

The Interrelation between Corporate Governance Practises and the Financial Performance of Microfinance Institutions in CEMAC

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ABSTRACT

This study aims to examine the relationship between corporate governance tools—specifically board size, board gender diversity, capital structure, ownership structure, and audit—and financial performance of microfinance institutions as measured by Return on Assets (ROA) and Operational Self-Sufficiency (OSS). Quantitative data is employed to identify the relationship between the variables. A dataset comprising forty-four microfinance institutes extracted from the Mix Market database for the period 2000 to 2021 is utilised. The research identified correlations between Microfinance Institutions' financial performance and their board characteristics, capital structure, ownership structure and audit. The exploratory variables all produced significant results. The study identified significant relationships between the examined Corporate Governance practices and the financial performance of microfinance institutions in CEMAC. Capital structure positively influences the ROA and the constructed financial performance index but negatively influences the OSS of microfinance institutions in CEMAC when ownership structure is accounted for and audit is not accounted for. Ownership structure (those which have NGO and NBFi forms) positively influences the ROA and the constructed financial performance but negatively influences the OSS of microfinance institutions to a significant extent. Constructed board characteristics index (board size and board gender diversity) positively influences the ROA and the constructed financial performance index but negatively influences the OSS of microfinance institutions in CEMAC when ownership structure is accounted for and audit is not accounted for. Microfinance size has a positive effect on ROA and OSS but a negative one on the computed finance performance index. When audit is accounted for excluding ownership structure, we conclude that capital structure positively influences the OSS and the constructed financial performance index but negatively influences the ROA of microfinance institutions in CEMAC. The constructed board characteristics index (board size and board gender diversity) positively influences the OSS and the constructed financial performance index but negatively influences the ROA of microfinance institutions in CEMAC when audit is accounted for and ownership structure not. Being audited by large firms leads to a decrease in OSS, an increase in ROA and a general decrease in the constructed financial performance index in microfinance institutions in CEMAC when ownership structure is not considered. This study highlights the significance of corporate governance tools and their effectiveness in the success of organizations.

Keywords: Corporate Governance, Microfinance Finance Institutions, Financial Performance, OSS, ROA.

INTRODUCTION

Microfinances exist to provide financial services to the underserved members of society (Ledgerwood, 1999), primarily in developing nations wherein there is a low financial penetration rate as compared to wealthy economies (Chiu, 2015). Since these underprivileged communities cannot afford the collateral requirements and market interest rates, and because the costs associated with monitoring and screening their activities are too high for banks to make lending profitable, mainstream banks do not offer them loans (Hermes and Lensink, 2007). According to the argument made by Tilakaratna and Hulme (2015), microfinance has gained international recognition in recent years as a crucial tool for reducing poverty, ensuring home stability, and developing small and medium sized enterprises. The creation of job possibilities (Raihan et al., 2017), the growth of micro-enterprises, and an improvement in the general financial health of most countries (Adams and Tewari, 2017) are all suggested as additional ways that microfinance initiatives have greatly enhanced the social welfare of the poor (Khandker, 2005).

In the wake of the significant corporate failures and crashes in the world, corporate governance has developed to effectively supervise and monitor the management of firms. As a result, the necessity of corporate governance practises has therefore been increasingly recognised by various companies in recent years. In the same vein, the importance of corporate governance principles for the institutionalisation and long-term sustainability of microfinance institutions (MFIs) has also received significant attention from academics and practitioners in the field of microfinance (Labie, 2001). According to Labie and Mersland (2011), some of the key elements that account for this include: In first place, the number of assets and client reach of various types of providers of microfinance services have significantly increased. In second place, a large number of Non-governmental Organizations (NGOs) have transformed their legal status by becoming regulated, share-holding MFIs, and credit cooperatives are increasingly constructing intricate networks. In third place, by switching from a single credit provision to several product offers, MFIs are now adhering to traditional banking logic. In fourth place, while donor funds were initially the primary source of capital for MFIs, liabilities management has recently taken on greater significance. In fifth place, government authorities that previously disregarded the microfinance system have changed their attitudes towards it by developing regulatory and oversight frameworks for the healthy growth of the sector. Last but not least, microfinance has remarkably gained prominence on a global scale, culminating in the United Nations designating 2005 as "The Year of Microcredit" and awarding the Nobel Peace Prize to the pioneer of microfinance in 2006. These key underlying causes clarify why microfinance governance is a hotly discussed area of public policy and an intriguing subject for research.

There are a number of reasons why it could be worthwhile to investigate how corporate governance practises affect the financial performance of MFIs. For instance, MFIs have begun offering a variety of financial and non-financial services in emerging market countries. 'Green Microfinance' and 'Microfinance Plus' are two of them that MFIs employ to meet the demands of their clients in urban and rural areas to enhance environmental sustainability (Mia et al., 2018). These microfinance innovations were started by MFIs to both keep their current clientele and draw in new ones (Mia et al., 2018). Additionally, MFIs encounter difficulties with financial inclusion as a result of the heightened rivalry and the entry of new players into the market (MIX Market, 2017). As a result, they are forced to consider the varied demands of their clients more. One such example of a demand-driven approach by clients is the addition of

environmental services to the microfinance product basket, which not only enables MFIs to reach a larger customer base but also to maintain their financial viability (Mia and Chandran, 2016).

