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A Study on Awareness Towards Corporate Governance and its Dimensions Among the Microfinance Institutions

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***Abstract* - In recent years, the notion of corporate governance has garnered significant attention; nonetheless, its implementation and comprehension have been inadequate and inconsistent among the majority of Microfinance Institutions (MFIs). Corporate governance frameworks are of paramount importance as they help ensure sustainable development, efficiency, accountability, and transparency of any financial institution. The study aims is to assess the current level of awareness towards corporate governance and its dimensions in Microfinance institutions.150 respondents were recruited from the population using the Simple Random Sampling technique. Five-Point Likert scale measurement tool is used to determine the level of awareness that the respondents have regarding corporate governance and its various dimensions in microfinance institutions. This is a significant gap not only in their effectiveness in their functional operations but in terms of their capacity for trust and for obtaining funds and investments. Corporatization in MFIs comprises issues such as the board of directors, relationships with other players, corporate risks, information disclosure, and integrity. The research finds that there are several issues that put many MFIs off course when it comes to good governance practices. These include inadequate resources, poor training, and poor legislation that did not address their need. Furthermore, most MFIs are small organizations or have a strong local focus; they may not adhere to the best of formal governance structures. This conflict does not only retard their growth but also opens them up to other catastrophes like; poor handling of their cash, embezzlement, and damaging their reputation.**

***Keywords:* Board Structure and Functioning, Capacity Building, Ethical Practices, Financial Management, Governance Mechanisms and Regulatory Compliance**

I. Introduction

Corporate governance in MFOs is crucial to the delivery of its mandate to foster financial and social development (Bhavya et al., 2023). This paper has elaborated that the issues related to challenges, innovation, and ethics in MFOs can help them improve governance and contribute positively to International Poverty Reduction. Another key challenge facing efforts to increase the level of awareness about corporate governance practices among MFIs is the combined difficulty of providing adequate educational and training support. Lots of management teams and employees do not have a clear understanding of or lack adequate knowledge of the advantages and processes involved in adapting sound governance structures (Biswas et al., 2024). Lack of awareness of the above issues tends to breed poor governance which increases operational difficulties. Further, the current WWBs or supervisory authorities fail in their responsibilities to enforce the governance standards; thus, many MFIs have not been provided with the prerequisite tools and knowledge they can use to alter their practices. Affiliates' growth to accommodate the demand for microcredit services comes with the complexity in escalation of operations (Campos, 2024). As it shall be seen Microfinance Institutions performance and governance have a symbiotic relationship. It is particularly because, Microfinance Institutions often operate in the lower end of the market segments targeting low-income earners and other small businesses, and are therefore peculiarly susceptible to the forces of governance-related difficulties because of the very nature of their functional environments. Good governance improves positional efficiency, financial structure, social returns, and ethical standards making MFIs sustainable (Li & Huang, 2024; Canales et al., 2024). By focusing on governance MFIs can fulfill its mission of delivering financial services to excluded populations in an efficient and impactful manner (Huy, 2018). Education, the development of frameworks that allow heading off the issues, outside support the form of regulations, and promotion of the value of transparency are keys to the future of MFIs. Moreover, increasing transparency through better reporting increases its credibility and that unlocks capital necessary for growth, and in turn, increases the number of people helped. The approach with the local people and clients makes governance practices in line with their wishes and thus encourages the involvement of the community and faith in those practices.

