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The role of boards of directors of family-owned microfinance institutions

Lessons from the boardroom

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Abstract

Purpose – The purpose of this paper is to investigate the composition and role of a board of directors in a family-owned microfinance institution (FO-MFI) in Tanzania.

Design/methodology/approach – The paper is based on a longitudinal analysis of the board practices based on boardroom observations for the period between 2012 and 2015. The study further collected and analyzed qualitative data from interviews with board members, management, and institution staff.

Findings – The findings indicate that even though external board members were appointed as a result of their diverse expertise and skills, their personal relationships with shareholders, life-cycle stage of the institution, and the nature of the industry influenced their selection. It was also found that the board played more of the service role in strategy formulation, resource mobilization, and networking, and, through that, members were also able to exercise control of the firm.

Research limitations/implications – Because this paper is based on a qualitative approach, it suffers from the challenge of generalization. However, numerous research issues have been raised that require further investigation.

Originality/value – This study contributes to the governance literature by showing what really happens in a family-owned firm, as it is based on a unique data set drawn from the boardroom of the FO-MFI in a context of a developing economy. This context is unique, given that most private MFIs operating as family enterprises do not have a professional board of directors. The study shows how the board contributes to a strategic direction of the firm in which the management and ownership are not separated, and the first generation is running the firm.

Keywords Microfinance institution, Board of directors, Family-owned business

Paper type Research paper

JEL Classification – G21, G34

1. Introduction

What role do boards of directors play in family-owned organizations? A considerable amount of research on corporate governance defines "board of directors" as a central governance body of firms (Nordqvist et al., 2014; Mori, 2014; Mori et al., 2015) that provides monitoring and resource functions (Fama and Jensen, 1983). Even though most studies on boards of directors are based on large firms (Charkham, 1995), it is acknowledged that well-functioning boards are also important in the performance of small and medium enterprises (SMEs) (van den Heuvel et al., 2006). Within the SME population, family businesses are dominant (Van den Heuvel et al., 2006) and attract research on external boards of directors because of their inter-linkage of management, ownership, and business (Nordqvist et al., 2014; Anderson and Reeb, 2003). Yet, previous research often adopts

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theories developed for large corporations without adjusting them to the unique contexts of privately owned family firms (Huse, 2000) and specific sectors in which family firms operate (Charles and Mori, 2016). As a result, there is little research on the role of boards of directors in family-owned firms (Nordqvist et al., 2014). Even as corporate governance in SMEs has been studied from the perspective of the interaction among a firm's ownership, board, and top management (van den Heuvel et al., 2006), more empirical research is needed to bring in essential elements of family businesses.

Among the SMEs that deserve a special enquiry into the role of a board of directors are family-owned microfinance institutions (FO-MFIs), which are gradually emerging as private enterprises. These institutions provide loans to enterprises and individuals, but they are not regulated by the central bank. In developing countries, such as Tanzania, several MFIs began as family firms (Charles and Mori, 2016) and are led by their founders who are typically reluctant to give up control in the interest of maintaining family ownership (CGAP, 2012). Establishment of the FO-MFIs in Tanzania is attributed to limited access to financial services, which makes people consider alternative sources of finance. For instance, as of September 2017, banking services reached only 17 percent of the population (FinScope, 2017). However, for FO-MFIs to be established and cover the gap left by the banks, they are required to meet various legal requirements, including having a

board of directors, which plays a role in ensuring that they fulfill legal obligations (Andres and Vallelado, 2008). Consequently, most FO-MFIs create "advisory boards" for the purpose of approving the company's financials and other procedures requiring board approval (PWC, 2014). Instinctively, the FO-MFIs adopt similar governance structures as family-owned enterprises in other fields where the board is composed of family members and just a few non-family members (Jaskiewicz and Klein, 2007).

Unfortunately, studies on the role of boards of directors in family-owned firms and, in particular, in FO-MFIs are characterized by mixed and inconclusive evidence. Where some evidence indicates that outside directors can improve a family firm's performance (Anderson and Reeb, 2004), a negative relationship between the proportion of outside directors and firm's performance has also been reported (Giovannini, 2010); in some cases, no relationship was found (Jackling and Johl, 2009). However, it is commonly known that effective governance structures are more likely to lead to long-term success of the institution (Bammens et al., 2011; Blumentritt, 2006). Yet, the role of the board depends on its composition, the readiness of management to implement board decisions, and the enforcement mechanisms (Mori et al., 2015). In the context of a family firm, the influence of the board is still ambiguous given the centralized nature of the governance structure and the inclination of the family members to preserve family interests.

Despite the uniqueness of governance systems in family firms, few studies have taken into account the special nature of family-firm governance in specific contexts (Le Breton-Miller and Miller, 2009; Cesar and Magdy, 2016). Research on family-business boards concentrates on board attributes and their relation to the firm's performance (Zattoni et al., 2015), while the substance of what happens in the boardroom is still unexplored (Ikäheimonen, 2014). Further, most studies on the roles of a board in MFIs are directed at non-family firms (Mori et al., 2015) based on the cross-sectional data, which lack consistent follow-up of how a board's decisions are implemented and how those decisions have an impact on the transition of the firm. What happens inside the boardroom and how the decisions made by the board influence the strategic direction of the firm is still lacking in the literature of both family business and finance. More specifically, and to the best of our knowledge, an analysis of the role of the board in FO-MFIs is basically missing in the academic literature.

