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Abstract

Microfinance institutions in Kenya continue to face persistent financial instability despite their critical role in promoting financial inclusion and socio-economic growth. This study examined how the regulatory framework moderates the relationship between corporate governance and Triple Bottom Line (TBL) performance of microfinance institutions (MFIs). The purpose was to determine whether regulatory structures strengthen or weaken the effect of governance practices on financial, social, and environmental outcomes. Primary data were obtained through structured questionnaires administered to 84 respondents drawn from 14 purposively selected microfinance banks out of 47 institutions registered under the Association of Microfinance Institutions of Kenya as of December 2024. Stratified random sampling was applied, and data were analyzed using SPSS through descriptive statistics, Pearson correlation, and hierarchical multiple regression. Results revealed that governance indicators board size, activity, diversity, independence, and audit quality positively influenced TBL performance, while inclusion of the regulatory framework increased explanatory power from 53.2% to 65.1%. Significant interaction effects between regulation and governance variables, particularly board size, independence, and audit quality, confirmed the moderating role of the regulatory framework. The study concludes that effective regulation amplifies good governance, thereby enhancing financial stability, social outreach, and environmental responsibility. However, excessive regulatory pressure can hinder innovation and impose compliance burdens that weaken performance. The study recommends that policymakers and regulators adopt a balanced approach that integrates governance reforms with adaptive regulatory oversight to promote resilient, socially inclusive, and environmentally sustainable microfinance institutions aligned with Kenya's Vision 2030 and the Sustainable Development Goals.

Keywords: *Moderating Effect, Regulatory Framework, Corporate Governance, Triple Bottom Line, Performance, Microfinance Institutions*

1.0 Introduction

Microfinance institutions have become key contributors to global financial inclusion by providing access to credit and other financial services to individuals and groups excluded from mainstream banking systems (Labie & Mersland, 2011). Over time, the microfinance model has evolved from microcredit to a comprehensive financial system offering savings, insurance, and money transfer services that support low-income populations, especially rural women (Kanga et al., 2024). The Grameen Bank model exemplifies this transformation by offering unsecured loans to poor entrepreneurs and has been credited with alleviating poverty and empowering women in developing economies (Barua & Khaled, 2023). Microfinance has thus emerged as a sustainable vehicle for poverty reduction and entrepreneurship promotion, with the global industry expanding rapidly, reaching \$182.7 billion in gross loan portfolio and 173 million borrowers by 2022 (Impact Finance Barometer, 2023). This sector's growth underscores its role in achieving inclusive development and supporting the Sustainable Development Goals.

In Kenya, microfinance plays a vital role in advancing the Vision 2030 agenda by promoting universal financial inclusion and access to affordable credit (The Kenya Vision 2030, 2023). The government has invested in empowerment programs such as the Hustler Fund, established with Kshs 50 billion to support underserved groups, particularly small traders and youth entrepreneurs (Hustler Fund, 2023). However, commercialization within the sector has introduced challenges as some MFIs transition from social-oriented models to profit-driven entities, creating mission drift where financial goals overshadow social objectives (Quayes, 2021). This drift threatens the core mandate of poverty alleviation and may undermine trust among clients who depend on MFIs for affordable financial services (Arena, 2012). Hence, balancing financial sustainability with social responsibility remains a key policy and governance concern for Kenya's microfinance ecosystem (Varottil, 2012).

The microfinance sector in Kenya operates under a structured legal framework guided by the Microfinance Act of 2006 and subsequent regulations that differentiate between deposit-taking and non-deposit-taking institutions (Central Bank of Kenya, 2025). As of March 2025, Kenya had fourteen registered deposit-taking MFIs, thirty credit-only institutions, and several wholesale microfinance organizations (AMFI, 2024). These institutions have experienced both expansion and contraction in performance. For instance, customer deposits grew marginally from Ksh. 49.4 billion in 2020 to Ksh. 50.4 billion in 2021, while total assets declined slightly from Ksh. 74.9 billion to Ksh. 73.9 billion (CBK, 2023). Despite significant outreach, recent reports indicate fragility in the sector, with declining asset bases and liquidity ratios posing questions about sustainability (Financial Sector Regulators, 2023). These trends highlight the urgent need for stronger governance and adaptive regulatory frameworks.