II. Research Background

Kyereboah-Coleman, (2007) idea used in the study is the proposition that sounds governance structures are associated with superior performance than poor governance structures in MFIs. Remember how the author suggested that MFIs should work to improve governance structures to improve their performance. Furthermore, the study suggests that regulators formulate a fair regulatory environment that facilitates good governance without overburdening the MFIs. The findings indicate that MFIs with higher governance standards are efficient, profitable, effective, and in delivering their development objectives. The study places extensive focus on the tangible and stringent governance structures as crucial success factors and determinants of future growth and impact of the MFIs using a myriad of suggestions and guidelines essential for policymakers, MFI managers, and stakeholders. Through the application of best governance practices, MFIs can bolster the capacity of its institutions in meeting the needs of the target population as well as support the achievement of wider goals of macroeconomic development. Mersland & Strøm, (2009) financial viability in the provision of services for social growth as well as eradication of poverty. According to the authors, governance plays a key role in achieving these goals and sustainability and the continued success of MFIs. The findings suggest that when fewer directors are considered independent, overall financial performance and key governance benchmarks are higher. Independent directors give strategic directions and non-affiliated monitoring, decrease agency costs, and increase the level of information disclosure. Nonetheless, stringent rules may pose challenges to the growth of innovation and financing models, therefore dampening the performance of MFIs. Thus, the questions of governance remain among the major concerns to balance financial sustainability and social effects. Inefficient MFIs are in a better place to address financial and social goals and penetrate the needy and poor clientele.

Microfinance and Corporate Governance; An Overview

Organizational Corporate Governance guarantees that all these goals are achieved effectively and appropriately through MFIs (Tusiime et al., 2011). It is against this background that the following explains the relative importance of the size and composition of the board in increasing the efficiency of governance and consequently the performance of micro-financial institutions. Microfinance institutions serve a dual purpose: While offering services to unbanked/under-banked consumers and targeting a financial positive ROI, CDFIs offer. Board structure as defined by the number of directors and their attributes constitutes two of the most critical governance structures because they determine the character and handling of organizational decisions, risks, and management. It has been established that the efficient number of board members should be between five and nine. This range ensures that the necessary diversity of expertise and background, as well as opinion and decision making, can be achieved, but with sufficient capability to remain swift and adaptable (Labia & Ariane, 2012). A comparatively smaller board may ensure faster decisions and better board solidarity but a comparatively large board may provide more diverse experience, and less dependency on key people. Board size also has a negative aspect because too many people on the board lower the efficiency of organizing the board's meetings and decision-making processes besides which accountability could suffer from expanded board sizes. Board composition is equally essential too. It can be established that board diversity in terms of skills, experience, and diversity in the background of board members leads with improvement in the overall effectiveness of governance. In the setting of microfinance, the board can draw some advantages in involving the members of the financial management, the micro-enterprise development, risk assessment, and regulatory compliance. Their standalone position allows them to review the performance, determine, and approve executive remuneration and ensure compliance with set standards. This omission saves the agency costs while improving investor confidence which is necessary when sourcing for finances and to keep all stakeholders satisfied. Demographic and Social Characteristics of Served Communities are also important factors in the strategic board composition of MFIs. This paper posits that Boards that are diversely representative of their client base are best placed to identify clients' needs and expectations and thus enhance service provision as well as increase client satisfaction. The lack of women on boards has received much attention in microfinance given that board diversity tends to enhance decision-making and governance. Governing structures in MFIs do not only receive much attention in reach of the board size or composition but also strengthened roles and responsibilities, ethical principles, and controls. Such evaluations and training help the board to stay up-to-date with the programs and other statutes on the industry and board governance (Labia & Ariane, 2012). Therefore, it is critical for microfinance institutions must achieve development objectives on the other hand and remain financially sustainable to manage board size and composition prudently. Thus, increasing the share of outside directors and having board members with specialty and relevant experience can serve as the levers that will help to improve the organizational efficiency, manage risks, and achieve the boards' social mandate. Effective internal governance structures are not only useful in an MFIs operation but also for the advancement of global financial access and fighting poverty.

