Boards in Microfinance Organizations: Do stakeholders matter?

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Abstract

Microfinance organizations provide financial services to low income people. Governance of these organizations is important for them to efficiently reach poor people and survive financially. Board is one among several governance mechanisms. This paper empirically analyses the influence of stakeholders who sit on boards, on financial and outreach results of microfinance organizations. Based on resource dependence and stakeholder theories, we analyze four types of stakeholders; donors, customers, employees and creditors. Results show that stakeholders are important in microfinance and that more non-profit organizations have donors on boards than for-profit organizations while customers and employees are found to be more represented on for-profit organizations. Regression results show that stakeholders through their resource provision role contribute both positively and negatively to financial and outreach results. Implications and areas for future research are further discussed.

Key words: Microfinance organizations; stakeholders; boards

JEL classification: G21, G30

1. Introduction

This study is an attempt to respond to several research calls on studying the impact of stakeholders on governance and performance of Microfinance Organizations[1] (MFOs) (Hartaska and Mersland Forthcoming; Labie and Mersland 2009; Mersland 2009b; Mersland and Strøm 2009a). For example (Labie and Mersland 2009) state the research call and explain that it is better for studies to start paying attention to many stakeholders in MFOs and examine to what extent they participate in organizational activities and governance in order to get a broader vision and understanding. Responding to these calls and building on past related studies, this study empirically examines the effects of stakeholders who sit on boards, on financial and outreach results of MFOs.

[1] Micro finance Organizations provide banking services to low income people and they are currently approximated to serve more than 100 million clients worldwide (Cull, et al. 2009a).

MFOs are known to operate as either for profit such as banks and financial cooperatives, or non-profit such as NGOs (Labie 2001; Mersland 2009a; Mersland and Strøm 2008). This implies that stakeholders represented on boards may vary depending on organizational status of MFOs. This study therefore answers the following questions: 1) which stakeholders are represented on boards of for profit and non-profit MFOs, 2) do stakeholders on boards affect organizational financial results and 3) do stakeholders on boards have influence on outreach of MFOs.

Two theoretical foundations are used to address the research questions above. Resource dependence theory (Pfeffer and Salancik 1978) is used in explaining resource which stakeholders on boards can bring to MFOs. Stakeholder theory (Freeman 1984; Mitchell, et al. 1997) is used in identifying microfinance stakeholders and their importance on boards. We test our hypotheses using data from rating agencies which comprise of 370 MFOs from 73 countries and collected between 1998 and 2008 (Mersland and Strøm 2009a, 2009b). Thus, we are responding to (Hartaska 2005) request on the use of better data in analyzing microfinance questions.

Few studies have looked at the influence of stakeholders on performance of MFOs (Hartaska 2005; Hartaska and Mersland Forthcoming). Their findings are mixed which justifies for more studies on stakeholder analysis. For example, (Hartaska 2005) found donors to positively influence outreach results while (Hartaska and Mersland Forthcoming) found donors not to have any influence on outreach results. Furthermore, these studies examine stakeholders on boards together with other governance mechanisms which imply that, there is a need to give more emphasis on stakeholders themselves and see if they can contribute to performance of MFOs.

This paper contributes to the literature on governance of MFOs by providing a detailed analysis of stakeholders on boards and their contribution to both social and financial results of MFOs. Drawing from stakeholder theory, we consider stakeholders who are board members have the ability to promote procedural fairness by providing a means of ensuring that stakeholders (whom they represent) considerations are more directly represented in organizational decision making (Luoma and Goodstein 1999; Hillman, et al. 2001). In addition, different stakeholders have diverse knowledge, expertise and experience which are very important for attainment of MFO dual objectives. We are also able to contribute to the trade off debate by showing which stakeholders on boards can lead to the tradeoff between and within MFO dual objective.

Our findings support the idea that stakeholders are important and they bring values in organizations, when they are represented on boards (Freeman and Evan 1990; Luoma and Goodstein 1999; Hillman, et al. 2001). We find more non-profit boards to have donors than for profit boards while customers and employees are found more in for profit boards. Furthermore, MFOs which have donors, customers and creditors on their boards perform financially higher than those which do not. This implies that through their resource provision activities, they are able to contribute positively to financial

performance of MFOs. We also find MFOs which have employees on boards to financially perform less than those which do not. This is in line with the board literature which emphasize on avoidance of employee representation on boards in order to encourage board independence (Huse 2007; Johnson, et al. 1996; Hartaska 2005). Furthermore, we find MFOs which have customers, employees and creditors on boards to achieve low outreach in terms of loan size disbursed, than those which do not. However, customers are also found to have negative influences on outreach in terms of number of credit customers. This confirms what (Cull, et al. 2007) call the tradeoffs between breadth of outreach (number of customers served) and depth of outreach (average loan size). It is argued and empirically found in the literature that higher number of customers served by MFOs is associated with group lending and low average loan sizes (Cull, et al. 2009b; Cull, et al. 2009a; Mersland and Strøm 2009b; Armendariz and Szafarz 2009).

We are able to confirm (Mersland and Strøm 2009a) assertion that since most MFOs' customers are women, female CEOs are able to obtain reliable information from their customers through female customers on boards. Our results regarding to female-CEOs are similar with that of (Mersland and Strøm 2009a) and they resemble results on customers on boards. In other words, we find MFOs with customers on boards and those with female CEOs, to have higher financial results and lower breadth of outreach. From these findings, it appears that customers on boards (assuming they are female), and female-CEOs have time to discuss and influence each other regarding MFOs' decisions. This can be done both in formal meetings and in informal gatherings (Huse 2007).

Our paper is organized as follows. The next section presents a theoretical background and development of hypotheses. Afterwards we elaborate on the data and methodology used in this paper. Presentation and discussion of results is next, followed by summary and conclusions.

