CORPORATE GOVERNANCE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS: A CASE STUDY OF RWANDA

TOMBOLA MASERERI GUSTAVE

A THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN BUSINESS MANAGEMENT OF THE OPEN UNIVERSITY OF TANZANIA

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2012

CERTIFICATION

The undersigned certify that they have read the Thesis and hereby recommend for acceptance by The Open University of Tanzania the Thesis titled **"*Corporate Governance and Performance of Microfinance Institutions: A Case Study of Rwanda*"** in fulfilment of the requirements for the Degree of Doctor of Philosophy in Business Management.

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(Lead Supervisor)

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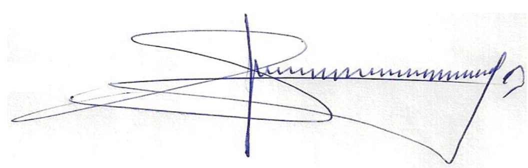
Date



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Date

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DECLARATION

I, Tombola Masereri Gustave, do hereby declare that this thesis is my original work and has not been presented for any degree award in any other university. No part of this thesis may be produced without prior permission of the author/ or by The Open University of Tanzania.

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Tombola Masereri Gustave

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Date

DEDICATION

To the Almighty God, for being my guide during the darkest moments;

To my Parents, for they perfectly fulfilled their responsibilities of making me loving the path to school;

To the family of Honorable Senator Professor Dr RWIGAMBA Balinda for the encouragement and assistance to finish my PhD programme;

To the family of Alphonse Rukomera Macumu for its kindness and generosity;

With compassion to General Laurent Nkunda Mihigo whose selfishless remains as a model to our entire large family.

In particular;

To my kids, **Dorcas GWIZA, Nelson GANZA**, **Smart TUNGA** and **Gift TUZA**, for keeping my memory alive during moments of absence;

Be lifted, **Jennifer BAMURANGE**, my wife, for your courage, your support, and for bringing up our kids while busy with my studies; your will has now become a reality;

If I could, I would give you whatever you want, stars, moon in the sky and so forth, but you may accept everlasting love as your compensation.

Tombola Masereri Gustave

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My everlasting appreciations go to my nuclear family for being patient in waiting for the realization of this feat. It has become a reality and joyful moments have set in for a long time to come.

My sincere appreciations go to my father, mother, brothers, sisters, and relatives for their moral support, contribution, and encouragements. My appreciatios also go to my brothers and sisters in law and hope their expectations have also been realized. I also wish to etend sincere appreciations to my in laws, especially my mother in law, my brothers and sisters inlaw for encouraging me to pertake this huge project. Their wish has also become a reality.

I am greateful to all MFIs which accepted to collaborate in availing me relevant information for this study and to the Central Bank of Rwanda for allowing me to pursue my research on the MFIs in Rwanda.

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ABSTRACT

Being a developing country, Rwanda is struggling with the culture of saving and credits by poor but economically active population. Given that this portion of the population generally does not access the classic banking system, it becomes client of the microfinance institutions to grow up their culture of banking. The microfinance institutions mobilize savings from its clients and use the savings to finance the economic activities of their clients in form of loans. In 2006, some MFIs failed to reach their performance due to many factors most of which have not yet been researched. The study was led by one question which states thus: Is there a link between corporate governance is linked to the performance of MFIs. Whilst there have been many studies carried out to determine whether there is a link between corporate governance and corporate performance, the evidence appears to be fairly mixed. To show evidence of good performance, MFIs have to reach out to all places in the country and impact on the lives of their clients and to ensure their own sustainability. Given the fact that corporate governance is a new and wide concept, the researcher considered some of its components such as board size, board composition, non-CEO duality and the supervision of MFIs to assess the performance of MFIs in Rwanda. The researcher used survey methods using a questionnaire, an interview and focus group to gather data to be used for finding out the correlation between the corporate governance and the performance of MFIs in Rwanda. The questionnaire designed by the researcher was found to be valid and reliable through the review of peers in universities in Kigali and the Cronbachôs Alpha yielded a reliability coefficient of .949. The probabilistic and non-probabilistic sampling techniques were used to collect data. Simple random sampling technique was selected as probabilistic technique while judgemental and quota sampling techniques were selected as non-probabilistic techniques. Using descriptive statistics like frequency and correlation calculations thanks to the cross tabulation, the relationship between corporate governance and performance of MFIs in Rwanda was found. The researcher concluded that some components of corporate governance have a correlation with the performance of MFIs in Rwanda and others have no correlation with the performance of MFIs in Rwanda. For the board size and corporate governance and the performance of MFIs, the results were mixed. The findings on the correlation between board composition and performance of MFIs were also mixed. The same thing applies for the supervision of MFIs and their performance. The researcher found that there is correlation between the non-CEO duality and the performance of MFIs in Rwanda. Future researchers may tackle the link between other aspects of corporate governance and the performance of MFIs.

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LIST OF ABBREVIATIONS

%	**-**	Percentage
CalPERS	-	California Public Employees Retirement System
CEO	**-**	Chief Executive Officer
H (o)	-	Nul hypothesis
ICGN	-	International Corporate Governance Network
MFIs	-	Microfinance Institutions
OUT	-	Open University of Tanzania

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

As the microfinance industry comes of age, there are claims that microfinance institutions need to improve the quality of their corporate governance mechanisms in order to become more effective in their business (CSFI, 2008). However, little scientific knowledge exists as to what constitutes effective corporate governance mechanisms in the MFI industry.

Participating in the debate on analysing the performance of organisations, Tvorik and McGivern (1997) consider the economic rates of return for both economic and organisational factors. This means that to use the economic factors as the only basis of analysis may lead to misevaluation of the performance of an organisation. They further argue that organisational alignment and competitive advantage approaches may also be used to evaluate the performance of organisations. However, whereas the alignment approach emphasizes organisational structure and environment but neglects strategic positioning, the competitive advantage approach emphasizes competitive strategy but neglects internal organisational attributes. For this matter, a good performance evaluation needs to combine the two approaches without neglecting any aspect.

In a study on the determinants of organisational performance, Tvorik and McGivern (1997) conclude that organisational performance should be evaluated on the basis of returns on invested capital, assets, and sales. Their findings can be criticized because they based performance evaluation on economic factors only. In another study, Luzzi and Weber (2006) combined outreach and sustainability to measure the performance of Microfinance Institutions. According to them, the factors that determine the performance of Microfinance Institutions are not clearly known.

Rhyne (1998) considered those two main goal areas to be a win-win situation, claiming that those MFIs that follow the principles of good banking will also be those that alleviate the most poverty, Woller *et al.,* (1999); Morduch (2000) think that the proposition is far more complicated. In this study, the researcher intends to throw light on this controversy by using financial, outreach and impact as measures of performance of MFIs and to look at the impact of governance upon them.

Luzzi and Weber *(op.cit.)* may be criticized for their methodological approach in this regard. They took 45 Microfinance Institutions without stating whether this was the total number of agreed institutions or what proportion of the total number it was. Further more, they considered six variables in evaluating the performance of Microfinance Institutions among which only one was for financial sustainability i.e. operational self-sufficiency (Total revenues/Total expenses). It would be better to include variables such as returns on assets and returns on invested capital as Tvorik and McGivern (1997) suggested.

To identify the evidence regarding the effectiveness of various governance mechanisms and characteristics to achieve organisational performance, Willekens & Sercu (2005) consider Belgian listed companies. In their study, they addressed the following governance mechanisms: board of directors, the audit committee, the internal control and the internal audit function, and the external audit. As already pointed out, the researchers focused themselves on Belgian companies only. In addition to that, their research limited itself to the internal aspects of corporate governance. Another criticism that can be raised here is that the research did not consider management as a part of corporate governance in those companies (Yuwa, 2003).

There is no gainsaying of that fact that the Principal-Agent Theory is generally considered as the starting point for any debate on the issue of corporate governance. Indeed, the theoretical underpinnings for extant research in corporate governance come from the classic theories, the modern corporate and private property, by Berle and Means (1932). The thesis describes a fundamental agency problem in modern firms where there is a separation of ownership and control or management. It has long been recognized that modern organisations suffer from a separation of ownership and control. These organisations are run by professional managers (agents), who are unaccountable to dispersed shareholders (principals). This view fits into the principal-agent paradigm.

In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. Hence, to ensure the performance of the organisation, one has to consider aspects of management. Principals have to select capable managers and give them the right incentives to put forth the appropriate effort and make decisions aligned with shareholders interests.

Jensen and Meckling (1976) defined agency relationship and identified agency costs. Agency relationship is a contract under which one or more persons (principal) engage another or others (agent) to perform some services on behalf of principal, which involves delegating some decision-making authority to the agent. Conflict between managers or controlling shareholders, and outside or minority shareholders refer to the tendency that the former may extract perquisites out of firmǿs resources and less interested to pursue new profitability ventures. Agency costs include, as Jensen and Mecklin (1976) define, monitoring expenditures by the principal and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. Reducing these costs for any organization, especially the conflict of interest, may lead to its performance.

In 1932, Berle and Means wrote what was to become a famous book about the corporate form of business. They pointed out that corporations were becoming so large that the ownership and control was separated. The stockholders own the firm and managers (technically, officers or executives) control the firm, that is the principal agency theory, the authors said. This situation comes because the thousands or even hundreds of thousands of investors who own firms cannot collectively make the daily decisions needed to operate a business. Hence, there is a need for specialized management. There is a problem with this separation of ownership and control. Why would the managers care about the owners? If owners are not vigilant, managers will seek self-serving gratification in the form of perks, power, and/or fame; this is known as principal-agent problem or the agent problem in corporate governance. The shareholders (owners) are the principals and the managers are the agents who are supposed to work for the owner. If the owners cannot effectively monitor the managersô behaviour, then managers may be tempted to use the firmsô assets for their own ends, all at the expense of shareholders, Berle and means said as cited by Kim, Nofsinger and Mohr (2010). The mid-level managers of corporations are monitored by executives; these are also controlled by board of directors appointed to run the corporations on behalf of shareholders. The executives are appointed by the nominated board of directors; it means that they are accountable to the board of directors. To align managers to the shareholdersô objectives and solving the agent problem, board of directors has to provide incentives and a proper monitoring system of managers, this system may be strengthening the internal and external auditing committee

The monitoring group is made by board of directors, auditors and government agencies as Kim, Nofsinger and Mohr (2010) said. By providing incentives and a good monitoring to the executives and to the entire corporation, one may assume that performance will be achieved. To achieve the performance of firms, the modern evolution of stakeholdersô view, that is shareholders, creditors, employees and society at large, of the firm advocates that management develop specific relationship with stakeholder groups as Kim *et al.,* (2010) said. Proponents of this view argue that companies have a social obligation to operate in ethically, scially, and environmentally responsible ways.

This active approach is referred to as corporate social responsibility or corporate citizenship (Kim, Nofsinger and Mohr, 2010; Fischer and Lovell said, 2009). For a company, to achieve the corporate social responsibility, it should conduct its business in a manner that meets four levels of its expectations; that are economic, legal, ethical, and philanthropy, as the above authors argued.

The first and foremost social responsibility of a firm is economic. The firm must survive by producing goods and services at a profit. The society expects firms to operate their businesses within a legal framework, being the second level. The third level of the corporate social responsibilities is ethical; these responsibilities are those over and above the ones codified in laws and are in line with societal norms and customs. The fourth level is philanthropy driven; corporate giving is discretionary, although increasingly desired by stakeholder communities.

The agency theory brings in the agency effect as Fischer and Lovell suggested (2009). This effect assumes that people are, at heart, untrustworthy. As a result of privileged position that exclusive directors enjoy over shareholders with regard to the control of information, executive directors are deemed likely to exploit this power situation to their own advantage. This might manifest itself in managing information, hence the importance of the audit function, and large remuneration packages, the authors argue.

The Rwandan microfinance industry has to resolve the conflict of interest between principal and agent, owners and executives, in order to have a real focus on reaching many clients and impacting on them and, having commitment to sustainability by integrating the corporate governance mechanisms. This needs to be studied in order to give clear insights about the relationship between corporate governance and the performance of Microfinance Institutions in Rwanda.

Any measurement of the performance of an organisation ought to consider corporate governance in all its dimensions (Rock *et al.,* 1998). As an external or internal component of governance, they exert a crucial influence on the performance of Microfinance Institutions. Youssoufouòs findings on performance of organisations were focused on a case study of Burkina Faso; the case may not fit in other parts of the world, especially Rwanda as a post conflict country.

1.2 Statement of the Research Problem

Youssoufou (2002) concluded in his study that apart from the level of outreach and the degree of self-sustainability, the performance of Microfinance Institutions should also be measured on the basis of the impact of these institutions on the livelihood (poverty alleviation) of their clients. The three variables which are used to measure the performance of MFIs is called ñCritical Micro-finance Triangleò (Litan, 2007; Kereta, 2007). Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging as Pischke cited by Kereta (2007) said. In fact the gap is not aroused merely because of shortage of loanable fund to the poor rather it arise because it is costly for the formal financial institutions to lend to the poor. Nevertheless, in several developing countries governments have intervened, through introduction of microfinance institutions to minimize the gap then allow the poor access credits. To evaluate the performance of MFIs, one needs to look at the critical MFIs Triangle.

In his study on the Chinese corporate governance, Yuwa (2003) observed that some countries have developed corporate governance systems and have been accepted as models of corporate governance systems. But if a model of corporate governance is too far from the reality of a country then its influence on the organisational performance will be reduced (Yuwa, 2003).

Microfinance is a significant and growing industry in Rwanda with around eight four certified MFIs and other still on the demand process and low income generating Rwandans are interested in being clients of that sector (Rwanda/NEPAD, 2007). In addition to that, the report of National Bank of Rwanda (2011) says that the Rwandan microfinance industry has got 74, 819 active borrowers, 319,899 depositors, 29,7 million of US dollar and 32,3 million of US dollar as loans issued. Yet there is no study that explores the link between governance and performance of such a growing industry, this may be because of the industry being just new and emerging in the country (Microfinance Policy in Rwanda, 2006). There have been a number of high profile MFIsô collapses, nine MFIs failed, that have been evidenced in Rwanda despite the fact that the annual report and accounts stated the opposite (NMP, 2006). These MFIs collapses have had an adverse effect on many stakeholders. Shareholders have seen their financial investment reduced to nothing; employees have lost their jobs and, in many cases, the security of their company pension has been threatened and even evaporated overnight; suppliers of goods or services have also been affected due to failed MFIs; clients who deposited their money in those MFI have also been affected; and also the economic impact on the local communities at large in which the failed MFIs operated.

In essence, the MFIsô failure affected all Rwandans at large, being the supervision body, clients, suppliers and the political authorities. Problems of corporate failure may bring in some questions as Mallin (2010) says - such as ñwhy have such failures happenedò? ñWhat should be done to prevent such failures happening again?ò ñHow can the stakeholdersô confidence be restored?ò Mallin (2010) said that answers to these questions are all linked to corporate governance, that is to say, lack of effective corporate governance meant that such collapses could occur. Good corporate governance can help prevent such collapses happening again and restore investorsô confidence. Since 1994 the Government of Rwanda has certified the establishment of many MFIs and at the same time closed down some of them after operating for only a few years because of poor performance and others have collapsed from them to operate. The study observed events that took place in Rwanda since the end of 2005 - when the government of Rwanda started to close down some Microfinance Institutions (National Microfinance Policy, 2006), given the report of the National Bank of Rwanda, nine MFIs failed; according to the same report the reasons were related to governance issues such as lack of supervision from the National Bank of Rwanda, lack of a permanent eye from the boards of directors on the management, and so forth. No research has been undertaken to analyze the linkage between that failure and the way MFIs are governed in Rwanda.

This study aimed to contribute to the existing debate on the performance of Microfinance Institutions and the influence of governance on that performance. The researcher contributed to the literature in a developing post-conflict economy, such as Rwanda. There is a need to measure the performance of Microfinance Institutions employing the MFI Triangle that is the three variables namely; *outreach,* *sustainability and impact on the citizens* and identifying relationship which exists among corporate governance mechanisms and variables of Microfinance institutionsô performance; to get performance, Kereta (2007) said, these three variables have to be measured. This triangle was also brought in CGAP (2009) which says that whoever would wish to evaluate the performance of MFIs has to tackle the three aspects of them. These aspects touch all the stakeholders in the microfinance sector, being clients, suppliers, shareholders and the community at large in order to be corporate social responsive.

1.3 Objectives

This section addresses broad objectives and specific objectives.

1.3.1 General Objective

To investigate on the relationship between the corporate governance and the performance of Microfinance Institutions in Rwanda.

1.3.2 Specific Objectives

1. To determine whether or not there is a correlation between the board size of the board and the performance of microfinance institutions in Rwanda
2. To find out whether there is a correlation between the board composition and the performance of Microfinance Institutions in Rwanda
3. To determine whether or not there is a correlation between supervision and the performance of microfinance institutions in Rwanda

1.4 Research Hypotheses

This section aims at showing the research hypotheses the researcher attempted to verify through the findings. A hypothesis is a tentative solution to a problem**.** The hypotheses of this study were stated in nul form and were symbolized as $H_{O.}$ The following null hypotheses were tested:

Ho $_{(1)}$: There is no correlation between the size of the board of directors and the performance of microfinance institutions in Rwanda.

Ho $_{(2)}$: There is no correlation between the board composition and the performance of microfinance institutions in Rwanda.

Ho $_{(3)}$: There is no correlation between the supervision and the performance of microfinance institutions in Rwanda.

1.5 Significance of the study

This study contributes to the existing debate on the performance of Microfinance Institutions and the influence of governance on that performance. The researcher is contributing to the literature in a developing, post-conflict economy such as Rwanda.

There is need to measure the performance of Microfinance Institutions employing the MFI Triangle that is the three variables namely; outreach, sustainability and impact on the citizens and identifying relationship which exists among variables as far as Microfinance institutionsô performance is concerned.

The significance of this study is to examine the performance of Microfinance Institutions in Rwanda and the correlation between governance and the performance of Microfinance Institutions in Rwanda.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Chapter two discusses the related literature to this study. The literature was taken from books, journals, government reports, MFIs reports and information from the Internet**.** This chapter specifically reviewed literature that was pertinent to the influence of various corporate governance mechanisms on the different indicators of the performance of MFIs.

2.2 Definition of Key Concepts

Corporate governance: Kumar (2010) defines corporate governance as an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other stakeholders it is understood as the system or the set of mechanisms by which organisations are directed, controlled in order to achieve their organizational objectives. Defined broadly by Okeahalam and Akinboade (2003), corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices which govern the relationship between corporate managers and entrepreneurs or owners of the corporate. To this study corporate governance refers to the mechanism stakeholders use in order to move companies for the attainment of their performance.

Board of Directors: According to the Institute of Directors (Kumar, 2010), the board of directors is a body set by shareholders to ensure the companyös prosperity by collectively directing the companyọs affairs, whilst meeting the appropriate interests of its shareholders and other relevant stakeholders. Mallin (2010) defines board of directors as a body set by stakeholders and which is collectively responsible for the success of the company. The researcher refers to this concept in line with the second author given that her definition captures even the first one. The concept of board of directors is important for this study for the fact that it is one of the corporate governance mechanisms which may have a relationship with the performance of MFIs in Rwanda.

Board size: Is referred to as the number of people making the board of directors as Mallin (2010) says. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be easy for the CEO to control. The literature refers to the board size as the actual number of board members responsible for the success of the company, and the researcher considers as small size of the board of directors of not more than five board members NMP (2006). This concept is important for this study for it is one of the corporate governance mechanisms which may have a relationship with the performance of MFIs in Rwanda.

Board composition: The concept means the structure of the board of directors as far as the independent and dependent board members are concerned as Kumar (2010) and Mallin (2010) say. The literature seems to have that same definition ass a universal one as Mallin (2010) says. The researcher considers the concept in the same understanding of the above mentioned authors. This concept of board composition is important for this study for the fact that it helps to measure the level of independence of directors, corporate governance characteristic, which may have a relationship with the performance of MFIs in Rwanda.

Microfinance Institutions (MFIs): They are financial institutions aiming at supplying of financial services to micro enterprises and poor families according to Robinson (2001), Ledgerwood (1999); Schreiner (2002) and this was also pointed out by Mersland (2008). The study understands the MFIs as the above mentioned authors defined it. According to Rwanda, the microfinance is any mode of finance designed to provide low income individuals with the means to become self sufficient, it is any form of financial institution issuing small loans to those marginalized from the normal mode of finance with the intention of help poor prosper by allowing them to save and to borrow little money (Rwanda Microfinance Forum, 2009).

2.3 Review of Theories of Corporate Governance

Given that many disciplines have influenced the development of corporate governance, the theories that have fed into it are quite varied. The main theories that may affect the development of corporate governance are: agency theory, transaction cost economic theory, stakeholder theory, and stewardship theory.

2.3.1 Agency theory

A significant body of work has built up in this area within the context of principal-agent framework. The work of Jensen and Mecklin (1976) as pointed in their work, theory of the firm: managerial behaviour, agency costs, and ownership structure pointed in particular, the importance of this theory; and of Fama and Jensen (1983) as said, in their study, agency problems and residual claims, that this theory is the most important in studing performance of MFIs. The agency theory identifies the agency relationship where one party - the principal, delegates work to another party, the agent as Mallin (2010) says in her study corporate governance. The agency relationship can have a number of disadvantages related to the opportunism or self interest of the agent as Helms (2006) says in its study on access for all: building inclusive financial system; for example the agent may not work in the interest of the princil, or the agent may act only partially in the best interest of the principal.

There can be a number of dimensions to this, including the agent misuse his power for pecuniary or other advantages, and agent not taking appropriate risks in pursuance of the principalós interests because the agent views those risks as not being appropriate and the principal may have different attitudes to those risks (Mallin, 2010). There is also a problem of information asymmetry whereby the principal and the agent have access to different levels of information; in practice. This means that the principal is at a disadvantage because the agent will have more information (Kumar, 2010).

In the context of corporations and issues of corporate control, agency theory views corporate governance mechanisms, especially board of directors, as being an essential monitoring device to try to ensure that any problems that may be brought about by the principal-agent relationship, are minimized (Kumar, 2010).

Managers are supposed to be the agents of the corporationós owners, but managers must be monitored and institutional arrangements must provide some checks and balances to make sure they do not abuse their power as Helmalin and Weisbach (1991) say in their study; the effects of board composition and direct incentives on firm performance. The costs resulting from the misusing their position, as well as the costs of monitoring and disciplining them to try to prevent abuse, have been called agency costs (Kim, 2010).

Much of agency theory as related to corporations is set in the context of the separation of ownership and control as described in the work of Berle and Means (1932) in their work on the Modern Corporation and private property, and also on the work of Mallin (2010). In this context, the agents are the managers and the principal are the shareholders, and this is the commonly cited agency relationship in the corporate governance context. However, it is useful to be aware that the agency relationship can also cover various other relations including those of company and creditors, and of employer and employee. The essence of this research takes its roots from the agency theory perspective as it focuses on the supervisory aspects of corporate governance to reduce the agency costs and improve performance.

2.3.2 Transaction cost economics theory

The transaction cost economics theory, as expanded by the work of Williamson in 1975 (Mallin, 2010), is often viewed as closely related to the agency theory. The transaction costs economics theory views the firms as a governance structure whereas agency theory views a firm as a nexus of contracts as Daily and Dalton (1992) show in their work on the relationship between governance structure and corporate performance in entrepreneurial firms. Essentially the later means that there is a connected group or series of contracts amongst the various players, arising because it is seemingly impossible to have a contract that perfectly aligns the interests of principal and agent in a corporate control situation (Mallin, 2010).

In the afore mentioned discussion of agency theory, the issue of separation of ownership and control was emphasized. As firms have grown in size, whether caused by the desire to achieve economies of scale, or due to technological advances, or by the fact that natural monopolies have evolved, they all have increasingly required more capital rose from the capital markets and from established wider shareholder base.

The problems of separation of ownership and control and the resultant corporate governance issues have thus arised. Coase as cited in Mallin (2010) examined the rationale for firmsô existence in the context of a framework of the efficiencies of internal, as opposed to external, contracting. Coase said that the operation of a market costs something and by forming an organization and allowing some authority, like an entrepreneur, to direct the resources, certain marking costs are saved. The entrepreneur has to carry out his function at less cost, taking into account the fact that he may get factors of production at a lower price than the market transactions which he supersedes as Gee (1992) points out in his study on the financial aspects of the corporate governance. In other words, there are certain economic benefits to the firm itself to undertake transactions internally rather than externally. In its turn, a firm becomes larger the more transactions it undertakes and will expand up to the point where it becomes cheaper or more efficient for transaction to be undertaken externally (Kumar, 2010). Coase therefore posits that firms may become less efficient the larger they become. Equally, he states that all changes, which improve managerial techniques, will tend to increase the size of the firm. Williamson cited in Mallin (2010) stated that the costs of any misaligned actions may be reduced by judicious choice of governance structure rather than merely realigning incentives and pricing them out. Heart cited by Mallin (2010) indicated that there are number of costs to writing a contract between the principal and agent, which include the cost of thinking about and providing for all the different eventualities that may occur during the course of contract, the cost of negotiating with others, and costs of writing the contract in an appropriate way so that it is legally enforceable. These costs tend to mean that contracts are apt to be incomplete in some way and so contracts will tend to be revisited as and when any omissions or required changes come to light as pointed out by Jenkinson and Mayer (1992) in their work on the assessment: corporate governance and corporate control. In case of incomplete contracts, governance structure does have a role to play; governance structure can be seen as a mechanism for making decisions that have not been specified in the initial contract (Kumar, 2010; Mallin, 2010).

Both agency theory and the transaction cost economics theory are concerned with managerial discretion, and both assume that managers are given to opportunism for self interests seeking and moral hazard, and that managers operate under bounded rationality and both regard the board of directors as a instrument of control, in this context, bounded rationality means that managers will tend to be self interested rather than maximizing the profit; this of course, not being in the best interest of shareholders (Mallin, 2010). In addition to the agency theory, this study borrows from this theory as the manager sees the board as his controller.

2.3.3 The Stakeholder theory

Juxtaposed with the agency theory is the stakeholder theory. This theory takes account of a wider group of constituents rather than focusing only on shareholders (Mallin, 2010). The consequence of focusing on shareholder is that the maintenance or enhancement of shareholder value is paramount, whereas a wider stakeholder group, such as employee, providers of credit, customers, suppliers, government, and local community, is taken into account, the overriding focus on shareholder value becomes less self evident. Nonetheless, many companies do strive to maximizing shareholder value and at the same time trying to take into account the interests of a wider group of stakeholders. One rationale for effectively privileging shareholder over other stakeholders is that they the recipient of the residual free cash flow (Mallin, 2010), being the profits remaining once other stakeholders, such as loan creditors, have been paid. This means that the shareholders have a vested interest in trying to ensure that resources are used to the maximum effect, which in turn should be to the benefit of society as a whole (Mallin, 2010). Shareholders and stakeholders may favour different corporate governance mechanisms; the first favour the so called Anglo-Amercian model of corporate governance values the shareholders rights, while the later is favoured by the German model of corporate governance. Within this model, stakeholders such as employees, have a right enshrined in law for their representatives to sit on the supervisory board alongside the directors. The shareholders and the stakeholder group have a link to this study as far as the aspect of impact is concerned in terms of the conceptual framework.

2.3.4 Stewardship theory

The stewardship theory draws on the assumptions underlying agency theory and the transaction cost economics theory. The work of Donaldson and Davis as cited by Mallin (2010) cautioned against accepting the agency theory as a given and introduced an alternative approach to corporate governance, which is the stewardship theory. The agency theory is relying on the control of managerial opportunism by having a board chair independent of the CEO and using incentives to bind the CEO interests to those of shareholders. The stewardship theory stresses the beneficial consequences on shareholders returns of facilitative authority structures which unify command by having roles of CEO and Chair held by the same person. The safeguarding of returns to shareholders may be along the track, not of placing management under greater control by owners, but of empowering managers to take autonomous executive action (Mallin, 2010) and (Kumar, 2010). The stewardship theory complements the agency theory in the sense that it gives more autonomy and incentives to the management, rather than making a tight supervision to the senior management, as this may create a climate of subordinate to chief; as a consequence the company may suffer from that angle because the management holds the information for the company (Mallin, 2010).

After analyzing all the theories associated with the development of corporate governance, this study of corporate governance and performance of microfinance institutions; a case of Rwanda, is grounded into the agency theory and the stakeholder theory. The performance of MFIs is looked at various aspects, outreach, impact and sustainability; the three dimensions of performance of MFIs are in those above mentioned corporate governance theories. The following is the Figure 2.1 showing the various theories which influence the development of corporate governance.

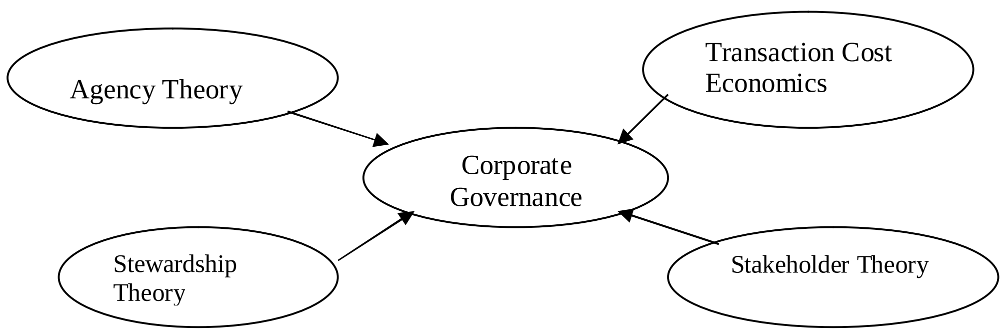

Figure 2.1: Main Theories Influencing Corporate Governance
***Source:* Mallin, 2010**

2.4 Theories on Performance of MFIs

There are two theories related to the analysis of performance of Microfinance Institutions. They are the welfarist theory and the institutional studies or financial approach theory (Youssoufou, 2002; Yaron, 1994; World Bank, 1989; Pischke *et al.,* 1983).

2.4.1 The welfarist theory

This theory contends that a microfinance institution is regarded to be performing well when it is able to reach the greatest number of the poor people and provides them with financial services at a low cost (Youssoufou, 2002). This theory is considered to be ñwelfaristò because it leads to high unpaid rates and transaction costs, resulting in failure Joanna (2010) as discussed in her work titled *Microfinance Handbook: institutional and financial perspectives*. Based on this theory; the variables that are used to measure performance in this theory are outreach and impact. This approach focuses on the logic of subsidization. This theory is linked to this study by the fact that it helps to know what the measures of the performance of MFIs are; these are the outreach and the impact on the welfare of the customers. Outreach, as Kereta (2007) says measures how the microfinance institution reaches a big number of clients and issues to them loans; if a microfinance does not increase the number of clients and the number of loans, then its performance is poor as far as outreach is concerned. The same author Kereta (2007) added by saying to reach many clients with high number of loans does not suffice, what matters more is how do those loans affect the living conditions of clients; the author refers to this as impact. CGAP (2009) added that without combining these two variables in assessing the performance of MFIs, no sponsor can issue any sponsorship, because this is a full assessment of performance of MFIs as far as the welfarist approach is concerned.

2.4.2 The institutional studies or financial approach theory

This second theory is an approach characterized by the will to liberalize financial markets. It completes with the first one by arguing that in order to evaluate performance of Microfinance Institutions, one has to combine the two theories using variables such as outreach and sustainability. According to these authors, a Microfinance Institution performs well whenever it bases itself on either financial outreach or financial sustainability. This second theory is similar to the study of Tvorik and McGivern (1997) about the determinants of organizational performance, since both of them have the same understanding of the concept of performance. They consider financial variables to decide whether or not a Microfinance Institution is performing well (Worldbank, 1989).

To either achieve the sustainability and the real outreach, MFIs have to make an assistive programme to borrowers of money so that the loans may make a socio-economic impact on their clients. If this is not achieved, MFIs will not get paid back the distributed loans in order to redistribute to others and so reach the outreach via sustainability. This study measures the performance of MFIs, using the variables suggested under these theories on performance of MFIs.

