Corporate governance practices in microfinance institutions: Evidence from Uganda

Bob Ssekiziyivu¹, Rogers Mwesigwa¹, Juma Bananuka² and Zainab Namusobya²

Abstract: The purpose of this paper was to identify the corporate governance practices of Micro-finance institutions and to suggest strategies for improving corporate governance in Micro-finance institutions. This study was cross sectional and used a survey research design. Usable questionnaires were received from 179 respondents. Active Micro-finance institutions’ members were the study’s unit of inquiry. We analysed data with the help of statistical package for social scientists (SPSS). Findings suggest that Micro-finance institutions have boards though not effective, there are no fully constituted board committees, shareholders rights are sometimes not respected and accountability failures are common. Results further indicate the strategies for improving corporate governance such as having a board in place with financial expertise. Results are useful in policy formulation for example, Micro-finance institutions need to be regulated and a corporate governance code need to be put in place.

Subjects: Corporate Finance; Business; Management and Accounting; Corporate Governance

Keywords: corporate governance; SACCO

ABOUT THE AUTHORS

Bob Ssekiziyivu is a Lecturer in the Department of Business Administration, Makerere University Business School. He holds a degree of Master of Business Administration and Bachelor of Business Administration of Makerere University. His research interests are in the areas of corporate governance.

Rogers Mwesigwa is a Senior Lecturer in the Department of Business Administration, Makerere University Business School. He is a PhD student at Makerere University. His research interests are in the areas of corporate governance and project management.

Juma Bananuka is a Lecturer in the Department of Accounting, Makerere University Business School. He holds a degree of Master of Science in Accounting and Finance and Bachelor of Commerce of Makerere University. His research interests are in the areas of corporate reporting, auditing, taxation and Islamic banking.

Zainab Namusobya is a Teaching Assistant in the Department of Accounting, Makerere University Business School. She holds a degree of Bachelor of Business Administration of Makerere University.

PUBLIC INTEREST STATEMENT

Corporate governance is how a company or firm is managed and directed. In Uganda, Microfinance Institutions (MFIs) do not have a single set of corporate governance principles or guidelines unlike the listed firms. The Association of Microfinance Institutions of Uganda (AMFIU), whose membership is voluntary, has come up with the code of conduct for its members that clearly spells out the corporate governance principles. However, of over 2000 MFIs that exist in Uganda, about 85 are members of AMFIU. The implication here is that the majority of the MFIs have their own way of handling corporate governance issues. Worse still, the MFIs under Tier IV are not regulated. Recently, the Uganda government established the Uganda Microfinance Regulatory Authority whose operationalization is still under way. It is thus important for government and other stakeholders to put in place a proper regulatory framework where the regulator is empowered to enforce the code of conduct as may be established.
1. Introduction

Corporate governance is significant in improving the efficiency of an organization. Globally, corporate governance is generally regarded as the practice through which a company is managed and directed. According to OECD (2015), transparency and accountability, the board of directors, position of the chairperson and chief executive, and rights of shareholders are the key principles of corporate governance. In the presence of the principles of corporate governance as enshrined in OECD (2015) and other legal documents such as the Association of Microfinance Institutions of Uganda (AMFIU) directory 2017/2018, there are still corporate financial scandals. The increasing financial scandals have resulted into increased demand for improved corporate governance practices (Baydoun, Ryan, & Willett, 2013). In countries like Kenya, the life of Microfinance Institutions (MFIs) especially Savings and Credit Co-operative Societies (SACCOs) spans over decades unlike in Uganda where most MFIs fail after only a few years, and thus MFIs seldom live their “full lives” (Magutu, Khoya, & Onsongo, 2010). The use of good practices of corporate governance has proved to be the basic tool for success and continuity of co-operative societies. Members do not join MFIs, especially SACCOs, where there is no viable economic enterprise that would generate them income and where corporate governance is weak (Mpiira et al., 2013). SACCOs are crucial in the microfinance sector though their biggest challenge remains governance mechanisms. According to Labie and Péritteux (2008), the major challenges come from existence of inexperienced board of directors, limited individual influence, and poor relations between management and boards. The principles of good corporate governance include the presence of board of directors, separation of the roles of the chairman board of directors and the chief executive officer, and protection of shareholders rights and accountability (Kibirango, 2003). Further, the OECD (2015) provides the principles of corporate governance, and these are: ensuring the basis for an effective corporate governance framework, the respect for rights and equitable treatment of shareholders and key ownership functions, sound economic incentives for institutional investors and other intermediaries, the role of stakeholders in maintaining actice co-operation between corporations and stakeholders, disclosure and transparency, and the responsibilities of the board.

MFIs’ boards of directors are charged with the responsibility of ensuring sound and prudent management of affairs through the implementation of a sound and effective policy framework, and this is missing with the majority of MFIs (Uganda Co-operative Savings and Credit Union Limited (UCSCU), 2015). According to Mudibo (2005), MFIs’ board committee succumb to political pressure from external forces to implement activities that counter the management ethics and standards. Mudibo (2005) further indicates that there is no clear separation of roles of the credit committee, executive committee, and staff members. In a situation where there is no clear separation of roles, decision making is delayed, and conflict of interest is likely to happen (Mudibo, 2005). According to Institutional and Training Needs Assessment (ITNA) report of 2015, Kapeeka Savings and Credit Co-operative Society Ltd. experiences governance structure challenges in which the board consists of non-professional volunteers who assume highly technical responsibilities. There has been no schedule of board meetings, and the annual general meeting was last held in 2014 where only 15% of the members who attended were active members. Kapeeka SACCO has a two-member supervisory committee that has taken ten years without being changed and has operated with no work plan, there were no supervisory manual to guide the committee, and no training has been provided to the members. Furthermore, the SACCO currently does not provide for a mechanism to monitor the implementation of board resolutions, does not apportion responsibility, and does not provide a channel for communication between the various stakeholders.

