

Assessing the Impact of Corporate Governance on the Financial Performance of Microfinance Institutions in Rwanda: A Case Study of CPF Ineza (2019–2023)

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Abstract: This study investigates the impact of corporate governance on the profitability of Microfinance Institutions (MFIs) in Rwanda, with a focus on CPF INEZA from 2019 to 2023. One major challenge faced by Rwandan MFIs, reported by 45% of institutions, is insufficient leadership capacity, which hinders the achievement of strategic goals. This lack of leadership affects their ability to adapt to market changes and improve customer satisfaction, thereby limiting their contribution to economic development and poverty reduction. The primary objective of the research was to examine how corporate governance influences the profitability of MFIs in Rwanda. Specifically, the study aimed to evaluate the impact of board composition and competence, transparency and disclosure practices, and internal control systems on CPF INEZA's profitability, and to assess the overall relationship between corporate governance and profitability.

The study utilized descriptive statistics and Spearman correlation analysis, based on data collected from 141 respondents at CPF INEZA. The data, gathered through surveys and interviews, were analyzed using SPSS. Key findings revealed that factors such as the educational background, gender diversity, the inclusion of independent members, and the board's appointment process were considered influential in shaping CPF INEZA's board composition. Most respondents also agreed that the board's competence significantly contributed to effective governance and risk management. Furthermore, respondents acknowledged the importance of CPF INEZA's annual reports in supporting informed decision-making, and they confirmed the institution's adherence to disclosure requirements in its financial statements.

The correlation analysis showed a significant positive relationship between corporate governance and CPF INEZA's profitability, as evidenced by improved profitability ratios such as Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA) from 2019 to 2023. Based on these findings, the first three hypotheses were accepted, while the fourth was rejected. The study recommends improving communication among board members, using banking technology to enhance transparency and disclosure, and strengthening internal control systems to boost financial performance. Overall, the study concludes that corporate governance practices, including board composition, transparency, and internal controls, positively influence the financial profitability of CPF INEZA.

Keywords: Influence, Corporate Governance, Profitability, Microfinance Institutions.

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I. INTRODUCTION

This study explores the influence of corporate governance on the profitability of Microfinance Institutions (MFIs) in Rwanda, specifically focusing on CPF INEZA from 2019 to 2023. MFIs are crucial in promoting financial inclusion, especially in underserved communities, by providing essential financial services such as savings, loans, and insurance. Despite their significance, many MFIs in Rwanda face challenges such as high operating costs and low revenues compared to international financial institutions, with inadequate leadership being a common obstacle.

Research indicates that poor governance practices, including weak leadership and lack of strategic management, often hinder the financial performance and sustainability of MFIs.

Corporate governance, which encompasses the systems, processes, and structures that ensure accountability and decision-making in organizations, plays a vital role in addressing these challenges. Effective corporate governance helps in enhancing the performance of MFIs, particularly by improving board composition, promoting transparency, and strengthening internal control systems. The objective of this research is to assess the impact of these governance practices

on the profitability of CPF INEZA, a prominent microfinance institution in Rwanda. This study seeks to fill the gap in existing research on corporate governance in Rwandan MFIs and contribute to the understanding of how governance can influence the financial outcomes of these institutions.

II. PROBLEM STATEMENT

Microfinance institutions (MFIs) play an essential role in promoting financial inclusion in Rwanda by offering vital services to underserved communities, including cooperatives, farmers, and rural residents. With 472 registered MFIs, 18 of which are public limited companies, these institutions have demonstrated strong capital and liquidity ratios, with a 31.6% ratio and a 21.4% return rate (Verrinder, 2022). Despite their success, MFIs face challenges such as high operational costs, low revenues, and significant losses compared to international financial institutions. These difficulties raise concerns about the effectiveness of existing policies in sustaining their performance (Joseph & Kibera, 2019).

The National Bank of Rwanda (2021) notes that only 60% of the population had access to financial services in 2020, highlighting the financial inclusion gap that MFIs must address. However, studies suggest that poor management and a lack of skilled leadership hinder their progress (Munganyinka, 2022). Ndabazize (2021) found that 45% of MFIs reported difficulties in achieving their goals due to inadequate leadership, which affects their ability to adapt to market demands and meet customer expectations, impacting their sustainability. Additionally, poor governance practices have led to the closure of several MFIs, causing significant financial losses for clients (AFR, 2019). This emphasizes the need for stricter regulations to protect microfinance borrowers.

There is currently limited academic research focused on MFIs, particularly CPF INEZA in Muhanga District. This study aims to explore the relationship between corporate governance practices and profitability in CPF INEZA, contributing to a deeper understanding of governance in Rwanda's microfinance sector. The role of corporate governance in enhancing the profitability of MFIs remains an important and relevant topic in Rwanda.

III. LITERATURE REVIEW SUMMARY

This chapter reviews existing literature related to corporate governance and microfinance profitability. It is divided into five major sections: conceptual review, theoretical framework, empirical evidence, identification of research gaps, and the presentation of the conceptual framework.

