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Tanzania Institute of Accountancy (TIA)
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Corporate Governance and Firm Performance: Evidence from Microfinance Institutions in Tanzania

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Abstract

This study examined the impact of corporate governance on the performance of a firm. Two elements of corporate governance were involved namely the board of directors composition and audit committee composition which were assessed to find out their relations to Microfinance Institutions' (MFIs) financial performance. This study was done to contribute specific insights to the relationship and influence of corporate governance on firm performance especially due to limited literature in Tanzania. The study used a cross-sectional design, in which data were collected at a single point in time. Quantitative data were collected from 80 CEOs/Managers of MFIs under study. The study found that most of the respondents, which is equivalent to 66.2%, had the title of managers or supervisors and 17.4% were the CEOs/Directors. Moreover, MFIs agreed to have boards with independence (M=4.48, SD=0.49) and gender diversity (M=4.67, SD=0.41). Moreover, MFIs agreed to have an audit committee with members who had accounting/auditing/finance expertise. The findings from regression results further show that the relationship was significant between board composition (board independence and gender and geographical diversity) and audit committee composition (educational background and experience in microfinance issues) with the firm's performance. The study concludes that corporate governance influences the financial performance of MFIs in Tanzania. The study recommends that MFIs and policymakers should ensure that the board of directors is characterised by independence and gender and geographic diversity. Also, the audit committee should comprise members who are experts in microfinance to enhance performance.

Key words: *Corporate governance, Performance, Microfinance Institutions*

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1.0 Introduction
Microfinance Institutions (MFIs) are institutions that offer financial services to low-income people or customers from poor communities, but also self-employed people (Brau and Woller, 2004). Savings and credit are the most popular financial services, although some microfinance institutions provide insurance and payment services (Naz *et al*., 2016). MFIs are important in the economic development of a country as they play a great role including providing small loans to their customers, job prospects, and capacity building for borrowers through the provision of various skills on how to use loans, as well as entrepreneurial and managerial skills (Mlowosa *et al*., 2014). Despite the mentioned importance and contribution of MFIs to the society and nation at large, the shift in focus on measuring MFIs performance came as a result of the failure of most of the MFIs donor-funded projects due to high rates of default, inadequate management of funds, and lack of understanding among the community members served about how to properly use the funds allocated to them (Cull *et al.,* 2009). Furthermore, most of the MFIs, while expected to generate value over the long term, do not survive in the market for several years. Despite the fact that they are expected to grow and move from one level to another, they are stagnant due to factors such as the capacity to manage finances and loans, as well as to follow financial policies and procedures (Matinde, 2013). Various initiatives have been taken to assist and ensure that MFIs improve and continue to generate value, and they include but are not limited to supervision and regulation, as well as the maintenance and development of standards and building capacity to MFIs (Matinde, 2013).

Even though MFIs have a remarkable contribution to national development, most of them have found themselves in a difficult position (failing) due to, among other things, high rate of loan defaulters, poor management of funds, and lack of awareness of better use of funds (Mlowosa *et al*., 2014). However, among these factors behind the poor performance of MFIs, corporate governance is not mentioned despite being insisted by the Capital Market and Securities Authority (CMSA) that it is a factor behind good performance of the institutions. Among the requirements for MFI registration in the country is corporate governance. CMSA insists on corporate governance on all financial institutions including MFIs to improve their performance. Corporate governance is insisted as it is believed to pave way for the success of the MFIs. To reduce the rate of failures, MFIs are supposed to be guided by some sort of principles. Corporate governance is among them (Microfinance Regulations, 2019). The corporate governance guideline stipulates that each MFI should be composed of a board of directors. Each of these boards should have members with diverse characteristics and educational backgrounds. Besides, there should be an audit committee that oversees various governance matters of the board thus the composition of this committee also matters. It is out of this understanding that , this study focused on the corporate governance components (board and audit committee composition) that they might be the cause of the difficult position the institutions are facing i.e. low relative productivity and low profitability (Kipesha, 2013).