Strategies to Improve Corporate Governance

The primary activities encompass adopting ethical leadership, enhancing the board of directors and its autonomy; delineating roles and responsibilities; optimizing the efficacy of board meetings for strategic management; managing risks and ensuring compliance; promoting transparency; conducting performance evaluations; engaging stakeholders; adhering to legal requirements; and fostering improvement (Abdullah & Valentine, 2009). By prioritizing these principles, CEOs can set a good foundation for playing their part in implementing sound corporate governance practices that support and encourage good reporting practices to the benefit of transparency, accountability, and stakeholders' trust hence, positive economic value and stability for their organizations. Henman, (2015) Discussed the necessity of establishing conformity to international standards and local legal demands for the improvement of MFIs' financial reporting credibility and organizational performance. They conclude that good corporate governance structures enable MFIs to attract investors, donors, and clients as well as to achieve their social role of targeting financially excluded customers more effectively. It emphasizes how governance plays an important role in minimizing financial risks and managing sustainable growth and impacts on microfinance operations. Nalukenge et al., (2017) are concerned on the study of how the practical implementation of governance affects internal controls that is highly relevant to the MFIs' financial accountability and transparency agenda. These factors help to correct financial misreporting, chances of fraudulent activities, and operational suboptimal ties. The study used descriptive research methods and questionnaires administered to Ugandan MFIs to generate data on governance practices and internal control climates. Enhancing corporate governance is crucial for CEOs to realize organizational effectiveness and longevity (Baydoun et al., 2013).

Performance and Governance in Microfinance Institutions

The performance and the governance of these institutions are intertwined where sound governance is central to achieving performance.

- **Operational Efficiency and Governance**: Corporate governance frameworks assist in regards to defining strategic management directions, assessment, and control of performance and risk. Having board members from different backgrounds should bring unique insights for monitoring and providing direction to the institution so that the implications of the changing market and regulators are met well. Lack of governance on the other hand results in ineffective operations, wrong decisions, and management of available resources hence the institution may be straps at delivering its services to the clients.
- **Challenges and Recommendations**: Making a proper approach towards open communication and ethical behavior and engaging stakeholders can seriously uplift the practices of governance and also it will reduce governance by enhancing control over data processing and reporting systems as well as executing efficient monitoring. These challenges have included shortage of resources, low competency level, and absence of sector-specific standards. This press warrants tackling these issues using a comprehensive strategy, and effective listening techniques apart from the mentioned approaches. These encompass, board and staff sensitization programs on governance, formulation of MF -specific governance structures that can be implemented to meet the institutions' needs as well as enhancing the regulatory follow-up such as offering continual oversight and support to the MFIs. Moreover, there is a need to ensure that MFIs embrace the spirit of the code by adopting the highest standards of transparency and accountability.

III. Review of Literature and Research Agenda

The corporate governance practice in microfinance organizations (MFOs) is essential to enhance MFO performance and its role in catering to the needs of the financially excluded. Exploring governance practices in MFOs, this paper focuses on accountability and challenge dimensions, as well as future research and practice agendas. Good governance eliminates corrupt practices in these institutions and puts into practice checks and measures that engulf efficiency, transparency, and accountability as well as financial viability. Board structure, and board independence are some of the most important areas of corporate governance in MFOs. An appropriate board that consists of members with a certain background and that has no connections with the management improves the quality of decision-making and increases responsibility. Risk management is also a key tenet of governance frameworks, as is necessary when working with financially and otherwise vulnerable populations. Wakaisuka-Isingoma et al., (2016) pass on some questions as follows; How to achieve dual objectives of financial viability and social responsibility? Effective governance ensures these institutions operate ethically, transparently, and sustainably, fostering trust among stakeholders and securing financial stability. The key dimensions of corporate governance in MFOs include board structure and independence. A well-composed board, with diverse expertise and independence from management, enhances decision-making and accountability. Governance frameworks also prioritize risk management, crucial in mitigating financial and operational risks inherent in serving vulnerable populations. Wakaisuka-Isingoma et al., (2016) Challenges persist, such as balancing financial sustainability with a social mission, navigating regulatory landscapes, and addressing governance gaps in smaller MFOs. These challenges speak to the issue of specific governance structures that are appropriate to the dual bottom-line concept of financial sustainability and societal relevance. Possible measures of improving governance quality comprise enhancing the board's training program and pursuing a more diverse approach when selecting board of directors. Adopting technologies and data optimizations advance processes of operations, and engagement of clients while guaranteeing the protection of data and information. Working closely with the regulators and other industries ensures that people and organizations are in a position to learn from each other to enhance the governance systems that exist within industries. Future research and practice should also address further development of, and build on this study, and the microfinance and inclusive finance space as a whole, thus tackling issues of governance and their improvement as they continue to develop in fig. 1.