Practitioners and policymakers in the MFI industry have also given the sustainability issue a lot of attention. MFIs and their management have begun taking sustainability considerations into account in response to regulations or pressures from stakeholders. Therefore, it is interesting to examine how the microfinance industry's governance framework affects its performance be it environmental, social or financial.

Microfinance governance study has attracted a lot of scholarly attention during the last few years. Likewise, there has been a substantial amount of academic works on the subject of corporate governance structures and MFI dual mission (Bakker et al., 2014; Bassem, 2009; Gohar and Batool, 2015; Hartarska, 2005; Hartarska and Mersland, 2012; Hasan et al., 2018; Mersland and Strøm, 2009; Saeed et al., 2018; Tchakoute-Tchuigoua, 2014a; Thrikawala et al., 2017, 2016a). Earlier empirical research has produced a range of findings. In line with the increasing research on microfinance governance-performance by academics, this study thus responds to a recent call for research on the relationship between MFI governance and financial performance in CEMAC. As a result, the study will close this information gap and make a substantial contribution to the body of literature already available on microfinance governance. The present study was conducted with microfinance institutions (MFIs) operating in the CEMAC region, thereby offering an interesting research area. CEMAC member countries are characterised by predominantly low-income to lower-middle-income earners, making it a suitable location for analysis. CEMAC member countries are all developing countries in which many microfinance activities abound. In these countries, microfinance institutions are actively engaged in providing assistance to individuals with the aim of alleviating poverty. Microfinance institutions operating in CEMAC are dedicated to providing financial services to individuals who are socially disadvantaged, with the aim of enabling them to earn income and escape the cycle of poverty. The involvement of microfinance institutions in CEMAC is of considerable importance in driving the social and economic progress of CEMAC member states. These are some significant justifications for doing the present investigation within the geographical setting of CEMAC.

This paper permits us to study the effect of corporate governance practises on the financial performance of MFIs in the CEMAC region and has as objective to investigate the effects of board characteristics, audit and ownership structure on the financial performance of MFIs in CEMAC states.

LITERATURE REVIEW

Concept of Corporate Governance

Numerous scholars and experts have made endeavours to establish a comprehensive definition of corporate governance. However, a unanimous agreement has yet to be reached, since definitions diverge in their incorporation of cultural, political, social, and economic elements, as well as per the objectives of governance. The determination of definitions, in practise, is contingent upon various settings or institutions.

Labie and Mersland (2011, p. 287) propose a modification to the definition of corporate governance within the microfinance context. They redefine it as a system or collection of procedures that guide and oversee the direction and management of an organisation, with the ultimate goal of achieving its purpose and objectives. The industry-specific definition of governance is pertinent to the present study's purpose, which examines corporate governance processes and the diverse aims of microfinance institutions (MFIs) by taking into account the interests of the institutions and their stakeholders.

The definition of corporate governance, as stated in the Cadbury Committee Report (1992, p. 15), refers to the framework through which firms are guided and supervised. While this definition mentioned in existing literature is widely accepted, it should be noted that it focuses solely on the financial aspects of corporate governance, as indicated by the committee affiliated with it (Page and Spira, 2016).

Corporate governance is a regulatory practise that is implemented by various internal and external entities in order to address agency conflicts and safeguard the interests of stakeholders inside businesses. Corporate governance guarantees that enterprises are operated in a responsible and accountable manner that increases their overall performance" (Dalwai et al., 2015, p. 20).

Concept of Financial Performance

Financial performance has been characterised by scholars in multiple ways. Financial performance denotes a company's ability to minimise operating expenses, optimise asset use, and enhance shareholder value. High performance indicates the effectiveness and efficiency of management in resource utilisation, contributing positively to the overall economy (Afrifa and Tauringana, 2015, p. 27). Financial performance is characterised as an organization's effort to achieve its objectives or production efficiency (Karaye, Ishak, & Che-Adam, 2014). Financial performance measures an organization's earnings, profits, and value appreciation, indicated by an increase in share price (Abdulfattah et al., 2020). Financial performance may be assessed at a specific point in time or over a period of time. It may also be compared to analogous enterprises within the same industry, or utilised to aggregate various industries or sectors. Financial performance is an indicator of an organization's earnings, profits, and value appreciation, as evidenced by increases in share price and the extent to which financial objectives are achieved.

Studies on the Relationship between Corporate Governance and Financial Performance

Research on the influence of corporate governance on financial performance has produced inconsistent results. Studies indicate that corporate governance positively influences financial performance (Sheikh, Wang, and Khan, 2013; Aggarwal, 2013). Other research has found that corporate governance negatively affects financial performance (Akdogan & Boyacioglu, 2014; Muller et al., 2014). Some researchers found mixed results, indicating that certain variables had a positive effect while others had a negative effect within the same study (Gill & Mathur, 2011; Ylmaz, 2018; Hussain, Ahmad, & Hassan, 2019).