The growth of the corporate governance literature reflects a growing awareness of the critical nature of sound corporate governance (Kumar, 2010; Mallin, 2010; Thrikawala, 2013; Kenani, 2018). The countless reforms and standards produced not only at the national level but also at the global level, illustrate the crucial role of good governance (e.g. the Sarbanes-Oxley Act in the US, Combined Code in the UK, and the Organisation for Economic Development [OECD] Code) (Cull *et al.,* 2009). Corporate governance is typically characterised in economic and strategic management literature as the tool that assists organisations in limiting the effects of agency problems (Kenani, 2018). Due to the downfall of Enron and other corporate scandals in America and Europe that started in October 2001 up to date, shareholders' confidence in the marketplace has been shaken. Thus, those charged with governance, investors, and government regulators have urged companies to put greater emphasis on corporate governance practices at various levels, including finance, accounting, economics, management, and law (Esra and Allam, 2015). It is critical to recognise that a successful corporate governance framework supports decision-making, accountability, and responsibility both within and beyond the organisation (Kenani, 2018). Corporate governance is efficient when it balances the interests of many stakeholders, when decision-making is logical, informed, and transparent, and when it adds to the organisation's overall efficiency and effectiveness (Esra and Allam, 2015). Countries across the globe are increasingly embracing corporate governance approaches due to their demonstrated potential to favourably improve organisational performance (Kenani, 2018). In Tanzania, the concept of corporate governance has been more emphasised to listed financial institutions on DSE (Mori and Olomi, 2012). All listed institutions, when preparing their annual report, are required to include the report on governance issues as prescribed in the CMSA guideline. Thus, basing on the forgoing, it is noted that little emphasis has been put on unlisted financial institutions including Microfinance Institutions (MFIs). According to Matinde (2013), among the businesses which practice corporate governance and are crucial to them, are Microfinance Institutions.

Similarly, past researches inside and outside Tanzania indicate that corporate governance is important and influences the success of an institution/organisation. Nevertheless, those studies focused not only on different components of corporate governance but also their findings are conflicting and others were not linked with the performance of MFIs (Mavika, 2013; Naz *et al*. 2016; Laswai, 2017; Matemu, 2020). This highlights the need to researching to determine the impact of appropriate corporate governance on MFIs' performance in Tanzania. Moreover, Vishwakarma (2015) argued that the following governance factors are important for the success of a financial institution. These are: ownership (both institutional and managerial), the board size, board composition and structure, CEO attributes, auditing, and the market for corporate control. These factors are all important aspects of an efficient governance structure. Thus, the main focus of this study was on the impact of the board of directors' composition and audit committee composition on the performance of microfinance institutions.

2.0 Literature Review

While various studies have been conducted to evaluate the link between corporate governance practices and business performance, scholarly studies on corporate governance in the microfinance industry have been scarce. The empirical examination of strong corporate governance practices in connection to MFIs is still in its infancy. Therefore, it is critical to conduct further research in this area to aid in the growth of MFIs (Thrikawala, 2013).

2.1 Theories Underpinning the Study

2.1.1 Agency Theory

This theory was developed by Jensen Michael in 1976 and it postulates that management and the shareholders of the firm differ in terms of their interest, that is management actions are for their own interest thus the shareholders of the company need to form the governing board (board of directors) with the main objective of monitoring the actions of managers to make them be in line with the shareholders' interest. Thus, this theory suggests that for the management to be monitored effectively there is a need to have the governing board (Jensen & Meckling, 1976). The assumption to this theory is that the core issue is the conflict of interest between shareholders and the management of the firm. Therefore, the agency problem exists if the principal like shareholders or owners employ the agent, such as Chief Executive Officer (CEO) and the management to direct the entity on behalf of the principal. Generally, this theory assumes that between shareholders and management, conflict of interest is probable. Hence, following the agency theory, corporate governance in the form of principles, director's remuneration, monitoring and evaluation and other mechanisms is needed to align the interests of the principal and agent (Deloitte & Universiteit, 2016).

2.1.2 Stakeholder Theory

The stakeholder theory holds that the company is composed of the social entities where the influence by the success of its goals are those parties like government agencies, political and charitable groups, trade unions, communities and associations, related corporations and general public at large that should be involved (Yusoff & Alhaji, 2012). This theory's main assumption is that the core friction is that the good performance of companies highly depends on the contributions brought about by other different parties and not only those parties within the company. These stakeholders include the shareholders and other parties (employees, suppliers, creditors) who have stake within the company and therefore it is the management's duty to ensure that there is the balance between these interests. But at the same time, shareholders will thrive to influence the firm's management to achieve their goal of wealth maximisation, and their expectations. Hence, following stakeholder theory, corporate governance is important as it makes sure that the voice of stakeholders is heard and that information about the company is distributed equally to all stakeholders (Deloitte & Universiteit, 2016).2.2.