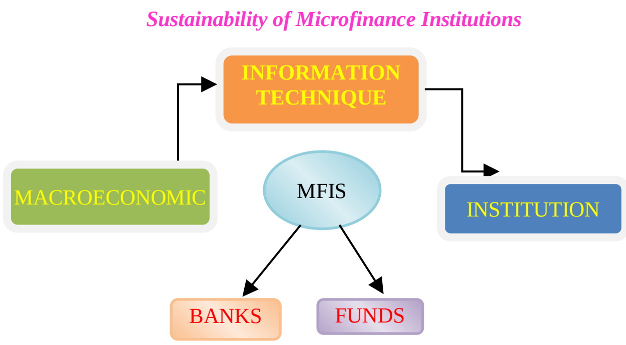

Fig. 1 Sustainability of Microfinance Institutions

Source: Researcher Contribution

Research Gap

The study has garnered significant worldwide interest as a means of enhancing business transparency, accountability, and operational efficiency (Bassem, 2009). Based on the minor research done by the author the perception and implementation of corporate governance concepts in Microfinance Institutions (MFIs) are examined. The majority of available research generally examines corporate governance concerning large company organizations or traditional banking sectors, with less focus on growing Microfinance Institutions (MFIs). Furthermore, there is very limited research only conducted on the specified aspects, including the board of directors, risk management, stakeholder participation, and ethics in Microfinance Institutions (MFIs). Moreover, there is little study on the cultural, legislative, and socio-economic factors that influence corporate governance in Microfinance Institutions (MFIs), particularly in developing nations where MFIs play a crucial role in providing financial services. The required study focused on the knowledge and implementation of corporate governance components in microfinance institutions to bridge the theory-practice gap.

Significance of the Research

The research is essential since it addresses both corporate governance and microfinance institutions, which are crucial for future economic development and financial accessibility. The research examines the current understanding and use of governance concepts in micro finance institutions to enhance organizational performance and accountability. The insights gained from the research will assist policymakers and regulators in comprehending the governance challenges faced by MFIs and in formulating actionable suggestions for governance improvement. Enhancing corporate governance in Microfinance Institutions (MFIs) will safeguard the interests of shareholders, investors, and borrowers, while simultaneously fortifying the financial stability and sustainability of MFIs. This, in turn, will enable them to mitigate financial challenges arising from delinquent borrowers, thereby facilitating access to microloans for low-income individuals and fostering socio-economic development. This research enhances the understanding of governance in unconventional industries, particularly within the financial subsector.

Scope of the Study

The research only examines the MFIs operating in the developing economy and their understanding and execution of corporate governance. It aims to examine the primary governance attributes, including leadership, risk assurance, ethical conduct, and stakeholder involvement (Agrawal & Chadha, 2005). The study will include both quantitative research with MFI executives, board members, and stakeholder surveys, as well as qualitative research. The research mainly focuses on MFIs, several results may be generalized to other financial organizations with comparable clients. The research period will be confined to the recent fiscal years to align with current dynamics.

Statement of the Problem

Microfinance institutions, which are essential in delivering fundamental and inexpensive financial services to their target demographic, often lack robust corporate governance frameworks. Inadequate governance systems result in inefficient, dishonest, and/or improper practices that undermine their sustainability and reputation among stakeholders. The established principles of corporate governance have been specifically formulated for large corporations, rendering their relevance and effectiveness in micro finance institutions ambiguous. Moreover, there is insufficient information distribution to the stakeholders of MFIs about governance practices, leading to inconsistent execution. The study seeks to determine the level of knowledge of the problems and opportunities for enhancing corporate governance in microfinance institutions, intending to boost organizational operational efficiency.

Limitations of the Study

- The study targets emerging economy MFIs, a constraint that may lead to the findings not being generalizable to the developed market economy environment**.**
- Data collected are based on self-reporting and questionnaires and interviews which might lead to distortion because respondents may not express what they understand as good governance practices or they may not want to reveal what bad governance practices their organizations have been practicing.
- The study has limited its focus on governance aspects like board of directors, risk management and, shareholders' management among others, there may other factors within the dimensions not recognized by the study. Again, the time and resource **constraints** might set up the possibility of having a small sample size as well as a geographical restricted study sample of the research.

