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Corporate Governance Characteristics And Its Effect On The Performance Of Microfinance Institutions In Ghana.

Joseph Yensu[1], Frank Boateng Agyei[2], Daniel Abayaakadina Atuilik[3]
(Institute Of Entrepreneurship And Enterprise Development, Kumasi Technical University, Kumasi, Ghana)
(Graduate School, ICN Business School, Nancy, France)

Abstract:
Background*: The study aimed at assessing the effect of some selected corporate governance characteristics on the performance of microfinance companies in Ghana. The corporate governance characteristics were CEO duality, board size, and board composition. Tobin's Q and Return on Assets were used as proxy for firm performance. To assess whether there are other factors apart from the above that affect profitability, firm characteristics such as firm size, fixed asset over total assets and debt structure were also used as control variables.*
Materials and Methods*: The descriptive and the GLS panel regression analysis were used to analyse the data of 25 microfinance companies spanning from 2005 to 2016 in Ghana.*
Results*: We realized that, board size had a positive impact on ROA but it had a negative impact on Tobin's Q. The study found a negative impact of CEO duality on Tobin's Q and a positive impact on ROA. For board composition, the study found that there was a negative and significant impact of board composition on ROA and a positive impact on Tobin's Q. Furthermore, firm size had a negative and significant impact on ROA. It had the same negative impact on Tobin's Q though not significant. Asset structure had a significant positive impact on ROA but impacting Tobin's Q negatively. On the other hand, there was also a positive impact of debt structure on ROA while impacting Tobin's Q negatively.*
Conclusion: *It was recommended that MFIs should be encouraged to improve all corporate governance directives in order to improve and sustain the industry.*
Keywords*: Corporate Governance; Corporate Governance Characteristics, Microfinancing, Microfinance Companies, Firm Performance.*

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I. Introduction

The aim of this research is to investigate how certain aspects of corporate governance affect the operations of microfinance institutions (MFIs) in Ghana. Companies have realized for some time now that improved confidence is a direct result of better governance, which also increases returns. Additionally, it has been shown that the types and attributes of corporate governance frameworks have a significant impact on elements that are external and internal to the company that aim to influence its performance[1,2].

It is important to note, that in mature market economies, corporate governance has grown in importance over time as a top policy priority. It is worth noted that, the concept is gaining traction as a primary policy concern in underdeveloped countries[1].

According to[3,4], companies with weak governance systems pay less dividends, are less profitable, and are more likely to face bankruptcy and low values. Conversely, companies with strong governance systems benefit from higher dividend payments. They typically benefit from high valuations, strong dividend distributions, limited bankruptcy risk, and huge earnings[5].

Stronger corporate governance systems enable organizations to perform well, easily obtain more money, and treat stakeholders fairly, according to a different study done in 2002 by[6,1]. In addition to their risky financing patterns and subpar performance, companies with extremely weak governance structures create an environment that is vulnerable to microeconomic crises, such as what happened in Asia in the 1990s and the US in 2007. Furthermore, they have shown how important corporate governance is for increasing market liquidity and investor confidence[3].

According to[7,8,9,10], microfinance encompasses the provision of both financial and non-financial services to destitute rural people, the majority of whom are considered unbanked. The main reasons for these individuals' exclusion have been the severity of their poverty and the stringent requirements set by banks, which at best act as barriers to their inclusion[9]. The proliferation of microfinance has been a direct result of the initiatives taken by people, groups, and agencies to guarantee that the underprivileged have access to credit. As

MFIs strive to meet their primary objective of serving low-income borrowers while maintaining financial stability, governance has emerged as a crucial concern that has the potential to encourage or thwart the expansion of these institutions. In fact, because donor funds—a significant source of funding for MFIs—are becoming increasingly scarce, the governance and financial sustainability of these institutions—as well as ensuring that their social objectives are met—have taken precedence over other concerns[11].

Scholars like[12,13] have all noted in the MFI literature that good governance has been a critical component used in strengthening stewardship as well as achieving MFIs primary goals and promoting higher growth of the industry. It has also been shown that many MFIs have found it challenging to fulfill their social mission of serving low-income clients while also attaining financial self-sufficiency.

