Cape Peninsula University of Technology

IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON SUSTAINABILITY OF SELECTED MICROFINANCE INSTITUTIONS IN CAPE TOWN, SOUTH AFRICA

By

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DECLARATION

I, Nyasha Mateteni, declare that the contents of this dissertation represent my own unaided work, and that the dissertation has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed **Date**

ABSTRACT

A highly uneven income distribution and South Africa's economic structure has over the years produced a larger number of the so called 'unbankable' families or households that are not served by the commercial retail-banking sector. Microfinance institutions (MFIs) emerged as an important tool for poverty alleviation and as a substitute in providing access to credit facilities to those individuals. However, many MFIs have failed to sustain and grow their business due to malpractices and poor implementation of sound corporate governance mechanisms. This study aims to identify the impact of corporate governance mechanisms on sustainability at selected MFIs in Cape Town. The study was undertaken in order to bridge the information gap and increase the knowledge base on the issues of corporate governance and sustainability of MFIs as this lack of information may be due to insufficient research in the sector.

A survey research design by employing the triangulation method was used to gather data from selected MFIs (n=15) in Cape Town. Quantitative, qualitative and secondary data instruments were used for data collection. Participants for this study were selected through the use of purposive sampling. Data were analysed through SPSS V24 to generate descriptive and statistical results. Cronbach's alpha value was employed to determine the reliability of the dataset.

The study found that most MFIs have no governance mechanisms in place that act as a blue print to address governance issues. Only a few MFIs distinguish the positions of Chief Executive Officer (CEO) and Chairman. In addition, this research showed that MFIs are struggling to be profitable as most of them continuously record lower levels of operational self-sufficiency and return on assets. The study recommends the ideal board size of MFIs, board diversity, separation on the positions of CEO and the Chairman, the use of the King IV report, and strategies for sustainability.

Keywords: Corporate governance, Microfinance Institutions, Sustainability, Board

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DEDICATION

I dedicate this dissertation to my parents, Evans and Beauty, for believing in me and their unwavering support during the whole course of this project.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

GLOSSARY

Microfinance Institutions (MFIs)	Microfinance Institutions provide credit, savings and other basic micro-financial services to the poor and lower income households, who cannot access credit from conventional banks (Baumann, 2001)
National Credit Act (NCA)	The National Credit Act of 2005 , which repeals and replaces the Credit Agreements Act and the Usury Act, has been assented to by the President on 10 March 2006. The Act is designed to prohibit certain unfair credit and credit marketing practices and to protect consumers (Renke *et al*., 2007).
National Credit Regulator (NCR)	The National Credit Regulator is established in terms of the National Credit Act (Act No. 34 of 2005) to promote a fair and non-discriminatory market place to access consumer credit and it also provides standards relating to consumer credit and also promotes a consistent enforcement of the framework relating to consumer credit (Government, 2004).
Corporate Governance (CG)	Corporate governance in microfinance terms refers to the mechanisms through which donors, shareholders, and other capital providers ensure that their investments will be utilised to their intended purposes (Hartarska, 2005)
Sustainability	Sustainability in microfinance terms refers to the capability of the micro financier to cater for all operational costs and be able to continue with

	business activities without opting for donor funds or subsidies (Thela, 2012).
Operational Self-Sufficiency (OSS):	OSS is where by an MFI generates enough operating income to cater for operating expenses, financing costs, and all the provision for loan losses.
Financial Self-Sufficiency (FSS)	FSS is an indication of whether the MFI is generating revenue that is suffice enough to cover direct costs.
Return on assets (ROA)	ROA is an indicator of how profitable a company is relative to its total assets.

CHAPTER ONE: OVERVIEW OF THE RESEARCH

1.1 BACKGROUND OF THE RESEARCH

A highly cockeyed income distribution and South Africa's economic structure has produced a larger number of the so called 'unbankable' families or households that are not served by the commercial retail-banking sector. Many arguments on microfinance emanates from a view that the poor lack access to credit facilities, savings and financial services (Baumann, 2001; Chakrabarty & Bass, 2014; Samer *et al*., 2015a). The ability to provide such economic avenues is mainly determined by the ease of access to such financial amenities (Baumann, 2001:5). The commercial banks that provide conventional ways of credits often see the poor as 'unbankable' stemming from their incapability to meet the credit worthiness criteria, which includes providing collateral (Thela, 2012:1).

These households exist in the informal economy and depend mainly on state transfer payments, which encompass pensions and sentimental transfers from employed relatives (Baumann, 2001). In many countries, this has left the poor with essentially no room to formal financial services other than the informal financial means. These are often administered in an unfavourable manner that involves inflated implicit and explicit costs which ideally leaves the poor entrenched in poverty cycles for many years (Qayyum & Ahmad, 2006).

For this reason, over the past two decades, MFIs have been in existence to reach out to the poor of the poorest as a potential tool for poverty alleviation (Mulunga, 2010). Microfinance appeared as a substitute in providing credit to those individuals that are economically upright but financially obstructed and disadvantaged in different nations (Qayyum & Ahmad, 2006:2). In addition, Samer *et al*., (2015) noted that microfinance is widely acknowledged to be a very important instrument in poverty eradication and socio economic wellbeing as it benefits the society to diversify household income, loosen the household expenditure burden and also help them to manage the problems that come with fluctuations in the economy.

Furthermore, Morduch and Haley (2002:12) substantiate these claims by pointing to the fact that microfinance has had a huge positive impact in reaching out to the poor in countries such as Zimbabwe, Bangladesh, India and Ghana, where the average incomes of borrowers in these countries were seen to be better off than average incomes of non-borrowers or new clients. Indeed, microfinance is an important part of a country's economy. Therefore, microfinance involves the provision of savings, smaller credit and insurance to satisfy the needs of poor contributors that are excluded from the traditional or conventional banking practice (Thapa, 2010). MFIs have a twofold goal of achieving sustainability and outreach (Mohamed & Ahmed, 2015). Sustainability is achieved when the operating income from the loan is adequate enough to cover all operating costs (Kimando & Kihoronce, 2012). Sustainable MFIs are the ones that are considered to be able to wean themselves from all form of donor funds or subsidies whereby they are able to generate revenues or profits from their operations and also be in a position to attract capital in form of equity or loans from investors (Thela, 2012:11).

Notably, when studying MFIs, more energy is often directed to credit methods or practices and financial management. However, in more recent years, other issues such as governance structure assumed by these institutions have proven to be equally important (Labie, 2001). Corporate governance mechanisms have emerged to be the basic rules that a well-run company must follow. Moreover, the King IV report on corporate governance emphasize the need for entities irrespective of the method and form of incorporation or establishment to practice good governance by following the principles envisaged in its framework (Smith, 2007).

It is interesting to note that the extensive use of corporate governance mechanisms have for the last few years been acknowledged and received more recognition from academics and experts in the field of microfinance, mainly when dealing with the issues of sustainability in the long term. The reason for this recognition is chiefly linked to the fact that the microfinance community has witnessed some major failures, where in most cases it evidently appeared that among the explanations for these setbacks, the inadequacy of corporate governance practices was to blame (Labie, 2001).

As mentioned above, it is evident to note that the issue of sustainability is of paramount importance for MFIs. Therefore, in order to have an impact in the foreseeable future, microfinance services should be provided on a non-stop basis and at the same time be in a position to be able to cover operational costs that would enable the MFIs to be sustainable (Mulunga, 2010). It is to this effect that many researchers consider governance as a critical issue for any entity to be sustainable (Bakker, Schaveling, & Nijhof, 2014). Hartarska (2005) also substantiate on these claims by highlighting that the role that many governance mechanisms play is significant in the sense that many managers are trusted with important resources. In microfinance terms, governance is defined as the mechanism on which investors, donors, and other funders warrant that their investments will be safeguarded and used for their intended purposes (Hartarska, 2005). Those control mechanisms are essential, since managers and capital providers may have opposing preferences and goals. Therefore, with such detailed insight it is of utmost importance to uncover the impact of corporate governance mechanisms on micro financial institutions in terms of their sustainability.

1.2 STATEMENT OF THE RESEARCH PROBLEM

MFIs have been present for many years but their performance in relation to institutional sustainability appears to be lagging behind despite the fact that international and national developmental programs have given preference to sustainable MFIs (Kimando & Kihoronce, 2012; Mulunga, 2010). Furthermore, many researchers have focused more on MFI sustainability but only a few studies have explored the link between corporate governance and sustainability of MFIs (Hartarska & Mersland, 2012).

Good governance has been identified by various microfinance experts to be critical for the success and sustainability of MFIs (Hartarska & Mersland, 2012). The practice of good corporate governance has gained momentum in more recent years as a result of many entities that have failed to be sustainable and operate in the foreseeable future largely due to the malpractices and poor execution of good principles of corporate governance. In addition, the Centre for the Study of Financial Innovation (CSFI) warned that poor corporate governance poses serious risk for microfinance organizations (CSFI, 2009). However, the scarcity of data on the effect of MFIs governance on sustainability remains largely on the lack of studies in this area (Hartarska & Mersland, 2012; Bassem, 2009; Bakker *et al*., 2014).

Many researchers have tackled the dynamics of microfinance, particularly on the issues that concern sustainability, poverty alleviation and social progression (Baumann, 2001; Thela, 2012; Mulunga, 2010). Locally, a few studies have been done to ascertain the relationship that exists between corporate governance mechanisms and the sustainability of MFIs. Moreover, Chakabva (2015) inclined to a view that the microfinance industry in South Africa has a reputation for poor and bad governance practices. Therefore, the research problem can be described as follows: "ineffective practices of corporate governance mechanisms amongst MFIs in Cape Town result in poor growth and sustainability."

1.3 PURPOSE OF THE STUDY

This study made use of an approach to investigate the impact of corporate governance mechanisms on sustainability of MFIs with a special focus on South Africa as opposed to earlier studies that focused more on MFIs on a worldwide level. This study validated the relevance of the generalized statements previously made on MFIs in the African continent and the world on its entirety to South Africa only. Furthermore, this study was carried on to bridge the information gap on the issues of corporate governance and sustainability of MFIs as this information deficiency may be due to insufficient research in the sector. In addition financial data are considered as proprietary in most financial institutions, which resulted in difficulties in finding reliable financial data (Hartarska & Mersland, 2012; Thapa, 2010).

1.4 RESEARCH OBJECTIVES

In order to find out solutions for the research problem, the primary objective of this study is to ascertain the impact of corporate governance mechanisms on the sustainability of MFIs in Cape Town. Based on the primary research objective, the secondary research objectives are formulated as:

- To explore the common corporate governance measures in MFIs;
- To investigate how these governance mechanisms measures are used by MFIs in South Africa; and
- To determine how corporate governance mechanisms impact on the sustainability of MFIs.

1.5 THE RESEARCH QUESTIONS

The research question, forming the heart of this research study, reads as follows: What impact will corporate governance mechanisms have on the sustainability of MFIs?

The investigative questions, which will be researched to support the research questions, are listed below:

- ➢ What are the common corporate governance measures in MFIs?
- ➢ How are these governance mechanism measures used by MFIs in South Africa?; and
- ➢ How corporate governance mechanisms impact on the sustainability of MFIs?

1.6 RESEARCH DESIGN AND METHODOLOGY

The Methodological Triangulation was applied as a research method for this research study. Methodological Triangulation uses more than one type of method to study a phenomenon at hand. By using multiple theories, methods and empirical materials, researchers can get rid of the inherent biases and problems that come from using a single method (Yeasmin, 2012). Therefore, by comparing results from the use of quantitative and qualitative methods, the researcher will be in a position to validate the conclusions from each method if all of the methods draw the same or similar conclusions.

The researcher used a combination of qualitative and quantitative methods of data collection and analysis, so as to obtain enough information from all relevant participants of the study. The application of the two methods ensured the effectiveness in interpreting data using numbers, figures and narrative. Data were collected from small and medium MFIs that are registered by the National Credit Regulator (NCR) in Cape Town where the researcher investigated the impact of corporate governance on the sustainability of MFIs in Cape Town, South Africa.

This research study also made use of secondary data. Chakabva (2015) proposes that the use of secondary data aids in providing a theoretical background of the research. The secondary data were gathered through extensive analysis of relevant textbooks and published reports. The unit of analysis for this research study will be MFIs senior managers, and staff members that are actively hands on in their respective MFIs day to day activities.

1.7 CONTRIBUTION OF THE RESEARCH

The outcome of this research is to produce a report that offers a different perspective on the use of corporate governance in MFIs. The report will contribute in the following ways to the scientific community and research subjects:

- To add more value to the existing common body of knowledge that relates to corporate governance practices;

- Improve the understanding of corporate governance and how it should be applied within the microfinance industry;

- To shed some insight into the essential aspects that may facilitate the use of effective corporate governance mechanisms within the microfinance industry, which result in enhancing the sustainability of MFIs; and

- To help the existing and future microfinance providers to appreciate the significance of corporate governance and how it contributes to the overall achievement of set objectives

1.8 RESEARCH ASSUMPTIONS

The assumptions of the study are that the sustainability of the MFIs in the Cape metropolitan area are hampered by the lack of sound governance mechanism which is as a result of a lack of regulatory framework guiding the microfinance activities.

1.9 DISSERTATION OUTLAY

This research study consists of five chapters, which are described as follows:

Chapter 1: This chapter provides a general structure; inclusive of the introduction and statement of the research problem that will not only form the heart of the research study but will also establish the tone for the research. Furthermore, aspects relating to research investigative questions, research objective are stated and summarised in subsection 1.3 of this chapter. The research methodology and contribution are explained in brief.

Chapter 2: This chapter provides a literature review exploration on the main theme of the research study, and as well as an empirical reinforcement to the research problem. Moreover, the literature review looked at the relevant academic context from a worldwide to a local perspective on the aspects that would mitigate the research problem.

Chapter 3: This chapter presents the research design and methodology of the study that includes a comprehensive detail on the data design, collection and data analysis. In addition the different tools, techniques and methods used are explained and justified in this chapter.

Chapter 4: This chapter provides the findings of the study and present a detailed discussion on the results obtained from questionnaires and interviews.

Chapter 5: This chapter reviews the study by revisiting the research problem, main research question, sub-questions, research methods and objective which forms part of the core aspects forming this research study. It provides a detailed set of recommendations and concludes the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The main purpose of this chapter is to synthesise and contextualise information. An extensive literature review was undertaken to provide a theoretical comprehension of the area of study. This chapter forms the basis of the recommendations in this study. Though there is little literature existing pertaining to the specific topic in South Africa, there is international literature available as well as literature pertaining to individual aspects of the topic in South Africa. The literature obtained gives a theoretical overview of the microfinance landscape, definition of basic terms that includes sustainability and corporate governance and how governance mechanisms should be implemented in a microfinance environment. At the end of this chapter, a brief discussion on microfinance corporate governance in South Africa is presented.

2.2 AN OVERVIEW OF MICROFINANCE

Many authors and researchers in the field of microfinance define the term microfinance differently and it relatively differs from one country to another or from one area to another within the same country. Hartarska (2005) defined microfinance as a way of providing loans and some other form of financial services to the less privileged. Similarly Luyirika (2010:10) corresponds to the same view by highlighting that MFIs are there to extend small loans to the poor or low-income clients who are regarded as ‘unfit’ to access traditional bank loans and other services as they lack collateral. In South Africa the term microfinance is used interchangeably with the term micro credit, for which the former and the latter then refers to the concept of microfinance as a programme that seek to generate income through assisting the poor with small loans and other financial services (Baumann, 2001).

Kimando & Kihoronce (2012) opines to a narration that in more recent years, microfinance has turned out to be an important instrument in correcting the social imbalances in different corners of the world by reducing poverty among the poor. The term microfinance is also a term that goes hand in glove with the concept of micro lending, where the latter is a blended term that is derived from a combination of the words *micro and lend.* Van Heerden (2008) gives meaning to the words as follows:

- *Micro- extremely small in scale,*
- *Lend- to allow ownership for a restricted time or give temporarily.*

This then, when loosely translated means giving out relatively small loans and other forms of financial services that are reimbursed over a stipulated period of time (Vuuren, 2011). Therefore, MFIs are born with a mandate of serving the poor through innovative ways that are inclusive of progressive lending, regular repayment schedules, group lending and collateral substitutes (Kimando & Kihoronce, 2012). According to Mohamed & Ahmed (2015) MFIs operate in different forms such as Non-Governmental Organisations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions.

A more comparable view of microfinance providers and commercial banks can be drawn from the distinct characteristics of these two, where in South Africa microfinance providers are forbidden by law from accepting deposits from individuals or corporates (Chakabva, 2015). Chakabva (2015) categorised the different characteristics of MFIs and commercial banks on three different headings that are lending methodology, composition of loan portfolio, and business characteristics. The table below outlines these differences:

Table 2. 1: Characteristics of Microfinance Providers and Commercial Banks

Heading	MFIs	Commercial banks
Lending methodology	• It is based on character • Less documentation • More labour intensive	• It is based on collateral • More documentation • Less labour intensive
Composition of loan portfolio	• More loans • Loans are small in size • No collateral • Shorter maturity • Delinquency is more volatile	• Limited loans • Loans are larger in size • Collateral is required • Longer maturity • Delinquency is more volatile

Heading	MFIs	Commercial banks
Business Characteristics	• Decentralised set of small units in remote areas	• Centralised organisation with branches located in areas with well-established infrastructure

(source: Janson &Wenner as cited by Chakabva, 2015:8).

The concept of microfinance has over the years grown out of experiments, and cannot be mentioned without making reference to Muhammad Yunus who founded and established the Grameen Bank of Bangladesh in 1976, which successfully provided small loans exclusively to groups of poor dispossessed villagers with remarkably low default rates (Thela, 2012). The success story of Grameen bank is centred on the concept of group lending which came as a result of Muhammad Yunus innovations. Group lending was introduced as a mechanism that allowed the poor microfinance recipients to act as guarantors for each other (Morduch, 2005:12). Today, this concept of group lending is being simulated by many MFIs in the world, from Asia, Africa to Latin America and even in the United States where group lending programs have been initiated in the major states (Jonathan Morduch, 2005).

2.3 THE DEVELOPMENT OF MICROFINANCE IN SOUTH AFRICA

The South African microfinance industry rose to prominence in the 1980's where it was driven by a convergence of forces, with profit making organizations, NGO's and government agencies all contributing to critical and significant roles (Skowronski, 2010). The development of this industry can be divided into four different levels that include the Pioneer, Breakout, Consolidation and Maturity. As elaborated by Skowronski(2010) the pioneer phase is the earliest stage which consisted of a few not-for-profit and commercial lenders whereas the breakout phase was as a result of the success of the pioneer phase which saw a hasty expansion of the microfinance market. The consolidation phase is the current phase that can be traced back from the year 2000 going forward, this phase emanated from the rapid growth of MFIs that could not be sustained because of the increase in competition for clients among lenders due to the dwindled number of credit worthy borrowers.

According to Skowronski (2010) the maturity phase has not been reached, this phase can only occur when the microfinance industry growth rate gets to a long-term sustainable growth with a regulatory framework that is consistent. However, before the inception of a more formalised microfinance industry, the majority of South African borrowers were heavily relying on the informal markets and lenders that were not regulated such as loan sharks (Mashonisas), or township lenders, pawnbrokers and Stokvels (Chakabva, 2015:9). In addition, Skowronski (2010) also reiterated on the fact that these informal lenders were operating illegally and charging exorbitant interest rates above the prescribed rates as per the Usury Act of 1968.