Objectives and Research Methodology

The objective of the study is to assess the current level of awareness of corporate governance and its dimensions in Microfinance institutions. The Population of Kerala is chosen as the object of the study. The corporate governance in place within the micro financial institutions will differ from the other (Hartarska, 2005). Most, not less than 150 respondents are recruited from the population using a simple random sampling technique (Daily et al., 2003). A five-point Likert's scale measurement tool is used to determine the level of awareness that the respondents have, regarding corporate governance and its various dimensions in microfinance institutions. These are meant to learn the level of awareness depending on the nature of the respondents through a comparison of the means.

IV. Analysis, Findings, and Results

Perception Level of the People Towards Microfinance Institutions

Relationship of age groups with corporate governance and its factors playing in MFIs as a crucial organizational characteristic impacting on its decision- making, strategies, and efficiency. The Diversity found in a board, management, and employees can greatly influence MFIs, their governance factors, and their operations ranging from risks to stakeholders. The outcome is as follows.

TABLE I AGE OF THE RESPONDENTS AND THEIR LEVEL OF AWARENESS

Age	No. of respondents	Mean	Std. Deviation	F	Sig.
Young	28	18.7931	4.86518	2.102	0.052
Middle	91	17.7935	5.02639		
Old	31	17.6552	5.32028		
Total	150	17.9600	5.03662		

Table I shows that the awareness of the young respondents is higher towards microfinance institutions (18.7931) than other age groups. However, the One-Way ANOVA results indicate that the F value is not statistically significant (2.102). Therefore, it can be inferred that the respondents' cognizance does not differ substantially based on their age. The age group has a profound effect on the MFIs in areas of governance, functioning, and efficiency. These directors and managers can introduce new ideas, working knowledge of technology, and the appetite for change, which can inform advances in the techniques that underpin MFI processes. Older members offer seniority, superior financial sector knowledge, and a different attitude toward risk taking. It is possible to achieve integrated and effective governance by combining young people's creativity with the old people's experience. Additionally, age diversity increases stakeholder satisfaction because a variety of stakeholder's needs are taken into consideration in order to develop a more effective MFI.

TABLE II EXPERIENCE AND LEVEL OF AWARENESS

Experience	No. of respondents	Mean	Std. Deviation	F	Sig.
Less	33	16.8182	4.46132	11.105	0.000
Moderate	75	19.8133	4.76954		
More	42	15.5476	4.72256		
Total	150	17.9600	5.03662		

The moderately experienced respondents' cognizance is high, as evidenced by the aforementioned table II (19.8133). The F value (11.105) indicates a statistically significant difference in the means (0.000) at the 1% level. Respondents with moderate experience have a more favorable perception of microfinance institutions than those with less and more experience. The level of experience within Microfinance Institutions (MFIs) reflects their performance and the efficiency of their board of governance, and thus their sustainability. Insider directors and managers possess significant experience, valuable both for decision-making, addressing the issues of risk management, and dealing with the complexity of the regulations. This increases the capability to predict market trends and the viability of adopting various best practices within the microfinance niche. Accountability from in-experienced candidates has the advantage of bringing new ideas, new thinking processes, alternatives, and new ways of adjusting to advanced technologies and techniques. The combination of such qualifications in the organization may create a healthy organizational culture by having experienced staff offer leadership and stability in the organization and young upcoming talents with fresh ideas and the ability to adapt easily. Of course, having the right proportion of experience within the MFI team will result in better governance, better performance, and a co-creation of financial and social objectives.

Dimensions of Corporate Governance Relevant to MFIs

The article discussed the dimensions of corporate governance relating to microfinance institutions (MFIs) (Magutu et al., 2010). Firstly, the governance structures respond to accountability demands or financial transparency to protect investors and shareholders. Secondly, board characteristics, and especially board independence are critical for providing objective decisions that will enhance value creation while avoiding self-interested agency issues. Thirdly one is the risk management framework as an element of governance frameworks, where prudent lending is applied and sustainability is achieved in an unstable economy. Lastly, it checks legal and ethical compliance, which the microfinance stakeholders and the public trust and credibility. All of these dimensions, in total, improve MFIs' sustainability and effectiveness in reaching the poor at the global level.