2. Theory and Hypotheses

In this section we review and discuss theories in relation to boards, stakeholders and organizational performance. Next we categorize MFOs stakeholders and develop hypotheses for each stakeholder group based on literature.

2.1 Resource dependence and Stakeholder theories

Resource dependency theory (Pfeffer and Salancik 1978) views an organization as interdependent with their environment. Organizations depend crucially for their survival on other organizations and actors for resources. As a result, they need to find different ways of managing this dependence and ensuring they get resources and information they need. From this perspective, the board is seen as one means of reducing uncertainty by creating influential links (Hillman and Dalziel 2003; Peng 2004). This means that, one of the functions of boards is to provide various resources to organizations through

board members' skills, experience and expertise. Resources in this case are referred to as "anything that could be thought of as a strength or weakness of a given organization" (Wernerfelt 1984). Pfeffer and Salancik, (1978) also note that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it".

Stakeholders on boards have been proved to provide resources to organizations (Hillman, et al. 2001; Luoma and Goodstein 1999; Hillman, et al. 2009). Despite the fact that, organizations put stakeholders on boards as a way of showing them (stakeholders) how important they are to organizations, organizations also benefit from these stakeholders. Stakeholders enable organizations to get different kinds of resources including linking organizations to other outside stakeholders. Arguments behind stakeholder representation on boards is stemming from stakeholder theory (Freeman 1984). Stakeholder theory posits that an organization is a social construction made of interaction of various stakeholders. The organization is envisioned as the centre of a network of stakeholders, a complex system of exchanging services, information, influence and other resources (Freeman 1984; Donaldson and Preston 1995; Mitchell, et al. 1997). The theory also argues that an organization's value is created when it meets the needs of its primary stakeholders in a win-win fashion (Harrison, et al. 2007).

Proponents of stakeholder theory further suggest that including stakeholder representatives on boards is a "formal mechanism in place that acknowledges the importance of their relationship with the organization"(Mitchell, et al. 1997; Hillman, et al. 2001). That is, by including stakeholders on boards, organizations are signaling their commitment to stakeholders in a visible way. This may, in turn, increase the organization's linkages to important external and internal contingencies as advocated by resource dependence theory. In addition, the nature of MFOs requires them to need varieties of resources to better serve low income people and survive financially. Different stakeholders have different experiences and expertise of which, when they sit on MFOs boards, they are able to share those resources for the benefit of both, organizations and stakeholders. On the other hand, stakeholders may have different interests for themselves and for MFOs which may results in conflicts of interests.

2.2 Stakeholders on MFOs Boards

MFOs operate either as nonprofit such as NGOs or as for-profit organizations like banks where shareholders are quasi-owners (large institutional organizations) or charities, with few private investors (Hartaska and Mersland Forthcoming). Both organizational statuses have variation in terms of stakeholders involved in organizational activities and those who are represented on boards. For example, non-profit boards may be expected to have more donors while for profit may have more creditors (Helmig, et al. 2004). Hartarska, (2005) and Hartarska and Mersland, (forthcoming) identify four MFO stakeholders who may be represented on boards. These are donors, customers, employees

and creditors. They argue that these groups may play similar roles to that of other block stakeholders and may improve organizational performance. The interests of each group may not coincide with the interest of other groups, for example creditors may prefer better financial results while donors prefer outreach results. This in turn may lead to tradeoff between the two results or objectives (Hermes and Lensink 2007; Cull, et al. 2009b). However, the evidence as to how each of these groups influence organizational results is still little and with mixed results (Hartaska 2005; Hartaska and Mersland Forthcoming).

Since stakeholder theory advocates that stakeholders have values in organizations (Donaldson and Preston 1995; Mitchell, et al. 1997), we would like to investigate the extent to which these stakeholders are represented on boards of for profit and non-profit MFOs, and if they affect financial and outreach results. In doing so, we are able to contribute to literature by adding to the little evidence found in previous researches; and in finding whether certain stakeholders are found in certain organizational status. We are also able to contribute to the debate on tradeoffs of microfinance dual objectives by showing which stakeholders on boards can cause that. Table 1 below lists four types of stakeholders and the way they are defined in this study.

Table 1: Microfinance Stakeholders

Group	*Classification*
Donors	Development organizations, technical assistance providers
Customers	Individuals, groups, organizational
Employees	Middle managers, credit officers, auditors, other employees
Creditors	Loan providers, bankers, debt holders

2.2.1 Donors

Since MFOs have dual objectives to achieve, donors have been recognized as important actors in assisting to meeting these objectives. This was explained by (Schreiner 2002) who argue that donors in microfinance are like genetic engineers with the role of speeding the evolution of the sturdy MFOs. Literature further show that Donors are good at giving funds, measuring progress, and spreading good practice through technical assistance (Schreiner 2000; CGAP 2004). With double bottom objectives of MFOs, it can directly been inferred that donors are more interested in outreach results than in financial results. Empirical evidence provides mixed results. Hartarska, (2005) found donor representatives on boards to improve outreach results while (Hartaska and Mersland Forthcoming) found them not to improve both financial and outreach results. The authors argue that donors' presence on boards may be in terms of ensuring their continuous funding and therefore not caring for cost reductions and better financial results. The other aspect of arguments suggest that donors want to fund and assist MFOs

which have a credible track of their financial performance (Rosenberg 2009). This will enable donors be assured that their funds are spent the way they are intended to be. In other words, donors would not like managers to spend the resources to meet their own interests (Schreiner 2002). These arguments lead us to make the following hypothesis:

H1a: MFOs which have donors on boards achieve higher financial results than MFOs which do not have donors on boards.

H1b: MFOs which have donors on boards have more outreach than MFOs which do not have donors on boards.