There are very few research investigations that look at the connection between corporate governance standards and the microfinance industry in the body of existing literature. Actually, there aren't many studies that look at the exact connections between MFI performance and corporate governance. The few reports that exist are inconsistent with outcomes and benefits that comes with. Though research on the subject is limited, practitioners generally agree that better corporate governance standards lead to higher MFI profitability as well as performance[1,7,14].

Hence, an empirical investigation of the correlation between MFI and corporate governance is necessary to determine the impact of certain corporate governance attributes on business performance, particularly in the context of emerging market economies like Ghana[15,16]. In light of this, the study's goal is to investigate the connection between Ghana's microfinance industry performance and corporate governance principles.

Microfinance in Ghana: The idea of microfinance is not new in Ghana. People have always tended to save money or accept minor loans from people and organizations in the framework of self-help in farming trading or business endeavours. For instance, the data that is now available indicates that Canadian Catholic missionaries founded the first credit union in Africa in 1955 in Northern Ghana. But according to[17,18] susu, one of Ghana's microfinance programs, is believed to have started in Nigeria and moved to Ghana early in the 20th century.Because of the numerous financial sector policies and initiatives implemented by various governments since independence, the microfinance industry has prospered and developed into its current position over time. Among them are:

- The 1950s saw the introduction of subsidized credits;
- In order to specifically meet the financial needs of the fishing and agricultural sectors, the Agricultural Development Bank was established in 1965;
- The creation of Rural and Community Banks (RCBs) and the implementation of laws in the 1970s and early 1980s to encourage lending to small-scale businesses and agriculture, such as the requirement for commercial banks to set aside 20% of their whole portfolio;
- In 1986, the financial sector transitioned from a restrictive to a liberalized environment.
- The adoption of PNDC Law 328 in 1991, which permitted the creation of various non-bank financial organizations, such as credit unions and savings and loans associations.

Three major types of microfinance organizations have emerged as a result of the policies. These are the following:

- Regular providers, including community and rural banks, savings and loans organizations, and certain commercial and development banks;
- Semi-formal providers, including cooperatives, credit unions, and financial non-governmental organizations (FNGOs);
- Unofficial providers, including dealers, moneylenders, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), susu collectors and clubs, and other people.

While the Savings and Loans Companies are currently governed by the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL 328)[2], rural and community banks are governed by the Banking Act 2004 (Act 673) with ARB Apex Bank supervision.

Microfinance Institutions and Corporate Governance: The term "governance" was first used in the MFI literature in a 1997 article entitled "Effective Governance for Microfinance Institutions," which was released by the Consultative Group to Assist the Poor (CGAP). This paper, according to[19], focuses on the communication between the boards of directors and management of MFIs. In the research, there is a strong emphasis on the role corporate governance plays in enhancing the viability of the MFI sector [20,21].

Agents are employed by MFI proprietors to supervise business's activities, although these investments usually result in very little return. The principle has always expected to obtain assurances about the funds or gifts they have made[22]. A corporation that practices good corporate governance is more likely to release

information on a regular basis, this attracts market attention and puts pressure on the company to make changes[23].

[24,25]Point out that despite the remarkable global growth of microfinance and the emergence of a diverse range of MFI institutions, there have been several reports of unfair practices and a lack of transparency in these MFIs' operations. Based on existing evidence, corporate governance requirements appear to be lacking, and the strong competition among MFIs may be the cause of these abnormalities. The results have always been clientele loss and MFI's unviability. In order to ensure sustainability and transparency in the operations of microfinance, these MFIs need to incorporate strong financial and managerial standards, as stated by[26].

[27]Suggest that MFIs might enhance their operational efficiency and effectiveness by implementing solid corporate governance standards. Policymakers have been working and now debating whether corporate governance practice model is best suited for MFI operations, according to[28].

Corporate governance norms for MFIs are non-existent, despite the abundance of generic guidelines and consultancy studies on governance across all industries[14]. However, [29]argue that broad rules for corporate governance are sufficient for MFIs because adopting a specific framework on corporate governance would be extremely challenging due to cultural and geographical variances. Conversely, [21]argues that even when MFIs are studied from a theoretical standpoint, they nevertheless require a certain corporate governance framework. The challenge faced by MFIs, according to[30] is finding board members with the necessary experience who are ready and able to commit their time to doing efficient monitoring and supervision.