Corporate governance has gained global attention following major corporate failures such as Enron, WorldCom, and Lehman Brothers, which exposed weaknesses in oversight and accountability mechanisms (Vinten, 2002). Standard & Poor's guidelines emphasize board effectiveness, shareholder rights, transparency, and audit integrity as pillars of governance reform (Claessens & Youtoglu, 2013). In Kenya, bank failures such as Chase Bank and Imperial Bank similarly revealed lapses in governance, prompting the Central Bank of Kenya and Capital Markets Authority to strengthen governance codes (Ochego et al., 2019). Effective corporate governance fosters trust among investors, regulators, and clients, ensuring responsible management and long-term institutional performance (OECD, 2023). Consequently, governance has become central in

evaluating not just financial outcomes but also social and environmental sustainability within financial institutions (Waithaka et al., 2013).

The Triple Bottom Line (TBL) approach expands organizational performance evaluation beyond profit to include people and planet, emphasizing the integration of economic, social, and environmental goals (Nursimloo et al., 2020). Financial institutions are now expected to embed environmental, social, and governance (ESG) principles in their policies, lending, and investment decisions to ensure sustainable operations (Menicucci & Paolucci, 2022). Through this approach, MFIs are urged to pursue responsible finance that supports community welfare, environmental protection, and equitable wealth distribution (Rodriguez-Fernandez, 2016). This orientation aligns with global trends demanding accountability, ethical transparency, and stakeholder value creation within financial organizations (Chairina & Tjahjadi, 2023). Thus, integrating corporate governance and TBL dimensions has become essential for achieving sustainable microfinance performance in Kenya (Madhani, 2017).

Microfinance institutions operate under multiple regulatory bodies that define their operational, prudential, and governance standards, including the Central Bank of Kenya, the National Treasury, and the Association of Microfinance Institutions of Kenya (Muithya et al., 2021). The Microfinance Act of 2006 and the MFI Regulations of 2008 established a framework for licensing, supervision, and governance of microfinance banks (CBK, 2023). Reforms such as the Credit Reference Bureau Regulations (2009) and the Interest Rate Uncapping (2019) have had significant implications on both financial and social outcomes within the sector (Chepkutwo et al., 2019). Despite these measures, the total assets of deposit-taking MFIs declined by 8.8 percent in 2023, indicating persistent challenges in maintaining growth and resilience (Kenya Bankers Association, 2024). This study, therefore, examines the moderating effect of regulatory frameworks on the relationship between corporate governance and TBL performance to provide evidence for enhancing sustainable microfinance practices in Kenya.

1.1 Statement of the Problem

Microfinance institutions (MFIs) are central to Kenya's financial inclusion agenda by extending credit to low-income households, women, and small enterprises, thereby advancing socio-economic development and supporting the Vision 2030 goals of inclusive growth (AMFI, 2025). Despite serving over 1.2 million active borrowers and empowering marginalized communities, the sector faces rising operational inefficiencies and declining profitability that threaten its sustainability (Kaburi et al., 2013). MFIs were envisioned to bridge the financing gap left by commercial banks, yet they now struggle to balance social objectives with financial viability. This situation undermines their capacity to promote entrepreneurship, job creation, and poverty reduction, raising concerns about the long-term stability of the microfinance sector in Kenya (Mutua, 2024).

Recent performance indicators highlight persistent deterioration in the financial health of MFIs. The Central Bank of Kenya's (2024) supervision report shows that only four out of fourteen licensed microfinance banks recorded profits, while ten operated at a loss. The sector posted a combined pre-tax loss of KSh 3.5 billion in 2024, up from KSh 2.4 billion in 2023, marking six consecutive years of negative performance (CBK, 2025). Moreover, the loan portfolio shrank by 16 percent due to escalating non-performing loans and reduced client uptake, signaling deep-seated structural and governance deficiencies. These downward trends expose institutional weaknesses

in strategic oversight, credit risk management, and compliance with prudential standards, which collectively hinder operational resilience and investor confidence.

