Strat. Change 24: 99–113 (2015)
Published online in Wiley Online Library
(wileyonlinelibrary.com) **DOI:** 10.1002/jsc.2000

RESEARCH ARTICLE

Board Composition and Outreach Performance of Microfinance Institutions: Evidence from East Africa[1]

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Board composition and poverty outreach of MFIs appear to be related.

The proportion of independent, international, female, and/or founding board members appears to be associated with measures of outreach performance using data on MFIs in East Africa.

Findings suggest that outreach performance is improved when MFI boards have a higher share of independent, international, and/or female members, which supports the hypothesis that board composition is important in helping MFIs to achieve their social objectives.

The attributes of microfinance's board members have an impact on attainment of their social objectives.

Past research suggests that board decisions have an impact on the (broadly defined) performance and/or mission of organizations (Zahra *et al.*, 2009; Milana and Ashta, 2012). Furthermore, the significant interest in board issues within both academic and policy circles is partly driven by the fact that board decisions and board behavior are believed to be affected by board composition and board diversity (e.g., Van Ees *et al.*, 2009). In the academic literature, a large number of studies have analyzed the relationships between various board characteristics — such as board demographics, board diversity, and board processes — and organizational performance (Carter *et al.*, 2010). These studies focus almost exclusively on for-profit firms. Much less is known about the role that the boards of non-profit, mission-driven organizations play in attaining organizational goals (Callen *et al.*, 2003; Alonso *et al.*, 2009).

This article looks into the role that boards of microfinance institutions (MFIs) play in the attainment of organizational goals. In contrast to formal banks, most MFIs have a dual objective of outreach to poor customers (i.e., outreach or social performance) and covering long-term costs (i.e., financial performance or self-sustainability) (Mersland *et al.*, 2011; Daher and Le-Saout, 2013). The question is how and to what extent the boards help them to reach these objectives.

[1] JEL classification codes: G21, G34.

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From a practitioner's perspective, the governance of MFIs should receive more attention. However, only recently has it been acknowledged that good governance may make an important contribution to the achievement of MFIs' objectives. As an example, the Banana Skins Report — published by the Center for the Study of Financial Innovation (CSFI, 2011) — has listed weak corporate governance and management quality among the ten most important risks confronted by the microfinance industry during the last few years. Inarguably, the recent attention paid to the governance of MFIs is related to the increasing interest of private investors in financing these institutions. Transparency and trust in the internal operations of MFIs are key elements in the funding decisions of these private investors.

Previous studies have mainly analyzed the impact of various governance mechanisms, such as board size, board leadership, and board stakeholder representation (Hartarska, 2005; Mersland and Strøm, 2009; Soltane, 2009; Strøm *et al.*, 2010) on the *financial* performance of MFIs. In contrast, this study focuses on the relationship between governance and the *social* performance of MFIs. In particular, it examines in detail the characteristics of MFI board members and the extent to which these characteristics influence the attainment of the social mission of MFIs. The explicit task of MFI boards (a key governance mechanism) is to monitor and guide the organization toward attaining its mission (Galema *et al.*, 2012).

MFIs operate in environments where the social mission of serving the poor is commonly highlighted as the most important objective (Mersland and Strøm, 2008). Therefore, understanding the relationship between boards and social performance is a particularly important, but under-researched, issue. We focus on the extent to which boards include independent, international, female, and/or founding members, and how these characteristics are related to outreach performance.

A further contribution of this article is its focus on sub-Saharan Africa, a region that is considered the poorest in the world, with one of the largest markets for microfinance (CGAP, 2010). The empirical analysis is based on 63 MFIs in Kenya, Tanzania, and Uganda. The information was collected by conducting detailed surveys among the boards of these institutions. We find that boards with a higher proportion of independent, international, and/or female board members perform better in terms of both the depth and breadth of their outreach. These results have practical implications in terms of advising boards of MFIs on the selection of new board members.