A study examined the impact of corporate governance on the financial performance of 15 banks listed on the Amman Stock Exchange in Jordan during the period from 2007 to 2009 (Al-Manaseer et al, 2012). Corporate governance indicators included board size, board

composition, CEO status, and foreign ownership. Financial performance was assessed using measures such as ROA, ROE, NPM, and EPS, with bank size serving as a control variable. Descriptive statistics and multiple regression analysis were employed for data analysis. The findings indicate a positive correlation between the number of external board members, foreign ownership, and bank performance in Jordan, while revealing a negative relationship between board size and the distinction between the roles of CEO and chairman.

Shahwan and Fathalla examined the function of intellectual capital (IC) as a mediating variable in the relationship between corporate governance (CG) practices and business performance (2020). The assessment of corporate governance practices and intellectual capital performance was conducted utilising the value-added intellectual coefficient method alongside the established corporate governance index. Tobin's Q (TQ) and the operating efficiency ratio were utilised to evaluate the firm's performance. The aggregate CG score significantly positively influences the IC and the two metrics of company performance (Shahwan & Fathalla, 2020). Bhatt and Bhatt (2017) investigate the influence of the Malaysian Code on Corporate Governance (MCCG, 2007 and 2012) on the performance of listed companies in Malaysia. Agency theory and resource dependency theories suggest that businesses exhibiting strong corporate governance achieve superior performance compared to those with inadequate governance.

Additionally, panel data from 2006 to 2011 were employed to examine the relationship among ownership structure, board structure, and financial performance of 311 listed companies on the Tehran Stock Exchange in Iran (Golmohammadi, Ranjdoost, & Cherati, 2012). Ownership and board structure characteristics included ownership concentration, board independence, board size, institutional share ratio, and CEO duality, whereas financial performance was assessed using ROE. Descriptive statistics, Ordinary Least Squares (OLS), Fixed Effects, and Random Effects regressions were employed for data analysis. The results indicate a positive relationship between board size and board independence, while revealing a negative association between institutional share ratio, CEO duality, and firm performance. Additionally, there is no significant relationship between ownership concentration and business performance.

Another study examined the influence of board qualities on the financial performance of 30 Pakistani banks, utilising panel data from 2007 to 2011. Javed et al. (2013). The number of directors, the presence of non-executive directors, CEO duality, and the number of board committees served as proxies for board size and structure, while ROA represented financial performance. The data analysis methods employed were descriptive statistics and linear regression analysis. The results indicate a positive correlation among the number of directors, non-executive directors, CEO duality, and the presence of women directors, while a negative correlation exists between the number of board committees and financial performance.

In a similar vein, an investigation was conducted on the relationship between corporate governance mechanisms and the financial performance of 105 companies listed on the National Stock Exchange of India (NSE) using panel data from the years 2002–2003 and 2008–2009 (Gull, Saeed, & Abid, 2013; Varshney, Kaul, & Vasal, 2013). Firm size, leverage, company type, industry, risk, the ratio of R&D expenditure to sales, the ratio of advertisement expenditure to sales, and the ratio of PBDITA to sales served as proxies for corporate governance. Economic

Value Added (EVA), Tobin's Q, Return on Assets (ROA), and Return on Capital Employed (ROCE) served as indicators of financial performance, whereas firm size, leverage, company type, industry, risk, the ratio of R&D expenditure to sales, and the ratio of PBDITA to sales functioned as control variables. The analysis employed pooled and random effects regressions, revealing that board size positively correlates with financial performance. Conversely, the proportion of outside directors, the frequency of board meetings, and CEO duality exhibit negative correlations with financial performance.

Queiri et al. (2021) examine the correlation between particular board qualifications, ownership determinants, and company performance within the Muscat Securities Market (MSM30). This study examined the impact of board size, frequency of board meetings, the proportion of independent directors, and ownership concentration on the financial performance of the company. The findings indicate that the selected attributes of board members and ownership influence the firm's success.

This study examined the relationship between the application of corporate governance principles and the financial performance of companies listed on the Istanbul Stock Exchange (ISE) National 100 Index in Turkey for the fiscal year 2008 (Akdogan & Boyacioglu, 2014). The application of corporate governance principles was assessed through return on assets (ROA), return on equity (ROE), and stock return as indicators of financial performance, while controlling for business size, firm age, and leverage ratio. The findings indicate a robust positive correlation between corporate governance and financial performance, as demonstrated by multiple hierarchical regression analyses.

Furthermore, the relationship between board qualities and the financial performance of 50 companies listed on the Egyptian Stock Exchange was examined during the period from 2004 to 2012 (Muller et al., 2014). Board independence, meeting frequency, CEO duality, and director ownership served as proxies for board composition. Financial performance was assessed using ROA, ROE, and Tobin's Q, while firm size, age, and leverage functioned as control variables. The analysis employed descriptive statistics, the Pearson correlation coefficient, and GLS random effect regression. The study's findings indicate a positive and significant relationship between corporate governance and financial performance.