2.2.2 Customers

Customers of microfinance services are known to be poor, low income people and micro entrepreneurs. Because of their poorness and often less educated, one may claim that their representation on boards may not be influential since they cannot contribute effectively to boards. However literature show that customers know what they want and they possess enough knowledge to make certain decisions (Dunn 2002; Pischke 2002). Furthermore, MFOs are currently operating as Market (customer) driven and not only product driven (Woller 2002). This means MFOs are required to focus on market needs (outward looking) rather than focusing on organizational demand (inward looking). With a lot of changes in the industry coupled by transformation, competition, customers' experiences and drop outs, the market focus MFOs is now becoming popular and this implies that customers are given high attention by MFOs (Cohen 2002; Dunn 2002; Pischke 2002; Mersland and Strøm 2009a). Woller, (2002) for example, argues that the key to achieving deep outreach and long-term financial sustainability (financial results) is the extent to which MFOs adopt a market oriented[2] culture and business practices. Dunn, (2002) argue similarly by explaining that customer representation help in providing better information and other relevant resources and thus improve organizational results. Mersland and Strømme, (2009a) also explain that most MFOs serve more female customers than male customers. They (Mersland and Strømme) evidence that MFOs with female CEOs financially outperform others with male CEOs. This is because when most customers are women, female CEOs are able to obtain reliable information from their customers. Because of information from female customers on boards, female CEOs are better at knowing what products are needed by customers and setting terms that appeal to women (Mersland and Strøm 2009a). In addition, Hartarska, (2005) found customers on boards to positively improve MFO financial results. Based on resource dependence theory and previous studies findings, we are able to develop the following hypotheses:

[2] Woller, (2002b) defines market orientation as collection, dissemination and use of client information.

H2a: MFOs which have customers on boards achieve higher financial results than MFOs which do not have customers on boards.

H2b: MFOs which have customers on boards have more outreach than MFOs which do not have customers on boards.

2.2.3 Employees

Employees have received attention in governance literature and argue to influence performance in different sectors (Osterloh and Frey 2005; Johnson, et al. 1996; Wagner, et al. 1998). For example, (Coles et.al, 2008) provide evidence that in high-growth organizations, boards have high proportion of employees and these employees are found to be more effective. Resource dependence theorists assert that employees on boards are seen to play important roles of educating outside board members of what is exactly happening inside organizations (Wagner, et al 1998; Osterloh and Frey 2005; Johnson, et al. 1996). But these theorists caution on the disadvantage of having employees on boards since it may lead to biased information availed and dependence boards. In microfinance, it is similarly argued that middle managers and other employees, such as credit officers are heavily involved in and identified with the organization (Labie et al. 2009; Mori and Munisi 2009). This means that when these employees sit on MFO boards, they will bring relevant information since they are better informed about the issues and problems concerning the organization activities, sometimes better than top managers. However, because of employees' experiences and different interests, they may bring biased information to boards which may mislead board decision making. For example, (Labie et al. 2009) argue that some microfinance employees discriminate certain types of customers based on their own rating. This means that, if these employees are sitting on boards, they will avail biased information based on the way they discriminate customers. By doing so, they may hamper MFO results. Empirical evidence was obtained by (Hartaska 2005; Hartaska and Mersland Forthcoming) who found boards with large employee representation were negatively related to both financial and outreach results. Following these studies, the following hypotheses are formulated:

H3a: MFOs which have employees on boards achieve lower financial results than MFOs which do not have employees on boards.

H3b: MFOs which have employees on boards have less outreach than MFOs which do not have employees on boards.

2.2.4 Creditors

The relationship between creditors (banks, debt holders) and organizations is accredited for increasing organizational access to funding (Booth and Deli 1999; Byrd and Mizruchi 2003). Literature show that creditors on boards has two implications for organizations; through loans to organizations and

accessibility of information (Agarwal and Elston 2001). As a creditor, the bank monitors the process of capital and credit allocation within the organization. Their representation on boards also provides a strong channel of information in both directions. For example, if banks have access to private information, organizations with close bank relationships (bankers on boards) may benefit from better access to finance. These relationships should lead to higher performance results of organizations. On the other hand, creditors on boards may cause a potential conflict of interest that may manifest itself in organizational financing decisions (Kroszner 2001). For example, conflicts of interest could include the creditor influencing management of the organization to undertake risky projects only because the bank is financing the project. These projects might not bring the expected returns which may hamper organizational performance.

Some MFOs are currently undergoing the process of transformation[3] whereby they seek different sources of funding. Banks are becoming lenders of MFOs and they become influential board members. Some MFOs also source credit from international debt providers, and this gives mandate for them to be on boards (Thomsen 2008; Mersland 2009b). Similar to other governance literature, creditors on boards of MFOs facilitate the provision of more funding and provide information resources such as where MFOs can invest. All these may contribute positively to financial and outreach results of MFOs. Hartarska and Mersland, (Forthcoming) found creditors on boards to positively influence financial results. We therefore hypothesize that:

H4a: MFOs which have creditors on boards achieve higher financial results than MFOs which do not have creditors on boards.

H4b: MFOs which have creditors on boards have more outreach than MFOs which do not have creditors on boards.

3. Data and Methodology

Data for this study is obtained from secondary public sources which was available at www.ratingfund.org. The dataset has been prepared and consists of available risk assessment reports collected by major microfinance rating agencies between December 2001 and December, 2008. The agencies are MicroRate, Microfinanza, Planet Rating, Crisil and M-Cril which are official rating agencies approved by the CGAP Ratingfund. Information obtained in the dataset comprises of governance and board related issues (qualitative data), financial statements (quantitative data) and risk management of MFOs. Around 380 MFOs from 73 countries worldwide are contained in the dataset.

[3] Transformation is defined as changes in ownership and governance structure of organizations. For example, non-profit MFO can transform to become a for-profit and regulated organization. This will change the ownership and governance structure.

Since the data is not self reported, it is the rating agencies which have collected and compiled the information of MFOs, it is reasonable to assume that the sample selection bias is minimized and it constitutes several random samples of boards and performance of MFOs. We however, recognize that not all MFOs are represented in this dataset. The endless number of financial cooperatives and other MFOs are not included. But we think this data helps in bringing a global picture of what is generally happening in terms of stakeholders on boards and their effects on MFOs results.