2.2 Empirical Literature Review

2.2.1 Influence of Board Composition on the Firm's Performance

There are different empirical studies with different perceptions on corporate governance characteristics and firm performance. These studies are both local and international. On the study of quality of corporate governance of Tanzania listed firms, Matinde (2013) realised that, for best performance, the board of directors of the company is expected to contain a mixture of both internal and outside members known as "independent directors" and if the board is composed of a large number of independent directors, then good corporate decisions are expected from it since there will be different views and ideas on directing the firm's operations. Laswai (2017) assessed how corporate governance relates to firm worth and the study revealed that there is a positive relationship between executive directors and firm value. Similarly, Ahmed and Hamdan (2015) using components such as board diversity, board independence, and management remuneration, analysed the link between financial performance and corporate governance in MFIs in Bahrain Bourse. According to their findings, a more diverse board is better for financial stability, whereas a big independent board is less so. However, the contextual and variable combination differences between the study and the current one necessitated this research.

Laswai (2017) assessed the impact of corporate governance and firm value and one of the variables was the percentage of independent directors and firm value where the study revealed that there was a positive and significant relationship between number of executive directors and firm value. Theoretically, the Board of directors should improve performance. Empirical research looking at the link between outside directors and company success has shown conflicting results. Independent boards, according to agency theorists, are necessary to improve a company's success (Dalton and Dalton, 2013). Specifically, Dahya and McConnell (2008) found a link between business success and the percentage of outside directors. They found a favourable correlation between business performance and the percentage of outside directors, as shown in their study. However, other researches on corporate governance and business performance have shown little evidence that an independent board improves the firm’s performance (Bhagat and Bolton, 2008). Because there is a widespread agreement that the business needs a balance between its internal and external directors, additional investigation into this issue is needed.

Firoozi et al. (2016) revealed that the firm’s reporting quality is affected by the board diversity through two dimensions that were measured which are geographical and gender diversity. It was observed that companies with high geographical diverse independent directors perform better and in addition, firms with a high diversity of geographical audit committee members have lower financial reporting quality. It was also found that there is no link between gender diversity and the quality of financial reporting (Abdullah et al., 2016). These disagreements would necessitate further investigation to understand the position of MFIs performance as far as the board composition is concerned. However, according to resource dependency theory, theoretically, it has been assumed that the inclusion of board members who are women reassures stakeholders of the company's diversity, credibility, and relation with its external world, (Lückerath-Rovers, 2013). Furthermore, the agency theory's proponents argue that having female directors in the board helps the organisation reduce agency expenses because it brings new perspectives and it capability of making complex decisions (Carter et al., 2003). Therefore, basing on these arguments, it is hypothesised that:

> Hypothesis 1: There is no significant relationship between the board composition and the performance of MFIs in Tanzania.

2.2.2 Influence of Board Audit committee on Firm Performance

Few pieces of research have looked into the link between audit committees and company performance. Abbott et al. (2004) in their study on characteristics of audit committees and restatements, revealed that the independence of the audit committee and activity level (a proxy for audit committee diligence) have a serious and negative relationship with the occurrence of the restatement. It was further observed by Ntim (2015) that expanding the audit committee size would lead to higher financial performance, as extensive discussion of the company's financial statements will lead to more suggestions about reports and will guide to raise the firm's performance. Further, Qinghua et al. (2007) conducted a study on the characteristics of the audit committee, the board of directors, and the quality of financial reporting. The study observed that companies with a board audit committee were likely to generate high-quality accounting information. Nevertheless, these studies focused on confirmation and not performance. Moreover, they also focused only on committee size thus leaving out other characteristics. Finally they focused on the quality of accounting information but not on financial performance. However, there is some conflicting evidence from other scholars' work. On this regard, Klein, (1998) revealed that the quality of accounting reports is not affected by the presence of audit committee. Based on the arguments stated, the following hypothesis was formulated:

> Hypothesis 2: There is no significant relationship between audit committee composition and the performance of MFIs in Tanzania.

2.3 Conceptual Framework

The conceptual framework used in this study was adopted from Microfinance Regulations (2019) and CMSA guidelines (2002) and modified through theoretical and empirical literature review. A collection of logical ideas and concepts that have been ordered in such a way that they may be communicated to others is referred to as the conceptual framework (Matemu, 2020). In this study, the performance of the MFI/output is the dependent variable, while corporate governance (which consists of board composition and audit committee) is an independent variable. The framework explores the existing relationship between the board composition and the audit committee composition.