Empirical studies indicate that sound corporate governance can improve institutional performance by enhancing transparency, accountability, and ethical leadership (Waithaka et al., 2013; Younas, 2022). However, governance mechanisms alone are insufficient without a supportive regulatory environment to enforce discipline and safeguard stakeholder interests (Waweru, 2014). Weak supervision, regulatory gaps, and delayed compliance audits have led to repeated governance failures, including the collapse of institutions such as Chase Bank and Imperial Bank (Waweru & Prot, 2018). Therefore, the core problem underpinning this study is the limited empirical evidence on how the regulatory framework moderates the relationship between corporate governance and Triple Bottom Line (TBL) performance in Kenya's microfinance sector, where persistent financial losses and governance lapses continue to erode sustainability.

1.2 Research Objective

To evaluate the moderating effect of regulatory framework on the relationship between corporate governance and Triple Bottom Line performance of Microfinance Institutions in Kenya.

1.3 Research Hypotheses

H₀₁: Regulatory framework does not have a significant moderating effect on the relationship between corporate governance and Triple Bottom Line performance of Microfinance Institutions in Kenya.

2.0 Literature Review

This section examines relevant theoretical and empirical literature in line with the key theories of the study. The goal of the review is to establish the state of knowledge and existing gaps from previous studies related to the moderating effect of regulatory framework on the relationship between corporate governance and triple bottom line performance in MFIs. First, literature review examines theoretical framework that underpin the study, followed by a critical review of empirical literature.

2.1 Theoretical Framework

The theory that informed the purpose of this study is Agency Theory, which provides the foundation for understanding how governance mechanisms and regulatory frameworks influence the performance of microfinance institutions (MFIs). Agency Theory, developed by Jensen and Meckling (1976) and later advanced by Fama and Jensen (1983), explains the relationship between principals (owners or shareholders) and agents (managers), emphasizing that separation of ownership and control often leads to conflicts of interest. Managers may pursue personal objectives that do not align with those of the owners, resulting in inefficiencies, financial losses, or unethical practices. This divergence of interests creates an agency problem that requires monitoring, accountability, and control mechanisms to ensure alignment between management actions and institutional goals.

In the context of microfinance, the agency relationship extends beyond the traditional owner-manager dynamic to include multiple stakeholders such as donors, creditors, regulators, and clients (Mersland & Strøm, 2009). Managers of MFIs may sometimes prioritize profit motives or personal benefits over the social mission of serving low-income clients, leading to mission drift and weakened outreach (Rasel, 2021). The complexity of stakeholder interests in MFIs makes

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information asymmetry more pronounced, as managers often possess more information about institutional operations than external parties (Purwanto, 2020). Consequently, corporate governance mechanisms such as board oversight, transparency, internal audits, and disclosure are essential for minimizing agency costs and enhancing accountability.

The regulatory framework plays a crucial complementary role by reinforcing governance structures that mitigate agency conflicts and safeguard institutional integrity (Mori et al., 2015). Through policies, supervision, and compliance standards, regulators ensure that managers adhere to prudential norms and ethical conduct, thereby aligning organizational decisions with both financial and social objectives (Dato et al., 2018). In MFIs, the board's committees such as audit, compliance, and social performance committees serve to monitor managerial actions, enforce disclosure, and ensure sustainable operations consistent with stakeholder expectations. Thus, Agency Theory underpins this study by explaining how corporate governance mechanisms, supported by effective regulation, can reduce opportunistic behavior, promote transparency, and enhance Triple Bottom Line (TBL) performance encompassing financial, social, and environmental outcomes in Kenya's microfinance sector.