A separate study examined the influence of board characteristics on the financial performance of firms listed on the London Stock Exchange, specifically the FTSE100 members, during the period 2010-2011 (Muller et al., 2014). Corporate board characteristics encompassed variables such as board size, board independence, the percentage of foreign directors, average service tenure, age, and the percentage of women directors. Board compensation variables included chair remuneration, non-executive director remuneration, additional remuneration for board committee meetings, and fees paid in shares. Return on assets (ROA) served as a proxy for financial performance.

A separate study examined the influence of board characteristics on the financial performance of 40 publicly listed companies in Egypt, utilising panel data from 2008 to 2010. (Wahba, 2015). The corporate governance factors included board composition (BCO) and CEO duality (DUL). Financial performance was assessed using return on equity (ROE) and Tobin's Q. Control variables comprised company size, firm age, financial leverage, and capital intensity. The

findings of the study indicate that corporate governance has a significant negative impact on financial performance. The study examined the relationship between corporate governance structure, perceptions of leadership style, and the financial performance of listed DMBs in Nigeria during the 2008-2009 financial crisis (Garba, T., & Abubakar, 2014).

A separate study examined the influence of corporate governance on the financial performance of 67 companies listed on the Tehran Stock Exchange in Iran during the period from 2006 to 2012. Rostami, S., Rostami, Z., & Kohansal (2016). Ownership concentration, institutional ownership, board independence, board size, CEO duality, and CEO tenure served as proxies for corporate governance, while return on assets and stock returns represented financial performance. Market value of equity and the ratio of book value to market value of equity were employed as control variables. The findings indicate a significant positive correlation between ROA and stock returns, alongside ownership concentration, board independence, CEO duality, and CEO tenure (Rostami, S., Rostami, Z., & Kohansal, 2016). Institutional ownership and board size exhibit a significant negative correlation with return on assets and stock return. The corporate governance practices and their relationship with the financial performance of 86 of Bursa Malaysia's Top 100 publicly listed companies from 2008 to 2012 were examined (Zabri, Ahmad, & Wah, 2016). The corporate governance factors analysed were board size and board independence, while financial performance was assessed through return on assets (ROA) and return on equity (ROE). The results indicate a weak negative correlation between board size and ROA, which is statistically insignificant with respect to ROE. Additionally, board independence shows a positive yet minimal relationship with company performance (Zabri, Ahmad, & Wah, 2016).

A subsequent study (Ylmaz, 2018) examined the relationship between corporate governance and financial performance among 61 companies listed on the Muscat Securities Market in Oman from 2013 to 2016. The CG score served as a proxy for corporate governance, while financial performance was assessed through Tobin's Q, return on assets, profit margin, EBIT margin, and net profit margin, incorporating size, gearing, and firm growth as control variables. The analysis employed descriptive statistics and multiple regressions, indicating a significant positive correlation between corporate governance and the financial success of enterprises in Oman (Ylmaz, 2018). In contrast, the influence of corporate governance on the performance of four multinational corporations in Nigeria from 2012 to 2016 (Akinleye, Olarewaju, & Fajuyagbe, 2019) were examined. The proxies for corporate governance included board size, activism, and committee activism, whereas the indicators of company performance were return on assets (ROA) and firm growth rate. The analysis employed static panel estimation techniques, revealing that CG significantly negatively affects return on assets, while exerting no influence on the growth rate of multinational enterprises in Nigeria.

Theoretical Framework

The agency hypothesis is demonstrated to be relevant in assessing the influence of corporate governance on the financial performance. Agency theory describes the relationship between the principal and the agent, exemplified by shareholders and firm executives or managers. This approach posits that managers exhibit self-interest and risk aversion. When managers do not possess complete ownership of the company's assets, they may prioritise the maximisation of their personal wealth over that of the shareholders. Moreover, corporate social responsibility serves as a manifestation of an agency problem or a conflict of interest between management

and shareholders (Friedman & Allen, 1970). The basis for board oversight of management on behalf of shareholders is grounded in agency theory, which has been a central focus in corporate governance research (Davis, Schoorman, & Donaldson, 1997). The divergence between ownership and control results in a misalignment of interests between managers and shareholders. Agency theory posits that a primary role of managers is to align corporate interests with those of shareholders. The agency relationship is characterised by one party, the principal, delegating tasks to another party, the agent.

In the context of a corporation, the owners serve as the principal, whereas the directors act as the agent (Davis, Schoorman, & Donaldson, 1997). In the context of corporate governance, agency theory posits that governance mechanisms, especially the board of directors, serve as a crucial monitoring tool to mitigate issues arising from the principal-agent relationship. According to agency theory, principals (shareholders) and agents (managers and other company insiders) possess conflicting interests, differing risk tolerances, varying capacities, and unequal access to information. Opportunistic management, driven by self-interest and deception, will often act contrary to the interests of outside investors (Davis, Schoorman, & Donaldson, 1997). Shareholders may employ various corporate governance mechanisms to contest this assumption, such as contractual relationships, board monitoring systems, and incentive structures (Shleifer & Vishny, 1997). The governance methods aim to align agent-principal interests, protect shareholder interests, and minimise agency expenses (Davis, Schoorman, & Donaldson, 1997; Kabir & Thai, 2017). Additionally, boards maintain oversight by restricting managers from engaging in opportunistic behaviour that serves their personal interests. Agency theory establishes a basis for corporate governance by employing various internal and external mechanisms to address the agency problem and achieve optimal performance and reliable financial reporting (Roberts, McNulty, & Stiles, 2005).