The success of MFIs has been seen to be impacted by a number of corporate governance criteria, including the presence of international directors, internal board auditors, board size, shareholder ownership, and the presence of female CEOs. [12]examined the relationship between corporate governance and firm performance using secondary data from third-party rating agencies and came to the following conclusions: female CEOs, internal auditors, and local directors can help MFIs perform financially better. Also, if there is a CEO/chairman duality, the organization's credit clientele grows. They recommend tailoring MFI governance to the needs of the industry.

Mersland proposes a three-dimensional approach, comprising of the relationship between MFIs and their equity investors, debt financiers, employees, borrowers, community, competitors and government regulations. According to him, this framework will help in identifying the various relationship dimensions within MFIs through a corporate governance perspective[23].

Mersland[14] further stresses the significance of conducting additional research in the MFI sector in order to have a better knowledge of the governance framework,that is appropriate for MFIs. Another suggestion was to do research to determine how different organizational forms would impact performance and increase competition in the microfinance sector.

However, the growing acceptance of microfinance as a vehicle for development and poverty alleviation has forced the sector to become financially self-sufficient, creating conflict between the two MFI's objectives (financial self-sufficiency and social orientation)[22].

Additionally, as noted by[21,22], the industry has experienced a number of problems as a result of the commercialization of MFIs from non-profit to for-profit organizations. Though the commercialization of MFIs has expanded their reach and allowed for greater scalability by providing a wider range of financial support to the majority who are underprivileged, it has also led MFIs to revert from their social objectives[31,32].

II. Material And Methods

This study applied quantitative research design to examine corporate governance characteristics and its effects on microfinance companies' performance in Ghana.

Study Population, Sample and Sampling Technique: For the purposes of this inquiry, the research population comprised all of Ghana's microfinance organizations. Ghana has around 484 registered and active microfinance companies[33].

Microfinance institutions in the Accra and Kumasi metropolitan areas made up the study's samples. It was also limited to those whose bank records were available at the time the data was collected. The choice of Accra Metro and Kumasi Metro was decided since these two areas are the hub of small-scale firms and businesses, which is where the operations of these microfinance banks thrive the most[33].

The purposive sample methodology was used to select the microfinance organizations. Selecting MFIs with up-to-date financial records was the specific aim of this sampling strategy. Twenty-five microfinance organizations were the subject of the investigation.

Type and Source of Data: The secondary panel data utilized in this analysis came from ARB Apex Bank, and a number of microfinance organizations. The same type of questionnaire was used for the in-person interviews and also used to collect data for the governance elements. The first step in choosing a sample was to obtain a list

of all microfinance institutions from the Bank of Ghana. Details regarding the selected banks were given by Bank of Ghana and ARB Apex Bank. Following that, a face-to-face interview was held to gather data on the governance factors[33,34,35].

Data is available for the years 2005–2016. The researchers were able to track the same set of data throughout time and observe how it evolved, thanks to the panel data.

Definition of Variables: The following variables were used for the study:

Performance Variables	Codes/Proxy	Definition
Tobin's Q	TOB	The ratio of market value to replacement value of a firm's assets.
Return on assets	ROA	return on assets is computed by dividing profits before interest and tax payments by total assets
Governance Variables		
Board Size	BSZ	Number of members serving on a firm's board
CEO Duality	CDUA	It takes the value of 1, if CEO combines as the board chair and 0 if there are different people occupying the two positions of CEO and board chairman
Board Composition	BCOM	The ratio of outside directors to the total number of Directors
Control Variables		
Firm Size	FMS	Size of the firm measured by the value of its asset base. (log of the assets)
Fixed Asset/Total Asset	FASTA	ratio of fixed assets to total assets
Debt Structure	DSTR	debt structure of a firm measured by the total of debts (both short and long term) divided by the total assets.

Model Specification and Statistical Analysis: The study used regression analysis to comprehend and pinpoint the relationship between governance variables and the microfinance organizations' performance. Both non-parametric and parametric approaches were used in the investigation. Panel data regression was used to conduct the regression; specifically, the GLS panel regression method because the GLS panel produced the most reliable results. Regression analysis was utilized in the study to allow for the observation and analysis of two-dimensional data (cross-sectional and longitudinal). This is the derivation of the equation:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + B_4X_4 + B_5X_5 + B_6X_6 + e$

Where,

Y - denotes firm performance variables, i.e., Tobin's Q, and Return on Assets for firms

B_i, $i=1……6$ - This represents the coefficients.

e - is the error term

X_1=Board Size, X_2=Board Composition, X_3=CEO Duality, X_4=Firm Size, X_5=Fixed Asset and X_6=Debt Structure.

