day to day operations of the corporation.The separation of ownership and controlling rights results conflicts of interest between agent and principal.To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers.According to Bowrin and Navissi (n.d), agency theory refers to a set of propositions in governing a modern corporation.Theagent, typically, may not always own shares but may possess relevant professional skill and competence in managing the corporation.Thetheories offer many useful ways to examining the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved, particularly when the managers do not own the corporation's resources.Agency theory identifies the role of the monitoring mechanism of corporate governance to decrease agency costs and the conflict of interest between managers and owners.It is clear that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance.Agency theory having its roots in economic theory was exposited by Alchian and Demsetz(1972) and further developed by Jensen and Meckling(1976).Jensen and Meckling(1976) define agency relationship as a contract under which the principal engage another person or the agent to perform some service on their behalf which involves delegating some decision making authority to the agent.If both parties to the relationship are utility maximizes, there is good reason to believe that the agent will not always act in the best interests of the principal.The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the irregular activities of the agent.

Stakeholder's Theory

Stakeholder theory is an extension of the agency theory, where the agency theory expects board of directors to protect only the interests of shareholders.However, stakeholder theory extends to narrow focus of agency theory on shareholders interest to stakeholders to take into account the interest of many different groups and individuals, including interest groups related to social, environmental and ethical considerations (Freeman et al., 2004).According to Freeman et al.(2004), stakeholder theory begins with the assumption that values are necessary and explicitly apart of doing business.It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together.It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose.According to stakeholder theory the purpose of the firm is to serve and coordinate the interests of its various stakeholders such as shareholders, employees, creditors, customers, suppliers, government, and the community.

According to Habbash(2010), stakeholder refers to any one whose goals have direct or indirect connections with the firm and influenced by a firm or who exert influence on the firms goal achievement.These include management, employees, clients, suppliers, government, political parties and local community.

According to this theory, the stakeholders in corporate governance can create a favorable external environment which is conducive to the realization of corporate social responsibility.

Moreover, the stakeholders in corporate governance will enable the company to consider more about the customers, the community and social organizations and can create a stable environment for long-term development.

The benefit of the stakeholder model emphasis on overcoming problems of underinvestment associated with opportunistic behavior and in encouraging active co-operation amongst stakeholders to ensure the long-term profitability of the business firm (Maher & Anderson, 1999).According to kyereboahColeman (2007) management receive capital from shareholders, they depend upon employees to accomplish the objective of the company.External stakeholders such as customers, suppliers, and the community are equally important, and constrained by formal and informal rules that business must respect.According to stakeholders theory the best firms are ones with committed suppliers, customers, and employees and management.Recently, stakeholder's theory has received attention than earlier because researchers have recognized that the activities of a corporate entity affect the external environment requiring accountability of the organization to a wider audience than simply its shareholders (Kyereboah-coleman, 2007) do.Companies are no longer the instrument of shareholders alone but exist within society.It has responsibilities to the stakeholders.However, most researchers argue that it is unrealistic task for managers (Sundaram&Inkpen, 2004b; Sanda et al., 2005).

The stakeholder theory has not been subjected to much empirical study.The common criticisms for stakeholder theory is that how to align the stakeholders conflicting interests since the difficulties result from how to administer different stakeholders with various needs and demands.It is not possible to treat all stakeholders to be effectively represented in corporate governance recommendations as this may undermine the welfare of company (Habbash).The other critique of the stakeholder model is that managers or directors may use "stakeholder" reasons to justify poor company performance (Maher &Andersson, 1999)

Gender diversity theory

The gender of the board members is one of many characteristics of diversity within a board (Van der Walt &Ingley, 2003).Recent quota-legislation (e.g.Norway, Spain, France and the Netherlands) is a result of the (normative) debate focusing on gender in the boardroom and argued to a matter of interest to scholars (Lückerath-Rovers, 2013).Whether the appointment of women to the board fosters greater firm performance because of improved corporate governance is largely dependent on the question what governance should achieve.

Supporters of more gender diversity rely on two types of arguments to convince the public of their stance: the ethical or business case for diversity (Robinson &Dechant, 1997).Supporters with an ethical business case do not aim to increase firm performance, but rather argue that greater female representation to represent 'the real world' is a reason by itself for more women on a board.Women should be considered for leadership positions for equality reasons.The latter, business case argument for diversity holds that more diversity could be related to better firm performance.Brown et al.(2002) note that if the appointment of women to the board does not result in increased firm performance it has merely a symbolic value.Previous research indicates that admitting women to the board is used by firms as a sign to signal a certain quality of the firm (Miller and Triana, 2009).