Furthermore, University of Pretoria (2013) points to the fact that the microfinance industry has grown rapidly since the establishment of the Usury Act exemption in 1992, which waived the interest cap on loans of no more than R6000. Moreover, the year 1999 witnessed a more significant progression of the microfinance industry as a result of the increase in the exemption ceiling from loans of R6000 to R10000 and this also resulted in the formation of Micro Finance Regulatory Council (MFRC) (University of Pretoria, 2013:99). The formalisation of the microfinance industry came about as a result of the establishment of the MFRC which acted as a body to regulate the activities of the MFIs (Chakabva, 2015:9).

2.4 MICROFINANCE INSTITUTIONS IN SOUTH AFRICA

Although microfinance institutions engage in an array of services, in South Africa, microfinance is tantamount with microcredit as MFIs are forbidden by law from taking deposits from individuals which then renders them with no option but to only offer credit (Thela, 2012). According to Brau *et al*., (2015), the various role players in South Africa differ in size from small and one branch entities to big o entities but all these MFIs share the following aspects in common:

- They all have the same goal of being profitable and sustainable in the near future;
- They are all regulated by the same Act;

- They have the desire to grow, expand and operate in the foreseeable future; and
- Their main stock is money.

In South Africa there are seven classes of primary suppliers of microfinance services that includes micro-enterprise lenders; salary-based micro lenders; co-operative financial institutions, primary banks, alternative banks, affordable housing suppliers; and retailers (University of Pretoria, 2013).

The University of Pretoria (2013), also alludes to the fact that the microenterprise lending sector still remains under-developed and incapacitated with fourteen MFIs that employ an estimate of 700 staff and providing for just over 111 500 active loans after more than 30 years of being in existence. Of these fourteen micro-enterprise lenders in service today, seven focus on employing a group centred lending methodology whilst the other seven provide an individual based methodology (University of Pretoria, 2013).

MFIs can be classified according to their size as Small, Medium or Large entities (Van Heerden, 2008:18). Small MFIs operate between one and ten branches with a turnover of less than R5million, whereas MFIs that are said to be medium in size operate branches that ranges from 10 to 100 with turnover of less than R250million, and large MFIs have a turnover of more than R250million and they are also listed on the stock exchange (Van Heerden, 2008:18).

Table 2. 2: Classification of Micro-Lenders by size

Size	**Characteristics**
Small	<R5 million in turnover -Between one and ten branches
Medium	<250 million in turnover –Between 10 and 100 branches
Large	>R250 million in turnover- Listed entities

(Source: Adapted from Van Heerden, 2008:18).

Small microfinance lenders usually operate one branch, but they can also be able to operate up to ten branches. They are capacitated to provide small loans that can be repaid in a space of between one and four months. These entities are mostly funded by the owner and require relatively low capital due to the terms of the loans and are virtually managed in an informal way (Vuuren, 2011). Vuuren (2011) further indicated that medium microfinance lenders normally provide a wide-range of financial services with loan settlements that span from 1 to 18 months and they commonly vary from owner managed to being listed organisations whereas large lenders are sometimes called ‘term lenders’. Most of the service ranges from a repayment period of between three and forty-eight months.

2.5 TYPES OF MICROFINANCE PROVIDERS

There are certainly different types of microfinance service providers that exist in different parts of the world, there are ones that are informal and others that operate as formal institutions. Luyirika(2010) briefly outlines that formal microfinance providers are subject to some form of regulation from the government or a financial regulatory board whereas informal providers operate illegally and try by all means to evade regulations imposed on microfinance service providers. Ledgerwood (2013:150) further distinguished these microfinance providers as informal financial service providers that are also known as community-based providers and institutional providers as depicted below:

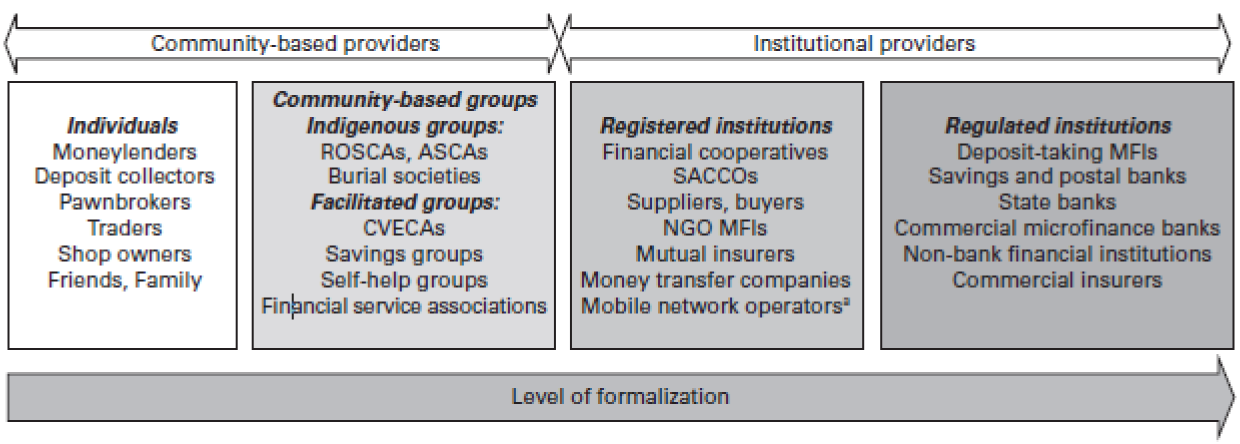

Figure 2.1: The Form of Financial Service Providers

(Source: Adapted from Ledgerwood 2013:150)

2.5.1 Community-Based Providers

Community-based providers are common mostly in the Sub-Saharan region and they provide microfinance services that are usually convenient, flexible and in close proximity to their clients' (Ledgerwood, 2013). Moreover, these informal or community-based financial service providers can also be split into two levels that are referred to as indigenous and facilitated (Ledgerwood, 2013). As highlighted above, indigenous providers both in the form of individual and group operate without any formal training and they include among many unregulated service providers; money lenders, pawnbrokers and Rotating Savings and Credit Association (ROSCA). According to Ledgerwood (2013:151) family and friends are the most common providers of microfinance service where it is reported that 29 per cent of adults depend mostly on their family and friends as their source of loan providers.

Morduch (2005:59) also correspond to the aforesaid claims by stating that the best way individuals can get rid of the hefty interest charges imposed by money lenders is to borrow from family and friends. In addition, indigenous groups such as ROSCAs may provide an alternative way to the social costs that comes with moneylenders, as there are no extra charges imposed on obtaining such a service. Morduch (2005) defined ROSCAs as a group of individuals that come together and agree to contribute regularly to a common pool of fund that is distributed to one member of the group per each period of time.

The term facilitated applies to providers in form of groups that essentially receive a formal training or funding from external organisations such as NGOs or government to implement and offer microfinance services (Ledgerwood, 2013:150). As stated by (Ledgerwood, 2013) the most common facilitated providers are India's Self-Help Groups (SHGs) that involve a group of individuals usually women that save and borrow together.

2.5.2 Institutional Providers

Institutional providers include those finance providers that are formalised, that is they are registered or regulated and in most cases they have brick and mortar branches (Ledgerwood, 2013:171). These institutions comprise of Savings and Credit Cooperatives, NGOs, savings and postal banks and Non-Bank Financial Institutions (NBFIs) among many more others as outlined in Figure 2.1.

2.6 THE REGULATION OF MICROFINANCE IN SOUTH AFRICA

Regulations are the rules or norms that are implemented by a governing board such as government on businesses, governmental entities, non-profit organisations and even individuals (Coglianese, 2012). In addition, Consultive Group to Assist the Poorest CGAP (2003) refers to regulations as the binding rules that control and direct the moral conduct of all entities that operate legally and individuals as adopted by a legislative body or executive body such as the South African Reserve Bank.

The NCR is mandated with the responsibility of regulating and controlling the activities of MFIs in South Africa, through the National Credit Act (NCA). The NCA provides for a range of interest rate caps and maximum limits that these entities may charge with regards to initiation fees and monthly charges on all credit transactions (Thela, 2012). Before the implementation of the NCA in June of 2007, normal practices in the microfinance industry were to charge 30% interest on a monthly basis month for all short term credit transactions but with the inception of the NCA, the interest rates were pegged at a maximum of 5% for each month and the other fees that are allowed are monthly fees inclusive of (R50 per every month as the agreed maximum) and initiation fees (15% on the first R1000 and subsequently a 10% charge was set as the prescribed maximum) (Government, 2004).

The NCA and its implementation in 2007 brought changes in formalising the microfinance industry in South Africa, where most of the entities are now placed in different tiers as follows:

Tier 1- these companies operate with banking licenses;

- African Bank, Capitec Bank, ABSA, Nedbank, Standard Bank, and FNB.

Tier 2- includes those companies that are listed but do not have banking licenses;

- Finbond, Real People, Blue.

Tier 3- these are unlisted larger entities; and

- Thuthukani Financial Services, Mafori Finance, Bayport

Tier 4- this comprise of entities with less than 10 branches in South Africa

Chakabva (2015:10) avers to the fact that the forms of regulations that are applicable to MFIs are or may not be the same as those that governs commercial banks as shown by Table 2.3 below:

Figure 2. 2: **The Forms of Regulations applicable to MFIs and Commercial Banks**

Legislation	Microfinance providers	Commercial banks
National Credit Act, No. 34 of 2005	Applicable	Applicable
Cooperative Banks Act, No. 40 of 2007	Applicable	Not applicable
Mutual Bank Act, No. 124 of 1993	Not applicable	Applicable
Bank Act, No. 94 of 1990	Not applicable	Applicable

(**source**: Chakabva, 2015:11)

Figure 2.2 above outlines the two major set of regulations that governs the microfinance services in South Africa, these regulations include the National Credit Act, No. 34 of 2005, and the Cooperative Banks Act (CBA), No. 40 of 2007.

2.7 MICROFINANCE SUSTAINABILITY

The two approaches to microfinance include the self-sustainability and the poverty approach (Vuuren, 2011). The poverty approach and the self-sustainability approach represent the welfare of the poor and the micro-lender respectively. For microfinance institution to be successful and operate in the foreseeable future, a balance between the two approaches would be the best way to go. Therefore, Thela (2012) defines sustainability in financial performance terms as the capability of the micro financier to cater for all operational costs and be able to continue with business activities without opting for donor funds or subsidies. Kimando & Kihoronce (2012) corroborate the view that when MFIs become financially sustainable, it can be a part of a financial system, where it can operate even if donor funds and grants are no longer available to them. Dlamini(2012) also supports this notion by pointing out that sustainability for MFIs should be on a permanent basis.

Kasenge(2011) refers to MFIs sustainability as the ability to generate adequate income or revenue to cater for all financing and operating expenses over a period of time. In addition, Kasenge(2011:24) gives meaning to self-sufficiency as a set of skill that enables MFIs to survive from their business operations whilst adding to their asset base exclusively of the income generated from their microfinancing services. This therefore means that MFIs should be structured in a way that will enable them to meet their present goals without constraining their capability to meet future goals (Dlamini, 2012).

A sustainable microfinance institution as reflected by (Morduch, 2005; Thela, 2012:11) is an institution that can grow and achieve outreach without depending on external support or subsidies from the government. Thela(2012) argues that subsidies and donor funds are indisputably a necessity for MFIs as a start-up capital so as to help them to achieve the operational size that is desirable. However, this aid should ultimately stop as soon as these institutions achieve operational self-sufficiency within a reasonable time period.

Moreover, Thela, (2012) contends to the fact that the role that is played by subsidies in the business activities of MFIs has over the years distorted the development of a clear acceptable definition of sustainability. In light of this, a high number of MFIs are still relying on the subsidies and donor funds to advance their business operations and other activities that are specific to the interest of the donors. It is also the view of Thela(2012) that although external funding to MFIs has proved to be a success in enhancing their performance, the dependence on such funding is perceived as detrimental to the development of these institutions which may as a matter of fact result in low productivity and inefficiency.

As outlined by Thapa(2010) the two degrees of self-sufficiency for MFIs are comprised of Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS). Ledgerwood (2013) briefly described these two levels of self-sufficient as follows:

- Operational Self-Sufficiency (OSS): OSS is where by an MFI generates enough income from their operations to cater for operating expenses, financing costs, and as well as providing for loan losses. It therefore gives a sign as to whether the MFI is generating sufficient income to cover all the direct costs including any financial costs incurred and not taking into account the adjusted cost of capital. It is calculated using the following formula:

$$OSS = \frac{OperatingIncome}{OperatingExpenses + FinancingCosts + \Pr ovisionForLoanLosses}$$

- Financial Self-Sufficiency (FSS) is an indication of whether the MFI is generating revenue that is suffice enough to cater for all the direct costs that include financing costs, providing for loan losses and operating expenses, as well as indirect costs that also include cost of capital. The formula used to calculate FSS is given below:

$$FSS = \frac{OperatingIncome}{OperatingExpenses + FinancingCosts + \Pr ovisionForLoanLosses + CostOfCapital}$$

Furthermore, Thapa (2010) referred to OSS as the capability of MFIs to cater for all their administrative costs and loan losses from the income that comes from their day to day operations. However, MFIs attain financial self-sufficiency when they are able to cater for all administrative costs, loan losses, and financing costs from operating income after adjusting for inflation and subsidies. However, from an estimate of about 10000 MFIs worldwide, it is estimated that only 3 to 5 per cent of MFIs have attained full financial sustainability (Guntz, 2011).

These measures of self-sufficiency are found to be relevant to this study in measuring sustainability of MFIs. However, although financial self-sufficiency is considered to be the most suitable measure for MFIs sustainability, it is difficult to obtain the data required to calculate FSS as the data are not always readily available from MFIs and in most cases the data are considered proprietary. Therefore, for this reason this study will use OSS as a measure of sustainability. The OSS as a measure of sustainability is not significantly different from the FSS measure as it gives information that is the same relating to income and expenses, which are the cornerstone for determining the ability or the capacity of a MFI to cover its costs (Thela, 2012).

It is evidently seen that more pressure is building up on MFIs to become self-sufficient: so as to be able to finance their micro lending operations from the interest and charges that are obtained from those clients that do not default on their loan repayments. Pollinger & Outhwaite (2007) contends that all microfinance providers should view the quest for sustainability and self-sufficiency by MFIs as a best practice. Pollinger& Outhwaite (2007) also suggest MFIs to adapt to more business practices in their operations so as to achieve self-sufficiency. In Kasenge (2011) view, the notion of adapting to business practices refers to MFIs operating as commercial institutions that are client focused and operate efficiently along with the other systems and processes that arise in the organisation.

Pollinger & Outhwaite (2007) outlines the importance of MFIs to expand their growth and outreach by means of investing in strategies that attracts new borrowers. To augment the need for growth Ledgerwood and White as cited by Kasenge (2011) argued that MFIs must come up with ways to diversify the portfolio of their offerings in their bid to widen outreach and as well as restructuring the capital structure of their organisations. This translates to MFIs to incorporate debt and equity in their balance sheet to access the much-needed capital for expanding outreach and growth.

In pursuing the objective for growth, some MFIs are transforming into deposit-taking institutions (Kasenge, 2011). Moreover, to benefit from this transformation these institutions should adhere to good governance practices and ownership structure (Kasenge, 2011). In addition Guntz (2011:30) support the need for transparency and good governance inside the MFI and at the same time there is need for MFIs to operate outside under favourable external conditions that encompass a favourable legal and regulative environment with no interest rate ceilings. However, Kasenge (2011) avers to the fact that good governance and ownership should not only be the benchmark for determining better business practises, rather MFIs must also look at social and financial performance.

2.7.1 Double Bottom-line Principle

In the quest to achieve sustainability many MFIs often regard financial performance or *'economic bottom line'* that includes operational self-sufficiency, financial self-sufficiency and other financial performance factors as an indicator for success. On the contrary there lies another sustainability pointer which is referred to as the '*social bottom line'*(Guntz, 2011:31). The social bottom line therefore entails the need for a continuous evaluation of the extent to which MFIs are reaching out to the poor marginalised people over a period of time whereas financial performance touch base on the issues that concern risk management measures, quality of the board, technical skills and portfolio quality management (Kasenge, 2011:19).

2.8 CORPORATE GOVERNANCE IN MICROFINANCE INSTITUTIONS

Corporate governance mechanisms in microfinance have recently been recognised to be an issue of concern. Over the years microfinance practitioners have dwelt much of their energy on issues that revolve around the dual mission of outreach and sustainability (Bassem, 2009). However, the ever changing microfinance environment has resulted in a shift towards sustainability leading to governance issues as donor funds continue to dwindle and equity needs in the microfinance section are on the increase and to this regard MFIs have therefore incorporated boards and assumed principles of corporate governance to guarantee their survival (Bassem, 2009).

Corporate governance as defined in microfinance terms refers to the mechanisms over which donors, shareholders, and other capital providers guarantee that their investments will be utilised to their anticipated purpose (Hartarska, 2005). Pickett (2010) describes governance as the way organisations are governed and controlled. This definition in core highlights the two fundamental elements of corporate governance that are inclusive of direction and control. As outlined by Paul *et al*., (2015) the direction element is a function of the board that emphasises the need for the directors to shift their energy to strategizing and planning in a bid to enhance the organisations performance and sustainability. On the other hand the control element is a responsibility given to the board to oversee the implementation and execution of the strategies and plans by the management.

It is imperative to note that some scholars in their understanding view corporate governance from two distinct angles that is the shareholder and the stakeholder models (Labie, 2001). In its stricter or narrowest sense (shareholder model), corporate governance is used to describe the stewardship relation of the board to the shareholders only. Contrary to the same view, the broader or widest sense of corporate governance (stakeholder model) takes the interest of all the organisation’s partners into perspective that is, it takes the relationship between the organisation and its various stakeholders (Paul & Emesuanwu Catherine Ebelechukwu, 2015).

In light of the above, it is also worth an effort to take a closer look at some of the theories that explain the relationship that emanates from corporate governance and other various partners. Chakrabarty & Bass (2014) view research on corporate governance as multi-theoretic as the theories offer differing lenses to comprehend the ability of the board to direct and control an organisation and as such we shall take a look on some of these theories.

2.9 THEORETICAL PERSPECTIVE OF CORPORATE GOVERNANCE

2.9.1 Agency Theory

The agency theory is built on two pillars that include the principal and agent. In literal sense the theory is founded upon the premise of a contractual relationship between the principal and the agent where the shareholders appoint directors who are responsible for formulating strategies to achieve set objectives and in turn to deliver these objectives, they employ managers to implement these strategies (Pickett, 2010). Moreover, Chakrabarty & Bass (2014) stated that the agency theory is centred on resolving the conflict of interest between the agent and the principal, information asymmetry, and issues that concern risk propensity. In addition as applied to corporate governs, the agency concept entails that the main role of the board is to lessen the potential deviation of interest between shareholders and management and thereby minimising agency costs and safeguarding the shareholders investments (Chakrabarty & Bass, 2014:368). However, the theory can be credited for providing an insight on how the board can monitor the actions of management but it does not take into account the external environment's influence on the way directors direct and control an organisation.

2.9.2 Stakeholders Theory

The stakeholder theory is based on an argument that an organisation is answerable and accountable to various stakeholders within and outside the organisation. Pickett (2010:28) gives a list of these stakeholders that are inclusive of but not limited to customers, financiers, regulators, government and local communities. Therefore boards of directors should be able to resolve the conflicting interest that may emanate from the organisations relationship with multiple stakeholders (Chakrabarty & Bass, 2014:368). The theory can be acknowledged for bringing to attention that various parties both within and outside the organisation can influence boards. However, the theory does not put into consideration the likelihood that an absence of external institutions can strain the capability of directors to direct and control an organisation (Chakrabarty & Bass, 2014).