In this study, we aimed to report the corporate governance practices in Ugandan MFIs since to the researchers’ knowledge, no such studies exist in Uganda. The aim of this study was achieved through a questionnaire survey of 179 active MFI members. Results suggest that MFIs have boards in place though they are not effective, there are no fully constituted board committees, shareholders rights are sometimes not respected, and accountability failures are common. Accountability may be improved by an effective audit committee and a functioning internal audit (Bananuka, Nkundabanyanga, Nalukenge, & Kaawaase, 2018). According to Bakalikwira,
Bananuka, Kaawaase, Musimenta, and Mukyala (2017), managerial competencies are significant in achieving accountability, while Mukyala, Bananuka, Basuuta, Tumwebaze, and Bakalikwira (2017) argue that accountability can be achieved through effective internal control mechanisms in place. It can therefore be argued that MFIs need to put in place an effective board with effective subcommittees in place; for example, every MFI board may have an audit committee and an internal audit function. According to Bananuka, Mukyala, and Nalukenge (2017), internal auditors in Uganda perform roles such as reporting on the system for generating financial information and on the reliability of financial statements, conduct periodic reviews to confirm whether or not management is complying with laws and regulations, review management’s arrangements for ensuring that the objectives of an entity are being achieved, evaluate the means for safeguarding the entity’s assets, evaluate the operating effectiveness of the governance structures and process, and support audit committees in performing their duties.

This study findings are thus important in a number of ways. First, the corporate governance practices of MFIs are reported, and this has managerial implications; for example, those charged with governance are now aware that they must be effective in performing their roles and shareholders’ rights need to be respected. It is important to separate the roles of the chairman and the Chief executive, and proper accountability is of paramount importance. Second, there is need for a regulatory authority for microfinance institutions, and a clear corporate governance code needs to be put in place. In Uganda, the microfinance authority is already established, but its operationalization is still under way. Government may need to speed up the process of operationalization of the Uganda Microfinance Regulatory Authority. Finally, results of this study add to already existing literature by documenting the corporate governance practices, challenges, and strategies for improving corporate governance MFIs.

The rest of the paper is structured as follows. Literature review is provided in the next section where the theoretical foundation is discussed and research questions are developed. Next is the methodology section, and this is followed by the results section. Discussion of results then follows. The last section is summary and conclusion.

2. Literature review

2.1. Theoretical foundation
In this study, we employ the agency theory that explains the relationship between the principal and the agent. The principal delegates the running of a business to the committee members who are the shareholders’ agents (Clark, 2004). Daily, Dalton, and Canella (2003) argued that agency theory is ideal in explaining corporate governance studies because it is conceptually simple and reduces the corporation into two participants, that is to say managers and shareholders. The agency theory suggests that employees or managers in an organization can have self-interests and goals (Abdullah & Valentine, 2009), and these can be minimized by the auditors. Auditors can check what management does in the absence of the shareholders. The shareholders monitor management activities through a well-constituted board of directors. The board of directors must also appoint the various committees, especially the audit committees, which according to Bananuka et al. (2018) can review corporate accounting information and liaise with external auditors. In the agency theory, the shareholders expect the agents to act or work and make decisions in the principal’s interests, while on the contrary, the agents may not necessarily or willingly make decisions in the interests of the principals (Jensen & Meckling, 1976). Certainly, what should be noted is that the problem arising from the separation of ownership and control in agency theory has been confirmed by several scholars including Davis, Schoorman, and Donald (1997). When the interests of the shareholders are not aligned to those of agents, the resources under the control of managers are not put to proper use, and in turn, accountability for such resources becomes questionable. Therefore, boards who represent the interests of shareholders are put in place to check what managers of MFIs do. These managers are expected to be
2.2. Corporate governance practices

Corporate governance is forming a balance between socioeconomic, individual, and communal goals while encouraging the efficient use of resources, accountability, the use of power, and stewardship at the same time, aligning the interests of individuals, corporations, and society (Mohamad & Saad, 2010; Nkundabanyanga, Ahiauzu, Sejjaaka, & Ntayi, 2013; OECD, 2015; Wakaisuka, Aduda, Wainaina, & Cyrus Iraya, 2016). At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. Corporate governance goes beyond simply establishing a clear relationship between shareholders and managers. According to (OECD, 1995), corporate governance involves a set of relationships between a company’s management, board, shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, the means of attaining those objectives are obtained, and performance of the company is monitored. In this study, we define corporate governance as how an MFI is managed and directed.

Corporate governance practices refer to the principles of governance as highlighted by Cadbury report (1992) and OECD (2015). The corporate governance principles include respect for the rights of shareholders, equitable treatment of all stakeholders, responsibilities of the board, transparency, and disclosure (Sanda, Mikailu, & Garba, 2005). Good corporate governance practices dictate that the board of directors governs the corporation in a way that maximizes shareholders’ value and that serves the best interest of society. According to Keyes (2014), governance best practices will positively impact on every company’s performance and long-term viability. According to Keynes (2014), the best governance practices are building a strong qualified board of directors and evaluating performance. Boards should be made up of directors who are knowledgeable, have relevant expertise, are qualified and competent, have strong ethics and integrity, are of diverse backgrounds and skill sets, and have sufficient time to commit to their duties. Defining roles and responsibilities of the board and the chief executive is another important principle of corporate governance (Keynes, 2014). Agumba (2008) further asserted that SACCOs’ governance is concerned with allocation of power and authority between the clients, the board, various committees, and management.