2.5 Origin of Corporate Governance

Capitalism is an economic system of business based on private enterprise. Individuals own lands, farms, factories, and equipment, and they use these assets in an attempt to earn profits (Kim et al., 2010). Capitalism provides rewards for COEs and other senior executives who work hard and who are inventive and creative enough to figure out new or improved products and or services, as Kim et al. (2010) posits. One potential reward for creating value in an economy is the accumulation of personal wealth. The wealth incentive provides the energy to generate new ideas and to foster economic value that provides jobs and raises our standards of living as Weisbach (1988) says in his study outside directors and CEO turnover.

The main goal of a corporate is to create a conducive environment to earning long term profits that is one indicator of performance (Kim et al., 2010), which stem from two main sources. First, the large portion comes from the current and future profits of the products and or services the corporate provides to its customers. Finding ways to increase profits from these core operations can also increase the economic value. Second, profit can come from the growth of sales of an existing product or from introducing new products.

The ability to access capital and to control risk is an important factor for the success or failure of the firm as Yermack (1996) says. Expansion usually requires additional money that must be raised by companies; at the same time risk is there as there is no guarantee that new products or services will meet customer expectations or that existing ones will continue to be successful on the market. As these are important attributes for companies, capital requirements and risk sharing affect the manner in which a corporate is organized and managed in order for the company to get profit and to sustain as Sandra et al. (2003) point out.

Corporate governance was not an important topic before 1980s as Kim *et al.,* (2010) say. In the aftermath of the Stock Market crash of 1987 there were a large number of corporate collapses caused by corporate failure on a global basis. Corporate governance has since caught the publicôs attention. Since the 1990s, the discussion on corporate governance in legal and economic literature has become intensive (Inglis and Sammut, 2006). Continued economic globalization, growing negative public opinion about board effectiveness and new regulatory and political pressure have been the joint forces bringing attention to the subject of corporate governance (Kim *et al.,* 2010).

2.6 Microfinance Institutions and Corporate Governance

This section first describes different forms of MFIs, with emphasis on the publicly traded corporations. It describes also the structure of publicly traded corporations, including the separation of owners and managers that is required to effectively run such companies. As this separation means that the owners of companies do not control day-to-day operations, there is a manager to take actions other than those that owners would prefer. An integrated system of checks and balances known as corporate governance has evolved to address this potential conflict (Kim et al., *op.cit.).* Throughout this section, parties which have an impact on the governance of MFIs are outlined.

2.6.1 Corporate governance stakeholders

Corporate governance is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and aligning the interests of individuals, corporations and society (Okeahalam and Akinboade, 2003). It also encompasses the establishment of an appropriate legal, economic and institutional environment that allows companies to thrive as institutions for advancing long term shareholder value and maximum human centered development while remaining conscious of their other responsibilities to stakeholders, the environment and the society in general, the authors argued (Okeahalam and Akinboade, 2003).

Corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships (Kumar, 2010). It also addresses the leadership role in the institutional framework, (Mallin, 2010). Corporate governance, therefore, refers to the manner in which the power of a corporation is exercised in stewardship in the corporationös total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission, (Okeahalam and Akinboade, 2003). Corporate governance implies that companies not only maximize shareholders, employees, customers, suppliers, and investors so as to achieve long-term sustainable value, (Okeahalam and Akinboade, 2003).

From a public policy perspective, corporate governance is about managing an enterprise while ensuring accountability in the exercise of power, (Deakin and Mayer, 1997). Although there are differences in details, the general agreement is that corporate governance is a system or a process of directing and controlling the corporation (Gee, 1992). In terms of scope of corporate governance, some believe the view that corporate governance concerns only relationship among the corporation and its shareholders, executives and employees and productive efficiency and effectiveness. Others believe that it concerns all relevant laws, culture, and questions about distribution of profits and assumption of risk (Kim *et al.,* 2010). Figure 1.1 shows the details about the corporation and corporate governance.

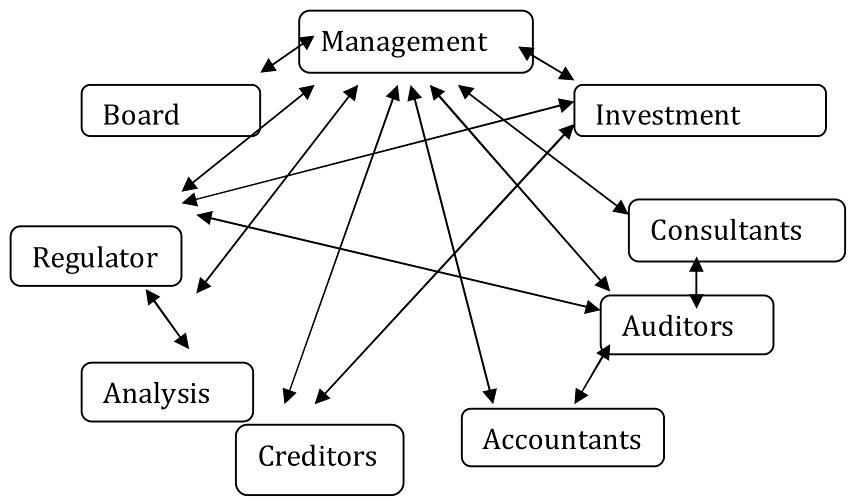

Figure 2.2: Relationship among stakeholders in industry

Source: Kim *et al.,* (2010).

The various mechanisms of corporate governance which are having a significant influence on the performance of organisations are board size, board composition, CEO duality and the supervision (Kim et al., *op.cit.).*

2.6.2 Analyzing performance of MFIs

Poverty is the major problem in most developing economies, (Kereta, 2007). In these economies, it is argued that among other factors, absence of access to financial services is presumed to be the cause for the failure of the poor to come out of poverty. Let us review in detail how MFIs are measured in terms of meeting their performance as the author Meyer (2002) said that is looking at the following indicators: outreach to the poor, financial sustainability and impact positively on the welfare of the poor. The CGAP (2009), in its research on core performance indicators for microfinance, pointed out the core areas for performance analysis of the microfinance; these are outreach (breath) which means how many clients are being served, the outreach (Depth) or impact which means how are the clients improving as far as their poverty is concerned and the sustainability meaning how well is the MFI collecting its loans and is the MFI profitable enough to maintain and expand its services without relying on injections of subsidized donor funds.

2.6.2.1 Measuring outreach to the customers

Outreach, at glance, refers to the number of clients served by an organization. But Meyer (2002) noted that outreach is a multi-dimentional concept. In order to measure outreach we need to look into different dimensions. The first is simply the number of persons now served that were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide the collateral required for accessing formal loans (Meyer, 2002). Another criterion is the number of women served. Women often face greater problems than men in accessing financial services. Finally, the variety of financial services, that is the number of loans distributed to those needing them.

2.6.2.2 Measuring sustainability

The other indicator of performance of MFIs is its sustainability. Different literatures noted that sustainability is one of the areas that we need to look at to assess the performance of MFIs. Meyer (2002), Litan (2007) and Kereta (2007) noted that the poor need to have access to financial service on long-term basis rather than just a one time financial support. Short-term loan worsens the welfare of the poor (Najas *et al.,* 2000). Meyer (2002) also stated that the financial unsustainability in the MFI arises due to low repayment rate or unmaterialization of funds promised by donors or governments. According to Meyer (2002), Kereta (2007) and Litan (2007), there are two kind of sustainability we could observe in assessing MFIs performance: Loan recovery and profitability. The first being when loans issued can be recovered by MFIs and the second being covering other operational costs like salaries, suppliers, loan losses and other administrative costs. According to Kereta (2007) and Litan (2007) outreach and financial sustainability are complimentary; this is because as the number of client increases MFIs enjoy economies of scale and hence reduce costs which help them to financial sustainable. Regarding indicators of financial sustainability of MFIs, Khandker et al. (1995) pointed out that the most important is loan repayment or debt recovery because low default rate would help to realize future lending.

2.6.2.3 Measuring welfare-impact on customers

Welfare impacts of the services of MFIs are also argued to be another indicator to evaluate the performance of MFIs. As indicated, one of the objectives of MFI is reducing poverty. Hence, this implies that we need to assess the impact of the MFIsô programmes on reducing poverty to evaluate their performance. According to the World Bank report as cited by Meyer (2002), poverty is viewed as lack of money, lack of adequate food, shelter, education and health and the poor are vulnerable to ill health, economic dislocation and natural disaster.

Authors like Ledgerwood (1999), Meyer (2002), Kereta (2007), and Litan *et al.,* (2007) said that this perspective of poverty can be used to assess the impact of MFIs on the clients who receive MFIsô services or loans. Given the prevailing challenges, however, in the assessment process of the impact of MFIs on their clients, several impact indicators are noted in literatures. Mostly the impact indicators are categorized as economic and social living conditions or benefits as suggested by Ledgewood (1999), Kereta (2007). The MFIs are for the double bottom line a social bottom line as well as a financial bottom line. This is a way of saying that a reasonable profit is necessary to support the continuous investment needed to sustain and improve services offered by MFIs, (Michael, 2007).

2.7 Models of Corporate Governance

2.7.1 Corporate Governance in Continental Europe

A difference in the understanding of corporate governance is seen within the corporate governance models in the European continent. Spurred by the development of capital markets, the influence of institutional investors, and a growing desire for more transparency and disclosure following various high-profile financial scandals across the globe, continental Europe has responded by improving its corporate governance to provide increased disclosure and accountability (Mallin, 2010). Although corporate ownership structures may differ across Europe, and some countries have a unitary board whilst others have have a dual board, there does seem to be agreement on some of the fundamental aspects of corporate governance that is leading towards a convergence of corporate governance in key areas (Mallin, 2010).

2.7.2 Corporate governance in Central and Eastern Europe

After reviewing the different approaches that were used in the privatization of state owned enterprises in the former Union of Socialist Soviet Republics (USSR), the effect of each approach on the resultant ownership and control of privatized companies, and the implications for corporate governance developments were different, (Mallin, 2010). Countries in Central and Eastern Europe are keen to improve protection of minority shareholders rights, and to establish more confidence in their capital markets to attract foreign direct investment. All of the countries have already published corporate governance codes of best practice, (Mallin,2010 and Kumar, 2010).

2.7.3 Corporate governance in the Asia-Pacific

The financial downturn that affected countries in the Asia-pacific in the 1990s came as a great shock. The so-called tiger economies had seen their stock markets experience meteoric rises and then that golden situation was wiped out, (*ibid*). This change in fortunes led to many questions as to how and why this could have happened, but also as to how they would be able to rebuild themselves and attract investors back to their stock markets.

The lack of transparency and disclosure, the misuse of corporate assets by dominant shareholders, and the lack of protection for minority shareholdersô interests have all been seen as contributory factors to the demise, and as areas that need to be improved in order to rebuild economies and attract both domestic and overseas investment, (Kumar, 2010 and Mallin, 2010). All countries in this part of the world have all strengthened their corporate governance codes, which recommend fuller disclosure and accountability, transparency of process, the appointment of independent directors, the recognition and protection of the minority shareholdersô rights. Because of that, all the region seems to be moving in the right direction and the changes encourage more foreign direct investment and greater confidence in the stock markets (Mallin, 2010).

2.7.4 Corporate governance in South Africa, India and Brazil

The corporate governance of these three countries of different cultural influences, legal systems, and corporate governance structures has some commonalities of approach to their corporate governance codes. South Africa and India having a unitary board while Brazil a two tier board system, all of them emphasize on transparency, and accountability, and they have a desire to enhance the protection of minoriry shareholdersô rights, (Mallin, 2010). There is an emphasis on the importance of having a balanced board with an appropriate proportion of independent directors, and also recognition that a company cannot operate in isolation but should consider the interests of its various stakeholder groups, Mallin (2010) continues. To these countries, it is to be expected that corporate governance will improve, as countries seek to attract international investment and maintain investor confidence.

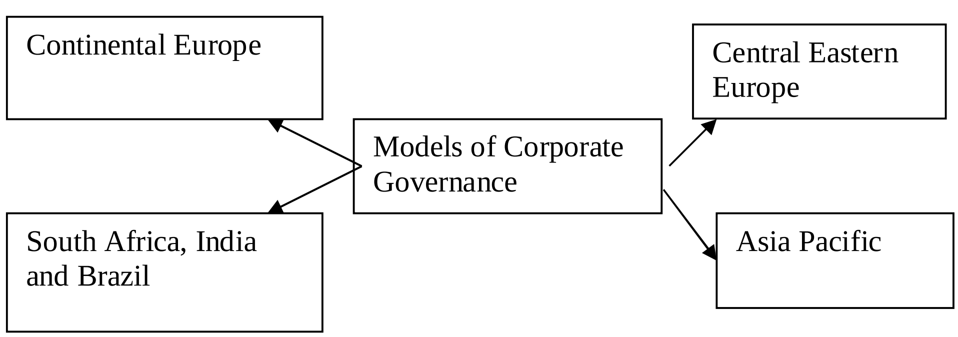

Figure 2.3: International Corporate Governance

Source: The author

After analyzing the various models of corporate governance, Rwanda seems to fit in this last model even though it is not hundred per cent.

2.8 Discussion on Corporate Governance

2.8.1 Benefits of good corporate governance

Good corporate governance ensures that organizations are well-run institutions that earn the confidence of investors and lenders as Akinboade and Okeahalam (2003) said. The process ensures safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in a democratic society. These are quite critical for most African economies that are struggling to attract foreign direct investment, the authors continued (*ibid*).

The quality of governance is of absolute importance to shareholders as it provides them with a level of assurance that the business of the company is being conducted in a manner that adds shareholder value and safeguards assets Akinboade and Okeahalam (2003) said. This means that there is less uncertainty associated with the investment; a situation that encourages bankers and lenders to be favourably disposed to the company Akinboade and Okeahalam said. If a company adopts and implements good corporate governance practices, shareholders are retained and new investors attracted as the above authors argued (2003). Hence, good corporate governance is necessary as Kim *et al.,* (2010) in order to attract investors both local and foreign ad ensure them that their investment will be secure and efficiently managed, and in a transparent and accountable process. This is seen through even the implementation of good governance principles.

Kim *et al.,* (2010) further argues that good corporate governance creates competitive and efficient companies and business enterprises, good corporate governance being securing good relationship among all stakeholders of a corporation and complying with the rules and regulations, it will enhance the efficiency of the corporation and create the competitiveness to corporations lacking good governance principles.

Good corporate governance enhances accountability and performance of those entrusted to manage corporations (Kim *et al.,* 2010). When shareholders start a corporation, they are driven by the profit maximization. Then if good corporate governance governs the corporate, the agent will be accountable to the principle and this accountability will lead to the performance or the achievement of the objectives.

Kim further argues that good corporate governance promotes efficient and effective use of limited resources. The relationship between the agent and the principle generates the misuse of resources by the first as he or she knows that the resources belong to someone else; but with the rules and regulations provide the sanctions of the misuse of resources and the rewards for maximization of profit by the agent.

Corporate governance enhances the performance and ensures the conformance of corporations. Its principles stimulate the performance of corporations by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firmös operational efficiency, returns on investment and or on equity and long term productivity growth Kim *et al.,* (2010); Akinboade and Okeahalam (2003). They ensure corporate conformance with investorsô and societyös interests and expectations by limiting the abuse of power and the wastage of corporate resources, so called agency problem, (Akinboade and Okeahalam, 2003). Simultaneously, the establish the means to monitor managersô behaviour to ensure corporate accountability and provide for the cost- effective protection of investorsô and societyøs interests *vis- a - vis* corporate insiders.

Without efficient companies or businesses, a country will not create wealth and employment as Akinboade and Okeahalam (2003) said. They further argue that without investment, companies will stagnate and collapse. If businesses do not prosper, there will be no economic growth; no employment, no taxes paid and invariably the country will not develop. Developing countries - in particular, need well-governed and managed companies that can attract investors, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance, therefore, becomes a prerequisite for national economic development and performance of companies. Globally, especially in developing countries companies face various challenges in implanting corporate governance. We can list some of them(Akinboade and Okeahalam, 2003).

The first challenge is the structure of ownership and control. Most of the developing economies are based on small or medium sized companies with the soleproprietorship as the business ownership. The owner does everything as he or she understands. From this perspective it will be very hard to implement corporate governance.

The second challenge is the interlocking relationships with government and the financial sector; in developing countries where by most of them the ruling form is a dictatorship, the government officials interfere in the financial sector, not as supervision authority but as getting any advantage from the financial institutions. This leads to Foreign Direct Investors to fear invest in such developing country.

The third challenge is the weak civil and judicial systems. As indicated above the dictatorial governments do not allow the growth of a civil society and the juridical system is tailored to the ruling system. This creates amongst investors - whether being local or foreign.

The fourth challenge is the absent or underdeveloped monitoring institutions. One of the characteristics of a developed country is the existence of strong institutions. When institutions are strong enough, the monitoring systems will be efficient and effective because no body will interfere with them and rules and regulations will be complied with.

The fifth challenge is the limited human resources capabilities. As everybody knows, one of the characteristics of developing countries is lack of skilled human resources. If human capabilities are limited in any country, investors will fear to come because they donøt have anywhere to get human resources.

2.8.2 Separation of ownership and control

In 1932, Adolf Berle and Gardiner Means wrote what was to become a famous book about the corporate form of business as cited by Kim *et al.,* (2010). They pointed out that corporations were becoming so large that the ownership and control was separated. The stockholders own the firm and managers control it. This situation comes about because many investors who own public firms cannot collectively make the daily decisions needed to operate a business. Hence, there was a need of specialized managers to take decisions. There is a problem with this separation of ownership and control, Kim *et al.,* (2010).

Why would the managers care about the owners? Kim *et al.,* (2010) argued that with managers being free from vigilant owners, managers would only pursue enough profit to keep stockholders satisfied while managers sought self-serving gratification in different forms. In the academic term, this is known as the principal-agent problem Kim *et al.,* (2010) or the agency problem as said before. The owner is the principal and the manager is the agent who is supposed to work for the owner as said by Kumar (2010). If shareholders cannot effectively monitor the managerøs behavior, then managers may be tempted to use the firmøs assets for their own benefits, all at the expense of the shareholders (Mallin,2010). Secretaries may take home office supplies, mid level managers or top managers may misuse the resources on the expense of the stockholders.

Among all employees, the agency problem is the greatest with the executives of corporation because they have the most power and control in the corporation. Mid-level managers have their bosses who look at expenses reports. The question lays on who watches the executives. The primary monitor of the executives is the board of directors of the corporation who are appointed by shareholders (Kim *et al*., 2010). It is the board that appoints the executives and removes them if they take actions that harm the corporation. However, if the shareholders are passive investors without an incentive to monitor closely, will the shareholders make sure the board does its job? If not, then what is to stop the executives from including the directors in the activities that personally benefit them at the expense of the shareholders? When the agent has more information and knowledge than the principal, the opportunity for the agent to use their position to pursue self-interest increases, this means that managers have better information and knowledge about the company than shareholders. This results in increasing agency costs as said by Kim *et al.,* (2010).

There are a variety of potential monitors of the actions of corporate executives that jointly make up the current system of corporate governance. Figure 2.4 illustrates the separation of ownership and control between stockholders and managers. In addition, the Figure shows that monitors exist inside the corporate structure, outside the structure, and in government.

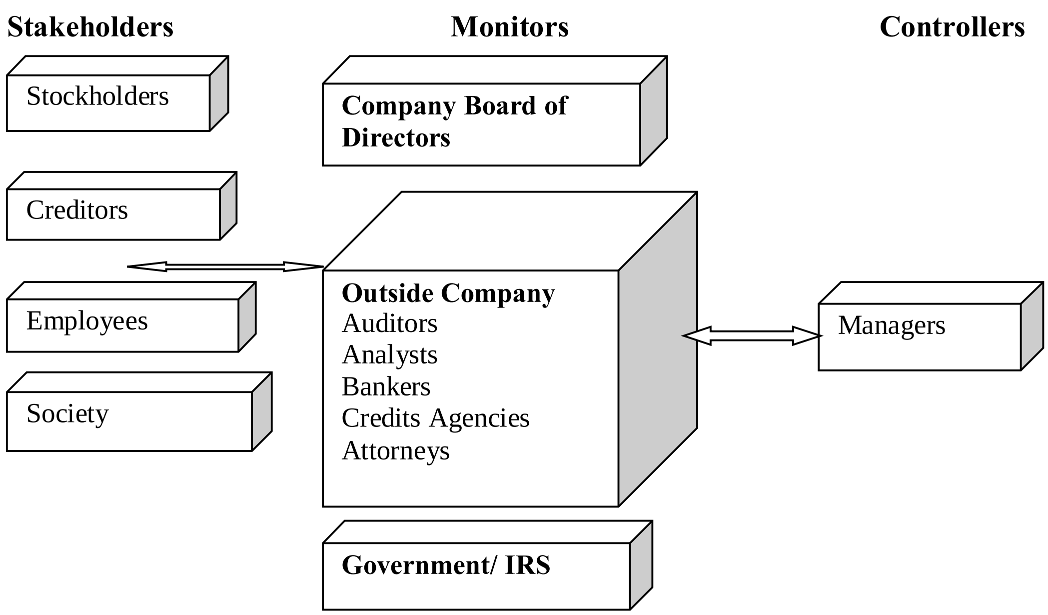

Figure 2.4: Relationship among Stakeholders, monitors and controllers
***Source*: Kim, Nofsinger and Mohr (2010)**

The monitoring role inside corporation falls on the board of directors who oversee management and are supposed to represent shareholdersô interests. The shareholders elect directors at the annual meeting each year. These directors have a legal obligation to represent the shareholdersô interests in running the corporation. One of the most important roles the board carries out is to appoint the executives who will actually run the day-to-day operations of the company. The board hires the executives and can replace them if the board is unhappy with management for any reason. The board can also design compensation contracts to tie managementøs salaries to the firmøs performance.

Theoretically, managers (executives) work for owners (shareholders). In reality, because shareholders are usually inactive and the board does as management asks, the firm actually seems to belong to management (Kim *et al*., 2010). Some active shareholders have tried to influence management and/or change the directors on the board, but they are often met with defeat. Recent evidence of unsuccessful outcomes of shareholder proposals is quite telling. Shareholders of public corporations have the power to make proposals that can be voted on at the annual shareholders meeting. There are generally two types of proposals, those related to governance and those related to investment as Berle and Means (1932) say.

A huge factor in whether a proposal is successful depends on managementøs opinion. Without management approval, proposals have little chance of succeeding. The reason for this is that management is permitted to ask shareholders who will not be able to attend a meeting to return proxy statements voting as management suggests (Kim *et al.,* 2010). Traditionally, shareholders have trusted management to know what is best for the firm, so most passive shareholders will go along, with whatever management wants. The result is that management effectively controls a large block of votes due to the proxies of uninvolved shareholders and it is unlikely that activist shareholders will prevail. The same issue arises in shareholders voting to replace directors. It is difficult for outside shareholders to mount a serious challenge to the directors nominated by the company.

2.8.3 Board of directors

When one says that a company has a board of directors, the first question which comes is about the responsibilities. In general, a board of directors acts as the shareholdersô agent in charge of running the day-to-day operations of the company (Kim et al., 2010). Instead the board handles major decisions and delegates responsibilities for everything else to corporate officers (Mallin, 2010). Hence, the board is in charge with various activities. The board receives its authority for internal control from stockholders of corporations, (Kumar, 2010).

2.8.4 Election of directors

Directors are elected to serve on the board by a vote of shareholders. The right to vote in director elections is the primary way in which shareholders influence the control of the corporation, (Kim *et al.,* 2010). This vote depends on the voting power of each share of stock. All the directors on the board can be removed and replaced by shareholders for any reason or no reason, although the timing of the replacement may vary depending on the rules in the companyôs statutes or internal regulations (Kim *et al.,* 2010). Typically, directors can only be removed after their term office expires.

The process of replacing directors, however, is not easy at large corporations. The biggest obstacle is the fact that individual shareholders do not have an incentive to become involved in the monitoring of the corporation (Brickley *et al.,* 1994). As directors typically have the support of management, the company will actively campaign amongst its shareholders to keep its directors (Kim *et al.,* 2010). This means that it takes a committed group of shareholders who are willing to invest large amounts of time and money to win a voting contest against the management supported directors. If you are a small shareholder you donöt really want to spend your own money and time to convince other shareholders to vote for different directors.

The above authors argue that when there is a contested vote to elect directors, this is called a proxy fight. This proxy fight means that each side of contest tries to persuade other shareholders to vote for their candidates for board of directors. As most of the shareholders do not actually attend the vote because of the costs of travel and the time requirement, they vote by filling out a proxy form that either specifies their vote or that designates an agent to vote their shares. Hence, proxy fight describes a process where both sides lobby the list of shareholders seeking proxy votes in their favour.

Tests of board effectiveness include the way in which the members of the board as a whole work together under the chairperson, whose role in corporate governance is fundamental, and the collective ability to provide both the leadership and the checks and balances which effective governance demands, (Brickely and James, 2010). Shareholders are responsible for electing board members and it is in their interests to see that the boards of the companies are properly constituted and not dominated by any one individual (Kim *et al.,* 2010).

2.8.5 Board responsibilities

No law explicitly dictates that public corporations must have a board of directors. Instead, corporations must follow the statute of the state in which they are incorporated. State laws vary from one state to another but every state requires that a corporation have a board of directors. The central role of board of directors in the strategic management of firms is firstly to critically appraise and ultimately approve strategic action plans and secondly to evaluate the strategic leadership skills of the CEO and others in the line of succeeding. The basic responsibilities of the board comprise four specific roles fiduciary, strategic, supervisory and management development (Adams and Mehran, 2003; Kim *et al.,* 2010).

As for the fiduciary role, the board has the responsibility to safeguard the interests of all the institutional stakeholders. As such, the board serves as a check and balance to provide confidence to the company's investors, staff, customers, and other key stakeholders that the managers will operate in the best interests of the institution. As far as the strategic role is concerned, the board participates in the organizational long-term strategy by critically considering the principal risks to which the organization is exposed, and approving plans presented by the management. The board does not generate corporate strategy, but instead reviews management's business plans in light of the institution's mission, and approves them accordingly.

When it comes to the supervisory role, the board delegates the authority for operations to the management through the Chief Executive Officer. The board supervises management in the execution of the approved strategic plan and evaluates the performance of management in the context of the goals and time frame outlined in the plan. In this line, board hires, evaluates and perhaps even fires top management, with the position of CEO. The directors do vote on major decisions related to financial proposals, offer expert advice to management and make sure the firmôs activities and financial condition are accurately reported to its shareholders.

As regards the role management development, the board is concerned with supervising the selection, evaluation and compensation of the senior management team. This includes succession planning for the CEO. In the transition from a small, growing entrepreneurial organization to becoming an established institution, governance ensures that the company survives. Governance moves an institution beyond dependency on the visionary.

In executing all its responsibilities, the board provides an important corporate governance function. Because the board is a part of the firmôs organizational structure at the top of the corporate hierarchy it might be considered the firmôs most important internal monitor. While the boardôs role in the corporation seems to ensure that shareholders interests are being attended to, there are some potentially serious problems. Among the issues are a lack of board independence from the CEO, directors who do not have the time or expertise to fulfil their roles adequately and members who do not have a vested interest in the firm. In other words there is an agency problem where the directors do not always act in the shareholdersô best interest.

As regards the loyalty and fair dealing role, the board of directors has to put the interests of shareholders first comparing to their own individual interests. In addition, directors must act with care by doing what an ordinary prudent person would do under the same position and circumstances. A great deal of important board work occurs at subcommittee level and subsequently goes to the full board for approval. The reason for delegating responsibilities to committees is that it is more efficient and effective to allow for specialization of tasks on the board instead of bringing all actions to the full board. Kim *et al.,* (2010) name three most common board subcommittees.

The first subcommittee is the audit committee which is in charge of reviewing internal and external auditing. It has to ensure that the auditors do their jobs effectively and efficiently. The second is the compensation committee which is responsible for setting and designing the executive incentives (compensation package). The third one is the nomination committee which searches for and nominates candidates to run for vacancies among seats on the board of directors and at the level of employees.

The board of directors is the prime internal control mechanism responsible for monitoring the actions of top management. To do it in an effective way, the board of directors has to have two characteristics namely; board size and board independence.

2.8.6 Board size

With respect to size, generally small sized boards are more effective than big sized boards as pointed out by Kim *et al.* (2010) and Berg and Smith (1978) and Barnhart and Roseinstein (1998). This is because they can hold more candid discussions and make quicker decisions and because they are less easily controlled by management than is a large one. There is no universal rule for what should be the best number of members of the board, (Dalton and Dalton, 2005).

In South Africa, the most frequently occurring board size is four. In Ghana and Kenya, the number is seven; while in Ivory Cost and Zambia, the number is eight. In some other African countries, the number varies; Mauritius (9 to 10), in Namibia (11 to 12), and in Rwanda, the smallest board is made of five members. Rwanda in its Microfinance policy and guidance documents (2005) suggests that the board size does not eceed eleven members. This does not mean that these are fixed numbers; you may find more members or fewer members.

Literature points out that a board of directors of more than seven members is easily controlled by the management of the company and consequently it becomes less effective in achieving its roles, (Roselina, 2007). This board is called a big sized board and the one of less than seven members is a small board of directors. When the boards get to be too big, agency problems increase and the board becomes symbolic. In contrast, others believe that larger boards may be more valuable because of the greater diversity of knowledge and experience available.

2.8.7 Board composition

With respect to board composition, the outsider/insiders membersô proportion is very critical, (Dalton and Dalton, 2005). The insider members are referred to as the firmôs management or who are affiliated with managers while the outsider members are those of non-relationship with the management of the corporation and having specific expertise for the development of the company. The insider members tend to be less effective than outsider members as monitors of management.

Fama and Jensen emphasize that independent directors (outsiders) tend to have more incentives to build reputations as expert monitors. One has to realize however that, to a director, a reputation as one who does not make trouble for CEOs is potentially valuable as well (Dalton and Dalton, 2005; Daily and Dalton, 1992). The afore mentioned does not mean that all members should be outsiders. A reasonable number of inside directors on the board can add value too. If a board contains a mix of inside and independent (outside), a whole range of skills and knowledge is brought in.

Inside directors can add value because they are well informed about the company, whereas outside directors will act more quickly than inside directors if something goes wrong; but they may do wrong thing if their deliberations are not based on the information availed by inside directors (Roselina, 2007; Denis and Connel, 2003). A high number of outsidersô board members compared to the insidersô board members may tend to increase the level of independence of the board of directors as far as the monitoring of the CEO is concerned for the sake of performance of the MFIs. Another perspective on board independence is provided by Hermalin and Weisbach (1991). They argued that a boardôs independence is the result of a bargaining game between the board and the CEO. The CEO prefers a less independent board while the board prefers to maintain its independence. If CEO demonstrates high skills by exceptionally performing well, the boardôs independence declines. In case of a poor corporate performance, the independence of the board increases and the CEO is perceived as someone to be replaced.

2.8.8 Separation of Chairmanship of the board and CEO

Best practice codes on corporate governance recommend, among other things, that boards include a number of outside directors and that the positions of Chair and CEO be held by different individuals (Dalton and Dalton, 2005). Jensen (1993) points out that when the CEO also holds the position of the chairperson of the board, internal control system fails, as the board cannot effectively perform its key functions including those of evaluating and firing CEOs. Similarly, Fama and Jensen (1983) argued that concentration of decision management and decision control in one person reduces a boardôs effectiveness in monitoring top management.

Empirically, there is more evidence that firms perform better when the CEO and the chairperson functions are separated, (Marcio *et al.,* 2011). In the same way, Goyal and Park point out that the sensitivity of top executive turnover to corporate performance is significantly lower for firms that vest the titles of CEO and chairperson in the same individual.

2.8.9 Supervision

Accountants and auditors are an important part of corporate monitoring system. The accountant keeps track of the quantitative financial information of the firm. Because mistakes and other problems, such as intentional fraud, may occur with accounting, there are auditors who review the financial information, (Mersland, 2008). As such, auditors may be in the best position to monitor the firm. In this process, auditors obtain private information about the company that others can not obtain. They use this information to determine whether the companyós public financial statements reflect the true level of business being conducted. Financial providers and investors rely on these statements to get an accurate picture of the firmós business activities and financial health. Therefore, the auditorsô evaluation is very crucial.