In order to fill the aforementioned research gaps, this study seeks to establish the role of the board of directors in the transition of the FO-MFI. Accordingly, we first describe the

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expertise, competencies, and connections of board members. We then trace the decisions made inside the boardroom and their implementation status for a period of three years. Drawing on agency theory, stewardship theory, and resource-based view (RBV), we assess the influence of a board on strategic decision making for the firm studied.

The findings are generated from a longitudinal study of the FO-MFI between 2012 and 2015, which analyzed observations made from the boardroom and interviews with board members, management, and staff of the institution. This is in line with Ikäheimonen's (2014) view that there is a need to be more contextual and to study family-business governance more deeply, using longitudinal approaches. This paper contributes to the governance literature by showing what really happens in a family-owned firm, as it is based on a unique data set drawn from the boardroom of the FO-MFI in a context of a developing economy. This context is unique given that most private MFIs operating as family enterprises do not have a board of directors (Charles and Mori, 2016). Our paper shows how the board contributes to a strategic direction of the firm in which the management and ownership are not separated, and the first generation is running the firm.

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2. Theoretical and empirical framework

The most common theoretical lenses that influence research on boards of directors in family firms are agency theory, stewardship perspective, and RBV. In these perspectives, the family enterprises are regarded as the firms that are owned, managed, and controlled by the family members (Charles, 2014; Anderson and Reeb, 2004). The family involvement in the organizational processes distinguishes the organization from non-family firms (Ikäheimonen, 2014). Accordingly, we identify family enterprises as those owned and controlled by family members. We agree with the view that the family has influence on the firm through governance, ownership, and top management (Nordqvist et al., 2014). Because family businesses are not the same, for example, in terms of owners, business (maturity, business field), or composition of the family, the role of directors in family businesses also varies (Ikäheimonen, 2014). Thus, as we ascribe to this view, we extend our analysis to the peculiarities of FO-MFIs and complement family-business research with microfinance literature.

According to agency theory, the role of boards of directors in family firms is to safeguard against the self-serving behavior of a dominant family-owner coalition and to prevent the eventual expropriation of minority shareholders (Anderson and Reeb, 2004). This argument is drawn from the assumption that, because of the separation of ownership and control, the board of directors monitors and controls managerial decisions (Jensen and Meckling, 1976); thus, the board can be an effective instrument for reducing agency problems and agency costs (Fama and Jensen, 1983). Nevertheless, the agency problem seems less important in the context of family firms because the controlling shareholders already have sufficient incentives, power, and information to control the top managers (Jensen and Meckling, 1976). While the presence of owners in the firm's management results in lower goal divergence between owners and managers (Jaskiewicz and Klein, 2007), owner-managed firms should also invest in internal governance mechanisms such as a board of directors and incentive mechanisms (Schulze et al., 2002).

The stewardship theory claims that family-business owners are stewards to their firms, and their motives are aligned with the objectives of the organization. The primary role of the board is to serve and advise rather than to discipline and monitor as agency theory prescribes (Corbetta and Salvato, 2004). Stewardship of family owners and managers stems from their socio-emotional attachment to the business, which can be high because the company satisfies the needs for belonging and family standing (Arosa et al., 2010). While

agency theory suggests formal control mechanisms that rely on rewards or punishments to control managerial behavior, stewardship theory suggests social control mechanisms based on shared values, goals, and attitudes (Arosa et al., 2010). The focus of stewardship theory includes affiliation and self-actualization, respect for authority, and the work ethic (Davis et al., 1997).

The RBV recognizes that unique resources, which are valuable, rare, inimitable, and non-substitutable, are capable of generating and sustaining competitive advantages of the firm (Barney, 1991). This view provides a framework for analyzing the potential contributions of board members through their professional competencies, skills, and experience (Ikäheimonen, 2014). The task of the board is, according to this perspective, to increase the knowledge of managers, advise them, and network with the environment (Huse and Rindova, 2001). In addition, directors should enhance the reputation of the firm via their experience, accomplishments, and exposure (Fiegener et al., 2000). Besides managerial expertise, the RBV sees the board and individual directors as a significant resource for the company, through their contacts or connections with stakeholder groups and their prestige in these groups (Huse and Rindova, 2001).

In line with theoretical discussions, there have been studies on the role of a board of directors in family firms. For instance, Zahra and Pearce (1989) studied the relationship between boards of directors and family firms′ financial performance. Their model introduced four board attributes (i.e. composition, directors′ characteristics, structure, and processes) and named three board roles (i.e. control, service, and strategy). The authors concluded that all attributes and board roles are influenced by contextual contingencies, including ownership concentration, company size, external environment, company life cycle, type of business, and CEO style. A survey of 2,455 Swedish SMEs by Brunninge and Nordqvist (2004) revealed that, while family firms were more reluctant to have independent directors than non-family firms, independent directors did not enhance entrepreneurial activities in family firms. Huse′s (1998) survey of 68 firms established that the board-management relation described by simultaneous "independence" (agency perspective) and "interdependence" (contractual relations) gave the highest contribution to company′s performance.

Arosa et al. (2010) analyzed the effects of outside directors on the performance of 369 family SMEs in Spain. Their findings indicated that affiliated directors had a positive impact on firm′s performance. A longitudinal case analysis by Ikäheimonen (2014) indicated that the family-business board participates in the firm′s activities much more widely than it is customary to think. Pieper et al. (2008) established that the validity of steward and agency theories is context specific and thereby supports a contingent perspective on governance imperatives. Nordqvist et al. (2014) revealed different kinds of boards, from a rubber-stamp board, whose task is to confirm decisions made by the owner, to boards with high-class monitoring and strategy-creation responsibilities on behalf of the owner group, consisting of different people and companies. Nevertheless, in most studies, the board is often assumed to be a stable element of the governance structure in terms of tasks, processes, roles, and even composition, while board roles and characteristics vary among national cultures and different companies (Corbetta and Salvato, 2004). This implies a need for a contingency approach to defining board structure and roles, as this offers useful guidance in understanding board contributions to family-business performance (Woods et al., 2012). The view of the peculiarities of various contexts and firms influenced our decision to use a qualitative approach. However, our paper adds value by reporting the observations made from both the firm and the boardroom.