TABLE III DIMENSIONS OF CORPORATE GOVERNANCE RELEVANT TO MFIS

Sl. No.	*Dimensions*	Mean	Std. Deviation	Mean Rank
1.	Board Structure and Functioning	3.02	0.629	3.50
2.	Capacity Building	2.96	0.871	3.10
3.	Ethical Practices	2.82	1.585	5.68
4.	Financial Management	3.55	1.412	5.44
5.	Governance Mechanisms	2.66	0.987	4.12
6.	Regulatory Compliance	2.84	1.204	5.73
7.	Risk Management	3.23	1.096	5.12
8.	Social Performance Management	3.49	1.157	5.03
9.	Stakeholder Engagement	2.84	1.171	4.09
10.	Transparency and Accountability	3.19	1.097	5.92
	No. of respondents	150		
	Chi-Square	119.301		
	difference	9		
	Asymp. Sig.	0.000		

Table III shows that **transparency and accountability** have a high mean value (5.92). Secondly, **regulatory compliance** (5.73) is an important factor followed **by Ethical Practices** (5.68). The result indicates that the calculated Chi-Square value is 119.301 for the degree of freedom 9. This is highly significant at 1 level. Therefore, best practices of corporate governance are crucial for any corporate entity irrespective of their size and operations they provide guidelines on how to manage and run a company successfully (Modibo, 2005). To make sure that these companies run with full credibility, compliance with the principles of ethical conduct is observed besides protecting the shareholders' interests. Governance practices should be dynamic to suit the change that occurs inside or outside an organization such as in the area of technology, the market, or when the public demands better standards (Mwesigwa et al., 2014). This perspective enables companies that wish to improve continuously to better predict threats and opportunities and to sustain competitive advantage in shifting business environments.