The data set is structured such that annual observations of outreach and financial variables are available to a maximum of four consecutive years. However boards and organizational variables are reported only once, following (Mersland and Strøm 2009a) we assumed all these variables to be constant over the whole period. Based on (Galema, et al. 2009), we categorize MFO as a non-profit if it is a non-governmental organization (NGO). The remaining MFOs like banks, non-bank financial institutions and financial cooperatives are categorized as for profit organizations. This categorization helps us to find out which stakeholders are present on which boards of MFOs.

The empirical model used to test the hypotheses follows that of (Mersland and Strøm 2009a; Hartaska 2005) and is of the form:

$$P_{i,t} = constant + \beta_1 donor\ dummy + \beta_2 customer\ dummy + \beta_3 employee\ dummy + \beta_4 creditor\ dummy + \beta_t Board\ specific\ variables + \beta_j\ organizational\ specific\ variables + \beta_k\ country\ specific\ variables + \beta_8\ time\ dummies + E_{it}.$$

$P_{i,t}$ represents financial and outreach result variables for each MFO. Financial results variables used in this study are similar to those used by (Mersland and Strøm 2009a) and they include return on assets (ROA), portfolio yield (PY), operational self sustainability (OSS) and operational costs (OC). Outreach variables are based on (Hartaska 2005; Schreiner 2002) and include credit clients (CC) which looks at breadth of outreach measured by logarithm of the number of credit clients and average loan (AL) which looks at depth of outreach and measured by logarithm of average loan size.

Stakeholders on boards are measured as dummy independent variables; for whether there is a donor on board (yes=1, no=0), whether there is a customer on board (yes=1, no=0); whether there is employee on board (yes=1, no=0) and whether there is a creditor on board (yes=1, no=0). Board specific variables are included in order to provide controls for other board specifics. These variables are board size, measured by number of board members; board size squared, measured by the square of board size. Board size square is put in order to test for a quadratic relation between board size and MFO results (Hartaska and Mersland Forthcoming). Whether the MFO has a female CEO is also put as board specific variable since CEOs are part of board members. In addition, we put female CEO because (Mersland and Strøm 2009a) found them to have effects on financial results of MFOs. We therefore argue that female CEO on boards may contribute to the effect of customers who sit on boards.

Organizational specific variables are considered in the model in order to control different sizes and experiences of MFOs. These include MFO size which is measured by the logarithm of total assets, MFO age measured in number of years since the MFO started microfinance activities, MFO type measured by dummy: non profit (=1) and for profit (=0), regulation measured by dummy: regulated (=1) and portfolio at risk (PAR) measured by the fraction of the portfolio with more than 30 days in arrears.

Country specific variables are put in order to control for differences in economic conditions across countries. These are controlled for by country's market competition level (competition), average inflation rate (inflation) measured by the average consumer price index and human development index (HDI) measured by a composite index covering life expectancy, education and income (GDP per capita). Data on competition level was collected based on information provided in the rating reports. In the reports, the raters provide written information about market conditions including the competition which is faced by the MFO. This information was subjectively assessed on a 7 point likert scale of 1 (no competition) to 7 (very high competition). Inflation rate is obtained from the raters' report which shows the rate of inflation in the country at the end of a given period. HDI comes from reports provided by united nation development agency (UNDP) which compiles country indices based on GDP, education and life expectancy. Time dummies have value one if it is year 2001- 2007, zero otherwise. We dropped other years since there were no enough observations. Table 2 below provides a summary of the definitions of all variables used in this study.

Table 2: Definitions of variables

Variables	*Definition*
ROA	(Net operating income)/Average annual assets: measures how well the MFO uses its total assets to generate returns
PY	(Interest revenue)/(Average loan portfolio): measures ration of the interest which is generated from the portfolio
OSS	(Revenue from operations)/(Financial expense + loan loss expense + operating expense): measures how well the MFO can cover its costs through operating revenues
OC	(Operating expenses)/(Average loan portfolio):measures the ration of total expenses to annualized loan portfolio
CC	Logarithm of number of number of credit clients
AL	logarithm of average loan size
Donor dummy	A dummy with value 1 if MFO has donors on boards
Customer dummy	A dummy with value 1 if MFO has customers on boards
Employee dummy	A dummy with value 1 if MFO has employees on boards
Creditor dummy	A dummy with value 1 if MFO has creditors on boards
Board size	Number of board members
Board size squared	Board size^2
Female CEO	A dummy with value 1 if the CEO is female
MFO size	Logarithm of the total assets of the MFO
MFO age	Number of years since start microfinance activities
Bank regulated	A dummy with value 1 if the MFO is regulated by banking authorities
PAR 30 days	The fraction of the portfolio with more than 30 days
Non profit	A dummy with value 1 if the MFO is NGO
Competition	A self constructed measure of the local level of competition
Inflation	Average annualized consumer price index
HDI	A composite country index covering life expectancy, education and income (GDP per capita)

4. Empirical Results

4.1 Descriptive Evidence

Table 3 below shows a total of 114 MFOs which have stakeholders on boards. This is around 30% of all MFOs in the data set. Donors are represented in 15 non profit and 11 for profit MFOs, which is summed to 26 MFOs. Customers are leading by having a representation of 50% of all MFOs which have stakeholders. This is attributed by a number of cooperatives (for profit MFOs) in the data set. Cooperatives boards are highly represented by customers on their boards (Mersland and Strøm 2009a). Employees are represented in 23 MFOs of which 10 MFOs are non profit. Creditors are least present on boards, only 14 MFOs which indicates that MFOs are yet to include creditors on boards in order to benefit from their financial skills; or MFOs are not yet relying on commercial banking loans which enforce them to have creditors on boards (Kroszner 2001). In summary, we see that some MFOs have stakeholders on boards, and most MFOs have customers on boards, followed by donors, employees and lastly, creditors.