Females are also said to value their responsibilities as directors more, corresponding with an increase in effective corporate governance.By appointing more women to the board of a company they serve as a linkage instrument, using the resource dependency theory as a basis that can provide advantages to firms due to improved linking with their stakeholders (Hillman, Shropshire, and Cannella, 2007).Diversity is in general positive for organizations by providing wider and better connections with stakeholders, in turn lowering market uncertainty and dependency (Miller &del Carmen, 2009).Carter et al.(2003), argue that female board members are more inclined to ask questions that would not be asked by their male counterpart.

3. Research Methodology

3.1. Research Design

To examine the impact of corporate governance mechanisms on firm's profit performance explanatory type of research design was employ. The Explanatory type of research design helps to identify and evaluate causal relationships between the different variables under consideration (Marczyk et al.2005).A panel data study design which combines the attributes of cross sectional(inter firms) and time series (inter-period) data are use. Panel data analysis provides more reliable estimates of the parameters in the model (Gujirati, 2004).

Source of data and collection methods

The necessary data collected from both primary and secondary sources. The primary data was collect through questionnaires. Data on corporate governance variables are collected by distributing questionnaire to sample micro finance institutions in each head office. Information about the total number of board size, boardgender diversity,board political affiliation and frequency of board meeting for each period was collected to achieve the general and specific objectives.

The secondary data is audited financial statement of sample MFIs.The secondary data obtained from AEMFIs and each MFI, their published books over the period of five years (2013-2018).

3.2. Sampling design

The total population of the study is 35micro finance institutions that exist in Ethiopia. The purposive sampling technique employs to select the sample micro finance institutions. In the study eight Micro finance institutions are include purposively in study. The sample size is 8 microfinance institutions out of 35 which means that 28% of the total population35.These are Addis MFI,ACSI MFI,OmoMFI, DireMFI,SidamaMFI,HarbuMFI,Oromiya MFI and EshetMFI.

3.3. Description of variables and measurements

In accordance with the theory and empirical studies, the independent, dependent and control variables of the study are identify in order to investigate the impact of corporate governance mechanisms on firm's profit performance.

Dependant variables

Dependant variables are variables that are used to measure the financial performance of sample micro finance institution. Those are;

Return on asset (ROA) - measures the overall efficiency of management. It gives an idea as to how efficient management is at using its assets to generate earnings.

ROA=Profit after Tax/Total Asset

Independent variables

The independent variables are variables that are used as a determinant of corporate governance of the sample Ethiopian micro finance institutions.

These are:-

- Board size; It is the number of directors sitting on the board.
- Board gender diversity; Is used as an independent variable, BGD is calculated as proportionate female directors on the board (Sanan, 2016;Dutta and Bose, 2006).
- Frequency of Board Meetings and Firms' Financial Performance: Frequency of Board meeting is the board meetings held per year by the board members of a firm.

- Board’s political affiliation; Politically connected directors may be identified by their present or past activity in the political arena, as represented by a political charge, the membership to a political party, the candidacy for election(Faccio, 2006).

Control variables

In order to know the explanatory variables effect on the micro finance institutions' profit performance the control variables, firms' size and firms' leverage, were employee.

Specifications of empirical research model

ROAit =β0 + β1(BSIZEit) + β2(BGDIit) + β3(FBMETit) + β5(BMPAit)+ β6(MFISiz) + β7(MFILEVit) + uit ...(1)

Dependant variables

ROAit: -Return on Asset for the ith micro finance institution and time period t

Independent variables

BSIZEit:- Board Size for ith micro finance institution and time period t

FBMETit:- Frequency of board meeting for ith micro finance institution and Time period t

BGDit:- Board members Gender diversity for ith micro finance institution and Time
period t

BMPAit: Board Members Political affiliation for ith micro finance institution and time period t

Control variables

MFISiz:- Micro finance institution size for ith micro finance institution time period t

MFILEVit:-Micro finance institution leverage for ith micro finance institution time period t

4. Results and Discussions

4.1. Descriptive Results

Descriptive statistics were used in order to get highlights into the dependent, independent and control variables among the sample microfinance institutions in Ethiopia.

To measure The Impact of Corporate Governance Mechanisms on Firm’s profit performance on the sample of Ethiopian microfinance institution, return on asset and return on equity was used. These variables are summarized as follows: Based on eight microfinance institution of Ethiopia the result showed that the minimum ROA is 1.39 percent and with the maximum ROA is 18.8 percent Therefore, there was a significant difference on minimum and maximum value.