Agency theory posits that an increased board size enhances management oversight by reducing the CEO's influence, thereby improving business performance (Singh & Harianto, 1989; Aras, Aybars, & Kutlu, 2010). Agency theory posits that the board of directors oversees and regulates management to mitigate actions that may serve the interests of management over those of the shareholders. Larger boards may enhance effectiveness by distributing the monitoring supervisors' workload among a greater number of individuals. A larger board may exacerbate agency difficulties, facilitating greater influence and dominance by the CEO over board members (Cheng, 2008). This hypothesis posits that an enlarged board may lead to coordination and communication challenges, thereby enabling profit-driven managers to assert control (Walls & Hoffman, 2013).

Agency theory advocates for the inclusion of independent directors to enhance oversight of management, thereby promoting board independence. Independent directors, in contrast to inside directors who may face conflicts of interest, can verify that the company's management is acting in the best interests of the organisation. The agency hypothesis posits that the presence of non-executive directors on the board is essential for aligning managerial behaviour with the interests of shareholders. It is generally anticipated that nonexecutive directors possess the capability to supervise executive directors due to their independence and relevant expertise, with the expectation that their monitoring experience will enhance business performance (Fama & Jensen, 1983). Agency theory focusses on the oversight role of directors regarding gender diversity on boards. A balanced board includes representation from diverse

groups, preventing any individual or group from dominating decision-making processes (Erhardt & Werbel, 2003).

METHODOLOGY

The study includes documentary data derived from the MIX Market database covering the period from 2000 to 2021. This data obtained from MIX Market is also accessible to the public through the World Bank's Data Bank, which guarantees the data's quality for this study. This study considers two categories of variables: dependent variables and independent variables. The study's dependent variable was financial performance, measured by ROA and OSS. The return on assets (ROA) is defined as the ratio of earnings after taxes to total assets and the Operational Self-Sufficiency (OSS) is determined by dividing the aggregate operating revenues by the aggregate operating expenses. The independent variable, corporate governance, was represented by board size and board gender diversity. The board size was determined by the number of directors (Ntim & Soobaroyen, 2013). The proportion of female directors on a board was calculated by dividing the number of female directors by the total number of directors and this was used to represent board gender diversity (Ntim & Soobaroyen, 2013; Kabir & Thai, 2017). Descriptive statistics, correlation, and multiple regressions were employed for the analysis. The relationship between corporate governance and financial performance was assessed using the Pearson correlation method. This illustrates the strength of the relationship between the independent and dependent variables. Multiple regressions were employed to analyse the influence of the explanatory variables (board size, ownership structure, MFI size, Audit and board gender diversity) on the dependent variables (ROA and OSS).

The significance of multiple regressions in prior studies, as indicated in the literature review, guided the selection of the use of the former. Due to the use of panel data in this study, we employ the panel Generalized Least Squares (GLS) estimation technique which presents numerous advantages over the Ordinary Least Squares (OLS) technique used in other studies. The following are the models based on the study's variables:

$$ROA_{it} = \beta_0 + \beta_1 CAS_{it} + \beta_2 LBXTERISTIC_{it} + \beta_3 OWNSTRUCT_{it} + \beta_4 AUDITBAC_{it} + \beta_5 LMFSZ_{it} + \beta_6 LTLIAB_{it} + \epsilon_{it} \quad (3.1)$$

$$OSS_{it} = \beta_0 + \beta_1 CAS_{it} + \beta_2 LBXTERISTIC_{it} + \beta_3 OWNSTRUCT_{it} + \beta_4 AUDITBAC_{it} + \beta_5 LMFSZ_{it} + \beta_6 LTLIAB_{it} + \epsilon_{it} \quad (3.2)$$

$$LFINPFM_{it} = \beta_0 + \beta_1 CAS_{it} + \beta_2 LBXTERISTIC_{it} + \beta_3 OWNSTRUCT_{it} + \beta_4 AUDITBAC_{it} + \beta_5 LMFSZ_{it} + \beta_6 LTLIAB_{it} + \epsilon_{it} \quad (3.3)$$

Table 1: Variables and Measurement

Variables	Acronyms	Definition	Data Source
Return on assets	ROA	The ratio of total income after all the expenses to total assets.	MIX Market
Operational self sufficiency	OSS	The ratio of operating income to all operating expenses.	MIX Market
Board size	LNBM	The natural logarithm of the total number of directors sitting in an MFI boardroom each year.	MIX Market
Board Gender Diversity	BDIV	The ratio of female directors to the total number of MFI board of directors	MIX Market

Board Characteristics	LBXTERISTIC	The natural logarithm of the board characteristics index built with the help of principal component analysis from board size and board gender diversity.	MIX Market
Capital structure	CAS	Measure using the ratio of debt to equity	MIX Market
Ownership Structure	OWNSTRUCT	A categorical variable equal to 1 if institution is an NGO, 2 if institution is a non-Banking financial institution and 3 if it's a credit union or cooperative.	MIX Market and annual reports
Audited by big company or partner	AUDITBAC	A dummy explanatory variable equal to (1-Yes) if the finance institution is audited by big audit company or partners and (0- No) otherwise.	Annual reports
MFI size	LMFSZ	The natural logarithm of total assets of an MFI	MIX Market
Liability	LTLIAB	The log of total liabilities	MIX Market

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 presents the descriptive statistics, encompassing measures of central tendency, including the mean, as well as measures of dispersion, such as standard deviation, minimum, and maximum values of the variables. The return on assets (ROA) has a mean of 69.361 and a standard deviation of 20.361. The Operating Self Sufficiency (OSS) has a mean of 26.395 and a standard deviation of 54.953.