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With respect to FO-MFIs, most literature focuses on the role of boards of directors in typical MFIs based on agency theory. For instance, Campion and Frankiewicz (1999) suggested that the board in an MFI should act as a boundary spanner across the various constituencies served by the institution. While it is a source of resources and expertise, it also has a duty of overseeing management, including the selection and removal of top managers. It assists in identifying the core mission of the institution and works to keep it on track. Mori et al. (2013) identified the board roles in MFIs to include boundary spanning, providing reputation, and provision of resources. Dorado and Molz's (2005) evidence in Bolivia, BancoSol, and Los Andes indicated that the role of the board changes as the MFIs go through different stages of life. During the formation stage, the board plays a role in helping MFIs to secure resources and build trust. During the transformation stage, the board is involved more in the selection of top management and supporting the institutional legitimacy and regulations. In the final stage, the board assists management in maintaining focus on its social mission and in the search for resources.

Hartarska (2005) revealed that MFI boards that had more independent members were able to effectively monitor and oversee top management, which contributed to better organizational performance. Similar results were found by Mersland and Strøm (2009) who showed that more independent boards were better at monitoring, which resulted in MFIs' higher return on assets. Mori et al. (2015) found that MFI boards' roles should be geared more toward helping organizations to overcome the liabilities of their newness and small size. While a board can add significant value by providing access to resources and strategic advice, it also has a role of overseeing the risk management of a company. Another role is to help a company comply with legal and ethical standards and to monitor that company's impact on its community.

Our study argues that, with the hybrid nature of FO-MFIs, the board becomes more important, and, for roles to be effective, they require the necessary expertise. The board is an active participant in the business system – not only as a structure obligated by law but also as a construction of functions, activities, relationships, and expectations, with the ability to develop along with the company's needs. In family businesses, change and dynamism occur in structures but also in relationships between participating actors, which offer the possibility to study how the board develops in time and in the company. As earlier studies seem to concentrate more on actors than the context in which they act, more qualitative studies are needed to explore new directions and form a more comprehensive picture of the existing knowledge.

3. Methodology

3.1 Research setting and design

Our study is based on a longitudinal analysis of the FO-MFI in Tanzania. Following Tanzania's financial-sector reforms in the early 1990s, formal and informal financial institutions have increased and now serve almost 20 million people (FinScope, 2017). FO-MFIs are one category of such institutions (Charles and Mori, 2016). Owners control most private MFIs (Mori et al., 2015), and most of them establish the advisory boards, which are not active in strategic issues of a firm. On the contrary, the FO-MFI selected had external board members appointed based on their competencies and relationship with the firm. As we wanted to examine a board's position as a part of a company's governance and to explore the development of the board and its tasks, along with the development of the business, we chose a qualitative approach based on a longitudinal analysis (Ikäheimonen, 2014). The longitudinal approach was useful to trace changes and explain the evolution of board composition, working structure, and board task performance (Yin, 2003). The reasons for

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selection of the case studied were as follows: it was a family-owned business; it had an active board of directors; the business has gone through the survival stage; and founders/ owners and managers were ready to provide the data needed. Researchers were also allowed to sit in during board meetings and observe the proceedings. In line with Stake (1995), both the case and context were unique for a single case analysis.

3.2 Data collection

Data collection was accomplished through review of relevant documents, direct observations, and interviews. We reviewed board appointment letters, terms and conditions, meeting minutes, and board papers. Participation in board meetings enabled researchers to observe the non-verbal expression of feelings, determine the level of interactions, grasp how participants communicated with each other, and check the time spent on various decisions. We also conducted in-depth interviews with four external board members, the board chairman and MD (shareholders), four managers, and three staff members. Each respondent was interviewed at least once per year, yielding a total of 45 interviews in three years. Repeated observations and interviews were necessary to increase validity of the findings. Interviews were based on themes identified on the basis of pre-knowledge. For board members, the interviews focused on how they were appointed to the board, perception of their contribution to the firm, the readiness of the management to implement board decisions, and firm′s performance. Shareholders reported the history of the company, their vision, motivations for appointing board members, and roles of the board. The management reported their perceptions of the board roles and how the board assisted in improving their operations. Overall, interviews facilitated the investigation of significant occurrences (events, incidents, and processes) identified by the respondents and the outcomes in terms of perceived effects. Table I shows the number of interviews we conducted with each group of respondents.

Table I. Number of interviews

Respondents	Number of interviews – 2012-2015 (3 years)	Total
3 board members	2 interviews per year – (3 × 2 × 3)	18
1 chairman	2 interviews per year – (1 × 2 × 3)	6
1 managing director	3 interviews per year – (1 × 3 × 3)	9
1 company secretary	1 interview per year – (1 × 1 × 3)	3
3 managers	1 interview per year – (3 × 1 × 3)	9
Total interviews		45

3.3 Analysis

We extracted stories, responses, and data from archived documents, observations, and interviews to show what happened in the boardroom and the resulting outcomes. We then developed summary tables for each key decision seen as influential to management based on the results of interviews. We grouped the data based on identified central issues and themes. The thematic analysis enabled us to identify common themes from respondents. The

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company's performance data from financial statements, reports, policy documents, and loan-tracking systems were used to complement interview findings based on the emerging themes. Use of archival data to complement interview findings enabled us to enhance the reliability of the results. The trends observed on various themes were analyzed in light of theoretical and empirical underpinnings.