2.9.3 Stewardship Theory

This theory put forward an argument that management executives of an organisation should ultimately be regarded as the stewards of that particular firm and at the same time boards of directors may also be regarded as contributing positively to the stewardship (Madison, 2014:11). This then entails that the role of the board is viewed as contributing knowledge, technical know-how and their commitment to the overall organisation, so as to enable the organisation to achieve its set objectives (Chakrabarty & Bass, 2014). Furthermore Kyereboah-Coleman (2008) argues that the stewardship theory is based on the management objective to maximise the firm's performance as the manager's sense of success and achievement comes when the firm performs well. The key element that distinguishes this theory from the agency theory is the fact that it replaces the lack of trust due to conflict of interest as purported by the agency theory. Kyereboah-Coleman(2008) brought forward the following facts as outlined by the stewardship theory as essential in warranting effective corporate governance in an organisation:

- *Board of directors*: To enhance the effectiveness of the activities of the board of directors, it is vital that organisations incorporate Non-Executive Directors (NEDs). This is essential in the sense that NEDs are not directly involved in the operations of the organisations and therefore this will enhance decision making in the organisation thereby ensuring sustainable operations of the firm.

- *Leadership*: As opposed to the agency theory, the stewardship theory supports the notion that the position of the CEO and the chair of the board should be vested on the same person. The purpose of this is essentially based on the fact that the CEO will be in a better position to make important decisions as quick as possible without any obstacle that comes with unnecessary bureaucracy. However, this has been found to result in higher agency costs and therefore those who do not support this theory argue that when governance structures are well oiled and working effectively with each other, there should not be a problem with unnecessary bureaucratic delays in decision making.

- The theory finally supports the need for small board sizes to encourage effective and efficient communication and decision making but on the other hand the theory does not provide a guideline for determining an ideal board size or rather it does not give an idea of what the word small constitutes.

It is evident from the preceding analyses that corporate governance mechanisms are built on the basis of protecting the interest of an organisation's stakeholders. As pointed out by Chakrabarty & Bass(2014) much power is vested on the board of an organisation to make major decisions like issuing of shares, declaring of dividends, changing certain by-laws that govern the firm and other underpinning issues that sustain the organisation and as such directors are being held accountable on a daily basis for their failures and successes. Moreover, much discussion on corporate governance revolves around the board. The board of directors is positioned at the tip of an organisation to act as the hinge that keeps the owners and the drivers of the organisation in sync (Chakrabarty & Bass, 2014:5). In addition many studies have come to the conclusion that boards of the directors are an effective mechanism for setting a tone and control environment that monitors the activities of managers (Chakrabarty & Bass, 2014; Hartarska & Mersland, 2012).

2.10 COMMON MEASURERS OF CORPORATE GOVERNANCE AND MFI SUSTAINABILITY

Good governance control mechanisms are important in MFIs since governance leads an institution to achieve its corporate objectives and safeguard the institution assets over time (Bassem, 2009). Bakker *et al*., (2014) confirms the importance of good governance for MFIs as poor corporate governance mechanisms poses a serious risk to an organisation. It seems relevant to take a closer look and examine the role many governance mechanisms take in MFIs as managers are entrusted with significant resources and assets.

The existing literature on corporate governance outlines the main measures of an effective corporate governance framework as inclusive of the structure of the board, ownership structure, remuneration, disclosure of information, auditing and the market for corporate control (Hartarska, 2005). Arguably, Hartarska & Mersland (2012) found out that some of the common or traditional governance control mechanisms such as performance based compensation are ineffective, while boards with a higher proportion of donors were found to have lower sustainability and at the same time MFIs with client representation were proven to have better sustainability.

Furthermore, Mersland and Oystein Strom (2009) in their study using a comparatively self-constructed dataset based on rating reports proved that financial performance which leads to sustainability improves when the board is composed of local rather than international directors and also when it includes an internal auditor. However, the King committee on corporate governs has up to date published three reports on ethics and governance as a guide to South African entities with the latest being the King IV report (Mutiro, 2013).

To further unpack on the study made by Mersland & Oystein Strom (2009) all governance mechanisms are distinguished between internal and external governance mechanisms where internal (MFI ownership, board composition) focus much on the functions of the Chief Executive Officer (CEO) and at the same time external mechanisms (regulated/unregulated, rated/unrated) are determined by the outside factors such as market and supervisory environment. This study will form base on some of these mechanism.

2.10.1 Internal governance factors:

2.10.1.1 Ownership and MFI sustainability

A distinction is established between a shareholder-owned organisation and a NPO where several studies have indicated that the type of ownership amongst many MFIs does not have much noticeable effect on the performance of MFIs (Bakker *et al*., 2014; Hartarska, 2005; Mersland & oystein Strom, 2009). Taking into perspective the study of Mersland & oystein Strom (2009) which is based on data gathered from at least 200 NPOs and shareholder MFIs from 54 countries, they pointed out that NGOs are neither more socially focused than shareholder-owned firms nor do shareholder-owned organisations more commercially focused than NPOs. However, Bakker *et al*., (2014) gives a contrasting view by highlighting the fact that NPO's are usually regarded as weaker structures due to the fact that they lack financial backing from their owners. This in actual sense becomes a deterrent in achieving a higher financial performance. On the other hand, those MFIs with shareholders are believed to have better performance because their governance and control is assumed to be better off as compared to those that do not have (Bakker *et al*., 2014).

Barry and Tacneng as cited by Bakker *et al*., (2014) on their comparison between NGOs and cooperatives noted that when it comes to outreach and profitability, NGOs are better off than cooperatives. Moreover, they also pointed out that co-operatives out compete NGOs in terms of their OSS.

2.10.1.2 Board composition and MFI sustainability

As pointed out by Labie (2001), MFIs seek to find board members who are capable, willing and have the desire to dedicate their efforts and the time that is required of them to effectively monitor management when discharging their duties. To further cement on this assertion Hartarska and Mersland (2012) opine to a narration that MFIs managers are more willing to disclose much information to the board than what they would disclose under a maximisation of profit objective. Boards should comprise of people that bring a set of skills and expertise knowledge that is useful to the MFI, including skills such as accounting, banking, finance and legal knowledge, and also skills that pertains to community development or any other social skills (Council of Microfinance Equity Funds, 2012). Bakker *et al.*, (2014) clearly outlines some of the elements that MFIs need to consider when setting out their boards in terms of composition and these elements are as follows:

2.10.1.3 Insiders On The Board And MFI Sustainability

Insiders on the board refers to the fraction of board members that are not affiliated to any of the other stakeholders of the MFI, these members include employees and managers (Bakker *et al*., 2014). Other stakeholders of an MFI apart from insiders are equity investors, donors and creditors. It is common practise among MFIs to incorporate clients or customers as part of their boards (Hartarska, 2005). Moreover, the inclusion of a fraction of employees and customers can be thought of as a way to augment the MFI's knowledge of the market and industry resulting in an alignment of the stakeholders with the MFI's mission (Bakker *et al*., 2014). However, Hartarska and Mersland (2012) argues that a board with a bigger proportion of insiders will in most cases have a negative bearing on the efficiency of the MFI. To buttress the latter sentiments, some studies also shed evidence to confirm that boards with a larger fraction of insiders have a negative impact on the social and financial performance of MFIs which is likely to result in poor sustainability (Chen, 2014; Hartarska, 2005).

2.10.1.4 Women on the board and MFIs sustainability

The issues surrounding board diversity have for some time gained traction amongst the corporate governance researchers. Bassem (2009) put forward the argument that board diversity in form of women inclusion and minority representation is possibly related to an organisation's performance.

The study of Mersland and oystein Strom (2009) also concluded that MFIs with female CEOs who also hold positions as board members are likely to perform better than those with male CEOs. In addition it can also be established that gender balance on the board may have a positive effect on the performance and norms of an organisation (Bakker *et al*., 2014). However, one can possibly argue that since the majority of clients that are served by MFIs are females, having a female portion of representation on the board will enable the board to get useful information that is pertinent in formulating binding decisions, which will possibly result in better performance and sustainability of MFIs. Mersland and oystein Strom (2009) also augment on the notion that a more representation of women on the board gives the MFI a better understanding of their clients which will then translate to MFIs having increased performance due to the simple reason that many of MFIs clients are female.

2.10.1.5 Board size and MFIs sustainability

According to the Council of Microfinance Equity Funds (2012), if boards are said to be large, they should be in a position to execute their duties effectively without putting too much load or over burdening its members. If boards are set to be small they should allow teamwork amongst the members, so as to make substantive decisions. Although it is not clear on the optimum number of board members for MFIs, the number of the board members should not be too small or too large (Kosgei & Kosgei, 2014). This in essence will shorten the time that the board will have to take to deliberate on certain issues and thereby making effective decisions in the shortest possible time.

Moreover, MFIs should have boards that are big enough to incorporate members that have a variety of set of skills that includes legal, audit, target market and social perspective knowledge, so as to provide continuity, and as well as to ensure quorums for meetings (Kosgei & Kosgei, 2014). Larger boards may be too much of a burden for a CEO to control than smaller boards and as a result agency problems such as director free-riding, will negatively impact the board whereby the board will become more of symbolic rather than being a part and parcel of the management process (Kosgei & Kosgei, 2014).

However, the Council of Microfinance Equity Funds (2012) seem to suggest that the acceptable size of the board should be seven to nine members, although some effective boards may have a board size of as few as five members or as many as eleven or more. In addition, some studies (Mersland & oystein Strom, 2009) argue that the number of board members increases with the size of the MFI. An increase in board size will most likely increase board activity to compensate for the increase in process losses. Furthermore, Kosgei and Kosgei (2014) avers to the point that board size should constitute an odd number of members to possibly avoid deadlocks during the voting process.

2.10.1.6 CEO/Chairman Duality and MFIs sustainability

In spite of the outcries from the various stakeholders to split the role of the chairman and CEO, some MFIs up to date still have not heed the call and their CEO’s continuously participate on the role of being the board chairman and CEO. According to Hartarska and Mersland (2012), such duality indicates a sign of CEO entrenchment which then poses serious risk to the MFIs as the CEO at some point may advocate for policies that favour their interest at the expense of the firm. The Cadbury committee also speaks against such duality of roles (Pickett, 2010).

However, Mersland and oystein Strom (2009) found out that, the CEO-chairman duality impacts positively on the portfolio earnings and the number of clients served by MFIs.

To augment on the former, Hartarska and Mersland (2012) avers to the notion that CEO-chairman duality may in some instance enhance or improve the quality and effectiveness of decision making hence, this prompted Brickley *et al*. in Hartarska and Mersland (2012) to conclude that firms with CEO/chairman duality performs better than those with CEO-chairman separation.

2.11.2 External governance factors

2.11.2.1 Regulation

It is imperative to note that MFIs operate in different forms due to their diversity. Some are regulated or unregulated, and are registered as private banks, NGOs, non-bank financial institutions, or cooperatives (Hartarska & Mersland, 2012). The regulation of an MFI is likely to impact on the MFI performance by changing significantly on the internal rules of the organisation (Hartarska & Mersland, 2012). Moreover, Zhang (2013) opines to the view that regulation of MFIs is likely to change the perception of the customer's towards the MFI hence earning customer loyalty and trust which will eventually lead to an improved financial performance and sustainability.

However, the justification of regulations imposed in some countries on MFIs accepting deposits brings about costs that are associated with formulating and implementing regulatory policies to address specific challenges and such costs are quite extensive and may possibly outweigh the possible benefits of such regulations (Hartarska & Mersland, 2012). Zhang (2013) argues on the problems of depositor insurance by government as this may lead to banks pursuing a more risky lending practice when they are assured that the government will warranty the deposits.

Furthermore, Hartarska and Mersland (2012) contends that regulation adds more to the stakeholders by bringing on board the regulator as an extra stakeholder, and this poses a serious risk of mission drift by diverting their focus away from the objective of serving the poor and putting more focus on fulfilling the regulation requirements. This in actual sense will stifle the MFIs ability to come up with innovative lending ways to reach out to the poor since much energy will be channelled towards improving capital adequacy in line with the regulatory requirements.

2.11.2.2 Competition

Competition is another governance variable that MFIs need to consider. In general, extreme competition may act as a substitute for internal governance (Hartarska & Mersland, 2012). Mersland & oystein Strom (2009) suggest that competition can undermine institution-customer relationship. Such a relationship allows MFIs (e.g. banks) to earn extra funds in form of rents for a prolonged survival. The undermining of relationships through competition has a negative bearing on the financial performance of an institution hence this may hinder a firm’s sustainability objectives (Zhang, 2013).

Countries dominated by intense competitive microfinance markets such as Uganda and Bolivia offers evidence which suggest that too much competition may result in reduced performance, although in most instances it lowers interest charges to borrowers, and hence this may ostensibly have a negative influence on sustainability (Hartarska & Mersland, 2012; Mersland & oystein Strom, 2009). Moreover, some studies shows little evidence of competition having a positive impact on performance which ultimately leads to sustainability (Hartarska & Nadolnyak, 2007).

2.12 Microfinance Corporate Governance in South Africa

It is estimated that 68 per cent of the low-income individuals in South Africa lack access to financial services from the traditional financial service providers (Chakabva, 2015). Such data proves that there is a massive inequality in income distribution amongst the wealth and the poor and this leaves a lot to be desired to make financial services available to everyone. As such, KPMG (2013) identifies the microfinance industry as a sector that needs the government’s attention as it is capable of creating a significant portion of employment and economic growth.

The microfinance industry in South Africa is approximated to be worth close to R50 billion and out of this amount it is estimated that 6% is loaned to small business and more than 90% is loaned to consumer personal loans for basic consumption (KPMG, 2013). Therefore, to continue providing such services, it is imperative that microfinance service providers be sustainable. To this effect, many researchers consider the use of good corporate governance mechanisms as a way of achieving sustainability (Hartarska, 2005; Hartarska & Mersland, 2012).

2.12.1 King IV Report on Governance

The King IV report on corporate governance became very important as a result of the implementation of the new Companies Act that came into effect in 2010 and the changing trends in international governance (Mutiro, 2013). In contrast to King I and King II, King III, King IV is applicable to all entities irrespective of the manner and form of incorporation or establishment and it is based on key principles that revolve around leadership, sustainability and corporate citizenship (Smith, 2007). Smith (2007) further explained some of the principles of the report that includes (ethical leadership and corporate citizenship, Boards and directors, audit committees, governance of risk, governance of information technology) as follows:

2.12.1.1 Ethical leadership and corporate citizenship

The notion of corporate citizenship bring about a relationship that exist between the company and the community on which it operates, where the board is mandated not to only take into sight the financial performance aspect of the business but also as a result they should consider the impact of the company's operations on society and the environment.

2.12.1.2 Boards and directors

The King IV report emphasises the need for board and directors to perform in the best interest of the company and form the primary or pivotal point of corporate governance with responsibilities extending to shareholders and other stakeholders.

2.12.1.3 Audit committees

The board at all times should make it a point that the company has an effective, efficient and independent audit committee. Although not all companies are as a result of law required to form or establish audit committees, the King IV report encourages all companies to establish this committee and outline its composition, purpose and duties in the memorandum of incorporation.

2.12.1.4 Governance of risk

The essential emphasis of the code is that the board should exercise their leadership to prevent risk management from becoming a series of activities that are detached from the truths of the company's business. Therefore, greater emphasis is employed on the board to make sure that it is satisfied with how risk is managed.

2.12.1.5 Governance of information technology

As information technology (IT) has become a vital part of how to operate a business today, it also presents organisations with a series of significant risk and as such the King IV specifies that directors should discharge their duty of care by taking steps that appear to be prudent and at the same time reasonable in as far as IT governance is concerned.

The King IV code is based on the 'apply or explain' basis which means organisations are not mandated to apply all the King's III principles but if they fail to apply they should explain their reasons for not applying (Engelbrecht, 2009). Sustainability together with leadership and corporate citizenship are key principles of the report. Based on the IODSA (2009) summary of the King IV report, sustainability is at the centre of corporate governance where companies are required to integrate strategy, sustainability and control to come up with the best values that underline sustainable practices. Therefore it is imperative for the board of directors to set a high precedent by setting a tone at the top for their companies to achieve an integrated performance that will eventually enable them to be sustainable in the foreseeable future.

Beside the studies of Hartarska (2005), Hartarska and Mersland (2012), Bassem (2009), Mersland and oystein Strom (2009), there are very limited studies that attempt to give a bigger picture on the relationship between corporate governance and sustainability of MFIs, particularly in South Africa. The majority of researchers focused much of their efforts in areas such as poverty alleviation, effect of risk management practices on microfinance and overlooking on corporate governance issues. Therefore this this then draws attention to the importance of this study. Thus, this study looks into the impact of corporate governance mechanisms on sustainability of MFIs in Cape Town, South Africa.

2.13 Chapter Summary

This chapter looked at the microfinance sector as a whole and provided an insight into the benefits that the industry brings to the economy and the need for continued government intervention and support to this microfinance industry. The chapter also highlighted the basic corporate governance factors that exist in microfinance industry and how various responsible individuals should implement them.

The reviewed literature in this chapter revealed that there are various governance mechanisms that exist within MFIs and some of these measures are linked to the sustainability of MFIs. However, it became apparent that some of these mechanisms are neglected by MFIs. Moreover, the chapter also offered a summarised discussion of the South African microfinance corporate governance landscape and it has been found out that the King IV report on corporate governance applies to all entities and it is useful to MFIs for them to achieve sustainability. The Chapters to follow will focus on the research methodology and data collection tools that are applied to this study.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

Babbie (2010) defined research design as a blueprint on which the researcher aims to conduct the research. Moreover, Mouton (2001) defines research design as a plan of action for which the researcher intends to carry on research. On the other hand, research methodology concentrates on the research processes, tools and the procedures to be applied throughout the study. According to Leedy and Omron (2010) research methodology refers to the general approach that is taken by the researcher to carry out the research project where to some extent the approach chosen will dictate the kind of choice of tools that are selected by the researcher.

The researcher in this study used a survey research methodology. The study also followed a Methodological Triangulation which uses multiple methods to study a phenomenon at hand and these methods consisted of qualitative, quantitative and secondary methods of collecting data.

Deductive reasoning was adopted as the main logical reasoning. Therefore, a more comprehensive literature review was conducted from where the researcher formulated a perception, which then translated into a problem statement. In turn, this perception was tested by the means of empirical research through use of data collected using quantitative, qualitative and secondary methods of data collection to assist in solving the research problem.

3.2 RESEARCH APPROACH

The research followed the triangulation method, which looked at quantitative, qualitative and secondary approaches.

3.3.1 Qualitative Research Approach

Babbie(2010) defines qualitative research as research that takes an insider perspective on social action by using broad methodological approaches which use qualifying words and descriptions to record and carry on investigations on issues of social reality. In order to get the perceptions on the corporate governance and sustainability issues of MFIs in Cape Town, the researcher conducted a number of interviews during the period of collecting data.

Interviews were used to collect data as there was need to interact with senior managers and managers who are knowledgeable with the area of study and as well as to guarantee that specific information was obtained from the key informants in the study. The use of this method is substantiated by Luyirika (2010) who is of the opinion that qualitative research methodologies provide the researcher with a view of the target audience individuals through engagement and direct interaction with the people under study.

Furthermore, Luyirika (2010) provides examples of qualitative methodologies as observations, in-depth interviews and focus groups, and these methods are useful to researchers as they help them to understand the meaning that people assign to social phenomena and clarify on the mental processes fundamental behaviours.