Table 2: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	924	69.361	20.361	1	160
OSS	924	26.395	54.953	1	217
Number of Effective Board Members	924	26.175	54.386	1	215
Number of Board Members	924	1.9	3.937	1	24
Board Gender Diversity	924	1.323	1.797	1	19
AUDITBAC	928	.792	.406	0	1
Total Liability	924	27.549	56.736	1	222

Source: Authors computation from STATA 17, 2023

Testing Multicollinearity

Testing for multicollinearity is essential so as to discard the existence of any problems of multicollinearity. A high correlation coefficient can make it more difficult in specifying a correct regression model and affect the statistical power of the analysis. This study has performed the Pearson correlation matrix to ascertain strength of relationship and equally multicollinearity problem. The rule of thumb of the Pearson correlation test is that when the correlation coefficient between the regressors is 0.80 or above, there becomes a multicollinearity problem (Gujarati, 2004) that can affect the overall results of the study (Akbar et al., 2017).

Table 3: Pairwise correlations matrix for variables without index

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROA	1.000								
(2) OSS	-0.036 (0.269)	1.000							
(3) LNBM	0.005 (0.887)	0.341 (0.000)	1.000						
(4) BDIV	-0.087 (0.008)	0.334 (0.000)	0.625 (0.000)	1.000					

(5) CAS	0.081 (0.013)	0.652 (0.000)	0.316 (0.000)	0.198 (0.000)	1.000				
(6) OWNSTRUCT	-0.015 (0.640)	-0.004 (0.893)	0.000 (0.996)	0.046 (0.159)	0.028 (0.402)	1.000			
(7) AUDITBAC	0.035 (0.285)	0.023 (0.483)	0.072 (0.029)	0.033 (0.319)	0.073 (0.026)	0.821 (0.000)	1.000		
(8) LMFSZ	0.194 (0.000)	0.756 (0.000)	0.310 (0.000)	0.202 (0.000)	0.746 (0.000)	-0.006 (0.845)	0.042 (0.206)	1.000	
(9) LTLIAB	0.191 (0.000)	0.792 (0.000)	0.343 (0.000)	0.222 (0.000)	0.786 (0.000)	0.020 (0.541)	0.071 (0.030)	0.928 (0.000)	1.000

Source: Authors computation from STATA 17, 2023

As reported in Tables 3 above and 4 below, all coefficient values in the correlation matrix show a low degree of multicollinearity among predictors used in this study. In Table 3, the only highest coefficient value of 0.79 is found between liabilities and OSS, which is still lower than the threshold of 0.80. This outcome is similar to that of table 4 which has as highest coefficient 0.78 which falls as well below the threshold value 0.8.

Table 4: Pairwise correlations matrix for variables with index

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) LFINPFM	1.000								
(2) SOPFM	0.257 (0.000)	1.000							
(3) LNBM	0.171 (0.000)	0.399 (0.000)	1.000						
(4) BDIV	0.239 (0.000)	0.358 (0.000)	0.625 (0.000)	1.000					
(5) CAS	0.301 (0.000)	0.677 (0.000)	0.316 (0.000)	0.198 (0.000)	1.000				
(6) OWNSTRUCT	0.003 (0.922)	-0.026 (0.426)	0.000 (0.996)	0.046 (0.159)	0.028 (0.402)	1.000			
(7) AUDITBAC	-0.024 (0.469)	0.025 (0.446)	0.072 (0.029)	0.033 (0.319)	0.073 (0.026)	0.821 (0.000)	1.000		
(8) LMFSZ	0.275 (0.000)	0.756 (0.000)	0.310 (0.000)	0.202 (0.000)	0.746 (0.000)	-0.006 (0.845)	0.042 (0.206)	1.000	
(9) LTLIAB	0.297 (0.000)	0.750 (0.000)	0.343 (0.000)	0.222 (0.000)	0.786 (0.000)	0.020 (0.541)	0.071 (0.030)	0.728 (0.000)	1.000

Source: Authors computation from STATA 17, 2023

Results of Regression Analysis

In order to examine the effect of corporate governance practises on the financial performance of microfinance institutions in CEMAC, we adopted the generalized least square technique for our main regression models and further employed the panel Generalized estimation equation (GEE) technique which both account or correct for possible problems of autocorrelation and heteroscedasticity. Based on the aforementioned guide, Table 5 below, presents the outcome of the estimation model when we consider ownership structure. In this regard, three models are estimated and presented that is: models for ROA, OSS and the constructed index of financial performance.