III. Result And Discussion

Descriptive Statistical Analysis

The test findings for the descriptive analysis are included in Table 1, together with information about the mean, maximum, Jarque-Bera, Kurtosis, and standard deviation.

Table 1: Descriptive Statistics of Variables

	Mean	Std. Dev.	Min	Max.	Jarque-Bera	Kurtosis
Board size	7.45	1.69	5.0	11.0	36.727	4.248
Board Composition	0.258	0.1128	0.095	0.41	21.273	1.481
CEO Duality	0.28	0.471	0.0	1.0	45.222	2.433
Tobin's Q	0.682	0.436	0.130	1.566	8.184	2.510
Return on Asset	0.211	0.189	-0.75	0.78	24.551	4.662
Fixed Asset	0.188	25.446	0.012	0.364	274641.4	190.982
Firm size	14.34	5.13	11	33	1416.471	9.484
Debt Structure	1.129	6.037	0.087	71.197	279706.2	174.396

According to Table 1's results, the average board size is roughly seven, suggesting that MFI boards in Ghana have rather average board sizes. This supports[24] claim that the optimal board size is at least seven members. A standard deviation of 1.69 indicates that the maximum number of board members is 11, and it is clear that the sizes of the boards of microfinance companies are comparable. It is encouraging that MFIs in Ghana have small boards since this will improve their performance, as suggested by[33,34] who have shown that small boards benefit businesses. The results show that MFI boards are less independent in terms of composition, with only 26 percent of directors selected from outside the firms. It is also evident that only 28% of MFIs have

boards with a single member serving as both the chairman and the CEO. It follows that there is very little chance of agency issues among Ghanaian MFIs as a result of conflicts of interest.

According to Table 1, the average Tobin's Q mean ratio is 0.682, which suggests that a large number of microfinance organizations are not performing well at all on average. It appears that some businesses are hardly breaking even. The performance-indicating Tobin's Q ranges from a minimum of 13% to a maximum of 156%. There is significant diversity amongst firms in the Return on Assets (ROA). The data indicates that MFIs perform on average (21%), at a minimum of -75% and a high of 78% in relation to ROA. The standard deviation between firms is a large 0.189.

The results for the fixed asset to total asset ratio are also displayed in Table 1. The majority of microfinance organizations do not have fixed assets, based on the results. A mean of 0.188, a maximum of 0.364, and a low of 0.013 are present. Given the standard deviation of 24.57, it can be inferred that the majority of these MFIs have a very uniform distribution of fixed assets relative to total assets.

The findings also show that the majority of MFIs are modest in comparison to their asset base and that the majority of businesses finance their assets through debt in their capital structure. The ratio of bank assets to total debt is 1.129 on average.

The distribution of CEO duality, board composition, and Tobin's Q values is demonstrated to be regularly distributed. This is predicated on the values that represent Kurtosis and Jarque-Bera. On the other hand, the other variables display a leptokurtic distribution.

Relationship between Variables and Tobin's Q

The results of the regression analysis test of the relationship between governance variables and Tobin's Q have been presented in Table 2. The results depict mixed findings between the two sets of variables.

Table 2: Independent Variables and Tobin's Q

Variable	Coefficient	Std Error	t-statistic	Prob
Board Size	-0.001	0.007	-0.16	0.870
Board Composition	0.021	0.141	1.5	0.133
CEO Duality	-0.047	0.028	-1.68	0.094
Firm Size	-0.004	0.004	-0.89	0.372
Fixed asset	0.068	0.068	-1.01	0.314
Debt structure	-0.004	0.006	-0.67	0.504
Constant	0.731	0.096	7.64	0.000

Weighted Statistics, **Dependent Variable: TOB**

R-squared	0.973	Mean dependent var	1.059
Adjusted R-squared	0.960	S.D dependent var	0.935
S.E of regression	0.413	Sum squared resid	19.039
F-statistics	197.537	Durbin-Watson stat	0.832
Prob(F-statistic)	0.000		