This research used semi-structured and in-depth interviews whereby the researcher used an interview schedule or guides that had specific questions organised according to the topic but where not necessarily asked in a specific order. This allowed the natural flow of the interview, as it enabled the researcher to determine when and how to ask the question.

3.3.2 Quantitative Research Approach

Bowling (2009) describes quantitative research as a research that is associated with quantities and provides a linkage between attributes. It is also called positivist research whereby it involves the gathering of highly structured data for analysis. In addition, using quantitative methodologies, the researchers' aim is to put forward the link among the variables and position this in terms of questions or hypotheses (Creswel, 2008). Furthermore, the quantitative research methods are suitable in circumstances in which prior or previous knowledge is known, this will enable the use of standardised methods to collect data (Bowling, 2009).

In this research study, questionnaires were used to gather data from the research participants who are also the recipients of microfinance services. Creswel (2008) emphasised on the use of survey questionnaires as they form part of the quantitative method and usually data are collected from a stratified sample that represent the whole population, this will enable the researcher to draw inferences of the behaviour of the things in the whole population at large using a small and inexpensive figure.

3.4 SAMPLING METHOD AND SAMPLE SIZE

Collis and Hussey as cited by Bruwer (2010) points out that a sample is formed by a group of people in a population. This then refers to the target population that is relevant to the research study. The population of this research study consisted of a list of credit providers in the Cape Metro pole, which were obtained from the NCR public domain and as well as the recipient of services offered by these Microfinance providers.

A list of microfinance providers which was obtained from the NCR was used as a criterion to best select the microfinance providers that operate in the Cape Town area. In a first step the researcher eliminated some of the microfinance providers from the list such as pawnbrokers, commercial banks and retailers, so as to remain with the only suitable providers. In a second attempt the researcher took the size factor as criteria to determine the suitable microfinance providers and focused on small, medium and micro finance providers. This eliminated commercial banks that also offer micro finance services. At the end the researcher decided to focus on 15 MFIs, which were relevant to the study and the research questions.

However, the researcher was left with a total of 10 MFIs at the end due to the following reasons:

- Three entities did not want to disclose information about their organisations;
- One entity could not be located using the address they had provided; and
- The other one entity could not be reached due to distance barrier.

Purposive sampling techniques were applied because the respondents had valuable knowledge to the research process (Bowling, 2009:188) and also the research focuses on small samples (Bruwer, 2010).

3.5 STUDY POPULATION

A study population refers to a total of individuals who share certain characteristics that are of interest to the research study (Traskin & Small, 2011). This research's study population will comprise of senior managers, managers, members and customers of MFIs operating in Cape Town.

3.6 Data Collection Design and Methodology

The researcher used a combination of qualitative and quantitative methods of data collection and analysis, so as to obtain enough information. The application of the two methods ensured that the data are effectively interpreted using numbers, figures and narrative. Data were collected from small, medium and micro MFIs that are registered by the NCR in Cape Town where the researcher investigated the impact of corporate governance on the sustainability of MFIs in Cape Town, South Africa.

As stated by Babbie (2010) there are different methods of collecting data that ranges from observing, interviewing, testing, selecting and analysing content just to mention a few. The following methods were used for each method:

3.6.1 Qualitative data collection method

Data collection was executed by means of interviews as there was a need to interact with senior managers and managers as well as to guarantee that specific information is obtained from key informants in the study. The research study initially targeted to obtain data from twenty managers but however, only thirteen managers from 10 MFIs participated in the research study

The use of this method is substantiated by Luyirika (2010) who is of the opinion that qualitative research methodologies provide the researcher with a view of the target audience through engagement and direct interaction with the people under study. Furthermore Luyirika (2010) gives examples of qualitative methodologies as observations, in-depth interviews and focus groups, and these methods are useful to researchers as they help them to understand the meaning that people assign to social phenomena and clarify on the mental processes fundamental behaviours.

Accordingly, the researcher used interviews as the qualitative tool to gather more information around the topic under study and as well as to use the knowledge of the key people in the study that have information about the corporate governance matters in their organisations and how this has contributed to the sustainability of their MFIs. Britten (1995) avers on the point that qualitative research methods reaps better results on a topic that has previously not been not explored or one, which is poorly understood.

3.6.2 Quantitative data collection methods

Bowling (2009) describes quantitative research as a research that is associated with quantities and provides a linkage between attributes; it is also called positivist research whereby it involves the gathering of highly structured data for analysis. In addition, using quantitative methodologies, the researchers' aim is to put forward the link among the variables and position this in terms of questions or hypotheses (Creswel, 2008).

Furthermore, the quantitative research methods are suitable in circumstances in which prior or previous knowledge is known, this will enable the use of standardised methods to collect data (Bowling, 2009). In this research study, questionnaires were used to gather data from the research participants who are also the recipients of microfinance services.

Creswel (2008) further suggested that the use of survey questionnaires as they form part of the quantitative method enables the researcher to draw inferences of the behaviour of the things in the whole population at large using a small and inexpensive figure.

3.6.3 Secondary data collection methods

This research study also made use of secondary data to fulfil the requirements of the triangulation method. Chakabva (2015) proposes that the use of secondary data helps to provide a theoretical background of the research. The secondary data were gathered through extensive analysis of relevant textbooks, published reports and accredited journals.

3.7 DATA ANALYSIS

3.7.1 Quantitative Data analysis

Quantitative Data were analyzed using Statistical Package for Social Science (SPSS) software V24 to determine the results of descriptive and inferential statistics. ANOVA analysis was also employed to determine the significance of the key variables. The variables for corporate governance include: board composition, composition of board committees and board size. Variables aligned to sustainability include: operational self-sufficiency, and financial self-sufficiency.

3.7.2 Qualitative data analysis

Qualitative data were analysed just after the data collection. The feedback obtained from the respondents was transcribed and later on grouped into specific themes. Thereafter content analysis was used to analyse the transcribed interviews.

3.7.3 Secondary data analysis

Data were analysed through the use of simple mathematical calculations as opposed to many scholars who have used complex mathematical calculations such as the stochastic frontier approach, multivariate regression models and other sophisticated methods. The use of this method was adopted as it was not feasible to run a model for three MFI's data, which was gathered. Simple mathematical calculations will allow even those who are not experts in financial management to apply the findings as they appear in this study Magali & Lang'at (2014). The following is a framework to analyse the secondary data as it pertains to the key variables of performance and sustainability (Table 3.1):

Table 3. 1: Key variables of performance and sustainability

Performance		**Sustainability**
Indicators	**Variable of measure**	**Measures of sustainability**
• Profitability • Sustainability	• Return on Assets (ROA)	• Operational Self-Sufficiency (OSS)

The numerical measure of Operational Self-Sufficiency (*OSS*):

$$OSS = \frac{OperatingIncome}{OperatingExpenses + FinancingCosts + ProvisionForLoanLosses}$$

The numerical measure of Return on Assets (*ROA*):

$$ROA = \frac{Net\ operating\ Income\ less\ taxes}{Period\ average\ assets}$$

3.8 DATA VALIDITY AND RELIABILITY

According to Drost (2011) data validity often refers to the meaning that is attached to the components of a research and the four types of validity are: statistical conclusion validity, construct validity, internal and external validity. Moreover, Weiner (2007) defines validity as the extent to which any measurement tool succeeds in describing the purpose on which it is made for. Reliability on the other hand is concerned with the extent to which the measurement technique used can be relied on to get consistent results based on a constant application (Weiner, 2007:6).

The key measurements of corporate governance that are derived from the relevant literature consist of MFI Board, internal governance mechanisms and external governance mechanisms (Hartarska, 2005; Hartarska & Mersland, 2012). These measurements form the key variables to confirm the data validity of this study. This study used the Cronbanch's Alpha to test for data reliability.

3.9 ETHICS

Ethics as defined by Adams & Callahan (1998) is mostly concerned with establishing the moral obligations, the best way of practice and knowing what is good, right, fair and just. Moreover, (Bowling, 2009) refers to ethics as the aptness conduct that the researcher gives to the participant's rights. However, Swelindawo (2012) points out that researchers are entitled to explore and investigate on the facts but without going to the extent of digging into the privacy and rights of the respondents involved.

Based on the abovementioned, the following ethical considerations were applied to this research study:

- **Voluntary participation:**

Participation was not compulsory. The participation by participants in this research was voluntary, free from any intimidation and there was no promise of any benefits arising from their participation. The participants were advised to withdraw at any time that they felt there were not comfortable to continue.

Informed consent

The respondents were asked to provide written consent to participate in the study.

- **Right to privacy**

All information gathered from respondents' was kept strictly confidential and respondents were guaranteed that they will remain anonymous during the course of the research study so as to guarantee privacy.

- **Involvement of the research**

Information provided was strictly used for research purposes only and all participants were treated fairly.

- **Ethical clearance**

Before questionnaires were distributed, the researcher obtained ethical clearance from the ethics committee at the Cape Peninsula University of Technology.

3.10 RESEARCH ASSUMPTIONS

The assumptions of the study are that the sustainability of the MFIs in the Cape Metropolitan area are hampered by the lack of sound governance mechanisms which is as a result of lack of regulatory framework guiding the microfinance activities.

3.11 RESEARCH CONSTRAINTS

Research constraints refers to the distinction of the study, where the distinction of the study is an imperative part of the research that provides the framework for proposed research and continually serves to guide the research while it is happening (Mori & Golesorkhi, 2013). The research was therefore limited as the study only investigated MFIs in Cape Town in the Western Cape Province of South Africa and excluded those that operate outside Cape Town and other provinces of South Africa.

3.12 CHAPTER SUMMARY

The chapter covered in detail an analysis of the research methodology and design. This was covered under the following headings: research approach; sampling method and sample size; study population; data collection design and methodology; data analysis; data validity and reliability; ethics; research assumptions and research constraints. Data analysis was covered in brief and it is covered in detail in Chapter Four to follow.

CHAPTER FOUR: FINDINGS AND ANALYSIS

4.1 INTRODUCTION

In this chapter the results of the data analysis are presented. The data gathered were collected to answer the important question posed in chapter one of this research study, that is, what impact do corporate governance mechanisms have on the sustainability of MFIs in Cape Town, South Africa. As highlighted in the previous Chapter, the researcher made use of survey research approach and triangulation method to conduct and obtain data for the study. The research findings were gathered through face to face interviews with senior managers and staff of MFIs in Cape Town and as well as making use of self-administered questionnaires distributed to the recipients of MFIs services. Secondary data obtained from the financial statements of selected MFIs was also used.

4.2 SCALE OF MEASUREMENT

The tool that this study used to measure the qualitative data were an interview questionnaire (refer to Appendix B) whereas a questionnaire that presented the demographical and rating scale questions was used for the quantitative data (refer to Appendix C). The first section of the quantitative questionnaire dealt with the demographical information of the participants, which was measured through nominal scales, whilst the second section had to be measured using a likert scale of measurement. The secondary data were measured through the use of simple mathematical calculations.

4.3 PRELIMINARY ANALYSIS

The Cronbach Alpha test was used to test for reliability of the quantitative questionnaire items. The following descriptive statistics were performed on all the variables:

- Mean
- Standard deviation

- Frequencies, percentages
- Cumulative frequencies

4.4 FINDINGS

The study opted to use the content analysis to identify and categorise the themes from the transcribed text. Content analysis is defined as a technique that is used to collect data and analyse the content of the text where content refers to pictures, words, meanings, themes, ideas or any message that can be communicated (Neuman, 2014). Therefore, to analyse the transcribed text through content analysis, the research questions were converted into themes. The main question at the heart of this study reads as follows: What impact will corporate governance mechanisms have on the sustainability of MFI's? The main research question was then split into the following themes: Corporate Governance Mechanisms and Sustainability.

4.5 THEMES

In order to support the main research question themes (corporate governance mechanisms and sustainability), data gathered from the interviews was categorised into the following themes as per the investigative questions: Board size, Board composition, CEO/Chairman duality, Kings III principles, sustainability strategies and sustainability challenges. The participants' feedback was first audio recorded using a smartphone before they were transcribed.

4.5 OUTCOME OF THE INTERVIEWS CATEGORISED ACCORDING TO THEMES

The interviews took place in the month of October and the first two weeks of the month of November 2016. The interview questions took the form of general and in-depth questions. The general questions provided a general overview of the participant's MFI whereas the in-depth questions sought to understand the participant's perspective on the variables pertaining to this study. The interviewees or participants were labelled as participant 1 to participant 13. All the responses are summarised as follows:

4.5.1 General Questions

4.5.1.1 Establishing the respondent's status in the MFI

In an attempt to ensure that the respondents were managers in their business as stipulated in the sample framework, a question was formulated to capture such information.

Table 4. 1: Respondent's status in the business

Theme question: What is your position and how long have you been in that position in this MFI?	
Domain	**Finding**
Current Position	100% of the participants confirmed that they hold managing positions in their respective MFIs, while 20% indicated that they were CEO's of their institutions
Years in that position	More than 50% of the respondents stated that they had been in their positions for less than 10 years whilst less than 50% confirmed to have been in their positions for more than 10 years with less than 10% of the participant indicating that they have been holding their positions for at least 20years.

As indicated earlier, the aim of this question was to determine that the participant were indeed managers, senior managers, or CEO's of their MFIs and not general employees. The verbatim responses of the participants are provided below.

"*I am the CEO and managing director of this company and I have been in this organisation ever since it started." **(Participant** **1)***

"I am an area manager and I have been in this position for about 2 and half years." ***(Participant 2)***

"*I am the branch manager and I have been working as the branch manager since January 2016." (***Participant 3)**

"I am the branch manager since 2015." ***(Participant 4)***

"Yes, I am the manager here and it has been 2 years now." ***Participant 5)***

4.5.1.1.1 Summary of the finding based on verbatim responses

As indicated by the finding, 100% of the participants interviewed were managers of their MFIs. 92.3% confirmed that they have been in managing roles for less than 10 years with some having been in those positions for a period of less than a year whereas a paltry 7.7% of the respondents were in their positions for at least 20 years.

4.5.1.2 MFI number of years in operation

In an attempt to establish the number of years that MFIs under review were in operation, a question to capture such information was formulated and the table below shows the interview findings.

Table 4. 2: Number of years in operation

Theme question: How long has your organisation been in operation?	
Domain	**Finding**
Years in operation	100% of the participant indicated that their MFIs have been in operation for more than 10 years. The largest number of years in operation amongst the participant's MFIs was 22 years whereas the least was 10 years.

The objective of this question was to determine the number of years MFIs have been in business, given that the sampling frame of the study specified that the sample of the study was to consist of MFIs who have been in business for at least three years or more. In line with the theme, this is what some of the participants had to say:

"*The company initially opened in 1998 and it was recreated in 2002 to better find new investors, so in actual fact the company has been in operation for almost 14 years." **(Participant 1)***

*"The organisation has been in operation for more than 10 years." **(Participant 2)***

*"It has been operation for the past 22 years." **(Participant 3)***

*"Since 1997." **(Participant 4)***

*"The organisation has been in operation for 15 years." **(Participant 5)***

*"Our company started in 1999 and this means we have been there for close to 16 years." **(Participant 6)***

*"We opened and started operation in 1999." **(Participant 7)***

*"The business was established in 1998 with a vision of being a leading provider of financial services in Southern Africa." **(Participant 8)***

*"The organisation has been in operation since 1999." **(Participant 9)***

*"Since 2000." **(Participant 10)***

*"We have been there for almost 15 years now." **(Participant 11)***

*"I think it is 12 years this year." **(Participant 12)***

*"The business opened in 1999." **(Participant 13)***

4.5.2 IN-DEPTH QUESTIONS

4.5.2.1 Board size

The main purpose of this theme was to determine the size of the board of directors of MFIs so as to enable the researcher to draw conclusions based on this finding and literature consulted.

Table 4. 3: The size of MFIs board of directors

Theme question: How often does the board of directors meet and how many directors sit on the board?	
Domain	**Finding**
Board size	43% of the participants stated that the size of their boards is comprised of more than 5 members whilst 47% indicated that their boards have less than 5 members. However, 75% of the participants confirmed that their boards meet at least once a year with 25% of the respondents pointing out that their business are family oriented and therefore have no boards of directors.

As indicated by the findings above majority of MFIs boards in Cape Town have board members of 5 or more members. According to Council of Microfinance Equity funds (2012) boards must be large enough to perform effectively, provide continuity, and to make sure that the quorums for meetings are met. In addition, they also give evidence to the fact that smaller boards are also effective for MFIs. The reason for this assertion is that smaller boards are easy to manage and it encourages teamwork where substantive decisions are made in less time without much disagreement. The ideal size for MFIs board ranges from 5 to 9 members although 11 or more may also be considered to be an effective number (Council of Microfinance Equity Funds, 2012). The findings however ascertained that 47% of MFIs boards in Cape Town are below the recommended size. Additionally, below is what some participants had to say:

“*Like I said we have one director, CEO and operational managers and we have a meeting once every two to three months.”* ***(Participant 4)***

“The board meets at least once a quarter either in person or by resolution. The number of the board varies from 3 to 5 members but we try to keep at least 5 board members depending on the issues to be discussed.” ***(Participant 1)***

The finding also noted that majority of MFIs with smaller boards are family managed and therefore in some instances they do not have any boards. Mori & Golesorkhi (2013) give evidence to the fact that MFIs that are founder managed are more associated with smaller boards of directors that are less independent for them to retain control within the family or families. This lack of independence is somehow a lack of proper governance structure amongst many MFIs in Cape Town. In accordance with this finding, interviewees found this to say

“This business is family centred and I would be lying to say that we do have a specific board of directors, I make the necessary decisions as the founder whenever the need arise.” ***(Participant 11)***

On the other hand, it is worthwhile to note that from the outcome of the findings of this theme at least 43% of MFIs have boards with members of 5 or more. This can be evidenced from what some of the participants mentioned below:

“the board meets quarterly, as well as at AGM and extraordinary meeting. There are seven members of the board of directors who constitute 3 females, 4 males and out of that number 5 are black and 2 are white.” ***(Participant 7)***

4.5.2.2 Board composition

The aim of this section was to determine how the boards of MFIs in Cape Town are composed in terms of gender, skills and expertise.

Table 4. 4: MFIs board composition

Theme question: How is the composition of your board of directors determined?	
Domain	**Finding**
Board composition	23% of the respondents indicated that the composition of their boards is decided on the Annual General Meeting by a special resolution whereas 15% of the total participant showed that their boards consist of a mixture of gender in some cases female members forming a larger number of the group. 31% of the respondent confirmed that their boards consist of family members. However, on the other hand 31% out of the total participants indicated that their boards are determined according to a specific skills set that are applicable to their MFIs.

The findings as indicated above highlighted that MFIs in Cape Town determine their boards composition in different ways with the majority taking skills and expertise as a requirement for their choice of candidates and on the other hand the findings also indicated that a lower fraction of these MFIs have their board composition encompassed of family members. Labie (2001)pointed out that MFIs should seek board members who have the willingness and zeal to dedicate their efforts to effectively oversee managers when discharging their duties. Moreover, Council of Microfinance Equity funds (2012) emphasised on the need for MFIs to have boards that consist of members that have a cocktail of skills and expertise knowledge that are useful to their specific entities MFIs. These skills may include accounting, financial, legal or social. Accordingly, below is what some participants had to say:

"*the board of directors are interviewed and elected according to the selection of agreement viewed and approved by quorum of executive director and board of directors in seating. A profile of specific housing/development and understanding of laws that govern these components are advisable in order to be appointed."*

“we have a voluntary board and we attract people on the board based on their skills such as legal and financial skill.”