According to Mudibo (2005), MFIs’ governance structure is made up of board of directors, subcommittees of the board like the audit committee, managers, and other staff. UNCTAD (2006) states that one of the major responsibilities of the board of directors is to ensure that shareholder and other stakeholders are provided with high-quality disclosures on the financial and operating results of the entity. Many shareholders and stakeholders would be interested in information that would help them determine that management is running the enterprise with the best interest of all shareholders and stakeholders in mind and not to unduly benefit any related parties. Nalukenge, Tauringana, and Ntayi (2017) document that corporate governance mechanisms improve internal controls over financial reporting. The corporate governance mechanisms identified by Nalukenge et al. (2017) rotate around an effective board in terms of its independence, role performance, chief executive officer (CEO) duality, and financial expertise of the board. However, Nalukenge et al. (2017) note that board independence and CEO duality are not significant predictors of internal controls over financial reporting but note that board role performance and financial expertise are significant predictors of internal controls over financial reporting in MFIs.

The code of conduct for Association of Microfinance Institutions of Uganda (AMFIU) members clearly puts forward the principles of corporate governance for member MFIs. According to AMFIU directory 2017/2018, the code of conduct for AMFIU members requires all member institutions to incorporate a
formal governance system that is transparent and professional in a way that they adopt the following sound practices of corporate governance: Observe high standards of governance by inducting persons with good and sound reputation as members of board of directors; Endeavor to induct independent persons to constitute at least one-third of the board; Appoint an audit committee of the board with an independent director as chairperson; Ensure transparency in the maintenance of the books of accounts and reporting/disclosure of financial statements by qualified auditors; Produce a compliance report indicating the extent of compliance with the code of conduct; Ensure that the institution abides by the laws of the land, the laws of the legal status under which it is registered and the bye-laws of the institution. Of the over 2000 MFIs in Uganda, only 85 MFIs are members of AMFIU, and this implies that the code of conduct is only applicable to those MFIs. It is also unclear whether AMFIU has the necessary enforcement mechanism.

Strong internal controls and managerial competencies are significant predictors of accountability (Mukyala et al., 2017), and yet accountability is an indicator of good corporate governance. Bananuka et al. (2018) argue that accountability can be ensured through financial reports. To achieve proper accountability, there is need to have an effective audit committee to monitor internal controls that are necessary to achieve proper accountability. Once an audit committee is in place, it may appoint an internal audit whose roles are broadly categorized into review and evaluation of the effectiveness of internal controls, risk management, regulatory compliance, and improving governance processes (Bananuka et al., 2017, 2018). The foregoing discussion leads to the following research question:

**RQ1: What are the corporate governance principles of MFIs?**

### 2.3. Corporate governance challenges

The board committee sometimes are bound to succumb to political pressure from external forces to implement activities that are against the management ethics and standards (Mudibo, 2005). It has been pointed out that the board of directors is sometimes prone to conflict of interest when making decision, and this translates into corruption. In most cases, this has resulted to gross mismanagement and misappropriation of funds by some elected officials who abuse the trust of the members (Mudibo, 2005). Because of lack of professionalism, illegal and unauthorized investments are experienced in MFIs. Also, leadership wrangles and endless litigations due to conflicts end up to wastage of resources and loss of focus in terms of sound development of MFIs (Wanyama, Burton, & Helliar, 2009). At the board level, the oversight and management operational responsibilities are inadequately defined in the by-laws of co-operative societies (Mudibo, 2005), and this gap opens room for major concerns like making strategic decisions that do not follow an established procedure. According to Labie and Périlleux (2008), corporate governance tends to be more complex in management structures of MFIs due to their democratic principle for decision making but also because of their ownership. In Uganda, MFIs are owned by members with little knowledge on corporate governance. Directors of MFIs in Uganda are elected among members, and there are no uniform and clear academic qualifications for a member of an MFI to occupy any position on the board. Also, leadership duality would diminish the control power and independence of the board (Tusiime, Nkundabanyanga, & Nkote, 2011). The implication of leadership duality (where the position of chairman board and that of the CEO is occupied by one individual) is that the non-executive directors cease to have powers to control and monitor activities of the executive directors.

According to Mwesigwa, Nansiima, and Suubi (2014), the boardroom composition is full of political appointee without management skills hence affecting the decision making and long-term plans of an organization since most of them act like rubberstamps for decision taken outside the board and MFIs are unexceptional. The majority of organizations are faced with corruption practices like engaging in bribery, which leads to mismanagement of funds hence affecting the operations of the organization. Deciding on the board size and composition is another challenge
that firms encounter. The concept of board independence is one of the most challenging aspects of corporate governance in many organizations. There is a large degree of variation in descriptions of what constitutes an independent director (Becht et al., 2002). A strand of literature confirms that corporate governance is a prime weakness of MFIs (Branch & Baker, 1999). Labie and Périlleux (2008) highlight four critical governance issues in MFIs, which are: First, conflict between net borrowers (have more loans than savings) and net savers (have more savings than loans). Second, the MFI board can be made up of elected members who may have conflicts of interest in one way or the other, thus resulting into sub-optimality in governance rather than striking a balance between net savers and net borrowers. Third, there are normally conflicts between owners and managers. By their nature, MFIs’ growth is supported by services of professional managers. As the MFI grows, professional staff have to be employed, and problems of governance will arise if volunteer board committees attempt to engage in operational decision making rather than in strategic management and decision making (Branch & Baker, 1999). The foregoing discussion leads to the following research question:

RQ2: What are the corporate governance challenges of MFIs?

