Directors' Diversity and Board Performance: Evidence from East African Microfinance Institutions

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Abstract

Active board participation is one of the main challenges faced by microfinance institutions. This article sets out to explore the effect of board of directors' characteristics (age, gender, and education) on their ability to effectively perform their board roles (monitoring and resource provision). Microfinance policy makers are concerned with the role of boards in terms of the performance of the industry. This study used the agency theory and resource dependence theory to test the relationship between directors' characteris- tics and boards' performance. The empirical analysis is based on a survey conducted with 105 board directors representing 63 microfinance institutions from three East Afri- can countries (Kenya, Tanzania, and Uganda). The results show a positive relationship between directors' age and their ability to monitor and provide the board with resources. The study also shows that the effect of directors' level of education on boards' performance is positive, while no evidence was found with regard to the effect of female directors on boards. The findings imply that board directors need to be appointed based on their personal characteristics and their ability to perform their roles.

Key words: board roles, characteristics, directors, East Africa, microfinance institutions