“they are nominated by relevant stakeholders and elected by consensus during a seating of the board at the AGM provided a quorum of board members is present. They are nominated according to their skills. The board is balanced with women forming the highest number of the board.”

If boards consist of individuals with different skills it helps the MFIs to deliberate on the issues that needs specific expertise and therefore be in a position to strategise and implement those strategies to effectively meet the set objective.

Furthermore, the findings also noted that 15% of the total respondents have a gender balance amongst their board members where in some cases women form a larger fraction of these members. According to Bassem (2009) board diversity in the form of women inclusion and minority representation is related to organisation performance which then leads to sustainable MFIs. Mersland & oystein Strom (2009) also augment on the latter assertion in their study by putting forward a conclusion that MFIs that have female CEOs who also hold positions as board members have a better chance of performing better than those dominated by male board members. In line with this theme, below is what some participants had to say:

“*The directors are mainly appointed by a special resolution at the AGM. The directors are composed of a mixture of gender and race.” (***Participant 6)***

“basically they are appointed at the AGM. As it stands right now we have more of women representation on the board as compared to their counterparts.” ***(Participant 12)***

The argument can be put forward that more representation of women on the board can work to the advantage of the MFIs in the case that the majority of their clients will be female clients as is the case in most circumstances. This will enable the board to get useful information that may be pertinent in forming decisions and strategies that will possibly result in good performance and sustainable MFIs. Moreover, Mersland & oystein Strom (2009) avers to the notion that a more representation of women on the board provides MFIs with a better understanding of their clients which will then translate to MFIs better performance.

However, as evidenced by the findings it is imparative to note that a handful of these MFIs in this study have their boards made up of family members. When asked, the participants had this to say:

*"the board only consist of family members." (**participant 4**).*

*"the family who happens to be the shareholders are also the directors of the company, so the composition of the board of directors consist of family members." (**participant 5)***

4.5.2.3 CEO/Chairman duality

The main aim of this section was to determine if the CEO's of the MFIs also hold positions as the Chairman of the board of the directors.

Table 4. 5: The duality of CEO/Chairman in MFIs

Theme question: Is there a separation on the positions of CEO and board Chairperson? If so, how long is the tenure of the CEO?	
Domain	**Finding**
CEO/Chairman duality	37.5% of the participants confirmed that there is a separation on the positions of the CEO and board Chairperson. However, 62.5% of the respondents indicated that their CEO's doubles as the board chairperson and therefore there is no separation on these positions.

Taking a closer look at the above findings, it is worthwhile to note that majority of MFIs in Cape Town have no separation on the positions of the CEO and the board Chairperson and 62.5% of the respondents stated this. However, a paltry percentage but significant number of respondents confirmed that there is a separation between the positions of the CEO and the board Chairman of their related MFIs. According to Hartarska & Mersland (2012) a CEO/Chairman duality may amount or indicate CEO entrenchment which may bring about conflict of interest as the CEO may pursue policies that benefit them at the expense of the entire organisation. In support of this perception the interviewees made the following comments:

*"No, the founder who is also the CEO chairs all the meetings, so I would link to think that there is no separation on those positions so to speak." (**Participant 5)***

*''there is no separation, the company is family managed, and decisions are made amongst the family members.'' **(Participant 4)***

*'' As the organisation is family owned the directors are all family members and the owner is also the CEO of the company.'' (**Participant 3)***

*'' there is currently no CEO but rather an executive director whom has executive authority over all operations; strategic management; liaison with the board and external parties and funding.'' **(Participant 9)***

*'' there is no CEO, currently key individuals: Mark Seymour Shareholder/ Managing Director, Elardus de Beer Shareholder and Fanie Van Vuuren Financial/General Manger oversee various roles assigned to them.'' **(Participant 8)***

The participant above highlighted that in their respective MFIs the positions of CEO and the Chairperson is one. Some respondents indicated that there is no separation since the specific roles are vacant and thus the CEO or Chairperson may end up doubling the roles in acting capacity. However, some researchers have different views on the

CEO/Chairman duality. Mersland & oystein Strom(2009) in their study indicated that, the duality between the CEO and the Chairman roles may have a positive impact on the portfolio yields and the number of clients served by MFIs. Furthermore, the dualisation of these two roles may in certain cases promote the effectiveness and quality of decisions made by those in charge of making decisions in MFIs, hence firms with CEO/chairman duality performs better than those with CEO-chairman separation(Hartarska & Mersland, 2012).

Accordingly, some participants had the following to say:

'' Yes, the Chairperson of the board is not the CEO.'' ***(Participant 6)***

'' Yes, there is a separation.'' ***(Participant 7)***

'' Yes, the company has had one CEO since inception and there is a non-executive Chairperson of the board.'' ***(Participant 1)***

'' there is a separation between those two roles." ***(Participant 12)***

4.5.2.4 Adherence to King lV principles of good corporate governance

The main objective of this theme was to determine if the MFIs in Cape Town adhere to the King lV principles of good corporate governance as a recommendation from the King's committee report.

Table 4. 6: MFIs conformance to the King IV report on corporate governance

Theme question: Does your organisation conform to the King lV principles of good corporate governance and if so, could you describe them?	
Domain	**Finding**
Conform to King lV	77% of the participant that responded to this theme question

principles	indicated that they do not conform or are aware of the principles of good corporate governance recommended by the King's IV whereas 23% out of the total of participant confirmed that they conform to the King's principle of good corporate governance.

As indicated by the above findings, it becomes imperative to note that some MFIs in Cape Town apply the principles of good governance as recommended by the King's committee. The findings also took note of the fact that most MFIs who do not conform to the king's principles are not even aware of the report. In line with the findings, the following are the verbal response of some of the participants:

''*We don't necessary conform to all the King's report principles. In its purity, we would not claim we conform to the report but we conform to other policies that have the equivalent of the King's report.'' (***Participant 1)***

''** I am not aware of such principles and that means we don't conform to whatever the report outlines." (Participant 10)***

"We do conform to the principles envisaged in the document but not to most of them because we are not as big as some of the principles would require, but I can safely say that we do have a board that is viable as one of the principle and our organisation financial statements are audited annually as is required by the code." ***(Participant 6)***

"I wouldn't want to say we apply all the principles of the King's III code as you can see that our organisation is not that very big but we do incorporate some of the general and specific principles of corporate governance and the King's act such as appointing auditors who audit our books and the entire organisation." ***(Participant 5)***

The importance of good corporate governance practices and principles based on the creeds of the King IV report have been identified by many researchers as a stepping-stone for any organisation to be sustainable. Routledge (2009) outlines the aim of the report so as to ensure that all forms of entities apply the principles of good corporate governance. This also entails that MFIs are not an exception when it comes to applying these principles and therefore they have to comply for them to operate in the best ethical way that will guarantee sustainable operations of their businesses. Furthermore, Engelbrecht(2009) postulate that the King IV code is based on the 'apply or explain' basis which means if MFIs fail to apply the principles they need to come up with reasons for why they not conforming to some of the principles.

It then follows that the majority of the MFIs in Cape Town are not adhering to the recommendations of the Kings IV report as indicated from the findings. Therefore, from the facts stated above it appears that MFIS in Cape Town are not operating in the most ethical ways and they risk not being sustainable in their operations.

4.5.2.5 Sustainability Strategies

The aim of this theme was to explore if MFIs in the area of study have strategies in place to help them achieve sustainability and as well as to determine if those strategies are being implemented.

Table 4. 7: The strategies employed by MFIs to achieve sustainability

Theme question: Are there any strategies in place that helps you to achieve sustainability? If so, how do you go about executing them?	
Domain	**Finding**
Sustainability strategies	46.2% of the participants established that they set strategies to achieve sustainability in their MFIs. 53.8% chose not to answer the question posed to them or they did not have any strategies put in place to achieve sustainability.

The finding indicated an almost equal percentage of those MFIs who set strategies for achieving sustainability and those who do not, although those who did not respond to the theme question are quite significant. This then sends mixed views as to whether those who did not respond have nothing in place as strategies for sustainability or whether it's a case of lack of knowledge. Moreover, the finding revealed that the constant change in their industry has prompted some MFIs to improve as one respondent stated that.

"*Functioning in a rapidly evolving environment, our organisation remains at the cutting edge of the industry developments by constantly raising the bar in terms of its quality standards, operational procedures, staff training and customer services. The prospects of tighter regulation, the National Credit Act, stronger domestic competition and the possibility of moving closer to the banking fraternity, and/or being able to enter the banking space through second-tier bank licenses have combined to ensure clarity of vision and purpose for our organisation and its shareholders." **(Participant 8)***

In line with the above response Pollinger & Outhwaite (2007) highlighted the need for MFIs to grow and expand on their outreach by investing in strategies that attracts new borrowers for the loans. This will keep the MFIs in operation for as long as they are able to take on new borrowers. Additionally, Kasenge(2011) suggest that MFIs should transform into deposit-taking institutions so as to augment on their growth strategies.

A number of respondents highlighted that good customer service, incentives and affordable loans are some of the strategies they use to keep their clients and avoid defaulting and diversion. Accordingly, the following are some of the verbal responses:

"*We offer commission to our clients to bring stability, so through commissions clients bring clients and also we have agents who make it their job to bring new clients. So in general there is incentive for bringing new clients." **(Participant 2)***

"…an aspect of the organisation's approach which can also be replicated is the organisation's commitment to organisational learning. This approach has enabled us to refine our lending model and systems and to be responsive to problems and challenges. Given the low rates of default, loan diversion and the portfolio at risk, our minimalist

approach to support consumer education, savings mobilisation along with the verification of loan use appears successful. Our efforts to educate clients up front about the loan terms and eligibility requirements have been sufficient to positively influence the quality of our loan portfolio…" ***(Participant 9)***

Rural & Solidario(1999) seem to suggest that MFIs must understand their clients' needs and design appropriate products and as well as to make sure that their delinquency level (late payment of loan instalment) and default (non-payment) at a lower level. Moreover, the delinquency rate should be below 10 per cent and the default rate below 5 per cent (Rural & Solidario, 1999a). It is also worthwhile to point out that MFIs need to put forward strategies that seek to match their services with what the customer wants. In doing so Rural & Solidario, (1999) advocate for MFIs to provide products that are tailor made to meet client demand by shortening the terms of their loan terms, quick turnaround of the loan applications and highly liquid savings services. The finding around this theme is in sync with the former claims as one respondent had this to say

"*Sustainability to us is achieved when our loans are repaid and therefore to achieve that we make sure that our repayment period are short, that is 6 months to 2 years making all our loans short term facilities. On the other hand our interest is way too low which encourages our clients to repay back without taking much from their pockets and that is to say we offer affordable loans."* ***(Participant 6)***

4.5.2.6 Sustainability challenges

The main objective of this theme is to determine if MFIs in the Cape Town area are facing challenges in achieving their sustainability goals

Table 4. 8: MFIs challenges to achieve sustainability

Theme question: What challenges, if any do you face in achieving your sustainability goals?	
Domain	**Finding**

Sustainability challenges	An overwhelming response of 100% by all respondents indicated that indeed MFIs in Cape Town are facing challenges in achieving their sustainability goals.

As shown by the finding, all the participants acknowledged that they are facing challenges in achieving their sustainability goals. The majority of the respondents seem to agree that competition amongst themselves and the new MFIs that are tapping into already flooded market is one of their major setbacks. These responses included the following: '…competition is at the centre of the challenges…' 'Competition is the other challenge we are facing…' '…agents taking clients to other MFIs.. .' '…the challenge is competition, the playing field is no longer level and it's very difficult to capitalise on the market share because there is so much variety to the customer…'Mersland & oystein Strom(2009) argues that MFI performance can increase with more competition but on the other hand it may not bring customer benefits. However, intense competition can undermine institution-customer relationships and this may have a negative effect on the financial performance of an institution and as a result this may affect MFIs sustainability objectives (Zhang, 2013).

An important set of findings disclosed that some government regulations are letting them down and hence finding it difficult to operate in the foreseeable future. Accordingly, the respondents had the following to say:

"*The obvious challenge we are faced with is government and the policies they make. In most cases the government puts laws that protect the customers at the expense of the microfinance businesses and this has led to most finance providers scaling down and eventually closing…"* ***(Participant 5)***

*"The government is always changing laws, like recently they changed the percentage caps and we have to look for cost cutting measures like scaling down or closing unprofitable branches as the company is performance driven…"****(Participant 3)***

To augment on the participant’s responses around the issue of regulation Hartarska & Mersland (2012) are of the perception that regulation on MFIs may impact on their performance by changing their internal rules of the organisation. Moreover, some regulations brings about costs that are associated with formulating and implementing regulatory policies to address specific challenges and such costs are quite high and may possibly outweigh the possible benefits of such regulations (Hartarska & Mersland, 2012). However, Zhang (2013) opines to the view that regulation of MFIs is likely to change the perception of the customer’s towards the MFI hence earning customer loyalty and trust which will eventually lead to an improved financial performance and sustainability.

In addition, the finding also indicated that some MFIs are faced with funding challenges to keep their operations going. ‘… We are faced with difficulties in accessing funding as we are not for profit organisation....’ This response suggests that those MFIs rely heavily on external parties such as donors and financial lenders to provide their service.

4.6 DESCRIPTIVE STATISTICS

A total of 123 questionnaires were distributed to the targeted group and all were returned, but 2 were not completely filled and one did not satisfy the criteria set for the survey and therefore were rendered invalid. The researcher explained all the requirements and instructions for completing the questionnaire before allowing respondents to complete the questionnaires (refer to Appendix A).

For the purposes of easy illustration, the variables which relates to all the demographical and rating scale data were coded. The demographical data were assigned A-codes and B-codes given to the rating scale data.

There are four levels which were applied in this research to illustrate the data analysis and interpretation. The levels are as follows:

- Data reliability testing;

- Data validity testing;
- Data organisation; and
- Statistic interpretation.

The Table 4.1 below and Appendix G outline the descriptive statistics for the variables used in this research survey. The main aim is to measure the respondent's perception with regards to the statements forwarded to them.

The Table 4.9 indicates the number, means, standard deviation, minimum, maximum and range of the continuous variables whilst Appendix D illustrates all the frequencies for the variables and the percentage of the completed questionnaires.

Table 4. 9: Descriptive statistics for the continuous variables

Variables	N	Mean	StdDev	Min	Max	Range
A1	120	1.51	0.502	1	2	1
A2	120	2.35	1.042	1	5	4
A3	120	1.59	0.761	1	4	3
A4	120	1.79	0.995	1	5	4
A5	120	2.64	0.994	1	4	3
A6	120	1.38	0.582	1	4	3
A7	120	1.29	0.679	1	4	3
B1	120	3.83	0.857	1	5	4
B2	120	3.64	1.023	1	5	4
B3	120	4.03	0.819	1	5	4
B4	119	3.83	1.06	1	5	4
B5	120	3.96	1.007	1	5	4
B6	120	3.79	1.052	1	5	4
B7	120	3.6	1.056	1	5	4
B8	120	3.74	1.033	1	5	4
B9	120	3.88	0.822	1	5	4
B10	120	3.75	0.989	1	5	4
B11	120	3.83	1.04	1	5	4
B12	120	3.88	0.865	1	5	4
B13	120	3.77	0.976	1	5	4
B14	120	3.68	1.021	1	5	4

Variables	N	Mean	StdDev	Min	Max	Range
B15	120	3.82	1.061	1	5	4
B16	120	3.56	1.002	1	5	4
B17	118	4.05	0.915	1	5	4
B18	120	3.99	0.822	1	5	4
B19	120	3.79	0.934	1	5	4
B20	120	4.13	0.865	1	5	4
B21	120	3.81	0.833	1	5	4
B22	119	3.84	0.935	1	5	4
B23	119	3.92	0.907	1	5	4
B24	120	3.71	0.984	1	5	4
B25	120	3.78	0.948	1	5	4

4.6.1 Interpretation of Descriptive Statistic

The Table 4.9 above shows the descriptive statistics applied in this research and the data are illustrated as follows:

N (Sample)

The data in Table 4.9 shows that out of 25 variables, a total of 116 participants completely responded to all the questions whereas 4 participants missed some of the variables (*i.e.* B4, B17, B22, and B23). Although some variables were skipped, none of the demographical data were missed.

Mean and Standard deviation

On average the mean of data distribution where mass of the data are equally distributed is at 4.3 and the standard deviation which indicates the average movement from the centre of distribution is pegged at 1.2 on average.

4.6.2 Correlation Matrix

Observed positive correlations

The data demonstrated that there is a positive correlation between providing services that are up to standard (**B3),** and the easy at customer's access and understand the information provided by the MFIs (**B9).**

Similarly, a positive correlation was observed between the business strategy, vision and mission (**B2),** with the adequacy of controls implemented by MFIs (**B13).**

Furthermore, the data demonstrate a positive correlation between setting out clear rules, policies and procedures for accessing the loans and other MFIs services (**B10),** with rendering services that are up to standard to customers (**B3).**

A positive correlation was also noted between management implementation of adequate controls when providing microfinance services (**B13),** and MFIs growing in the foreseeable future (**B20).**

Correspondently, data analysed demonstrated a positive correlation between setting out of strong controls when providing loans (**B13),** and the easy and time at which clients take to repay the instalments and interest money back (**B15).**

Last but not least, a low but positive correlation was observed between providing microfinance services to the low-income clients (**B17),** and the time they take to repay back the loan instalments and interest (**B15).**

Observed negative correlation

The data analysed demonstrated a strong negative correlation between the customers' being aware of the MFIs business strategy, vision and mission (**B2)**, and discriminating clients when providing microfinance services (**B16)**.

Moreover, a strong negative correlation was observed between the customer regularly providing personal details each time they apply for a loan (**B11),** and the MFIs discrimination on clients when providing their services (**B16).**

Likewise, a negative correlation from the data was also noted between discriminating customer's (**B16)**, and the MFIs contribution to the social and economic status of their clients (**B24).**

4.6.3 Reliability Testing

Reliability is the uniformity on which a measuring instrument obtains certain results when the entity being measured hasn't changed (Leedy, 2010). This gives a suggestion that something can only be measured with accuracy only if there is consistency in its measurement. Similarly, Kothari also suggest that a measuring instrument can only be reliable if it provides consistent results. In more simple terms this means that the measuring tool used must measure in the same uniform way each time it is used.

The most popular method for measuring the internal consistency reliability of a group of items is the Cronbach's alpha coefficient (Damon, 2011). In short it is essentially a correlation between the responses from the item on a questionnaire. Furthermore, Swelindawo (2012) suggest that Crobanch's alpha values will be high when the correlation between the related questionnaire is also high. In addition, the Cronbach's alpha values range from 0 to 1 where in social sciences values above 0.7 are favourable but in some instances values above 0.9 may not be desirable as they show a scale that may be too narrow in focus (Damon, 2011).

According to Jackson as cited in Swelindawo (2012) the closer the coefficient of variables is to either -1.00 to +1.00, the stronger the relationship between the variables. Leedy (2010) is in support of this notion as they further emphasised that correlation coefficient is a number that ranges between -1 and +1 which then represent a weak and a strong relationship respectively. Therefore the following table shows the data reliability of the survey by means of Cronbach's alpha.

Table 4. 10: **Results of Cronbach's Alpha**

Case Processing Summary			
		N	%
Cases	Valid	117	96.7
	Excluded	4	3.3
	Total	121	100.0
Results of Crobanch's Alpha			
Cronbach's Alpha		**Cronbach's Alpha based on standardized items**	**N of Items**
0.909		0.911	26

The Crobanch'sAlpha coefficient for the 26 items applicable to the research survey is **.**909; this gives a suggestion that there is relatively high level of internal consistency amongst the variables (in most cases a reliability coefficient of .70 or higher is considered as acceptable.). Therefore, a reliability outcome of this nature guarantees assurance that appropriate conclusions can be drawn from such variables.