2.8.9.1 Accounting functions

Historically, accounting has been the function of gathering, compiling, reporting, and archiving a firmós business activities. This accounting information helps individuals in many roles who depend on it to make decisions. For convenience, those who need accounting information are categorized as either insiders or outsiders of the firm (Kim *et al.,* 2010). Management accounting is the development of information for insiders, such as company managers. Managers use these pieces of information to measure the progress toward their goals and highlight any potential problem in advance (Joanna, 2010). For example, managers want to know which products have the best sales and which are selling poorly. They want to know which products tend to sell together, or how is inventory or cash being managed. Managers want to get an insight about cash to pay the companyós upcoming debts payments.

Accountants answer to these questions with budgets, variance reports, sensitivity analysis, revenue reports, costs projections, and even analysis of competitors (Jansson et al., 2004). When firms consider how to expand products or services, managerial accountants help formulate profit projections from revenue and cost projections. In short, managerial accounting has been, historically, and is still playing a large part in the control and evaluation of the business and its performance.

Outsiders of the firm also use accounting information for their own purposes. Investors, banks, the government, and other stakeholders have a keen interest in the financial health of the firm. Banks and other creditors want to know it the company will be able to pay back its debts. Shareholders want to know how profitable the firm is currently and how profitable the firm will be in the future (Kim et al., 2010). Employees might have a double interest because their have their careers and employment at one hand and they might be investors through their retirement plans at another hand.

Financial accounting provides information for outsiders. Whereas managerial accounting reports may break down performance for managers by individual products or regions/provinces of the country, financial accounting reports summarize the business as a whole, although they can be broken into business segments and regions or provinces.

The three main financial statements, namely: the statement of income (income statement), the statement of the financial position (balance sheet), and the statement of cash flow and other important pieces of information are used by outsiders to determine the firmǿs value, profits, and its risk. Outsiders want to be able to compare firms easily. That is why there is a requirement that these accounting statements adhere to the uniform set of international standards known as ñ*Generally Accepted Accounting Principles (GAAP)"***.** These statements are prepared by the accountants of the firm and reviewed by independent accountants from an auditing company. In order to assure the outsiders about the accuracy of the accounting data, you need to make an accounting analysis. This analysis follows these steps: *Identify Key*

Accounting Policies, Assess Accounting Flexibility, Evaluate Accounting Strategy, Identify Red Flags. Analysts must look for red flags that point to questionable reporting quality. Indicators of these red flags may be unexplained changes in accounting policies especially when performance is poor, unexplained transactions that boost profits, unusual increase in receivables in relationship to sales, unusual increases in inventories in relationship to sales, increasing gap between reported profits and operating cash flow, increasing gap between net income and taxable income, unexpected large assets write-off, and qualified auditorĝs opinion.

The analyst must move to correct the numbers if the analysis shows distortions. For that, he/she may use the cash flow statement for the problem of accrual accounting and possible capitalization of expenses. He may also use the footnotes to find out the changes in accounting polices, details of reserves, and differences with taxable profits.

Sometimes accounting methods and business record-keeping can be very different for reports to managers for various reasons. For example, when reporting business activities in an annual report, choices might be made that maximize earnings in order to make them appear stronger than they would otherwise be, in the hope of driving up the firmĝs stock price. Whereas, the Internal Revenue Service (IRS) forms, for tax payment, are being completed, choices might be made to minimize earnings in order to minimize tax expenditures.

There are other potential problems due to the kind of record-keeping used by accountants. Some may occur as unintentional errors, sometimes these errors are due to miscalculations or due to applying an expense to the wrong accounting ledger (Kim *et al.,* 2010). Another potential problem occurs when judgments are required.

For example, should the firms count all receivables when they know that some clients might never pay for goods or services rendered? Finally, accountants could perpetuate fraud; they could overstate income, or understate liabilities, or overstate assets such as receivables. Or they could be tricked by one of the managers to commit fraud on his or her behalf. Accounting fraud is probably the largest potential problem with accounting.

Because of these accounting potential problems, due to recording-keeping, which bring in ambiguity or confusion to accounting information users, there is a need of auditorsô reports. To avoid all the problems related to accounting and auditing; we have the *Generally Accepted Accounting Principles (GAAP).* The raison dôêtre of this GAAP is first because it is difficult for investors to determine whether the accounting reports are displaying reality, accounting standards and rules have been developed.

Secondly, Generally Accepted Accounting Principles and International Standards set the principles and rules for treating many of the accounting issues regarding the determination of financial reports.

The third reason is that they are designed to reduce management flexibility and possibility of manipulation of financial reports over time and across different industries and firms.

2.8.9.2 Auditing

Mid-2002, in response to the familiar financial disaster, the Sarbanes-Oxley Act and other new exchange listing proposals were passed to help restore investor confidence. The section 404 of the Sarbanes-Oxley Act requires that management assesses the internal controls in the corporation, and issues an internal control report as Kim *et al.,* (2010); and Kumar (2010) and Mallin (2010) say. Another new requirement was that listed companies have an effective internal audit function. In addition, the Sarbanes-Oxley Act of 2002 stops the external auditor from taking up some outsourcing activities, including internal audit services.

2.8.9.3 Internal control and risk management

The importance of internal control processes is emphasized by the exposure draft on Enterprise Risk Management issued in 2003 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Mallin (2010). This draft builds on the 1992 COSO report on internal control and provides guidance on sound control and risk management practices. The 2003 COSO report on enterprise risk management builds on the 1992 guidelines on internal control and defines enterprise risk management as Kim *et al.,* (2010) as follows:

"… A process, affected by an entityǿs board of directors, management and other personnel, applied in strategy setting and across in the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its capacity, to provide reasonable assurance regarding the achievement of the entity objectivesò.

There are four objectives related to the internal control (Mallin, 2010). The first objective is related to the understanding of the extent at which the entityös strategic objectives are being achieved. The second objective is to understand the extent at which the entityös operating objectives are being achieved. The third objective is to determine that the entityös reporting is reliable; and the fourth objective is to determine that applicable laws and regulations are being complied with.

Internal control and risk management include all measures and practices that are used to mitigate exposures to risks that could potentially prevent a corporate from achieving its objectives (Mallin, 2010). It also serves as the first line of defence in safeguarding assets, in preventing and detecting errors and fraud. Internal control is not solely a procedure or policy that is performed at a certain point in time. It is an ongoing process operating at multiple levels within an organization. The COSO framework of 2003 identified and described the components necessary for effective risk management, which are internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring (Kim *et al.,* 2010).

2.8.9.4 Internal auditing

The recent corporate governance best practice codes very explicitly recommend the installation of an internal audit function in companies. Identifying and implementing best practices is a journey, not a destination (Mallin, 2010). Internal auditing is an independent, objective assurance and consulting activity designed to improve an organizationös operations and, thus, to add value. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk-management, control, and governance processes.

One of the objectives of the internal audit is to provide assurance that the risk management processes are functioning as intended. Through specific recommendations and other consulting services, the internal audit function furthermore assists management and the board by improving risk management and control processes. Internal auditors should be, or become, very familiar with an organizationôs value creation, as they accumulate knowledge about the organization throughout their careers. They can therefore be ideal consultants for the improvement of an organizationôs processes. The improvement of the internal audit is likely to have a positive effect on customers or clients and suppliers. Thus, the internal audit function is also able to add value to external parties or stakeholders.

In short, an internal auditor may increase the effectiveness of an entityô control environment and can assume an important role as an in-house advisory function that offers analysis and assurance to the board as to the functioning of the risk management and internal control systems (Mallin, 2010; Kumar, 2010). The internal audit has become a major support function for management, the audit committee, the board of directors, the external auditors and other key stakeholders and it can play a key role in promoting and supporting effective organizational governance.
Many firms have internal auditors, their responsibility being to oversee the financial and operating procedures, to check the accuracy of the financial record-keeping, to implement improvements with internal control, to ensure compliance with

accounting regulations, and to detect fraud. In fact, the people who initially detected financial fraud at WorldCom were the companyôs own internal auditors.

However, tensions might exist because the internal audit team is asked to serve two masters: the management and the board or the boardôs audit committee. Management wants the internal auditor to provide both assurance and consulting based on broad operational skills that address risks, evaluate the efficiency of operations, and stimulate organizational action. On the other hand, the board or its audit committee is more interested in assurance regarding controls. To avoid or to reduce such tensions, board of directors hires external auditors for an overview of the entire corporation.

2.8.9.5 External audit

External audit services are demanded as monitoring devices that reduce information asymmetries and agency costs between the companyôs managers and stakeholders by allowing a third (outside) party to verify the validity of financial statements (Mallin, 2010; Kim *et al.,* 2010). More specifically, one of the purposes of the external audit function is to assure the timeliness and accuracy of the reporting of relevant information to shareholders this assurance is needed because users of financial statements do not have the opportunity or time to verify whether the statements actually reflect underlying business transactions.

Generally external and internal auditors use similar documentation and share a general customer focus (Kim *et al.,* 2010). The key differences in the two professions stem from the basic reason for obtaining the services. For external auditors, the demand for certification of financial information originates from outside shareholders or from an external regulator. In contrast, the internal auditors are driven by the desire of management to monitor the internal processes that should ensure accuracy, efficiency, and effectiveness of operations.

Often external auditors assess the system and procedures used by internal auditors to see it they can rely on the internally generated reports when conducting their own audit. To conduct their external audit, the auditors might conduct interviews with the firmös employees to assess the quality of the internal audit system, make their own observations on the firmös assets such as inventory levels, confirm with the firmös customers and clients to check the accuracy of short term assets and liabilities, and conduct their own financial statement analysis such as comparing firmös financial ratios from one period to the next or to the preceding one.

Because external auditors are supposed to be independent from the firm being audited and because their explicit job is to check for financial misstatement and adherence to GAAP, it is they who must ensure the accuracy of the firmös financial information for shareholders. The conditional probability of reporting a discovered abnormality depends on the auditorös independence from a given client or from the one concerned by the abnormality. Among roles of external auditing we can cite the following: external auditors are needed for the verification of the accounting data and asserting its integrity; external auditing ensures that management is using the appropriate principles and rules in the presentation, and external auditing improves the quality and creditability of the data, the objective of accounting data analysis by the external auditor is to capture the bias in accounting data and undo them. These may result from the rigidity of the accounting rules, forecasting errors by management, and/or managerial incentives and choice.

2.10 MFIs' Responsibility and Citizenship

The modern evolution of the stakeholder view of the firm advocates that management develops specific relationship with stakeholder groups. Those who spouse this idea argue that companies have social obligations to operate in ethically, socially, and environmentally responsible ways (Kim et al, 2010). This active approach is referred to as corporate social responsibility or even corporate citizenship. Corporate responsibility is a term that is supplanting the term corporate social responsibility. The term social is increasingly omitted in order to emphasize the broader responsibilities of business corporations, particularly their responsibilities with regard to the environment. Corporate governance is a term with longevity, which has gained greater prominence since early 1990s. The issues of whether corporations can assume the status of citizens, if so, whether such development is desirable.

2.10.1 MFIs' social responsibility

The term corporate social responsibility (CSR) today is one of the most widely used concepts in business (Vogel, 2005; Enquist *et al.,* 2008). CSR was first used and defined by Bowen (1953), but the debate over the responsibilities of business for ecology (environment), and its relationships with the society has continued. There is still no consensus on a definition of CSR Kumar (2010) and Mallin (2010) try to explain the dilemma by cataloguing the terminology and ideas. This wide debate raises the questions regarding both the role of business and the significance of companiesô internal structures and contents to the general population (Mallin, 2010). Kim et al. (2010) proposed the following broad definition of CSR: *... an umbrella term for a variety of theories and practices, all of which recognize the following:*

(a) That companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and 11 the liability of individuals;

(b) That companies have a responsibility for the behavior of others with whom they do business (e.g. within supply chains), and that

(c) Business needs to manage its relationship with wider society, whether for reasons of commercial viability, or to add value to society.

This above definition is broad and integrates different views of CSR. It is mainly defined as concepts and strategies by which companies voluntarily integrate social and environmental concerns into their business operations and stakeholder interactions (Fischer & Lovel, 2009). In other words, CSR is the concept that an organization is accountable for its impact on all relevant stakeholders.

2.10.2 MFI's citizenry

The term citizen normally relates to the relationship between an individual and the political state in which the individual lives (Kim et al., 2010). The term citizen carries with it notions of rights and responsibilities on the part of the individual and the state. However, this reciprocity, two ways relationship, is unlikely to be equal one. Within democratic theories of the state, citizens have ultimate sovereignty over the state, or at least sovereignty over those who represent the citizenry within government. Practice, however, usually reflects a quite different balance of power.

Being described as a citizen does not of itself imply much about morality (CSFI, 2008). One important debate distinguishes the concept of citizenship-as-legal-status from the concept of citizen-as-desirable-activity. The minimum requirements to be called a citizen are very different from the requirements to be called a good citizen. The desire to encourage corporations to assume greater responsibility for their actions can be traced back over many decades, and reflects growing concerns regarding the power and influence of corporations over peopleǿs lives and even the independence and integrity of governments. As the power and influence of business corporations have assumed ever greater proportions, so calls for mechanisms to be put in place that would make corporations more accountable as well as responsible to a wider constituency than merely their shareholders. Within this latter aspect of the debate, the use of the term stakeholder has gained an important place in corporation domains in recent years.

The development of the argument from one of requiring corporations to act in socially responsible ways, to more recent calls for corporations to be seen as corporate citizens, reflects a desire to lock corporations, both formally and possibly legally, into the responsibility that this status would confer. As indicated in the definition below, the citizenry is, in theory, sovereign to the state, yet the citizenry has little or no access, and certainly few, if any, rights with respect to corporations. With corporations playing an increasingly influential role over many aspects of social and political life, the demand for more accountability and responsibility on the part of corporations is unlikely to diminish.

2.10.3 Role of MFIs as citizen

The role of a citizen can vary from the active notion of citizenship evident in the ancient Greece to a passive acceptance of governance from a sovereign body or from the bureaucratic state (Brickley and James, 1987). Within the corporate citizen debate, the demands made by corporations vary a minimalistic societal neutral influence to a proactive role. The societal neutral arguments do not, however, reflect a status-quo situation, or even a single understanding of what might be meant by societally neutral; being societal neutral means that; negative and positive effects of corporate activities could be balanced out, possibly involving an international perspective, or would a corporationös impacts need to harm no one or nothing at any time (Byrd and Hickman, 1992). It means also acting within legal constraints would be acceptable, even if the law was judged by many to be inadequate. Finally, it means that there is a general acceptance that corporations do have social responsibilities.

These debates are still developing and represent just some of the issues that make the general area of business and values both dynamic and vital. The corporateös responsibilities (CSFI, 2008) can be seen in the way that the company should conduct its business in a manner that meets its economic, legal, ethical, and philanthropy expectations: The following are levels of CSR:

Level 1: Economic; the first and foremost social responsibility of a firm is economic. The firm must survive by producing goods and or services needed by the society leading to both profit and benefit.

Level 2: Legal; the society expects firms to operate their business within the legal framework for itself and the surroundings.

Level 3: Ethical; these responsibilities are those over and above the ones codified in laws and are in line with societal norms and customs. They are expected, though not required, by society even though they may be ill defined. This could include things such as environmental ethics.

Level 4: Philanthropy; corporate giving is discretionary, although increasingly desired by stakeholder communities.

The economic responsibilities have the highest priority. A firm must be efficient and effective in order to survive over the long term and then be useful to the wide society. However, it must execute its business activities in a legal and ethical ways. Philanthropy is the least important priority in corporate responsibility or citizenship.

While corporate citizenship might include charity or philanthropy, the concept focuses more on engagement with stakeholders to achieve mutual goals (Kim *et al.,* 2010). Proponents of CSR argue that the main drivers of the citizenship trend include the following; globalization, the worldwide expansion of business and market economies; greater power of global firms should fulfil the activities left to governments, an increasingly popular environmental movement and a rising desire in the capital markets to punish firms not meeting ethical standards.

Some organizations have responded to this trend by including CSR orientted statements in their corporate values and goals. For example, the ULKôs key values are Integrity, Humility, Determination, and Excellence. These statements recognize that CSR has value in a code of conduct or ethics, a commitment to local communities, an interest in employee health and education, an environment consciousness, and recognition of social issues; we can refer to the ULKôs Motto and its philosophy to understand how companies are concerned by these issues of corporate citizenship and fairness in their working environment and their surrounding one.

2.11 Review of the Empirical Studies

2.11.1 Researches on Microfinance

Microfinance is the supply of financial services to micro enterprises and poor families (Robinson, 2001); this author considered rural area as the environment of study and used a survey to analyze the performance of micro enterprises basing on how board composition may help in changing the lives of poor, the study used a survey. The findings were that micro enterprises changed the lives of poor but suggested a further study considering various areas. Ledgerwood (1999) linking the performance of MFIs to the board composition; this study ended by saying that there was no link between the board composition and the performance of MFIs. The two studies concentrated on developed countries. Given that the environment may differ from a developed to developing countries as far as the level of poverty, the studies cannot be replicated to other environments. Schreiner (2002) in his study on microfinance with the small producers, focused on Brazilian environment which is somehow similar to the first one; this study used a questionnaire to analyze the influence of board size to the performance of MFIs; the findings were balanced saying that board size when small may influence the performance and when big may negatively affect the performance of MFIs. Mersland (2008) in his study corporate governance and ownership in MFIs used also a survey to collect data and analyzed using the chi square test, he was looking at the ownership structure; this touches the issues of board composition and supervision of the MFIs. He concluded that the ownership may influence the performance of MFIs. All of these studies concluded that microfinance is a supply of financial services to poor families. This shows that there is a need to replicate this kind of studies to other environments such in Africa, especially in Rwanda. The U.N. year of Microcredit in 2005 and the Nobel Peace Prize awarded to Mohammad Yunus and Grameen Bank in 2006 have given considerable recognition worldwide to microfinance institutions as development tools (Mersland, 2008). Therefore, microfinance has become an investment opportunity offering investors a new asset for their portfolio (Reille and Foster 2008).

For the delivery of microfinance services, a new type of microfinance institution (MFI) has come into being. A typical characteristic of MFIs is that they have a dual mission, as pointed out earlier, of serving the poor and insuring their own sustainability (Helm, 2006); in its study, access for all: building inclusive financial systems, again the work was conducted in a developed country like USA, whereby the people living under the poverty line are few whereas in Africa those of under the poverty line are the ones concerned with the MFIs services (Mersland, 2008); these studies recommended similar studies in poor countries, to see the level of outreach of MFIs which has grown tremendously during the last couple of decades. Christen (2004) produced a paper in Washington on the financial institutions with a double bottom line: Implications for the future of microfinance; in this paper the author points out how microfinance will boost the poor in terms of socio economic living conditions and recommend that this should be assessed in rural and poor regions. He further in his paper reported an astonishing 500 million people served, mostly with savings accounts, while the microcredit summit, in the 2006 meeting in Halifax, Canada, celebrated the milistone of 100 million borrowers reached by microfinance institutions.

Nevertheless, microfinance reaches a fraction of the worldôs poor population as said by Robinson (2001), Christen (2004) and Mersland (2008). Additionally, there is a special challenge related to reaching poorer segments and people living in less densely populated areas (Helms, 2006; Johnson, 2006). Above all, there is a recognized supply challenge in the market, which indicates that there is a need for more knowledge about factors that may influence the performance of MFIs. The intent of this research is to fill part of this gap by studying how different governance mechanisms correlate to the performance of MFIs in Rwanda.

Scholars from a broad spectrum of research traditions have found interest in microfinance research. Mersland (2008) identified one hundred thirty peer reviewed articles published between January 2002 and September 2004. The articles were found in thirty nine different journals from a wide variety of traditions and schools.

Among all those articles, thirty two had only one article related to microfinance. Approximately five out of six articles were in multidisciplinary development journals or in one of the two specialized practitioner oriented journals, Small Entreprise Development and Microfinance and journal of Microfinance. One out of ten articles was found in economics, finance, or business management journals. This shows how the development aspects of microfinance attract the interest from researchers.

In particular, the change of living conditions from the access to the microfinance institutions, the building of inclusive financial sectors, aspects of group lending and group collateral, and the development of microfinance theory Littlefield (2003). This author in his study wanted to know the effectiveness of MFIs in achieving the Millenium Development Goals and found that MFIs are good tools to reach the MDGs and recommend strengthening them wherever they are. This shows that the MFIs attract the attention of researchers, as U.N (2006); Besley (1995) and aghion (2005) illustrated the motivation of researchers to the MFIsô industry. Additionally, the widespread tradition of informal savings and lending schemes often referred to as Rotating Savings and Credit Associations as said Ambec (2007); Bouman (1995), has also attracted great interest from scholars.

It is in this stream of research, the study of the performance of MFIs in Rwanda that the researcher brings in new knowledge by bringing questions, theories on how corporate governance mechanisms correlate to the performance of MFIs. Investing in corporate is a risky business and any investor must recognize and accept this fact. The failures of corporations through all economic crises have shown around the world, accounting mechanisms, auditing and other corporate mechanisms were questioned, these failures brought in the developments in the corporate governance domain.

There have been a lot of activities with regard to corporate governance in the UK since the early 1990s as Fischer and Lovell (2009) point out. In addition to those aspects, in USA there was one notable reform that of the Sarbanesï Oxley Act in 2002 as the authors (Fischer and Lovell, 2009) said. A brief overview of these developments Fischer and Lovell (2009) is provided so that the contestability of corporate responsibility and corporate governance can be discussed.

2.11.2 Corporate governance and corporate performance studies

Previous empirical studies have provided the nexus between corporate governance and firm performance (Gopers, 2003; Black et al, 2003 and Sanda et al, 2003) with inclusive results. Others, Bebchuk and Cohen (2004) have shown that well governed firms have higher performance. The main characteristic of corporate governance identified in these studies include board size, board composition, and whether the CEO is also the board chairman. There is a view that a larger board is better for corporate they have a range of expertise to help make better decision, and are harder for a powerful CEO to dominate. However recent thinking has leaned towards smaller boards. Empirical research supports this, for example Yermack (1996) documents that for large US industrial corporations, the market values firms with smaller boards more highly. Eisenberg et al. (1998) also find negative correlation between board size and profitability when using sample of small and midsize of

Finnish firms. In Ghana it has been identified that small board sizes enhance the performance of MFIs, Kyereboah-Coleman and biekpe (2005). Mark and Yuanto (2003) echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when board has five directors, a number considered relatively small in those markets. In a Nigerian study, Sanda et al (2003) found that, firm performance is positively related with small, as opposed to large boards.

On the issue on whether directors should be employees of or affiliated with the firm (insiders) or outsiders has been well researched, yet no clear conclusion is reached. On the one hand, inside directors are more familiar with the firmôs activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as professional referees to ensure that competition among insiders stimulates actions consistent with shareholder value maximisation (Fama, 1980; John and Senbet, 1998), argue that boards of directors are more independent as the proportion of their outside directors increases. Though, it is been argued that the effectiveness of a board depends on the optimal mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition (Hermalin & Weisbach, 2002).

Most of the studies on the corporate governance and corporate performance try to find out if there is a link between corporate governance and corporate performance. Whilst there have been many studies carried out to determine whether there is a link between corporate governance and corporate performance, the evidence appears to be mixed (Millan, 2010).

One of the earliest and much quoted studies is that of Nesbitt (1994). This author reported positive long-term stock price returns to firms targeted by CalPERS, later, the same author found similar findings. Subsequently, Millstein and MacAvory (1998) studied 154 large publicly traded US corporations over a five year period and found that corporations with active and independent boards appear to have performed much better in 1990s than those with passive, non independent boards.

However the work of Dalton, Daily, Ellstrand and Johnson (1998) showed that boardsô composition had virtually no effect on firm performance, and that there was no relationship between leadership structure, CEO/Chairperson, and firm performance. Patterson (2000), of the conference board, produced a comprehensive review of the literature relating to the link between corporate governance and performance and stated that the survey did not present conclusive evidence of such a link. Whilst the evidence seems to be quite mixed, there does appear to be a widely held perception that corporate governance can make a difference to the bottom line.

The findings of a survey by McKinsey (2002) found that the majority of investors would be prepared to pay a premium to invest in a company with good corporate governance. The survey states that good governance in relation to board practices includes a majority of outside directors who are truly independent, significant director stock ownership and stock based compensation, formal director evaluations, and good responsiveness to shareholders requests for governance information. The findings indicate that investors would be prepared to pay 11 per cent more for the shares of a well governed Canadian company, 12 per cent more for the shares of a well governed UK company, 14 per cent more for the shares of a well governed US company, compared to shares of a company with similar financial performance but poorer governance practices. The premiums rise to 16 per cent for a well-governed Italian company, 21 per cent for a Japanese company, 24 per cent for a Brazillian company, 38 per cent for a Russian company and, at the top of scale with the highest premium for good governance, 41 per cent for a well-governed Moroccan company. It is therefore the investorǿs perception and belief that corporate governance is important and that belief leads to the willingness to pay a premium for good corporate governance.

Some of the significant papers in recent years that have found evidence of a positive link include Gompers et al. (2003) and Deutsche Bank (2004a and 2004b). Gompers *et al.,* examined the ways in which shareholder rights vary across firms. They constructed a governance index to proxy for the level of shareholder rights in approximately 1500 large firms during the 1990s. They found that firms with stronger shareholder rights had higher firm value, higher profitability, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions. Deutsche Bank (2004a and 2004b) explored the implications of corporate governance for portfolio management and concluded that corporate governance stands are important component of equity risk. Its analysis also showed that for South Africa, Eastern Europe, and the Middle East, the performance differential favours those companies with stronger corporate governance.

Hermes (2005) provided a succinct summary of academic and practitioner research in this area and concluded by stating that a number of the authors of the various studies cited in the review have mentioned that there is further empirical work needed on the issue of relationship between corporate governance and performance.
In sum, the evidence, both academic and practitioner, points on balance towards the view that good governance helps to realize value and to create competitive advantage. This is more an intuitive feeling because the studies are trying to single out corporate governance variables that may affect performance and this is very difficult to do so. However, shareholder activism is a key to ensure good corporate governance, and without this, there is less accountability and transparency, and hence more opportunity for management to engage in activities that may have a negative effect on the bottom line.

The global financial crisis has lighted the importance of corporate governance in restoring trust in global capital markets. The ICGN issued two statements on the global financial crisis, one in late 2008 and another in March, 2009. The latter statement pointed out that institutional shareholders must recognize their responsibility to generate long term value on behalf of their beneficiaries, the savers and pensioners for whom they are ultimately working, and shareholders should take governance factors into account and consider the riskiness of a companyös business model as part of their investment decision-making. Governance should not be a parallel activity. It needs to be integrated into investment. Furthermore in its conclusions, the ICGN (2009) statement emphasizes securing company and investors will increasingly take into account companiesô governance profiles in investment decisions.

2.12 Research Gap

This study aims at another step in the debate on the performance of Microfinance Institutions, as influenced by governance. The study covers the gaps in the study of Luzzi and Weber (2006) in terms of variables used to measure the performance of Microfinance Institutions. The study bases also on the Youssoufou (2002)ôs recommendations of measuring the performance of Microfinance Institutions using also their impact on the living conditions of their clients.

From the literature and the empirical studies reviewed, none measured the performance of MFIs combining its three variables to reach the critical Microfinance Triangle as Kereta said (2007). Those variables are impact, outreach and sustainability of performance evaluation of microfinance institutions. Here, Kereta (2007) said that to assess the performance of MFIs, one has to analyse its outreach to the poor, its sustainability and its welfare impact on living conditions of MFIsô customers.

In addition, from the studies reviewed many have studied the link between corporate governance and the performance of various industries but few have focused their studies on MFI industry. The little studies which concetrated on MFIs; they did not show the linkage of the variables of corporate governance to the triangle variables of the performance of MFIs. Thus, we respond to the Hartarska (2005) in his study, Governance and performance of Microfinance institutions in central and eastern Europe and the newly independent states, requests for more studies and more importantly - better data to analyse corporate governance in the microfinance industry. No study before this explores governance and performance on such a broad level. This study contributes more knowledge on the relationship between the corporate governance and the performance of MFIs.

2.13 Theoretical Framework

When one analyses the performance of Microfinance Institutions, one may ask what influences the performance of these institutions. Among many variables, authors have agreed that governance has a dominant correlation with the performance of Microfinance Institutions (Helms, 2006; Johnson *et al.*, 2006; Roch *et al.*, 1998; Labie, 2001; Otero and Chu, 2002).

The concept of governance is split into internal and external aspects as Rock, et al., (1998). The same authors define internal governance as a process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protect the institutionồs assets. Effective governance occurs when a board provides proper guidance to management regarding the strategic direction for the institution, and oversees managementồs efforts to move in this direction. This is essential because the performance of the institution depends on it. The board receives its authority for internal control from stockholders of corporations, and its job is to hire, fire, compensate, and advise top management on behalf of those shareholders (Jensen, 1993) cited by Willekens and Sercu, 2005). The authors further argue that two characteristics of the board of directors stand out in the empirical literature as being the greatest interest for effective governance which allows achieving the performance of any organization; the board size and the independence of the board members.

Boards are very important in Microfinance institutions Hartarska (2004) because of the relative limited role of external market forces. The board of directors is a governance mechanism that helps to resolve the agency problems between owners and managers. Board members are elected by shareholders to monitor and advice managers on behalf of owners. Their efficacy is influenced by many things but the most important are board size and board independence. Board size refers to the number of board members. The degree of alignment of board composition and shareholdersô objectives is measured in the empirical corporate governance literature by the proportion of outsider/independent directors. More independent directors are expected to act as better monitors and advisors. Empirical studies have found both positive and negative relationship between the proportion of outside directors and firm value (Hermalin and Weisbach, 2003; cited in Hartarska, 2004). The board is better able to monitor the CEO on the behalf of the owners if the board is independent. In boardroom, the major conflict is between the manager, who has incentives to capture the board and thus insure his or her job and non-pecuniary benefits, and the directors (board members) who have incentives to maintain their independence to monitor, and if necessary, replace the manager (Fama and Jensen, 1983).

Yuwa (2003) noted, in his research, that the separation of ownership and control may lead to a divergence between the objectives of owners and the ones of the management. Rock, *et al.,* (1998) adds that although the relationship between the board and the management of Microfinance Institutions is dynamic, it must be grounded in a clear understanding of the roles each serves in order to move the institution forward.

During the last three decades, the study of corporate governance has become a mojor area of research (Denis, 2001; Denis and McConnel, 2003; Shleifer and Vishny, 1997; as cited by Mersland, 2008). Adams and Mehran (2003) report systematic differences between the governance of banking and manufacturing firms. This indicates that effective governance structures may be industry specific; yet, little academic governance research is done in the industry of Microfinance as Mersland (2008) says. According to Otero and Chu, (2002); Jansson (2004), most literature on the corporate governance in the microfinance industry consists of consultancy reports and guidelines on how to structure boards and boardôs procedures, and warning against weak governance structures found in cooperatives and non profit organizations.

A review of different microfinance policies and relevant reports reveals that most show the strengths of shareholders firms and the weaknesses of non-profit organizations and often the cooperatives (Hardy, 2003). The conclusion is that a shareholder firm can perform better, in both outreach and financially than non-profit organizations; having a consequence on the change of the living conditions of the customers of those firms. But does the ownership form actually correlate with the performance of any organization? In the shareholder firms board of directors act as an agent of the shareholders or owners who act as principle. Considerable attention has been given to the role of boards in monitoring managers and in removing non-performing CEOs. Jensen (1993) voices his concern that lack of independent leadership makes it difficult for boards to respond to failure in top management team. Fama and Jensen (1983) also argue that concentration of decision management and decision control in one individual reduces boardôs effectiveness in monitoring top management. Thus, the literature reveals a board structure typology, the one-tier system and the two-tier system. In the one-tier system the Chief Executive Officer (CEO) is also chairperson of the board, whilst the two-tier system has a different person as board chair and is separate from the CEO. It has been noted though that the one-tier board structure type leads to leadership facing conflict of interest and agency problems (Berg &Smith, 1978; Brickley and Coles, 1997) thus giving preference for the two-tier system. Agency problems tend to be higher when the same person holds both positions. Yermack (1996) argued that, firms are more valuable when the CEO and board chair positions are separate. Relating CEO duality more especially to firm performance, researchers however find mixed evidence. Daily and Dalton (1992) find no relationship between CEO duality and performance in entrepreneurial firms. Brickley *et al.,* (1997) show that CEO duality is not associated with inferior performance. Rechner and Dalton (1991), also report that CEO duality has no negative impact on the performance of organisations. Goyal and Park (2002) examine a sample of U.S companies and find that the sensitivity of CEO turnover to firm performance is lower than companies without CEO duality. Sandra *et al.,* (2003) find a positive relationship between firm performance and separating the functions of the CEO and Chairperson of the board. The board is supposed to be better aligned if the CEO and chairperson are different, and if the number of board meetings increases. A CEO-Chairperson duality may be a sign of CEO entrenchment (Hermalin, 1991); (Weisbach, 1998), that is, that the CEO pursues policies that give him or her private benefits, although Brickley *et al.,* (1997) did not find that firms with a CEO-Chairperson split outperformed those with a CEO-Chairperson duality.