2.4. Strategies to improve corporate governance

Henman (2015) suggested strategies to improve corporate governance, and these include; formulating a strategy for the board’s critique and have the strategy drive the agenda and effective board governance that involves assessing the strategy and communicating regularly with various stakeholders. The organization must evaluate the composition of the board, not just the performance of the directors, encourage regular evaluations of directors, and have a clear, agreed-upon purpose for conducting the evaluation (Henman, 2015). To improve corporate governance of MFIs, there is need to have a strong internal control mechanism, and this can be achieved when there is an effective audit committee and a functioning internal audit (Bananuka et al., 2018). According to World Development Report (2017), there are three core functions to produce better governance outcomes, and these are: boost commitment to policies in the face of changing circumstances, and this would help, for example, in cases where decision makers spend windfall revenues instead of saving them for the future, or when leaders renege on peace building agreements in the absence of binding enforcement; enhance coordination to change expectations and elicit social desirable actions by all; and financial stability. A report by Public Management and Governance Research Group (2013) highlights engagement and stakeholder participation as a strategy through which governance can be enhanced. Participation can involve consultation in the development of policies and decision making, elections, and other democratic processes. Participation gives government access to important information about the needs and priorities of individuals, communities, and private businesses. While there may not be direct links between democracy and every aspect of good governance, accountability, transparency, and participation are reinforced by democracy. Secondly, transparency and open information systems are important aspects of good governance as they are critical for the private sector to make sound decisions and investments. Accountability and the rule of law require openness and good information so that higher levels of administration, external reviewers, and the general public can verify performance and compliance to law. Stakeholders have access to a vast amount of important information, and dissemination of this information can be enabled through transparency and open information systems.

According to Boutros (2015), organizations striving to improve governance need to take a close look at their internal business structures, processes, and projects. An effective governance structure must be lean, simple, and straightforward. This starts with the creation of an executive committee devoted to aligning all levels of the organization so that they contribute to achieving defined strategic goals and objectives. Members of the executive committee need to review the
organization and its investment portfolio to make sure strategies reach their intended goals. A truly great executive committee will also review organizational performance (including processes and policies) to anticipate future needs and avoid regulatory infractions. Directives from the executive committee flow down the organizational chain to members of various sub-committees. Sub-committees usually include department managers who have the ability to make changes within their jurisdictions. Sub-committees need to investigate performance to decide whether given projects, processes, systems, or departments attained their goals. In many cases, they will have to propose changes or ideas that will further improve processes and systems. The executive committee can then review these essays to determine whether they want to endorse these paths and commit investment funds or create new plans or goals for improvement. If the organization’s strategic plan needs revision, changes ultimately come from the executive committee. The above discussion leads to the following research question:

RQ3: What are the strategies for improving corporate governance in MFIs?

3. Methodology

3.1. Research design, population, and sample
The study adopted a cross-sectional and survey research designs. Cross-sectional research design is a type of observational study that analyzes data collected from a population, or a representative subset, at a specific point in time (Saunders, Lewis, & Thornhill, 2007; Sekaran, 2003), while a survey research design provides a plan for a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population (Creswell, 2014). Stating the study population was not necessary since purposive sampling method was used to select the respondents. Because we do not have a list of active MFI members, it was difficult to use probabilistic sampling techniques such as simple random sampling. We instead used non-probabilistic sampling techniques and, specifically, purposive sampling where we selected among the adult population only those members with active accounts in MFIs regardless of whether they were board members or mere MFI members. Questionnaires were distributed to 198 respondents, out of which 179 respondents were able to complete the questionnaire in the desired time frame of 3 months.

3.2. The questionnaire and variables measurement
A five-point Likert-scale questionnaire ranging from strongly disagree to neutral to strongly agree designed to measure the opinion of a respondent was utilized. Questionnaires have previously been used by previous scholars within the behavioral discipline targeting a large audience especially of 30 respondents and above (see Bakalikwira et al., 2017; Bananuka et al., 2017, 2018; Mukyala et al., 2017). Questionnaires may contain close-ended questions and open-ended questions. Open-ended questionnaires encourage respondents to give their opinion fully and with as much nuance as they are capable (Bananuka et al., 2018; Sudman & Bradburn, 1982). However, this approach was not applicable. This study utilizes a questionnaire with close ended questions since it is aimed at calculating the mean ratings of the extent of agreement with the statements given. The questionnaire design is based on reviewing the existing relevant literature. In this study, we utilize transparency and accountability, the board of directors, position of the chairperson and chief executive, and rights of shareholders as measures of corporate governance, and this is in line with the existing literature (see Nalukenge et al., 2017; Kibirango, 2003; OECD, 2015; Leblanc & Gillies, 2005; Heidi & Marleen, 2003; Agrawal & Chadha, 2005).

3.3. Validity and reliability of the research instrument
Content validity index and Cronbach’s (1951) α were used to test the validity and reliability of the scales as measures of the study notions. If the Cronbach α coefficient is above 0.70, according to
Nunnally and Bernstein (1994), the instrument is reliable. For this study, the Cronbach $\alpha$ coefficient is above 0.70 as this implies that the instrument was reliable. Reliability is the ability of a measure to produce consistent results when the same entities are measured under different conditions (Field, 2009). Validity determines whether the research truly measures that it was intended to measure or how truthful the research results are (Golafshan, 2003, p. 599). Field (2009) categorizes validity as criterion validity and content validity. To ensure validity, the questionnaire was given to two academicians, two practitioners, and one knowledgeable person to assess whether it is capable of measuring what is intended to measure. The overall content validity index was 0.95, and this is an indicator that our instrument was valid.