4.6.4 Data organisation

To draw meaningful conclusions out from the data presented, this research employed two applications that of frequency distributions and graphs to organise the data.

4.6.4.1 Frequency Distributions

The first step to interpret frequency distribution data are to make use of data tabulation whereby one converts raw data into the list of information required that will then be easy to interpret (Struwig and Stead, 2001). This study made use of frequency distribution; which is a summary of all the values of variables based on the frequencies with which they are associated with or occur in order to come up with meaningful conclusions (Mouton, 2001). In addition Swelindawo (2012) suggest that the use of frequency distribution presents information and data that makes their patterns easily distinguishable.

4.6.4.2 Graphs

Graphs were also used in this research to further highlight the visual aspects of the frequency data derived from the survey. Pie charts, Bar and column graphs were used. Graphs in their natural form have two coordinate axes: the x-axis (horizontal axis) and the y-axis (vertical axis) (Swelindawo, 2012).

The use of pie charts enabled the researcher to demonstrate demographical data presented in the first section of the questionnaire. Pie charts present the distribution of a variable out of a total of 100 percent, which represents the entire pie (Struwig & Stead, 2001). Similar to a pie chart a bar graph shows the categories of a variable along the x-axis and the frequency of the variable along the y-axis (Struwig & Stead, 2001).

4.6.5 Demographical data analysis and interpretation

The data that forms part of the demographic data were analysed and interpreted through means of nominal scales using pie charts, column graphs and bar charts for easy of illustration.

All the responses on the first part of the questionnaire were completed (i.e. demographical information). There were no responses missed which means 100% of the respondents out of 121 questionnaires which were considered valid from the data analysed responded to all the questions in the demographical section of the data.

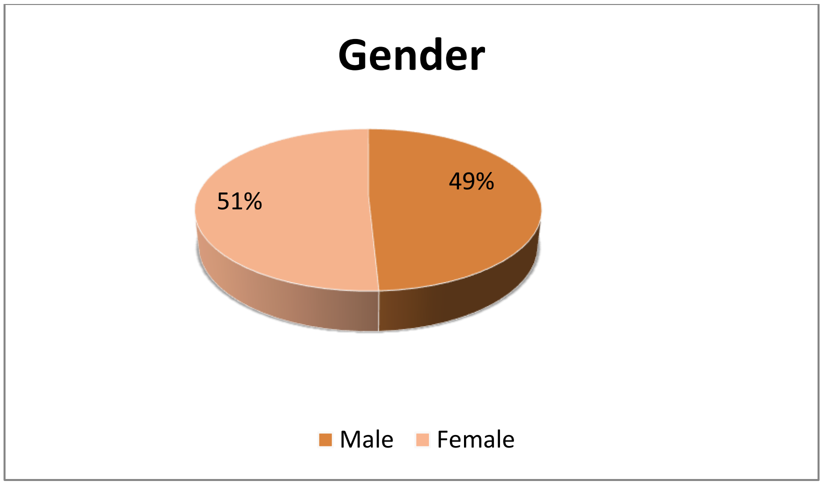

Figure 4. 1: **Years in operation**

As shown from the figure 4.1 above, the survey demonstrated that the majority of people who uses microfinance services are women. These individuals approximate to 50.8% whilst their male counterparts constitute 49.2% of the entire population surveyed.

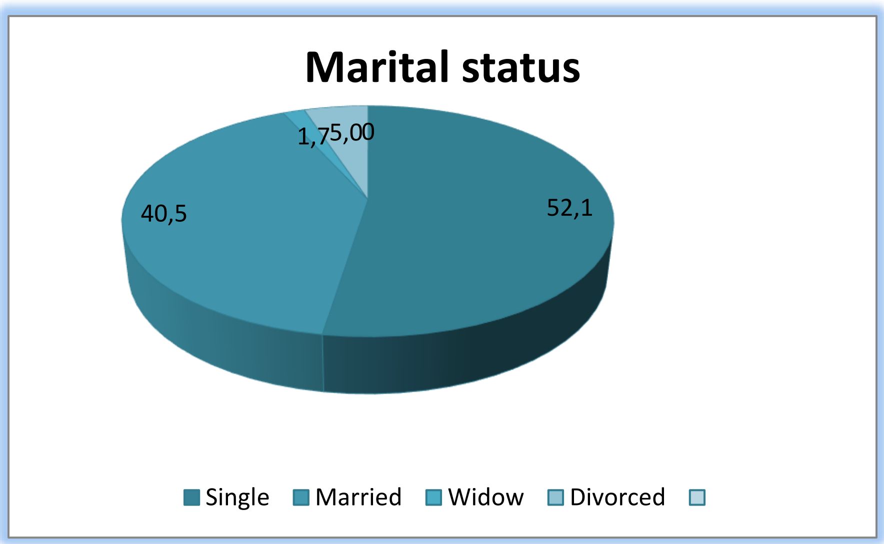

Figure 4. 2: Age

The majority of the respondents in this survey indicated that they fall below the age of 50 years, 40% are between the age of 25-35 years, 22.5% fit in the age range of 36-45 years, of these respondent 21.7% are below the age of 25 years whilst a paltry percentage of 2.5% are those that are more than 55 years old.

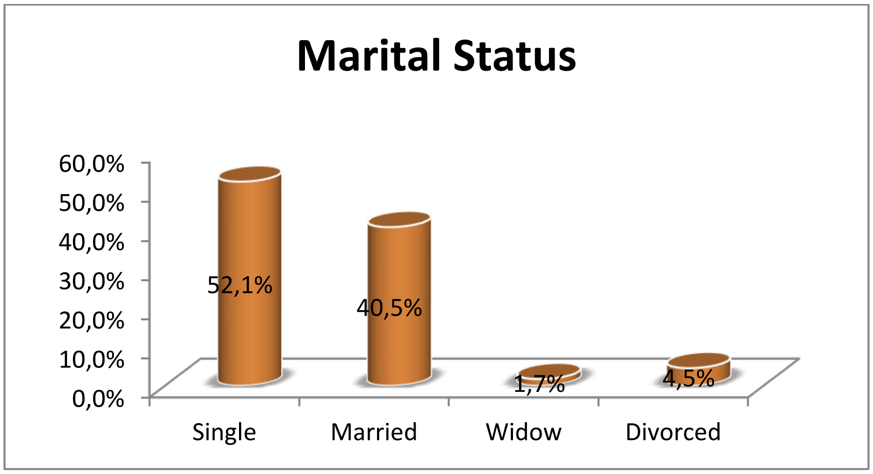

Figure 4. 3: **Marital Status**

As highlighted by Figure 4.3, the survey indicated that the majority of the people who use microfinance services are individuals who are single. These individuals equates to a total of 52.1% of the entire population surveyed, 40.5% are those that are married and 1.7% comprise of widows whilst 4.5% are individuals who are divorced.

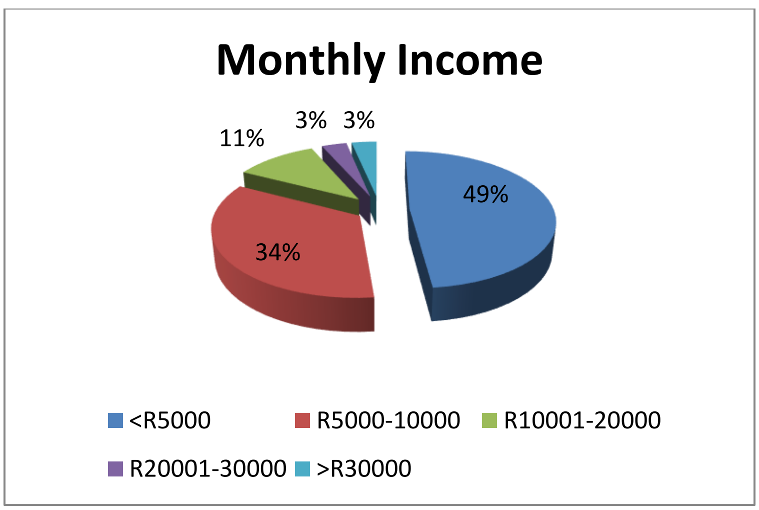

Figure 4. 4: **Monthly income**

The figures presented in Figure 4.4 shows that up to 49% of the respondents earn below R5000 a month whereas 34% receive a monthly income which ranges between R5000 to R10000 and on the other hand those that are in the income bracket of above R10000 to R20000 constitute a percentage point of 11% whilst a few who gets an income that ranges between R20001 to R30000 and above R30000 are represented by 3% each.

4.7 Rating scale interpretation

The data presented in the form of Likert scale was interpreted

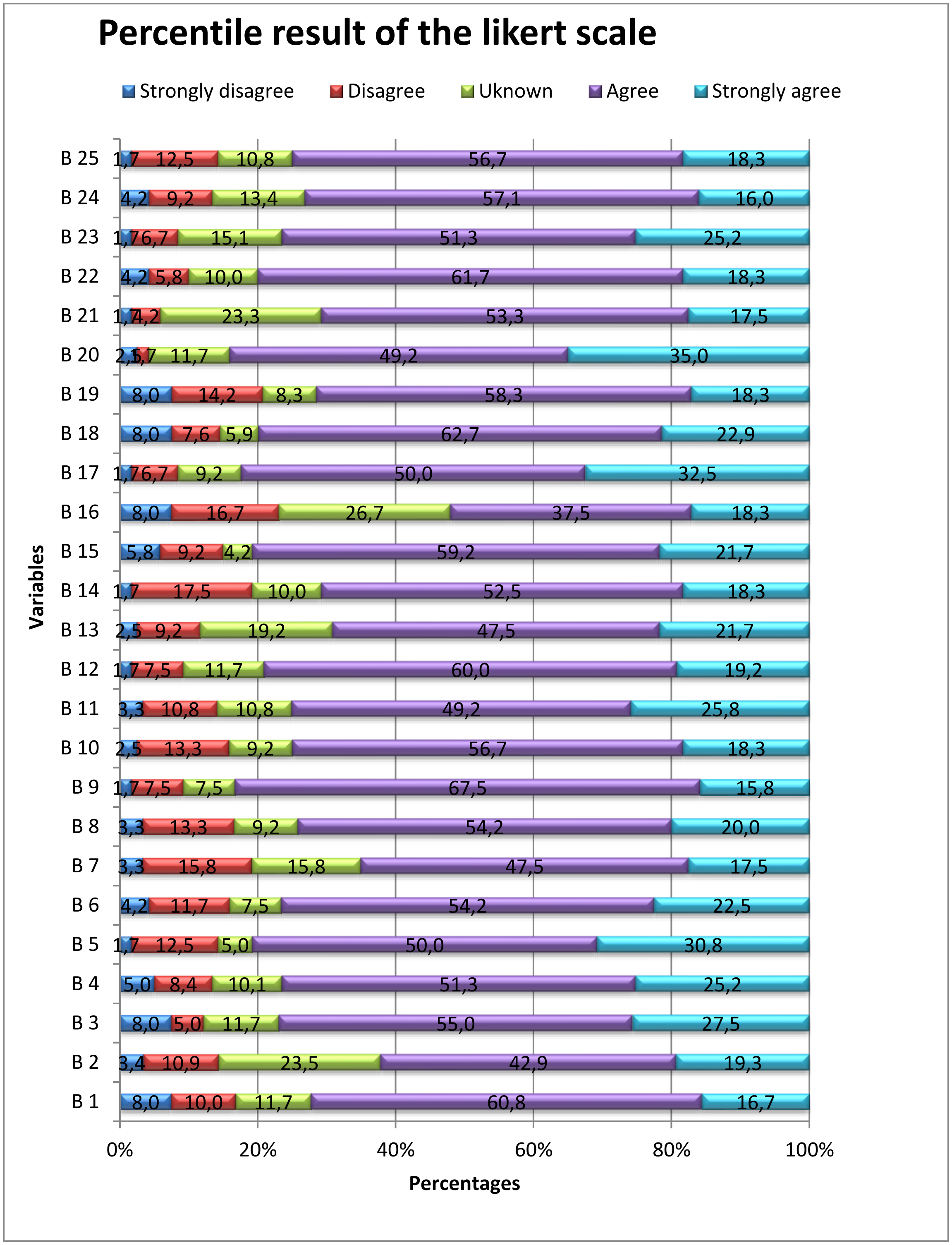

Figure 4. 5: **Result of the Likert scale**

4.7.1 Business strategy, organisation and quality of services

77.5% of respondents agree to strongly agree that the company they are affiliated to are well organised and operated (**B1).**
Similarly, 65% of the same scale is aware of the business strategy, vision and mission of their microfinance service providers whereas 9.2% could neither agree nor disagree (**B7).**

A total of 80.8% of the participants agreed to strongly agree that MFIs they attend to provides quality services to their customers whilst 14.2% of the participants disagree to strongly disagree (**B17).**

It is worthwhile to note as well that 85.6% of the respondents did not only agree to strongly agree that they get quality services from microfinance organisations but also they receive uninterrupted services whenever they need them (**B23).**

4.7.2 Access to information

77.5% of the respondents indicated that they agree to strongly agree that they do not face any challenges in accessing microfinance services. However 11.7% could neither agree nor disagree to the same statement **(B6).**

A total of 73.1% of the respondents agree to strongly agree that management keeps them informed with the general financial status of the company whereas an insignificant sum 9.2% of the respondents could not agree or disagree **(B10).**

Only 70.8% of respondents agree to strongly agree that the institutions they attend to regularly update its clients on any new information and changes (**B11).**

In addition 74.2% of respondents agree to strongly disagree to the following statement: "*The Company provides information that is understandable, accessible and usable."* On the other hand 10.8% of the respondents neither agree nor disagree and 14.1% disagree to strongly disagree to the same statement (**B8).**

4.7.3 Rules, Policies and Controls in place

The respondents who agree to strongly agree that microfinance service providers put clear rules, policies and procedures when accessing their services amounts to a total of 76.7% whilst a total of 15.9% disagree to strongly disagree (**B24).**

Furthermore, exactly 70.8% of the respondents confirm that they agree to strongly agree that every time they apply for a new loan they always provide their personal details. Contrary to that, 19.2% of the respondents disagree to strongly disagree (**B14).**

80.9% of the respondents agree to strongly agree that their information they provide to microfinance providers is treated with care and confidentiality (**B15).**

Likewise, 70.8% of the respondents agree to strongly agree that the organisations they are affiliated to have enough controls in place though 11.7% could neither confirm nor disagree (**B21).**

4.7.4 Affordability of loans

75% of the respondents agree to strongly agree that the interest rates charged by their microfinance organisations are affordable whereas 14.2% disagree to strongly disagree and 10.8% could neither agree nor disagree (**B25).**

A total of 84.2% of the respondents agree to strongly agree that they can afford to pay back the monthly instalments and interest due from them on a monthly basis. However, 11.7% neither confirm nor disagree (**B20).**

4.7.5 Fair treatment of customers

Only 62.2% of the respondents agree to strongly agree that the organisations they subscribe to do not discriminate in the provision of their services whilst 23.5% could neither agree nor disagree (**B2).**

80.8% of the respondents agree to strongly agree that microfinance organisations attract more of low-income earning clients. On the other hand 14.2% disagree to strongly disagree with that statement (**B5).**

69.2% of the respondents agree to strongly agree that management of these organisations fairly treat their client whilst a total of 19.2% neither agree nor disagree (**B13)**

4.7.6 Growth and continuation of services

83.3% of the respondents agree to strongly agree that they would recommend anyone to the microfinance organisations they subscribe to whilst 9.2% disagree to strongly disagree to the statement (**B9).**

Moreover, a total of 82.5% of the respondents indicated that they agree to strongly agree that their related microfinance service providers are growing. However, 11.7% are indecisive and they neither agree nor disagree **(B3).**

Similarly, 79.2% of the respondents agree to strongly agree that they foresee the institutions that they subscribe to continuing with operations in the foreseeable future whilst 11.7% could neither disagree nor agree (**B12).**

At least 85.6% of the respondents agree to strongly agree and confirm that their specific MFIs have a variety of branches conveniently situated within their reach whereas 15.6% disagree to strongly disagree (**B18)**

4.8. SECONDARY DATA PRESENTATION AND ANALYSIS

The study employed the triangulation method to collect and analyse data (quantitative, qualitative and secondary data methods). The previous sections presented the data and discussion on the findings of the qualitative and quantitative data. This section present the findings from the secondary data obtained from various MFIs Annual Financial Statements available online and directly from the MFIs involved.

To fulfil the needs of triangulation, secondary data were collected from the annual financial statements reports for the financial year ends that commenced from 2014 to 2016. The secondary data were used to calculate the Return on Assets (ROA) a variable for profitability and Operational self-sufficiency (OSS) variables for sustainability of the MFIs but this method was affected as the researcher could not obtain all the reports from the sample involved as some considered the data to be proprietary**.**

4.8.1 Analysis of Sustainability and Performance

Profitability and Sustainability are measures of MFI performance. In this study sustainability is measured with two key variables that consist of OSS whereas profitability is measured using ROA as a variable. Simple mathematical calculations are used to calculate the variables. For confidentiality and privacy purposes, the MFIs involved will be referred to in the form of codes as MFI 1 to MFI 3.

Table 4. 11: **Sustainability and performance Indicators for MFI 1**

MFI 1	Year	OSS %	ROA %	Profitability
	2014	79	1.5	R (315,881)
	2015	51	-29	R (2,195,135)
	2016	63	-10	R (2,694,241)

Table 4. 12: Sustainability and performance Indicators for MFI 2

MFI 2	Year	OSS %	ROA %	Profitability
	2014	33	-10%	R (176,215)
	2015	57	-27%	R (351,431)
	2016	48	-34%	R (378,433)

Table 4. 13: Sustainability and performance Indicators for MFI 3

MFI 3	Year	OSS %	ROA %	Profitability
	2014	49%	-6%	R (208,568)
	2015	48%	3%	R 3,057,401
	2016	48%	128%	R 7,547,511

Majority of researchers use ROA and OSS to measure performance and sustainability of MFIs respectively (Dlamini, 2012; Magali & Lang'at, 2014). As pointed out by Ledgerwood (2013) Operational self-sufficiency is an indicator of how well a microfinance service provider can cover its operating costs with its operating revenue. Table 4.2 to 4.4 above presents findings on the performance (ROA) and sustainability (OSS) of MFI 1 to MFI 3.

The findings in table 4.2 highlight that the OSS for all the years under review were above 50% whereas the ROA for the same table was a positive low percentage of 1.5 for 2014 and a negative 29% and 10% respectively for the following years. This negative ROA also was noticed in table 4.3 under MFI 2 for all the years under review. However, the findings for both MF1 and MFI2 from related tables above showed negative figures for profitability in all the relevant years.

The findings as presented in table 4.4 indicate an OSS which is below 50% for all the years from 2014 to 2016. Moreover, in 2014 of the same table ROA was a negative 6% which then improved in the last two years of the years under review. However, the results continued to have the same effect for the MFI 3 profitability levels as the year

2014 continued to usher negative results whereas 2015 and 2016 showed some improved positive results.

The data indicates that although in some instances the MFIs in the above tables' realised positive results in some years, it therefore follows that the MFIs under review are struggling to cover their operating cost with the operating revenue they get from issuing out microfinance services as witnessed from the low and poor OSS results. In summary this means that the MFIs under review are not profitable as indicated by their inconsistency in profitability and ROA levels.