The regression analysis's findings are shown in Table 2. Based on the findings, the board size had a coefficient of -0.001, meaning that a change of one unit in the board size would result in a corresponding negative change of 0.001 in the Tobin's Q of the company. With a p-value of 0.870, this result is statistically not significant. For board composition, a one unit change in the board's makeup would result in a 0.021 increase in Tobin's Q. That being said, this outcome is hardly noteworthy. Once more, a one-unit increase in CEO duality would result in a 0.047 decrease in Tobin's Q. There is likewise no statistical significance in this outcome. Although not statistically significant, the obtained firm size, fixed assets, and debt structure all show negative coefficients.

The value of the coefficient of determination (R^2) gives a value of 0.973, indicating that the model and the variables used explain 97.3% of the variability of the data.

Contrary to the claim made by[36,37] that higher board sizes improve Tobin's Q because they allow for a greater variety of perspectives and knowledge to be considered when making choices for the company. Once more, even really strong CEOs cannot rule over a huge board. This leads one to the conclusion that microfinance companies do worse the higher the board size. In order to understand Tobin's Q of MFIs in Ghana, board size is not important.

A favourable correlation has been shown between board composition and company performance by[38]. Board composition (BCOM), as shown in Table 2, supports these findings. They said that the presence of non-executive directors improves performance since they are not subject to the firm's management and can apply their extensive experience and knowledge in particular areas of the business.

Table 2 provides additional evidence that the two-in-one CEO/Chairman function has a negative association with Tobin's Q. This suggests that when the CEO also serves as the chairman of the board, the

company's Tobin's Q declines. This outcome is consistent with the findings of[39], who claim that duality limits the board's independence. Additionally, there is a decrease in the board's capacity to carry out its governance and oversight duties. Under this type of one-tier board structure, there is a tendency for conflicts of interest and agency issues to worsen. Additional research by[40,41] supports the division of the two tasks.

Further evidence, though not statistically significant, suggests that firm size (FMS) has a negative effect on Tobin's Q. This goes against the findings of this investigation. Irrespective of a company's size, inefficient use would not improve performance. This could be the cause. According to this finding, Ghanaian microfinance companies do not take advantage of their scale to increase productivity. Yet, the findings of the Asset Structure (FASTA) study reveal that the majority of MFIs in Ghana have a larger proportion of current assets in their asset portfolio. The rationale for this is that Tobin's Q performance decreases with increasing fixed asset levels.

Since there is a negative correlation between debt structure and Tobin's Q, the regression analysis results show that companies with a higher percentage of debt in their asset portfolio perform worse in terms of Tobin's Q. The table indicates that the performance of MFIs in Ghana is negatively impacted by a rise in a firm's debt position, even though the correlation is not statistically significant.

Relationship between Variables and Return on Assets (ROA)

The Return on Assets (ROA), a financial ratio that displays the amount of profit a business makes in comparison to its total resources, is another tool for assessing the performance of a corporation. It is generally expressed as the division of total assets by net income. Table 3 presents the findings of the regression analysis illustrating the connection between ROA and the other independent variables.

Table 3: Independent Variables and ROA

Variable	Coefficient	Std.Error	t-statistic	Prob.	
Board Size	0.011	0.009	1.17	0.241	
Board Composition	-0.491	0.198	-2.48	0.013	
CEO Duality	0.022	0.039	0.55	0.579	
Firm Size	-0.014	0.006	-2.42	0.016	
Fixed Asset	0.250	0.094	2.64	0.008	
Debt Structure	0.016	0.009	-1.76	0.078	
Constant	0.364	0.134	2.72	0.007	

Weighted Statistics, Dependent Variable: ROA

R-squared	0.178	Mean dependent var	0.329
Adjusted R-squared	0.152	S.D dependent var	0.198
S.E of regression	0.184	Sum squared resid	7.252
F-statistics	6.705	Durbin-Watson stat	1.173
Prob(F-statistic)	0.000		

The board size has a 0.011 coefficient, a 1.17 t-statistic, and a 0.241 p-value. Accordingly, there would be a 0.011 increase in the ROA of Ghanaian microfinance companies for every unit that the board size was changed. The board composition coefficient was -0.491, indicating that a change of 1 unit in board composition would result in a 0.491 decrease in ROA. This correlation was statistically significant, as indicated by the p-value of 0.013.