➤ Conceptual Review

- *Corporate Governance*

Corporate governance lacks a single universal definition but generally encompasses the systems, laws, and processes that dictate how institutions are directed and controlled (Gikandi, 2010; Lawton, 2023). Baten (2010) emphasizes

that effective governance ensures accountability and strategic direction in institutions like SACCOs and MFIs.

- *Board Composition and Competence*

Rooted in agency theory, board composition significantly influences an organization's oversight and performance. Competent boards—diverse in skills, gender, and education—enhance strategy formulation and resource acquisition (Hambrick & Mason, 1984; Jensen & Zajac, 2004). However, opinions differ on the value of independent directors; while they bring new perspectives, their oversight may be limited (Rashid, 2015; Mohammed & Tanko, 2015).

- *Transparency and Disclosure*

Transparency entails open information sharing among stakeholders, enhancing accountability (Bennin, 2009; Jayaraman & Wu, 2019). Disclosure, both voluntary and mandatory, is essential for sound corporate governance and positively correlates with profitability by reducing information asymmetry and increasing investor trust (Damodaran, 2007; Patel & Dallas, 2002).

- *Internal Control Systems*

Internal controls are vital mechanisms that help safeguard assets, ensure financial accuracy, and enforce compliance (Ndungu, 2013; Gupta, 2001). Well-structured systems include risk assessment, control activities, and effective communication. These elements are fundamental to operational efficiency and profitability, especially in financial institutions (Orwa, 2015; Enwelum, 2013).

- *Profitability*

Profitability measures a firm's ability to generate profit from its operations. Key metrics include Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and operational efficiency (Janglani & Sandhar, 2013; Srhadi, 2020). These indicators not only reflect financial success but also signal strategic competence and sustainability.

- *Microfinance Institutions (MFIs)*

MFIs serve low-income populations traditionally excluded from formal banking. They provide credit, savings, and insurance products essential for economic development (Novotel, 2009; Chenuos et al., 2014). Their governance and financial health significantly influence their ability to deliver on this mission.

➤ Theoretical Review

- *Stakeholder Theory*

Freeman's (1984) stakeholder theory expands corporate governance beyond shareholders to include employees, customers, suppliers, and communities. It promotes inclusive decision-making for mutual benefit and long-term organizational value (Donaldson & Preston, 1995; Clarkson, 1995).

- *Corporate Governance Theory*

This theory advocates for balance between individual and societal goals. Principles such as board accountability, stakeholder rights, and transparency underpin effective

governance (Cadbury Report, 1992; OECD, 2005). Strong internal controls and clear reporting mechanisms are emphasized as drivers of accountability (Bananuka et al., 2017).

- *Agency Theory*

Agency theory highlights the potential conflict between owners (principals) and managers (agents) due to diverging interests. Governance mechanisms like independent boards and internal controls are necessary to mitigate agency costs (Jensen & Meckling, 2006). However, critics argue the theory neglects non-financial motivations and undervalues managerial capabilities (Brennan, 2010).

- *Board Composition and Competence Theory*

Effective board composition positively impacts firm performance by enhancing decision-making quality, reducing financial misreporting, and improving strategic alignment. Educational and gender diversity further contribute to governance strength (Vivian, 2022; Carpenter, 2002).

- *Transparency and Disclosure Theory*

This theory posits that open disclosure builds market discipline and investor confidence (Khafid & Nurlaili, 2017; Quayes & Hasan, 2014). Poor disclosure can lead to financial crises, whereas strong transparency practices enhance organizational credibility and performance (Njuguna, 2009; Sacco Review Report, 2017).

- *Internal Controls System Theory*

Internal controls are framed as structured efforts to ensure operational efficiency and prevent misuse of resources. Their effectiveness depends on the integration of monitoring, information systems, and risk assessment (Hayes & Associates, 2005; Sunday et al., 2018).

➤ *Empirical Review*

- *Global Studies*

Hartarska (2004) found a positive link between board independence and ROA in Eastern European MFIs. In contrast, Yip (2023) found no significant governance-performance link in firms from China's Greater Bay Area, citing methodological limitations. Christian (2023) showed

that strong management control and board processes positively impact MFI profitability in Senegal.

- *Board Composition and Competence*

Studies consistently affirm that competent, diverse boards positively affect financial performance. Boohene & Agyepong (2023) and Oluwaseyi et al. (2022) emphasize board meeting frequency and audit committees as key drivers. However, Hermalin & Weisbach (2021) found no universal correlation, suggesting context matters.

- *Transparency and Disclosure*

Uyar & Kilic (2012) and Nyokabi (2009) affirm that transparent practices reduce information asymmetry and increase investor trust. Suchada (2007) notes that greater disclosure lowers capital costs and boosts firm value.

- *Internal Controls*

Empirical studies in Nigeria (Evans et al., 2013), Kenya (Ahmed & Ng'ang'a, 2019), and Somalia (Mire, 2016) confirm that strong internal controls correlate with improved financial performance. Risk assessment and monitoring are particularly impactful.