2.2 Empirical Review

Muithya et al. (2021) examined the moderating effect of the regulatory framework on the relationship between strategic innovation orientation and performance of MFIs in Kenya. Using data from 352 respondents across 13 MFIs and applying multiple regression analysis, the study found that prudential guidelines, non-prudential guidelines and government laws significantly moderated this relationship. The findings underscore the importance of regulatory structures in improving institutional performance within a competitive and dynamic MFI environment. While the study offers valuable contribution to the MFIs literature in terms of regulatory framework moderating effect, it presents conceptual and methodological gaps, as it focuses on financial and non-financial performance without incorporating social and environmental performance dimension. The current study investigates how regulatory framework moderates the relationship between corporate governance and TBL performance of MFIs.

Adeghe et al. (2019) investigated the effect of prudential regulation on the financial performance of deposit money banks (DMBs) in Nigeria using a sample of 13 quoted DMBs over the period 2011 to 2020. Data was sourced from annual reports of these banks and analyzed using panel data regression in STATA. The study used capital adequacy, liquidity, leverage and asset quality as proxies of prudential guidelines and earnings per share (EPS) as the performance metric. The study found mixed results where capital adequacy and liquidity had positive but insignificant effects on financial performance, asset quality had a significant negative effect, and leverage was significantly positively associated with financial performance. Although the study offers empirical evidence on prudential regulation, it presents conceptual gap by using EPS as the only indicator of financial performance while treating prudential guidelines as independent rather than a moderating variable. Contextually, the study examines commercial banks in Nigeria, limiting its relevance to Kenya's MFI sector. The current study will be carried out among MFIs in Kenya, with regulatory framework as a moderating factor on the relationship between corporate governance and TBL performance of MFIs.

Chepkutwo et al. (2019) examined CBK guidelines effects on the operations of MFIs in Kenya with the purpose of determining whether the absence of a regulatory framework has effect on the outreach and sustainability of MFIs. Their study highlights the lack of harmonized regulatory

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framework due to MFIs being registered under multiple Acts, leading to challenges in ownership, governance and oversight. The findings suggest that regulatory gaps negatively affect the outreach and sustainability of MFIs. The study did not investigate regulatory framework as a moderating variable. Amin et al. (2018) conducted a comprehensive study examining the impact of regulatory status on the financial and outreach of microfinance institutions using a panel dataset of 413 MFIs across 21 Latin Americans countries over the period 2005 to 2017. The authors analyzed data for 413 MFIs using GMM estimator and found that regulated institutions were more inclined to serve better off clients, which in turn reduced their cost per borrower and improved their financial performance. Conversely, the unregulated MFIs, though not burned by compliance costs, tended to serve poorest clients, resulting into higher operations costs but deeper social outreach.

These findings suggest that while regulation enhances improved financial performance and depositor protection, it may inadvertently constrain the social mission of MFIs by incentivizing a shift away from vulnerable clients. While their study treats regulation as a direct determinant of performance, the current study introduces regulatory framework as a moderating variable, investigating how it affects the relationship between corporate governance and MFI triple bottom line performance. Furthermore, by focusing on Kenya and incorporating environmental performance, the current study fills a contextual and conceptual gap in existing empirical literature.

Madialo (2022) explored the effect of prudential regulations namely capital adequacy, liquidity regulations, and loan loss provisioning on both financial and social performance of MFBs in Kenya. Using a panel data from 13 MFBs from 2014-2020, the study found that capital adequacy positively impacted financial performance as measured by ROA, while liquidity negatively affected ROA. Loan loss provisioning was found to have a significant negative effect on financial performance, while banks size had a positive influence. In terms of social performance, capital adequacy showed a positive relationship with outreach, while liquidity and loss provisioning had weaker effects. This research emphasizes the role of prudential regulations in shaping MFI performance but does not address the moderating role of the regulatory framework, and corporate governance impact on MFI performance. This conceptual gap will be addressed by the current study which aims to incorporate the regulatory framework as a moderating variable in a relationship between corporate governance and MFI triple bottom performance.