3.0 Research Methodology

3.1 Research Design and Study Area

To test the hypothesised relationship, an explanatory cross-sectional design to observe the causal relationship between corporate governance and the financial performance of microfinance institutions were applied. A cross-sectional survey gathers data to conclude a target population (universe) at a specific point in time (Setia, 2016). This study employed a quantitative approach which was considered appropriate to meet the demands of research questions that guided the study. Moreover, the specific objectives necessitated the use of a quantitative approach since they focused on testing the relationship between variables which requires a quantitative model like linear regression to meet the objectives. The approach enabled the use of random sampling and ensured efficiency and speed during data collection (Kothari and Garg, 2014).

According to the Bank of Tanzania; to date, there are 576 fully licenced and operating MFIs Tier 2 in the country. However, more than 100 of them are located in Dar es Salaam. This study was conducted on MFIs-members of the Tanzania Association for Microfinance Institutions (TAMFI) located in Dar es Salaam, which were 106 at the time of data collection (TAMFI, 2021). The researchers decided to choose this study area because the region is the fastest growing commercial city in Tanzania and most of the businesses are located within this city. Given this fact, therefore, there is a wide range of microfinance institutions located within the city. However, most of them do not perform well. TAMFI has 106 registered members and is one of MFIs included in the sample size.

3.2 Sample Size and Sampling Techniques

This study used Cochran's (1963) formula for sample size determination which was considered suitable for this research. The formula as such allows to compute optimum sample size, provides a desired level of confidence, and the expected ratio of the attribute present in the population. Also, the sample size can be reduced slightly if the population is small (Cochran, 1963). The population for this study was the MFIs of Dar es Salaam city which, according to TAMFI, amounted to 106 at the time of this study.
The following formula was used to determine the sample size:

$n = N/ (1+Ne^2)$ ……………………………………………(1)
Where: N = Population = 106, n = Estimated Sample Size, and e = Error term (percentage) = 5% (0.05). Therefore, the calculated sample size was: $n = 106/ (1+106 \times 0.05^2) = 106/1.265 = 83.8$

Therefore, the sample size was 84 microfinance institutions. Furthermore, the unit of inquiry included the management (Chief Executive Officer or any Senior Officer or Manager) or their representatives from the sampled MFIs.

This study used simple random sampling since it reduces bias and gives an equal chance of being nominated each member of the population. It was also used because the sampling frame was available. In addition, it provides statistical inference about a population (Kothari and Garg, 2014). This technique was adopted because members of the population had the same characteristics (homogeneous). The sampling was done by generating random numbers from the computer using the 106 respondents from the sampling frame. The random sampling was adopted to reduce bias. Thus, each respondent who was assigned the generated number by an independent person was included in the sample. The sample size finally was 84. However, due to reasons beyond the researcher's capability (availability of the respondents), the data were collected from only 80 respondents. The researcher used questionnaires. The questions were formulated including a five-point Likert scales 1 strongly disagree and 5 strongly agree. For scale reliability, Alpha value was found to be 0.825 which is within the range of good scale reliability (Mohajan, 2017).

3.3 Model Specification

This study used descriptive and multiple regression analysis as applied by Matemu (2020). Statistical Package for Social Sciences (SPSS) was used to aid with data analysis; mean and standard deviation were used in descriptive analysis.

Return on Asset (ROA) is the ratio of net income to the book value (carrying amount) of total assets. It measures entity's capacity to use its assets to generate returns. Leverage, uncommon or unique objects, and other optional elements have no effect on ROA (Core *et al*., 2006). As a result, operating profit is calculated using ROA.

ROA was used as an indicator of financial performance.

Mathematically, ROA= $\dfrac{\textit{Net Income}}{\textit{Total Asset}}$ *…………………………………………..(2)*

Inferentially, the following multiple regression equations were utilised in the study. There are two independent regression models (Equation 3 and 4). Xs are geographical diversity, gender diversity and board independence for board composition (bc). Regression model and, Xs are education background and experience in the audit committee composition model.

The equations for the research model:

$Y_{bc} = \alpha + \beta_1 GENDIV + \beta_2 GEOGDIV + \beta_3 BIND + \varepsilon$ …………..(3)

Where:

The dependent variable (ROA in this case) is Y_{bc},

The independent variables: GENDIV (stands for gender diversity), GEOGDIV (stands for geographical diversity and BIND (stands for board independence)

βs are the coefficients for the individual influence of gender diversity, geographical diversity and board independence (Xs) on the financial performance of MFIs in the board composition (Y_{bc}) regression model.