Table 5: GLS REGRESSION Model with Ownership structure, Financial Performance

	(1)	(2)	(3)
VARIABLES	ROA	OSS	LFINPFM
CAS	0.0703*	-0.0767***	0.000798***
	(0.0374)	(0.0224)	(0.000238)
LBXTERISTIC	5.941***	-1.896**	0.0248***
	(1.268)	(0.760)	(0.00807)
1.OWNSTRUCT	6.095**	-3.429*	0.0482**
	(3.046)	(1.827)	(0.0194)
3.OWNSTRUCT	2.410	-3.198**	0.0334**
	(2.459)	(1.475)	(0.0157)
LMFSZ	3.964***	1.461*	-0.00290
	(1.465)	(0.879)	(0.00933)
LTLIAB	16.41***	2.293**	0.0185*
	(1.627)	(0.976)	(0.0104)
Constant	12.26***	65.97***	1.310***
	(3.446)	(2.067)	(0.0219)
Wald chi2	1658.56	61.88	120.48
	[0.000]	[0.000]	[0.000]
Observations	924	924	924
Number of countries	44	44	44

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Source: Authors computation from STATA 17, 2023

The outcome presented in table 5 shows that capital structure has a positive effect on the return on assets of the selected microfinance institutions within the CEMAC zone. The outcome is observed to be statistically significant at the 10 % level of significances. The outcome shows that everything being equal, a 1% increase in capital structure will increase microfinance performance captured using ROA by 0.0703%. However, when we examine capital structure on OSS, we observe that the outcome is negative and statistically significant at the 1% level of significances. Thereby contradicting the outcome from the ROA model. Further, when we examine capital structure on the computed index microfinance performance, we observe that there is a positive and statistically significant effect of capital structure on microfinance performance. The outcome shows that a unit percentage increase in capital structure will lead to 0.000798 percentage increase in microfinance performance everything being equal.

With regards to the constructed index of board characteristics, we equally observe a positive relationship with ROA, a negative relationship with OSS and a positive relationship with the constructed index of microfinance performance. These different coefficients of the different models are all observed to be statistically significant at the 1%, 5% and 10% respectively. The outcome shows that a unit increase in board characteristic diversity will lead to 5.941% increase, 1.896% decrease and a 0.0248% increase in ROA, OSS and aggregated finance performance index respectively.

With regards to ownership structure, we obtain the outcomes for NGO and NBFi since credit unions are chosen as the base group. The results show that being an NGO and NBFi increases performance measured by ROA, reduces performance when measured using OSS and increases performance when the financial performance index is constructed. This result is equally in line

with the outcome of most banking and non-banking financial institutions which tend to increase ROA, decrease OSS and increases LFINPFM. For the different control variables, microfinance size is observed to be an augmenting factor on ROA, OSS but decreasing on LFINPFM however, not significant, implying that increase in size of microfinance generally increases performance in all the dimensions considered but aggregation produces an insignificant effect. Equally, liabilities are generally augmenting arguments for disaggregated dimensions and aggregated measure of financial performance of microfinance and it is generally seen to be significant. All the estimated models are globally significant given that the Chi2 Wald test statistics is significant at the 1% level for all the three models. This implies that the results are efficient and good for inferencing.

Table 6: GEE REGRESSION Model with Ownership structure robustness check, Financial Performance

	(1)	(2)	(3)
VARIABLES	OSS	ROA	LFINPFM
CAS	0.0726*	-0.0595***	0.000675***
	(0.0377)	(0.0224)	(0.000240)
LBXTERISTIC	5.165***	-1.549**	0.0208**
	(1.288)	(0.767)	(0.00820)
1.OWNSTRUCT	5.964	-3.348	0.0474*
	(4.209)	(2.982)	(0.0272)
3.OWNSTRUCT	2.298	-3.160	0.0330
	(3.403)	(2.412)	(0.0220)
LMFSZ	3.841***	1.418*	-0.00296
	(1.454)	(0.859)	(0.00925)
LTLIAB	16.54***	1.929**	0.0217**
	(1.616)	(0.955)	(0.0103)
Constant	10.65***	66.54***	1.302***
	(3.904)	(2.525)	(0.0250)
Wald chi2	1518.92	48.86	103.78
	[0.000]	[0.000]	[0.000]
Observations	924	924	924
Number of countries	44	44	44

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Source: Authors computation from STATA 17, 2023

Table 6 is the robustness check outcome of table 5 using the GEE technique. The GEE models are globally good for inferencing given that the Chi2 test statistics are all significant for the three models at 1% level of significances. The results obtained are generally similar to those of the GLS output. With variables like capital structure, board characteristics, ownership structure being negative for OSS and positive for both ROA and the aggregate index. This shows that the initial results obtained were generally good and efficient and varying the estimation technique will generally leave their dynamics unchanged.

We proceed to present the outcome of the model wherein we consider Audit and push out ownership structure due to collinearity. The outcome is presented in table 7 and its corresponding robustness check results is presented in table 8.

