



The characteristics of the board of directors and financial performance of microfinance institutions (MFIs): The case of Cameroon

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Abstract

This paper has for main objective to verify the relationship between the characteristics of the board of directors and financial performance of MFIs in Cameroon. To do this, we evaluated the characteristics of the board of directors by: the presence of independent directors, the size of the board and the competence of the directors. Similarly we have apprehended MFIs financial performance by return on assets (ROA), operational self-sufficiency, the quality of the credit portfolio and productivity. The sample consists of 108 Cameroonians MFIs and we used the linear regression analysis. The results indicate that only the competence of directors improves financial performance. As against the presence of independent directors and board size are irrelevant.

Keywords: corporate governance, financial performance, micro finance institution, Cameroon

Introduction

The issue of governance has taken major recent decades through a critical concern of politicians, business leaders, media men and researchers (Charreaux, 2008). The concept of governance is involved in the management of global organizations in the functioning of a State and in the management of companies. Indeed, good governance practices have become favorable for the functioning of organizations. For corporate governance, proper operation is highlighted by the competing interests the most significant of which are those of the shareholders and managers. The daily management of the company by the leader leads shareholders to manage their investments. This control is through a creation of a board of directors. In this spirit, the separation of functions between owner-manager would facilitate that control. This function separation originates in the work of Berle and Means (1932) [9] entitled "The Modern Corporation and Private property" and was discussed extensively in the workplace as a university, given the numerous financial scandals experienced by some many major Western companies. The functions of owners and managers are so well defined shareholders act as controls and leaders that decision, their relationship is governed by a contract (Jensen and Meckling, 1976) [39]. So, corporate governance theory aims to demonstrate the superiority of the public firm to diffuse capital relative to firms to concentrate capital and especially to highlight the effectiveness of the separation of functions between ownership and management. Herein arises the issue of governance which is frequently generated by the issues of separation of capital providers and management functions (Berle and Means, 1932) [9]. This has been extensively discussed in recent decades to improve the efficiency of organizations. These must ensure their viability and this will depend on the quality of governance in relation to their performance. The financial literature on corporate governance suggests that the quality of governance mechanisms and proper functioning of the governance bodies

are no strangers to the good performance of organizations (La Porta *and al.* 2002). Thus the theories of governance therefore possible to study the influence of the quality of governance on performance. The study of corporate governance mechanisms should provide an understanding or explanation on the effectiveness of organizations forms.

The MFIs are probably organizations, they contribute greatly to the fight against poverty by providing micro-credit to low income individuals and role of these types of organizations is recognized. In Cameroon these institutions have contributed up to 10% of Gross Domestic Product (GDP) in 2017 according to the Ministry of Finance. The latter were nearly 418 MFIs (2016) and 417 (2017) licensed MFIs in Cameroon. Moreover, since 2008 it was found that, this Cameroonian economy sector is in crisis. In fact the first signs of weakness in this sector began in 1997 with the successive failure of several cooperative savings and credit between 2002 and 2012 we witnessed the collapse and closure of twenty MFIs¹. We have the case of Goldy Businessmen Fund (GBF), which went bankrupt in 2008 when the president of the board acting as controller and decision maker is allowed to open several credit agencies and to bring this his institution towards bankruptcy. We have the case of financial company of the estuary (COFINEST) in 2011 where some shareholders have granted loans they could not repay. More recently in 2017 we have the case of the Savings Bank and Investment (CADECI), Crédit Mutuel and Savings and Credit Fund for Entrepreneurship in Cameroon (CECEC SA) which were set provisional admiration². Crédit Mutuel

¹ Horizon +, n°43, March 2011, www.horizon-plus.com, «Micro finance in turmoil».

² «When the normal operation of the company is made impossible, either by the management, management or administration bodies, or by the shareholders, the competent court, acting rapidly, may decide to appoint a temporary administrator to 'temporarily ensure the management of social affairs'. (Uniform

meanwhile eventually went bankrupt in March 2019. Thus as noted Onomo and Fall (2012) ^[28], several African MFIs went bankrupt because of fraudulent business practice. For Lapenu (2002) ^[42], these management concerns that have recently emerged with in mind that governance was a key factor in the success or failure of microfinance institutions. Bad governance seems to be the overriding factor of dysfunctions observed in MFIs in Cameroon (Djawoe; 2013) ^[25]. So this is a fatal condition insofar the quality of governance from the characteristics of the board of directors, is a major element of the good financial performance of MFIs. This then begs the question:

The characteristics of the board of directors improve the financial performance of Cameroonians MFIs?