4. Results

4.1 Start-up and evolution of ZEC

ZEC[1] was created in 2010 by a couple who spotted a business opportunity in the financial industry. In 2006, the wife (MD) joined a commercial bank as a credit analyst, and her role was to analyze loan applications from the staff to ensure the loans were granted according to the bank guidelines. The bank set the limit of the staff loans, so that the monthly loan repayments would be less than 50 percent of the staff's net salary. Based on the bank's credit scoring model, some staff did not qualify for the loan needed. In some cases, they requested that the credit officers provide them with a personal loan from their own sources. The MD began to offer personal loans to selected staff members who failed to meet the bank requirements. Knowledge of the personal loans spread across the bank, and the service began to become popular.

In 2009, the husband (the chairman) completed his studies, and the couple began to think of starting a business. They noticed that, while commercial banks were biased toward serving large borrowers and focusing on more reliable financial information, there was a mushrooming of informal finance provisions in the country that were quite expensive. Driven by the demand for such finance, the couple decided to establish a microfinance firm that offered emergency loans to employees and business people. Their business idea was to develop a relationship-lending model, with an emphasis on the character of the client gathered from various sources. They raised the capital of $100,000 from their savings and personal loans.

The couple registered ZEC as a limited company by shares, each with ownership of 50 percent, and the MD resigned from the bank. "I remember it was not an easy decision to make," said the MD. "I wrote the resignation letter twice and postponed my decisions, but, due to encouragement of my husband, I finally decided to tender resignation," she added. The start-up process was challenging due to the legal compliance requirements for establishing a lending business. They also needed to develop key tools, including loan application forms, contracts, and a loan-tracking system. For the company to have clearance from the central bank, shareholders were needed to submit a business plan, credit policy, and evidence of the sources of funds. Therefore, it took at least six months for them to start lending after resignation of the MD. As in the case of other FO-MFIs, the shareholders created an advisory board of the three members (chairman, MD, and one staff).

Notwithstanding the existence of the advisory board, ZEC faced challenges related to compliance with the tax requirements; compliance with labor regulations; recovery of the loans; and limited resources. According to MD, the start-up of ZEC was the most stressful moment in their lives both in business and in the family. Her husband was employed elsewhere, and he had little time for business. Consequently, they would have daily family meetings at the sitting room, dining room, kitchen, bedroom, and sometimes in bed. "It took much of our family time to discuss about business within and outside business, and this was really frustrating," the couple reported.

After one year (2011) of operation, the couple decided to engage more professional staff and establish the board of directors. Although they decided to retain ownership, they wanted

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to have a strong board that would support them in growing the company. They appointed non-executive board members based on their value to the company. Since then, ZEC made a remarkable transition from a small enterprise to a medium-level microfinance company employing at least 35 workers with two branches in the biggest commercial cities in Tanzania (Dar es Salaam and Arusha). It offers individual and business loans as well as client training. At the time of the final interviews (2015), it had about 3,000 clients with a loan portfolio of more than $1 million. Its vision is "to become a renowned provider of financial solutions in Tanzania by developing and delivering sustainable microfinance services."

4.2 Formation of the board

While the decision to appoint external board members was made in 2011, the appointment process was accomplished in September 2012. Appointment of the board took time for multiple reasons. First, the shareholders wanted to have a board that would not interfere with their shareholding. Second, given the small size of ZEC, the shareholders needed people who would not demand payment from them. This was not easy given that most board members in Tanzania expect some income from their positions. Third, while the couple intended to have competent people, it was not easy to obtain them. Fourth, it was their first experience in appointing and engaging board members.

The shareholders decided to bring in non-family members because they wanted to get new ideas and advice from outsiders. Given the competition in the industry, they needed trusted and ethical board members who would keep the company's strategic information confidential. They also wanted board members with passion and commitment to support them. Accordingly, they identified four areas that needed professional advice and guidance, namely, tax compliance; legal issues; microfinance governance and operations; and human resource management. Board members were therefore appointed to complement the shareholders and management in those areas (see their profiles in Table I).

Appointment of the board entailed three major steps: identification and vetting; informal request; and official appointment. Identification of candidates was done through the owners' networks and previous work relationships. At least eight candidates were identified, and references from their employers and friends were sought for vetting purposes. After vetting and selecting four non-executive members, the chairman informed the members about incorporating them into their board. The fifth board member, the company secretary, was appointed later through the reference of the board. After having an informal agreement with each board member, the company wrote an official letter of appointment coupled with the terms and conditions for appointment.

The terms and conditions stipulated the duration of appointment, role of the board, frequency of meetings, outside interests, remunerations, board evaluation, induction, and confidentiality. Board members typically served for a maximum of two terms of three years. The board's role was further stipulated as to promote and guide the implementation of the strategic plan of the company and to supervise the management and affairs of the company. The board meets twice a year and holds additional/extraordinary meetings as the occasion requires. Board members may have business interests other than those of the company, but any affairs of conflicting interest to the company must be declared. Board members are only paid a transport allowance of about $50 for every meeting. In the case of business trips, the company reimburses their expenses. Board performance is also evaluated annually.