On the other hand, the p-value for CEO duality was 0.579 and the coefficient was 0.022. Accordingly, a one unit change in CEO duality would result in a 0.022 positive change in ROA, however this relationship is not statistically significant. With values of 0.250 and 0.016, respectively, the FASTA and debt structure both had a favourable impact on ROA. Firm size was statistically significant with a p-value of 0.016 and a coefficient of -0.014.

All independent variables, with the exception of board composition, had a negative impact on ROA, as Table 3 demonstrates. This finding is highly relevant in understanding the ROA of MFIs in Ghana. This bolsters the conclusions of[42] who claimed that when a board is enlarged excessively for reasons other than depth of experience and competence, it frequently results in an excessive number of outside members, which lowers performance. The ROA was positively impacted by board size, albeit not significantly, which might be explained by the tremendous amount of knowledge and skill these board members bring to bear on the firm's actions. CEO duality also improved ROA, albeit not much. According to[43], the question of whether CEO duality is advantageous depends on the size of the business and the difficulties it faces.

Firm size and FASTA each have a considerable negative and positive impact on the ROA of MFIs in Ghana. The reason why business size has a negative effect is because, regardless of the size of the company, inefficient utilization will not improve performance in any manner. Conversely, the positive impact indicates that ROA performance improves with increased fixed asset.

The regression study shows that companies with larger debt loads in their asset portfolios have greater return on assets (ROA). [44]reached the same result.

IV. Conclusion

This research aims to investigate how certain aspects of corporate governance affect the operations of microfinance institutions (MFIs) in Ghana. Businesses have long realized that improved confidence stems from stronger returns, which are facilitated by excellent governance. Furthermore, the nature and traits of corporate governance frameworks have been found to have a significant impact on a variety of external and internal variables that aim to influence the firm's performance.

Board composition, CEO duality, and board size were the elements of corporate governance. A reasonable board size for MFIs was indicated by the mean board size of roughly seven. The results show that MFI boards are less independent in terms of composition, with only 26 percent of directors selected from outside the firms. Moreover, it is evident that just 28% of MFIs have boards with a single member serving as both the CEO and chairman. This suggests that among MFIs in Ghana, the likelihood of agency issues brought on by conflicts of interest is quite low. As per the findings, the average Tobin's Q ratio is 0.682, which suggests that a significant number of microfinance enterprises are not performing effectively at all. These businesses appear to be barely breaking even, according to this proposal. There is a minimum of 13% and a maximum of 156% for Tobin's Q, which indicates performance.

The study determined that the primary corporate governance features of microfinance enterprises in Ghana were board size, gender diversity, CEO/chairman duality, and board composition following a thorough examination of the literature.

Firm-to-firm variations in Return on Assets (ROA) are evident. As compared to ROA, MFIs perform on average at 21%, with minimum and maximum values of -75% and 78%, respectively. The standard deviation amongst firms is considerable, at 0.189. A negative influence on business performance was discovered by the regression analysis to be caused by CEO duality, whereas beneficial effects on board size and composition were shown. Empirical data suggests that the majority of microfinance institutions in Ghana embraced a two-tier board structure, with distinct individuals holding the roles of chairman and CEO.

The majority of MFIs, according to the survey, were depending more on debt funding, and the debt structure had a favorable effect on business performance.

According to the regression analysis, the results vary depending on the variable used to measure MFI performance.

V. Recommendation

The report suggests the following in light of the research findings and their implications for the growth of Ghana's microfinance industry.

1. The study's conclusions suggest that MFIs focus closely on-board composition, firm size, and asset structure as these factors have a big influence on ROA performance. This will help the organization perform better overall.
2. Since firm size has a major impact on performance, it is advised that MFIs in Ghana make effective use of their firm sizes to improve performance.
3. Based on the study's conclusions, it is advised that companies make sure their CEOs don't play two roles, since this might have a detrimental effect on performance and minimize conflicts of interest and agency issues.
4. In conclusion, it is suggested that MFIs be motivated to enhance all aspects of corporate governance for the purpose of bolstering and maintaining the sector.

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