The remainder of this article is structured as follows. The first section discusses the theoretical framework, and goes on to develop the hypotheses. The next section discusses the data and methodology. Then, we present the descriptive statistics, followed by a discussion of multivariate results. A final section gives the implications and contributions of our research.

Theory and hypotheses

The board literature has traditionally focused on large listed companies (Daily *et al.*, 2003). In this literature, the explanations of the board–performance relationship are rooted in two widely applied theoretical approaches: agency theory and resource-based theory. Agency theory emphasizes the separation of interests between management and other stakeholders, thus incentives and controls have to be provided to induce managers (agents) to maximize organizational goals. According to agency theory, boards play an important role in screening, monitoring, and enforcing contracts with managers. These board roles may safeguard the organization against the misuse of resources by managers, which reduces the agency costs (Fama and Jensen, 1983; Speckbacher, 2008; Brown *et al.*, 2012).

The resource-based theory suggests that the performance of the organization is enhanced when it explores its distinctive and idiosyncratic resources and capabilities and/or its ability to deploy resources (Barney, 1991; Kogut and Zander, 1993). The resource-based theory suggests that board members provide access to resources that are critical for the organization's performance. These resources

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DOI: 10.1002/jsc

may be: (1) gathered through board members' networks that grant the organization access to, for example, external finance or contacts with governmental organizations; (2) advice, for example with respect to strategic decision making; or (3) knowledge or information about regulations or clients.

Based on these two theoretical models, boards serve two main roles. First, they monitor and control the performance and accountability of managers on behalf of the shareholders (Hillman and Dalziel, 2003). Second, they advise and inform managers on issues related to business strategy (Pfeffer and Salancik, 1978) and provide access to resources. This is referred to as the resource and advisory role of boards (Brown *et al.*, 2012; Allemand *et al.*, 2013). In undertaking both roles, boards guide and motivate managers to accumulate resources, effectively configure and bundle them, and leverage their use to create a competitive advantage. This holds for profit organizations and non-profit organizations such as MFIs.

One recently emerging research stream emphasizes the role of boards for young entrepreneurial organizations (Certo *et al.*, 2001; Zahra *et al.*, 2009). For these organizations, a board's role should be geared more toward helping them to overcome the liabilities of their newness and small size. The argument is that a board can add significant value by providing access to resources and strategic advice. Since MFIs and the microfinance industry tend to be relatively young, we expect the resource-providing role of boards to be important for their performance.

The corporate governance literature recognizes that the individual characteristics of board members (such as age, gender, experience, nationality, etc.) can be predictors of their ability to monitor and provide access to resources (Hillman and Dalziel, 2003). More specifically, it highlights several dimensions of board composition as being important for carrying out these two board roles, including board size (Yermack, 1996), board diversity (Adams and Ferreira, 2009), board leadership, board stakeholder representation (Luoma and Goodstein, 1999), and international board members (Riahi-Belkaoui, 1998). Following the corporate governance literature, a few studies have looked at MFI boards and identified the (potential) impact of board characteristics — such as board size, stakeholder representation, and the existence of female leadership — on the performance of MFIs (Hartarska, 2005; Strøm *et al.*, 2010).

The importance of the governance of MFIs has also been on the agenda of practitioners in microfinance. The CSFI (2011) lists inadequate corporate governance as one of the most important risks currently faced by the microfinance industry. Moreover, policy-oriented studies advocate the importance of having a mixture of skills and experience among the members of MFI boards (CMEF, 2005). These studies argue that, since the industry provides poor people with financial services, it is necessary for board members to have a mixture of social and business skills and experience (Campion and Frankiewicz, 1999). For example, CMEF (2005) suggests that, when selecting new board members, MFIs should target individuals with the ability and willingness to devote time and talent, who are seen as independent, bringing skills and objectivity, and who are influential and can assist with political issues, tap funding, and help the organization to build a positive public image.