Information shared with the board is confidential, and it cannot be disclosed to third parties except with prior clearance from the chairman.

The executive director of the Tanzania Association of Microfinance Institutions launched the board and also provided an orientation session to board members. Given the members′ substantial experience, the orientation focused mainly on the nature of the industry, company background, and terms and conditions of their appointments. All board members have been complying with the terms and conditions of the board.

4.3 Composition and expertise of the board members

As previously stated, effectiveness of the board is strongly influenced by the composition of the board and the characteristics of individual directors. With this in mind, we assessed the ZEC′s board composition in terms of its professional qualifications, experience, and the connection with the owners. We also established what exactly motivated the shareholders to select these board members. Profiles and expertise of the board members and reasons for their appointment are presented in Table II. Both shareholders reported that they appointed board members to complement their expertise in running the company. They also considered their integrity, commitment, and relationship with the family. "Before appointing the board members, we analysed our skills and established the areas we needed complementary skills to run our company competitively," the chairman noted. Interestingly, with exception of one board member, all other members had attained post-graduate training, three were university lecturers, one worked as legal counsel for the university, and two were retired professionals.

The board profile indicates that shareholders had backgrounds in business management, entrepreneurship, and banking, and external board members were qualified experts in law (two advocates), governance (PhD in microfinance governance), tax administration (retired tax commissioner), and human resources (PhD in human resources) with a lot of field experience. Management reported that it required legal advice in making contracts with staff members and clients, and lawyers on the board guided them on critical matters. "In some cases, we embark on court cases in recovering critical loans, and this requires legal guidance," reported

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Position	Gender	Profile	Reasons for joining the board
Chairman	Male	A founder and a shareholder of ZEC He holds PhD in entrepreneurship Has substantial experience in provision of business development services for entrepreneurs Besides ZEC, he is employed by the public university as a senior lecturer in management courses He has been a consultant for several MFIs and was previously a board member of another MFI	Recommended by the board To support management in legal matters Experience and legal expertise Founder and shareholder Experience in banking and microfinance To keep the business under family ownership
Company secretary	Male	A practicing advocate working as the legal counsel at a private university Has substantial experience in corporate governance Holds a Master of Law (LLM) and Bachelor of law (LLB)	Personal relationship with the owners Expertise in human resource Experience in corporate governance Passion to support the company Expertise in governance of microfinance Passion to support the company Connections in the industry
Managing director (MD)	Female	One of the founders of ZEC Prior to establishing ZEC: worked with commercial banks as credit analyst and loan officer, where she gathered vast experience in banking and microfinance Holds a diploma in business administration, Bachelor of Education in Commerce and an MBA	Personal relations with owners Experience in tax compliance and his connections Experience in corporate governance Prior engagement with the board chairman Reference from the chairman's friend
Member 1	Male	Has a background in economics and human resource management A senior lecturer and dean, faculty of business administration of a private university in Tanzania Chairs the board of his faculty and he is a member of several working committees Had supported several business start-up firms	Legal expertise and experience in corporate Reference from another microfinance institution supported by her
Member 2	Female	Holds a PhD in corporate governance of financial institutions A lecturer at the public university with remarkable experience in researching and consulting in the areas of microfinance and entrepreneurship Her PhD thesis was on "The influence of Boards and Stakeholders in Corporate Governance of Microfinance Institutions in East Africa" Active writing on financial inclusion in East Africa	
Member 3	Male	Renowned tax consultant in the country Previously worked as a senior lecturer in taxation Worked as a commissioner for sales with the Tanzania Revenue Authority (TRA) Holds a diploma in tax administration, a post-graduate diploma in financial management and a Master's degree in Fiscal Studies from Bath University, UK Had been a board member of one of the leading commercial banks in Tanzania	
Member 4	Female	A retired advocate practicing privately Worked as the corporation secretary for the National Milling Corporation for over 30 years She was governing council member of Tanzania Law Society (TLS) A board member of three other organizations	

Position	Gender	Profile	Reasons for joining the board
		Founder and shareholder	Competence in management To keep the business under family ownership

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Table II.
Profile and expertise of the board members

the credit manager. It was also reported that expertise in human resources and governance was instrumental in managing staff. Further, they needed expertise in tax compliance to guide them on tax issues. Instead of the traditional role of a board of directors whose main goal is to protect shareholder interests (Mori et al., 2015), the motivation for ZEC was to ensure

"the appropriate balance of skills, experience, and knowledge."

4.4 Role of the board

The authors of this study participated in the meetings to understand the basis of decision making, the decision-making process, and interaction between directors and shareholders. The first meeting took place in September 2012, and the last meeting during the board tenure was in December 2015. We observed the main agenda items, key decisions influenced by the board, actions taken by the management, and the resulting outcomes. In line with Zahra and Pearce (1989), we also observed length of meetings, MD-board interface, level of consensus among directors on issues at hand, formality of proceedings, and the board's self-assessments. Table III summarizes key observations made from the boardroom and the information extracted from the board documents.

The board was launched during the first board meeting. The board was also introduced to the dynamics of MFIs and informed on the key indicators of the business performance. Despite the newness of the board, it made several strategic decisions that influenced the future of the firm. For instance, the management was advised to initiate the strategic planning process and present the annual financial statements at the end of each year. Both shareholders acknowledged that this was not a previous practice. The shareholders cited an example of the idea of converting the company into a deposit-taking institution, which was presented to the board, but the board resolved that the decision be postponed because of legal requirements to establish such institution in Tanzania. "This was a great value to ZEC, as both of us were keen to move the company toward that direction," noted the chairman. "We have ultimately witnessed the deposit taking institution struggling due to complexity of complying with the central bank requirements," the chairman added. This suggests that the board of directors provides critical appraisal of the firm's direction and guides the shareholders' perspectives.