To answer this question, we aim to show that some characteristics of the board can improve the financial performance of MFIs in Cameroon. It will issue to present in a first section reviews the literature on characteristics of the board in relation to financial performance and derive hypotheses, in the second section will be discussed to present the methodological approach and the third section we discuss the results and discussions.

1. The characteristics of the board of directors and financial performance: theoretical approach and comprehensive review of the companies with a specificity of MFIs

Several analytical frameworks have gradually been highlighted in the literature to explain the features of the board. The board has its roots in the theory of Williamson's transaction costs in 1985, and its mission is to exercise a thorough check and guarantee the security of all transactions undertaken by the firm (Rachdi and Gaied, 2009) ^[52]. The role of the Board is to appoint, dismiss and to fix the remuneration of the executive. According to the agency theory, the disciplinary approach of the Board affects the efficiency of the firms. For the stakeholder theory, the role of the Board is to consider all groups with an interest in the firm, according to Godard and Schatt (2005) ^[31].

1.1. The composition of the board and financial performance of MFIs

In the late 80s, Jensen (1993) ^[38] thinks that, boards of directors did not play their full role because of lack of independents directors (Godard and Schatt, 2005) ^[31]. If the role of the board is to control the leader then the board should have a majority of independents directors (Rouby, 2008) ^[54].

According to the agency theory, the board is the main internal mechanism of governance and must have at her breast the presence of independent directors. A small representation of these in the board may have a negative impact on the decision of the firm, and have little control over the activities of managers (Lorsh *and al*, 2001) ^[45]. The specification between dependent and independent directors is particularly important to evaluate the distribution of powers within the board, the independent directors are neither partners nor significant shareholders (Charreaux, 2003) ^[18]. So the independent directors have no

business relationship with the company. For the agency theory, firstly the independent directors are better able to monitor the executive directors and have a significant effect on the reduction of agency problems through their roles control the other leaders. In this, the independence of these admirers highlights leader of sanctions for deviant strategies. This opportunistic behavior of the leader does not maximize the company's value. Pearce and Zahra (1992) believe that, by recruiting independent directors with experience this should be beneficial for the company. However, Godardt and Schatt (2000) state that, the composition of the board, measured by the ratio "internal members / external members" is not systematically correlated with company performance.

In the microfinance sector, unregulated MFIs and those located in countries with no substantial regulation must obviously set up their own criteria for an effective test to ensure that its board members have these critical features. Members (dependent and / or independent) must bring to the MFIs dosing qualities and skills that will be useful, such as audit skills, knowledge of the judicial and the target market, and a social perspective³. So the board is an important internal mechanism whose composition is one of the keys to success for MFIs (Hartaska, 2005) ^[34]. This author recommends that MFIs which have a high proportion of independent directors does not have a good financial performance.

Given all this, then we can thus formulate the first hypothesis is as follows:

H1: the presence of independent directors influences financial performance of cameroonians MFIs

1.2. The size of the board and the financial performance of MFIs

The issue of the size of the board is on the number of directors to be held by this body. In this context the size of the board plays an important role in the effectiveness of the system of governance of an organization and the optimal size for efficient operation of the board is eight (Jensen, 1993) ^[38]. The size of the board may vary in significant proportions from one company to another, within the limit of the range provided by law (Charreaux and Pitol-Belin, 1991). The OHADA Uniform Act (2014) in his article 416 noted that, public companies with board of directors may be composed of three (3) members at least and 12 members at most. A board of small administration must have at most ten members (Lipton and Lorsch; 1992). In this context the number of directors would be crucial to improve the performance of organizations. Thus, agency theory recommended that an advice of big size does not favor control effective decisions of the executive. It will be expediency for the latter to maximize its own value against that of shareholders. On the other hand the theory of resource dependence esteem that, an organization must imperatively increase the number of his administrators to acquire resources it has need and improve Consequently her performance. Lipton and Lorch (1992) from them, a large board takes much time to make decisions thus a board must consist of 8 to 9 members. For Dalton *and al* (1999), a broad of board allows the manager to maximize the

Act revised in 2014, relating to the law of commercial companies and the economic interest grouping in its title 6-provisional administration, article 160-1).

³ Concil of Micro finance funds, 2006 «Governance of listed MFIs»

suggestions from this board. As stated Freeman (1984), the role of the board is to consider all stakeholders, thus the board should be broad based representations of each party.