Moreover, CMEF stresses the need for a diverse board (in terms of gender, ethnicity, and/or cultural background) to ensure a broad perspective. The advice provided by this institute stresses the importance of both the monitoring and advice/resource access roles of the boards of MFIs. Based on these suggestions and theories and other arguments from past corporate research (Linck *et al.*, 2008; Jackling and Johl, 2009), this study addresses four aspects of board composition: independence, nationality, gender, and the presence of founders on the board.

Independent board members

Independent board members have no affiliation to the organization on whose board they are sitting. In the corporate governance literature, board independence is

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seen as an important dimension of board composition as it determines the ability of the board to monitor the management and provide a greater variety of resources. Having no affiliation to — and thus no direct interest in — the organization increases a board member's objectivity and ability to safeguard the organization against the misappropriate use of resources. This reduces agency costs, which contributes to better organizational performance (Fama and Jensen, 1983; Speckbacher, 2008). Moreover, independent board members bring new skills, capabilities, and access to funds that may be instrumental in whether organizations obtain their goals (Zahra *et al.*, 2009; Brown and Guo, 2010).

Past research suggests that the independence of board members is also important for the social performance of MFIs. Hartarska (2005) finds that MFIs whose boards contain a higher proportion of internal members show lower outreach performance. We therefore hypothesize that independent board members enhance the outreach performance of MFIs due to their ability to effectively monitor, provide skills and experience, and enable access to valuable resources.

H1: A higher proportion of independent *board members is positively associated with the social performance of MFIs.*

International board members

International board members are those who do not come (originally) from the country where the organization is located. The literature indicates that organizational performance may improve when boards are international. For example, Oxelheim and Randøy (2003) found that the internationalization of the boards of publicly traded firms enhances firm performance as international board members have more experience and are better at monitoring management. In particular, they may facilitate the transfer of value-enhancing corporate governance practices. International board members can also take a more independent role in monitoring as they will often have a less vested interest in the organization, which helps to reduce agency costs and forces the organization to be more performance-oriented. Finally, international board members are perceived as having more extensive networks, which may, at least potentially, better link the organization to valuable resources.

Similar arguments may hold for international MFI board members. They may facilitate the transfer of international competencies and contribute to better monitoring and resource provision, thereby enhancing MFIs' outreach performance (Mersland *et al.*, 2011). For example, they may link the institution to international partners, investors, and organizations such as CGAP and ACCION. Links to international networks can also be established if these board members represent international organizations that were involved in starting the MFI in the first place. This is actually the case for a number of institutions in our sample of East African MFIs (Randhawa and Gallardo, 2003). Based on the above discussion, we derive the following hypothesis.

H2: A higher proportion of international *board members is positively associated with the social performance of MFIs.*

Female board members

The corporate governance literature has identified several arguments in favor of the recruitment of female board members, such as increased diversity and independence of opinions on the board, their positive influence on strategic decision making and the leadership style of the organization, and an improved organizational image with stakeholder groups (Adams and Ferreira, 2009). Empirical evidence indicates that increasing the number of female board members has a positive relationship with the monitoring efforts of the board as a whole, which may contribute to improving value creation and organizational performance (Adams and Ferreira, 2009; Erhardt *et al.*, 2003).

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DOI: 10.1002/jsc

With respect to the boards of MFIs, females may have a particularly important role to play as in many cases most of the customers are women (Mersland and Strøm, 2009). This also holds for the MFIs in the three East African countries in our data set. Female board members may be strongly motivated to serve the needs of these female clients. Moreover, they may be better informed about the financial services needed by the poor, which may help to improve outreach performance (Strøm *et al.*, 2010). Based on the above discussion, we derive the following hypothesis.

H3: A higher proportion of female *board members is positively associated with the social performance of MFIs.*

Founding board members

Corporate governance research is inconclusive with respect to the relationship between founding board members and organizational performance. Some papers have shown that founders serving on boards may have a lot of power over strategic decision making and board composition due to their history with the organization (Nelson, 2003; Wasserman, 2003). Another section of the literature suggests that founding board members identify more strongly with the mission of the organization compared with non-founding members (Block and Rosenberg, 2002). Finally, it has been argued that founders may have developed unique social capital through their relationships with the suppliers of input and capital, as well as with their customers (Ben-Ner and Van Hoomissen, 1994).