Following the board decision in the first meeting, ZEC has (since 2012) presented to the board its annual financial statements and budget. While the shareholders agreed that this practice had increased their financial discipline, it limits their flexibility in terms of how they invest money, as they must obtain board approval. "Since the financial reports are prepared and presented by the finance manager, we are limited to spend our own money, given the financial guidelines, which were also enforced by the board," reported the MD. However, "the best thing is that it has reduced the risk of fraudulent activities, and it has set a standard on financial discipline," the MD noted.

In terms of planning, the shareholders, board members, management, and staff agreed that it has consistently improved since the introduction of the board. Although the company did not produce the strategic plan immediately after the board decision, it prepared the strategic intent, which covered the company's vision, mission, strategic objectives, and strategies. The ZEC strategic intent (2012-2015) intended to achieve a number of goals, which were discussed and approved by the board. These include enhanced and sustained growth, branding and marketing, improved staffing and work environment, improved data-

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tracking system, improved governance and planning, and establishment of the ZEC foundation. Accordingly, as indicated in Table II, the board approved various policy documents (scheme of service, staff regulations, financial guidelines, and credit policy) and decided on several strategic issues. Both management and the board agreed that, despite the financial implications of various policies, they enhanced financial discipline in the firm, improved loan processing, planning practices, and staff evaluation. In addition, "the systems installed have improved loan tracking and reduced the risks involved in various operations," reported the finance manager.

Evidence from the ZEC strategic intent (2012-2015) indicates that the progress made toward the company's strategic goals during the board tenure was impressive. Interestingly, ZEC doubled its investment and profitability every year and succeeded in increasing its outreach by opening a new branch and introducing new services

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Meetings	Main agenda	Key decisions	Actions	Results
Meeting1	Launching of the board Review and approval of terms of conditions of the board Status of the company and its strategic intent	Approved terms of the board Ordinary meetings to be held twice a year Initiate the strategic planning process Develop the scheme of service and staff regulations Prepare and present annual financial statements and budget annually for approval Slowdown the transformation into a deposit-taking MFI	The first set of financial statements and budget for 2012 were reproduced Consultants assigned to prepare staff regulations and scheme of service Prepared strategic intent	Increased financial discipline Improved the company vision from deposit-taking institutions to credit-only MFI Human resource policies
Meeting2	Progress made from first meeting Financial statements for 2012 and budget for 2013 Staff regulations and scheme of services Business performance	Present the board meeting minutes in a more organized format Engage an external auditor for control purpose Engage a tax consultant Include the organization structure and salary scales in scheme of service Staff salaries be based on performance Include all expenses subsidized by shareholders in the financial statements Prepare performance contract for staff Install loan-management system	The financial manager employed to manage financial affairs Financial guidelines were prepared Staff regulations and scheme of service reviewed Introduced the profit-sharing scheme Installed the system to manage loans Revised financial statement	Improved financial reporting Institutionalized system of human resource management Improved staff morale Increased staff cost Loan-tracking system improved
Meeting3	Revised financial statements for 2012 Performance contracts Business performance Assets and facilities Setup of real estate agency	Charge for support services provided by the chairman Employ a cashier to support the finance manager Engage the debt collection officer Create a marketing department Acquire more office space to increase working area from 65-165 square meters Acquire two vehicles Postpone the idea of real estate and focus on core business Approved the dividend of 20%	Debt collection unit was created The marketing and debt collection officers were engaged The real estate idea stopped Shareholders paid dividends MD relieved from writing board meetings' minutes	Improved performance appraisal system Staff regulations and scheme of service enforced Limited diversification Slowdown some decisions Improved follow-up of the issues Increased cost of paying the company secretary
Meeting4	Financial statements for 2013 Loan application Business performance	Approved the budget and financial statements Proceed with loan application Approved appointment and promotion of managers Establish backup system of data Prepare the credit policy Prepare the board evaluation tool	Acquired a new financial solution to support the current system Four managers appointed and promoted Revised the credit guidelines and prepared the policy	Two systems running together Improved backup system Increased task of data management Improved credit rating system

(continued)

Table III. Board decisions, actions, and results

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Table III.

Meetings	Main agenda	Key decisions	Actions	Results
Meeting5	Board evaluation tool Budget for 2014 Business performance New financial solution	Improved the board evaluation tool Enroll with the credit reference bureau Install the security system to enhance security Prepare financial guidelines Present audited financial statements	Obtained a loan of $150,000 Enrolled at the credit info Financial guidelines prepared by management Engaged a security company	Business expansion Improved credit rating Enhanced the security
Meeting6	Credit policy Financial guidelines Revised board evaluation tool Almanac of the board meetings Opening of new branch	Approved the board evaluation tool Approved financial guidelines Train staff on credit management, marketing, and financial management Conduct the market assessment before opening a new branch Conduct training for board members	Utilization of financial guidelines Proposed training conducted The consultant engaged to conduct the market assessment Board training done	Improved financial discipline and compliance Inculcated the culture of training staff Informed decision on the establishment of new branch Board′s reflection on the company direction
Meeting7	Company ′s performance – 2014 Audited financial statements (2014) Budget (2015)	Approved financial statements and budget Initiate the tax audit process Improve the staff evaluation system Approved opening of new branch upcountry Approved strategic direction of the company Prepare the board succession plan Prepare the company minute book	audited Company financial statements for 2011-2013 Staff given target sat beginning of the year and evaluated accordingly New branch opened Draft minute book prepared Received the first tax clearance certificate	Enhanced compliance Enhanced staff evaluation Initial resistance of staff evaluation at the beginning Increased outreach and product range
Meeting8	Company ′s performance Branch progress Group lending Sales Subsidiary Office	Prepare the strategic plan Prepare the ground lending manual Pilot group lending with few groups	Strategic planning process initiated Draft group lending manual prepared Postponed opening of sales subsidiary	Expansion strategy and activities guided by strategic plan Slowdown the speed of some activities
Meeting9	Business progress Appointment of new board	Revise the terms and conditions of the board Finalize the strategic plan Introduce the customer service week Self board evaluation Appoint a new board on time	Strategic plan prepared Customer service week launched Board contribution assessed by management and staff New board appointed	Strategic direction of the company (2016-2020) defined Branding and marketing enhanced Governance system enhanced