Rock, et al (1998), continues to note that the actors in the external aspects of the governance of Microfinance Institutions are; providers of capital, regulatory bodies, and other stakeholders who may make a supervision on the MFIs where they brought their shares or lend capital.

In the light of the foregoing analysis, 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 constituencies. Thus, corporate governance may 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 Shleifer and Vishny (1997). Company law, along with other forms of regulation both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). Corporate governance describes how companies ought to be run, directed and controlled (Adbury Committe, 1992). It is about supervision and holding to account those who direct and control the management.

As a provider of banking services, the MFI is subject to adverse selection and moral hazard from credit clients with little or no collateral (Armendariz de Aghion and

Morduch, 2005). Adverse selection arises since the MFI does not have enough information to differentiate between good and bad risks. Moral hazard is a problem that the borrower will not exert necessary efforts to repay the loan, when the Microfinance institution is unable to monitor the effort. What sets the new microfinance initiatives apart is that of finding new ways to deal with these problems, and thereby, to establish workable business models. This adverse selection and moral hazard on the part of the MFIs should be extended to problems on the part of depositors and borrowers. How can they judge if the MFI does not use its informational advantage in the money markets to charge too high loan interest, or to take on too much risk with depositorsô money?

Thus, adverse selection and moral hazard problems are experienced from both the MFI and the customersô viewpoints. Thus, Macey and Oôhara (2003) maintain that the relationships to depositors and borrowers are as important to the success of the MFI as the managersô and boardsô relationship to its owners. Therefore, incentive problems have a dual nature - one between owners and managers, the other between the MFI and its customers. Furthermore, the special nature of MFIs as providers of financial services often requires public regulations of the MFIs-customers relationship in order to avoid economic-wide breakdowns.

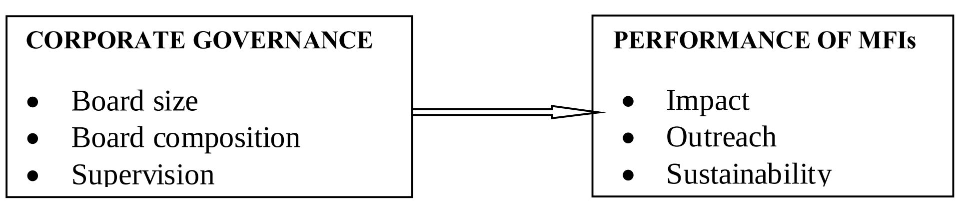

Figure 2.5: Theoretical model of the study

***Source*: Drawn by the author**

Therefore, the monitoring of the MFIs is not as straightforward as in ordinary firms, and we need to take the MFIôs regulatory framework into consideration in order to achieve the performance of the MFIs. In addition to this wider set of governance mechanisms from the agency relationship of owners and managers, we have to consider regulation as a major component of corporate governance. Successful governance should alleviate mutual adverse selection and moral hazard problems.

From the developed literature flows the above theoretical model of the study. One of many variables which influence the performance of microfinance institutions is governance. As a very wide concept, corporate governance will be studied under the constructs of board size, board composition and supervision. The performance of microfinance institutions will be studied under the following measures: impact, outreach and sustainability.

2.14 Conceptual Framework of the Study

From the theoretical framework, the researcher draws a model which is more conceptualized showing the direction of the study. Figure 2.6 shows the conceptual framework.

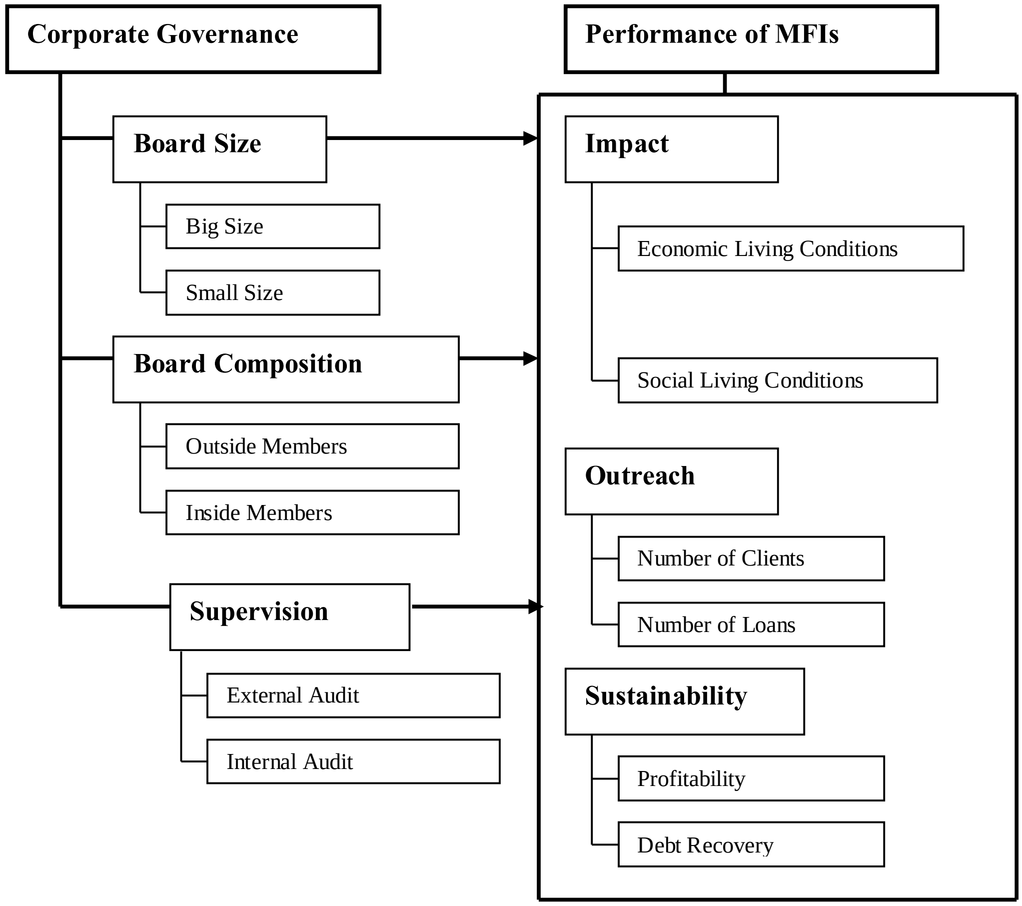

Figure 2.6: The conceptual framework of the study

Source: **The conceptual framework drawn by the author**

There is a need to link the performance of Rwandan Microfinance Institutions employing the three measures: outreach, sustainability and impact on the citizenry as suggested by Youssoufou (2002) and identifying governance constructs which may correlate with the Rwandan Microfinance institutionsô performance. Based on the summary of the literature, the following theoretical model and conceptual framework are drawn above. The constructs and measures under which the study will be carried out are depicted in the above conceptual framework, which draws the study direction.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter on research methodology presented all details on how the study was carried out. It clarified the research design, described the research area, the population and shown the sampling, and finally presented the measurements or questionnaire. It pointed out the reliability as well as the validity of the research instruments. It furthermore showed how data were collected and analyzed. The researcher structured the chapter for a good understanding of what was presented under this chapter.

3.2 Research paradigm

This study is under the phenomenology paradigm; phenomenologists are concerned what things mean, rather than with identifying and measuring phenomena. They are interested in the idea that human being are source of data, as opposed to the idea that true research or discovery lies in simply measuring the existence of physical phenomena (Cooper et al, 2001).

3.3 Research Design

A research design is a plan or blueprint of how the researcher intends to conduct the research as Babbie and Mouton say (2001). The authors further argue that research design focuses on what kind of study is being planned and what kind of results are aimed at. It is a strategy specifying the approach to be used for gathering and analyzing data. It presents the procedures and techniques for gathering information, the population to be studied and methods to be used in processing and analyzing data. Kothari (2006) defines a research design as an arrangement of conditions for collection and data analysis in a manner that aims at to combine relevance to research purpose with economy in procedure.

The author further says that the research design is a conceptual framework within which the research is conducted. Based on the above definitions, research is an empirical research with a descriptive research design with correlational approach, given the types of questions which intend to find out the relationship between the dependent and the independent variables - the relationship being of correlation. The researcher used survey methods to gather data to be used for determining and describing the correlation between the corporate governance and the performance of MFIs in Rwanda.

Considering the aim of this study, it is obvious that it is of a descriptive research design with the option of the ex post facto, because of analysing a situation after some MFIs were closed down by the Government of Rwanda between 2005-2006, given that the category of the research is to find out the correlation between the variables under study; these are corporate governance and performance of MFIs. The researcher used both quantitative and qualitative data because questionnaire and interviews were used to measure at which extent corporate governance correlates with the performance of MFIs.

3.3.1 Description of the Research Area

This study was conducted in Rwanda. This country got its political independence in 1962. It is known as the land of thousand hills and it is located in the Eastern side of

Central Africa. It borders the Democratic Republic of Congo in the west, the Republic of Uganda in the North, the Republic of Tanzania in the East, and the Republic of Burundi in the South. Administratively, Rwanda is governed through thirty districts distributed though out the country in four provinces and the Kigali City Council.

The total surface area is of 26,338 square kilometres. The small size of this landlocked makes it an ideal launching pad for regional trade in the field of services. For many outsiders, the country is known for the 1994 genocide against Tutsis, but Rwanda has made significant progress in rebuilding itself. As a result, the country is currently viewed as the most secure place in the region with fast economic growth and development.

The estimated population of Rwanda is about 10,500,000 of whom 90 per cent live in the rural areas. Being among few countries of Africa having a common language, namely: Kinyarwanda (vernacular). In addition to that language, French and English are the official languages in the country. It is important to note that in 2005, the Government of Rwanda took the decision to close all the MFIs which were not performing well.

3.3.2 Population of the study

The definition of the population may be apparent from the management problem or the research questions but often is not. According to Wikipedidia Encyclopedia (2011), a population is the entire aggregation of items from which samples can be drawn. To Mugenda and Mugenda as cited by Cyeze (2009), population comprises an entire group of individuals, events or objects having the common observable characteristics. A population is the total collection of elements about which we wish to make some references while a population element is the subject on whom the measurement is being taken Cooper *et al*., 2001). The population of this study was made of certified MFIs in Rwanda, the MFIs supervision institution, MFIs customers and MFIs certified external auditors. The certified MFIs in Rwanda are eighty four; the MFIs supervision institution being the Central Bank, MFIs certified external auditors are sixty seven.

3.3.3 Sample and Sampling techniques

From the population, a representative sample was selected. The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population (Cooper *et al.,* 2001). Cooper *et al.,* (2001) suggested that there are several compelling reasons for sampling, including: low cost, greater accuracy of results, greater speed of data collection, and availability of population elements. The ultimate test of a good sample design is how well it represents the characteristics of the population it represents. In measurement items, the sample must be valid and it depends on two considerations - accuracy and precision. Accuracy being the degree to which bias is absent from the sample while precision being the degree of representativeness of the population. The precision of a sample is measured by the standard error of estimate - the smaller the standard error of estimate, the higher is the precision.

There are two main sampling strategies, namely: the probabilistic and the non-probalistic sampling. The probability sampling including simple random, systematic, stratified, cluster and double sampling as classified by Cooper *et al.,* (2001). Each of these types has its advantages and disadvantages. The types of non-probabilistic sampling being convenience, purposive (quota and judgement) and snowball as the above authors classified. For the probabilistic sampling, the simple random sampling was used to select certified MFIs and MFIs certified external auditors. For the respondents were selected basing on the non-probabilistic techniques; these are judgement and quota sampling methods. The first technique was used for the reason that the researcher selected sample members to conform to some criterion, especially to those who could hold the right information about the variables to be measured. The second was selected for all MFIs having the same weigh in order to increase the representativeness of MFIs in the assessing the correlation between the corporate governance and the performance of MFIs in Rwanda.

Best and Kahn (1993) as cited by Cyeze (2009) argued that through sampling the researcher can still draw valid conclusions on the basis of careful observation of variables within a representative sample of the population. Ary believed, as Cyeze (2009) pointed out that in social studies, a sample of 20 to 30% of the population is appropriate for the study. On the other hand, Gay cited by Cyeze (2009) suggested that 10% of the accessible population is enough and for experimental studies 30% is required per group for greater accuracy. The sample for this study is drawn from certified MFIs and MFIs certified external auditors. The researcher preferred 30% of the certified MFIs, given that the greater the sample is the greater accuracy is. And for the MFIs certified external auditors 10% was accessible and therefore enough as the above author suggested. From the 30% of the total agreed MFIs, the size of the sample for MFIs was twenty six (26) MFIs. The sample was drawn from four provinces - five certified MFIs in each province and from the Kigali City Council. Six certified MFIs were selected, in order to cover the entire country of Rwanda. For the MFIs certified external auditors, the total sample was seven and all were found in Kigali City Council because that is from where all operate. Given the fact that concurrent triangulation was applied, the researcher mixed the quantitative and qualitative approaches. The probabilistic and non-probabilistic sampling methods were used. Simple random sampling was the appropriate type of probabilistic sampling method to use according to the nature of the study and the population from which the sample was drawn. For the non-probabilistic methods, the researcher selected the purposive sampling techniques to obtain information from MFIs. From the two types of purposive sampling Cooper (2001), the researcher selected both judgement to get individuals within the certified MFIs who can provide the right knowledge on the corporate governance and the performance of MFIs in Rwanda, like the Chairperson of the board of directors, the CEO, the head of finance, the head of operations, the head of loan department and the head of internal audit. For the quota sampling tecnhinques, the subjects were selected according to the same weigh in assessing the correlation between the corporate governance and the performance of MFIs in Rwanda. This means that from each selected MFI, the number of respondents were the same.

Table 3.1: Sample Size

Category	**Population**	**Sample size**	**Justification/reason**
MFIs	84	26 (30%)	Greater accuracy for a group
External Auditors	67	7 (10%)	Individual 10% is needed

As Table 3.1 shows the population is made of 84 MFIs and 67 external auditors. The sample size was 26 for certified MFIs or 30% of the total MFIs displayed in the four provinces and in Kigali city. The external auditors are only in Kigali city. The rate of respondents was 84.6% for the MFIs because twenty two (22) MFIs of the total sample responded and only four did not respond. For the external auditors all of them responded. The rate of response is very significant for the conclusions.

3.4 Research Instruments

Measurements refer to the tools to be used for collecting data and how those tools have been developed. The instruments which were used to obtain data for analyzing the correlation between the corporate governance and the performance of MFIs in Rwanda included questionnaires, interviews and documentary analysis.

3.4.1 Questionnaire

To obtain data for this study, one of the instruments used was the questionnaire. This type of instrument was designed basing on the related literature, the theoretical framework and the conceptual framework. The questionnaire was designed in a manner that it shows the relationship which was to be analysed throughout the research duration. A questionnaire is a set of questions administered to persons or respondents surveyed in a quantitative survey. It is also used to gather data from individuals. The type of data which were to be collected from the questionnaires were ordinal, this type of data are the most collected in business and social science research. With nominal data, the researcher is collecting information on a variable that naturally or by design can be grouped into two or more categories that are mutually exclusive and collective exhaustive (Cooper *et al;* 2001). For the identification of the respondents, nominal data were used. Ordinal data include the characteristics of nominal data plus an indicator of order, (Cooper et al., 2001). Ordinal data are possible if the transitivity postulate is fulfilled; the postulate stipulates that; if A is greater that B and B is greater than C, then A is greater than C. Measures of stitiscal significance are technically confined to that body of methods known as nonparametric methods, Cooper *et al.,* (2001) argued. The questionnaire contained closed-ended questions since they are easier to analyze in an immediate usable form. They are also easier to administer because each item is followed by multiple choices as they were in likert scale format (Cooper *et al.,* 2001). However, since their responses are limited, the respondents were compelled to answer to questions according to the researcherø choices. For this reason, the question also incorporated some open ï ended questions, with advantages according to Mugenda cited by Cyeze (2009) as follows: they permit a greater in depth of response, they are simpler to formulate mainly because the research has not to work out in order to get the appropriate response and they can stimulate the respondent to think about his or her feeling or motives and to express what he or she considers to be the most important.

The questionnaire developed by the researcher was intended to capture the correlation between the various constructs of the corporate governance (independent variable) namely board size, board composition, non-CEO duality, supervision and the measures of the performance of the MFIs (dependent variable) under the impact, the outreach and the sustainability. In order to conceptualize the constructs, board size was looked at through small size and big size of the board of directors. For the board composition, the researcher went through by outsider versas the insider board members. The non-CEO duality was dealt with by the CEO and Chairperson being different persons. Finally the supervision was analyzed through internal and external auditors.

The dependent variable was conceptualized in a way that captures the understanding of respondents. The impact was analyzed through the social and economic living conditions of MFIs customers; while outreach was understood through the number of loans and customers of MFIs. Then the sustainability was seen through the debt recovery and the profitability of MFIs in Rwanda.

The questions were designed in the five Likert Scale format. This is the most frequently used variation of the summated rating scale (see appendix 2). Summated scales consist of statements that express either a favourable or unfavourable attitude toward the object of interest as Cooper *et al.,* (2001) said. A minimum of 20 to 25 properly constructed questions about an attitude object would be required for a reliable Likert scale. Likert scales help us compare one personôs score with a distribution of scores from a well-defined sample group.

This measurement scale is useful for a manager when the organization plans to conduct an experiment or undertake a programme of change or improvement (Cooper *et al.,* 2001). The researcher measured attitudes of respondents in order to judge whether corporate governance of MFIs efforts has a desired effect on the performance of those organizations. The research used a maximum of 36 questions of five likert scale format (see appendix 2).

3.4.2 Interviews

Copper et al. (2001) define an interview as a conversation between two or more people where questions are asked to obtained information about the interviewee. Interview was used because it gave an opportunity for respondents to express themselves more clearly and to expand more on the issue under investigation.

Data were also collected using interviews. In-depth interviews helped the researcher to gather unexpressed opinions from the certified MFIs and external auditors. Opinions were gathered from clients of MFIs in various provinces and in the Kigali City Council, and the responsible of MFIs in the Central Bank. The focus groups with different clients in the four provinces, gathering some from remote and some of town and those of Kigali City Council helped the researcher to discover hidden issues on corporate governance issues and performance of Microfinance Institutions, especially those of social and economic living conditions. This helped in additional interpretation of some issues for which the quantitative data were unable to find out their meaning. The researcher used an interview made up of 42 questions compilling the variables under study and the questions were grouped according to the interviewees who could provide information on the Governance and performance (Appendix 3).

3.4.3 Documentary review

The documentary analysis is expected to enable the research to access information at any time at his convenience. These pieces of information are data that are thoughtful in that the informant has given attention in compiling them. This type of instrument was used to collect data from books, reports, and statistics and from any other relevant document.

The study used both ideographic and nomothetic approaches, but to a larger extent, more focus was on the second type of approach, since the study was analysing relationships among various variables using quantitative data. To do so, the researcher used mathematical and statistical methods of data analysis. In order to maintain the triangulation mode, both ideographic and nomothetic was used concurrently. This meant that the concurrent triangulation was used.

The ideographic approach is based on the view that one can only understand the social world by obtaining first-hand knowledge of the subject under investigation (Ahiauzu, 2008). Ahiauzu further states that this approach helps getting close to oneǿs subject and exploring its detailed background and life history using qualitative data. The nomothetic approach, on the other hand, emphasizes the importance of basing research on systematic techniques including the testing of hypotheses in accordance with the canons of scientific rigour (*ibid*).

3.5 Validity of the Research Instruments

Data collected were analysed to discover whether or not there is a correlation between independent and dependent variables. To ensure the validity of the measurements (Babbie and Mouton, 2001), the researcher used various research directors from Rwandan Higher Learning Institutions located in Kigali to evaluate and assess the degree of clarity and precision of the measurements before they were brought to the subjects for data collection. Reliability is a necessary contributor to validity (Cooper et al., 2001), because when a measurement is precise in what it measures then its meaning, as far as the concept it is measuring, is also correct; at that extent reliability has contributed to the validity. This section is analysing the tools used to measure the performance of MFIs in Rwanda using the major criteria for evaluation a measurement tools; these are validity, reliability and the practicability.

3.6 Reliability of Research Instruments

The researcher used the Cronbach's Alpha coefficient in order to test the reliability of instruments. The level of reliability is high when the alpha coefficient is closer to one (Babbie and Mouton, 2001).

Table 3.2: Reliability test

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
.949	.947	42

Throughout Table 3.2, it is shown that the reliability is closer to one, considering all questions as a whole. When it is closer to one, it means that the degree of precision of measurements is high as Babbie and Mouton (2001) said. The researcher wanted to know the degree of precision for each construct of the independent variable looked at the measures of the dependent variable.

Table 3.3: Reliability test on small size of board of directors and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.936	6

To analyse the degree of precision taking into consideration the small size of the board of directors and the performance of MFIs through its constructs, the table above shows for the six items under study, the cronbachôs alpha is 0.936. This alpha coefficient is too closer to one, as the literature said; the degree of precision is high.

Table 3.4: Reliability test on big size of board of directors and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.720	6

To analyse the degree of precision taking into consideration the big size of the board of directors and the performance of MFIs through its constructs, the table above shows for the six items under study, the cronbachôs alpha is 0.720. This alpha coefficient is high as the literature said; the alpha which is higher than 0.5 is good for the degree of precision.

Table 3.5: Reliability test on outsider board members and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.904	6

To analyse the degree of precision taking into consideration the outsider board members and the performance of MFIs through its constructs, Table 3.5 shows for the six items under study, the cronbachôs alpha is 0.904. This alpha coefficient is closer to one, as the literature said; the degree of precision is high.

Table 3.6: Reliability test on insider board members and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.876	6

To analyse the degree of precision taking into consideration the insider board members and the performance of MFIs through its constructs, the table above shows for the six items under study, the cronbachôs alpha is 0.876. This alpha coefficient is very high comparing to the literature; therefore the degree of precision is also very high.

Table 3.7: Reliability test on independent audit and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.916	6

To analyse the degree of precision taking into consideration the external audit and the performance of MFIs through its constructs, Table 3.8 shows for the six items under study, the cronbachôs alpha is 0.916. This alpha coefficient is closer to one, as the literature said; the degree of precision is very high.

Table 3.8: Reliability test on internal audit and performance of MFIs in Rwanda

Cronbach's Alpha	N of Items
.786	6

To analyse the degree of precision taking into consideration the internal audit and the performance of MFIs through its constructs, Table 3.9 shows that for the six items under study, the cronbachȏs alpha is 0.786. This alpha coefficient is big comparing to 0.5 as the literature said, and then the dgree of precision is also high.

In conclusion, this alpha was the highest for the non-CEO duality compared to the performance of MFIs which was 0.939. It was followed by the small size of the board of the directors and performance of MFIs which was 0.936. The third was the external audit 0.916 followed by the outsider board members 0.904 both compared to the performance of MFIs. All these coefficients are too closer to one. It means that the degree of precision is the highest. The remaining alpha coefficients, even if they are not too closer to one, they are high comparing to the literature because they are higher than 0.5. It means that they are also very good for the precision of the items they are measuring.

3.7 Data Analysis

For data analysis, the researcher used the SPSS software. Descriptive statistics, like frequency, standard deviations and cross-tabulations to find out whether or not there is a correlation between corporate governance and performance of MFIs in Rwanda. Thanks to the above software, tables were drawn and used to present clearly the research findings and to make the analysis of data easier.

In order to find out the correlation between the variables under study, the researcher grouped the frequencies of the Likert Scale in two categories. One category was of those who agreed and strongly agreed on no correlation between the variables, and another category of those who disagreed and strongly disagreed on no correlation between the two variables. In short the two categories were made of those who favour the correlation and those who do not favour it. This approach helped the researcher to use the cross-tabulation tables in order to test the hypotheses. Each corporate governance mechanism was crosstabulted to the measures of performance of MFIs in Rwanda. From this, the researcher produced the frequencies of the grouped views of respondents and the Chi-Square was computed in order to find out whether or not there is a correlation between the corporate governance and the performance of MFIs in Rwanda.

3.8 Ethical Considerations

Because researchers are people dealing with other peopleô quality of life, they must be people of integrity who will not undertake research for personal gain or research that will have a negative effect on others. Other reasons for being completely ethical in research is that there are laws which prohibit unethical behaviour and researchers could be faced with extremely humiliating situations if such laws are ignored as Mugenda (2003) said cited by Cyeze (2009).

For ethical purposes; permission from the Central Bank, the institution in charge of supervising MFIs in Rwanda from which the study was conducted, was obtained before data collection. A cover letter that explained the ethical considerations of this study and appeals for voluntary participation was attached to the questionnaire. In addition, the researcher showed that the anonymity of the respondents will be maintained; respondents were assured that their responses will be treated with confidentiality and be used only for the purposes of this research.

CHAPTER FOUR

4.0 RESEARCH FINDINGS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter deals with presenting the research findings and analysis of data in line with the research hypotheses. It is split into five sections. The first being the identification of respondents, their gender, age, marital status, study background and their qualifications. The second section is about the research findings and analysis of data on the board size and performance of MFIs. The third section is made of research findings and analysis of data on the board composition and the performance of MFIs. The fourth section is made of research findings and analysis of data on the non-CEO duality and performance of MFIs. The fifth section is made of research findings and analysis of data on the supervision and performance of MFIs.

4.2 Identification of Respondents

Table 4.1: Distribution of Respondents by their gender

Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	55	39.6	39.6	39.6
	Female	84	60.4	60.4	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

As Table 4.1 shows, female respondents are 84 (60.4 %) while male respondents are 55 (39.6 %). This demonstrates that the majority of MFIs in Rwanda are run by ladies. One of the reasons could be due to the encouragement Government gives to ladies to participate in economic, social and political activities of the country. Another reason may be due to economically empowering women in order to fight against poverty.

Table 4.2: Distribution of respondents by their age

Age of respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less or equal to 21	2	1.4	1.4	1.4
	more than 21 and less or equal to 25	43	30.9	30.9	32.4
	more than 25 and less or equal to 30	48	34.5	34.5	66.9
	more than 30 and less or equal to 35	26	18.7	18.7	85.6
	More than 35	20	14.4	14.4	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.2 shows that 2 (1.4%) respondents were the youngest meaning in the age less than 21. The respondents between the age of 21 and 25 were 43 or 30.9 %; while those of above but not more than 30 were 48 (34.5 %). Respondents of more than 30 and less or equal to 35 of age were 26 that is 28.7 %. 20 respondents were of more than 35 of age. The biggest portion of the respondents was of more than 25 or less or equal to 30. Table 4.2 shows that the MFIs industry in Rwanda is has young staff because 65.4% of the respondents are of more than 21 but less or equal to 30. One of the reasons could be due the number of individuals within those age brackets who complete their studies and start working in various companies including MFIs.

Table 4.3: Distribution of respondents by their marital status

Marital status		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	47	33.8	33.8	33.8
	Married	60	43.2	43.2	77.0
	widow	22	15.8	15.8	92.8
	divorced	10	7.2	7.2	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.3 which displays the marital status of the respondents shows that many of them, 60 (43.2%) respondents are married. While 47 (33.8%) are single. Widows are 22 (15.8%) and 10 (7.2%) are divorced. This shows that the MFIs has a social objective among others, many of these widows are of genocide against Tutsis. One of the possible reasons why 47% of the respondents are single is that some of them have just left school and begun working. 60% are married which means some have been working for some years and have managed to get families.

Table 4.4: Distribution of respondents by their study background

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting	15	10.8	10.8	10.8
	Finance	55	39.6	39.6	50.4
	General Management	50	36.0	36.0	86.3
	Economics	16	11.5	11.5	97.8
	Others	3	2.2	2.2	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Given that the MFIs deal with savings, loans and other related services, most of the respondents were in the fields which are closer to the business of MFIs. Many respondents 55 (39.6%) out of 139 (100%) respondents were from the domain of finance; these respondents alone are of 39.6%. The second in number 50 (36%) out of 139 (100%) respondents were from the domain of general management, they are of 36%. The third is economics and the fourth is accounting, respectively 16 (11.5%) and 15 (10.8%) out of 139 (100%) respondents. Respondents from other domains were 3 (2.2%) out of 139 (100%) respondents; they were from either sociology or law domains.

Table 4.5: Distribution of respondents by their qualification

Qualification		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Master's degree	36	25.9	25.9	25.9
	Bachelor's degree	79	56.8	56.8	82.7
	Diploma	24	17.3	17.3	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

The Table 4.5 displays the various qualifications of the respondents. The bachelor’s holders were 79 (56.8%) of the total respondents. Second comes the Master’s degree holders for which respondents are 36 (25.9%) of the total 139(100%). Last were the respondents of Diploma, 24 (17.3%) out of the total respondents of 139 (100%). The Table shows clearly that the MFI’s industry in Rwanda is made of qualified personnel, auditors and CEOs. This is in response to Government requirement that companies should be managed by qualified staff. In Rwanda, like other African countries, most of the employees possess a Bachelor’s degree.

4.3 Board Size and Performance of MFIs in Rwanda

Within this section the findings are summarized in two subsections namely small size of the board of directors and the performance of MFIs and big size of the board of directors and the performance of MFIs in Rwanda. This section deals with the first hypothesis which states as follows:

Ho $_{(1)}$: There is no correlation between the board size and the performance of MFIs in Rwanda

4.3.1 Small Size of the Board of MFIs and performance of MFIs

This subsection deals with the research findings and analysis of data related to the first hypothesis.

Table 4.6: Frequency on small size and social living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	4.3	4.3	4.3
	Agree	8	5.8	5.8	10.1
	Neither agree nor disagree	7	5.0	5.0	15.1
	Disagree	28	20.1	20.1	35.3
	Strongly disagree	90	64.7	64.7	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.6, clearly shows that, most of the respondents strongly disagree that there is no correlation between small size of the board of directors and the social living conditions of MFIsô Respondents represent 90 (64.7 %) while the respondents who only disagree represent 28 (20.1%). The neutral respondents - who do not lean to any position, are at 5%, meaning that they donôt have any knowledge about that relationship. Only 10.1 %, representing the respondents who agree and those who strongly agree that there is no correlation between small size of the board of directors and the social living conditions of customers of MFIs.

The possible reasons for many respondents strongly disagree on that correlation are that even the regulations in Rwanda say that an effective board of directors should not have more than five members. Respondents choosing this alternative were basing themselves on the law on board of directors in Rwanda. Those who strongly disagreed that there was no relationship based on what is observed in the social living conditions of MFIsô customers knowing that the boards are not large. That is why many respondents - 90 out of 139 respondents strongly disagreed. When one compares with the remaining alternatives, those who disagreed come second level in terms of numbers and this once again confirms that relationship. The rest of the respondents (15.1 %) did not recognize the relationship. One other reason could be that a small size of the board takes a reasonable amount of money in terms of remuneration and this low remuneration could be extended to customers in terms of lower charges for services offered by MFIs.

Table 4.7: Frequency on small size and economic living conditions

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	5	3.6	3.6	3.6
	Agree	13	9.4	9.4	12.9
	Neither agree nor disagree	7	5.0	5.0	18.0
	Disagree	32	23.0	23.0	41.0
	Strongly disagree	82	59.0	59.0	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Throughout Table 4.7, it is clear to any who is reading it, those who strongly disagreed that small size of the board of directors has no correlation with the economic living conditions of MFIsô customers represent 82 (59%) while respondents who only disagreed were 32 (23%). This shows to the researcher that most of the respondents think that the small size of the board of directors has a correlation with the economic living of MFIsô customers. The neutral respondents ï i.e. those who did not have any position, were 7 (5%), meaning that they didnôt have any knowledge about that relationship. Only 18 (13%) respondents agreed and strongly agreed that there was no correlation between small size of the board of directors and the economic living conditions of customers of MFIs.