$Y_{acmeet} = \alpha + \beta_1 EDUCLEVEL + \beta_2 MICROFEDUC + \beta_3 WORKEXPER + \varepsilon$……………(4)

The independent variables; EDUCLEVEL (stands for formal education level), MICROFEDUC (stands for microfinance education and WORKEXPER (stands for work experience)

βs are the coefficient for the education background (including formal- $\beta_1$and microfinance education -β_2) and work experience- β_3 influence on the financial performance of MFIs in the audit committee composition (Y_{acmeet}) model.

The intercept is α, in a particular model and

The random error variable is ε.

The beta coefficient of the independent variables is $\beta 1 \ldots \beta n$ (Bonna, 2011).

Response Rate

A total of 84 questionnaire copies were administered to the CEO/Manager or their representatives of the sampled MFIs. The study picked one participant who was either a manager, director, or any representative of the MFI (which could be accountants, loan officers, insurance officers, administrative officers, advocate-lawyers or supervisors). However, a total of 80 (95.2%) of the questionnaire copies were returned duly filled out. Consequently, the response rate of the study was 95.2%. According to Hair et al., (2016), the threshold value for response rate should be higher than 50%. This suggests that the response rate for the study was good.

4.0 Results and Discussion

4.1 Descriptive Statistics

4.1.1 Position of the Respondents in the Microfinance Institution

The respondents were requested to indicate the position they were holding within their organisations. The study findings on this show that most of the respondents, about 53 which is equivalent to 66.2% had the title of manager or supervisor and 14 respondents, equivalent to 17.4%, were the CEOs/Directors. The rest were representatives. This implies that data were collected from the right people who were considered to possess the required and adequate insight on the information about the respective MFIs and they might have understanding of corporate governance (Table 1).

Table 1: Respondents' Position in the Microfinance Institution

Position	Frequency	Per cent
Chief executive officer/directors	14	17.4
Manager/supervisors	53	66.2
Accountants	5	6.2
Loan officers	3	3.8
Insurance officers	1	1.3
Advocate-lawyers	3	3.8
Administrative officers	1	1.3
Total	**80**	**100.0**

Source: Research Findings (2021)

4.1.2 Tier/Category of the MFI

The results indicate that most of the microfinances were under the category/tier of microfinance services providers (n =71, 88.7%) compared to other categories. This implies that the study used and obtained the required information for this analysis and so, the findings reflect microfinance matters (Table 2).

Table 2: The Tier/Category of the Microfinances

Category	**Frequency**	**Per cent**
Banks and Microfinance Bank	3	3.8
Microfinance service providers	71	88.7
Savings and Credit Cooperatives (SACCOs)	6	7.5
Total	**80**	**100.0**

Source: Research Findings (2021)

4.1.3 Composition of the Board of Directors

The study further investigated the impact of the composition of the board of directors on MFIs' performance. The results are indicated in Table 3

Table 3: Board Composition

Statement	Mean (M)	Standard Deviation (SD)
Board Independence		
The MFIs is managed by the board which has at least two thirds of its members being non-executive directors	4.51	0.494
The Board is made up of a healthy combination of executive and non-executive directors.	4.49	0.495

External board members act as a better monitor because they have greater exposure and experience	4.44	0.492
Average Mean	**4.48**	**0.494**
Gender Diversity		
The MFI has a board member who is a female	4.33	0.468
Female board members provide different monitoring expertise and competence.	4.88	0.302
In terms of board diversity, having female members in the board of directors, helps to improve the MFI's efficiency.	4.78	0.404
In terms of board diversity, having female members in the board of directors, helps to improve the MFI's performance.	4.67	0.461
Average Mean	**4.67**	**0.41**
Geographical Diversity		
The MFI has a board member who is a foreigner.	1.44	0.492
International board members help to improve MFI monitoring resource provision and performance.	2.37	0.479
Due to their exposure, foreign board members provide the required technical advice for improving MFI performance.	2.01	0.577
Average Mean	**1.94**	**0.516**

Pearson correlation: 0.279 P value: 0.012
Source: Research findings (2021)

The average found, M=4.48 and SD =0.494, implies that the respondents strongly agreed on the fact that board composition in terms of a healthy combination of executive and non-executive directors in the board that MFIs were being managed by the boards which had at least two-thirds of its members being non-executive directors and external board members who were acting as good monitors of MFIs operations thus influencing the MFIs' performance. The board which was composed of both gender had an average (M=4.67, SD =0.41). This implies that the respondents strongly agreed that MFIs' performance was being enhanced by gender diversity. With regard to whether geographical diversity of board members was important, the average was M =1.94, SD =0.516). The opinion variation was minimal as evidenced by the standard deviation which was generally low. Pearson correlation coefficient was positive and significant ($P \leq 0.05$).