- *Corporate Governance and Profitability*

Bayelign et al. (2022) and Van Dang et al. (2020) found a positive correlation between governance and MFI profitability in Ethiopia and Vietnam, respectively. Key governance elements include board size, financial disclosure, and leadership structure. However, findings vary across contexts, underscoring the need for localized research.

- *Research Gap*

Despite global interest, research specifically examining the relationship between corporate governance and profitability of MFIs in Rwanda—particularly CPF INEZA in Muhanga District—is limited. Existing literature has mostly focused on broader financial institutions, neglecting SACCOs and community-based MFIs. This study fills this gap by evaluating board competence, transparency, and internal controls as predictors of profitability within a Rwandan microfinance context, using both descriptive statistics and Spearman correlation for analysis.

IV. CONCEPTUAL FRAMEWORK

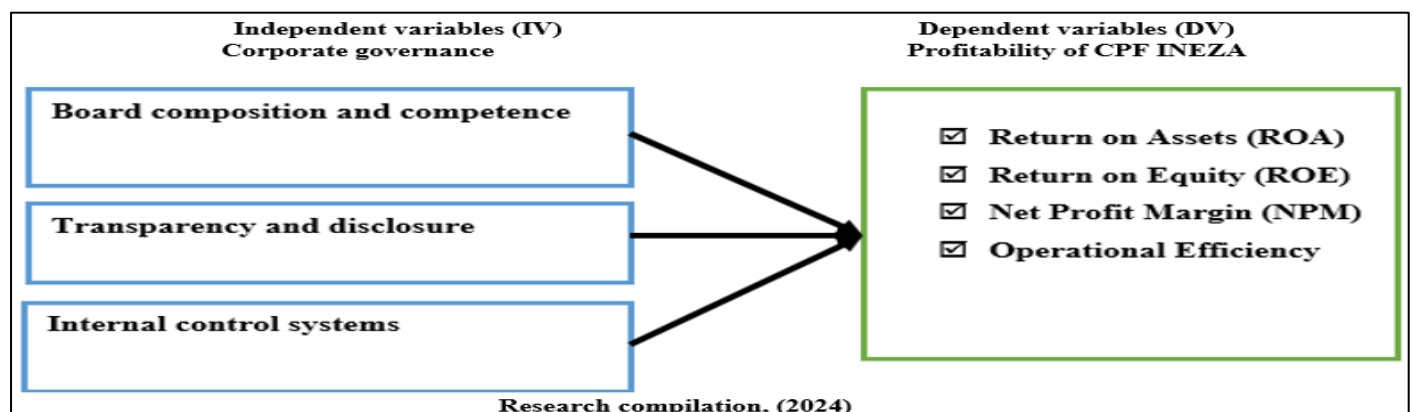


Fig 1 Conceptual Framework

V. RESEARCH METHODOLOGY SUMMARY

This section outlines the systematic approach used to investigate the relationship between corporate governance and profitability in microfinance institutions (MFIs), specifically focusing on CPF INEZA in the Muhanga District. It describes the research design, population, sample size, sampling techniques, data collection methods, data analysis tools, and operationalization of variables.

➤ Research Design

The study adopts a **descriptive and correlational research design**. The descriptive aspect helps in understanding the current state of corporate governance practices, while the correlational aspect seeks to establish the relationship between governance variables (independent) and profitability indicators (dependent). This approach enables quantitative analysis and is suitable for testing associations without manipulating the research environment.

➤ Target Population

The target population includes all **board members, top-level management, accountants, and internal auditors** of CPF INEZA. The total population for the study is **65 staff members**, which ensures a comprehensive understanding of both governance and financial operations.

➤ Sample Size and Sampling Technique

Given the relatively small and manageable population, **census sampling** was used, involving all 65 members of staff. This approach eliminates sampling bias and ensures full

representation of perspectives across governance and financial roles.

➤ Data Collection Instruments

The study employs **structured questionnaires and document review** as primary data collection tools. The questionnaire is divided into sections corresponding to each study variable: board composition and competence, transparency and disclosure, internal control systems, and profitability. Document review includes financial reports and board meeting minutes to validate questionnaire responses.

➤ Validity and Reliability of Instruments

To ensure **validity**, the questionnaire was reviewed by academic experts and industry professionals for content clarity and alignment with study objectives. A **pilot test** was conducted with 10 respondents from similar institutions, and results were adjusted accordingly. Reliability was tested using **Cronbach's Alpha**, with coefficients above 0.7 indicating acceptable internal consistency.

➤ Data Analysis and Presentation

The collected data was analyzed using **SPSS** (Statistical Package for the Social Sciences). The analysis involved:

- **Descriptive statistics** (mean, standard deviation) for understanding data distribution.
- **Inferential statistics**, specifically **Spearman's rank correlation coefficient**, to test the relationship between corporate governance variables and profitability indicators.

Table 1 Operationalization of Variables

Variable	Measurement Indicators	Type
Board Composition & Competence	Education, experience, gender diversity, board size	Independent
Transparency & Disclosure	Frequency of disclosures, clarity of reports	Independent
Internal Control Systems	Risk assessment, control activities, monitoring	Independent
Profitability	ROA, ROE, Net Profit Margin, Operational Efficiency	Dependent

• Ethical Considerations

The research adhered to ethical standards including **informed consent, confidentiality, and voluntary participation**. Permission was obtained from CPF INEZA management, and respondents were assured that their identities would remain anonymous.