4.9 CHAPTER SUMMARY

In this chapter, data collected was analysed and interpreted. The analysis and interpretation of the data mainly focused on how the data gathered relates to the research objectives. The validity and reliability of the data were also tested and the descriptive data were presented in the form of frequency tables and graphs. Descriptive statistics were used to decide on the data frequencies and descriptive. The following chapter will give a highlight on the findings and thereafter draw conclusions and recommendations from the findings obtained

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter revisits the problem statement and research questions to determine to what extend the facts gathered from the findings answered the research questions and objectives of the study. Thereafter, conclusions and recommendations are drawn and presented at the end of the chapter based on the findings obtained by the researcher.

5.2 RESEARCH PROBLEM STATEMENT REVISITED

As stated in Chapter One, the research problem statement of this study is: “Ineffective practices of corporate governance mechanisms amongst MFIs in Cape Town results in poor growth and unsustainable MFIs.” Chapter two provided the literature review, which showed that many microfinance experts have in the past-identified good corporate governance as a critical element for the success and sustainability of MFIs. The failure of most MFIs is largely due to the malpractices and poor implementation of good corporate governance mechanisms. However, the data gathered showed that some of the MFIs do have governance mechanisms in place but the main problem that remains is tied up on whether these mechanisms are being implemented in an effective manner to achieve sustainability. Therefore, research findings, conclusions and recommendations are drawn and presented, so as to address the question whether these governance mechanisms are deployed in an effective manner.

5.3 DISCUSSIONS

The research findings as addressed in the previous chapter are discussed below in different sections relating to the research questions and objectives as follows:

5.3.1 Common governance measures

A question on the governance measures that MFIs put in place was established as a sub-question to the main question. The sub-question reads as follows: “What are the common corporate governance measures in MFIs?” This question was posed so as to determine the possible corporate governance mechanisms that can apply to MFIs. Therefore, the various common governance mechanisms where identified that emanates from the Board of directors to the application of The King IV principles.

5.3.2 Application of governance measures

The question on the application of corporate governance measures was formulated as a second sub-question to the main research question. The question reads as follows: “How are these governance mechanisms used by MFIs in South Africa? The aim of this question was to determine if MFIs in South Africa specifically in Cape Town apply the measures of corporate governance effectively, so as to achieve their sustainability goals. As such, the following comparatives were drawn in relation to the use of governance mechanisms as per each identified category of governance mechanisms:

5.3.2.1 Board Size

Majority of MFIs in Cape Town have boards that consist of more than 5 members and as well quite a significant number of these MFIs have boards of less than 5 members. The reason for these MFIs with fewer members is mostly due to the fact that they are family managed.

5.3.2.2 Board composition

Most MFIs in Cape Town determine their boards’ composition in different ways, as majority take the skills and expertise of the members into consideration. Moreover, some of these MFIs have their boards only encompassed of family members.

However, a lesser fraction of these MFIs consider gender balance as a necessity for their board composition with women in some cases forming a larger part of these members.

5.3.2.3 CEO/Chairman Duality

Most microfinance providers from the study have no separation on the positions of the CEO and the Chairman. The main reason for this duality is to cut remuneration costs that arise as a result of the positions being separated. However, some have these positions separated, so as to avoid CEO entrenchment and possibly conflict of interest.

5.3.2.4 Adherence to King IV principles

The majority of MFIs in Cape Town do not conform to the principles of the King IV report. The reason for this is entirely linked to the fact that some of these MFIs are not aware of the report and hence, the lack of conformance.

5.3.2.5 Sustainability strategies

Majority of the microfinance providers revealed that the constant change in their industry has prompted some MFIs to improve. Moreover, a number of these MFIs highlighted that good customer service, incentives and affordable loans are some of the strategies they use to keep their clients and at the same time avoid defaulting and diversion on repayment.

5.3.3 Customers perceptions on MFIs

The questions that were directed to recipients of microfinance services were asked to get a general overview on the customer's experiences and perceptions towards issues that ultimately apply to MFIs governance and sustainability. As such, the following analogies pertaining to customers gathered data and perceptions were drawn:

5.3.3.1 Demographics of clients served

Mostly, microfinance providers in Cape Town serve a higher proportion of women than men with the majority being single or widows. It is also interesting to note that the majority of these recipients earn a monthly income that is below or equal to R5000. This then proves that the MFIs in question serve poorer strata of the economy's population.

5.3.3.2 Perceptions on affordability of MFIs services

The majority of the clients have the view that the products that they get from their MFIs mostly in terms of loans are affordable that is to say the interest charged are reasonable. Moreover, they are also strongly inclined to the notion that they are able to repay the monthly instalments and interest without defaulting on any payments.

5.3.3.3 Perceptions on MFIs rules, policies and controls

The majority of the recipients concurred to the idea that the rules, policies and controls that are put in place when obtaining MFIs services are adequate. However, some also registered their displeasure mostly due to the fact that every time they need a loan they are asked to provide their details. This then shows that some MFIs do not keep a well-maintained database of their clients.

5.3.3.4 Perceptions on MFIs growth and continuation of services

Mostly, microfinance recipients in Cape Town share the same view on the growth of the MFIs they subscribe to, with majority stating that their MFIs have more branches that are convenient to them and have the possibility of continuing with their operations in the foreseeable future. Similarly, they also opine to the view that they are willing to recommend anyone in need of microfinance services to their MFIs. This in a nutshell creates some sense of customer loyalty and proves that the MFIs have the possibility of expanding as per the customer perceptions.

5.3.4 Governance mechanisms and sustainability

The main research question forming the heart of this study reads as follows: "What impact will corporate governance mechanisms have on the sustainability of MFIs?" This was asked to address the main research objective, which sought to ascertain how corporate governance mechanisms impact on the sustainability of MFIs in Cape Town. The following were the comparatives drawn with regards to the main question:

5.3.4.1 Sustainability and performance of MFIs in Cape Town

The results of the Operating Self-sufficiency (OSS) and Return on Assets (ROA) as used to measure sustainability and performance respectively reflected poor results over the benchmarked periods of review. The MFIs realised inconsistent results that in some years were very poor indicating a low performance in their operations as they time and time again realised operating revenues that were not enough to meet their operating costs. Similarly, the profitability results were not satisfactory as well, probably linked to the poor performance displayed over the periods of review.

5.3.4.2 Impact of MFIs governance practices and sustainability

The low results of performance, profitability and sustainability indicated by the findings are closely linked to poor governance mechanisms employed by these MFIs. The study indicated that most MFIs operating in Cape Town are family managed and therefore they do not have proper board set up to make decision and strategies on how best they can achieve their goals. The King IV states that good governance ushers in good performance and sustainable operations and therefore entities regardless of how big or small they are, they are required at all times to apply the principles of good corporate governance, so as to realise the benefits thereof.

5.4 RECOMMENDATIONS

5.4.1 Recommendation on the board size

The Council of Microfinance Equity funds (2012) suggest that boards must be large enough to perform effectively and efficiently so as to provide continuity and to make sure that quorums are met during the meetings and they also consider smaller boards to be effective for the simple reasons that they are easy to manage and also decisions are made quick. As such MFIs with non-existent or smaller boards are recommended to establish boards that are large enough so as to operate effectively. The findings also noted that MFIs with smaller boards are family or founder managed and therefore they lack independency as the founder would want to retain control within them and therefore these firms should have boards that are independent from the owner, so as to avoid conflict of interest. The recommended ideal board size should be 5 to 9 members.

5.4.2 Recommendation on the board composition

This study noted that the majority of MFIs in Cape Town have boards that are not gender balanced. Therefore, these firms are recommended to have gender mixed boards with necessary skills and expertise. Board diversity in the form of women inclusion and minority representation is related to organisation performance which ultimately leads to sustainable MFIs, hence MFIs are recommended to include women in their boards as the findings also indicated that majority of microfinance recipients are women and this will allow easy interaction with clients if the board is also encompassed of women.

5.4.3 Recommendation on CEO/Chairman duality

As noted by this research, the majority of the MFIs have no separation on the positions of the CEO and the board Chairman. As discussed in the chapters of this research study, CEO/Chairman duality is a sign of CEO entrenchment, which as a result may bring about conflict of interest as the CEO may pursue policies that benefit them at the expense of the entire organisation. Therefore, MFIs with no separation on the positions of CEO and the Chairman are recommended to separate these positions, so as to curb conflict of interest.

5.4.4 Recommendation on the governance framework

As noted by this research study, most MFIs in Cape Town have no governance framework in place that act as a blue print as far as governance issues are concerned. Routledge (2009) suggest that entities regardless of form or establishment must use adopt the King IV report which gives a framework for good governance. As such this study recommends all MFIs to adopt the principles of good governance laid down by the King IV report. The use of the King IV is highly recommended as a possible channel to achieve sustainability.

5.4.5 Recommendation based on the sustainability strategies and challenges

Although the users of the microfinance services believes that the microfinance they subscribe to are growing giving some indication of sustainability, the finding shows that the MFIs in Cape Town are struggling to achieve profitable levels of operations in the period under review. The results indicate that the MFIs are recording low OSS, Profitability levels and ROA figures. This can be attributed to the low levels of revenues and high costs of operations they incur in the provision of their services. Based on our findings we recommend that MFIs should put strategies in place so as to help them achieve their sustainability goals. The MFIs should corporate business models that best suit their institutions imitating and improving on the trends and those models that are applicable to their surroundings. Lastly all role players should commit themselves to the microfinance sector and try to implement strategies that will reduce operational cost and increase revenue through new investors.

5.5 Areas of further research

Although there is a framework in place in the form of the King IV report that applies to all entities, it is also imperative that researchers collaborate their efforts in coming up with a customised governance framework that is specifically designed for MFIs operating within the economic boundaries of South Africa. The framework will provide MFIs with a blue print as to how to strategize and implement good governance mechanisms, so as to achieve operational and financial sustainability without losing their core mandate of serving the poorer population strata of the economy.

5.6 CONCLUSIONS

The research emanated from a view that the governance mechanisms that are put in place are ineffective and as a result MFIs are failing to be sustainable. The purpose of this research as indicated in Chapter one was mainly to investigate the impact of corporate governance mechanisms on sustainability of MFIs in Cape Town. As indicated in Chapter two in the form of literature review, it was noted that MFIs do have governance mechanisms in place but their effectiveness was a question of concern. The findings gathered from the survey and presented in Chapter four also reviewed that the governance mechanisms in place are not operating efficiently and effectively as they should be, hence, the reason for MFIs continuously providing poor results in terms of their profitability and sustainable levels.

Based on the synthesised review of literature and findings gathered, the researcher is able to draw the final conclusion that corporate governance mechanisms employed by MFIs in Cape Town are ineffective and as a result they have a negative bearing effect on their sustainability. Therefore, from the researcher’s perspective MFIs should follow good corporate governance measures outlined by the King's report for them to be sustainable, so as to continue with their outreach programmes to the poor thus alleviating poverty in the South African economy.

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APPENDICES

Appendix A: Business ethics letter

Cape Peninsula University of Technology

Keizersgracht and Tennant Street

P.O. Box 652

Zonnebloem, Cape Town

Tel: (+27) 21 460 3911

03 May 2016

Dear Participant

I am currently pursuing a research study under the supervision of Dr. Bingwen Yan, leading to a Master's Degree in Business Administration from the Cape Peninsula University of Technology. This research study is based on the impact of corporate governance mechanisms on the sustainability of microfinance institution in Cape Town. I hereby invite you to form part of this study and below is some of the information to assist you make an informed decision.

Purpose and Procedure: This research study seeks to uncover and understand the impact that corporate governance mechanisms have on the sustainability of microfinance institutions. The study will foster a better understanding of whether the current corporate governance mechanisms within the microfinance sector are sufficient or are in need of transformation.

The majority of the South African population that represents 57% of the approximated population are perceived to be living under the poverty datum line. The lack of access to traditional financial services from the mainline financial institutions is the main reason why a significant proportion of population remains por. In light of this, microfinance institutions are committed to serve the marginalized society by affording a chance to access banking related services in a bid to correct the social disparities and alleviating poverty. Therefore microfinance institutions are vital in social and economic dispensation and it is to this reason that they should be sustainable and be able to operate in the foreseeable future by means of deploying effective corporate governance principles. As such, your participation and contributions to this study will help to improve the governance practices in the microfinance industry.

In order to give your opinion and contribution to this study, you are requested to participate in an interview session. The interview questions will be comprised of in depth question will be inform of open ended questions that will require your opinion on the question asked.

Confidentiality: The data collected from this survey is intended to be used purely and solely for academic purposes. Please also note that the data gathered will not be made accessible to anyone who is not directly involved in this study. Your name will remain unidentified to generate a stronger guarantee of privacy.

Right to withdraw: Please note that your permission to take part in this research is entirely voluntary. You have the right to withdraw from this study at any time without having to give a reason and without any penalty

Please do not hesitate to contact the researchers if you have any further questions and/or if you would like further information. You can contact the researchers using the following contact details

Student Researcher: Nyasha mateteni Supervisor: Dr. Bingwen Yan
Cell: 0746288096 Telephone: 021 953 8478
Email: 211149616@mycput.ac.za Email:
YanB@cput.ac.za

LETTER OF CONSENT

I confirm that l have read and understood the information about this study being conducted by **Nyasha Mateteni**, a Masters student under the supervision of Dr. Bingwen Yan at Cape Peninsula University of Technology in the Department of Graduate Centre for Management. L was free to ask questions before making my decision on whether or not to participate and all questions were answered to my satisfaction. If l have any further questions about the study, l can contact Dr. Bingwen Yan, by calling him on 021 953 8478 or email at yanb@cput.ac.za. I am aware that my participation in this study is entirely voluntary and l can discontinue participation with no reparations.

I agree to the use of data collected from this interview in dissertation writing.
My signature below will indicate that l have agreed to participate in this study and that l have read and understood the information provided above:

____________________ __________________ ______________________

Name of Participant Date signature

<u>Researcher information</u>

I, Nyasha Mateteni, have explained the contents of the research study to the participant before requesting the signature above. A copy of this form has been given to the participant.

____________________ __________________ ______________________

Name of Researcher Date signature

Appendix B: Interview Guides

Purpose	This research study seeks to uncover and understand the impact that corporate governance mechanisms have on the sustainability of microfinance institutions. The study will foster a better understanding of whether the current corporate governance mechanisms within the microfinance sector are sufficient or are in need of transformation.
Instrument	
1. introduction	• **Researcher**: Nyasha Mateteni, MTECH: Business Administration Student • **Reason for study**: to gain the insight as to what role do corporate governance mechanisms play in achieving sustainability of microfinance institutions (MFIs). • Give an explanation of what is going to be done with data and agree on the confidentiality of data and anonymity. • Explain the process of collecting data, and as well as to establish whether interview can be recorded.
2. Collect the interviewee details	• Name • Current position in the microfinance institution

	• Years in that position
3. Questions: General	1. How long has your organization been in operation? 2. What group of customers do you serve and do you consider their income levels or their credit worthiness when giving out loans? 3. Could you describe the funding structure of the MFI?
In depth	4. Are there any strategies in place to help to achieve sustainability? If yes, how do you go about executing them? 5. What corporate governance measures are there in your MFI? 6. How is the composition of the Board of Directors determined? 7. Does the company have Board committees? If so, how are they established, who sits on them, and how do they function? 8. How often does the Board of Directors meet and how many directors sit on the Board? 9. Is there a separation on the positions of CEO and Board chairperson? If so, how long is the tenure of the CEO? 10. Does your organization conform to the King's III principles of good corporate governance and if so,

	could you describe them 11. What are your thoughts on the relationship, if any, between corporate governance and MFI being sustainable? 12. What challenges, if any, do you face in achieving your sustainability goals?
4. Wrapping up the interview	13. Where do you see your organization in the next five years? 14. Do you have any other insights you would want to share on the MFI sustainability or governance issues?
5. Thanking interviewee	Thank interviewee and share the insights you gained in the process to create a room for any follow-ups during interview analysis.
6. Post interview summary	Organize the notes and produce transcript of the relevant parts of the interview.
Format	Allow for the conversation to flow, look for confirmation of the insights gained from the interviews with subject matter experts; probing and clarifying questions based on responses.

Appendix C: Survey questionnaire

Please make a "√" on your choice in the shaded block.

1. DEMOGRAPHIC DATA

1.1 **Gender**

1	Male	
2	Female	

1.3 Age category

1	< 25 years old	
2	25-35 years old	
3	36-45 years old	
4	46-55 years old	
5	> 55years old	

1.4 marital status

1	Single	
2	married	
3	widow	
4	Divorced	

1.7 Monthly income of the family

1	<R5000	
2	R5000~R10000	
3	R10001~R20000	
4	R20001~R30000	
6	>R30000	

1.8 Education

1	Primary school or less	
2	High school	
3	College Certificate	
4	University Degree	
5	Others (Please indicate)	

1.8 **Employment status**

1	Employed by a company / organization	
2	Self employed	
3	Unemployed	
4	Others (Please indicate)	

Section 2: Decision making

Please rate the following statement on the basis of (strongly disagree, Disagree, Unknown, Agree, and strongly agree).