These characteristics of founding members may help the organization to achieve better growth and performance (Baum and Bird, 2010; Meyskens *et al.*, 2010). Founding members may possess firm-specific attributes that can help the organization break through start-up barriers. These attributes may comprise managerial, technical, motivational, and/or political skills and can be difficult for non-founders to replicate. Thus, founding board members may have a positive impact on performance, especially during the early stages of organizational growth, by providing knowledge and commitment tailored to the organization's aims.

It has also been pointed out, however, that founding board members may adversely affect performance. They may try to control and dominate decision making for too long, pushing their ideas and views at the cost of others, compromising organizational performance (Schein, 1983). A related argument states that founding board members continue to sit on boards, claiming to be motivated by the organization's mission, but in reality they are more concerned with retaining control than enhancing performance (Nelson, 2003). Another negative effect is that the presence of founder board members may crowd out other board members with links to valuable resources.

Finally, while the presence of founder board members may be particularly beneficial during the early stages of organizational growth, in later stages they may become a barrier to growth. This discussion on the role of founding members also applies to MFIs. The person who started the MFI — often with the aim of reducing poverty — still serves on the board in many cases. Such board members may be particularly motivated to hold on to the mission of poverty reduction.

In light of the above literature review on the relationship between founding board members and organizational performance, one may question whether the commitment of a founding board member to the institution and its mission creates a positive relationship with social performance and whether or not this positive relationship is dependent on where the MFI is in its lifecycle. Therefore, we derive the following two hypotheses.

H4a: A higher proportion of founding *board members is* positively *associated with the social performance of MFIs.*

H4b: A higher proportion of founding *board members is* positively *associated with social performance, but the positive association diminishes over the MFI's lifecycle.*

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DOI: 10.1002/jsc

Data and methodology

Sample and data collection

We collected data from the boards of MFIs in sub-Saharan Africa, focusing on Kenya, Tanzania, and Uganda. We chose to collect our data in this region for a number of reasons. First, sub-Saharan Africa is considered to be the poorest continent in the world, and is recognized as one of the largest markets for microfinance (CGAP, 2010). The three countries show significant similarities in their legal and regulatory regimes (La-Porta *et al.*, 1997), but at the same time are heterogeneous in terms of the development of their national microfinance industries. The importance of MFIs for the development of the region and the combination of cross-country institutional similarities and industry variations makes the East African region an interesting context for microfinance research.

Microfinance activities were initially developed in the 1980s. For example, the Uganda Finance Trust was established in 1984, while Kenya's Women's Finance Trust was established in 1982. However, it was in the mid-1990s that the governments of the three countries began to recognize the importance of providing financial services to the poor and introduced several rules and regulations to support the industry (Randhawa and Gallardo, 2003). Despite these efforts, a study by FinScope (2009) showed that only a small percentage of the poor had access to financial services. This makes a study of the determinants of improved outreach particularly relevant. As indicated earlier, governance may be one such important determinant, of which board composition, studied here, is one element.

We collected our data from various sources. The most important source was a survey conducted in the three countries between January and August 2010. We contacted umbrella microfinance associations in each of these countries to provide us with a list of the names and contacts of MFIs. We followed the *snowball* sampling methodology (Heckathorn, 1997) to obtain information. Our survey included questions about their governance, board members' demographics, clients, and operations. Moreover, we asked the respondents to provide audited financial statements from 2004 to 2009. Altogether, we identified and contacted 103 MFIs, of which 49 (almost 50%) completed the survey.

We also collected data by visiting the MFIs' websites. Several of these provided information on governance, clients, and activities and operations, as well as published audited financial reports. We were also able to verify some of the data we had obtained through the survey using information from the MFIs' websites.