VI. PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

➤ Introduction

This study investigated the influence of corporate governance on the profitability of microfinance institutions in Rwanda between 2019 and 2023, focusing on CPF INEZA as a case study. This chapter presents, analyzes, and interprets the research findings, beginning with a profile of the respondents. Subsequent sections detail respondent perceptions regarding the study's objectives, Spearman correlation analysis, and financial performance analyses.

➤ Presentation of Data

All 100 questionnaires distributed to CPF INEZA respondents were returned, representing a 100% response rate. The completed questionnaires underwent editorial review to ensure completeness and accuracy, with the researcher attempting to resolve any inconsistencies by referencing related answers within the same form. The chosen coding framework effectively addressed both the interview topics and the study's objectives. Prior to finalizing the coding, the data was meticulously reviewed to identify and resolve any coding discrepancies or remove ambiguous or irrelevant responses. Using SPSS, we conducted an analysis of both closed-ended and open-ended question data. The findings, expressed as frequencies and percentages, are displayed in tables and figures.

➤ Analysis of Data, Discussion and Interpretation of the Results

This section aims to analyze, discuss, and interpret the research findings, leveraging both primary and secondary data.

- *Respondent Profile*

The following profile details key demographic characteristics of the respondents, such as age, gender, education, occupation, and experience to provide context for the analysis.

- ✓ *Age of Respondents*

Age helps the researcher to get information because youngest person tends to respond differently by oldest persons in organization.

Table 2 Age of Respondents

		Frequency	Percent
	20-30	50	35.5
	31-40	47	33.3
	41-50	21	14.9
	Above 51	23	16.3
	Total	141	100.0

Source: Primary Data, 2024

CPF INEZA appears to have a predominantly young employee base, as shown in Table 4.1. The age breakdown is as follows: 5% are 20-30 years old, 33.3% are 31-40 years old, 14.9% are 41-50 years old, and 16.3% are over 51. This demographic profile could influence their approach to and involvement in corporate governance.

- ✓ *Gender of Respondents*

Gender is a crucial consideration in research due to its potential impact on data collection across sexes and ages. Interacting with a diverse group of people can also spark new ideas and insights for the researcher.

Table 3 Gender of Respondents

		Frequency	Percent
	Male	60	42.6
	Female	81	57.4
	Total	141	100.0

Source: Primary data, 2024

As evidenced by Table 4.2, the staff is composed of more females (57.4%) than males (42.6%)

- ✓ *Experience of Respondents*

Valuable first-hand knowledge of the fund's operations was shared with the researcher, thanks to the experience and competency of CPF INEZA staff

Table 4 Experience of Respondents

		Frequency	Percent
	1-5 years	109	77.3
	Above 5 years	32	22.7
	Total	141	100.0

Source: Primary data, 2024

Table 4 indicates that over three-quarters (77.3%) of CPF INEZA employees have 1-5 years of experience, while the rest (22.7%) have more than 5 years. These figures suggest that CPF INEZA benefits from a workforce with a solid base of experience, contributing to the organization's ability to meet its goals.

- ✓ *Educational Attainment of Respondents*

Education is crucial for researchers to meet their goals. A more diverse range of educational backgrounds among individuals leads to a wider variety of perspectives, ultimately providing researchers with richer and more varied information from people with different levels of education.

Table 5 Level of Education of Respondents

		Frequency	Percent
	Masters and above	9	6.4
	Bachelor's Degree	62	44.0
	Secondary Level	12	8.5
	Others qualifications	58	41.1
	Total	141	100.0

Source: Primary data, 2024

Approximately 6.4% of CPF employees have attained a Master's degree or higher, indicating a substantial number

hold advanced qualifications and 44% holding a Bachelor's degree, as shown in Table 4.4. Furthermore, 8.5% have a

secondary level education, while the remaining 41.1% possess other qualifications. This data indicates that CPF benefits from a skilled and capable workforce, likely contributing to effective corporate governance within the organization.

✓ *Departments Occupied by Respondents*

Departments helps researcher to understand the all operations organization, as well as the situation of corporate governance and its interactions with daily CPF INEZA works by collecting accuracy data by supported by each respondent in each department.

Table 6 Departments Occupied by Respondents

	Frequency	Percent
Finance department	5	3.5
Risk and Compliance department	10	7.1
ICT department	3	2.1
Operations department	10	7.1
internal audit department	1	.7
Management team	10	7.1
Organs Members	90	63.8
Supervisory committee	3	2.1
Board	9	6.4
Total	141	100.0

Source: Primary data, 2024

Table 4.5 reveals the departmental distribution of respondents: 3.5% worked in finance, 7.1% in risk and compliance, 2.1% in ICT, 7.1% in operations, and 7% in internal audit. The management team comprised 7.1% of respondents, while a significant 63.8% were organ members representing CPF INEZA. Additionally, 2.1% belonged to the supervisory committee and 6.4% to the board of CPF INEZA. These figures indicate a strong representation from corporate governance-related departments and highlight the crucial role of general assembly representatives in the institution's governance and decision-making processes, ultimately benefiting CPF INEZA members and contributing to the collection of accurate data during data correction.