2.3 Conceptual Framework

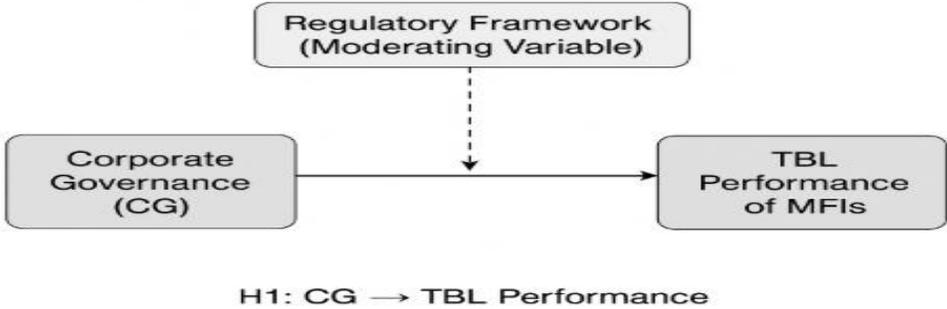


Figure 1: Conceptual Framework

3.0 Methodology

This research is grounded in a pragmatist philosophical approach. This research utilized explanatory research design. Primary data was collected using structured questionnaires. The target population was 47 Microfinance Institutions that are actively registered members of the association of microfinance institutions in Kenya as at December 31, 2024. Purposive sampling technique was used to select 14 Microfinance Banks from the target population of 47 microfinance institution. 84 respondents were selected from the 14 microfinance institutions using a stratified random sampling method. Data was analyzed using inferential statistics (Pearson correlation and the regression analysis model) and descriptive statistics.

4.0 Findings and Discussion

The study aimed to assess the regulatory framework of Microfinance Institutions in Kenya. Regulations on non-performing loans enhance governance and improve financial performance, with a mean score of 4.06 and a standard deviation of 0.827. This indicates that approximately 80% of respondents agree that these regulations play a significant role in strengthening governance and financial outcomes. Loan loss provisioning requirements strengthen credit risk oversight and social outreach, reflected in a mean score of 3.94 and a standard deviation of 0.881. This suggests that around 88% of respondents believe these requirements are effective in managing credit risk while also supporting social objectives.

The regulatory framework is perceived to strengthen the impact of corporate governance on financial, social, and environmental performance, with a mean score of 4.11 and a standard deviation of 0.735. This indicates a strong consensus, with approximately 74% of respondents agreeing that the framework positively influences governance practices across multiple dimensions. Liquidity regulations are viewed as essential for sustaining financial soundness and social operations, with a mean score of 4.36 and a standard deviation of 0.812. This reflects a positive perception that around 81% of respondents believe such regulations contribute to the stability of financial institutions while supporting their social and environmental outcomes. Capital adequacy rules are recognized for improving governance and supporting triple bottom line (TBL) outcomes, achieving a mean score of 4.06 and a standard deviation of 0.827. This suggests that approximately 83% of respondents agree on the importance of these rules in promoting both financial stability, social outreach and environmental outcomes. Regulatory compliance is seen as a factor that improves board decision-making on finance, social outreach and environmental performance, with a mean score of 4.23 and a standard deviation of 0.798. This indicates that around 80% of respondents believe compliance enhances the board's ability to make informed decisions that balance financial, social and environmental goals. To test this null hypothesis the study applied hierarchical regression coefficients. The results of the model are discussed below:

Table 1: Hierarchical Coefficient of Determination (R2)

Model	R	R Square (R ²)	Adjusted R ²	Std. Error of the Estimate
1	.682a	0.565	0.532	0.55281
2	.769b	0.691	0.651	0.48367
3	0.842c	0.709	0.693	0.41275

The hierarchical coefficient of determination (R2) table above presents the hierarchically measure of the change in the proportion of variations that explain the variation in performance of a Microfinance institutions when a moderating variable is added to the model. As indicated by the model, adjusted R square is 53.2% percent when regulatory framework is not included in the model. Upon inclusion of regulatory framework in the model, the three is increase of proportion of explanation of performance of microfinance institutions by 11.9 per cent to 65.1%. the results also show that the standard error decreases (0.553→0.484), meaning predictions are more accurate in Model 2. Similarly model 3 with interaction variable explains 69.3% and standard error decreases (0.55→0.484→0.413). This means there is moderation effect.