No.	Statements	Decision-making				
		Strongly Disagree	Disagree	Unknown	Agree	Strongly Agree
1	You are loyal to this microfinance institution.	⊙	⊙	⊙	⊙	⊙
2	The company l attend to is well organised and operated.	⊙	⊙	⊙	⊙	⊙
3	I don't face challenges in accessing microfinance services.	⊙	⊙	⊙	⊙	⊙
4	The microfinance has contributed to my social and economic status in this community.	⊙	⊙	⊙	⊙	⊙
5	There are clear rules, policies and procedures put in place when accessing the loans from the microfinance institution.	⊙	⊙	⊙	⊙	⊙
6	The management always keep the customer informed with the general financial status of the company.	⊙	⊙	⊙	⊙	⊙
7	You are aware of the company's business strategy, vision and mission.	⊙	⊙	⊙	⊙	⊙
8	The company does not discriminate when providing their services.	⊙	⊙	⊙	⊙	⊙
9	The microfinance institution has empowered people in the community.	⊙	⊙	⊙	⊙	⊙
10	The interest rates that the company charges are favourable.	⊙	⊙	⊙	⊙	⊙
11	I always provide my details whenever l apply for a new loan.	⊙	⊙	⊙	⊙	⊙
12	The institution regularly updates its clients on any new information and changes.	⊙	⊙	⊙	⊙	⊙
13	The company provides information that is understandable, accessible and usable.	⊙	⊙	⊙	⊙	⊙
14	I would recommend anyone in need of microfinance services to this institution.	⊙	⊙	⊙	⊙	⊙
15	It takes no time to get the loan from the moment it's approved.	⊙	⊙	⊙	⊙	⊙
16	The institution attracts more of low-income clients.	⊙	⊙	⊙	⊙	⊙

17	I think the institution provides quality services.	⊙	⊙	⊙	⊙	⊙
18	In my opinion the microfinance institution is growing.	⊙	⊙	⊙	⊙	⊙
19	I always pay back my monthly instalment and interest in due time.	⊙	⊙	⊙	⊙	⊙
20	I believe the information I provide to the company is treated with care and confidentiality.	⊙	⊙	⊙	⊙	⊙
21	In my view the institution is able to operate in the foreseeable future.	⊙	⊙	⊙	⊙	⊙
22	The company has enough controls in place.	⊙	⊙	⊙	⊙	⊙
23	In my view the management fairly treats its clients.	⊙	⊙	⊙	⊙	⊙
24	The microfinance has variety of branches I can visit to.	⊙	⊙	⊙	⊙	⊙
25	I always get uninterrupted services whenever I need them	⊙	⊙	⊙	⊙	⊙

Appendix D: Frequency Table for Demographical Data

Appendix D:

SPSS DATA Frequency Table for Demographical Data

Please select an option appropriate to yourself:

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	59	48.8	49.2	49.2
	Female	61	50.4	50.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 25 years old	26	21.5	21.7	21.7
	25-35 years old	48	39.7	40.0	61.7
	36-45 years old	27	22.3	22.5	84.2
	46-55 years old	16	13.2	13.3	97.5
	> 55years old	3	2.5	2.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	63	52.1	52.5	52.5
	Married	49	40.5	40.8	93.3
	Widow	2	1.7	1.7	95.0
	Divorced	6	5.0	5.0	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Monthly income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<R5000	58	47.9	48.3	48.3
	R5000~R10000	41	33.9	34.2	82.5
	R10001~R20000	13	10.7	10.8	93.3
	R20001~R30000	4	3.3	3.3	96.7
	>R30000	4	3.3	3.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary school or less High school	11	9.1	9.2	9.2
	College Certificate	55	45.5	45.8	55.0
	University Degree	20	16.5	16.7	71.7
	Others	34	28.1	28.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Race

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	African	79	65.3	65.8	65.8
	Coloured	37	30.6	30.8	96.7
	White	3	2.5	2.5	99.2
	Others	1	.8	.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Employment status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Employed	99	81.8	82.5	82.5
	Self employed	8	6.6	6.7	89.2
	Unemployed	12	9.9	10.0	99.2
	Others	1	.8	.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

Appendix E: SPSS DATA: Frequency Table for Likert scale Data

You are loyal to this microfinance institution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.1	4.2	4.2
	Disagree	7	5.8	5.8	10.0
	Unknown	12	9.9	10.0	20.0
	Agree	74	61.2	61.7	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The company I subscribe to is well organized and operated

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.8	.8	.8
	Disagree	12	9.9	10.0	10.8
	3	14	11.6	11.7	22.5
	Agree	73	60.3	60.8	83.3
	Strongly agree	20	16.5	16.7	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

professionalism

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.8	.8	.8
	Disagree	7	5.8	5.8	6.7
	Unknown	7	5.8	5.8	12.5
	Agree	81	66.9	67.5	80.0
	Strongly agree	24	19.8	20.0	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

I do not face any challenges in accessing microfinance services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.1	4.2	4.2
	Disagree	14	11.6	11.7	15.8
	Unknown	9	7.4	7.5	23.3
	Agree	65	53.7	54.2	77.5
	Strongly agree	27	22.3	22.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The microfinance has contributed to my social and economic status in the community

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	4.1	4.2	4.2
	Disagree	11	9.1	9.2	13.4
	Unknown	16	13.2	13.4	26.9
	Agree	68	56.2	57.1	84.0
	Strongly agree	19	15.7	16.0	100.0
	Total	119	98.3	100.0	
Missing	System	2	1.7		
Total		121	100.0		

There are clear rules, policies and procedures put in place when accessing the loans from the Microfinance institution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.5	2.5	2.5
	Disagree	16	13.2	13.3	15.8
	Unknown	11	9.1	9.2	25.0
	Agree	68	56.2	56.7	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The management always keep the customer informed with the general financial status of the company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.3	3.3	3.3
	Disagree	19	15.7	15.8	19.2
	Unknown	19	15.7	15.8	35.0
	Agree	57	47.1	47.5	82.5
	Strongly agree	21	17.4	17.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

You are aware of the company's business strategy, vision and mission

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.3	3.4	3.4
	Disagree	13	10.7	10.9	14.3
	Unknown	28	23.1	23.5	37.8
	Agree	51	42.1	42.9	80.7
	Strongly agree	23	19.0	19.3	100.0
	Total	119	98.3	100.0	
Missing	System	2	1.7		
Total		121	100.0		

The company does not discriminate when providing their services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.8	.8	.8
	Disagree	20	16.5	16.7	17.5
	Unknown	32	26.4	26.7	44.2
	Agree	45	37.2	37.5	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The microfinance institution has empowered people in the community

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	15	12.4	12.5	14.2
	Unknown	13	10.7	10.8	25.0
	Agree	68	56.2	56.7	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The interest rates that the company charges are favorable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	21	17.4	17.5	19.2
	Unknown	12	9.9	10.0	29.2
	Agree	63	52.1	52.5	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

I always provide my details whenever I apply for a new loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.3	3.3	3.3
	Disagree	13	10.7	10.8	14.2
	Unknown	13	10.7	10.8	25.0
	Agree	59	48.8	49.2	74.2
	Strongly agree	31	25.6	25.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The institution regularly update its clients on any new information and changes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.3	3.3	3.3
	Disagree	16	13.2	13.3	16.7
	Unknown	11	9.1	9.2	25.8
	Agree	65	53.7	54.2	80.0
	Strongly agree	24	19.8	20.0	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The company provides information that is understandable, accessible and usable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	9	7.4	7.5	9.2
	Unknown	9	7.4	7.5	16.7
	Agree	81	66.9	67.5	84.2
	Strongly agree	19	15.7	15.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

I would recommend anyone in need of microfinance services to this institution.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly	1	.8	.8	.8

	disagree				
	Disagree	17	14.0	14.2	15.0
	Unknown	10	8.3	8.3	23.3
	Agree	70	57.9	58.3	81.7
	Strongly agree	22	18.2	18.3	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

It takes no time to get the loan from the moment it's approved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	15	12.4	12.5	14.2
	Unknown	6	5.0	5.0	19.2
	Agree	60	49.6	50.0	69.2
	Strongly agree	37	30.6	30.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

The institution attracts more of low-income earning clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	8	6.6	6.7	8.3
	Unknown	11	9.1	9.2	17.5
	Agree	60	49.6	50.0	67.5
	Strongly agree	39	32.2	32.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

In my opinion I think the institution provides quality service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.8	.8	.8
	Disagree	6	5.0	5.0	5.8
	Unknown	14	11.6	11.7	17.5
	Agree	66	54.5	55.0	72.5

	Strongly agree	33	27.3	27.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

In my opinion the microfinance institution is growing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.5	2.5	2.5
	Disagree	2	1.7	1.7	4.2
	Unknown	14	11.6	11.7	15.8
	Agree	59	48.8	49.2	65.0
	Strongly agree	42	34.7	35.0	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

I always pay back my monthly installment and interest in due time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	5.8	5.8	5.8
	Disagree	11	9.1	9.2	15.0
	Unknown	5	4.1	4.2	19.2
	Agree	71	58.7	59.2	78.3
	Strongly agree	26	21.5	21.7	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

I believe the information I provide to the company is treated with care and confidentiality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	9	7.4	7.5	9.2
	Unknown	14	11.6	11.7	20.8
	Agree	72	59.5	60.0	80.8
	Strongly agree	23	19.0	19.2	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

In my view the institution is able to operate in the foreseeable future

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	5	4.1	4.2	5.8
	Unknown	28	23.1	23.3	29.2
	Agree	64	52.9	53.3	82.5
	Strongly agree	21	17.4	17.5	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

In my opinion the company has enough adequate controls in place

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.5	2.5	2.5
	Disagree	11	9.1	9.2	11.7
	Unknown	23	19.0	19.2	30.8
	Agree	57	47.1	47.5	78.3
	Strongly agree	26	21.5	21.7	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

In my view the management fairly treat its clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.8	.8	.8
	Disagree	9	7.4	7.6	8.5
	Unknown	7	5.8	5.9	14.4
	Agree	74	61.2	62.7	77.1
	Strongly agree	27	22.3	22.9	100.0
	Total	118	97.5	100.0	
Missing	System	3	2.5		
Total		121	100.0		

The microfinance has variety of branches I can visit to.

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Strongly disagree	2	1.7	1.7	1.7
	Disagree	8	6.6	6.7	8.4
	Unknown	18	14.9	15.1	23.5
	Agree	61	50.4	51.3	74.8
	Strongly agree	30	24.8	25.2	100.0
	Total	119	98.3	100.0	
Missing	System	2	1.7		
Total		121	100.0		

I always get uninterrupted services whenever I need them

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	5.0	5.0	5.0
	Disagree	10	8.3	8.4	13.4
	Unknown	12	9.9	10.1	23.5
	Agree	61	50.4	51.3	74.8
	Strongly agree	30	24.8	25.2	100.0
	Total	119	98.3	100.0	
Missing	System	2	1.7		
Total		121	100.0		

Appendix F: SPSS DATA: Reliability statistics

Case Processing Summary

		N	%
Cases	Valid	117	96.7
	Excluded[a]	4	3.3
	Total	121	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.909	.911	26

Appendix G: SPSS DATA on Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Gender	120	1	2	1.51	.502
Age	120	1	5	2.35	1.042
Marital_status	120	1	4	1.59	.761
Monthly_income	120	1	5	1.79	.995
Education	120	1	4	2.64	.994
Race	120	1	4	1.38	.582
Employment	120	1	4	1.29	.679
Loyalty	120	1	5	3.84	.935
Organised	120	1	5	3.83	.857
Professionalism	120	1	5	4.00	.756
Access	120	1	5	3.79	1.052
Social_status	119	1	5	3.71	.984
Rules	120	1	5	3.75	.989
Customer informed	120	1	5	3.60	1.056
Business strategy	119	1	5	3.64	1.023
Descrimination	120	1	5	3.56	1.002
Standards of living	120	1	5	3.78	.948
Fair charges	120	1	5	3.68	1.021
Customer details	120	1	5	3.83	1.040
Update on changes	120	1	5	3.74	1.033
Easy of information	120	1	5	3.88	.822
Recommend	120	1	5	3.79	.934
Loan approval time	120	1	5	3.96	1.007
Low-income clients	120	1	5	4.05	.915
Service upto standard	120	1	5	4.03	.819
Mfi growth	120	1	5	4.13	.865
Payback instalment on time	120	1	5	3.82	1.061
Confidentiality of info	120	1	5	3.88	.865
Continuation of services	120	1	5	3.81	.833
Adequate controls	120	1	5	3.77	.976
Fair treatment	118	1	5	3.99	.822
Variety of branches	119	1	5	3.92	.907
Easy of getting loan	119	1	5	3.83	1.060
Valid N (listwise)	117				

Appendix H: SPSS DATA on item correlations

	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22	B23	B24	B25
B1	1.000	0.188	0.309	0.457	0.001	0.248	0.201	0.232	0.337	0.225	0.197	0.402	0.319	0.397	0.291	0.348	0.122	0.137	0.136	0.241	0.311	0.467	0.293	0.103	0.467
B2	0.188	1.000	0.349	0.048	0.164	0.041	0.273	0.287	0.362	0.426	0.341	0.308	0.544	0.400	0.194	-0.059	0.089	0.230	0.430	0.250	0.259	0.182	0.310	0.395	0.298
B3	0.309	0.349	1.000	0.406	0.396	0.335	0.309	0.442	0.556	0.532	0.285	0.447	0.434	0.295	0.086	0.189	0.260	0.309	0.427	0.357	0.333	0.188	0.467	0.368	0.449
B4	0.457	0.048	0.406	1.000	0.157	0.498	0.211	0.179	0.230	0.233	0.254	0.262	0.291	0.238	0.210	0.348	0.205	0.341	0.331	0.353	0.375	0.136	0.235	0.110	0.357
B5	0.001	0.164	0.396	0.157	1.000	0.336	0.322	0.320	0.360	0.417	0.129	0.289	0.282	0.306	0.179	0.143	0.251	0.277	0.376	0.231	0.169	0.226	0.219	0.285	0.299
B6	0.248	0.041	0.335	0.498	0.336	1.000	0.359	0.337	0.224	0.508	0.145	0.287	0.344	0.233	0.284	0.264	0.397	0.392	0.332	0.331	0.398	0.112	0.323	0.342	0.322
B7	0.201	0.273	0.309	0.211	0.322	0.359	1.000	0.365	0.371	0.533	0.098	0.349	0.395	0.315	0.335	0.047	0.280	0.270	0.472	0.247	0.280	0.108	0.215	0.334	0.335
B8	0.232	0.287	0.442	0.179	0.320	0.337	0.365	1.000	0.558	0.484	0.319	0.423	0.383	0.504	0.055	0.080	0.378	0.357	0.469	0.271	0.295	0.089	0.349	0.283	0.369
B9	0.337	0.362	0.556	0.230	0.360	0.224	0.371	0.558	1.000	0.511	0.291	0.379	0.391	0.468	0.087	0.046	0.265	0.350	0.496	0.281	0.434	0.295	0.363	0.375	0.485
B10	0.225	0.426	0.532	0.233	0.417	0.508	0.533	0.484	0.511	1.000	0.181	0.515	0.497	0.503	0.236	0.092	0.272	0.386	0.609	0.308	0.404	0.112	0.410	0.432	0.444
B11	0.197	0.341	0.285	0.254	0.129	0.145	0.098	0.319	0.291	0.181	1.000	0.274	0.298	0.162	0.014	-0.009	0.158	0.137	0.199	0.220	0.261	0.156	0.301	0.257	0.131
B12	0.402	0.308	0.447	0.262	0.289	0.287	0.349	0.423	0.379	0.515	0.274	1.000	0.394	0.423	0.149	0.265	0.330	0.249	0.411	0.301	0.180	0.144	0.398	0.307	0.468
B13	0.319	0.544	0.434	0.291	0.282	0.344	0.395	0.383	0.391	0.497	0.298	0.394	1.000	0.411	0.294	0.128	0.265	0.436	0.401	0.466	0.470	0.174	0.387	0.335	0.379
B14	0.397	0.400	0.295	0.238	0.306	0.233	0.315	0.504	0.468	0.503	0.162	0.423	0.411	1.000	0.054	0.063	0.188	0.282	0.446	0.228	0.308	0.232	0.221	0.311	0.491
B15	0.291	0.194	0.086	0.210	0.179	0.284	0.335	0.055	0.087	0.236	0.014	0.149	0.294	0.054	1.000	0.070	0.043	0.289	0.124	0.126	0.152	0.167	0.005	0.129	0.238
B16	0.348	-0.059	0.189	0.348	0.143	0.264	0.047	0.080	0.046	0.092	-0.009	0.265	0.128	0.063	0.070	1.000	0.038	0.187	0.041	0.207	0.109	0.016	0.158	-0.103	0.200
B17	0.122	0.089	0.260	0.205	0.251	0.397	0.280	0.378	0.265	0.272	0.158	0.330	0.265	0.188	0.043	0.038	1.000	0.057	0.278	0.368	0.161	0.216	0.199	0.287	0.316
B18	0.137	0.230	0.309	0.341	0.277	0.392	0.270	0.357	0.350	0.386	0.137	0.249	0.436	0.282	0.289	0.187	0.057	1.000	0.341	0.349	0.467	-0.002	0.309	0.250	0.315
B19	0.136	0.430	0.427	0.331	0.376	0.332	0.472	0.469	0.496	0.609	0.199	0.411	0.401	0.446	0.124	0.041	0.278	0.341	1.000	0.292	0.330	0.207	0.182	0.443	0.434
B20	0.241	0.250	0.357	0.353	0.231	0.331	0.247	0.271	0.281	0.308	0.220	0.301	0.466	0.228	0.126	0.207	0.368	0.349	0.292	1.000	0.227	0.169	0.467	0.250	0.221
B21	0.311	0.259	0.333	0.375	0.169	0.398	0.280	0.295	0.434	0.404	0.261	0.180	0.470	0.308	0.152	0.109	0.161	0.467	0.330	0.227	1.000	0.295	0.206	0.230	0.431
B22	0.467	0.182	0.188	0.136	0.226	0.112	0.108	0.089	0.295	0.112	0.156	0.144	0.174	0.232	0.167	0.016	0.216	-0.002	0.207	0.169	0.295	1.000	0.167	0.219	0.362
B23	0.293	0.310	0.467	0.235	0.219	0.323	0.215	0.349	0.363	0.410	0.301	0.398	0.387	0.221	0.005	0.158	0.199	0.309	0.182	0.467	0.206	0.167	1.000	0.328	0.247
B24	0.103	0.395	0.368	0.110	0.285	0.342	0.334	0.283	0.375	0.432	0.257	0.307	0.335	0.311	0.129	-0.103	0.287	0.250	0.443	0.250	0.230	0.219	0.328	1.000	0.400
B25	0.467	0.298	0.449	0.357	0.299	0.322	0.335	0.369	0.485	0.444	0.131	0.468	0.379	0.491	0.238	0.200	0.316	0.315	0.434	0.221	0.431	0.362	0.247	0.400	1.000

Appendix I: Mathematical calculations on MFIs OSS, Profitability and ROA

MFI 1

Operating income	**2014**	**2015**	**2016**
interest on current and past due loans	1925726	2323652	1637262
interest on restructured loans			
interest on investment	48885	7068	37949
loan fees and service charges			
late fees on loans			
total operating income	**1974611**	**2330720**	**1675211**
Direct expense			
operating expense	1389397	3324595	1651708
loan loss provisions			
financing costs	1110804	1201779	1013155
Total direct expenses	**2500201**	**4526374**	**2664863**
Operational Self-sufficiency	**79%**	**51%**	**63%**
Profitability	**-315881**	**-2195135**	**-2694241**
ROA	**1.5%**	**-29%**	**-10%**

MFI 2

Operating income	2014	2015	2016
interest on current and past due loans	41514000	68263000	106771000
interest on restructured loans		6662000	639000
interest on investment	40808000	31378000	106771
loan fees and service charges	13474000	16302000	12412000
late fees on loans	5782000		
total operating income	**101578000**	**122605000**	**119928771**
Direct expense	**311224000**	**216916000**	**250987000**
operating expense			
loan loss provisions			
financing costs			
Total direct expenses	**311224000**	**216916000**	**250987000**
Operational Self-sufficiency	**33%**	**57%**	**48%**
Profitability	**-176215**	**-351431**	**-378433**
ROA	**-10%**	**-27%**	**-34%**

MFI 3

Operating income	2014	2015	2016
interest on current and past due loans	51721270	67242954	80362042
interest on restructured loans			
interest on investment	1325279	1978106	3599687
loan fees and service charges	65893789	87916240	101333574
late fees on loans			
total operating income	**118940338**	**157137300**	**185295303**
Direct expense	**120100031**	**149570274**	**250987000**
operating expense	104410318	128359717	
loan loss provisions			
financing costs	15689713	21210557	
Total direct expenses	**120100031**	**149570274**	**250987000**
Operational Self-sufficiency	**99%**	**105%**	**74%**
Profitability	**10354664**	**14288370**	

MFI 4

Operating income	2014	2015	2016
interest on current and past due loans	1604092	3264413	3272450
interest on restructured loans			
interest on investment			
loan fees and service charges			
late fees on loans			
total operating income	**1604092**	**3264413**	**3272450**
Direct expense			
operating expense	2776122	4392539	5844648
loan loss provisions			
financing costs	475496	807090	1004448
Total direct expenses	**3251618**	**6849096**	**6849096**
Operational Self-sufficiency	**49%**	**48%**	**48%**
Profitability	**-208568**	**3057401**	**7547511**
ROA	**-6%**	**3%**	**128%**

Appendix J: Grammarian certificate

GRAMMARIAN CERTIFICATE

MELODY KOZAH PROOF READING SERVICES

10 September 2017

Dear Sir/ Madam

This confirms that I have proof read and edited the research study entitled, '***Impact of Corporate Governance Mechanisms on Sustainability of Selected Microfinance Institutions in Cape Town, South Africa'*** and that I have advised the candidate to make the required changes.

Thank you.

Yours faithfully

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