✓ *Perception of Respondent's Influence of Corporate Governance on CPF INEZA Profitability*

Microfinance institutions rely on sound corporate governance for improved performance, long-term viability, and continued expansion. This section presents respondents' perspectives concerning the study's specific objectives, the evaluation of the interview guide, and an analysis of the financial performance of CPF INEZA.

✓ *Perception of Respondents on the Influence of Board Composition and Competence on the Profitability of CPF INEZA*

This subsection analyzes respondent opinions, collected through data gathering, about how board composition and competence affect the profitability of CPF INEZA

Table 7 Perception of Respondents on The Influence of Board Composition and Competence on The Profitability of CPF INEZA

STATEMENTS	SA	A	N	D	SD	TOTAL						
	F	%	F	%	F	%	F	%	F	%	F	%
The composition of the board of directors with better education background contributes to profitability of CPF	91	64.5	39	27.7	11	7.8	0	0	0	0	141	100
The composition of the board of directors with both male and female gender contributes to the profitability of CPF INEZA	73	51.8	57	40.4	11	7.8	0	0	0	0	141	100
The composition of the board of directors based with higher percents of independent outsider members contributes profitability of CPF INEZA	96	68.1	34	24.1	8	5.7	3	2.1	0	0	141	100
The composition of boards of directors based on outsider members and insider members appointment contributed to the performance of CPF INEZA	78	55.3	52	36.9	4	2.8	7	5	0	0	141	100
The board of directors' competency contribute to the profitability of CPF INEZA	54	38.3	76	53.9	7	5	4	2.8	0	0	141	100
Board competency contributed good governance and proper risk management in CPF INEZA	74	52.5	56	39.7	11	7.8	0	0	0	0	141	100

Source: Primary data, 2024

Regarding board composition and its contribution on CPF INEZA's profitability: a significant majority (64.5%) strongly agreed and 27.7% agreed that a better-educated board contributes positively, while 7.8% were unsure. A large majority also believed gender diversity on the board beneficial, with 51.8% strongly agreeing and 40.4% agreeing that a mix of male and female board members contributes to profitability; 7.8% were unsure. The composition of the board with a higher percentage of independent outside members was seen as a positive factor, with 68.1% strongly agreeing and 24.1% agreeing that it contributes to profitability; 5.7% were unsure and 2.1% disagreed. Most respondents felt that the balance between outsider and insider members on the board was beneficial to CPF INEZA's performance, with 55.3% strongly agreeing and 36.9% agreeing; 2.8% were unsure and 5% disagreed. Board competency was widely viewed as a factor in profitability, with 38.3% strongly

agreeing and 53.9% agreeing; 5% were unsure and 2.8% disagreed. Finally, a majority (52.8% strongly agreeing and 39.7% agreeing) believed board competency contributed to good governance and proper risk management at CPF INEZA, while 7.8% were unsure.

✓ *Perception of Respondents on Role of Transparency and Disclosure on the Profitability of CPF*

Clear corporate governance hinges on openness and honest reporting. By increasing transparency and refining disclosures, the information gap between company leaders and investors (share- and bondholders) narrows, which in turn reduces regulatory hurdles in corporate governance.

This section details the respondents' opinions regarding the role of transparency and disclosure on the profitability of CPF.

Table 8 Perception of Respondents on the Role of Transparency and Disclosure on the Profitability of CPF INEZA

STATEMENTS	SA	A	N	D	SD	TOTAL						
	F	%	F	%	F	%	F	%	F	%	F	%
CPF INEZA publishes its annual report with timely and reliable information useful for making efficient and effective decision	104	73.8	26	18.4	0	0	11	7.8	0	0	141	100
CPF INEZA provides timely, trustworthy information in its annual report that helps with effective and efficient decision-making.	64	45.4	66	46.8	0	0	11	7.8	0	0	141	100
The credibility of the financial data offered increases the financial statements' dependability.	37	26.2	93	66	0	0	11	7.8	0	0	141	100
The disclosure requirements are followed in the preparation of financial statements	42	29.8	88	62.4	0	0	11	7.8	0	0	141	100
CPF INEZA Financial data is compiled and categorized using accepted disclosure formats.	27	19.1	103	73			6	4.3	0	0	141	100
CPF INEZA creates information systems to track its performance and lays out its environmental policy	115	81.6	20	14.2	0	0	6	4.3	0	0	141	100
CPF INEZA discloses more information about the environment in its annually report	70	49.6	60	42.6	6	4.3	5	3.5	0	0	141	100
Corporate governance procedures have improved the CPF INEZA's financial profitability.	33	23.4	97	68.8	6	4.3	5	3.5	0	0	141	100