Table 7: GLS REGRESSION Model with Audit, Financial Performance

	(1)	(2)	(3)
VARIABLES	OSS	ROA	LFINPFM
CAS	0.0702*	-0.0766***	0.000798***
	(0.0374)	(0.0225)	(0.000239)
LBXTERISTIC	5.868***	-1.800**	0.0238***
	(1.266)	(0.761)	(0.00808)
1.AUDITBAC	-4.703*	1.583	-0.0289*
	(2.697)	(1.620)	(0.0172)
LMFSZ	3.929***	1.508*	-0.00339
	(1.466)	(0.881)	(0.00935)
LTLIAB	16.42***	2.282**	0.0186*
	(1.628)	(0.978)	(0.0104)
Constant	18.22***	62.72***	1.356***
	(3.850)	(2.313)	(0.0246)
Wald chi2	1655.88	56.89	115.35
	[0.000]	[0.000]	[0.000]
Observations	924	924	924
Number of countries	44	44	44

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Source: Authors computation from STATA 17, 2023

From table 7, when we now consider Audit, we observe a variation in the signs of capital structure and equally board characteristics on ROA and OSS. These variables now become negative for ROA and positive for OSS. Implying percentage increase in board characteristics and capital structure will rather increase OSS and decrease ROA. This outcome contradicts the initial outcome when ownership structure was accounted for. This variation will imply that accounting for these two variables will make the other independent variables vary with respect to the variable considered.

However, the result for the aggregated index is still positive and significant for all the variables of interest and equally matches the signs and significance level with initial results in tables 5 and 6. The results further show that being audited by large firms leads to a decrease in OSS, an increase in ROA and a general decrease in the aggregated index of financial performance. For the aggregated index of financial performance, being audited by big large audit firms leads to a -0.0289 decrease in financial performance. And this outcome is observed to be significant at the 1 % level of significances.

Table 8: GLS REGRESSION Model with Audit for robustness check, Financial Performance

	(1)	(2)	(3)
VARIABLES	OSS	ROA	LFINPFM
CAS	0.0726*	-0.0591***	0.000668***
	(0.0377)	(0.0224)	(0.000240)
LBXTERISTIC	5.118***	-1.505**	0.0201**
	(1.288)	(0.767)	(0.00821)

1.AUDITBAC	-4.642	1.533	-0.0284
	(3.748)	(2.693)	(0.0247)
LMFSZ	3.822***	1.433*	-0.00320
	(1.454)	(0.859)	(0.00925)
LTLIAB	16.54***	1.918**	0.0219**
	(1.616)	(0.955)	(0.0103)
Constant	16.53***	63.28***	1.348***
	(4.520)	(3.007)	(0.0293)
Wald chi2	1655.88	56.89	115.35
	[0.000]	[0.000]	[0.000]
Observations	924	924	924
Number of countries	44	44	44

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Authors computation from STATA 17, 2023

When we employ the GEE technique to check for the robustness of the afore outlined outcome, the results presented in table 8 are generally consistent in signs with those of 5 but vary in terms of the level of significance. Worthy of note is that, being audited by large audit firms becomes insignificant but consistent in sign with GLS estimate. It is worth noting that both models are statistically significant given that their presented Chi2 statistics are all significant at 1%.

CONCLUSION

This study corroborates the findings of numerous other research works. Its originality, which we deem innovative, lies in directing attention to the sectors of Microfinance institutions within CEMAC. This paper demonstrates that corporate governance is crucial for enhancing the financial performance of Microfinance Institutions in CEMAC.

The study examined the impact of capital structure on the financial performance of microfinance institutions, revealing significant effects. Regression analysis indicated that capital structure positively influences the ROA and the constructed financial performance index but negatively influences the OSS of microfinance institutions in CEMAC when ownership structure is accounted for and audit is not accounted for. Consequently, the study concludes that capital structure plays a crucial role in enhancing the financial performance of microfinance institutions in CEMAC. The study's findings equally indicate that ownership structure (those which have NGO and NBFi forms) positively influences the ROA and the constructed financial performance but negatively influences the OSS of microfinance institutions to a significant extent. In line with the capital structure outcome, the constructed board characteristics index (board size and board gender diversity) positively influences the ROA and the constructed financial performance index but negatively influences the OSS of microfinance institutions in CEMAC when ownership structure is accounted for and audit is not accounted for. The study concludes that when ownership structure is accounted for and audit simultaneously left out, it significantly alters the financial performance of microfinance institutions in CEMAC. The study equally highlights the fact that microfinance size has a positive effect on ROA and OSS but a negative one on the computed finance performance index.

On the other hand, when audit is accounted for excluding ownership structure, we conclude

that capital structure positively influences the OSS and the constructed financial performance index but negatively influences the ROA of microfinance institutions in CEMAC. The constructed board characteristics index (board size and board gender diversity) positively influences the OSS and the constructed financial performance index but negatively influences the ROA of microfinance institutions in CEMAC when audit is accounted for and ownership structure not. Lastly, the study concludes that being audited by large firms leads to a decrease in OSS, an increase in ROA and a general decrease in the constructed financial performance index in microfinance institutions in CEMAC when ownership structure is not considered.

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