4.1.4 Audit Committee Composition

The study also investigated the impact of the composition of the audit committee on MFIs performance. The results are indicated in Table 4 and Table 5.

Table 4: Audit Committee Composition

Statement	Mean (M)	Standard Deviation (SD)
The audit committee has been formed by the MFI.	4.84	0.371
The audit committee is made up entirely of non-executive independent directors.	4.82	0.386
The audit committee does not include the CEO and the chairperson of the board of directors.	4.68	0.471
The audit committee is composed of members with accounting/auditing/finance expertise.	4.52	0.504
The audit committee is composed of members with Microfinance experience or experience in Financial Institutions like bank.	3.71	1.091
Because of their experience, the audit committee conducts a thorough analysis of the work of external auditors, including a review of financial statements.	3.38	0.752
Average	**4.33**	**0.596**

Pearson Correlation -0.265 P value 0.017
Source: Research findings (2021)

The average, (M = 4.33, SD = 0.596), implies that study respondents strongly agreed with the fact that audit committee composition in terms of being composed of non-executive directors, the CEO being not a member, the members with accounting/auditing/finance expertise as shown by (M = 4.82, SD = 0.386), (M = 4.68, SD = 0.471), (M = 4.52, SD = 0.504) respectively was important in the performance of MFIs. These findings concur with Abdullah et al. (2016) and the stakeholders' theory. The opinion variation was minimal as evidenced by the standard deviation which is generally low (Table 4). The correlation coefficient is negative and significant ($p \leq 0.05$).

4.2 Multiple Regression Results

4.2.1 Board of Directors Composition and MFIs Performance

The study determined the relationship between corporate governance and the performance of MFIs in Dar es Salaam. The findings on the board composition (Board Independence, Gender Diversity, and Geographical Diversity) as a predictor are indicated below (Table 5). The results of the model summary show the association (R^2 = 0.603) between firm performance and corporate governance (independence of the board, gender diversity, and geographical diversity). The adjusted value of R-square for the study was 0.597 which suggests that 59.7% of the total performance of the firm variance could be explicated by corporate governance.

Analysis of Variance

The aggregate variability of variables found in the data set of the regression model was tested and executed using ANOVA. If no true variance exists between the variables, the ANOVA's F-ratio should be close to 1 (Field, 2009). The analytical model had a variation of 0.000 per cent, implying that it was reliable for establishing association between the firm's performance and corporate governance for MFIs in Dar es Salaam.

VIF test

Prior to running the regression model, both continuous and discrete explanatory variables were checked for existence of multicollinearity problem. The problem arises when at least one of the explanatory variables is a linear combination of the others. Variance Inflation Factor (VIF) and contingency coefficient for continuous explanatory variables and dummy variables respectively are used to test multicollinearity (Gujarati, 2003).

Determination of Coefficients

Corporate governance (board independence, gender diversity, and geographical diversity) had a significant and positive influence on MFIs' financial performance in Dar es Salaam, according to the regression coefficient at a 95% confidence level.

Table 5: The influence of Board Composition on MFI performance

Variable	Coefficient	Std Error	t	P- value	VIF	Expected sign
(Constant)	-0.138	0.256	-0.539	0.590		
Board Independence	0.650***	0.049	13.325	0.000	1.480	+
Gender Diversity	0.196***	0.051	3.868	0.000	1.481	+
Geographical Diversity	0.134**	0.062	2.162	0.032	1.012	+
Mean variance inflation factor		1.324				
Durbin-Watson (DW)		0.981				

F(3, 77)		106.162				
Prob>F		0.000***				
R- square		0.603				
Adjusted R-square		0.597				
Number of Observations		80				

Dependent Variable: Return on Asset (ROA)