In microfinance, the empirical evidence linking the size of the board and financial performance of MFIs are divergent. Harstaska and Mersland (2012) [35], forming a sample of 278 MFIs from 60 countries, found that board size (the average size is 8 to 9 members) has a negative and insignificant effect on efficiency. Bassem (2010) [8], in the case of MFIs of the Euro-Mediterranean, found that more size of board increases, the financial performance increases. Dubreuil and Miranda (2015) [26] corroborate this result. But Tchakoute (2010) [56] based on a sample of 64 MFIs MIX during the 2001-2005 period, finds that the board size plays no role on financial performance (measured by ROA, and self-sufficiency operational).

All this allows us to deduce the following hypothesis:

H2: The financial performance of cameroonians MFIs is related to board size

13. The competence of members of board and the financial performance of MFIs

Cognitive theories of the firm give utmost importance to the internal creation of knowledge. These theories advocating the creation of value through knowledge of the actors. Good governance in particular is reflected in the diversity of skills in terms of experience, knowledge (Jeanjean and Stolowy 2006) [37]. In this sense, the members of a board of directors must provide diverse experiences and skills at the disposal of the company and its owners (shareholders). The panel of the directors must demonstrate skills and wide enough and diverse skills to evaluate those of the "leader" and be able to ensure that the organization's strategy is relevant to the social interest. According to Charreaux (2000) [17] board of directors priori must be composed of directors who may effectively participate in the creation of active skills and allow the leader to design a strategy for ease of organizational learning. Demanding qualities administrators will no longer perceive not only in terms of independence and expertise in monitoring, compared with the distinction dependence/ independence, but according to cognitive inputs can be assimilated in a collective or joint project. That way, the organisation must recruit administrators depending on the strategy to achieve the objectives and in other cases; these directors are recruited because they have a specific resource: a sharp and individual expertise. In this context, Godard (2006) [30] notes that, firstly it is important to consider specific skills of directors and secondly to introduce into the board a diversity of the directors with different experiences. It is in this sense that a board should engage in a march aimed at identifying the skills and distinctive qualities that should be included in future directors who create value for the company. In fact, the skills of administrators, social networks become predictors of the value created by firms (Marsal, 2011) [46]. The positive role of administrators in the creation of value occurs through consulting, expertise, experience, knowledge and skills they can bring regardless of internality or externality (Godard, 2006) [30]. These directors playing a major role in disciplinary board of directors, their cognitive significance seems relevant, especially in the creation of value.

In microfinance institutions, financial expertise and micro financial of board members is a major factor for these institutions (Rock *et al.* 2001) and turns to an anomaly in the micro finance institutions (De Briey 2005) [23]. The quality of governance equated with efficiency in a premium MFIs depends on board and foremost skills and each director profile. Simultaneously, these qualities must form a diversified mix of experience, knowledge, areas of expertise and backgrounds (Rock *et al.*, 1998) [53]. The skill deficit limits the ability of administrators to effectively ensure their MFIs control missions and strategic consulting (Tchakoute; 2010) [56]. According to Campion and Frankiewicz (1999), it is important to measure the competence of the board by the percentage of directors with financial expertise. Hartarska (2005) [34] shows that the financial expertise of the directors significantly improves the financial viability of MFIs. The author shows that, the positive relationship found between expertise and financial viability means that, the presence of competent's administrators contributes to the efficiency of the MFIs governance system. This allows us to issue the following hypothesis

H3: there's a positive relationship between cognitive competence of diectors of board and financial performance of cameroonians MFIs

2. Methodology of Research

Before analyzing the results of the research, we present initially the characteristics of our sample and secondly we define the measures of variables used in this research.

2.1. Sample Characteristics

We conducted a survey among 150 Cameroonians MFIs. However, after collecting questionnaires, 42 of them were excluded due to non-response to certain questions. So our sample consists of 108 MFIs containing the MFIs status cooperative / mutual and status limited company. Ultimately we find that of 108 individuals surveyed, 71.3% state "cooperative / mutual (77 cooperatives), 28.7% of the sample individuals state "limited company" (31 stock companies). It appears that the majority of the legal status of the MFIs is "cooperative / mutual.

2.3. Construction of econometric model and variables measures

It is about presenting the econometric model of the writing of the financial performance of microfinance institutions (MFIs) in Cameroon:

Econometric model

It is given by $Y_i = f(X_{1i}, X_{2i}, X_{3i})$ and the equation will be in the form

$$Y_i = \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$$

Y_i : Size = explained "The financial performance of microfinance institutions (MFIs) in Cameroon."