3.4. Data processing and analysis

Data were checked to identify missing values and any inconsistencies in responses given by the respondents. Simple frequency runs were made to screen the data so as to identify missing values using series of means value replacement method (Field, 2009). The identified values were a result of omissions made by respondents and constituted less than 1% of the data, and thus, considered inconsequential (Little & Rubin, 2002) to suppress the standard deviation (Field, 2009; Mundfrom & Whitcomb, 1998). The fact that missing values were as a result of omissions and unrelated to other values or variables met the criteria of data missing completely at random (Acuna, Coaquira, & Gouzalez, 2003; Little & Rubin, 2002). Having cleaned the data, descriptive statistics were run. This was followed by confirmatory factor analysis run. Data analysis was done with the help of Statistical Package for Social Scientists (SPSS) program.

4. Results

4.1. Corporate governance practices

This study's first research question was to find out the corporate governance practices in Ugandan MFIs. This research question was answered by administering a questionnaire and requiring respondents to respond to the statements in the questionnaire. We analyzed the data by running descriptive statistics so as to identify those statements whose mean is above 3.50 given that the questionnaire was designed on a 5-point Likert scale. This was followed by factor analysis aimed at confirming those statements that explain corporate governance in Uganda. Factor analysis helped to identify the most relevant statement items that explain corporate governance practices in Ugandan MFIs. Results in Table 1 indicate that, corporate governance practices are such that the board has respect for the rights of shareholders and that there is equitable treatment of all shareholders. It is also important to note that transparency is a key practice by management, as evidenced by a mean of 3.89. The standard deviations for most statement items were below 1, and this means that there was consistence among respondents. The results further suggest that internals are not sound, and this is evidenced by a low mean of 3.30, and also the board does not consult staff before making decisions (Mean = 3.27). However, a maximum score of 5 is an indicator that every statement item indicated has an explanation of the current corporate governance practices of MFIs in Uganda.

We ran factor analysis to identify those corporate governance practices, challenges, and strategies for improving corporate governance in MFIs. Before executing factor analysis for our scales, we assessed the suitability of the data for factor analysis based on sample size adequacy and the Keiser-Meyer-Olkin (KMO) and Bartlett tests. The KMO and Bartlett's (1954) test of sampling adequacy was computed to ensure that factor analysis yields different and reliable factors (Kaiser, 1974). Field (2009) explains that the values of KMO and Bartlett tests range from 0 to 1. The following criteria is used to assess and describe the sampling adequacy: Below 0.5 = unacceptable, 0.5 to 0.7 = Mediocre, 0.7 to 0.8 = Good, 0.8 to 0.9 = Great and above 0.9 = Superb (Field, 2009; Kaiser 1974). The results show that the KMO values for the corporate governance practices were 0.719, values for corporate governance challenges were 0.678, while the values for strategies for improving corporate governance were 0.731. Bartlett's test of
sphericity in all scales also reached statistical significance, that is to say significant value was 0.000 for each scale.

### 4.1.1. Confirmed factors for corporate governance practices

On running factor analysis for corporate governance practices, four components were generated. Component 1 put together all factors that explain the board of directors in terms of its effectiveness in performing their responsibilities, component 2 has items that tap into rights of shareholders, component 3 groups items that tap into the position of the chairperson and chief executive, while component 4 includes those items that tap into accountability and transparency. The four components are grouped in such a way that the principles of corporate governance in Uganda as issued by the Capital Markets Authority in 2003 are clearly represented. It can be noted that the board of directors perform their responsibilities of providing guidance to management regarding the strategic direction for the institution, consult staff before making decisions, and establish good internal controls among others. Table 2 results further indicate that there is equitable treatment of shareholders and the board has respect for the rights of shareholders. There are set ethical standards that are acceptable to the organization; for example, the chairman has his roles clearly separated from

### Table 1. Descriptive statistics for corporate governance practices

<table>
<thead>
<tr>
<th>Item</th>
<th>n</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board has respect for the rights of shareholders</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.96</td>
<td>1.03</td>
</tr>
<tr>
<td>There is equitable treatment of all stakeholders</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.83</td>
<td>1.03</td>
</tr>
<tr>
<td>The responsibilities and roles of the board are clearly defined</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.63</td>
<td>1.09</td>
</tr>
<tr>
<td>Transparency is a key practice by management</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.89</td>
<td>.896</td>
</tr>
<tr>
<td>The SACCO has built a strong qualified and professional board</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.69</td>
<td>.983</td>
</tr>
<tr>
<td>The board consists of members with diverse backgrounds and skills</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.64</td>
<td>.981</td>
</tr>
<tr>
<td>There are set ethical standards acceptable in the organization</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.64</td>
<td>1.05</td>
</tr>
<tr>
<td>There is easy flow of information between staff and the board</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.68</td>
<td>1.07</td>
</tr>
<tr>
<td>There is clear flow of information amongst staff, customers and the board members.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.72</td>
<td>.924</td>
</tr>
<tr>
<td>My SACCO has clear lines of accountability among the board and management.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.40</td>
<td>.959</td>
</tr>
<tr>
<td>The SACCO engages in effective risk management</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.22</td>
<td>1.06</td>
</tr>
<tr>
<td>There are systems for monitoring and evaluating compliance</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.31</td>
<td>.960</td>
</tr>
<tr>
<td>Our board provides proper guidance to management regarding the strategic direction for the institution</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.37</td>
<td>.971</td>
</tr>
<tr>
<td>The board consults staff before making decisions</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.27</td>
<td>1.01</td>
</tr>
<tr>
<td>The board has established good internal controls</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.30</td>
<td>1.01</td>
</tr>
</tbody>
</table>

Source: Primary data.
those of the chief executive, and it can never at one point happen that, the chairman performs the roles of the chief executive unless agreed in a formal manner or in case of a crisis.