Table 5 indicates that the independent variable (corporate governance) with its three indicators; which are board independence, gender diversity, and geographical diversity; had positive and significant relationships with the dependent variable (performance of MFIs-ROA) at a 95% confidence interval. Specifically, board independence had β = 0.650 and p = 0.000. This indicates that board independence had a positive impact on MFIs performance. Thus, a 1% increase in board independence led to increase in the performance of MFI by a factor of 64.5%, keeping other factors constant. It is further indicated that the surveyed MFIs had independent boards of directors and hence these independent boards offered access to external knowledge and other resources and improved efficiency. External resources like stakeholders are important for efficient operations of the firm. Thus, the hypothesis Ho (1) that there is no significant relationship between the board composition and the performance of MFIs in Tanzania was rejected at a 95% confidence level. This implies that there is a strong significant relationship between the board composition and the performance of MFIs in Tanzania; these results support the agency and stakeholders theories. The results for board independence are consistent with the findings by Wanyama and Olweny (2013), which showed that the independent non-executive directors were providing access to external knowledge and other resources which could not be provided by the dependent executive directors. Also, Thrikawala (2013) found that the board of directors which was composed of independent directors had a positive impact on Indian Microfinance institution's efficiency.

Gender diversity had β = 0.196 and P = 0.000. This implies that gender diversity has a positive impact on MFIs performance. Thus, when female board members in the board increase by 1%, it increases the performance of MFI by a factor of 18.5%, keeping other factors constant. It is further indicated that the surveyed MFIs had a combination of board members who were both males and females and hence gender diversity offered unique inputs which in return helped improve the organisational performance. The findings on gender diversity are consistent with the agency theory and Boyle (2011) who suggested that female representation in boards can bring unique talents and views to the table that are not always available in boards without female members and hence institutional performance might be improved by the presence of both female and male directors in the board. This means that females should also be part of the MFIs boards since they bring in different perspectives and ideas that make organisations perform well.

Geographical diversity had $\beta = 0.134$ and $p = 0.032$. This implies that geographical diversity had a positive impact on MFIs performance. Thus, when foreign directors in the board increase by 1%, it increases the performance of MFI by a factor of 10%. These findings are consistent with the agency theory. Findings by Firoozi et al. (2016) on geographical diversity observed that companies with high geographically diverse independent directors perform better. In addition, firms with a high diversity of geographical board members have lower financial reporting quality. These findings suggest that most of the international board members are MFIs donors that would closely supervise MFIs to ensure that they are targeting poor people and increasing their outreach to the poor at the expense of financial performance (Mersland and Randøy, 2011). This result is consistent with the findings of this study.

4.2.2 The Influence of Audit Committee Composition on MFIs Performance

The study also determined the relationship between audit committee composition and the performance of MFIs in Dar es Salaam. The findings for audit committee composition as a predictor are indicated below. The result of the model summary shows the association ($R^2 = 0.127$) between financial performance and corporate governance (audit committee composition). The adjusted R-square value of the study was 0.091 which implies that 9.1% of the total firm performance variance could be explained by corporate governance (audit committee composition).

Variance Analysis

The aggregate variability of variables found in the data set of the regression model was tested and executed using ANOVA. The analytical model had a variability of 0.019 per cent, implying that it was reliable to establish association between firm performance and corporate governance for MFIs in Dar es Salaam.

Determination of Coefficients

Corporate governance (audit committee composition) has a positive significant influence on MFIs performance in Dar es Salaam, according to the regression coefficient at a 95% confidence level. The results are summarised in Table 6.

Table 6: Audit Committee Composition on MFIs Performance

Variable	Coefficient	Std Error	t	P value	VIF	Expected sign
(Constant)	1.713	0.508	3.375	0.001		
Education level	-0.037	0.206	-0.179	0.859	1.000	+
Microfinance education/knowledge	0.172**	0.081	2.121	0.037	1.014	+
Work Experience	-0.158**	0.072	-2.193	0.031	1.015	+
Mean variance inflation factor		1.009				
Durbin-Watson (DW)		1.324				
F(3, 77)		3.529				
Prob>F		0.019**				
R- square		0.127				
Adjusted R-square		0.091				
Number of Observations		80				

Dependent variable (constant): Return on Asset
Source: Research findings (2021)

The above findings reveal that, at a 95% level of confidence, working experience and microfinance education which are indicators of audit committee composition were found to be significant statistically ($p < 0.05$). Knowledge in microfinance is expected to increase efficiency of the audit committee member in working and making decisions concerning the particular MFI. This implies that, for an MFI to perform well, the audit committees should have members who have microfinance knowledge to limit restrictions around them.