X_{1i} = Explanatory dimension "the presence of independant directors of the MFIs"

X_{2i} = Explanatory size "the size of the Board of MFIs"

x_u = Explanatory dimension "competence of the directors on the Board"

Here you will β_i = The regression coefficient of the dimension x_u

β_s = The regression coefficient of the dimension X_{2i}

β_n = The regression coefficient of the dimension x_u

ϵ_i = The residue i = index of the actor ($i = 1, n$)

2.4. Measures of variables

Several variables were used in this research. They are contained in two groups: one independent variable related to the characteristics of board and the other dependent variable related to financial performance. The independent variable is a variable that undergoes changes in dependent variables and highlights the effect studied.

Table 1: Presentation of variables

Independent variable	Intermediate variable	Dependent variable
The characteristics of the board of directors	-The presence of independent directors within the MFIs -The size of the MFIs board -The competence of directors on the board	The financial performance of MFIs

We selected three indicators to measure financial performance: profitability (return on assets, financial and operational self-sufficiency), portfolio quality (loan quality and loan repayment) and productivity, as these measures are own MFIs and are a major efficiency of these types of organizations.

3. Analysis of results and discussion

It will be discussed here to present, analyze and interpret the results of the quantitative study including by initially analyzing the validity and reliability of the variables through the test of Kaiser-Meyer-Olkin (KMO) and Bartlett sphericity test and secondly out the results of the analysis of the causal relationships by linear regression.

3.1. Analysis of the validity and reliability of the variables

3.2.1. The test of Kaiser-Meyer-Olin (KMO) and Bartlett's sphericity test dimension "characteristics of the Board of Directors "

Table 2: Test result of Kaiser-Meyer-Olkin (KMO) and sphericity BARLETT test for the dimension "the characteristics of the board"

Sampling precision measuring Kaiser-Meyer-Olkin.	0875	
Bartlett's test of sphericity	Chi-square approximated	727.713
	Dof	45
	Meaning Bartlett	0.000

Source: Authors from survey data

For the dimension "Characteristics of the board," the analysis of the validity and reliability shows that the KMO test is

satisfactory displaying a value of $0.875 > 0.8$, which is commendable. The results also show that the Bartlett sphericity test is significant (chi-square = 727.713; P = 0.000). As in this dimension "Characteristics of the Board of Directors" The test is significant ($p = 0.000 < 0.05$), we can say that it is an identity matrix within which all correlations are zero, which means that all indicators of this size are fully independent of each other.

3.2. The test of Kaiser-Meyer-Olkin (KMO) and sphericity test BARLETT for dimension "financial performance"

Table 2: Test result of Kaiser-Meyer-Olkin (KMO) and sphericity test BARLETT for dimension "financial performance"

KMO and Bartlett's test		
Sampling precision measuring Kaiser-Meyer-Olkin.	0.516	
Bartlett's test of sphericity	Chi-square approximated	452.901
	dOF	28
	Meaning Bartlett	0.000

Source: Authors from survey data

The dimension "financial performance "meanwhile, the analysis of the validity and reliability shows that the KMO test is satisfactory exposing a value of $0.516 > 0.5$, which is miserable. Also these results indicate that Bartlett's sphericity test was significant (chi-square = 452.901, P = 0.000). However, the test is significant ($P = 0.000 < 0.05$), we can say that it is an identity matrix within which all correlations are zero, so all indicators this dimension are absolutely independent of each other.

3.3. Analysis causal relationships by linear regression

This is about to undertake a comprehensive evaluation of the regression model through the interpretation of the Statistical significance of Fisher (F) noted (sig-Fisher) and assessing the relevance of the model, the quality of the adjustment data to the regression model and variability explained the regression model.

3.3.1. Overall assessment of the econometric model

The output of the SPSS software was Sig (F) = 0.000 < 0.05 then comprehensively statistical relationship between the independent variable represented by board of directors composition within the MFIs, the size of the MFIs board, competence of the directors on the board, and the Dependent variable "financial performance of microfinance institutions (MFIs) in Cameroon" is said to be significant.

Table 3: Analysis of variance (ANOVA)

ANOVA					
	Sum of Squares	dOF	Mean square	D	Statistical significance of Fisher (F) (Sig)
Regression	934.311	7	133.473	190.707	0.000
Residue	70.689	101	0.700		
Total	1005.000	108			
DOF= degree of freedom				D = decision	

Source: Authors from survey data

3.3.2. Assessing the relevance of the model, the quality of the fit of the data to the regression model and variability explained

Table 4: Model Coefficients

variables	Parameters	Coefficients	Standard Deviation	Statistics t Student		Statistical significance of the Student (sig)
The presence of independent directors	β_1	-0.269	0.133	-2.030	0.045	
the size of the MFIs board	β_2	-0.414	0.142	-2.929	0.004	
the competence of directors on the board	β_3	.633	0.200	3.162	0.002	
number of observations n = 108	Correlation coefficient and determination	r = 0.964	Adjusted $R^2 = 0.930$			
Dependent: The financial performance of microfinance institutions (MFIs) in Cameroon						

Source: Authors based on survey data.