Comparing the two preceding Tables, it is obvious that if there is an improvement on the economic living conditions, the social ones will improve also according to the majority of the respondents. As Table 4.7 shows it, 82 out of 139 respondents strongly disagreed that there was no relationship between the small size and the economic living conditions change. Most of the respondents were of the opinion that small size of Board of Directors of their MFIs had an impact on the economic changes of the customers of MFIs. That is why they strongly agreed. One other reason could be that a small size of the board takes a reasonable amount of money in terms of remuneration and this low remuneration could be extended to customers in terms of lower charges for services offered by MFIs.

Table 4.8: Frequency on small size and number of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	9	6.5	6.5	6.5
	Agree	14	10.1	10.1	16.5
	Neither agree nor disagree	6	4.3	4.3	20.9
	Disagree	29	20.9	20.9	41.7
	Strongly disagree	81	58.3	58.3	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

According to Table 4.8, it is clear that those who strongly disagreed that small size of the board of directors does not correlate to the increase of the number of customers of MFIs were 81 (58.3 %); while respondents who disagreed represent 29 (20.9%). Both total to 110 (79.2%). This shows to the researcher that the majority of respondents think that small size of the board of directors has correlation with the increase of the numbers of MFIsô customers at 79.2%. The respondents who did not have any position were 6 (4.3%), meaning that they donôt have any knowledge about that relationship. A total of 23 (16.6%) of the respondents, agree and strongly agree on no correlation between small size of the board of directors and the increase of the MFIsô customers.

In Table 4.8, the researcher found that most of the respondents said that small size of the board of directors of MFIs had a correlation with the increase of the number of customers. This might be a consequence of socio economic changes on the customers. Rwanda, being a small country as stated in the methodological part, citizens are located close to each other. This means that the information on why the living conditions have changed from a household is spread easily without any other marketing strategy. As it is known, a satisfied customer brings another while a disappointed one goes with others and makes barriers for entry to new customers. Another reason could be due to the general belief that a small number of people reach consensus quite easily and that improves the quality of decision making and that could attract more customers.

Table 4.9: Frequency on small size of a board and number of loans extended to customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	3.6	3.6	3.6
	Agree	6	4.3	4.3	7.9
	Neither agree nor disagree	13	9.4	9.4	17.3
	Disagree	28	20.1	20.1	37.4
	Strongly disagree	87	62.6	62.6	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.9, show 87 (62.6%) of respondents strongly disagree that small size of the board of directors has no correlation with the increased number of loans to MFIsö. While the respondents who only disagree were 28(20.1%). Both totaled 115(82.7%). This shows to the researcher that most of the respondents were of the view that small size of the board of directors has correlation with the increase of the loans to MFIsô customers at 82.7%. The respondents who did not have any position formed 13(9.4%), meaning that they didnøt have any knowledge about that relationship. A total of 11(7.9 %) of respondents agreed and strongly agreed that there was no relationship between small size of board and the increase of loans to customers of MFIs.

The strong disagreement that there was no correlation between the small size of board of directors of MFIs and the increase of the number of laons issued by customers is possibly explained by the fact that MFIs have different categories of customers. Some are grouped in order to have a strong and convincing collateral toward the loansô officers of MFIs. These loan are sometimes of very short term, like a week, two weeks or a month or a quarter year or even a year, and rarely of more that three years. Once any category of customer pays back the loan issued, the MFI trusts this customer and may consider them for another loan. Given that a small sized board makes candid discussions and makes quick resolutions hence the respondents tended to associate the increase of customers with the small size of board of directeors of MFIs. Another reason could be due to the general belief that a small number of people reach consensus quite easily and that could result in an increase in number of loans that are extended to customers.

Table 4.10: Frequency on small size and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	10	7.2	7.2	7.2
	Agree	11	7.9	7.9	15.1
	Neither agree nor disagree	9	6.5	6.5	21.6
	Disagree	26	18.7	18.7	40.3
	Strongly disagree	83	59.7	59.7	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.10 shows that 83 (59.7 strongly disagreed that small size of the board of directors had no correlation with the debt recovery by MFIs from customers. While the respondents who only disagree were 26 (18.7%) Both make a total of 78.4%. This shows to the researcher that the small size of the board of directors has a correlation with the debt recovery by MFIs from their customers at 78.4% according to the respondentsô opinions. The respondents who do not have any position were 9 (6.5%), meaning that they didnöt have any knowledge about that relationship. Only 11 (7.9%) represent respondents who agreed; and those who strongly agreed on no correlation between small size of the board of directors and the debt recovery by MFIs were 10 (7.2%).

A big portion of respondents, that is 83 out of 139, strongly disagreed that there was no correlation between the small size of the board of directors and the debt recovery. The reasons may be because it is very easy for a small number of persons to set strategies and make a follow up of the implementation of the strategies. If the MFIs in Rwanda have not failed since 2006, it means that the debt recovery was efficient Central Bank of Rwanda (2008).

Table 4.11: Frequency on small size and profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	9	6.5	6.5	11.5
	Neither agree nor disagree	9	6.5	6.5	18.0
	Disagree	27	19.4	19.4	37.4
	Strongly disagree	87	62.6	62.6	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.11 shows that those who strongly disagreed that small size of the board of directors had no correlation with the profitability of MFIs were 87(62.6%) while the respondents who disagreed were 27(19.4%). Both made a total of 114(82%). This shows to the researcher that respondents are of the view that the small size of the board of directors has a correlation with the profitability of MFIs. The respondents who did not have any position were 9(6.5%), meaning that they didn't have any knowledge about that relationship. Only16 (11.5 %) respondents agreed and those who strongly agreed on no relationship between small size of the board of directors and the profitability of MFIs.

Given that some of the MFIs started as small and with the time they grew to become big, it is an indicator of profitability. If customers get their living conditions changing positively, and the loans increasing, the profitability increases also provided the loans are recovered. This small size of the board of directors of MFIs has a correlation with the performance of MFIs as the survey indicated through the various tables above under the subsection of small size of the board and the performance of MFIs in Rwanda. In a summary, a small board is seen to lead to profitability because less money is spent on it in terms of remuneration and it is seen to be effective in debt collection and takes quick decisions on other matters.

4.3.2 Big size of board and performance of MFIs

This subsection deals also with the research findings and analysis of data related to the first hypothesis.

Table 4.12: Frequency on big size and social living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	17	12.2	12.2	17.3
	Neither agree nor disagree	37	26.6	26.6	43.9
	Disagree	36	25.9	25.9	69.8
	Strongly disagree	42	30.2	30.2	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.12 shows clearly that respondents strongly disagreed on big size of the board of directors has no correlation with the social living conditions of the MFIsô customers at 42(30.2%) while the respondents who disagreed were 36(25.9%). This displays that 78 respondents (56.1%) confirmed that the relationship does exist. This shows to the researcher that the big size of the board of directors has a correlation with the social living conditions of the MFIsô customers as viewed by respondents. The respondents who do not have any position are at 37(26.6%), meaning that they didnøt have any knowledge about that relationship. Only 17(12.2%) and 7(5%) respectively agreed and strongly agreed on no relationship between big size of the board of directors and the social living conditions of the MFIsô customers.

Table 4.13: Frequency on big size and economic living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	11	7.9	7.9	12.9
	Neither agree nor disagree	37	26.6	26.6	39.6
	Disagree	55	39.6	39.6	79.1
	Strongly disagree	29	20.9	20.9	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.13 demonstrates that respondents who strongly disagreed that big size of the board of directors had no correlation with the economic living conditions of the MFIsô customers at 29(20.9%), while the respondents who disagreed on that relationship were 55(39.6%). This means that 60.5% confirmed that the correlation did not exist. This shows to the researcher that the big size of the board of directors has a correlation with the economic living conditions of the MFIsô customers according to the respondentsô views. Surprisingly, the respondents who did not have any position were 37(26.6%) as for the relationship between big size and social living conditions of MFIsô customers, meaning that they donôt have any knowledge about that relationship. Only 11(7.9%) and 7(5%) respectively agreed and strongly agreed on no relationship between big size of the board of directors and the economic living conditions of the MFIsô customers. From this table, one may ask himself if really the big size of the board of directors has a correlation with the economic living conditions of MFIsô customers because those who did not have any position and those who agree are of a greater percentage comparing to those who strongly agreed.

Table 4.14: Frequency on big size and number of customers

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	6	4.3	4.3	4.3
	Agree	12	8.6	8.6	12.9
	Neither agree nor disagree	41	29.5	29.5	42.4
	Disagree	56	40.3	40.3	82.7
	Strongly disagree	24	17.3	17.3	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

The Table 4.14 illustrates that 17.3% of the respondents strongly disagreed that big size of the board of directors had no correlation with the increase of the number of the MFIsô customers. While those who disagreed represented 40.3% of the respondents. This displays that 57.6% of the respondents confirmed that the relationship does exist. This shows to the researcher that the big size of the board of directors has a correlation with the increase of the number of the MFIsô customers the MFIsô customers according to the views of respondents. Surprisingly, the respondents who did not have any position represented 29.5% of the respondents as for the relationship between big size and increase of the number of the MFIsô customers; meaning that they donøt have any knowledge about that relationship. Only 8.6% and 4.3% respectively agreed and strongly agreed on no relationship between big size of the board of directors and the increase of the number of customers of the MFIsö. From this table, one may ask himself if really the big size of the board of directors has a positive correlation with the increase of the number of customers of MFIs because those who did not agree or disagree are of a greater percentage comparing to those who strongly agreed.

Table 4.15: Frequency on big size and number of loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	9	6.5	6.5	6.5
	Agree	15	10.8	10.8	17.3
	Neither agree nor disagree	32	23.0	23.0	40.3
	Disagree	60	43.2	43.2	83.5
	Strongly disagree	23	16.5	16.5	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

The Table 4.15 above illustrates that 23(16.5%) of the respondents strongly disagreed that big size of the board of directors had no correlation with the increase of the number of loans issued by MFIs to customers. While those who disagreed represented 60 (43.2%). This displays that 83(59.7%) confirmed that the relationship did exist. This shows to the researcher that the big size of the board of directors has a correlation with the increase of the number of loans issued by MFIs to customers. Surprisingly, the respondents who did not have any position represent 32(23%) as for the relationship between big size and increase of the number of the MFIsô customers, meaning that they donĝt have any knowledge about that relationship. Only 15(10.8%) and 9(6.5%) respectively agreed and strongly agreed on no relationship between big size of the board of directors and the increase of the number of loans issues by MFIsĝto customers. From Table 4.15, one may ask himself if really the big size of the board of directors has a correlation with the increase of the number loans issued by MFIs to customers because those who did not have position and those who agree or strongly agree are of a greater percentage comparing to those who strongly disagreed.

Table 4.16: Frequency on big size and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	22	15.8	15.8	20.9
	Neither agree nor disagree	29	20.9	20.9	41.7
	Disagree	57	41.0	41.0	82.7
	Strongly disagree	24	17.3	17.3	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.16 illustrates that repondents who strongly disagreed that big size of the board of directors had no correlation with the debt recovery represent 24(17.3%). While those who disagreed about that relationship represented 57(41%). This displays that 81(58.3%) confirmed that the relationship does exist; this shows to the researcher that the big size of the board of directors has a correlation with the debt recovery within MFIs because many of respondents say that. The respondents who did not have neither agreed nor disagreed represent 29(20.9%) as for the relationship between big size and debt recovery in the MFIs in Rwanda, meaning that they donꞌt have any knowledge about that relationship or simply they doubt about it. Respectively 22 (15.8%) and 7(5%), agreed and strongly agreed on no relationship between big size of the board of directors and the debt recovery.

Table 4.17: Frequency on big size and profitability

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	17	12.2	12.2	12.2
	Agree	45	32.4	32.4	44.6
	Neither agree nor disagree	34	24.5	24.5	69.1
	Disagree	27	19.4	19.4	88.5
	Strongly disagree	16	11.5	11.5	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.17 illustrates that respondents who strongly disagreed on big size of the board of directors has no correlation with the profitability of the MFIs represent only 16(11.5%) while those who disagreed represent 27(19.4%). This displays that only 43(30.9%) confirmed that the relationship does exist; this shows to the researcher that the big size of the board of directors has less positive correlation with the profitability of the MFIs. Surprisingly, the respondents who neither agreed nor disagreed about that relationship represent 34(24.5%). This means that they donøt have any knowledge about the relationship between the big size of board of directors and the profitability of MFIs in Rwanda.

This is somehow confirmed by the high rate of the respondents who agreed about the above mentioned relationship, the respondents represent 45(32.4%) of the total of respondents. Those who strongly agreed on no relationship represent 17(12.2%). From this table, one may conclude that the majority of the respondents, representing 62(44.6%), confirmed that the big size of the board of directors has no correlation with the profitability of MFIs in Rwanda. This has been supported by the small size of the board. From the findings on the frequencies calculations, what is discovered by the researcher is that many respondents were agreeing or strongly agreeing on no correlation between the big size of the board of directors and the various measures of the performance of MFIs in Rwanda.

4.3.5 Testing the hypothesis number one

This subsection deals with determining whether or not there is a correlation between the board size and the performance of MFIs in Rwanda using the crosstabulation**.**

The crosstabulation was to get opinions from respondents on the non-correlation between the size of the board of directors; as one of the variables of corporate governance and the ones of performance of MFIs in Rwanda; the researcher crosstabulated those various variables to find out their opinions.

Table 4.18: Size of the board and social living conditions Crosstabulation

			No correlation between big size and social living conditions		**Total**
			Agree	**Disagree**	
No correlation between small size and social living conditions	**Agree**	Count	12	2	14
		% within small size and social living conditions	85.7%	14.3%	100.0%
		% within big size and social living conditions	19.7%	2.6%	10.1%
		% of Total	8.6%	1.4%	10.1%
	Disagree	Count	49	76	125
		% within small size and social living conditions	39.2%	60.8%	100.0%
		% within big size and social living conditions	80.3%	97.4%	89.9%
		% of Total	35.3%	54.7%	89.9%
Total		Count	61	78	139
		% within small size and social living conditions	43.9%	56.1%	100.0%
		% within big size and social living conditions	100.0%	100.0%	100.0%
		% of Total	43.9%	56.1%	100.0%

Source: **Primary data, September 2011**

From this crosstabulation frequency table, those who agreed up on the no correlation between the small size and the social living conditions of MFIsô customers are 12 (85.7%) out of 14 (100%). While those who agreed on no correlation between the big size and the social living conditions of MFIsô customers are 12 (19.7%) our of 61 (100%).

The respondents who disagreed that there was no correlation between the small size of the board of directors and the social living conditions of MFIsô customers were 76 (60.8%) out of 125 (100%). Those who disagreed on the no correlation between the big size of the board of directors and the social living conditions were 76 (97.4%) out of 78 (100%); the total sample being 139 respondents as the table shows them.

The Table 4.18 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers social living conditions, while a total of 76(54.7%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these opinions, one may confirm that respondents think that board size correlates with social living conditions of MFIsô customers in Rwanda.

Table 4.19: Chi-Square Tests of the size of the board and social living conditions

	Value	**df**	**Asymp. Sig. (2-sided)**	**Exact Sig. (2-sided)**	**Exact Sig. (1-sided)**
Pearson Chi-Square	11.061(b)	1	.001		
Continuity Correction(a)	9.253	1	.002		
Likelihood Ratio	11.719	1	.001		
Fisher's Exact Test				.001	.001
Linear-by-Linear Association	10.982	1	.001		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

From Table 4.19 it is observed that the calculated Chi-Square value is 11.061 while the critical value is 3.841 at a 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the size of the board and the social living conditions of MFIsô customers.

Table 4.20: Size of the board and economic living conditions Crosstabulation

			No correlation between big size and economic living conditions		Total
			Agree	Disagree	
No correlation between Small size and economic living conditions	Agree	Count	12	13	25
		% within Small size and economic living conditions	48.0%	52.0%	100.0%
		% within big size and economic living conditions	21.8%	15.5%	18.0%
		% of Total	8.6%	9.4%	18.0%
	Disagree	Count	43	71	114
		% within Small size and economic living conditions	37.7%	62.3%	100.0%
		% within big size and economic living conditions	78.2%	84.5%	82.0%
		% of Total	30.9%	51.1%	82.0%
Total		Count	55	84	139
		% within Small size and economic living conditions	39.6%	60.4%	100.0%
		% within big size and economic living conditions	100.0%	100.0%	100.0%
		% of Total	39.6%	60.4%	100.0%

Source: **Primary data, September 2011**

Table 4.20 shows that respondents who agreed on no correlation between the small size of the board of directors of MFIs and the economic living conditions were 12 (48%) out of 25 (100%). Whilst those who agreed on no correlation between the small size of the board of directors and the economic living conditions of MFIsô customers in Rwanda were 12 (21.8%) out 55 (100%).

When it came to those who disagreed on no correlation between the small size of the board of directors and the economic living conditions of MFIsô customers in Rwanda, Table 4.20 displays 71(62.3%) out of 114 (100%); and those who disagreed on the no correlation between the big size of the board of directors and the economic living conditions of MFIsô customers in Rwanda were 71(84.5%) out of 84 (100%).

The Table 4.20 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers economic living conditions, while a total of 71(51.1%) out of 139(100%) disagreed on that statement. The remaining were the respondents who neither agreed or disagreed on the above mentioned statement. From these opinions, one may confirm that respondents think that board size correlates with economic living conditions of MFIsô customers in Rwanda.

Table 4.21: Chi-Square Tests of the size of the board and the economic living conditions

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.906(b)	1	.341		
Continuity Correction(a)	.527	1	.468		
Likelihood Ratio	.893	1	.345		
Fisher's Exact Test				.372	.233
Linear-by-Linear Association	.900	1	.343		
N of Valid Cases	139				

a Computed only for a 2x2 table

***Source**:* Primary data, September 2011

From Table 4.21, it is observed that the calculated Chi-Square value is .906 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the size of the board of directors and the economic living conditions of MFIsô customers. The test is not statistically significant.

Table 4.22: Size of the board and number of customers Cross tabulation

			No correlation between big size and number of customers		**Total**
			Agree	**Disagree**	
No correlation between Small size and increase of custmers	**Agree**	Count	17	12	29
		% within Small size and increase of custmers	58.6%	41.4%	100.0%
		% within big size and number of customers	28.8%	15.0%	20.9%
		% of Total	12.2%	8.6%	20.9%
	Disagree	Count	42	68	110
		% within Small size and increase of custmers	38.2%	61.8%	100.0%
		% within big size and number of customers	71.2%	85.0%	79.1%
		% of Total	30.2%	48.9%	79.1%
Total		Count	59	80	139
		% within Small size and increase of custmers	42.4%	57.6%	100.0%
		% within big size and number of customers	100.0%	100.0%	100.0%
		% of Total	42.4%	57.6%	100.0%

***Source*: Primary data, September 2011**

Table 4.22 illustrates that the respondents who agreed that there was no correlation between the small size of the board of directors and the increase of customers, were 17 (58.6%) out 29 (100%). And those who agreed on no correlation between the big size of the board of directors and the increase of the number of MFIsô customers were 17 (28.8%) out of 59 (100%).

The same Table shows that the respondents who disagreed on the statement that there no correlation between the small size and the increase of the number of MFIsô customers are 68 (61.8%) out of 110 (100%); and those who disagreed on the statement that no correlation between big size of the board of directors and the increase of the number of MFIsô customers are 68 (85%) out of 80 (100%).

Table 4.22 shows that only 17(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the outreach of MFIs as far the increase of the number of customers is concerned, while a total of 68(48.9%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these opinions, one may confirm that respondents think that board size does not correlate with outreach as far as the increase of MFIsô customers is concerned in Rwanda.

Table 4.23: Chi-Square Tests of the size of the board and the number of customers

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	3.924(b)	1	.048		
Continuity Correction(a)	3.132	1	.077		
Likelihood Ratio	3.886	1	.049		
Fisher's Exact Test				.058	.039
Linear-by-Linear Association	3.896	1	.048		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.23 shows that the calculated Chi-Square value is 3.924 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the size of the board of directors and the increase of number of customers. This test is statistically significant.

Table 4.24: Size of the board and number of loans Crosstabulation

			No correlation between big size and number of loans		Total
			Agree	Disagree	
No correlation between Small size and increase of loans	Agree	Count	13	11	24
		% within Small size and increase of loans	54.2%	45.8%	100.0%
		% within big size and number of loans	23.6%	13.1%	17.3%
		% of Total	9.4%	7.9%	17.3%
	Disagree	Count	42	73	115
		% within Small size and increase of loans	36.5%	63.5%	100.0%
		% within big size and number of loans	76.4%	86.9%	82.7%
		% of Total	30.2%	52.5%	82.7%
Total		Count	55	84	139
		% within Small size and increase of loans	39.6%	60.4%	100.0%
		% within big size and number of loans	100.0%	100.0%	100.0%
		% of Total	**39.6%**	**60.4%**	**100.0%**

Source: **Primary data, September 2011**

Table 4.24 shows clearly that respondents who agreed on the statement of no correlation between the small size of the board of directors and the increase of the number of loans issued by MFIs in Rwanda were 13 (54.2%) out of 24 (100%); and those who agreed on no correlation between the big size of the board of directors and the increase of the number of loans issued by MFIs to their customers were 13 (23.6%) out of 55 (100%).

Those who disagreed on no correlation between the small size of the board of directors and the increase of the number of loans issued by MFIs were 73 (63.5%) out of 115 (100%); and those who disagreed on no correlation between the big size of the board of directors and the increase of the number of loans issued to MFIsô customers in Rwanda were 73 (86.9%) out of 84 (100%)

Table 4.24 shows that only 13(9.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the outreach of MFIs as far as the increase of the number of loans is concerned, while a total of 73(52.5%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these opinions, one may confirm that respondents think that board size correlates with the outreach of MFIs as far as the increase of number of loans is concerned in Rwanda.

Table 4.25: Chi-Square Tests of the size of the board and the number of loans

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2.323(b)	1	.127		
Continuity Correction(a)	1.678	1	.195		
Likelihood Ratio	2.281	1	.131		
Fisher's Exact Test				.170	.098
Linear-by-Linear Association	2.306	1	.129		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

From Table 4.25 the calculated Chi-Square value is 2.323 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the size of the board and the number of loans to MFIsô customers. This test is not statistically significant but at 10%, it would be significant.

Table 4.26: Size of the board and debt recovery Crosstabulation

			No correlation between big size and debt recovery		Total
			Agree	**Disagree**	
No correlation between small size and debt recovery	Agree	Count	17	13	30
		% within small size and debt recovery	56.7%	43.3%	100.0%
		% within big size and debt recovery	29.3%	16.0%	21.6%
		% of Total	12.2%	9.4%	21.6%
	Disagree	Count	41	68	109
		% within small size and debt recovery	37.6%	62.4%	100.0%
		% within big size and debt recovery	70.7%	84.0%	78.4%
		% of Total	29.5%	48.9%	78.4%
Total		Count	58	81	139
		% within small size and debt recovery	41.7%	58.3%	100.0%
		% within big size and debt recovery	100.0%	100.0%	100.0%
		% of Total	41.7%	58.3%	100.0%

Source: **Primary data, September 2011**

Table 4.26 shows that the respondents who agreed on the statement of no correlation between small size of the board of directors and the debt recovery of MFIs in Rwanda are 17 (56.7%) out of 30 (100%); and those who agreed on the statement of no correlation between the big size of board of directors and the debt recovery of MFIs in Rwanda are 17 (29.3%) out 58 (100%).

The respondents who disagreed on the statement of no correlation between small size of the board of directors and the debt recovery of MFIs were 68 (62.4%) out 109 (100%); and those who disagreed on the statement of no correlation between the big size of the board of directors and the debt recovery of MFIs in Rwanda were 68 (84%) out 81(100%).

Table 4.26 shows that only 17(12.2%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the sustainability of MFIs as far as the debt recovery is concerned in Rwanda, while a total of 68(49.8%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From these opinions of respondents, one may confirm that respondents think that board size does not correlate with sustainability of MFIs as far as the debt recovery is concerned in Rwanda.

Table 4.27: Chi-Square Tests of the board size and the debt recovery

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	3.512(b)	1	.061		
Continuity Correction(a)	2.772	1	.096		
Likelihood Ratio	3.470	1	.062		
Fisher's Exact Test				.093	.049
Linear-by-Linear Association	3.487	1	.062		
N of Valid Cases	139				

a Computed only for a 2x2 table

***Source*: Primary data, September 2011**

In Table 4.27 the calculated Chi-Square value is 3.512 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test is not statistically significant the level of 0.5%, the test would be statistically significant at 10%.

Table 4.28: Size of the board and profitability Crosstabulation

			No correlation between big size and profitability		Total
			Agree	Disagree	
No correlation between small size and profitability	Agree	Count	20	5	25
		% within small size and profitability	80.0%	20.0%	100.0%
		% within big size and profitability	20.8%	11.6%	18.0%
		% of Total	14.4%	3.6%	18.0%
	Disagree	Count	76	38	114
		% within small size and profitability	66.7%	33.3%	100.0%
		% within big size and profitability	79.2%	88.4%	82.0%
		% of Total	54.7%	27.3%	82.0%
Total		Count	96	43	139
		% within small size and profitability	69.1%	30.9%	100.0%
		% within big size and profitability	100.0%	100.0%	100.0%
		% of Total	69.1%	30.9%	100.0%

Source: **Primary data, September 2011**

Table 4.28 shows that the respondents who agreed on the statement of no correlation between small size of the board of directors and the profitability of MFIs in Rwanda were 20 (80%) out of 25 (100%); and those who agreed on the the statement of no correlation between the big size of board of directors and the profitability of MFIs in Rwanda were 20(20.8%) out 96 (100%).

The respondents who disagreed on the statement of no correlation between small size of the board of directors and the profitability of MFIs were 38 (33.3%) out 114 (100%); and those who disagreed on the statement of no correlation between the big size of the board of directors and the debt recovery of MFIs in Rwanda were 38 (84.4%) out 43(100%).

The table 4.28 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers living conditions, while a total of 38(27.3%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From the respondentsô opinions, one may confirm that the board size does not correlate with sustainability as far as profitability of MFIs is concerned in Rwanda.

Table 4.29: Chi-Square Tests of the size of the board and profitability

	Value	**df**	**Asymp. Sig. (2-sided)**	**Exact Sig. (2-sided)**	**Exact Sig. (1-sided)**
Pearson Chi-Square	1.706(b)	1	.191		
Continuity Correction(a)	1.139	1	.286		
Likelihood Ratio	1.820	1	.177		
Fisher's Exact Test				.237	.142
Linear-by-Linear Association	1.694	1	.193		
N of Valid Cases	139				

a Computed only for a 2x2 table

***Source*: Primary data, September 2011**

From Table 4.29 it is observed that the calculated Chi-Square value is 1.706 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the size of the board of directors and the profitability of MFIs in Rwanda. The test is not statistically significant.

4.4 Board Composition and Performance of MFIs in Rwanda

This section presents the research findings and analysis of data on the correlation between the board composition and the performance of MFIs in Rwanda. The section is split into two subsections namely; outsiders and insiders board members; the correlation of these two characteristics of a board and the performance of MFIs in Rwanda. The section aims at verifying the second null hypothesis which states as follows:

Ho $_{(2)}$: There is no correlation between the board composition and the performance of MFIs in Rwanda

Table 4.30: Frequency on outside/independent/nonexecutive members of the board and social living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	4.3	4.3	4.3
	Agree	14	10.1	10.1	14.4
	Neither agree nor disagree	20	14.4	14.4	28.8
	Disagree	56	40.3	40.3	69.1
	Strongly disagree	43	30.9	30.9	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

4.4.1 Outsiders' board members and performance of MFIs

This subsection deals with the research findings and analysis of data related to the above mentioned second research nil hypotheses

Table 4.30 illustrates that respondents who strongly disagreed on non-executive members of the board of directors have no correlation with the social living conditions of the customers of the MFIs represent 43(30.9%) while those who disagreed represent 56(40.3%). This shows that 99(71.2%) confirmed that the relationship between non executive members of the board of directors and the social living conditions of customers of MFIs does exist; this shows to the researcher that independent members of the board of directors have a correlation with the social living conditions of the customers of MFIs. The respondents who neither agreed nor disagreed about no relationship represent 20(14.4%). This means that they didnơt have any knowledge about the relationship between the non executive members of the board of directors and the social living conditions of customers of MFIs. The relationship is also confirmed by a low rate of the respondents who agreed about the non-relationship between the variables, the respondents represent 14(10.1%) of the total of respondents. It is also confirmed by those who strongly agreed on no relationship between the variables because they represent only 6(4.3%) of the total respondents. From Table 4.30, one may conclude that the majority of the respondents, representing 71.1%, confirmed that there is a correlation between the outside members of the board of directors and the social living conditions of the MFIs in Rwanda. This could be as a result of neutrality in decision making by outside members. They do not normally have a conflict of interest in companies and normally endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

Table 4.31: Frequency on outside/independent/nonexecutive members of the board and economic living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	18	12.9	12.9	18.0
	Neither agree nor disagree	13	9.4	9.4	27.3
	Disagree	46	33.1	33.1	60.4
	Strongly disagree	55	39.6	39.6	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.31 demonstrates that respondents who strongly disagreed that no-executive members of the board of directors have no correlation with the economic living conditions of the customers of the MFIs represent 55(39.6%) while those who agreed represent 46(33.1%). This shows that 101(72.7%) confirmed that the relationship between non executive members of the board of directors and the economic living conditions of customers of MFIs does exist; this shows to the researcher that independent members of the board of directors have a correlation with the economic living conditions of the customers of MFIs. The respondents who neither agreed nor disagreed about that relationship represent only 13(9.4%). This means that they didnöt have any knowledge about the relationship between the non executive members of the board of directors and the economic living conditions of customers of MFIs. The is also confirmed by the low rate of the respondents who agreed about the above mentioned relationship, the respondents represent 18(12.9%) of the total of respondents. It can be also confirmed by those who strongly agreed about the relationship because they represent only 7(5%) of the total respondents. From this Table, one may conclude that the majority of the respondents, representing 101(72.7%), confirmed that there is a strong correlation between the outside members of the board of directors and the economic living conditions of the MFIs in Rwanda. This could be as a result of neutralility in decision making by outside members. They do not normally have a conflict of interest in companies and normally endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

Table 4.32: Frequency on outside/independent/nonexecutive members of the board and number of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	4	2.9	2.9	2.9
	Agree	16	11.5	11.5	14.4
	Neither agree nor disagree	13	9.4	9.4	23.7
	Disagree	51	36.7	36.7	60.4
	Strongly disagree	55	39.6	39.6	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.32 shows that respondents who strongly disagreed on non-executive members of the board of directors had no correlation with the increase of the customers of the MFIs represent 55(39.6%) while those who disagreed represented 51(36.7%). Surprisingly the same percentage as the relationship between the outsider members of the board and the economic living conditions of the customers of MFIs. This shows that 76.3% confirmed that the relationship between non-executive members of the board of directors and the increase of customers of MFIs does exist. This shows to the researcher that independent members of the board of directors have a correlation with the increase of the customers of MFIs. The respondents who neither agreed nor disagreed about non-relationship represent only 13(9.4%). This means that they donœt have any knowledge about the relationship between the non-executive members of the board of directors and the increase of customers of MFIs.