Together, these sources provided us with information about governance indicators and financial information for the period 2004–2009 for 63 MFIs. Our sample represents between a quarter and a third of all MFIs in the three countries. We recognize that our method of collecting information may introduce a bias, in particular by leaving out smaller MFIs that provide little or no information with respect to governance and financial statements. This sample selection bias is a well-known problem in research on microfinance. For example, several studies have made use of data from the MIX market or rating reports. These studies suffer from a similar selection bias problem, because the data they use are mostly from larger, more developed MFIs.

Variables

According to the microfinance literature, MFI outreach, which is our dependent variable, can be measured in terms of both breadth and depth (Hartarska, 2005). In line with this, we measure breadth as the *number of customers*, defined as the logarithm of the total number of customers served by the MFI (Mersland and Strøm, 2009). The more customers served, the greater is the breadth of the outreach. Depth is measured as the *proportion of female customers*, which is the ratio of female customers to total customers. Alternatively, we also look at the (logarithm of the) *average loan size per customer*. Both a higher proportion of female customers and a lower average loan size indicate a higher depth of outreach (Schreiner, 2002).

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DOI: 10.1002/jsc

Independent variables comprise the following. First, board *independence* is measured as the proportion of outsiders on the board, where outside directors are defined as those who are not current or past employees and/or do not have significant business or family ties with the MFI's management (Adams and Mehran, 2005). Similar to Combs *et al.* (2007), we argue that an outsider-dominated board will be more independent than an insider-dominated board because outsiders do not have an employment relationship with the MFI. Second, we use the proportion of board members who originate from a country other than the country where the MFI is located to measure the extent to which the board is *international* (Mersland *et al.*, 2011). Third, board *gender diversity* is measured as the proportion of board members who are female (Adams and Ferreira, 2009). Finally, *board membership by founders* is measured as the proportion of board members who are among the original founders of the MFI. We also include a *founder–age* interaction variable which represents the lifecycle effects as shown in Hypothesis 4b.

To control for variations among and within MFIs, we include a number of control variables. First we use *board size*, which is measured as the logarithm of the number of people sitting on the board. We also include *MFI age*, which is measured as the number of years since the organization started its operations. Next we control for the MFI's financial performance using *operating self-sustainability*, measured as the ratio of revenue from operations to all expenses and *return on assets*, measured as the ratio of net operating income to average annual assets (Mori and Mersland, 2014). Several studies have argued that, because focusing on outreach can be costly, financial performance and outreach are negatively correlated, a trade-off between financial and social performance (Hermes and Lensink, 2011). Others, however, have claimed that financial and social performance are complementary, suggesting a positive correlation between the two (Gonzalez and Rosenberg, 2006). We include a dummy variable indicating the *MFI type*, which takes the value one if the MFI is operating on a for-profit basis and zero otherwise. Controlling for MFI type is important, since for-profit MFIs are generally assumed to have a weaker outreach mission than non-profits (NGOs). Finally, we include *country* and *time* variables to capture variations in the economic development of the three countries and in social outcomes over time.

Regression methodology

Given that we have different measures of outreach performance, we perform a system regression method, which allows us to jointly estimate the equations for the different measures. We argue that a joint estimation is theoretically more correct since the social performance of an MFI is multidimensional (i.e., it may include various measures of the depth and breadth of outreach). This method enables us to capture the joint effect of the various outreach measures, taking into account the potential interdependency between them. We use panel data estimation, using data for six years, and apply the seemingly unrelated regression (SUR) methodology (Greene, 2008). We also perform a Breusch–Pagan test to check the extent to which the residuals in the SUR are independent.

Descriptive statistics

Table 1 reports summary statistics for the variables used in this study. In terms of the dependent variables, we find that 63% of customers served by MFIs are women, indicating MFIs in the region concentrate on serving female customers. Both the high ratio of female borrowers and the relatively low average loan size (348 US dollars per customer) reflect the fact that the MFIs in our sample are focused on serving the poor.