Source: Primary data, 2024

Table 8 shows that a combined 92.2% of respondents (73.8% strongly agreeing and 18.4% agreeing) considered CPF INEZA's annual report to be accurate and current, while (7.8%) disagreed. (45.4%) strongly agreed, (46.8%) agreed that CPF INEZA provides timely, trustworthy information in its annual report that helps with effective and efficient decision-making, while (7.8%) disagreed. (26.2%) strongly agreed, (66%) agreed that the credibility of the financial data offered increases the financial statements' dependability, while (7.8%) disagreed. (29.8%) strongly agreed, (88%) agreed that the disclosure requirements are followed in the preparation of financial statements, while 7.8% disagreed. (19.1%) strongly agreed, and 73% agreed that CPF INEZA financial data is compiled and categorized using accepted disclosure formats, while 4.3% disagreed. 81.6% strongly agreed (14.2% agreed that CPF INEZA creates information

systems to track its performance and lays out its environmental policy, while 4.3% disagreed). 49.6% strongly agreed, (42.6%) agreed that CPF INEZA discloses more information about the environment in its annual report, 4.3% are sure, and 3.5% disagreed. (23.4%) strongly agreed, (68.8%) agreed that corporate governance procedures have improved the CPF INEZA's financial profitability, (4.3%) are not sure, while (3.5%) disagreed.

✓ *Control Systems on Profitability of CPF INEZA*

Adopting internal controls is crucial while operating SACCOs since businesses may mismanage resources or money. This section details the respondents' opinions regarding how well profitability is affected by internal control systems.

Table 9 Effectiveness of Internal Control System on the Profitability of CPF INEZA

STATEMENTS	SA	A	N	D	SD	TOTAL						
	F	%	F	%	F	%	F	%	F	%	F	%
Internal control systems ensure that transactions are properly recorded, categorized, and valued, which helps to preserve the integrity of financial data.	44	31.2	86	61	9	6.4	2	1.4	0	0	141	100
Accountability is increased by internal control systems.	23	16.3	107	75.9	11	7.8	0	0	0	0	141	100
The management of CPF INEZA sets up control activities to successfully and economically carry out the goals and mission of the organization.	14	9.9	116	82.3	8	5.7	3	2.1	0	0	141	100
Designing internal controls is the duty of CPF INEZA management in order to guarantee effectiveness and efficiency.	46	32.6	84	59.6	7	5	4	2.8	0	0	141	100
Internal control is implemented by CPF INEZA's management, increasing the organization's profitability.	52	36.9	78	55.3	4	2.8	7	5.8	0	0	141	100
The internal auditor for CPF INEZA always conducts periodic performance reviews and evaluations.	81	57.4	49	34.8	5	3.5	6	4.3	0	0	141	100
The effectiveness of the institution's operations depends on the caliber of the data produced by CPF information systems.	57	40.4	73	51.8	7	5	4	2.8	0	0	141	100

Source: Primary data, 2024

Table 9 shows that 31.2% strongly agreed, (61%) agreed that internal control systems ensure that transactions are properly recorded, categorized, and valued, which helps to preserve the integrity of financial data, (6.4%) are not sure, while 2.1% disagreed. (9.9%) strongly agreed, (82.9%) agreed that the management of CPF INEZA sets up control activities to successfully and economically carry out the goals and mission of the organization, (5.7%) are not sure, and (2.1%) disagreed. 32.6% strongly agreed, (59.6%) agreed that designing internal controls is the duty of CPF INEZA management in order to guarantee effectiveness and efficiency, (5%) are not sure, while (2.8%) disagreed. 36.9% strongly agreed (55.3%) that internal control is implemented by CPF INEZA'S management, increasing the organization's profitability, and 2.8% are not sure. (5.8%) disagreed. 57.4%

strongly agreed (34.8% agreed) that the internal auditor for CPF INEZA always conducts periodic performance reviews and evaluations, 3.5% are not sure, while 4.3% disagreed. (40.4%) strongly agreed, and (51.8%) agreed that the effectiveness of the institution's operations depends on the caliber of the data produced by CPF information systems. 5% are not sure; (2.8%) disagreed.

• Pearson Correlation Analysis

To assess the relationships between variables, the researcher employed Pearson's rho correlation analysis. The resulting correlation matrix was examined to identify interdependencies, with significance determined at the 0.05 level.

Table 10 Correlation Analysis Matrix Between Variables

		Board composition competence	Transparency and disclosure	Internal control systems	Corporate governance	Profitability
Board composition competence	Pearson Correlation	1	.880**	.723**	.923**	.932**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	141	141	141	141	141
Transparency and disclosure	Pearson Correlation	.880**	1	.777**	.962**	.894**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	141	141	141	141	141
Internal control systems	Pearson Correlation	.723**	.777**	1	.897**	.705**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	141	141	141	141	141
Corporate governance	Pearson Correlation	.923**	.962**	.897**	1	.900**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	141	141	141	141	141

Profitability	Pearson Correlation	.932**	.894**	.705**	.900**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	141	141	141	141	141
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Primary data, 2024

The data reveals a statistically significant and positive correlation between board composition/competence and CPF's profitability ($r = .0932$, $p < .001$). Similarly, CPF's profitability exhibits a strong, positive correlation with both transparency and disclosure ($r = .0894$, $p < .001$) and internal control systems ($r = 0.705$, $p < .001$). Furthermore, a significant correlation exists between overall corporate governance and CPF INEZA's profitability ($r = 0.900$, $p < .001$). In summary, these correlations indicate a strong,

positive relationship between effective corporate governance practices, particularly internal control systems, board composition/competency, and transparency/disclosure, and the profitability of CPF INEZA

➤ Test Hypothesis

The results of the Pearson correlation analyse, conducted to test the study's hypotheses, are displayed in Table 4.12.