This relationship is also confirmed by the low rate of the respondents who agreed about non-relationship, the respondents represent 16(11.5%) of the total of respondents. It is also confirmed by those who strongly agreed about the non-relationship because they represent only 4(2.9%) of the total respondents. From this Table, the research concludes that the majority of the respondents, representing 106(76.3%), confirmed that there is a correlation between the outside members of the board of directors and the increase of the number of customers of the MFIs in Rwanda. This could be as a result of neutralility in decision making by outside members. They do not normally have a conflict of interest in companies and normally endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

Table 4.33: Frequency on outside/independent/nonexecutive mebers of the board and number of loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	11	7.9	7.9	7.9
	Agree	7	5.0	5.0	12.9
	Neither agree nor disagree	15	10.8	10.8	23.7
	Disagree	51	36.7	36.7	60.4
	Strongly disagree	55	39.6	39.6	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.33 expresses the number of repondents who strongly disagreed that non-executive members of the board of directors have no correlation with the increase of loans issued to customers by MFIs represents 55(39.6%) while those who disagreed represent 51(36.7%). This shows that 106(76.3%) confirmed that the relationship between non-executive members of the board of directors and the increase of the loans issued to customers of MFIs does exist; this shows to the researcher that independent members of the board of directors have a correlation with the increase of loans issued to customers of MFIs. The respondents who neither agreed nor disagreed about that relationship represent 15(10.8%). This means that they donꞌt have any knowledge about the relationship between the non-executive members of the board of directors and the increase of loans issued to customers of MFIs. The non relationship is confirmed by a low rate of the respondents who agreed about the above mentioned relationship, they represent only 7(5%) of the total of respondents. It is also confirmed by those who strongly agreed about the no relationship because they represent 11(7.9%) of the total respondents. From this Table, one may conclude that the majority of the respondents, representing 106(76.3%), confirmed that there is a correlation between the outside members of the board of directors and the increase of loans issued to customers of the MFIs in Rwanda. This could be as a result of neutralility in decision making by outside members. They normally do not have any conflict of interest in companies and endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

Table 4.34: Frequency on outside/independent/nonexecutive members of the board and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	4.3	4.3	4.3
	Agree	14	10.1	10.1	14.4
	Neither agree nor disagree	12	8.6	8.6	23.0
	Disagree	44	31.7	31.7	54.7
	Strongly disagree	63	45.3	45.3	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.34 shows that repondents who strongly disagreed that non-executive members of the board of directors have no correlation with the debt recovery represent 63(45.3%) while those who disagreed on no correlation represent 44(31.7%). This shows that 107(77%) confirmed that the relationship between non-executive members of the board of directors and the debt recovery of MFIs does exist. This shows to the researcher that independent members of the board of directors have a correlation with the social living conditions of the customers of MFIs. The respondents who neither agreed nor disagreed about the non-relationship between outsider board members and the debt recovery represent 12(8.6%). This means that they donqt have any knowledge about the relationship between the non-executive members of the board of directors and the debt recovery of MFIs.

The non-relationship is also confirmed by a low rate of the respondents who agreed about it, the respondents represent 14(10.1%) of the total of respondents. The non-relationship is also confirmed by those who strongly agreed about it because they represent only 6(4.3%) of the total respondents. From this Table, one may conclude that the majority of the respondents, representing 107(77%), confirmed that there is a correlation between the outside members of the board of directors and the debt recovery of the MFIs in Rwanda. This could be as a result of neutralility in decision making by outside members. They do not normally have any conflict of interest in companies and normally endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

Table 4.35: Frequency on outside/independent/nonexecutive members of the board and profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	14	10.1	10.1	15.1
	Neither agree nor disagree	14	10.1	10.1	25.2
	Disagree	40	28.8	28.8	54.0
	Strongly disagree	64	46.0	46.0	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.35 demonstrates that respondents who strongly disagreed on non-executive members of the board of directors have no correlation with the profitability of the MFIs represent 64(46%) while those who disagreed represent 40(28.8%). This shows that 104(74.8%) confirmed that the relationship between non-executive members of the board of directors and the profitability of MFIs does exist. This shows to the researcher that independent members of the board of directors have a correlation with the profitability of MFIs. The respondents who neither agreed nor disagreed about that non-relationship represent 14(10.1%). This means that they donĝt have any knowledge about the relationship between the non-executive members of the board of directors and the profitability of MFIs. The non-relationship is also confirmed by a low rate of the respondents who agreed about it who the respondents represent 14(10.1%) of the total of respondents. It is also confirmed by those who strongly agreed about the relationship because they represent only 7(5%) of the total respondents. From this Table, one may conclude that the majority of the respondents, representing 104(74.8%), confirmed that there is a correlation between the outside members of the board of directors on the profitability of the MFIs in Rwanda. This could be as a result of neutralility in decision making by outside members. They do not normally have any conflict of interest in companies and normally endeavour to utilise their knowledge, skills, experience and contacts for the good of a company.

4.4.3 Insiders' board members and performance of MFIs

This subsection deals with the research findings and analysis of data related to the second null hypothesis as stated in the section 4.4.

Table 4.36: Frequency on inside/non independent/executive and social living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	2.2	2.2	2.2
	Agree	12	8.6	8.6	10.8
	Neither agree nor disagree	34	24.5	24.5	35.3
	Disagree	67	48.2	48.2	83.5
	Strongly disagree	23	16.5	16.5	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.36 illustrates that respondents who strongly disagreed that executive members of the board of directors have a positive correlation with the social living conditions of the MFIs represent only 23(16.5%) while those who disagreed represent 67(48.2%). This displays that 90(64.7%) confirmed that the relationship does exist; this shows to the researcher that the executive members of the board of directors have a correlation with the social living conditions of customers of the MFIs. Surprisingly, the respondents who neither agreed nor disagreed about that relationship represent 34(24.5%). This means that they donét have any knowledge about the non-relationship between the executive members of board of directors and the social living conditions of customers of MFIs in Rwanda. The respondents who agreed about the non-relationship between executive members of the board of directors and the social living conditions of the customers of the MFIs represent 12(8.6%).

Those who strongly agreed about the above mentioned non-relationship represent 3(2.2%) only. From this table, one may conclude that the majority of the respondents, representing 90(64.7%), confirmed that the executive members of the board of directors have a correlation with the social living conditions of customers of MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies for the benefit of customers.

Table 4.37: Frequency on inside/non independent/executive and economic living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	1.4	1.4	1.4
	Agree	13	9.4	9.4	10.8
	Neither agree nor disagree	34	24.5	24.5	35.3
	Disagree	72	51.8	51.8	87.1
	Strongly disagree	18	12.9	12.9	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.37 clearly illustrates that the number of respondents who strongly disagreed that executive members of the board of directors have no correlation with the economic living conditions of the MFIs represent only 18(12.9%) while those who disagreed represent 72(51.8%). This displays that 90(64.7%) confirmed that the relationship does exist; this shows to the researcher that the executive/insider/non independent members of the board of directors have positive correlation with the economic living conditions of customers of the MFIs. Surprisingly, the respondents who neither agreed nor disagreed about that relationship represent 34(24.5%), this percentage is higher than the one of those who strongly agree about that relationship.

This means that they donôt have any knowledge about the relationship between the executive/insider/non independent members of board of directors and the economic living conditions of customers of MFIs in Rwanda. The respondents who agreed about the non-relationship between executive/insider/non independent executive members of the board of directors and the economic living conditions of the customers of the MFIs represent 13(9.4%). Those who strongly agreed about the above mentioned non-relationship represent 2(1.4%) only. From this table, one may conclude that the majority of the respondents, representing 90(64.7%), confirmed that the executive/insider/non independent members of the board of directors have correlation with the economic living conditions of customers of MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies for the benefit of customers.

Table 4.38: Frequency on inside/non independent/executive and number of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	1.4	1.4	1.4
	Agree	14	10.1	10.1	11.5
	Neither agree nor disagree	36	25.9	25.9	37.4
	Disagree	63	45.3	45.3	82.7
	Strongly disagree	24	17.3	17.3	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.38 demonstrates that respondents who strongly agreed that executive/insider/non independent members of the board of directors have a positive correlation with the increase of the number of customers of MFIs represent only 24(17.3%). Those who agreed about that relationship represent 63(45.3%). This displays that 87(62.6%) confirmed that the relationship does exist; this shows to the researcher that the executive/insider/independent members of the board of directors have positive correlation with the increase of the number of customers of MFIs. The Table shows that the respondents who neither agreed nor disagreed about that relationship represent 36(25.9%); the percentage is greater that the one of those who strongly agreed about that relationship. This means that 36(25.9%) of the respondents have no any knowledge about the relationship between the executive/insider/independent members of board of directors and the increase of the number of customers of MFIs in Rwanda. The respondents who disagreed about the relationship between the executive/insider/independent members of the board of directors and the increase of the number of customers of MFIs represent 14(10.1%).

Those who strongly disagreed about the above mentioned relationship represent 2(1.4%) only. From this Table, the research concludes that the majority of the respondents, representing 87(62.6%), confirmed that the executive/ insider/ independent members of the board of directors have positive correlation with the increase of the number of customers of MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies for the benefit of customers.

Table 4.39: Frequency on inside/non independent/executive and number of loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	2.2	2.2	2.2
	Agree	14	10.1	10.1	12.2
	Neither agree nor disagree	24	17.3	17.3	29.5
	Disagree	73	52.5	52.5	82.0
	Strongly disagree	25	18.0	18.0	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.39 illustrates that the number of respondents who strongly disagreed that executive/insider/non independent members of the board of directors have no correlation with the increase of the number of loans issued by MFIs represent only 25(18%) while those who disagreed represent 73(52.5%). The table displays that 98(70.5%) confirmed that the relationship exists; this shows to the researcher that the executive/insider/non-independent members of the board of directors have a correlation with the increase of the number of loans issued to customers by MFIs. The percentage of the respondents who neither agreed nor disagreed about that non-relationship is 24(17.3%). This means that they didnợt have any knowledge about the relationship between the executive/insider/non independent members of board of directors and the increase of the number of loans issued to customers by MFIs in

Rwanda. The respondents who agreed about the non-relationship between executive/insider/non independent members of the board of directors and the increase of the number of loans issued to customers by MFIs represent 14(10.1%). The respondents who strongly agreed about the above mentioned relationship represented 3(2.2%) only. From this table, the conclusion is that the majority of the respondents, representing 98(70.5%), confirmed that the executive/insider/non independent members of the board of directors have a correlation with the increase of the number of loans issued to customers by MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies for the benefit of customers. There could also be acquaintance between customers and inside board members.

Table 4.40: Frequency on inside/non independent/executive and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	.7	.7	.7
	Agree	18	12.9	12.9	13.7
	Neither agree nor disagree	20	14.4	14.4	28.1
	Disagree	78	56.1	56.1	84.2
	Strongly disagree	22	15.8	15.8	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table 4.40 above illustrates that respondents who strongly disagreed that executive/insider/non independent members of the board of directors have a no correlation with the debt recovery by MFIs represent only 22(15.8%) while those who disagreed represent 78(56.1%). This displays that 100(71.9%) confirmed that the relationship does exist; this shows to the researcher that the executive/insider/non independent members of the board of directors have positive correlation with the debt recovery by MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represent 20(14.4%). This means that these respondents 20(14.4%) donĝt have any knowledge about the non-relationship between the executive/insider/non independent members of board of directors and the debt recovery by MFIs in Rwanda. The respondents who agreed about the relationship between executive/insider/non independent members of the board of directors and the debt recovery by MFIs represent 18(12.9%).

Only one respondent strongly agreed about the above mentioned non-relationship represent less than 1 (0.7%) only. From this table, the conclusion may be that the majority of the respondents, representing 71.9%, confirmed that the executive/insider/non independent members of the board of directors have a correlation with the debt recovery by the MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies for the benefit of customers. There could also be acquaintance between customers and inside board members.

Most of the time the inside directors align themselves to the CEO Roselina (2007); the author said that the CEO has a full power on inside board members for sometimes the CEO contributes in appointing them, this may lead to inside board members to remain loyal to the CEO. Due to their implicit relationship with the CEO, inside directors may not contribute towards effective monitoring of the CEO. Therefore boards with more executive directors do not lead to enhancing firm performance.

Table 4.41: Frequency on inside/non independent/executive and profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	.7	.7	.7
	Agree	13	9.4	9.4	10.1
	Neither agree nor disagree	23	16.5	16.5	26.6
	Disagree	72	51.8	51.8	78.4
	Strongly disagree	30	21.6	21.6	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.41 illustrates that respondents who strongly disagreed that executive/insider/non independent members of the board of directors have no correlation with the profitability of the MFIs represent only 30(21.6%) while those who disagreed represent 72(51.8%). This displays that 102(73.4%) confirmed that the relationship does exist; this shows to the researcher that the executive/insider/non independent members of the board of directors have a correlation with the profitability of the MFIs. The rate of the respondents who neither agreed nor disagreed about the non-relationship is 23(16.5%); this means that this percent represents the respondents who donôt have any knowledge about the relationship between the executive/insider/non independent members of board of directors and the profitability of the MFIs in Rwanda. The respondents who agreed about the non-relationship between executive / insider/ non-independent members of the board of directors and the profitability of the MFIs represent 13(9.4%). Only 1(0.7%) respondent strongly agreed about the above mentioned relationship. From the table above, the conclusion the researcher can draw is that the majority of the respondents, representing 102(73.4%), confirmed that the executive /insider/non independent members of the board of directors have a correlation with the profitability of the MFIs in Rwanda. One of the reasons could be that as insiders, these board members have a lot of knowledge and experience about the company that could be useful in increasing the level of performance of companies in terms of profitability.

4.4.3 Testing the hypothesis number two

This subsection aims at testing the second hypothesis which states as follows; there is correlation between the board composition and the performance of MFIs in Rwanda.

As the crosstabulation method was to get opinions from respondents on the non-correlation between the board composition, as one of the variables of corporate governance, and the ones of the performance of MFIs in Rwanda; the researcher crosstabulated those various variables to find out their opinions.

Table 4.42 shows that the respondents who agreed on the statement that there is no correlation between outsidersô board members and the social living conditions of MFIsô customers in Rwanda were 20 (50%) out of 40 (100%); and those who agreed on the statement of no correlation between insidersô board members and the social living conditions of MFIsô customers in Rwanda were 20(40.8%) out 49 (100%).

Table 4.42: Board composition and social living conditions Crosstabulation

			No correlation between insiders and social living conditions		
			Agree	Disagree	Total
No correlation between outsiders and social living conditions	Agree	Count	20	20	40
		% within outsiders and social living conditions	50.0%	50.0%	100.0%
		% within insiders and social living conditions	40.8%	22.2%	28.8%
		% of Total	14.4%	14.4%	28.8%
	Disagree	Count	29	70	99
		% within outsiders and social living conditions	29.3%	70.7%	100.0%
		% within insiders and social living conditions	59.2%	77.8%	71.2%
		% of Total	20.9%	50.4%	71.2%
Total		Count	49	90	139
		% within outsiders and social living conditions	35.3%	64.7%	100.0%
		% within insiders and social living conditions	100.0%	100.0%	100.0%
		% of Total	35.3%	64.7%	100.0%

***Source:* Primary data, September 2011**

The respondents who disagreed on the statement of no correlation between outsidersô board members and the social living conditions of MFIsô customers are 70 (70.7%) out 99 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the social living conditions of MFIsô customers in Rwanda are 70 (77.8%) out 90(100%).

Table 4.42 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the impact of MFIs on the customers social living conditions, while a total of 70(50.4%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. These respondentsô opinions show that there might be a correlation between the board composition and the impact of MFIs as far as the social living conditions of MFIsô customers are concerned in Rwanda.

Table 4.43: Chi-Square Tests of the correlation between board composition and the social living conditions

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.352(b)	1	.021		
Continuity Correction(a)	4.483	1	.034		
Likelihood Ratio	5.227	1	.022		
Fisher's Exact Test				.030	.018
Linear-by-Linear Association	5.313	1	.021		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.43 displays the calculated Chi-Square value of 5.352 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the sub null hypothesis was rejected. Therefore, this test shows that there is a correlation between the board composition and the social living conditions of MFIsô customers in Rwanda. This test is statistically significant.

Table 4.44: Board composition and economic living conditions Cross tabulation

			No correlation between insiders and economic living conditions		**Total**
			Agree	**Disagree**	
No correlation between outsiders and economic living conditions	Agree	Count	15	23	38
		% within outsiders and economic living conditions	39.5%	60.5%	100.0%
		% within insiders and economic living conditions	30.6%	25.6%	27.3%
		% of Total	10.8%	16.5%	27.3%
	Disagree	Count	34	67	101
		% within outsiders and economic living conditions	33.7%	66.3%	100.0%
		% within insiders and economic living conditions	69.4%	74.4%	72.7%
		% of Total	24.5%	48.2%	72.7%
Total		Count	49	90	139
		% within outsiders and economic living conditions	35.3%	64.7%	100.0%
		% within insiders and economic living conditions	100.0%	100.0%	100.0%
		% of Total	35.3%	64.7%	100.0%

Source: **Primary data, September 2011**

Table 4.44 shows that the respondents who agreed on the statement of no correlation between outsidersô board members and the economic living conditions of MFIsô customers in Rwanda are 15 (39.5%) out of 38 (100%); and those who agreed on the statement of no correlation between insidersô board members and the economic living conditions of MFIsô customers in Rwanda are 15(30.6%) out 49 (100%).

The respondents who disagreed on the statement of no correlation between outsidersô board members and the economic living conditions of MFIsô customers are 67 (66.3%) out 101 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the economic living conditions of MFIsô customers in Rwanda are 67 (74.4%) out 90(100%).

Table 4.44 shows that only 15(10.8%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the impact of MFIs on the customers social living conditions, while a total of 67(48.2%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

These respondentsô views show that there might not be any correlation between the board composition and the impact of MFIs as far as the social living conditions of MFIsô customers are concerned in Rwanda.

Table 4.45: Chi-Square Tests of the correlation between the board composition and economic living conditions

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.408(b)	1	.523		
Continuity Correction(a)	.194	1	.660		
Likelihood Ratio	.404	1	.525		
Fisher's Exact Test				.554	.328
Linear-by-Linear Association	.405	1	.524		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.45 displays the calculated Chi-Square value of .408 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the board composition and the economic living conditions of MFIsô customers in Rwanda. This test is not statistically significant.

Table 4.46: Board composition and number of customers Crosstabulation

			No correlation between insiders and number of customers		Total
			Agree	Disagree	
No correlation between outsiders and number of customers	Agree	Count	16	17	33
		% within outsiders and number of customers	48.5%	51.5%	100.0%
		% within insiders and number of customers	30.8%	19.5%	23.7%
		% of Total	11.5%	12.2%	23.7%
	Disagree	Count	36	70	106
		% within outsiders and number of customers	34.0%	66.0%	100.0%
		% within insiders and number of customers	69.2%	80.5%	76.3%
		% of Total	25.9%	50.4%	76.3%
Total		Count	52	87	139
		% within outsiders and number of customers	37.4%	62.6%	100.0%
		% within insiders and number of customers	100.0 %	100.0%	100.0%
		% of Total	37.4%	62.6%	100.0%

Source: **Primary data, September 2011**

Table 4.46 shows that the respondents who agreed on the statement of non-correlation between outsidersô board members and the increase of MFIsô customers in Rwanda were 16(48.5%) out of 33 (100%); and those who agreed on the statement of no correlation between insidersô board members and the increase of MFIsô customers in Rwanda were 16(30.8%) out 52 (100%). The respondents who disagreed on the statement of no correlation between outsidersô board members and the increase of MFIsô customers were 70 (66%) out 106 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the increase of MFIsô customers in Rwanda were 70 (80.5%) out 87(100%).

Table 4.46 shows that only 16(11.5%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the outreach of MFIs as far the increase of the number of customers is concerned, while a total of 70(50.4%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From these opinions, one may think that there might not be a correlation between the board composition and the outreach of MFIs as far as the increase of MFIsô customers is concerned in Rwanda.

Table 4.47: Chi-Square Tests of the correlation between the board composition and the number of customers

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2.267(b)	1	.132		
Continuity Correction(a)	1.689	1	.194		
Likelihood Ratio	2.223	1	.136		
Fisher's Exact Test				.152	.098
Linear-by-Linear Association	2.250	1	.134		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.47 displays the calculated Chi-Square value of 2.267; while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the board composition and the increase of MFIsô customers in Rwanda. This test is not statistically significant.

Table 4.48: Board composition and number of loans Crosstabulation

			No correlation between insiders and number of loans		Total
			Agree	Disagree	
No correlation between outsiders and number of loans	Agree	Count	17	16	33
		% within outsiders and number of loans	51.5%	48.5%	100.0%
		% within insiders and number of loans	41.5%	16.3%	23.7%
		% of Total	12.2%	11.5%	23.7%
	Disagree	Count	24	82	106
		% within outsiders and number of loans	22.6%	77.4%	100.0%
		% within insiders and number of loans	58.5%	83.7%	76.3%
		% of Total	17.3%	59.0%	76.3%
Total		Count	41	98	139
		% within outsiders and number of loans	29.5%	70.5%	100.0%
		% within insiders and number of loans	100.0%	100.0%	100.0%
		% of Total	29.5%	70.5%	100.0%

Source: **Primary data, September 2011**

Table 4.48 shows that the respondents who agreed on the statement of no correlation between outsidersô board members and the increase of number of loans to MFIsô customers in Rwanda were 17 (51.5%) out of 33 (100%); and those who agreed on the statement of no correlation between insidersô board members and the increase of loans to MFIsô customers in Rwanda were17 (41.5%) out 41 (100%).

The respondents who disagreed on the statement of no correlation between outsidersô board members and the increase of number of loans to MFIsô customers are 82 (77.4%) out 106 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the increase of number of loans to MFIsô customers in Rwanda are 82 (83.7%) out 98(100%).

Table 4.55 shows that only 17(12.2%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the outreach of MFIs as far the increase of the number of loans issued to customers is concerned, while a total of 82(59%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these opinions, one may think that there might be a correlation between the board composition and the outreach of MFIs as far as the increase of the number of loans issued to customers is concerned in Rwanda.

Table 4.49: Chi-Square Tests of the correlation between the board composition and the number of loans

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	10.089(b)	1	.001		
Continuity Correction(a)	8.748	1	.003		
Likelihood Ratio	9.499	1	.002		
Fisher's Exact Test				.002	.002
Linear-by-Linear Association	10.016	1	.002		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.49 shows the calculated Chi-Square value of 10.089 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the board composition and the increase of number of loans to MFIsô customers in Rwanda. This test is statistically significant.

Table 4.50: Board composition and debt recovery Crosstabulation

			No correlation between insiders and debt recovery		Total
			Agree	Disagree	
No correlation between outsiders and debt recovery	Agree	Count	32	0	32
		% within outsiders and debt recovery	100.0%	.0%	100.0%
		% within insiders and debt recovery	100.0%	.0%	23.0%
		% of Total	23.0%	.0%	23.0%
	Disagree	Count	0	107	107
		% within outsiders and debt recovery	.0%	100.0%	100.0%
		% within insiders and debt recovery	.0%	100.0%	77.0%
		% of Total	.0%	77.0%	77.0%
Total		Count	32	107	139
		% within outsiders and debt recovery	23.0%	77.0%	100.0%
		% within insiders and debt recovery	100.0%	100.0%	100.0%
		% of Total	23.0%	77.0%	100.0%

Source: **Primary data, September 2011**

Table 4.50 shows that the respondents who agreed on the statement of no correlation between outsidersô board members and the debt recovery of MFIs in Rwanda were 32 (100%) out of 32 (100%); and those who agreed on the statement of no correlation between insidersô board members and the debt recover of MFIs in Rwanda were 32(100%) out 32 (100%). The respondents who disagreed on the statement of no correlation between outsidersô board members and the debt recovery of MFIs are 107 (100%) out 107 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the debt recovery of MFIs in Rwanda are 107 (100%) out 107(100%).

Table 4.50 shows that 32(23%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the sustainability of MFIs as far as the debt recovery of MFIs is concerned, while a total of 107(77%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From these opinions, one may think that there might be a correlation between the board composition and the sustainability of MFIs as far as the debt recovery is concerned in Rwanda.

Table 4.51: Chi-Square Tests of the correlation between the board composition and the debt recovery

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	139.000(b)	1	.000		
Continuity Correction(a)	133.414	1	.000		
Likelihood Ratio	149.991	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	138.000	1	.000		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.51 displays the calculated Chi-Square value of 139.000 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the board composition and the debt recovery of MFIs in Rwanda. This test is statistically significant.

Table 4.52: Board composition and profitability Crosstabulation

			No correlation between insiders and profitability		Total
			Agree	Disagree	
No correlation between outsiders and profitability	Agree	Count	35	0	35
		% within outsiders and profitability	100.0%	.0%	100.0%
		% within insiders and profitability	100.0%	.0%	25.2%
		% of Total	25.2%	.0%	25.2%
	Disagree	Count	0	104	104
		% within outsiders and profitability	.0%	100.0%	100.0%
		% within insiders and profitability	.0%	100.0%	74.8%
		% of Total	.0%	74.8%	74.8%
Total		Count	35	104	139
		% within outsiders and profitability	25.2%	74.8%	100.0%
		% within insiders and profitability	100.0%	100.0%	100.0%
		% of Total	25.2%	74.8%	100.0%

Source: **Primary data, September 2011**

Table 4.52 shows that the respondents who agreed on the statement of no correlation between outsidersô board members and the profitability of MFIs in Rwanda were 35 (100%) out of 35 (100%); and those who agreed on the statement of no correlation between insidersô board members and the profitability of MFIs in Rwanda were 20(40.8%) out 49 (100%).

The respondents who disagreed on the statement of no correlation between outsidersô board members and the profitability of MFIs in Rwanda are 104 (100%) out 104 (100%); and those who disagreed on the statement of no correlation between insidersô board members and the profitability of MFIs in Rwanda are 104 (100%) out 104(100%).

Table 4.52 shows that 35(25.2%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the sustainability of MFIs as far as the profitability of MFIs is concerned, while a total of 104(74.8%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed with the above mentioned statement. From these respondentsô opinions, one may think that there might be a correlation between the board composition and the sustainability of MFIs as far as the profitability is concerned in Rwanda.

Table 4.53: Chi-Square Tests of the correlation between the board composition and the profitability

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	139.000(b)	1	.000		
Continuity Correction(a)	133.743	1	.000		
Likelihood Ratio	156.876	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	138.000	1	.000		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

The Table 4.53 displays the calculated Chi-Square value of 139.000 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the board composition and the profitability of MFIs in Rwanda. This test is statistically significant.

4.5 Supervision and Performance of MFIs in Rwanda

The section presents research findings and analysis of data on the correlation between independent audit and the performance of MFIs in Rwanda; in addition to that the section presents also the research findings and analysis of data on the correlation between the internal audit and the performance of MFIs in Rwanda. This means that the supervision was analysed through two major supervision mechanisms; namely, external audit and the internal audit. This section deals with the fourth hypothesis which is:

Ho $_{(3)}$: There is no correlation between the supervision and the performance of microfinance institutions in Rwanda.

4.5.1 Independent audit and performance of MFIs

Independent or external auditors are accountants from outside the firms, who review the firmôs financial statements and its procedures for producing them (Kenneth, 2010). Their job is to attest the fairness of the statements and that they materially represent the condition of the firm. The external auditors assess the system and procedures used by internal auditors. Because external auditors are independent from the firm being audited and because their explicit job is to check for financial misstatements and adhere to the GAAP, it is they who must ensure the accuracy of the firmøs financial information to the shareholders (Kenneth, 2010). By their independence from the CEO, their contribution to the monitoring of the CEO as far as agency problem is concerned is very crucial. This subsection deals with the research findings and analysis of data related to the fourth nil hypothesis. Following are tables showing the research findings and analysis of data on the relationship independent auditing and the performance of MFIs in Rwanda.

Table 4. 54 : Frequency on independent auditing and social living conditions

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	5	3.6	3.6	3.6
	Agree	14	10.1	10.1	13.7
	Neither agree nor disagree	11	7.9	7.9	21.6
	Disagree	45	32.4	32.4	54.0
	Strongly disagree	64	46.0	46.0	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.54 illustrates that 64(46%) respondents who strongly disagreed on the independent auditors have no correlation with the social living conditions of customers of the MFIs. While those who disagreed were 45(32.4%). This means that 109(78.4%) confirmed that the relationship does exist. This shows to the researcher that independent auditors have a correlation with the social living conditions of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that non-relationship were only 11(7.9%). This means that they didnøt have any knowledge about the non-relationship between the independent auditors and the social living conditions of customers of the MFIs in Rwanda. This is somehow confirmed by the percent of the respondents who agreed about the above mentioned non-relationship; these respondents represent 14(10.1%) of the total of respondents. Those who strongly disagreed about the non-relationship, they represent 5(3.6%). From this Table, the researcher concludes that the majority of the respondents, representing 109(78.4%), confirmed that the independent auditors have a correlation with the social living conditions of customers of the MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales etc. those measures normally improve what customers get from the company i.e. lower prices and high quality of goods.

Table 4.55: Frequency on independent auditing and economic living conditions

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	9	6.5	6.5	6.5
	Agree	9	6.5	6.5	12.9
	Neither agree nor disagree	11	7.9	7.9	20.9
	Disagree	47	33.8	33.8	54.7
	Strongly disagree	63	45.3	45.3	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.55 illustrates clearly that respondents who strongly disagreed on that independent auditors have no correlation with the economic living conditions of customers of the MFIs represent 63(45.3%) while those who agreed represented 47(33.8%). This displays that 110(79.1%) confirmed that the relationship does exist;

this shows to the researcher that independent auditors a correlation with the economic living conditions of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represent only 11(7.9%). This means that they didn't have any knowledge about the non-relationship between the independent auditors and the social living conditions of customers of the MFIs in Rwanda. This is somehow confirmed by the percent of the respondents who agreed about the above mentioned non-relationship; these respondents represent only 9(6.5%) of the total of respondents. Those who strongly agreed about the relationship, they represent also 9(6.5%). From this table, the researcher may conclude that the majority of the respondents, representing 110(79.1%), confirmed that the independent auditors have correlation with the economic living conditions of customers of the MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales etc. those measures normally improve what customers get from the company i.e. lower prices and high quality of goods.

Table 4.56: Frequency on independent auditing and number of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	10	7.2	7.2	7.2
	Agree	15	10.8	10.8	18.0
	Neither agree nor disagree	15	10.8	10.8	28.8
	Disagree	41	29.5	29.5	58.3
	Strongly disagree	58	41.7	41.7	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

The Table 4.56 illustrates that respondents who strongly disagreed up on that independent auditors have no correlation with the increase of the number of customers of the MFIs represent 58(41.7%) while those who disagreed represent 41(29.5%). This displays a total of 99(72.2%) of the respondents who confirmed that the relationship does exist; this shows to the researcher that independent auditors have a correlation with the increase of the number of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that non-relationship represent 15(10.8%). This means that they donŒt have any knowledge about the non-relationship between the independent auditors and the increase of the number of customers of the MFIs in Rwanda. This is somehow confirmed by the percent of the respondents who agreed about the above mentioned non-relationship; these respondents represent 15(10.8%) of the total of respondents. Those who strongly agreed about the relationship, they represent 10(7.2%) only. From this Table, the researcher may conclude that the majority of the respondents, representing 99(72.2%), confirmed that the independent auditors have a correlation with the increase of the number of customers of the MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales, etc. those measures normally improve what customers get from the company i.e. lower prices and high quality of goods.

Table 4.57: Frequency on independent auditing and number of loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	12	8.6	8.6	8.6
	Agree	9	6.5	6.5	15.1
	Neither agree nor disagree	13	9.4	9.4	24.5
	Disagree	41	29.5	29.5	54.0
	Strongly disagree	64	46.0	46.0	100.0
	Total	**139**	**100.0**	**100.0**	

***Source*: Primary data, September 2011**

Table illustrates that respondents who strongly disagreed on that independent auditors have no correlation with the increase of the loans issued to customers by MFIs represent only 64(46%) while those who disagreed represent 41(29.5%). This displays that 105(75.5%) confirmed that the relationship does exist; this shows to the researcher that independent auditors have a correlation with the increase of the loans issued to customers by MFIs. The percent of the respondents who neither agreed nor disagreed about that non-relationship represented only 13(9.4%). This means that they donẗ have any knowledge about the relationship between the independent auditors and the increase of the loans issued to customers by MFIs in Rwanda. This is somehow confirmed by the percent of the respondents who agreed about the above mentioned non-relationship. These respondents represented 9(6.4%) of the total of respondents. Those who strongly agreed about the non-relationship, they represent 12(8.6%). From this table, the researcher may conclude that the majority of the respondents, representing 105(75.5%), confirmed that the independent auditors have a correlation with the increase of the loans issued to customers by MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales etc. Those measures normally improve what customers get from the company i.e. lower prices and high quality of goods.