Table 1 also reveals that 36% of all board members are independent. This suggests that the MFIs are generally dominated by insiders. International board members make up 22% of all board members, suggesting that the international board members in our data set are concentrated in a minority of the boards in the sample. Moreover, when comparing these figures with those from other

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Table 1. Summary Statistics

Variable	Observations	Mean	Std. Dev.
Dependent Variables			
Number of customers	220	35742	74917
Ln number of customers	220	9.474	1.562
Female customers — proportion	184	0.633	0.221
Average loan	207	348.32	353.95
Ln average loan	207	5.426	0.982
Composition Variables			
Independent board-ratio	331	0.364	0.253
International board-ratio	331	0.216	0.298
Gender diversity-ratio	326	0.246	0.226
Founder board members-ratio	331	0.335	0.235
Interactive term: Founder-MFI age	311	2.476	2.234
Control Variables			
Number of board members	331	7.000	2.237
Board size (ln)	331	1.916	0.354
MFI age	311	9.697	6.960
Operating self-sustainability	256	104.355	42.412
Return on assets	228	−0.016	0.130
MFI type	328	0.387	0.488
Kenya	343	0.344	0.476
Uganda	343	0.300	0.459

studies, it seems that East African MFI boards are relatively less international than the boards of MFIs in other regions (Mersland *et al.*, 2011).

The boards in our sample show a low degree of gender diversity as only 24% of all members are female. Given the high proportion of female borrowers, these numbers can be considered low. Finally, founding board members represent 33%, meaning that more than half of their members are among the original founders of the MFI.

The average number of board members on the boards is seven. The average age of the MFIs is nine years, which can be considered young. In terms of MFI type, for-profit MFIs represent 38% of the sample, indicating that most MFIs in this region are working on a non-profit basis. In terms of financial performance, the MFIs in this region are able to cover their costs: the operating self-sustainability is on average above 100%. However, they are not profitable since the average return on assets is negative (–1%). Finally, 34% of the MFIs are located in Kenya, 30% in Uganda, and the remaining 26% in Tanzania.

Table 2 presents the correlation analysis. The correlation coefficients between some of the explanatory variables are somewhat high, but below the critical level of 0.8 (Kennedy, 2008). Moreover, the variance inflation factor (VIF) analyses run among all independent variables produce values ranging from 1.1 to 2.3, indicating low levels of multicollinearity.

Multivariate analysis

The results of the SUR estimations for our three outreach variables are presented in **Table 3**. We performed the Breusch–Pagan test, which is a test of the extent to which the residuals in the SUR are independent. The chi-squared test is highly significant, implying that we must reject the hypothesis that the residuals of the variables are independent. This result confirms that it is statistically more

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Table 2. Correlation Analysis

Variables	1	2	3	4	5	6	7	8	9	10	11	12
1. Number of customers	1.000											
2. Female-customers	0.145	1.000										
3. Average-loan	0.268**	−0.321**	1.000									
4. Independent	−0.115	0.020	−0.174**	1.000								
5. International	0.205*	0.139	0.168*	−0.412**	1.000							
6. Gender	0.098	0.290**	0.124	0.334**	−0.292**	1.000						
7. Founders	−0.333**	0.084	−0.203**	−0.485**	−0.034	−0.056	1.000					
8. Board-size	0.368**	−0.171	0.477**	0.397**	0.067	0.163*	−0.549**	1.000				
9. MFI-age	0.549**	−0.025	0.367**	0.325**	−0.101	0.369**	−0.444**	0.487**	1.000			
10. MFI-type	0.249**	−0.281**	0.331**	0.094	0.068	−0.027	−0.342**	0.354**	0.454**	1.000		
11. Operating-self-sustainability	0.095	−0.168**	0.177*	−0.052	−0.200**	0.017	−0.088	−0.044	0.155*	0.110	1.000	
12. ROA	0.093	−0.110	0.088	−0.025	−0.233***	−0.009	−0.048	−0.065	0.137*	−0.156*	0.757*	1.000

* $p < .05$; ** $p < .01$.

correct to jointly run multiple social performance indicators.