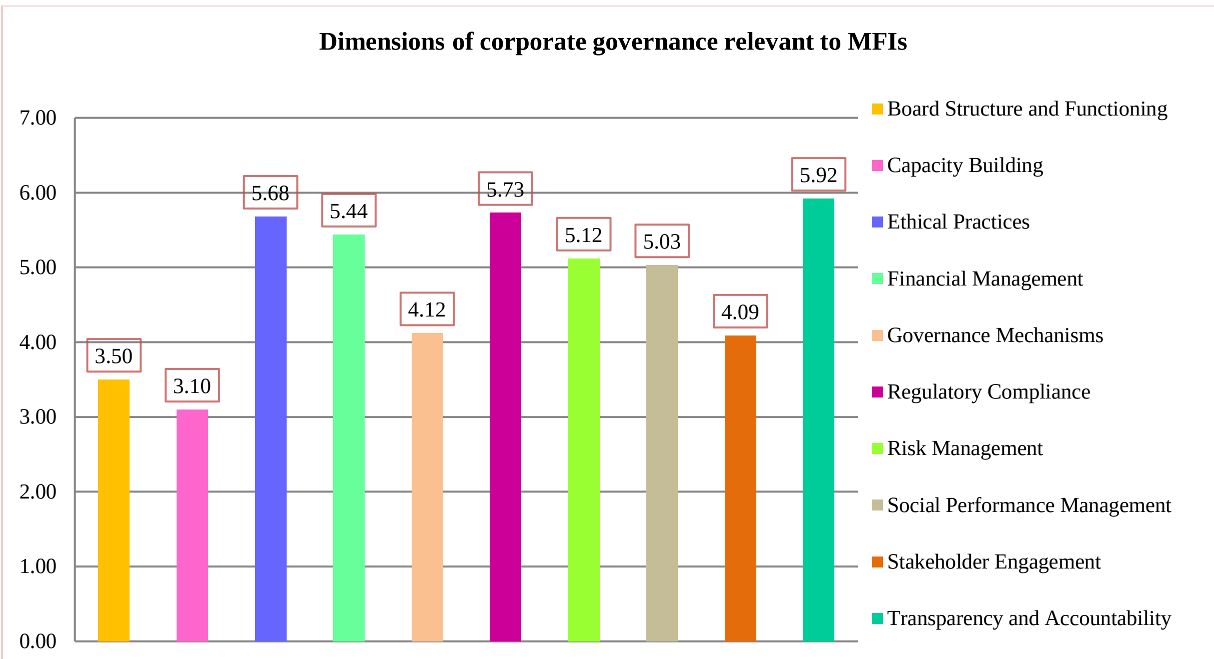

Chart 1: Dimensions of Corporate Governance Relevant to MFIs

V. Discussion

(Mersland & Strøm, 2009) for MFIs governance structures, there can be significant benefits accrued by MFIs to increase the flow of financial resources, increase its social relevance to the financially needy, as well as deliver on its overall mission it shows in chart 1. They will be of immense useful to policymakers or any stakeholder who is interested in improving the standard of the governance practices among the microfinance institutions globally with an aim to enhance sustainable development as well as poverty reduction goals. Mori & Mildred, (2013) it evident that MFI performance in line with the observation is improved a good practice in corporate governance. They enhance financial sustainability, reduce MFIs' risk, and upgrade strategic decision-making. The work uses dynamic panel data analysis to control for endogenous, time-varying effects and heterogeneity at the level of MFIs. According to the study, the fact that every microfinance institution faces different challenges and has different goals means that governance structures have to be different. That is why comprehensively assessed organizations initiate financing, control operational risks, and fulfill their social obligations within the framework of financial literacy more effectively. The paper adds to the existing knowledge on corporate governance in microfinance and offers empirical evidence that supports the opinion that effective governance structures are important to the growth and effectiveness of MFIs (Cull et al., 2009).

VI. SUGGESTION

- Policies should be put in place that allow for higher involvement from the stakeholders especially the borrowers and investors in order to increase the governance of the options.
- Integrate digital devices in enhancing accountability of governance practices as well as to assessing their performance concurrently.
- MFIs should also engage in a periodic exercise that allows conducting check on governance practices with the view to establishing gaps that would require attention.
- Governments and financial regulators need to establish standard guidelines that address the challenges facing MFIs more especially because, they occupy a special niche in the world's financial climate.

VII. SCOPE FOR FURTHER STUDY

Future researchers could expand the present research in the following ways. Future research could explore the cross-sectional research and focus on the evaluation of the differences and similarities of the corporate governance systems of MFIs throughout developed and emerging countries. In the same way, longitudinal research paradigms could examine the moderating impact of advanced governance mechanisms for enhanced MFI performance and stakeholder confidence in the long run. Another study area could also investigate how the changes in technology, including artificial intelligence and blockchain, have affected governance practices of MFIs. Finally, data from a wider array of actors such as regulators, borrowers, and community members might help create a better view of the governance processes in MFIs.

VIII. CONCLUSION

One of the main areas of concern that have been recognized as a major challenge distressing the performance of microfinance institutions is that of corporate governance where there seems to be very little awareness and basically no understanding at all amongst microfinance institutions. These challenges can be addressed by focusing on the provision of governance education, continuity of frameworks, improvement of regulations, and encouragement of action, enabling the MFIs to successfully perform their mission: to deliver transparent, tangible, and effective accessible financial services to underserved regions. To solve this problem, it is necessary to take complex measures. First, there must be an active process of socio-psychological persuasion as to the need for corporate governance in MFIs among all interested people, namely, managers, employees, investors, and the government. It can be done through the organization of training workshops, seminars, and circulation of information on the observed best practice. Second, there is a need to formulate sector-specific governance structures that will address the specific needs of the MFIs. These frameworks should be simple and be in a position to be deployed gradually and enhanced as they are being developed. In addition, the roles of regulation and the sources of support to the MFIs should be enhanced as a way of promoting compliance and future support. This includes the formation of specialized departments in the regulating authorities responsible for providing technical support and for the evaluation of compliance with the standards of governance. According to the researcher, there is much that MFIs can do to improve their governance practices through a culture of transparency and accountability.

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