Table 3: Stakeholders in non-profit and for Profit MFOs

Stakeholder group	Non-Profit MFOs	For Profit MFOs	Total
Donors	15	11	26
Customers	7	44	51
Employees	10	13	23
Creditors	7	7	14
Total	33	75	114

Table 4 shows summary statistics of variables used in the analysis. Observations for the dependent variables are less than those of the independent variables. This is because, as explained earlier, we assume most independent variables are constant throughout the years since they are reported once. For dependent variables, these are reported to a maximum of four years for most MFOs. Most MFOs have ROA of 4.9% and high portfolio yield of 38.6%. As (Mersland and Strøm 2009a) noticed, high portfolio yield is usually experienced in MFOs because of the nature of their services. OSS is a widely used proxy for organizational sustainability, and an average of 1.13 shows that most MFOs have the ability to cover their costs using the revenue generated. On average, the MFO have 12,484 credit customers. This is high given the nature of most customers who are supposedly poor. The minimum number of credit customers is 20 while the maximum is more than 390,000 customers. This shows that some MFOs have greater outreach and it may be attributed by the experience of the organization. The average loan reflect the "micro" in microfinance (Mersland and Strøm 2009a, 2009b). In this data, the average loan amount is USD 740 with a minimum loan of USD 1.

As shown earlier, few MFOs have stakeholders on boards. On average, 8% of all MFOs have donors with a maximum number of 8 donors. Customers are present on 12% of all boards and they are a

maximum of 20. 7% of all MFOs have employees on boards with a maximum members of 17 and 4% have creditors with a maximum number of 4 creditors on boards. The average number of board members is 7 with a minimum of two and maximum of 33 board members. MFOs in the data set vary in sizes in terms of value of their assets, with the average amount of USD 6 million. This may be attributed by experience in microfinance activities which is on average 9 years. Size and age of most MFOs show that the industry is young and growing fast which might not be surprisingly to see few stakeholders participating in various activities including boards. Almost 40% CEOs of MFOs are women which may reflect the high percentage of female customers (Mersland and Strøm 2009a) and therefore, customers on boards. Banking authorities regulate 27.2% of all MFOs while non-profit which are in most cases unregulated are 49% of all MFOs. Competition measures show high competition; this implies that despite the youngness of the industry, there are many actors and MFOs who would like to reach the poor. The human development index (HDI) minimum and maximum values show that MFOs come from a wide variety of country backgrounds. The inclusion of HDI captures some of MFOs' institutional and country differences (Mersland and Strøm 2009a).

Table 5 presents correlations between independent variables. Many correlations are low and statistically significant with an exception of board size and board size squared. This is expected since one is a square of the other. We decided to put this in the regression equation in order to test for quadratic relationships between board size and MFO results (Hartaska and Mersland Forthcoming). The challenge here is whether multi-collinearity is strong enough to invalidate inclusion of these variables in the regressions. Wooldridge, (2007) assert that when there are many observations or large sample size, there is less need of worrying about degrees of correlation among independent variables. This implies also that, since panel data estimations gives more data points, the multi-collinearity problem is reduced (Mersland and Strøm 2009a).

Table 4: Descriptive statistics of variables

Variable	Observations (No)	Mean	Std. Dev.	Min	Max
ROA	1244	0.049	0.125	-0.990	0.342
Portfolio yield	1235	0.386	0.234	0.023	5.007
OSS	754	1.131	0.379	0.076	2.949
Operational costs	1235	0.340	0.453	0.016	11.316
CC - logarithm	1250	8.463	1.443	2.996	12.885
- number	1250	12484	27415	20	394462
AL - logarithm	1241	5.893	1.213	0	10.110
- Amount (us$)	1241	740	1290	1	24585
Donor on board=yes	2067	0.079	0.235	0	1
- Number	2067	0.250	0.966	0	8
Customer on board=yes	2023	0.124	0.330	0	1
- Number	2023	1.136	3.100	0	20
Employee on board=yes	2089	0.068	0.233	0	1
- Number	2089	0.308	1.408	0	17
Creditor on board=yes	2062	0.041	0.142	0	1
- Number	2062	0.051	0.352	0	4
Board size	3484	7.259	3.589	2	33
Board size squared	3484	65.573	75.549	4	529
Assets (US$)	1305	6,090,689	14,200,000	62,600	248mln
MFO size(Ln(total assets))	1305	14.581	1.853	10.613	19.329
Experience in MF (years)	3754	9.872	8.199	1	85
Female=CEO	3395	0.324	0.789	0	1
Regulated=yes	3815	0.272	0.445	0	1
Risk (PAR>30 days)	1196	0.066	0.098	0	0.973
Non Profit (NGO=yes)	2169	0.488	0.499	0	1
Market competition	2607	4.301	1.569	1	7
Inflation	1126	0.066	0.095	-0.081	1.7
Human development index	2304	0.650	0.142	0.274	0.878