### 4.2. Corporate governance challenges

Results in Table 3 indicate the corporate governance challenges, and they mostly include succumbing to political pressure (Mean = 3.58), board committees not fully constituted (Mean = 3.76) among others. The standard deviations for all statement items are below 1, and this indicates that there was consistence among respondents in expressing their opinions.

### 4.2.1. Confirmed factors for corporate governance challenges

Table 4 results group the corporate governance challenges into four. Results suggest that the board of directors is not effective as expected. Governance of MFIs is not adequate given that quite for a long time, there has not been any central regulator of MFIs in Uganda. MFIs are governed by the local indigenous people with the help of government officers at every district known as District Commercial Officers who are also overwhelmed with other assignments. Because of the minimal regulatory framework, there is no strict defined term of office for the board members, that is to

![Table 2. Confirmatory factor analysis for corporate governance practices](https://doi.org/10.1080/23311975.2018.1488508)
say, the board members can stay in office up to infinity. The committees of the board are not always fully constituted, and yet the board is expected to establish committees such as the remuneration, audit, and nomination committees. There are always conflicts between the members of MFIs (shareholders) and the board, and this may be interpreted by failure of the board to respect the rights of shareholders. It can be noted that, MFIs in Uganda are faced with challenges of ineffective boards, accountability failures, minimal respect for shareholders, and minimal independence of board members.

4.3. Strategies for improving corporate governance

Table 5 presents those strategies for improving corporate governance in MFIs, and such strategies include among others selection of board members with skills and experience, that is to say, board members must have either been board members elsewhere or worked in an accounting or microfinance environment. Further, results indicate that key stakeholders must be involved in key management decisions; for example, key clients and those with majority shares need to be involved in all stages aimed at improving corporate governance.
4.3.1. Confirmed factors for strategies for improving corporate governance

As can be seen from Table 6, there are a number of strategies that can be employed to improve corporate governance in MFIs. The confirmed strategies include selecting board members with financial expertise and evaluation of the board, among others. It is also important that key stakeholders are engaged in managing the MFI, and there is need to reinforce accountability. Accountability, according to Bananuka et al. (2018), may be strengthened by an effective audit committee and a functioning internal audit. There is need to establish deterrence measures, and one such measure is the establishment of a regulatory authority and a strong board backed up by the various committees.

5. Discussion

5.1. Corporate governance practices

According to the present results, the corporate governance practices of MFIs in Uganda are now identified. In Uganda, MFIs try to ensure that there is a board of directors in place who are appointed by the shareholders. These appointed board of directors supervise management and staff on behalf of the shareholders, and this is in line with the agency theory. Based on factor analysis, the corporate governance practices in Ugandan MFIs are such that the board provides guidance to management regarding the strategic direction of the institution and consults staff before making decisions. The board performs roles such as ensuring that there are systems for
monitoring and evaluating compliance with laws and regulations, ensuring effective risk management and establishing good internal controls. This study findings are consistent with Nalukenge et al. (2017) who found that board role performance as one of the mechanisms of corporate governance is significantly associated with internal controls over financial reporting. MFIs management and board have respect for shareholders, and this is in line with the principles of corporate governance as enshrined in the principles of corporate governance for listed firms in Uganda as issued by the Capital Markets Authority in 2003 and those of OECD (2015).

Accountability and transparency is another key principle of corporate governance identified in this study, and this has been mentioned in a number of corporate governance practices of different organisations. Accordingly, the code of conduct for AMFIU members requires member firms to ensure transparency in the maintenance of books of accounts. By ensuring transparency, there must be full disclosure of the entity affairs, and this probably can be done through preparing financial reports. The financial reports prepared may not portray the correct image of the MFI until they are subjected to audit. Audit may be done by internal auditors who ensure that the internal controls for preparing financial reports were adequate; audit committees also review the accounting information, while external auditors verify the truth and fairness of financial statements.

<table>
<thead>
<tr>
<th>Item</th>
<th>n</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The composition of the board should be routinely evaluated.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.44</td>
<td>.966</td>
</tr>
<tr>
<td>Selected board members must possess the skills and experiences required.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.56</td>
<td>.887</td>
</tr>
<tr>
<td>The board may need to conduct separate evaluations of key executives.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.34</td>
<td>.960</td>
</tr>
<tr>
<td>The board may need to boost their commitment and compliance to policies.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.42</td>
<td>.923</td>
</tr>
<tr>
<td>Coordination to elicit desirable actions by all may need to be enhanced by the board.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.40</td>
<td>.903</td>
</tr>
<tr>
<td>There should be credible mechanisms of rewards or penalties to performance shall be put in place.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.59</td>
<td>.891</td>
</tr>
<tr>
<td>There is need for stakeholder engagement in the development of policies and decision making.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.39</td>
<td>.932</td>
</tr>
<tr>
<td>Clear accountability and transparency need to be reinforced.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.44</td>
<td>1.01</td>
</tr>
<tr>
<td>A comprehensive monitoring program has to be strengthened.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.55</td>
<td>1.02</td>
</tr>
<tr>
<td>The processes and systems need to be well aligned with the goals.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.44</td>
<td>1.05</td>
</tr>
<tr>
<td>There is need for proper communication channels and systems adopted.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.54</td>
<td>1.02</td>
</tr>
<tr>
<td>Responses to emerging risks and opportunities need to be embraced.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.60</td>
<td>1.00</td>
</tr>
<tr>
<td>The responsibilities of the board, committees, and staff need to be clearly defined.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>3.73</td>
<td>1.05</td>
</tr>
<tr>
<td>Stakeholder involvement at all stages is key.</td>
<td>179</td>
<td>1</td>
<td>5</td>
<td>4.13</td>
<td>.942</td>
</tr>
</tbody>
</table>