This indicates that audit committee composition has an impact on MFIs' performance. Thus, the hypothesis Ho (2) that there is no significant relationship between the audit committee composition and the performance of MFIs in Tanzania was rejected at a 95% confidence level. This implies that there is a significant relationship between the audit committee composition and the performance of MFIs in Tanzania; this supports the stakeholders' theory. However, work experience had a negative coefficient which means that there was an indirect relationship between the variable and MFIs performance. Also, these results are in line with the agency theory and with findings of a previous study conducted by Abbott et al. (2004) who found that the audit committee's independence and activity level (a proxy for audit committee diligence) had a serious and negative relationship with the occurrence of restatement and suggested that to avoid this, at least one member of the audit committee should have financial/auditing experience. The agency theory was not supported by education level, which could be related to the nature of the data as a result of contextual differences.

5.0 Conclusion and Recommendations

5.1 Summary of the Findings

5.1.1 Influence of board composition on MFIs performance

Respondents agreed on the fact that board independency, gender and geographical diversity are important to microfinance operations. Furthermore, the findings were able to prove that board composition is a significant contributor of return on asset which is an indicator of financial performance. These results support the agency and stakeholders theories which guided the study.

5.1.2 Influence of audit committee composition on MFIs performance

The results indicated that education level, work experience and microfinance education were valued by respondents most of whom were managers and supervisors of MFIs. Furthermore, it has been verified that audit committee composition is inconsistent with the theories underpinning the study that it influences significantly firm’s performance.

5.2 Conclusion

The goal of the study was to find how corporate governance affects MFI financial performance. According to the findings, corporate governance is critical for MFI success. The presented findings demonstrate the ability of corporate governance aspects based on Tanzanian Microfinance rules and CMSA guidelines to boost return on asset. Gender diversity, geographic diversity, and board independence all have a substantial impact on the firm's return on assets and consequently financial performance. Financial performance tends to improve as a board member's microfinance education grows. It can be concluded from the data that there is a link between corporate governance and MFI financial success, which is a crucial insight to consider. Microfinance institutions operate in the financial sector, so board members and audit committee members should have a history in microfinance to ensure the best possible results. As a result, these two elements, board composition and auditing committee membership are critical for MFIs to achieve higher performance.

Gender diversity, regional diversity, board independence, and microfinance education and work experience in MFIs were all found to have a substantial impact on MFI performance in this study. The findings of this paper thus back up the agency and stakeholders' theories that underpinned this study, that a board with diversity is likely to inspire great performance. The studies also demonstrated the significance of board and audit committee composition in terms of performance.

The respondents largely agree on the importance of corporate governance to MFI performance, and that this has opened the door to better performance for the country's development. Because MFIs service small firms owned by numerous entrepreneurs, successful performance of these institutions is expected to reflect strong performance of the country.

Thus, as a policy implication, the study calls for ensuring and executing good governance especially gender diversity, geographical diversity, board members independence, work experience and microfinance education to MFIs so as to instil better performance. As though these organisations are not registered in stock exchange market, their contribution to the society is highly appreciated. It is through MFIs that people can acquire capital for investment purposes and thereby contributing to the industrial economy and middle economy which is the focus of Tanzania. Well performing MFIs will be able to issue loans to more Tanzanians thereby improving their economic status. Therefore, MFIs and other stakeholders should take into account these components of corporate governance if they ought to have good results in their performance. Therefore, MFIs owners and policymakers should be informed about the importance of these factors. On the other hand, the study added new insight/information to the body of knowledge on the influence of corporate governance on microfinance institutions (MFIs) performance focusing on board composition and audit committee.

5.2 Recommendations

This study observed how the microfinance institutions financial performance can be impacted by corporate governance, and the evidence was taken from the sampled Microfinance Institutions in Dar es Salaam. Based on the findings of the study, the following recommendations were proposed. One, the composition of the MFIs boards should be independent allowing members the freedom to give their unbiased management and operational advice to the MFIs and hence assist to improve the performance of the institutions. Two, it is recommended that, for MFIs forming the board of directors, there is a need to balance gender between male and female members when the appointment of directors is made. It has been scientifically evidenced that the representation of both male and female directors assists to improve the performance and efficiency of MFIs. Therefore, it is recommended that MFIs should establish an audit committee which is composed of members with microfinance knowledge to enhance good financial performance of their institutions because the audit committee plays a vital role in financial performance.

5.3 Limitations and Areas for Further Studies

This study is limited to MFIs registered by TAMFI and the sample used was 84MFIs, thus further studies need to consider a larger sample size in order to enhance the scope and reliability of the findings. Another limitation was the use of one dependent variable to measure performance; therefore, further studies should consider measuring the performance of MFIs based on other indicators such as ROI, ROE, and ROCE.

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