Table 5: Pearson correlation among independent variables

	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Donor															
2	Customer	0.01														
3	Employee	**0.08**	**0.04**													
4	Creditor	**0.10**	**-0.06**	**0.21**												
5	Board size	**-0.10**	**0.05**	**0.08**	-0.01											
6	Board size square	**-0.09**	**0.06**	**0.08**	-0.04	**0.96**										
7	Assets (US$)	-0.04	0.01	0.05	-0.01	**0.12**	**0.11**									
8	Ln(total assets)	0.01	0.03	0.04	0.05	**0.09**	***0.07***	**0.46**								
9	Experience	**-0.11**	**0.11**	0.03	**-0.04**	**0.11**	**0.09**	**0.29**	**0.21**							
10	Female CEO	***-0.04***	-0.02	0.02	-0.02	**0.09**	**0.05**	**-0.08**	-0.03	**-0.05**						
11	Regulated	-0.02	**0.10**	0.03	-0.01	-0.01	0.01	**0.23**	**0.17**	**0.10**	**-0.07**					
12	PAR>30	**-0.08**	0.02	0.02	***-0.06***	0.01	0.02	0.05	-0.02	**0.20**	-0.02	0.01				
13	NGO	**0.05**	**-0.26**	-0.03	***-0.03***	**0.10**	**0.09**	**-0.15**	**-0.14**	**-0.04**	**0.13**	**-0.55**	-0.04			
14	Competition	**-0.06**	0.03	0.03	0.03	**-0.21**	**-0.20**	**0.14**	**0.07**	**0.07**	**-0.06**	-0.02	**0.09**	**0.17**		
15	Inflation	-0.01	***-0.06***	***-0.06***	-0.05	-0.02	0.01	-0.04	***-0.07***	-0.01	0.04	**-0.09**	-0.01	0.03	**-0.13**	
16	HDI	**0.08**	-0.03	-0.02	-0.02	**-0.14**	**-0.11**	-0.02	0.05	***0.04***	***0.08***	**-0.22**	***-0.07***	**0.23**	**0.07**	***0.07***

4.2 Effects of Stakeholders on Financial Results

Here we report the results of OLS estimations of effects of stakeholders on financial results of MFOs. Financial results (table 6) have been tested on return on assets, portfolio yield, operating self sufficiency and operational costs. The overall F statistic shows the rejection of the null hypothesis that all coefficients are equal to zero (Wooldridge 2006). There are some interesting results with regard to stakeholders on boards of MFOs.

Table 6 shows that MFOs which have donors on boards have higher financial results than those which do not have. This is a support for hypothesis 1A. Donors improve return on assets by 2.8% and they reduce operating costs by 6%. All these are statistically significant at 1%. The results are also positive for OSS where by MFOs which have donors on boards have higher OSS than those which do not. The OSS is both statistically and economically significant. These results are contrary to what (Hartaska and Mersland Forthcoming) found. Following (Rosenberg 2009), we argue that donors would like fund, assist and provide resources to MFOs which have a credible track of their financial performance. This will enable donors be assured that their funds are spent the way they are intended to be. In this regard, their representation on boards would necessitate for better financial results.

MFOs which have customers on boards also experience higher financial results in terms of portfolio yield and reduction in operating costs. The coefficients are both statistically and economically significant and this provides support for hypothesis 2A. Since MFOs are embarking on market orientation by putting customers first (Woller 2002), it appears that having them on boards may assist the MFOs in getting their loan portfolios plus interest back within time and this may reduce operation costs for the organizations. This may also be attributed by customers' information which customers on board may avail to the board and to the CEOs (Mersland and Strøm 2009a). Similar results were also found by Hartarska, (2005) on her governance and performance of MFOs study in central and Eastern Europe.

As previous studies found (Hartaska 2005; Hartaska and Mersland Forthcoming), we provide support for hypothesis 3A by evidencing a negative effect of employees on boards. MFOs which have employees on boards achieve low returns on assets, low yield and have high operational costs. This has also been shown in other corporate boards studies that despite the information know how which employees have; having them on boards may hamper financial results (Baysinger and Hoskisson 1990; Wagner III, Stimpert, and Fubara 1998). This implies that the costs of effective monitoring are higher than the insider knowledge needed on boards (Hartaska and Mersland Forthcoming). Also employees on boards reduce the independence of boards which is argued to be important for better board performance (Johnson, Daily, and Ellstrand 1996). Similar to (Hartaska 2005), we conclude that MFOs can also benefit from more independent boards.

Table 6: Return on assets (ROA), portfolio yield (PY), operating self sufficiency (OSS) and operational costs (OC) explained by stakeholder dummies, board characteristics, organizational characteristics and country specifics- Robust results of OLS estimations.

Variable	ROA	PY	OSS	OC
Donor on board=yes	0.028*	-0.009	0.267*	-0.060*
	(0.010)	(0.019)	(0.057)	(0.023)
Customer on board=yes	0.004	0.130*	0.062	-0.179*
	(0.009)	(0.015)	(0.054)	(0.023)
Employee on board=yes	-0.028***	-0.051**	0.034	0.051***
	(0.018)	(0.024)	(0.062)	(0.029)
Creditor on board=yes	0.026***	-0.131	0.072	-0.178*
	(0.014)	(0.020)	(0.084)	(0.029)
Board size	-0.003	0.017*	0.036**	0.043*
	(0.004)	(0.006)	(0.017)	(0.013)
Board size squared	0.001	-0.001**	-0.002*	-0.002*
	(0.002)	(0.000)	(0.001)	(0.001)
MFO size(Ln(total assets))	0.013*	-0.009	0.034*	-0.031*
	(0.004)	(0.006)	(0.011)	(0.007)
Experience in MF (years)	0.001***	-0.004*	-0.004***	-0.005*
	(0.001)	(0.001)	(0.002)	(0.002)
Female=CEO	0.008	0.009	0.081*	0.002
	(0.008)	(0.013)	(0.032)	(0.011)
Regulated=yes	0.019**	-0.034**	0.071	-0.011
	(0.009)	(0.016)	(0.055)	(0.029)
Risk (PAR>30 days)	-0.339*	-0.306*	-0.121	-0.024
	(0.102)	(0.069)	(0.296)	(0.111)
Non Profit (NGO=yes)	0.025*	0.036**	0.109**	0.012
	(0.010)	(0.017)	(0.050)	(0.025)
Market competition	-0.001	-0.010**	-0.009	-0.022*
	(0.002)	(0.005)	(0.010)	(0.006)
Inflation	0.008	0.154	-0.062	0.128
	(0.029)	(0.119)	(0.093)	(0.101)
Human development index	0.114	0.089***	-0.504*	-0.089
	(0.026)*	(0.052)	(0.175)	(0.083)
Observations	858	856	495	756
R-Squared	0.17	0.212	0.155	0.154
F (sign)	0.000	0.000	0.000	0.001

*significant at 1% (p-level 0.01), **significant at 5% (p-level 0.05), *** significant at 10% (p-level 0.10)
The Wald F test (Wooldridge 2006) is here as a test of the null hypothesis that the coefficients in the given equation are all zero. A low value of F test indicates null hypothesis rejection.
All estimations include time dummies, regional dummies and constant coefficients which are not reported here.