Source: ZEC minute book and observations from the boardroom (2012-2015)

(e.g. group lending). It managed to access a loan from the government fund, which was approv interviewing board members to establish company stability. Various departments (credit, operations, ma and finance) were set and filled in with qualified staff (at least a degree in a relevant area). Key poli manuals are in place, including the loan-tracking systems. While the staff evaluation process has impro is performance based, staff members enjoy the profit-sharing scheme (where each staff gets at least a 1 cheque based on performance). However, the strategic plan identifies a number of challenges (presente next section) and spells out the strategic goals of the company for five years. Of inte strategic goals are quite in line with the initial strategic direction addressing issues of company growth, ma work environment, data management, governance, and the foundation. When asked about strategic c consistency, the MD reported that the company intends to improve on its direction without losing focu that there was a lot to be done in regards to its original strategic goals. Through board support, ZEC ha to prepare the succession and sustainability plan.

Interviews with staff and management indicate that, although they thought that the board interfered with some of their operations (as will be presented below), they agreed that the board had brought value to the company. First, the board supported the company in transforming from a one-man show to a more professional firm. This was achieved in terms of financial reporting, planning, and the enactment of various policies. The shareholders agreed that, despite some limitations in terms of use of company resources, the board had brought a greater value and key resources that would not be there otherwise. It was also reported that the financial management had improved quite significantly in terms of financial reporting and compliance. All respondents said that the board played an important role in branding the company and resource mobilization. Besides the issue of supporting the company to borrow, board members linked ZEC with the potential clients through their own networks and, in some cases, delivered training to staff. This means that board members create and maintain a network for the firm, thus enhancing the organizations′ boundaries, as board members draw upon their personal networks to establish contacts with actors in the firm′s environment. In addition, the board facilitated the company to improve its human resource practices by guiding and approving the development of human resource policies. Approval of the board terms and conditions, development of board evaluation tools, improvement in minutes reporting, and the appointment of the company secretary demonstrate improvement in governance practices. Both shareholders acknowledged the moral support and encouragement, especially during the tough times of business.

4.5 Challenges of the board

Despite the positive aspects of incorporating an external board into a small, family-owned firm, some challenges were noted. Shareholders were mainly concerned with the additional work imposed upon them by board of directors. "Especially at the beginning, we had to create additional time to write the board papers and reports. This took a lot of business time, and it was a great challenge," reported the MD. "One of the reasons, we didn′t want to disappoint our board given their commitment to us," the chairperson added. While policies, procedures, guidelines, and systems were needed, the shareholders believed that balancing the corporate culture with the flexibility needed in small businesses was important. For instance, at the beginning of ZEC, shareholders were more flexible in terms of lending procedures. After introducing various policies and procedures, the degree of flexibility in both management and lending activities was reduced. The shareholders claimed that the board slowed down the speed of implementing some of its entrepreneurial activities.

It was evident that some costs of implementing board decisions were quite substantial. The costs incurred included fees paid to consultants to prepare various policies and guidelines, remunerations to various senior managers and the procurement of the systems suggested by the board. While ZEC was able to

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e costs, management reported that this could be a challenge to a company that does not have the financial to meet the implied costs. It took almost a year for the board to realize that implementation of various s and policies must reflect the practicality of the small business setting and, in r, of a family-oriented firm. After the board training, which covered governance aspects in small , the board realized that it should not inculcate corporate practices into a family-business system; instead, d to make decisions reflecting the nature of the business. This is in line with the literature, which argues family-oriented firms, the board plays the role of advising shareholders rather than executing control, as in the literature (e.g. Hartarska, 2005).

Both shareholders were the signatories of the company accounts. To some extent, this limited their degree of transparency despite the adoption of financial systems. The board wanted this to change, which was a challenge in the beginning. However, by the time we did the interviews, the finance manager had been approved to act as a signatory in the absence of the shareholders.

Although the planned board meetings were held, most of them did not adhere to the board calendar, while the circulation of the meeting minutes was delayed even after appointing the management team and board secretary. Both management and shareholders reported that delays were sometimes caused by slow completion of certain tasks assigned by the board, while day-to-day running of the business was demanding. In addition, some board members did not effectively participate in the board meetings as far as reading the board papers and making effective contributions. On a few occasions, some members missed the board meetings.