Table 2: Hierarchical Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.458	6	3.743	7.024	.000b
	Residual	35.702	67	0.533		
	Total	58.16	73			
2	Regression	30.994	7	4.428	10.757	.000c
	Residual	27.166	66	0.412		
	Total	58.16	73			
3	Regression	55.83	7	7.97571	22.9667	0.000d
	Residual	22.92	66	0.34727		
	Total	78.75	73			

The table above represents the Hierarchical Analysis of Variance (ANOVA) which was evaluated to determine whether there is differences in means of variables (Dependent Variable and Independent Variable) before and after inclusion of moderation variable (regulatory framework). The F Statistics test for the three models had p-values =0.000 < 0.05 indicating that the three models in the hierarchy were significant.

Table 3: Hierarchical Regression Coefficients

Model	Predictor	B	Std. Error	Beta	t	Sig.
1	(Constant)	0.812	0.228	–	3.561	0.005
	Board Size	0.203	0.061	0.274	3.328	0.001
	Board Activity	0.156	0.054	0.211	2.889	0.005
	Board Diversity	0.091	0.043	0.118	2.116	0.037
	Board Committee Types	0.063	0.037	0.081	1.703	0.012
	Board Independence	0.144	0.059	0.162	2.441	0.017
	Internal Audit Quality	0.271	0.052	0.326	5.212	0
2	(Constant)	0.421	0.217	–	1.939	0.002
	Board Size	0.176	0.057	0.238	3.088	0.003
	Board Activity	0.133	0.05	0.179	2.66	0.009
	Board Diversity	0.075	0.041	0.098	1.829	0.021
	Board Committee Types	0.049	0.033	0.063	1.491	0.014
	Board Independence	0.121	0.055	0.137	2.2	0.031
	Internal Audit Quality	0.231	0.048	0.278	4.815	0
3	Regulatory Framework	0.309	0.051	0.352	6.059	0
	(Constant)	0.398	0.225	–	1.77	0.078
	Board Size * Regulatory Framework	0.087	0.041	0.142	2.12	0.036
	Board Activity * Regulatory Framework	0.072	0.038	0.118	1.89	0.06
	Board Diversity * Regulatory Framework	0.065	0.036	0.105	1.81	0.071
	Board Committee Types * Regulatory Framework	0.038	0.035	0.094	1.66	0.099
	Board Independence * Regulatory Framework	0.081	0.037	0.127	2.19	0.031
Internal Audit Quality * Regulatory Framework	0.102	0.039	0.168	2.62	0.01	

The table above presents Hierarchical Regression Coefficients results of model 1 (with independent variables only) and model 2 (with independent variables & moderator) and model three (with independent variables & interaction variable) showing the regression coefficients of each predictor in the three models. The three fitted model, 2 and 3 are shown below:

Model 1

$$Y (53.2\%) = 0.812 + 0.203X_1 + 0.156X_2 + 0.091X_3 + 0.063X_4 + 0.144X_5 + 0.271X_6$$

Model 2

$$Y (65.1\%) = 0.421 + 0.176X_1 + 0.133X_2 + 0.075X_3 + 0.049X_4 + 0.121X_5 + 0.231X_6 + 0.309X_7$$

Y - Performance

X₁ - Board Size

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- X₂ - Board Activity
- X₃ - Board diversity
- X₄ - Board committee types
- X₅ - Board Independence
- X₆ - Internal Audit Quality
- X₇ - Regulatory framework

Model 3

$$Y (65.1\%) = 0.398 + 0.087X_1 + 0.072X_2 + 0.065X_3 + 0.038X_4 + 0.081X_5 + 0.102X_6$$

- Y - Performance
- X₁ - Board Size * Regulatory framework
- X₂ - Board Activity * Regulatory framework
- X₃ - Board diversity * Regulatory framework
- X₄ - Board committee types * Regulatory framework
- X₅ - Board Independence * Regulatory framework
- X₆ - Internal Audit Quality * Regulatory framework