ROA mean is 0.632 percent and standard deviation is 6.32 percent from the mean value among the sampled of microfinance institution

Table 4.1 descriptive result ROA

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	48	.0632583	.0485446	.0139	.188
bsize	48	7.083333	.6789646	6	8
fbmet	48	3.25	.9784921	2	4
bgd	48	1.395833	.494204	1	2
bmpa	48	.7708333	.9506903	0	3
lnmfisiz	48	13.45076	2.027136	10.94969	17.11364
mfilev	48	2.842021	2.114488	.077	11.88

Source: author’s own computations

4.2. Correlation analysis

A table 4.2 below show, the correlation coefficients of Board size is -43.37% percent, Frequency of Board Meetings is -6.62 percent and Board gender diversity is 37.69 percent and Board’s political affiliation is 45.22 percent with return on asset. Association between board size, Board gender diversity and Board’s political affiliation with return on asset is somewhat strong in contrast with others variables.

In Pearson correlation tables, table 4.2 the relationship between each independent and each control variables are not more than 80 percent. This result indicates that multicollinearity problem doesn't exist in the models, because no large correlation (more than 80 percent) existed between independent variables that lead to a serious multicollinearity problem.

Table 4.2. Pearson correlation matrix

	roa	lnbsize	fbmet	bgd	bmpa	lnmfisiz	mfilev
roa	1.0000						
lnbsize	-0.4337	1.0000					
fbmet	-0.0662	0.2119	1.0000				
bgd	0.3769	-0.3531	0.2750	1.0000			
bmpa	0.4522	-0.2560	-0.6461	-0.0745	1.0000		
lnmfisiz	0.5371	-0.6114	-0.3681	0.1404	0.5071	1.0000	
mfilev	-0.1590	0.2175	0.2737	-0.2343	-0.2123	-0.1609	1.0000

4.3. Discussion of Regression Results

Table 4.3. Regression result (dependent variable return on asset)

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Source	SS	df	MS
Model	.055954633	6	.009325772
Residual	.054804583	41	.001336697
Total	.110759216	47	.002356579

Number of obs	= 48
F(6, 41)	= 6.98
Prob > F	= 0.0000
R-squared	= 0.5052
Adj R-squared	= 0.4328
Root MSE	= .03656

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lnbsize	-.0444575	.0680911	-0.65	0.517	-.1819702	.0930553
fbmet	.0161926	.0079418	2.04	0.048	.0001539	.0322314
bgd	.0238335	.0130996	1.82	0.076	-.0026217	.0502887
bmpa	.0253311	.007998	3.17	0.003	.0091789	.0414833
lnmfisiz	.0074093	.0037474	1.98	0.055	-.0001586	.0149773
mfilev	-.0003465	.0027874	-0.12	0.902	-.0059757	.0052828
_cons	-.0531445	.1703743	-0.31	0.757	-.3972223	.2909333

As shown in Table 4.3 R -squared of the model is 50.52percent. It shows that all the independent variable of the study explained50.52 percent of firm profit performance of microfinance institution of Ethiopia from the period 2013-2018.

The regression results in Table 4.3 above shows the existence of negative insignificant relationship between Board Size and firm profit performance of microfinance institution (ROA) for the tested period. As a result the null hypothesis was accepted and the alternative hypothesis was rejected. So board size was negative insignificant factor that affected firm profit performance (ROA) as indicated by the regression equation in case of Ethiopian microfinance institution for the tested period.

The study also shows that there is statistically significant relationship between Board gender diversity and firm profit performance at 5 percent level of significance. As a result the null hypothesis was rejected and the alternative hypothesis was accepted. As it can be seen on the above Table Frequency of board meeting has a positive coefficient and statistically insignificant effect on firm profit performance of microfinance institution at 5% significance level on the tested period. As a result, the null hypothesis was accepted and alternative hypothesis was rejected.

The fourth hypothesis is developed regarding to a relationship between Board Members Political affiliation and firm profit performance. The empirical finding of study shows an existence of a positive statistically relationship between Board Members Political affiliation and firm profit performance; significant at 5 percent level of significance. As a result the null hypothesis was rejected and the alternative hypothesis was accepted.

5. Conclusion

Based on empirical finding of study shows an existence of a positive statistically relationship between board member political affiliation and firm profit performance at 5% significant level on the tested period.

The impact of micro finance institution size was proxy to natural logarithm of total assets; the empirical result of the study shows there was statistically significant relationship between microfinance institutions size and firm profit performance (ROE) at 5 percent level of significant. The same thing microfinance leverage has a positive statistically significant relationship with firm profit performance.

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