The research findings were supported by Kim, Nofsinger and Mohr (2010) saying that the independent auditors are there to balance the power of the CEO and work for the will of the board members on behalf of the shareholders.

Table 4. 58 : Frequency on independent auditing and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	8	5.8	5.8	5.8
	Agree	12	8.6	8.6	14.4
	Neither agree nor disagree	13	9.4	9.4	23.7
	Disagree	39	28.1	28.1	51.8
	Strongly disagree	67	48.2	48.2	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.58 illustrates that respondents who strongly disagreed on that independent auditors have no correlation with the debt recovery by the MFIs represented only 67(48.2%) while those who disagreed represent 39(28.1%). This displays that 106(76.3%) confirmed that the relationship between the independent auditors and the debt recovery by the MFIs in Rwanda does exist. This confirms to the researcher that independent auditors have a correlation with the debt recovery by the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represent only 13(9.4%). This means that they donğt have any knowledge about the non-relationship between the independent auditors and the debt recovery by the MFIs in Rwanda. This relationship is somehow confirmed by the percent of the respondents who agreed about the above mentioned non-relationship; these respondents represent 12(8.6%) of the total of respondents. Those who strongly agreed about the non-relationship, they represent 8(5.8%). From this Table, the researcher may conclude that the majority of the respondents, representing 106(76.3%), confirmed that the independent auditors have a correlation with the debt recovery by the MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales, better methods of recovering debts, etc. Those measures normally improve what a company does and how it does it.

Table 4.59: Frequency on independent auditing and profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	5.0	5.0	5.0
	Agree	14	10.1	10.1	15.1
	Neither agree nor disagree	7	5.0	5.0	20.1
	Disagree	46	33.1	33.1	53.2
	Strongly disagree	65	46.8	46.8	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.59 illustrates that respondents who strongly disagreed that independent auditors have no correlation with the profitability of the MFIs represent only 65(46.8%) while those who disagreed represented 46(33.1%). This table above shows that 111(79.9%) confirmed that the relationship does exist. This high percent demonstrates to the researcher that independent auditors have a correlation with the profitability of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represent only 7(5%). This means that they donꞌt have any knowledge about the relationship between the independent auditors and the profitability of the MFIs in Rwanda. This is somehow confirmed by the percent of the respondents who agreed about the above mentioned nonrelationship; these respondents represent 14(10.1%) of the total of respondents. Those who strongly agreed about the nonrelationship, they represent 7(5%). From this table, the researcher may conclude that the majority of the respondents, representing

111(79.9%), confirmed that the independent auditors have a correlation with the profitability of the MFIs in Rwanda. One of the reasons could be due to what external auditors do i.e. pointing out shortcomings which board and management should address to improve performance of a company. Some of the improvements include cutting expenses, increasing sales, etc. Those measures normally improve profitability.

The research findings were supported by Kim, Nofsinger and Mohr (2010) who say that the external audit services are demanded as monitoring devices that reduce information asymmetries and agency costs between the companyǿs managers and stakeholders by allowing a third (outside) party to verify the validity of financial statements. More specifically, one of the purposes of the external audit function is to assure the timeliness and accuracy of the reporting of relevant information to shareholders this assurance is needed because users of financial statements do not have the opportunity or time to verify whether the statements actually reflect underlying business transactions.

In addition to that, external auditors being independent from the CEO of the firm being audited and because their explicit job is to check for financial misstatement and adherence to GAAP, it is they who must ensure the accuracy of the firmǿs financial information for shareholders (Kim, Nofsinger and Mohr, 2010).

4.5.2 Internal audit and performance of MFIs in Rwanda

Many firms have internal auditors as said by Kenneth (2010); their responsibilities are to oversee the firmǿs financial and operating procedures, to check the accuracy of the financial record-keeping, to implement improvements with internal control, to ensure compliance with accounting standards and regulations, and to detect fraud and errors. According to Kenneth (2010) by accomplishing its duties, internal auditing contributes to the performance. The biggest constraint the internal auditing faces is that it is under the power of the CEO who may reject the recommendations made by internal auditors.

This subsection deals with the research findings and analysis of data related to the fourth nil hypothesis as stated in the section 4.6. Following are findings on the correlation between the internal audit and performance of MFIs in Rwanda.

Table 4. 60 : Frequency on internal auditing and social living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	3.6	3.6	3.6
	Agree	11	7.9	7.9	11.5
	Neither agree nor disagree	24	17.3	17.3	28.8
	Disagree	67	48.2	48.2	77.0
	Strongly disagree	32	23.0	23.0	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.60 illustrates that respondents who strongly disagreed on that internal auditors have no correlation with the social living conditions of customers of the MFIs represent only 32(23%) while those who disagreed represented 67(48.2%). This displays that 99(71.2%) confirmed that the relationship does exist; this shows to the researcher that the internal auditors have a influence on the social living conditions of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented 24(17.3%). This means that they donάt have any knowledge about the relationship between the internal auditors have and the social living conditions of customers of the MFIs in Rwanda. This is somehow confirmed by the rate of the respondents who agreed about the above mentioned non-relationship, the respondents represent 11(7.9%) of the total of the respondents. Those who strongly agreed about the non-relationship, they represent 5(3.6%) only. From this table, the researcher may conclude that the majority of the respondents, representing 99(71.2%), confirmed that the internal auditors have a correlation with the social living conditions of customers of the MFIs in Rwanda. One of the reasons could be due to what an internal audit does for a company i.e. by helping a company to comply with internal policies, procedures, rules as well as complying with external statutory requirements. By so doing, a company could reduce its costs, increase its revenue and provide goods and services of high quality to customers.

Table 4. 61 : Frequency on internal auditing and economic living conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	2.2	2.2	2.2
	Agree	10	7.2	7.2	9.4
	Neither agree nor disagree	28	20.1	20.1	29.5
	Disagree	66	47.5	47.5	77.0
	Strongly disagree	32	23.0	23.0	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.61 clearly illustrates that respondents who strongly disagreed on that internal auditors have no correlation with the economic living conditions of customers of the MFIs represent only 32(23%) while those who disagreed represented 66(47.5%). This shows that 98(70.5%) confirmed that the relationship does exist; this shows to the researcher that the internal auditors have a correlation with the economic living conditions of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented 28(20.1%). This means that they donöt have any knowledge about the relationship between the internal auditors have and the economic living conditions of customers of the MFIs in Rwanda. This is somehow confirmed by the rate of the respondents who agreed about the above mentioned non-relationship, the respondents represent 10(7.2%) of the total of the respondents. Those who strongly agreed about the non-relationship, they represent 3(2.2%) only. From this Table, the researcher may conclude that the majority of the respondents, representing 98(70.5%), confirmed that the internal auditors have a correlation with the economic living conditions of customers of the MFIs in Rwanda. One of the reasons could be due to what an internal audit does for a company i.e. by helping a company to comply with internal policies, procedures, rules as well as complying with external statutory requirements. By so doing, a company could reduce its costs, increase its revenue and provide goods and services of high quality to customers.

Table 4. 62 : Frequency on internal auditing and number of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	3.6	3.6	3.6
	Agree	9	6.5	6.5	10.1
	Neither agree nor disagree	32	23.0	23.0	33.1
	Disagree	75	54.0	54.0	87.1
	Strongly disagree	18	12.9	12.9	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.62 shows that the respondents who strongly disagreed on that internal auditors have no correlation with the increase of the number of customers of the MFIs represent only 18(12.9%); while the respondents who disagreed represented 75(54%). This displays that 93(66.9%) confirmed that the relationship does exist. This shows to the researcher that the internal auditors have a correlation with the increase of the number of customers of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented 32(23%). It is greater than those who strongly disagreed about that relationship. This means that this percent of the respondents didnœt have any knowledge about the relationship between the internal auditors have and the increase of the number of customers of the MFIs in Rwanda. The existence of the relationship is somehow confirmed by the low rate of the respondents who agreed about it, the respondents represented 9(6.5%) of the total of the respondents. Those who strongly agreed about the relationship, they represented 5(3.6%) only. From this table, the researcher may conclude that the majority of the respondents, representing 93(66.9%), confirmed that the internal auditors have a correlation with the increase of the number of customers of the MFIs in Rwanda. One of the reasons could be due to what an internal audit does for a company i.e. by helping a company to comply with internal policies, procedures, rules as well as complying with external statutory requirements. By so doing, a company could reduce its costs, increase its revenue and provide goods and services of high quality to customers.

The research findings were in agreement with the conclusions of Kim, Nofsinger and Mohr (2010) who said that one of the objectives of the internal audit is to provide assurance that the risk management processes are functioning as intended. Through specific recommendations and other consulting services, the internal audit function furthermore assists the CEO and other senior management by improving risk management and control processes. Internal auditors are very familiar with an organizationós value creation, as they accumulate knowledge about the organization throughout their careers. They can therefore be ideal consultants for the improvement of an organizationós processes. The improvement of the internal audit is likely to have a positive effect on customers or clients and suppliers. Thus, the internal audit function can also be able to add value to external parties or stakeholders, the authors said (2010).

Table 4. 63 : Frequency on internal auditing and number of loans

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	4	2.9	2.9	2.9
	Agree	12	8.6	8.6	11.5
	Neither agree nor disagree	20	14.4	14.4	25.9
	Disagree	77	55.4	55.4	81.3
	Strongly disagree	26	18.7	18.7	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.63 illustrates that respondents who strongly disagreed on that internal auditors have no correlation with the increase of the number of loans issued by the MFIs represent 26(18.7%) while those who disagreed represented 77(55.4%). This displays that 103(74.1%) confirmed that the relationship does exist; this shows to the researcher that the internal auditors have a correlation with the increase of the number of loans issued by the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented 20(14.4%). This means that they donøt have any knowledge about the relationship between the internal auditors have and the increase of the number of loans issued by the MFIs in Rwanda.

The respondents who confirmed the agreement about the above mentioned non-relationship represented 12(8.6%) of the total of the respondents. Those who strongly agreed about the non-relationship represented 4(2.9%) only. From this table, the researcher may conclude that the majority of the respondents, representing 103(74.1%), confirmed that the internal auditors have a correlation with the increase of the number of loans issued by the MFIs in Rwanda. One of the reasons could be due to what an internal audit does for a company i.e. by helping a company to comply with internal policies, procedures, rules as well as complying with external statutory requirements. By so doing, a company could reduce its costs, increase its revenue and provide goods and services of high quality to customers.

Table 4. 64 : Frequency on internal auditing and debt recovery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	1.4	1.4	1.4
	Agree	5	3.6	3.6	5.0
	Neither agree nor disagree	14	10.1	10.1	15.1
	Disagree	70	50.4	50.4	65.5
	Strongly disagree	48	34.5	34.5	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.64 expresses that respondents who strongly disagreed on that internal auditors have no correlation with the debt recovery by the MFIs represented 48(34.5%); while those who disagreed represent 70(54.4%). This shows that 118(84.9%) confirmed that the relationship does exist. This shows to the researcher that the internal auditors have a correlation with the debt recovery by the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented 14(10.1%). This means that they donøt have any knowledge about the relationship between the internal auditors have and the debt recovery by the MFIs in Rwanda. This is somehow confirmed by the rate of the respondents who agreed about the above mentioned non-relationship, the respondents represented only 5(3.6%) of the total of the respondents.

Those who strongly agreed about the non-relationship, they represented 2(1.4%) only. From this table, the researcher may conclude that the majority of the respondents, representing 118(88.9%), confirmed that the internal auditors have a correlation with the debt recovery by the MFIs in Rwanda. One of the reasons could be due to what an internal audit does for a company i.e. by helping a company to comply with internal policies, procedures, rules as well as complying with external statutory requirements. By so doing, a company could reduce its costs, increase its revenue, improve debt collection and provide goods and services of high quality to customers.

Table 4. 65 : Frequency on internal auditing and profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	2.2	2.2	2.2
	Agree	8	5.8	5.8	7.9
	Neither agree nor disagree	6	4.3	4.3	12.2
	Disagree	72	51.8	51.8	64.0
	Strongly disagree	50	36.0	36.0	100.0
	Total	**139**	**100.0**	**100.0**	

Source: **Primary data, September 2011**

Table 4.65 shows that respondents who strongly disagreed on that internal auditors have no correlation with the profitability of the MFIs represent only 50(36%) while those who disagreed represented 72(51.8%). This displays that 122(87.8%) confirmed that the relationship does exist; this shows to the researcher that the internal auditors have a correlation with the profitability of the MFIs. The percent of the respondents who neither agreed nor disagreed about that relationship represented only 6(4.3%). This means that they donôt have any knowledge about the relationship between the internal auditors have and the profitability of the MFIs in Rwanda. The relationship is somehow confirmed by the low rate of the respondents who agreed about the above mentioned non-relationship, the respondents represented 8(5.8%) of the total respondents. Those who strongly agreed about the non-relationship, they represented 3(2.2%) only. From this table, the researcher may conclude that the majority of the respondents, representing 122(87.8%), confirmed that the internal auditors have a correlation with the profitability of the MFIs in Rwanda.

4.6.3 Testing the hypothesis number four

This section aims at testing the hypothesis number four using crosstabilation after grouping the frequencies of the five Likert Scale into two groups of those who agreed and those who disagreed. As the crosstabulation method was to get opinions from respondents on the non correlation between the size of the supervision, as one of the variables of corporate governance, and the ones of performance of MFIs in Rwanda; the researcher crosstabulated those various variables to find out their opinions.

Table 4. 66 : Supervision and social living conditions Cross tabulation

			No correlation between internal auditors and social living conditions		Total
			Agree	Disagree	
No correlation between independent auditors and social living conditions	Agree	Count	15	15	30
		% within independent auditors and social living conditions	50.0%	50.0%	100.0%
		% within internal auditors and social living conditions	37.5%	15.2%	21.6%
		% of Total	10.8%	10.8%	21.6%
	Disagree	Count	25	84	109
		% within independent auditors and social living conditions	22.9%	77.1%	100.0%
		% within internal auditors and social living conditions	62.5%	84.8%	78.4%
		% of Total	18.0%	60.4%	78.4%
Total		Count	40	99	139
		% within independent auditors and social living conditions	28.8%	71.2%	100.0%
		% within internal auditors and social living conditions	100.0%	100.0%	100.0%
		% of Total	28.8%	71.2%	100.0%

Source: **Primary data, September 2011**

Table 4.66 shows that the respondents who agreed on the statement of no correlation between independent auditors and the social living conditions of MFIsô customers in Rwanda were 15 (50%) out of 30 (100%); and those who agreed on the the statement of no correlation between internal auditors and the social living conditions of MFIsô customers in Rwanda were 15(37.5%) out 40(100%).

The respondents who disagreed on the statement of no correlation between independent auditors and the social living conditions of MFIsô customers were 84 (77.1%) out 109 (100%); and those who disagreed on the statement of no correlation between internal auditors and the social living conditions of MFIsô customers in Rwanda were 84 (84.8%) out 99(100%).

The table 4.66 shows that only 15(10.8%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the impact of MFIs on the customersô social living conditions, while a total of 84(60.4%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed to the afore mentioned statement.

From these opinions, one may say that respondents think that supervision correlates with the impact of MFIsô customers as far as the social living conditions of their customers in Rwanda are concerned.

Table 4. 67: Chi-Square Tests of the correlation between the supervision and the social living conditions

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	8.407(b)	1	.004		
Continuity Correction(a)	7.139	1	.008		
Likelihood Ratio	7.858	1	.005		
Fisher's Exact Test				.006	.005
Linear-by-Linear Association	8.347	1	.004		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September, 2011**

Table 4. 68: Supervision and economic living conditions Crosstabulation

			No correlation between internal auditors and economic living conditions		Total
			Agree	Disagree	
No correlation between independent auditors and economic living conditions	Agree	Count	9	20	29
		% within independent auditors and economic living conditions	31.0%	69.0%	100.0%
		% within internal auditors and economic living conditions	22.0%	20.4%	20.9%
		% of Total	6.5%	14.4%	20.9%
	Disagree	Count	32	78	110
		% within independent auditors and economic living conditions	29.1%	70.9%	100.0%
		% within internal auditors and economic living conditions	78.0%	79.6%	79.1%
		% of Total	23.0%	56.1%	79.1%
Total		Count	41	98	139
		% within independent auditors and economic living conditions	29.5%	70.5%	100.0%
		% within internal auditors and economic living conditions	100.0%	100.0%	100.0%
		% of Total	29.5%	70.5%	100.0%

Source: **Primary data, September 2011**

Table 4.67 shows the calculated Chi-Square value which is 8.407 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the supervision and the social living conditions of MFIsô customers. This test is statistically significant.

Table 4.68 shows that the respondents who agreed on the statement of no correlation between independent auditors and the economic living conditions of MFIsô customers in Rwanda were 9 (31%) out of 29 (100%); and those who agreed on the statement of no correlation between internal auditors and the economic living conditions of MFIsô customers in Rwanda were 9(22%) out 41(100%).

The respondents who disagreed on the statement of no correlation between independent auditors and the economic living conditions of MFIsô customers were78 (70.9%) out 110 (100%); and those who disagreed on the statement of no correlation between internal auditors and the economic living conditions of MFIsö customers in Rwanda were78 (79.6%) out 98(100%).

Table 4.68 shows that only 9(6.5%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the impact of MFIs on the customersô economic living conditions, while a total of 78(56.1%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these opinions, one may say that respondents think that supervision correlates with the impact of MFIsô customers as far as the economic living conditions of their customers in Rwanda are concerned.

Table 4. 69 : Chi-Square Tests of the correlation between the supervision and the economic living conditions

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.042(b)	1	.838		
Continuity Correction(a)	.000	1	1.000		
Likelihood Ratio	.041	1	.839		
Fisher's Exact Test				.823	.502
Linear-by-Linear Association	.041	1	.839		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.69 discloses the calculated Chi-Square value which is .042 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the supervision and the social living conditions of MFIsô customers in Rwanda. The test is not statistically significant.

Table 4. 70 : Supervision and number of customers Crosstabulation

			No correlation between internal auditors and number of customers		Total
			Agree	Disagree	
No correlation between independent auditors and number of customers	Agree	Count	20	20	40
		% within independent auditors and number of customers	50.0%	50.0%	100.0%
		% within internal auditors and number of customers	43.5%	21.5%	28.8%
		% of Total	14.4%	14.4%	28.8%
	Disagree	Count	26	73	99
		% within independent auditors and number of customers	26.3%	73.7%	100.0%
		% within internal auditors and number of customers	56.5%	78.5%	71.2%
		% of Total	18.7%	52.5%	71.2%
Total		Count	46	93	139
		% within independent auditors and number of customers	33.1%	66.9%	100.0%
		% within internal auditors and number of customers	100.0%	100.0%	100.0%
		% of Total	33.1%	66.9%	100.0%

Source: **Primary data, September 2011**

Table 4.70 shows that the respondents who agreed on the statement of no correlation between independent auditors and the increase of the number of MFIsô customers in Rwanda were 20 (50%) out of 40 (100%); and those who agreed on the statement of no correlation between internal auditors and the increase of the number of MFIsô customers in Rwanda were 20(43.5%) out 46(100%). The respondents who disagreed on the statement of no correlation between independent auditors and the increase of the number of MFIsô customers are 73 (73.7%) out 99 (100%); and those who disagreed on the statement of no correlation between internal auditors and the increase of the number of MFIsô customers in Rwanda are 73 (84.8%) out 93(100%).

Table 4.70 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the outreach of MFIs as far as the increase of the number of customers is concerned, while a total of 73(52.5%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From these respondentsô opinions, one may think that respondents think that supervision correlates with the outreach of MFIs as far as the increase of the number of their customers in Rwanda is concerned.

Table 4. 71: Chi-Square Tests of correlation between the supervision and the number of customers

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.250(b)	1	.007		
Continuity Correction(a)	6.218	1	.013		
Likelihood Ratio	7.028	1	.008		
Fisher's Exact Test				.010	.007
Linear-by-Linear Association	7.198	1	.007		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

The Table 4.71 shows the calculated Chi-Square value which is 6.250 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the supervision and the increase of MFIsô customers in Rwanda. This test is statistically significant.

Table 4. 72: Supervision and number of loans Crosstabulation

			No correlation between internal auditors and number of loans		Total
			Agree	Disagree	
No correlation between independent auditors and number of loans	Agree	Count	12	22	34
		% within independent auditors and number of loans	35.3%	64.7%	100.0%
		% within internal auditors and number of loans	33.3%	21.4%	24.5%
		% of Total	8.6%	15.8%	24.5%
	Disagree	Count	24	81	105
		% within independent auditors and number of loans	22.9%	77.1%	100.0%
		% within internal auditors and number of loans	66.7%	78.6%	75.5%
		% of Total	17.3%	58.3%	75.5%
Total		Count	36	103	139
		% within independent auditors and number of loans	25.9%	74.1%	100.0%
		% within internal auditors and number of loans	100.0%	100.0%	100.0%
		% of Total	25.9%	74.1%	100.0%

Source: **Primary data, September 2011**

Table 4.72 shows that the respondents who agreed on the statement of no correlation between independent auditors and the number of loans issued to MFIsô customers in Rwanda are 12 (35.3%) out of 34 (100%); and those who agreed on the the statement of no correlation between internal auditors and the number of loans issued to MFIsô customers in Rwanda were 12(33.3%) out 36(100%).

The respondents who disagreed on the statement of no correlation between independent auditors and the number of loans issued to MFIsô customers are 81 (77.1%) out 105 (100%); and those who disagreed on the statement of no correlation between internal auditors and the number of loans issued to MFIsôcustomers in Rwanda were 81(78.6%) out 103(100%).

The table 4.72 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the outreach of MFIs as far as the increase of the increase of loans is concerned, while a total of 81(58.3%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement.

From these views, one may say that respondents think that supervision correlates with the outreach of MFIs as far as the increase of loans issued to their customers is concerned in Rwanda.

Table 4. 73: Tests of correlation between the supervision and the number of loans

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2.070(b)	1	.150		
Continuity Correction(a)	1.473	1	.225		
Likelihood Ratio	1.983	1	.159		
Fisher's Exact Test				.178	.114
Linear-by-Linear Association	2.055	1	.152		
N of Valid Cases	139				

a Computed only for a 2x2 table

Source: **Primary data, September 2011**

Table 4.73 shows the calculated Chi-Square value which is 2.070 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is less than the critical value, the null hypothesis was accepted. Therefore, this test shows that there is no correlation between the supervision and the increase of number of loans to MFIsô customers in Rwanda. The test is not statistically significant.

Table 4.74: Supervision and debt recovery Crosstabulation

			No correlation between internal auditors and debt recovery		Total
			Agree	Disagree	
No correlation between independent auditors and debt recovery	Agree	Count	10	23	33
		% within independent auditors and debt recovery	30.3%	69.7%	100.0%
		% within internal auditors and debt recovery	47.6%	19.5%	23.7%
		% of Total	7.2%	16.5%	23.7%
	Disagree	Count	11	95	106
		% within independent auditors and debt recovery	10.4%	89.6%	100.0%
		% within internal auditors and debt recovery	52.4%	80.5%	76.3%
		% of Total	7.9%	68.3%	76.3%
Total		Count	21	118	139
		% within independent auditors and debt recovery	15.1%	84.9%	100.0%
		% within internal auditors and debt recovery	100.0%	100.0%	100.0%
		% of Total	15.1%	84.9%	100.0%

Source: **Primary data, September 2011**

Table 4.74 shows that the respondents who agreed on the statement of no correlation between independent auditors and the debt recovery by MFIs in Rwanda are 10 (30.3%) out of 33 (100%); and those who agreed on the statement of no correlation between internal auditors and the recovery by MFIs in Rwanda are 10(47.6%) out 21(100%).

The respondents who disagreed on the statement of no correlation between independent auditors and the recovery by MFIs in Rwanda were 95 (89.6%) out 106(100%); and those who disagreed on the statement of no correlation between internal auditors and the recovery by MFIs in Rwanda were 95 (68.3%) out 118(100%).

The table 4.74 shows that only 10(7.2%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the sustainability of MFIs as far as the debt recovery is concerned, while a total of 95(68.3%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed nor disagreed on the above mentioned statement. From these views, one may say that respondents think that supervision correlates with the sustainability of MFIs as far as the debt recovery is concerned in Rwanda.

Table 4.75: Chi-Square Tests of correlation between the supervision and the debt recovery

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.790(b)	1	.005		
Continuity Correction(a)	6.314	1	.012		
Likelihood Ratio	6.888	1	.009		
Fisher's Exact Test				.010	.008
Linear-by-Linear Association	7.734	1	.005		
N of Valid Cases	139				

a Computed only for a 2x2 table

***Source:* Primary data, September 2011**

The Table 4.75 shows the calculated Chi-Square value which is 7.790 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the supervision and the debt recovery of MFIs in Rwanda. The test is statistically significant.

Table 4. 76 : Supervision and profitability Crosstabulation

			No correlation between internal auditors and profitability		**Total**
			Agree	**Disagree**	
No correlation between independent auditors and profitability	Agree	Count	12	16	28
		% within independent auditors and profitability	42.9%	57.1%	100.0%
		% within internal auditors and profitability	70.6%	13.1%	20.1%
		% of Total	8.6%	11.5%	20.1%
	Disagree	Count	5	106	111
		% within independent auditors and profitability	4.5%	95.5%	100.0%
		% within internal auditors and profitability	29.4%	86.9%	79.9%
		% of Total	3.6%	76.3%	79.9%
Total		Count	17	122	139
		% within independent auditors and profitability	12.2%	87.8%	100.0%
		% within internal auditors and profitability	100.0%	100.0%	100.0%
		% of Total	12.2%	87.8%	100.0%

Source: **Primary data, September 2011**

Table 4.76 shows that the respondents who agreed on the statement of no correlation between independent auditors and the profitability of MFIs in Rwanda are 12(42.9%)

out of 28(100%); and those who agreed on the statement of no correlation between internal auditors and the profitability of MFIs in Rwanda are 12(70.6%) out 17(100%). The respondents who disagreed on the statement of no correlation between independent auditors and the profitability of MFIs in Rwanda were 106 (86.9%) out 111 (100%); and those who disagreed on the statement of no correlation between internal auditors and the profitability of MFIs in Rwanda were 106 (84.8%) out 122(100%).

Table 4.76 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the sustainability of MFIs as far as the profitability is concerned, while a total of 106(76.3%) out of 139(100%) disagreed on that statement. The remaining were the respondents who did neither agreed or disagreed on the above mentioned statement. From these views, one may say that respondents think that supervision correlates with the sustainability of MFIs as far as the profitability is concerned in Rwanda.

Table 4.77: Chi-Square Tests of correlation between the supervision and the profitability

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	30.639(b)	1	.000		
Continuity Correction(a)	27.171	1	.000		
Likelihood Ratio	24.258	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	30.419	1	.000		
N of Valid Cases	139				

a Computed only for a 2x2 table

***Source:* Primary data, September 2011**

Table 4.77 shows the calculated Chi-Square value which is 30.639 while the critical value is 3.841 at a degree of precision of 95%. Since the calculated value is greater than the critical value, the null hypothesis was rejected. Therefore, this test shows that there is a correlation between the supervision and the profitability of MFIsô customers in Rwanda. This test is statistically significant.

4.7 Discussion of Findings

In discussing the findings, the researcher wanted to accept or to reject the null hypotheses of the study. According to William (2007), the null hypothesis is rejected when the calculated values are greater than the critical values or when the Pvalues are less than the level of significance. In the study, the author used the critical value and the calculated values to give his position as far as the test to be or statistically significant.

4.7.1 Size of board of directors and performance of MFIs in Rwanda

Ho $_{(1)}$: There is no correlation between the size of the board of directors and the performance of microfinance institutions in Rwanda. This nul hypothesis can be split into six nul hypotheses as follows:

(i) There is no correlation between the size of the board of directors and the social living conditions of MFIs customers

The Table 4.18 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers social living conditions, while a total of 76(54.7%) out of 139(100%) disagreed on that statement. From these opinions, one may confirm that respondents think that board size correlates with social living conditions of MFIsô customers in Rwanda. From the Chi Square test, the researcher found that the test was statistically significant and led to reject this sub null hypothesis.

(ii) There is no correlation between the size of the board of directors and the economic living conditions of MFIs customers

The Table 4.20 shows that only 12(8.6%) out of 139 (100%) respondents agreed with the statement of no correlation between the board size and the impact of MFIs on the customers economic living conditions, while a total of 71(51.1%) out of 139(100%) disagreed on that statement. From these opinions, one may confirm that respondents think that board size correlates with economic living conditions of MFIsô customers in Rwanda. From the Chi Square test, the researcher found that the test was not statistically significant and led to accept this sub null hypothesis.

(iii) There is no correlation between the size of the board of directors and the increase of the number of MFIsô customers

The Table 4.22 shows that only 17(8.6%) out of 139(100%) respondents agreed on the statement of no correlation between the board size and the outreach of MFIs as far the increase of the number of customers is concerned, while a total of 68(48.9%) out of 139(100%) disagreed on that statement. From these opinions, one may confirm that respondents think that board size does not correlate with outreach as far as the increase of MFIsô customers is concerned in Rwanda. From the Chi Square test, the researcher found that the test was statistically significant and led to reject this sub null hypothesis.

(iv) There is no correlation between the size of the board of directors and the number of loans issued by MFIs to customers

The Table 4.24 shows that only 13(9.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the outreach of MFIs as far as the increase of the number of loans is concerned, while a total of 73(52.5%) out of 139(100%) disagreed on that statement. From these opinions, one may confirm that respondents think that board size correlates with the outreach of MFIs as far as the increase of number of loans is concerned in Rwanda. From the Chi Square test, the researcher found that the test was not statistically significant and led to accept this sub null hypothesis.

(v) There is no correlation between the size of the board of directors and the debt recovery by MFIs

The Table 4.26 shows that only 17(12.2%) out of 139 (100%) respondents agreed with the statement of no correlation between the board size and the sustainability of MFIs as far as the debt recovery is concerned in Rwanda, while a total of 68(49.8%) out of 139(100%) disagreed on that statement. From these opinions of respondents, one may confirm that respondents think that board size does not correlate with sustainability of MFIs as far as the debt recovery is concerned in Rwanda. From the Chi Square test, the researcher found that the test was not statistically significant and led to accept this sub null hypothesis.

(vi) There is no correlation between the size of the board of directors and the profitability of MFIs

The Table 4.28 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers living conditions, while a total of 38(27.3%) out of 139(100%) disagreed on that statement. From the respondentsô opinions, one may confirm that the board size does not correlate with sustainability as far as profitability of MFIs is concerned in Rwanda. From the Chi Square test, the researcher found that the test was not statistically significant and led to accept this sub null hypothesis.

Thought out the findings on the first hypothesis, the researcher found that the findings are mixed to the extent that for some subnull hypotheses of the tests were not statistically significant and whilst other tests were statistically significant. Thes findings support various empirical studies in terms of mixture as far as the link between the board size and the performance is concerned. Authors like Vafeas (2000) and Roselina (2007) reported that firms with smallest boards are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. To them there is a link between the board size and the corporate performance. Similar findings were reported by Dalton and Dalton (2005) saying that larger board size is likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality; thus increasing the performance of companies. These findings on board size support the empirical research of Morten *et al.,* (2006) which has established a negative relationship between board size and firm performance. Other authors Hermalin and Weisbach (2003) conclude that finding out the link on board size and corporate performance is an important topic for future research. This conclusion was due to the fact that the results for most of empirical studies were mixed as far as the link between the board size and the performance of MFIs.

4.7.2 Board composition and performance of MFIs in Rwanda

Ho $_{(2)}$: There is no correlation between the board composition and the performance of microfinance institutions in Rwanda. This second nul hypothesis can also be split into six other nul hypotheses as follows:

(i) There is no correlation between board composition and the social living conditions of MFs customers.

Table 4.42 shows that only 20(14.4%) out of 139 (100%) respondents agreed with the statement of no correlation between the board composition and the impact of MFIs on the customers social living conditions, while a total of 70(50.4%) out of 139(100%) disagreed on that statement. These respondentsô opinions show that there might be a correlation between the board composition and the impact of MFIs as far as the social living conditions of MFIsô customers are concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was statistically significant and led to reject the above sub null hypothesis.