Source: Primary data.
Bananuka et al. (2018) document that audit committee effectiveness and internal audit function are associated with accountability. Corporate governance practices in Uganda’s MFIs may not be taken for granted since some clients were dissatisfied with the conduct of the board and how accountability is ensured by those charged with governance of the various MFIs. The presence of a minimum score of 1 as indicated in the descriptive statistics of corporate governance practices is an indicator that corporate governance practices in Uganda are still not to the expectations of MFI clients, while in other cases, corporate governance practices is up to the expectation of clients, and this is evidenced by a maximum score of 5 in the descriptive statistics table for corporate governance practices. This finding is true since SACCOs and MFIs in general have no single legal framework in place. The implication of such is that, every MFI is governed as per the wishes of those who have control over it.

5.2. Corporate governance challenges
Based on factor analysis results for corporate governance challenges, the level of corporate governance in Uganda is still low; for example, there is no defined length of term of office for board members, and this means that board members will enjoy impunity especially if the shareholders still believe in them. The various committees expected of any board are not fully constituted and possess a danger to the governance of MFIs. Committees such as audit, nominating and remuneration are very critical for improvement of corporate governance, but if they are not

<table>
<thead>
<tr>
<th>Item</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected board members must possess the skills and experiences required.</td>
<td>.855</td>
</tr>
<tr>
<td>The composition of the Board should be routinely evaluated.</td>
<td>.735</td>
</tr>
<tr>
<td>The board may need to conduct separate evaluations of key executives.</td>
<td>.725</td>
</tr>
<tr>
<td>Responses to emerging risks and opportunities need to be embraced.</td>
<td>.825</td>
</tr>
<tr>
<td>There is need for proper communication channels and systems adopted.</td>
<td>.771</td>
</tr>
<tr>
<td>The responsibilities of the board, committees, and staff need to be clearly defined.</td>
<td>.700</td>
</tr>
<tr>
<td>Stakeholder involvement at all stages is key.</td>
<td>.543</td>
</tr>
<tr>
<td>Clear accountability and transparency need to be reinforced.</td>
<td>.874</td>
</tr>
<tr>
<td>A comprehensive monitoring program has to be strengthened.</td>
<td>.755</td>
</tr>
<tr>
<td>There is need for stakeholder engagement in the development of policies and decision making.</td>
<td>.676</td>
</tr>
<tr>
<td>There should be credible mechanisms of rewards or penalties to performance shall be put in place.</td>
<td>.863</td>
</tr>
<tr>
<td>Coordination to elicit desirable actions by all may need to be enhanced by the board.</td>
<td>.764</td>
</tr>
</tbody>
</table>

Eigen values | 4.031 | 1.750 | 1.379 | 1.069
Percentage variance | 17.942 | 17.891 | 17.041 | 15.702
Cumulative percentage | 17.942 | 35.833 | 52.875 | 68.577

KMO = 0.731; Bartlett’s test of sphericity: Approx. Chi square = 797.999, df = 66; Sig.0.000

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Source: Primary data
fully constituted, it is unlikely that MFIs will have proper governance in place. The present results suggest that the corporate governance principles such as respect for the rights of shareholders, equitable treatment of all stakeholders in corporate governance, responsibilities of the board, transparency, and disclosure are not followed as recommended by Sanda et al. (2005) and supported by Keyes (2014) that governance best practices will positively impact every company’s performance and long-term viability. Like as earlier said, descriptive statistics for corporate governance challenges (see Table 2) indicate a minimum score of 1, and this means that some MFIs do not experience such corporate governance challenges mentioned in this study.

The board of directors is prone to conflict of interest when making decision, and management does not implement activities that are in line with the management ethics and standards. According to Labie and Périlleux (2008), corporate governance tends to be more complex in management structures of SACCOs because of their democratic principle for decision making and also because of their ownership. As the SACCO moves into professional operation, problems of governance impair operation if volunteer management board committee engage in decision making rather than in decision-monitoring behavior. The board committee often succumb to political pressure, and there is poor appropriation of funds by some selected officials. Mudibo (2005) has pointed out that the board of directors is sometimes prone to conflict of interest when making decision, and this translates to corruption. In most cases, this has resulted to gross mismanagement and misappropriation of funds by some elected officials who abuse the trust of the members. The board members lack professionalism, and there is poor composition of board committee. Because of lack of professionalism, sometimes illegal and unauthorized investments are experienced in SACCOs. The findings concur with that there is the conflict between SACCO employees and volunteers. When they start, SACCOs often work with volunteers who understand their work as part of a personal commitment in a collective project which makes sense for their community. Later, when the structure becomes bigger, such volunteers do not have higher education to be able to handle more complex business of the SACCO. This results in weak administration of the institution, morale problems, and the inability of the SACCO to attract the quality of management that can produce strong results or resist the excessive interference of directors in operational decisions (Branch & Baker, 1999).