MFOs which have creditors on boards achieve higher financial results in terms of returns and reduction in costs. This was expected as stated in hypothesis 4A. We argue that creditors provide a strong channel of information in both directions; the organization and the bank (debt provider). For example, if banks have access to private information, organizations with close bank relationships (such as bankers on boards) may benefit from better access to finance (Byrd and Mizruchi 2003; Kroszner 2001). Furthermore, creditors on boards have financial skills which may be needed and used by MFOs to improve their performance. Our results are similar to Hartarska and Mersland, (Forthcoming) and they assert that creditors (bankers) on boards improve the value and performance of organizations.

Results in regard to board specifics also have some significant results with financial results of MFOs. We are able to show the non-linear relationships between board size and financial results. The relationship between board size and financial results is positive, but as the board size increases, the relationship become negative. Similar to (Hartaska and Mersland Forthcoming), we conclude that there are some benefits of larger boards but the effect reverses after a certain size. Female CEO is also found to have effects on financial results and this confirms the results by (Mersland and Strøm 2009a). It appears female CEOs enable customers on boards to have some influence on financial results, and this may be because customers on boards are also women, representing women customers who are the majority in MFOs.

Some of the organizational specifics also have effects in financial results. The larger the size and more experienced the MFOs is, the better the financial results. These results confirm other literature which asserts that younger and smaller organizations have lower financial results than larger and more experienced (Beck and Demirguc-Kunt 2006; Chetty 1993). Other things being constant, we find that non-profit MFOs have higher financial results in terms of returns on assets, yield and operational self sustainability. This is also evidenced on bank regulated variable which does not lead to high financial results with a slight exception of ROA. As evidenced by (Hartarska and Nadolnyak 2007; Mersland and Strøm 2009a), it appears that regulation has not yet started to bring high results, and so far, non- profit are better financial performers. Competition in the country seems to reduce portfolio yield and reduce operational costs. This means competition has both benefits in terms of reducing operational costs; and costs in terms of reducing yield. These results are mixed and it can be because the measure of this index is based on raters' opinions. The raters may not be well informed about the market as expected (Hartarska and Nadolnyak 2007; Hartaska and Mersland Forthcoming).

We carried out additional regressions using various alternative specifications, and we find that they yield almost similar results to those reported in table 6. We replace stakeholders' dummies by the proportion of each stakeholder (donor, customer, employee and creditor) on board; number of board meetings, replacing logarithm of assets by the value of assets and other transformations, all yield results

that are consistent with those in table 6. We conclude that our results are robust to several specifications.

4.3 Effects of Stakeholders on Outreach Results

Table 7 present regression results of the effects of our independent variables on two outreach measures: number of credit customers and average loan. From the results, it appears MFOs which have stakeholders on boards do not have much positive contribution to the outreach results. We don't find any significant results with regards to the presence of donors on boards; which implies there is no support for hypothesis 1B. This is shocking as from the theory perspective; it seemed that donors are more interested in seeing the very poor getting access to finance. This was empirically found by Hartarska, (2005) where she show that donor representatives on boards improve outreach results. On the other hand, (Hartaska and Mersland Forthcoming) found donors not to improve outreach results which is similar to our findings. We argue that donors' presence on boards may be in terms of ensuring their continuous funding to those MFOs which have better financial results without caring much on reaching the very poor.

MFOs which have customers on boards have interesting outreach results. Customers on boards seem to increase the size of loans disbursed and reduce the number of credit customers. This does not support hypothesis 2B but it appears that customers on boards encourage MFOs to concentrate on giving higher loan size to less poor clients. This confirms what (Cull, et al. 2007) call the tradeoffs between breadth of outreach (low number of customers served) and depth of outreach (high average loan size). The results also mean that MFOs with customers on boards have less outreach than MFOs which do not have customers on boards. We also infer that customers on boards encourage more individual lending than group lending since individual lending is associated with higher average loans and fewer customers (Mersland and Strøm 2009a; Cull, et al. 2007).

We get a support for hypothesis 3B which state that MFOs with employees on board have lower outreach than those which do not. Results indicate significant effects in terms of high average loan size meaning that MFOs which have employees on boards would advocate for individual lending which is less costly to staff comparing to group lending. With these results, we continue to advocate for independence boards as advocated in theory and empirically verified in other microfinance studies (Hartaska 2005; Hartaska and Mersland Forthcoming).

Table 7: Logarithm of credit clients (CC) and Logarithm of average loan (AL) explained by stakeholder dummies, board characteristics, organizational characteristics and country specifics-Robust results of OLS estimations.