Regarding the relevance and variability explained by our model, we can say that the statistical relationship between the independent variables represented by the presence of independent directors, the size of the MFIs board, the competence of the directors on the board and the dependent variable "financial performance of microfinance institutions of Cameroon" is as follows:

The presence of independent directors : Linear regression is called negative from the presence of independent directors and the financial performance of micro finance institutions (MFIs) from Cameroon since the coefficient for this variable is negative ($\beta = -0.269$) and significant ($Pr > |t| = 0.045 < 0.05$) significance level of 5%. This effectively means that the presence of independent directors on the board of MFIs has a lesser influence and significant to explain the financial performance of microfinance institutions (MFIs) in Cameroon. Thus, their presence does not play role on the board of MFIs, although Cameroon legislation suggests at least the presence of at least one independent director. This simply reflects the composition (presence of dependent and independent directors) of sales within the MFIs is less important to explain the financial performance of microfinance institutions (MFIs) in Cameroon, where the minus or less its parameter ($\beta = -0.269$). This is consistent with the work of Spong *and al.* (2001) in the case of 266 small US banks, for them regardless of the number of outside directors; their presence does not affect the financial performance of these banks. That result allows us not confirm our H1 research hypothesis that, *the presence of independent directors influences financial performance of cameroonians MFIs*

The size of the MFIs board

Linear regression is called negative between the size of the Board of MFIs and financial performance of microfinance institutions (MFIs) in Cameroon since the coefficient on this variable is negative ($\beta = -0.414$) and significant ($Pr > |t| = 0.004 < 0.05$) significance level of 5%. This means in other words that, the size of the MFIs board has a lesser influence and significant to explain the financial performance of microfinance institutions (MFIs) in Cameroon. This simply reflects the size of the board MFIs is less important to explain the financial performance of microfinance institutions (MFIs) in Cameroon where the minus or less of its parameter ($\beta = -0.414$). Whether board small or large, this can't affect the financial performance of MFIs. This result goes in the same direction as Tchakoute

(2010) [56] which found that, the board size plays no role on financial performance (measured by ROA and operational self-sufficiency).

That result allows us not confirm our H2 research hypothesis that, *the financial performance of cameroonians MFIs is related to board size*

The competence of the directors on the Board

Linear regression is called positive between the jurisdiction of the directors on the board and financial performance of microfinance institutions (MFIs) in Cameroon since the coefficient on this variable is positive ($\beta = 0.633$) and significant ($Pr > |t| = 0.002 < 0.05$) significance level of 5%. This effectively means that, the competence of the directors on the board has a strong and significant influence to explain the financial performance of microfinance institutions (MFIs) in Cameroon. This simply reflects the competence of the independent directors on the board is crucial to explain the financial performance of microfinance institutions (MFIs) in Cameroon. More skill and knowledge (financial expert) administrators are increasing the financial performance of MFIs increases. In other words, boards administrators of Cameroon MFIs must have diverse skills and knowledge to control and monitor financial performance. This is consistent with the work of Hartaska (2005) [34] and Tchakoute (2013). For them, the presence of administrators who have competence contributes to the effectiveness of the governance system of the MFIs in turn increases the financial viability.

That result allow us to confirm our H3 research hypothesis that, *there's a positive relationship between cognitive competence of directors of board and financial performance of cameroonians MFIs*

Conclusion

The objective of this research was to analyze, by means of statistical tests, the nature of the relationship between the characteristics of the board and financial performance of MFIs Cameroon. To do this we have shown by linear regression. This method has allowed us to develop relational found between the characteristics of the board and financial performance of MFIs. Hence this allows us to validate our assumptions. After testing and analysis of assumptions, we obtained several observations and results from the influence the characteristics of the board and financial performance MFIs of Cameroon.

Specifically, the characteristic features of admiration board (presence of independent directors, the size of the board, the competence of the directors) only the competence of the directors influences the financial performance of MFIs. All this

suggests that first, MFIs administrations of advice is to sit with competent administrators, those who have diverse knowledge (finance, accounting, law.) to help the management and secondhand to improve financial performance and achieve the goal of MFIs.

All these implications and allow Cameroon MFIs to understand their financial performance through good governance from characteristics of board, because they would avoid their bankruptcy.

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