5. Discussion

When evaluating that board composition is a premise for board achievement in different roles, frequently used measures include the number of inside and outside directors and the subsequent dependence or independence of the board (Fiegener et al., 2000). In our case, the board had seven members, and external members were selected based on their expertise, resources that they would bring, and relationship with the shareholders. Composition of the board was also influenced by the microfinance industry demands and challenges as well as desire by the owners to professionalize their firm. In line with other authors (e.g. Corbetta and Salvato, 2004; Mori et al., 2013), this shows the importance of an organization's context and contingencies when appointing a board of directors.

The board played an important role in providing complementary skills, implementing strategy and plans, and establishing company policies, along with resource mobilization, maintaining company reputation, and advising the management. More specifically, the board influenced the implementation of strategic decisions; evaluated past decisions; ratified strategic proposals; helped to formulate, assess, and decide upon strategic alternatives; and strengthen the company's performance. We also observe that board members provided useful business contacts (clients) and strengthened the link between the firm and its environment (lenders). This shows that the "service role of the board" (van den Heuvel et al., 2006) was more prevalent in our case. The findings are consistent with results that show that external board members participated in the strategy formulation process (Forbes and Milliken, 1999); covered for the competencies, knowledge, skills, and expertise lacked by the management team (Bammens et al., 2011); networked and expanded boundaries between the company and its environment (Mori et al., 2015); and enhanced the firm's reputation (Fiegener et al., 2000). From the RBV perspective, board members, through their skills, expertise, and experience, were able to bring various contributions and advice, which helped the company to improve its performance (Ikäheimonen, 2014). Members further played a

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role in increasing the knowledge of managers through different interactions and mentoring sessions and advised the company as suggested by Huse and Rindova (2001).

Although the control role was quite limited, it was facilitated by interconnection of the owners with th Contrary to agency theory, which argues for separation of ownership and management and corporate sy control management, our study [redacted] indicates that relational bonds enable the board to exe control role. Accordingly, we support the view that there is a need for interdependence and relational gov mechanisms based on trust or other relational contract mechanisms in family firms based on social, rat formal, control (Mustakallio et al., 2002). These governance mechanisms are not exclusive, but they c other governance mechanisms used. Social control mechanisms (i.e. trust, relationship, and goal ali substitute for more formal control mechanisms proposed by agency theory in family businesses. In this nature of boards in family businesses may be different due to the use of alternative control mechanisms b high levels of connection between shareholders and board members (Pieper et al., 2008). In small- and m sized family businesses, the family's presence in ownership and management results in lower goal div and this affects both the board's composition and expectations toward it. Although there were some ch such as pressure of the board to management, increased costs in implementing some decisions, and fa maintain board-meeting schedules, they were not considered too critical, perhaps because both MD and c were part of those decisions.

Our study provides evidence that the board of directors in FO-MFIs is important in terms of compliance, risk management, resource provision, and, to some extent, monitoring the actions of management. This suggests that, in a microfinance setting, the role of a board goes beyond resource provision to monitoring operations even with limited influence. The most important observation is that the nature of ownership, shareholders' personalities, and the life-cycle stage of a firm and industry all may influence the board composition.

6. Conclusion and implications

This study supports a new perspective on the roles of outside directors in corporate governance of family firms by considering their monitoring and advisory roles. While in neoclassical assumptions (e.g. in agency theory), the moral dimension that deals with interdependence as monitoring devices in the relations between the actors is missing, we demonstrate that relational governance can be the most efficient way to monitor complex relations in family firms. The typical ownership pattern of a family firm reduces the need for control of the board in the traditional sense, as the presence of outside directors will reflect the service and advice rather than the need for control (Fiegener et al., 2000). Agency theory emphasizes independence and distance between a board and management, while stewardship theory stresses mutual relations, closeness, and interdependence. The paradox may thus be resolved by indicating, for example, that, in small firms, interdependence is the best monitoring mechanism. This implies that personal relations in boards and between the board and the management are usually characterized by collegiality. We can therefore introduce propositions, where the relationships between the board and management simultaneously can be characterized by interdependence and independence. Given that interdependence and relational governance may be easier to achieve in family-owned firms than in non-family firms, FO-MFIs should develop participating boards.

In the owner-manager situation, the manager will listen to and heed potential criticism from the board because of their mutual trust; as such, participative boards may be as active as proactive boards, but a director's formal power is less, and processes to achieve decisions are different. A corporate governance structure, which gives the steward high authority and discretion, facilitates the steward's pre-organizational actions. In this way, stewardship also has an influence on the board structure by approving links and social ties between board members (Corbetta and Salvato, 2004). Contrary to earlier studies, [redacted] which have almost purely been based on financial goals, our study examines the governance systems as they are

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ented in family businesses in terms of their success and failure in relation to family-business core es such as business performance, stakeholder satisfaction, and business development. The adoption of a ntextualized approach in the study of family-business boards is fundamental to the further progress of arch field.

6.1 Limitations and areas for further research

Although our paper is based on a qualitative approach and suffers a challenge of generalization, it has raised a number of research issues, which require further investigation. For instance, is it possible to simultaneously attain independence and interdependence distance and closeness in family firms? This question opens further analysis to compare effectiveness of the independent and interdependent boards. The role of a board of directors may differ with the evolution of a family-owned enterprise. Accordingly, a question on what effect company life cycle has on the role of boards of directors would be of interest. The literature in microfinance emphasizes the importance of a company's social performance when understanding the importance of board-management relations. More investigation on board-management relations in the context of FO-MFIs may add value in the academic literature. Board-management relations are at the heart of agency theory and should therefore be an important and interesting issue to study empirically in small firms.

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Note

1. ZEC is a family-owned microfinance company whose real identity is not revealed.

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