5.3. Strategies for improving corporate governance

The strategies for improving corporate governance in MFIs are now reported in this study. If corporate governance is to be improved in MFIs, there is need for board members to have the required skills and experience; for example, Nalukenge et al. (2017) documented that board financial expertise is positively associated with internal controls over financial reporting. The composition of the board need to be paid attention to; for example, the board should be comprised of executive and non-executive independent directors who should then become chairmen of various committees of the board. MFIs require a uniform governance structure with a proper code of conduct or clear principles of corporate governance. It is important that MFIs have a code of conduct that clearly indicates the responsibilities of the board, the various committees of the board, and how those committees can be constituted. Accountability is key to society and MFIs must devise means for ensuring proper accountability to various stakeholders.

This study findings are consistent to previous study findings; for example, Henman (2015) suggested strategies to improve corporate governance such as formulating a strategy for the board’s critique and have the strategy drive the agenda, effective board governance that involves assessing strategy, not setting it and directors need to communicate regularly with various stakeholders. Henman (2015) further suggests that an organization must evaluate the composition of the board, not just the performance of the directors, encourage regular evaluations of directors, and have a clear, agreed-upon purpose for conducting the evaluation. According to Boutros (2015), organizations striving to improve governance need to take a close look at their internal business structures, processes, and projects. An effective governance structure must be lean, simple, and straightforward.
Based on the present study results, the following suggestions are critical to improving corporate governance further. Management should ensure that there is timely and accurate disclosure on all material matters, including financial situation, performance, and ownership structure; the board should hold meetings with all those who have a say in determining how the SACCO is run. The board should consult managers who help keep the business running smoothly because they will generally have their finger on the pulse of the SACCO; interaction with workers on a regular basis by these managers provides them with a strong indication of how workers relate to one another. Determine what areas of improvement are needed in regard to company culture and relations among employees; The corporate governance framework of different MFIs should promote transparent and efficient markets, be consistent with the rule of law, and clearly articulate the division of responsibilities among different supervisory, regulatory, and enforcement authorities; The SACCOs should build and maintain an effective governance infrastructure since the board is ultimately responsible for all the actions and decisions of the SACCO, it will need to have in place specific policies to guide the organizational behavior. To ensure that the line of responsibility between board and management is clearly delineated, it is particularly important for the board to develop policies in relation to delegations. The board should appoint a competent chairperson who can demonstrate strong and acknowledged leadership ability, the ability to establish a sound relationship with the CEO, and have the capacity to conduct meetings and lead group decision-making processes and establish ethical codes of behavior and controls on insider loans to avoid conflicts of interest. To hold office on the management board, a member should be free of any relation with any of the SACCOs employees, should not have a contractual working relationship with the SACCO, and must not have committed any illegal acts or be delinquent in the payment of loans or any other obligations to the SACCO.

6. Summary and conclusion
This study aimed to establish the corporate governance practices of MFIs and suggest strategies for improving corporate governance in MFIs. This was achieved by a questionnaire survey of 179 active clients of MFIs, and results suggest that, MFIs in Uganda have board of directors in place though not effective, there are no fully constituted board committees, shareholders rights are sometimes not respected and accountability failures are common. Results further indicate the strategies for improving corporate governance such as having a board in place with financial expertise.

This study findings are thus important in a number of ways. First, the corporate governance practices of Ugandan MFIs are reported, and this has managerial implications for example, and those charged with governance are now aware that they must be effective in performing their roles and shareholders’ rights need to be respected. It is important to separate the roles of the chairman and the chief executive, and proper accountability is paramount. Second, there is need for a regulatory authority for microfinance institutions, and a clear corporate governance code needs to be put in place. In Uganda, the microfinance authority is already established, but its operationalization is still under way. Government may need to speed up the process of operationalization of the Uganda Microfinance Regulatory Authority. Finally, results of this study add to already existing literature by documenting the corporate governance practices, challenges, and strategies for improving corporate governance of Ugandan MFIs.

Like any other study, this study also has limitations and recommends areas for further studies. The study used only a questionnaire survey and this limited respondents answers to the statements in the questionnaire. Future studies may employ a mixed methods design where both the questionnaires and interview guides are used. The study explored corporate governance practices but did not document whether corporate governance mechanisms have an effect on quality financial reporting. Future studies may wish to provide evidence on whether corporate governance attributes have an upshot on financial reporting quality by assessing whether international accounting standards can be adopted by an entity with good corporate governance practices. The study’s population were active clients. There is need for another study that captures the views
of lower-cadre employees on the state of corporate governance in MFIs. Never the less, this study findings are useful in understanding corporate governance practices in MFIs.

Funding
The authors received no direct funding for this research.

Author details
Bob Ssekiziyivu
E-mail: bsekiiziyou@muub.ac.ug
ORCID ID: http://orcid.org/0000-0001-9739-0049
Rogers Mwesigva
E-mail: rmwesigwa@muub.ac.ug
Juma Bananuka
Zainab Namusoba
1 Department of Business Administration, Makerere University Business School.
2 Department of Accounting, Makerere University Business School.

Citation information
Cite this article as: Corporate governance practices in microfinance institutions: Evidence from Uganda, Bob Ssekiziyivu, Rogers Mwesigva, Juma Bananuka & Zainab Namusoba, Cogent Business & Management (2018), 5: 1488508.

References