Table 11 Hypotheses Tested Summary

	Hypothesis	P-Value	Pearson Rho results	Verdict
H1	Board composition and competence have a significant impact on the profitability of CPF INEZA	0.000	0.932	Significant
H2	Transparency and disclosure practices significantly influence the profitability of CPF INEZA	0.000	0.894	Significant
H3	Internal control systems have a substantial effect on the profitability of CPF INEZA	0.000	0.705	Significant
H4	There is not significant relationship between corporate governance and profitability of CPF INEZA	0.000	0.900	Rejected

Source: Researcher (2024)

Table 11 presents a summary of the hypothesis tests, which revealed significant results concerning the influence of corporate governance on CPF INEZA's profitability. Specifically, the alternative hypotheses (H01, H02, and H03) were accepted due to their p-values being below 0.01; conversely, the null hypothesis (H04) was rejected. This compelling evidence indicates that corporate governance has a significant impact on CPF INEZA's profitability. The findings underscore the crucial role of factors such as board composition and competence, transparency and disclosure, and internal control systems in shaping the overall financial performance of CPF INEZA

➤ Level of Financial Performance of CPF INEZA

This sub-section contains CPF INEZA's statement of financial position, income, and financial profitability ratios analysis (NPM, ROA, ROE, and operational efficiency) from 2019-2023, which are the main ones to reflect the performance level of this microfinance.

• Profitability Assessment of CPF INEZA

The profitability of a company is gauged by this ratio, which shows how much profit the business makes off of the capital invested by shareholders. A SACCO's profitability or financial performance is more efficient the higher this ratio is. The SACCO's managerial effectiveness and financial success are evaluated by these profitability ratios.

Table 12 CPF INEZA Statement of Financial Position as at 2019-2023

	2019/RWF	2020/RWF	2021/RWF	2022/RWF	2023/RWF
ASSETS					
Total Assets	1,160,735,875	1,417,885,163	1,940,852,617	2,481,412,672	3,003,253,085
LIABILITIES					
Total Liabilities	904,674,899	1,117,584,964	1,577,744,905	2,007,956,977	2,300,688,662
Total shareholders' Equity	256,060,977	300,300,199	363,107,712	473,455,693	702,564,423
Total Liabilities and Equity	1,160,735,875	1,417,885,163	1,940,852,617	2,481,412,672	3,003,253,085

Source: CPF INEZA Financial Statements (2019-2023)

The financial statement of CPF INEZA from 2019 to 2023 is shown in Table 4.12. The total assets increased by 1,160,735,875 Rwf in 2019, 1,417,885,163 Rwf in 2020, 1,940,852,617 Rwf in 2021, 2,481,412,672 Rwf in 2022 and

3,003,253,085 Rwf in 2023. However, the overall total liabilities increased from 904,674,899 Rwf in 2019, 1,117,584,964 in 2020, 1,577,744,905 Rwf in 2021, 2,007,956,977 Rwf in 2022 and 2,300,688,662 Rwf in 2023.

Table 13 Statement of Comprehensive Income for the Year 2019-2023 of CPF INEZA

	2019	2020	2021	2022	2023
Financial income	154,918,957	193,451,297	253,052,536	359,527,661	482,094,655
Operating expenses	124,194,220	133,776,688	169,210,258	215,579,829	296,647,957
Operating profit	45,751,139	44,894,021	58,241,978	120,891,338	161,111,298
Net interest income	174,328,687	13,117,614,728	223,342,143	327,929,398	451,210,573
Net Profit	26,647,893	33,665,815	48,359,513	88,036,480	117,016,768

Source: CPF INEZA Financial Statements (2019-2023)

Net profit rose to 26,647,893 Rwf in 2019, 33,665,815 Rwf in 2020, 48,359,513 Rwf in 2021, 88,036,480 Rwf in 2022, and 117,016,768 Rwf in 2023, as shown in Table 4.13. In 2023, net interest income was 451,210,573 Rwf; in 2022, it was 327,929,398 Rwf; in 2021, it was 223,342,143 Rwf; in 2020, it was 13,117,614,728 Rwf; and in 2019, it was

174,328,687 Rwf. The profitability performance of CPF INEZA.