Variable	CC	AL
Donor on board=yes	0.144	0.075
	(0.110)	(0.111)
Customer on board=yes	-0.669*	0.771*
	(0.098)	(0.098)
Employee on board=yes	0.063	0.178**
	(0.152)	(0.108)
Creditor on board=yes	-0.268	0.556*
	(0.183)	(0.147)
Board size	0.157*	-0.143*
	(0.039)	(0.035)
Board size squared	-0.005*	0.005*
	(0.002)	(0.002)
MFO size(Ln(total assets))	0.419*	0.154*
	(0.098)	(0.037)
Experience in MF (years)	0.028*	-0.005
	(0.007)	(0.005)
Female=CEO	-0.094***	-0.033
	(0.041)	(0.043)
Regulated=yes	-0.061	0.074
	(0.093)	(0.092)
Risk (PAR>30 days)	-2.884*	1.695*
	(0.511)	(0.422)
Non Profit (NGO=yes)	0.291*	-0.332*
	(0.086)	(0.088)
Market competition	-0.034	0.123*
	(0.029)	(0.024)
Inflation	-0.368	-0.057
	(0.297)	(0.259)
Human development index	-3.335*	3.700*
	(0.241)	(0.246)
Observations	750	747
R-Squared	0.484	0.401
F (sign)	0.000	0.000

*significant at 1% (p-level 0.01), **significant at 5% (p-level 0.05), *** significant at 10% (p-level 0.10)
The F test (Wooldridge 2006) is here as a test of the null hypothesis that the coefficients in the given equation are all zero. A low value of F test indicates null hypothesis rejection.
All estimations include time dummies, regional dummies and constant coefficients which are not reported here.

MFOs which have creditors on boards appear to have higher average loan sizes than those which do not have. Similar to customers and employees on board, when creditors sit on boards they would like to see the organization opt for less poor customers who can afford to take higher loans. This disconfirms hypothesis 4B and it is against what (Hartaska and Mersland Forthcoming) found. These results implies that creditors through their financial expertise and having their money at stake, are able to influence management to concentrate on serving less poor customers either through progressive lending or cross-subsidization (Armendariz and Szafarz 2009).

Few board and organizational specifics have significant results with outreach results. There are non linear relationships between board size and outreach. It is seen that small boards opt for more credit customers or group lending while as board size increase; they would opt for high loan sizes (or individual lending). This is also reflected on non-profit status, whereby non-profit MFOs concentrate on having many credit customers at a cost of offering small loans. This is in line with (Cull, et al. 2009b) who evidenced that non-profit MFOs make smaller loans and serve more customers. We also see that, the risk of getting repaid on time is higher when there MFO serve many customers, while the risk is reduced when it offers high loan size. (Armendariz and Morduch 2000) explain similar evidence by saying that group lending has high monitoring costs which if not well managed may lead to high default rates.

Similar to (Mersland and Strøm 2009a), we find female-CEO to have negative influence on number of credit customers while she is important for financial results. We see same effects of female-CEO and customers on boards. We argue here that since female-CEO is better informed, she is able to influence (and be influenced by) customers on boards, assuming most of these are women, in order to have similar reactions on board decisions and agendas. These influences can not necessarily happen on board meetings, but also outside board meetings where women can meet informally (Huse 2007).

In summary, outreach results show that MFOs which have stakeholders on boards have much influence on loan sizes disbursed to customers. MFOs which have all other stakeholders apart from donors are found to have higher average loan sizes meaning lower outreach. This may have advantage and disadvantage. The advantage of this might be that stakeholders on boards are able to bring in their expertise and experience which help the MFO to have sound strategies and adopt progressive lending or cross-subsidization (Armendariz and Szafarz 2009). The disadvantage is that concentrating on high average loan sizes is an indication of focusing more on less poor customers and offering individual lending. This leads to less outreach especially in short term for customers who are very poor.

5. Conclusion

This paper respond to several research calls made on more understanding of stakeholder impact on governance of MFOs (Hartaska and Mersland Forthcoming; Labie and Mersland 2009; Mersland and Strøm 2009a). Using a large and self-constructed dataset based on rating reports, we are able to show the contribution of four types of stakeholders; donors, customers, employees and customers on financial and outreach results of MFOs.

Descriptive results show that stakeholders are represented in both for profit and non-profit MFOs. More non-profits are represented by donors while customers and employees are more seen in for profit MFOs. This implies that since in most cases, non-profits are financed by donors (Olson 2000; Mersland 2009b), it is important for them to sit on boards in order to oversee the usage of their resources and provide technical assistance as required by organizations.

OLS regressions show that MFOs which have stakeholders on boards achieve both higher and lower financial results than those which do not have. From here we conclude that stakeholders are important board members and they have effects on financial results of MFOs. For example, we saw donors to have positive influence on financial results, and same for non-profit MFOs. Since from table 2, donors are more represented on non- profit MFOs, it seem consistent to find these positive results in both scenario. Customers also have positive effects on financial results of MFOs. This is also consistent with having female-CEO on MFOs. Since CEOs are part of board members, we assert that female-CEOs may have direct contacts with customers on boards assuming these customers are female (Mersland and Strøm 2009a). They may be able to share information regarding customers and the market in general. This may lead to better financial results. Employees on boards have shown to hamper financial results of MFOs which implies that it is better for MFO boards not to have employees on boards. We also find creditors to be important board members as their presence may assist in getting more financial skills and better lending relationships between the lender and the MFO.

Stakeholders on boards also have little positive influence on outreach results of MFOs. With the exception of donors, MFOs with all other stakeholders on boards have high average loan size which implies low outreach results. In addition, boards with customers have high average loan size and low number of credit customers. This confirms what (Cull, et al. 2007) call the tradeoffs between breadth of outreach and depth of outreach. Our results also suggest that having creditors and customers on boards may make the MFO face the tradeoff between achieving financial results and having deep outreach. All in all, our results suggest that stakeholders are important part of boards and governance mechanisms for MFOs. MFOs need to understand them and work with them well in order to benefit from their competence

Since our study based on only four group of stakeholders, it is important for future research to look at more groups of stakeholder including government officials, politicians, investors and local community.

We suggest a list of stakeholders proposed by (Lapenu and Pierret 2005) to be used in future studies. Secondly, we propose more studies on the influence of stakeholders who are not board members. Boards are an important governance mechanism, but there are many other mechanisms whereby different stakeholders can participate in order to govern the MFO (Mersland 2009b; Thomsen 2008). A framework suggested by (Labie and Mersland 2009; Thomsen 2008) can be used as a guidance of other governance mechanisms.

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