From the two models fitted above, Hierarchical Coefficient of Determination (R²) and the Hierarchical Analysis of Variance model 2 is best suited since it explains 65.1% of variations of performance of MFIs compared to model 1 that explains 53.2% of variations in financial performance of MFIs. The effect is significant (t=6.059, p=0.000), thus the null hypothesis is rejected. Model 1 tested the direct effects of governance mechanisms on performance. The results show that all governance indicators Board Size ($\beta = .274, p = .001$), Board Activity ($\beta = .211, p = .005$), Board Diversity ($\beta = .118, p = .037$), Board Independence ($\beta = .162, p = .017$), and Internal Audit Quality ($\beta = .326, p < .001$) positively and significantly influenced performance. This suggests that MFIs with stronger governance structures perform better financially, socially, and environmentally. These findings are consistent with studies such as Kyereboah-Coleman (2007), Mersland and Strøm (2009) and Yuli et al (2023), Imran and Shafique (2022), who established that strong governance enhances institutional efficiency and outreach.

Model 2 incorporated the regulatory framework as an additional predictor. The regulatory framework had a strong positive effect on performance ($\beta = .352, p < .001$), indicating that compliance and alignment with external oversight significantly enhance institutional outcomes. This supports earlier findings by Tarchouna et al. (2017), who argued that regulatory environments reinforce governance effectiveness and sustainability in MFIs. Model 3. Several interaction terms were statistically significant. Notably, Board Size \times Regulatory Framework ($\beta = .142, p = .036$), Board Independence \times Regulatory Framework ($\beta = .127, p = .031$), and Internal Audit Quality \times Regulatory Framework ($\beta = .168, p = .010$) were significant predictors, suggesting that the impact of governance practices on performance is amplified in the presence of strong regulatory oversight. Although some interactions (Board Diversity and Committee Types) were marginally significant ($p > .05$ but $< .10$), they still indicate a trend where regulatory frameworks strengthen the governance–performance link.

These results contribute to both theory and practice. From an agency theory perspective, effective governance coupled with strong regulation reduces agency conflicts, aligns managerial decisions with stakeholder interests, and mitigates risks of mission drift in MFIs. From a policy perspective, the findings imply that regulators play a crucial role in ensuring that governance reforms translate into sustainable performance outcomes. However, not all interactions were equally strong, and this aligns with critiques by scholars such as Di Vito and Trottier (2022) and Abaidoo and Agyapong (2023), who argue that the benefits of governance reforms may vary depending on institutional context. While regulatory frameworks enhance oversight, excessive regulation could also stifle innovation or impose compliance costs that reduce performance. Therefore, the results should be interpreted with caution, emphasizing a balanced approach where regulation complements, rather than replaces, internal governance mechanisms. In general, the findings affirm that good governance matters, regulation strengthens its effect, and the interaction between the two is a critical determinant of triple bottom line performance in MFIs.

5.0 Conclusion

The study concludes that the regulatory framework exerts a significant moderating effect on the relationship between corporate governance and Triple Bottom Line (TBL) performance of Microfinance Institutions (MFIs) in Kenya. The analysis confirmed that governance practices—such as board size, diversity, independence, activity, and audit quality—significantly influence financial, social, and environmental outcomes, and that these effects are strengthened under effective regulatory oversight. The findings rejected the null hypothesis and established that the interaction between corporate governance and regulatory structures determines the extent to which MFIs achieve sustainable performance. Descriptively, MFIs with strong governance systems and high regulatory compliance recorded better financial stability, broader social outreach, and stronger environmental commitment. Conversely, institutions with weak governance and poor regulatory readiness faced penalties, liquidity challenges, and limited market competitiveness. These outcomes demonstrate that regulations are not static constraints but dynamic mechanisms that shape governance effectiveness. This finding aligns with Akram and Haq (2022), who observed that regulatory requirements can act as amplifiers or inhibitors of strategic performance depending on institutional adaptability. However, it contrasts with Barua and Khaled (2023), who argued that in developing economies, high compliance costs and inconsistent enforcement often weaken institutional efficiency. In Kenya’s case, the results affirm that while compliance remains demanding, a well-structured regulatory framework enhances the capacity of governance mechanisms to deliver balanced economic, social, and environmental outcomes.

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