- *Profitability Ratio Analysis of CPF INEZA*

The calculations below are found on basis of CPF INEZA financial statements of 2019-2023

Table 14 Calculations of CPF INEZA Ratios from 2021 to 2023

Ratios formula	2019	2020	2021	2022	2023
Net profit Margin (NPM) $= \frac{\text{Net profit}}{\text{Total Revenue}} * 100$	$\frac{26,647,893}{154,918,957} * 100 = 17.2 \%$	$\frac{33,665,815}{193,451,297} * 100 = 17.4 \%$	$\frac{48,359,513}{253,052,536} * 100 = 19.1 \%$	$\frac{88,036,480}{359,527,661} * 100 = 24.4 \%$	$\frac{117,016,768}{482,094,655} * 100 = 24.2 \%$
ROA = $\frac{\text{NET INCOME}}{\text{TOTAL ASSETS}} * 100$	$\frac{26,647,893}{1,160,735,875} * 100 = 2.2 \%$	$\frac{33,665,815}{1,417,885,163} * 100 = 2.3 \%$	$\frac{48,359,513}{1,940,852,617} * 100 = 2.4 \%$	$\frac{88,036,480}{2,481,412,672} * 100 = 3.5 \%$	$\frac{117,016,768}{3,003,253,085} * 100 = 3.8 \%$
ROE = $\frac{\text{NET INCOME}}{\text{OWNER'S EQUITY}} * 100$	$\frac{26,647,893}{256,060,977} * 100 = 10.3 \%$	$\frac{33,665,815}{300,300,199} * 100 = 11.2 \%$	$\frac{48,359,513}{363,107,712} * 100 = 13.3 \%$	$\frac{88,036,480}{473,455,693} * 100 = 18.5 \%$	$\frac{117,016,768}{702,564,423} * 100 = 16.6 \%$

Source: Secondary data, CPF INEZA Financial Statements, 2019-2023

The profitability ratios for the "CPF INEZA" from 2019 to 2023 are shown in the table. The calculations were based on NPM%, ROA%, and ROE%. The Net Profit Margin (NPM) improved significantly between 2019 and 2023, as seen by the fact that it was 17.2 % in 2019, 17.4 % in 2020, 19.1 % in 2021 24.4 % in 2022, and 24.2 % in 2023 as compared to the prior year. While ROE continued to perform well, showing 10.3% in 2019, 11.2% in 2020, 13.3 in 2021, 18.5 % in 2022 and 16.6 % in 2023, ROA exhibited good performance, being 2.2 % in 2019, 2.3 in 2020, 2.4% in 2021, and 3.5 % in 2022, and 3.8 % in 2023 compared to 2022.

According to this data, CPF INEZA had the strongest financial results for the previous five years.

- *Operational Efficiency*

To evaluate the profitability of a bank, one important performance statistic is the bank efficiency ratio. A lower efficiency ratio indicates improved bank operations. 50% or less is regarded as the ideal efficiency ratio.

Table 15 Operational Efficiency

Ratios formula	2019	2020	2021	2022	2023
EFFECIENCY Ratios $= \frac{\text{operating expenses}}{\text{Total Revenue}} * 100$	$\frac{124,194,220}{26,647,893} * 100 = 21.4 \%$	$\frac{133,776,688}{33,665,815} * 100 = 25.1 \%$	$\frac{169,210,258}{48,359,513} * 100 = 28.5 \%$	$\frac{215,579,829}{88,036,480} * 100 = 40.8 \%$	$\frac{296,647,957}{117,016,768} * 100 = 39.4 \%$

Source: Secondary data, CPF INEZA Financial Statements, 2022-2023

CPF INEZA efficiency ratios, as shown in the above table, were 21.4 % in 2019, 25.1 % in 2020, 28.5% in 2021, 40.8% in 2022 and declined to 39.4 % in 2023, respectively. This showed that CPF INEZA performance in term of managing its costs to generate revenue for five years (2019–2023).

VII. CONCLUSION

In conclusion, Pearson correlation analysis revealed a strong positive relationship between corporate governance factors and CPF INEZA's profitability. A significant correlation ($r = 0.932$) was found between board composition and competency and profitability, while transparency and disclosure, supported by strong governance, also contributed positively to financial performance. Additionally, robust internal controls had a positive impact ($r = 0.705$) on profitability. These results supported the first three hypotheses, confirming the positive influence of governance factors on profitability, while the fourth hypothesis was rejected. Between 2019 and 2023, CPF INEZA showed significant improvements in profitability metrics such as Operating Profit Margin, Return on Assets (ROA), and Return on Equity (ROE), reflecting enhanced operational efficiency. Overall, the study emphasizes the substantial positive effect of corporate governance on CPF INEZA's financial performance.

RECOMMENDATIONS

Based on the study's findings, the researcher offers the following recommendations for CPF INEZA:

First, it is essential for members and shareholders to actively assess the board's effectiveness and the organization's structure. This evaluation should identify areas for improvement and enhance overall performance. Additionally, CPF INEZA should foster the development of innovative strategies by leveraging the board's collective expertise to address challenges and capitalize on opportunities. Open and transparent communication with members, combined with the adoption of modern banking technologies for clear and accessible reporting, is also crucial. Moreover, maintaining robust internal controls is vital to protect the financial stability of CPF INEZA. Finally, the organization must commit to regularly evaluating and refining its governance framework to ensure long-term sustainability.

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