(ii) There is no correlation between board composition and the economic living conditions of MFs customers.

Table 4.44 shows that only 15(10.8%) out of 139 (100%) respondents were in agreement with the statement that there was no correlation between the board composition and the impact of MFIs on the customers social living conditions, while a total of 67(48.2%) out of 139(100%) disagreed on that statement. These respondentsô views show that there might not be any correlation between the board composition and the impact of MFIs as far as the social living conditions of MFIsô customers are concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was not statistically significant and led to accept the above sub null hypothesis.

(iii) There is no correlation between board composition and the increase of the number of MFs customers.

Table 4.46 shows that only 16(11.5%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the outreach of MFIs as far the increase of the number of customers is concerned, while a total of 70(50.4%) out of 139(100%) disagreed on that statement. From these opinions, one may think that there might not be a correlation between the board composition and the outreach of MFIs as far as the the increase of MFIsô customers is concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was not statistically significant and led to accept the above sub null hypothesis.

(iv) There is no correlation between board composition and the increase the loans issued by MFs to customers.

The Table 4.48 shows that only 17(12.2%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the outreach of MFIs as far the increase of the number of loans issued to customers is concerned, while a total of 82(59%) out of 139(100%) disagreed on that statement. From these opinions, one may think that there might be a correlation between the board composition and the outreach of MFIs as far as the increase of the number of loans issued to customers is concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was statistically significant and led to reject the above sub null hypothesis.

(v) There is no correlation between board composition and the debt recovery by MFs.

Table 4.50 shows that 32(23%) out of 139 (100%) respondents agreed on the statement of no correlation between the board composition and the sustainability of MFIs as far as the debt recovery of MFIs is concerned, while a total of 107(77%) out of 139(100%) disagreed on that statement. From these opinions, one may think that there might be a correlation between the board composition and the sustainability of MFIs as far as the debt recovery is concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was statistically significant and led to reject the above sub null hypothesis.

(vi) There is no correlation between board composition and the profitability of MFs.

Table 4.52 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the board size and the impact of MFIs on the customers living conditions, while a total of 38(27.3%) out of 139(100%) disagreed on that statement. From the respondentsô opinions, one may confirm that the board size does not correlate with sustainability as far as profitability of MFIs is concerned in Rwanda. The Chi Square crosstabulation, the researcher found that the test was statistically significant and led to reject the above sub null hypothesis.

The findings on the second hypothesis were also mixed as far as the link between the board composition and the performance of MFIs in Rwanda. The results showed the tests which were statistically significant for some sub null hypotheses and for others the tests were not statistically significant. For instance, the test on the link between the board composition and the sustainability was statistically significant and for the other measures of performance, the tests were mixed. The findings support the findings of Roselina (2007) who said that in actual corporate scene outside directors are not aligned with the CEO; the CEO who is the highest ranking executive has no power on outside directors, since the CEO has no any influence on appointing these outside directors on board. This helps the outside board members to contribute towards effective monitoring of the CEO. Therefore boards with more outside members lead to enhancing firmsô performance since the agency problem decreases.

The findings of Dalton, et al. (1998) showed that board composition had no effect on firm performance and contradicted the work of Roselina. However, the report of Adrian Cadbury (1992) emphasized the contribution that independent non executive board members could make; boards should consider assigning a sufficient number of non executive board members capable of exercising independent judgement to tasks where there is a potential for conflict interest. The Cadbury code of best practice (1992) shows also the role of non-executive directors to bear on issues like strategy, performance and resources. In their findings, Kim et al. (2010) say that inside directors can add value because they are well informed about the company, whereas outside directors will act more quickly than inside directors if something goes wrong; but they may do wrong thing if their deliberations are not based on the information availed by inside directors. Thus the mixture will improve the performance.

4.7.3 Supervision and performance of MFIs in Rwanda

The crosstabulation tables showed the frequency on the respondentsô opinions about the whether or not there is a correlation between the supervision and the various variables of the performance of MFIs in Rwanda. These were the opinions of respondents on the fourth hypothesis of the study.

Ho $_{(3)}$: There is no correlation between the supervision and the performance of microfinance institutions in Rwanda.

This hypothesis is split into six other nil hypotheses as follows:

(i) There is no correlation between the supervision and the social living conditions of MFIs customers.

Table 4.67 shows that only 15(10.8%) out of 139 (100%) respondents agreed with the statement of no correlation between the supervision and the impact of MFIs on the customersô social living conditions, while a total of 84(60.4%) out of 139(100%) disagreed on that statement. From these opinions, one may say that respondents think that supervision correlates with the impact of MFIsô customers as far as the social living conditions of their customers in Rwanda are concerned.

Another group discussion met in the Kigali city revealed that *"MFIs have helped us to pay some school material of our children and the health insurance at the cell* *level. Some of us have built their own houses or refurbish them thanks to the MFIs. Indeed MFIs have been of great help to us, but the trust has not yet increased since the failure of some of them in 2006".*

The Chi Square crosstabulation allows the researcher found that the test was statistically significant and led to reject the above sub null hypothesis.

(ii) There is no correlation between the supervision and the economic living conditions of MFIs customers.

Table 4.69 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the outreach of MFIs as far as the increase of the number of customers is concerned, while a total of 73(52.5%) out of 139(100%) disagreed on that statement. From these respondentsô opinions, one may think that respondents think that supervision correlates with the outreach of MFIs as far as the increase of the number of their customers in Rwanda is concerned. The Chi Square crosstabulation allows the researcher found that the test was not statistically significant and led to accept the above sub null hypothesis.

One of the groups of clients I met in the Eastern province of Rwanda; after a long discussion on the improvement of their economic living conditions, they said:

> *"Since being clients of MFIs, some of us were shocked by the failure of MFIs in 2006 and did not trust at all the sector of Microfinance. We thought that people investing in MFI sector were coming to take our money and then after we struggle with the government of Rwanda to get reimbursed. After a while, we*

realised that the MFIs which are in our area were trustworthy, and then we joined them. Since and then, our lives have changed, these MFIs have given us short term loans for farming or setting small businesses and today we are very grateful to them".

(iii) There is no correlation between the supervision and the increase of the number of MFIs customers.

Table 4.71 shows that only 20(14.4%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the outreach of MFIs as far as the increase of the number of customers is concerned, while a total of 73(52.5%) out of 139(100%) disagreed on that statement. From these respondentsô opinions, one may think that respondents think that supervision correlates with the outreach of MFIs as far as the increase of the number of their customers in Rwanda is concerned. The Chi Square crosstabulation allows the researcher found that the test was statistically significant and led to reject the sub null hypothesis.

(iv) There is no correlation between the supervision and the increase of the number of loans issued by MFIs to customers.

The Table 4.73 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the outreach of MFIs as far as the increase of the increase of loans is concerned, while a total of 81(58.3%) out of 139(100%) disagreed on that statement. From these views, one may say that respondents think that supervision correlates with the outreach of MFIs as far as the increase of loans issued to their customers is concerned in Rwanda. The Chi Square crosstabulation allows the researcher found that the test was not statistically significant and led to accept the above sub null hypothesis.

(v) There is no correlation between the supervision and the debt recovery by MFIs.

The Table 4.75 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the sustainability of MFIs as far as the profitability is concerned, while a total of 106(76.3%) out of 139(100%) disagreed on that statement. From these views, one may say that respondents think that supervision correlates with the sustainability of MFIs as far as the profitability is concerned in Rwanda.

The Chi Square crosstabulation allows the researcher found that the test was statistically significant and led to reject the sub null hypothesis.

(vi) There is no correlation between the supervision and the profitability of MFIs.

The Table 4.77 shows that only 12(8.6%) out of 139 (100%) respondents agreed on the statement of no correlation between the supervision and the sustainability of MFIs as far as the profitability is concerned, while a total of 106(76.3%) out of 139(100%) disagreed on that statement. From these views, one may say that respondents think that supervision correlates with the sustainability of MFIs as far as the profitability is concerned in Rwanda. The Chi Square from the crosstabulation allows the researcher to conclude that the test was statistically significant and led to reject this sub-null hypothesis.

The findings on the third hypothesis were mixed as far as the link between the supervision and the performance of MFIs in Rwanda. The results showed the tests which were statistically significant for some sub null hypotheses and for others the tests were not statistically significant. For instance, the test on the link between the supervision and the sustainability of MFIs in Rwanda was statistically significant and for the other measures of performance, the tests were mixed.

The findings on this correlation support the work of Mallin (2010) who said that companies with internal audit function with strong reporting system may improve the performance of corporation as it is an eye for the CEO on how performing he is before any third person comes in. This is true when the CEO is willing to perform, because internal audit is under the supervision of the management.

The research findings support also the findings of Kim et al. (2010) who say that the external audit services are demanded as monitoring devices that reduce information asymmetries and agency costs between the companyôs managers and stakeholders by allowing a third (outside) party to verify the validity of financial statements.

In terms of what they think should be improved in the service rendered by MFIs in Rwanda; most of the focus groups met were aware of the role of the supervision of MFIs because they pointed out *"the strengthening of the supervision of MFI sector to avoid any loss from the customers, the investors, the suppliers and the government. They mentioned that the board should be of skilled people, the external auditors should be capable to alert the public about what is going wrong within the*

MFI sector. They added that the National Bank of Rwanda should play in an appropriate way its role of supervising the financial sector to restore the confidence of stakeholders in the sector".

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents what were the key findings, the conclusions, and the recommendations to all stakeholders in the MFIs industry in Rwanda.

5.2 Summary of findings

Thought out the findings on the first hypothesis and the first objective, the researcher found that the findings were mixed to the extent that for some sub null hypotheses of the tests were not statistically significant and whilst other tests were statistically significant. From this perspective, the objective number on was achieved as the study shown whether or not there is a correlation between the board size and the performance of MFIs in Rwanda.

The findings related to the second objective and the second hypothesis revealed that for some of the measured, there is a correlation and for others there is not, therefore the results on the hypothesis number two were also mixed as far as the link between the board composition and the performance of MFIs in Rwanda. The results showed the tests which were statistically significant for some sub null hypotheses and for others the tests were not statistically significant. For instance, the test on the link between the board composition and the sustainability was statistically significant and for the other measures of performance, the tests were mixed. As the objective number two was to determine whether or not there is a correlation between board composition and performance of MFIs was also achieved.

The findings related to the third objective and the third hypothesis revealed that for some of the measured, there is a correlation and for others there is not, therefore the results on the hypothesis number three were mixed as far as the link between the supervision and the performance of MFIs in Rwanda. The results showed the tests which were statistically significant for some subnull hypotheses and for others the tests were not statistically significant. For instance, the test on the link between the supervision and the sustainability of MFIs in Rwanda was statistically significant and for the other measures of performance, the tests were mixed. The results have shown for which measures there is a correlation and for which there is no correlation; from that the objective number three was achieved.

5.3 Implications of the results

1. For Policy makers

The results will help policy makers from Rwanda to design a policy on MFIs which is in line of strengthening the industry. In addition to that, the study will help policy makers to monitor properly the activities of MFIs in Rwanda in order to avoid any other failure which may cause trouble to stakeholders in the Micro finance industry.

2. For the Microfinance industry

The study has awaked their attention as far as the performance is concerned; the study will help the microfinance industry to set a proportion of board members outsiders in order to balance the insiders as far as the performance is concerned. In addition, shareholders will make sure the supervision is done rigorously so that the performance of MFIs may be achieved.

3. For academics

Academics may gain from these results in theory development in furthering the research on linking each of the three measures of the corporate governance to each of the concepts of the performance of MFIs. By replicating this study at other environment, it may help to develop a theory related to the link between corporate governance and performance of MFIs.

5.4 Conclusions

This study investigated the correlation between governance and performance of MFIs, with the case study of Rwanda. It was intended to find out the correlation between the corporate governance mechanisms and the performance of Rwanda MFIs industry. Four mechanisms were considered for the corporate governance, namely: the board size, the board composition, the non-CEO duality and the supervision. While the performance of MFIs was looked at through MFIơs triangle made by the impact, the outreach and the sustainability.

Basing on the findings of the study, the researcher concludes as follows:

On board size, there is a correlation between the board size and the social economic living conditions, and there is no correlation with the economic living conditions of customers of MFIs in Rwanda. Therefore the conclusions are mixed on the correlation between board size and the impact of MFIs on their customers.

The analysis of correlation between board size and outreach of MFIs in Rwanda, the researcher found that there is no correlation between the board size and the increase of the number of customers of MFIs in Rwanda. Similarly, there was no correlation between the board size and the increase of the number of loans issued to MFIs in Rwanda. As regards the findings on the link between the board size and the sustainability of MFIs in Rwanda, the conclusions are that there is no correlation between board size and the debt recovery. The same conclusions were found for the board size and the profitability of MFIs in Rwanda; the researcher found that there is no correlation between board size and profitability of MFIs.

On the board composition and the performance of MFIs in Rwanda, the researcher concluded that there is a correlation between board composition and the social living conditions of MFIsô customers. The researcher also concluded that there is no correlation between the board composition and the economic living conditions of MFIs in Rwanda. The findings on the correlation between board composition and impact of MFIs on customersô living conditions were also mixed.

The findings on the link between the board composition and the outreach of MFIs in Rwanda were as follows; the board composition was found to have no correlation with the increase of the number of customers. But it was found that board composition has a link with the increase of the number of loans issued to customers by MFIs in Rwanda; this conclusion is also mixed.

As far as the findings on the correlation between the board composition and the sustainability of MFIs in Rwanda are concerned, the researcher found that there is a correlation between the board composition and the debt recovery as well as with the profitability of MFIs in Rwanda.

The results on the correlation between the supervision and the performance of MFIs in Rwanda brought the researcher to conclude that; there is a correlation between the supervision of MFIs and the social living conditions of their customers in Rwanda. But the findings show that there is no correlation between the supervision and the economic living conditions of MFIsô customers in Rwanda. Therefore, these findings show a mixed conclusion on the correlation between the supervision and the impact of MFIs on their customersô living conditions.

The research findings on the link between the supervision and the outreach of MFIs in Rwanda, similarly the conclusion is mixed because; there is a correlation between the supervision and the increase of the number of customers of MFIs in Rwanda. In contrary, there is no correlation between the supervision and the increase of the number of loans issued by MFIs to their customers in Rwanda.

As regards the correlation between the supervision and the sustainability of MFIs in Rwanda, the findings were not mixed given that the researcher found a correlation between the supervision and the debt recovery as well as the profitability of MFIs in Rwanda. Basing on the research findings, there is still a lot for research in line with the link between corporate governance and performance of MFIs by extending the study to other countries in the region or elsewhere in the world, or even on the banking industry in Rwanda.

5.5 Recommendations

Basing on the findings and the conclusions of this study, the following recommendations were made:

1. To the Government of Rwanda

As findings show, the Government of Rwanda has to strengthen the MFIsô supervision and monitoring system, especially with certified external auditor; as mentioned earlier, some MFIs failed in the years 2005-2006 because of the lack of rigorous monitoring and regulatory mechanisms on the side of the central bank of Rwanda.

Rigorous monitoring system will enable MFIs to attain their performance objectives and targets. If external audit is strengthened, the CEOs will try to strengthen the internal auditing in order to show his or her performance to the board of directors and thus maintain his or her position.

Basing on the findings of this study, the Government of Rwanda should continue to implement the Non-CEO duality because when the CEO is also the chairperson of a company, the company tends to increase the agency problem; where by the CEO controls the board of directors, as a consequence, the role of supervising the CEO is lost by the board of directors. If such situation happens, the MFI will tend to the failure. To avoid that failure, the independence of the board of directors has to be kept as well as the non-CEO duality structure of the leadership should prevail.

2. To the MFIs board members in Rwanda

As the findings show, supervision is correlated to the sustainability of MFIs. Boards of directors should supervise the CEOs closely. This supervision will reduce the agency cost -which is one of the causes of the failure of MFIs, thus increasing the performance of MFIs. Once the performance increases the board of directors builds its reputation on the side of shareholders. To do so, board of directors has to set up specialized subcommittees, the audit committee, the nomination committee and the compensation committee, in order to strengthen its supervisory roles.

3. To the management of MFIs in Rwanda

As the management of MFIs plays a very big role in the performance of the economy, we recommend that senior managers should implement strategies set by their boards and work as a team in order to enhance the performance of the MFIs. Once the strategies are set, the management has to implement them. The implementation of those strategies will help both CEO and board of directors to attain the goals of the MFIs. Strategies may be good as stated, but if they are not implemented, they will loose their goodness status.

4. To the shareholders of MFIs

Because one of the ways of the resolving agency conflict is that of aligning the management and controllers by incentives, we therefore recommend that shareholders should provide incentives to board of directors. If board members are given incentives, they will tend to be committed to their job of supervising the CEO of the MFIs. If the CEO knows that the board of directors is committed to supervise him or her, then he or she will work hard in order to keep the performance high and keep the position.

As the CEO is the one who works on a daily basis in the MFIs, we recommend that shareholders should find time to discuss with the Management about some matters regarding the MFIs; and not only to always rely on board members for the evaluation of the CEO performance. This will make the board members work hard in order to show the shareholders that whatever they do matches with what the shareholders will find with the CEO. At the same time the CEO will feel comfortable by the fact that he or she meets the shareholders instead of working with intermediaries.

5.6 limitations of the study

The researcher encountered various challenges in conducting this study; such as the non responsiveness of some of the subjects under study but it was not a strong one given that 84.6% responded to the questionnaire. Another limitation was getting financial data which would help to strengthen the analysis, but the researcher is still having a thirsty of the financial data to link the corporate governance to the performance of MFIs in Rwanda. This limitation was due to lack of research mind set for the leadership of MFIs in Rwanda.

5.7 Area for Further Research

Given the findings and the conclusions, the researcher suggested the following areas for further investigation:

1. The first area of research could focus on the networking structures of MFIs as they grow. The research may look at the consequences, in terms of governance, of getting structured as a network;

2. The second research area could focus on the relationship between each corporate governance mechanism and each variables of the performance of MFIs especially using financial data;
3. The third research area could focus on which mechanism is really crucial at each stage of the development of any MFI;
4. The fourth research area could be the relationship between corporate governance and performance of non-profit organizations;
5. The fifth research area could focus on the ownership considerations on MFIsô boards, which comprise diverse types of people and are becoming ever more diverse.

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APPENDICES

Appendix I: Acceptance letter

Dear Respondent, to facilitate the access to your point of view on the different variables which the research is analysing, please would you like to tick the appropriate number corresponding to your identification and one of the numbers corresponding to your point of view regarding the variables under study? Your views will be used anonymously and for the only purpose of the study.

By ticking one of the numbers in the table, the researcher will understand your opinion as the numbers are explained as follows:

1. Strongly agree (First column)
2. Agree (Second column)
3. Neither agree nor disagree (Third column)
4. Disagree (Fourth column)
5. Strongly disagree (fifth column)

Thank you for your cooperation.

Gustave Tombola Masereri

PhD student at The Open University of Tanzania

Appendix II: Questionnaire

Identification of respondents

Question 1: Could you please indicate your gender?

1. Male
2. Female

Question 2: Could you please indicate the interval of your age?

1. Less or equal o 21
2. More than 21 and less or equal to 25
3. More than 25 and less or equal to 30
4. More than 30 and less or equal to 35
5. More than 35

Question 3: Could you please indicate your marital status?

1. Single
2. Married
3. Widow
4. Divorced

Question 4: Could you please indicate your study background?

1. Accounting
2. Finance
3. General Management
4. Economics
5. Other

Question 5: Could you please indicate your qualification?

1. PhD
2. Masterôs degree
3. Bachelorôs degree
4. Diploma
5. Secondary school leaving certificate

I. Opinions of respondents on variables under study

Question statement	**5**	**4**	**3**	**2**	**1**
Q1: There is no correlation between Small size of the board of directors and the social living conditions of MFIsô customers					
Q2: There is no correlation between Small size of the board of directors and the economic living conditions of MFIsô customers.					
Q3: There is no correlation between Small size of the board of directors and the increase of the number of MFIsô customers.					
Q4: There is no correlation between Small size of the board of directors and the increase of the number of loans of MFIsô customers.					
Q5: There is no correlation between Small size of the board of directors and the debt recovery in MFIs.					
Q6: There is no correlation between Small size of the board of directors and the profitability in MFIs.					
Q7: There is no correlation between the Big size of the board of directors and the social living conditions of MFIsô customers Q8: There is no correlation between the Big size of the board of directors and the economic living conditions of MFIsô customers.					
Q9: There is no correlation between the Big size of					

the board of directors and the increase of the number of MFIsô customers.					
Q10: There is no correlation between the Big size of the board of directors and the increase of the number of loans of MFIsô customers.					
Q11**:** There is no correlation between the Big size of the board of directors and the debt recovery in MFIs					
Q12: There is no correlation between the Big size of the board of directors and the profitability in MFIs.					
Q13: There is no correlation between the Outside/Independent/non executive members of the board of Director and the social living conditions of MFIsô customers.					
Q14: There is no correlation between the Outside/Independent/non executive members of the board of Director and the economic living conditions of MFIsô customers.					
Q15: There is no correlation between the Outside/Independent/non executive members of the board of Director and the increase of the number of MFIsô customers					
Q16: There is no correlation between the Outside/Independent/non executive members of the board of Director and the increase of the number of loans of MFIsô customers.					
Q17: There is no correlation between the Outside/Independent/non executive members of the board of Director and the debt recovery in MFIs.					
Q18: There is no correlation between the Outside/Independent/non executive members of the board of Director and the profitability in MFIs					
Q19: There is no correlation between the Inside/non independent/executive members of the board of director and the social living conditions of MFIsô customers.					

Q20: There is no correlation between the Inside/non independent/executive members of the board of director and the economic living conditions of MFIsô customers.					
Q21: There is no correlation between the Inside/non independent/executive members of the board of director and the increase of the number of MFIsô customers					
Q22: There is no correlation between the Inside/non independent/executive members of the board of director and the increase of the number of loans of MFIsô customers.					
Q23: There is no correlation between the Inside/non independent/executive members of the board of director and the debt recovery in MFIs.					
Q24: There is no correlation between the Inside/non independent/executive members of the board of director and the profitability in MFIs					
Q25: There is no correlation between the Independent auditing and the social living conditions of MFIsô customers.					
Q26: There is no correlation between the Independent auditing and the economic living conditions of MFIsô customers					
Q27: There is no correlation between the Independent auditing and the increase of the number of MFIsô customers					
Q28: There is no correlation between the Independent auditing and the increase of the number of loans of MFIsô customers					
Q29: There is no correlation between the Independent auditing and the debt recovery in MFIs.					
Q30: There is no correlation between the Independent auditing and the profitability in MFIs.					
Q31: There is no correlation between the Internal					

auditing of MFIs and the social living conditions of MFIsô customers					
Q32: There is no correlation between the Internal auditing of MFIs and the economic living conditions of MFIsô customers.					
Q33: There is no correlation between the Internal auditing of MFIs and the increase of the number of MFIsô customers.					
Q34: There is no correlation between the Internal auditing of MFIs and the increase of the number of loans of MFIsô customers.					
Q35: There is no correlation between the Internal auditing of MFIs and the debt recovery in MFIs.					
36 There is no correlation between the Internal auditing of MFIs and the profitability in MFIs.					

Appendix III: Interview guide

1. Staff of Central Bank of Rwanda and board members of selected MFIs

1) At what extent does small size of the board of MFIs correlate with the social living conditions of the MFIsô customers in Rwanda?

2) At what extent does small size of the board of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

3) At what extent does small size of the board of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

4) At what extent does small size of the board of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

5) At what extent does small size of the board of MFIs influence the debt recovery in MFIs in Rwanda?

6) At what extent does small size of the board of MFIs correlate with the profitability of MFIs in Rwanda?

7) At what extent does big size of the board of MFIs correlate with the social living conditions of the MFIsô customers in Rwanda?

8) At what extent does big size of the board of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

9) At what extent does big size of the board of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

10) At what extent does big size of the board of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

11) At what extent does big size of the board of MFIs correlate with the debt recovery in MFIs in Rwanda?

12) At what extent does big size of the board of MFIs correlate with the profitability of MFIs in Rwanda?

13) At what extent does outside board member of MFIs correlate with the social living conditions of the MFIsô customers in Rwanda?

14) At what extent does outside board member of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

15) At what extent does outside board member of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

16) At what extent does outside board member of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

17) At what extent does outside board member of MFIs correlate with the debt recovery in MFIs in Rwanda?

18) At what extent does outside board member of MFIs correlate with the profitability of MFIs in Rwanda?

19) At what extent does inside board member of MFIs correlate with the social living condition of the MFIs customers in Rwanda?

20) At what extent does inside board member of MFIs correlate with the economic living condition of the MFIsô customers in Rwanda?

21) At what extent does inside board member of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

22) At what extent does inside board member of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

23) At what extent does inside board member of MFIs correlate with the debt recovery in MFIs in Rwanda?
24) At what extent does inside board member of MFIs correlate with the profitability of MFIs in Rwanda?

25) What do you think should be improved in the service rendered by MFIs in Rwanda

2. Questions to staff of selected MFIs and inside board members

26) What do you think should be improved in the service rendered by MFIs in Rwanda as far as the corporate governance is concerned?

3. Questions to external and internal auditors

27) At what extent does the external audit of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

28) At what extent does the external audit of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

29) At what extent does the external audit of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

30) At what extent does the external audit of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

31) At what extent does external audit of MFIs correlate with the debt recovery in MFIs in Rwanda?

32) At what extent does external audit of MFIs correlate with the profitability

33) At what extent does the internal audit of MFIs correlate with the social living conditions of the MFIsô customers in Rwanda?

34) At what extent does the internal audit of MFIs correlate with the economic living conditions of the MFIsô customers in Rwanda?

35) At what extent does the internal audit of MFIs correlate with the increase of the MFIsô customer number in Rwanda?

36) At what extent does the internal audit of MFIs correlate with the increase of the MFIsô loans to their customers in Rwanda?

37) At what extent does internal audit of MFIs correlate with the debt recovery in MFIs in Rwanda?

38) At what extent does internal audit of MFIs correlate with the profitability?

39) What do you think should be improved in the service rendered by MFIs in Rwanda

4. Focus Group discussion with customers

40) How do you find the improvement of your economic living conditions since being a customer of MFIs?
41) How do you find the improvement of your social living conditions since being a customer of any MFI?
42) What do you think should be improved in the service rendered by MFIs in Rwanda

Appendix IV: Research clearance letter from OUT

THE OPEN UNIVERSITY OF TANZANIA

DIRECTORATE OF RESEARCH, PUBLICATIONS, POSTGRADUATE STUDIES AND CONSULTANCY

P.O. Box 23409
Dar es Salaam, Tanzania
http://www.openuniversity.ac.tz

Tel: 255-22-2666752/2668445 ext.2101
Fax: 255-22-2668759
E-mail: drpc@out.ac.tz

07th January, 2011.

TO WHOM IT MAY CONCERN

RE: UNIVERSITY STUDENT RESEARCH CLEARANCE

The Open University of Tanzania was established by University Charter of 2007, which became operational on 1st January, 2007. One of the mission objectives of the University is to generate and apply knowledge through research. For this reason the staff and students undertake research activities from time to time.

To facilitate the research function the Vice Chancellor of the Open University of Tanzania was empowered to issue research clearance to both staff and students of the university on behalf of the Government of Tanzania and the Tanzania Commission for Science and Technology.

The purpose of this letter is to introduce to you **Mr. Tombola Masereri Gustave** a PhD student of the Open University of Tanzania with Reg. No. **HD/B/647/R.10** By this letter **Mr. Tombola Masereri Gustave** has been granted clearance to conduct research in the country **(Rwanda)**, after presenting his proposal successful today on 07th January, 2011. The title for his research is **" Governance and Performance of Microfinance Institutions: A case of a Post conflict country Rwanda ".** Please accord him all the support he may need to make his data collection activity a success. In case you may require further information on the researcher, please contact:

The Deputy Vice Chancellor (Academic)
The Open University of Tanzania
P.O. Box 23409
Dar es Salaam
Tel: 022-2-2668820

We thank you in advance for your cooperation and facilitation of this research activity.

Yours sincerely,

Prof. S. Mbogo
For: VICE CHANCELLOR

Appendix V: Letter asking for data collection permission from the National Bank of Rwanda

Lecturer Gustave Tombola Masereri
Kigali Independent University **(ULK)**
P.O.Box 2280 Kigali
Tel: 0788304086
E mail: tomgust74@yahoo.fr
PhD student

FOR RECEPTION
B.N.R...Courrier
14 MAR 2011
Signature.......

HD/B/647/R.10

To: The Governor of the National Bank of Rwanda
Kigali/Rwanda

Through: The Rector of Kigali Independent University
Kigali/Rwanda

Subject: Conduct a PhD research on Microfinance Institutions In Rwanda

I have the pleasure to come to you with the above mentioned subject.

In fact, I am pursuing my PhD programme at the Open University of Tanzania; I presented successfully my proposal on the 7th of January, 2011 at the University and I was given a go ahead letter for data collection. The topic of my thesis is **"Governance and performance of Microfinance institutions: Case study of Rwanda".**

It is in this line that I am asking for a letter which allows me to conduct the research in the entire country through some MFIs which I will select as my sample. You will find attached the letter given by the Open University of Tanzania.

I thank you in advance for your positive response.

Gustave Tombola Masereri
Lecturer at ULK and PhD Student

Appendix VI: Data collection permission from the National Bank of Rwanda

Banque Nationale du Rwanda
National Bank of Rwanda

BNR

Financial Stability Directorate

OUR/REF *: 2000/2011-051/UL/ul* *Kigali, March 28th, 2011*

TO WHOM IT MAY CONCERN

RE: Conduct a PHD research on Mirofinance institutions in RWANDA.

Mr. Gustave TOMBOLA MASERERI is a lecturer at Kigali Independent University and he is pursuing his PHD program at the Open University of Tanzania.

The topic of his thesis is «**Governance and performance of Microfinance institutions: case study of RWANDA**»

In this connection, the National Bank of Rwanda has no objection for him to conduct the research in the entire country with MFIs selected in his sample.

Yours sincerely,

SERUGERO Jean Damascène
Principal Inspector
Microfinance Supervision Department

NTARE U. Joy
Acting Senior Director
Financial Stability Directorate

B.P 531 Kigali – Rwanda Tél. : (00250) 59 14 2200 / 59 14 2231 (30 lignes)/ 08 17 2200 / 08 17 2231 (30 lignes) Fax : (00250) 57 25 51/ 57 73 91
E-mail : info@bnr.rw Site Web : www.bnr.rw

Appendix VII : Chi Square (critical values)

Degrees of Freedom	Probability, p				
	0.99	**0.95**	**0.05**	**0.01**	**0.001**
1	0.000	0.004	3.84	6.64	10.83
2	0.020	0.103	5.99	9.21	13.82
3	0.115	0.352	7.82	11.35	16.27
4	0.297	0.711	9.49	13.28	18.47
5	0.554	1.145	11.07	15.09	20.52
6	0.872	1.635	12.59	16.81	22.46
7	1.239	2.167	14.07	18.48	24.32
8	1.646	2.733	15.51	20.09	26.13
9	2.088	3.325	16.92	21.67	27.88
10	2.558	3.940	18.31	23.21	29.59
11	3.05	4.58	19.68	24.73	31.26
12	3.57	5.23	21.03	26.22	32.91
13	4.11	5.89	22.36	27.69	34.53
14	4.66	6.57	23.69	29.14	36.12
15	5.23	7.26	25.00	30.58	37.70
16	5.81	7.96	26.30	32.00	39.25
17	6.41	8.67	27.59	33.41	40.79
18	7.02	9.39	28.87	34.81	42.31

19	7.63	10.12	30.14	36.19	43.82
20	8.26	10.85	31.41	37.57	45.32
21	8.90	11.59	32.67	38.93	46.80
22	9.54	12.34	33.92	40.29	48.27
23	10.20	13.09	35.17	41.64	49.73
24	10.86	13.85	36.42	42.98	51.18
25	11.52	14.61	37.65	44.31	52.62
26	12.20	15.38	38.89	45.64	54.05
27	12.88	16.15	40.11	46.96	55.48
28	13.57	16.93	41.34	48.28	56.89
29	14.26	17.71	42.56	49.59	58.30
30	14.95	18.49	43.77	50.89	59.70