The results in **Table 3** reveal the following. First, in support of our Hypothesis 1, we find a positive and significant association between the proportion of independent board members and our three measures of outreach performance. In particular, the outcomes support the notion that independent board members help MFIs to serve a larger number of customers (i.e., a higher breadth of outreach) and encourage them to focus more on lending smaller amounts to their clients (i.e., a higher depth of outreach). This suggests that independent board members are more likely to have incentives and capabilities to help MFIs achieve their social mission of reducing desperate poverty.

Second, **Table 3** shows that the proportion of international board members is positively and significantly associated with two of the three measures of outreach performance, supporting Hypothesis 2. More specifically, the table reveals that a higher proportion of international board members is correlated with a larger number of customers and with a higher proportion of female customers. It suggests that MFIs with international board members benefit from their superior monitoring abilities and their better access to valuable resources, leading to better outreach performance.

Table 3 also shows a positive relationship between board gender diversity and the proportion of female customers, and a negative relationship between gender diversity and the size of the loans, in both cases lending support to the notion that a higher proportion of female board members increases the depth of outreach, supporting Hypothesis 3. Thus, we extend the results of Strøm *et al.* (2010), which indicated a positive influence from female board members on MFIs' financial and outreach performance. As was mentioned earlier, this result may be explained by the fact that female board members have unique competencies and knowledge with respect to the specific needs of female customers (Mersland and Strøm, 2009).

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Table 3. SUR Model — Joint Estimation of Measures of Outreach Performance

Variable	Ln number of customers	Proportion of female customers	Ln average loan
Independent board	1.468*	0.156*	−2.101***
International board	0.889**	0.332***	−0.210
Gender-diverse board	−0.544	0.381***	0.914**
Founder board members	−0.057	−0.082	−0.374
Control variables			
Board size	0.142	−0.224***	1.604***
MFI age	0.131***	0.002	−0.008
MFI type	0.123	−0.131**	−0.332**
Operating self-sustainability	−0.497	−0.017	0.409**
Return on assets	2.019**	0.085	−0.326
Kenya	0.308	−0.109**	0.487***
Uganda	−0.635**	−0.170***	0.695***
Year dummies	Yes	Yes	Yes
Obs.	148	148	148
R^2	0.468	0.447	0.685
Chi^2	130.04	119.84	321.27
Pr	0.000	0.000	0.000

* $p < .05$; ** $p < .01$; *** $p < .001$.

Finally, we find no support for Hypothesis 4a: our results do not reveal any association between the proportion of founding board members and outreach performance. One possible explanation for this outcome may be that the presence of a founder on a board is particularly beneficial during the MFI's early stages of growth. Having more founding board members initially may lead to better monitoring and provide access to valuable resources, but their ability to improve governance structures may diminish over time. We capture this possibility in Hypothesis 4b. This hypothesis states that a higher share of founding board members is positively associated with social performance but that positive association diminishes over the MFI's lifecycle (the marginal positive effect of founding members on social performance diminishes as the MFI gets older). We analyze this by interacting the founding board member variable with the MFI age variable. We expect the founding member variable to have a positive coefficient, but the interactive term to have a negative one. The results are presented in **Table 4**. They reveal some support for Hypothesis 4b, at least in the case of the number of customers (i.e., breadth of outreach). Thus, while founding board members may initially contribute to better monitoring and provide access to valuable resources leading to better social performance, their ability to facilitate these board roles diminishes over time. Comparing the results in the two tables reveals that including the interactive term does not change the outcome for the other board variables.

Our empirical results in **Tables 3** and **4** also show that some of the control variables are significantly associated with the outreach performance of MFIs. Our findings suggest that large boards are negatively associated with MFI performance (Yermack, 1996; Mersland *et al.*, 2011). We find that large boards are negatively associated with a focus on female customers and positively associated with average loan size. We also find that older MFIs have a higher breadth and depth of outreach as MFI age is

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DOI: 10.1002/jsc

Table 4. SUR Model — Outreach Performance including Founder-Age Interactive Term

Variable	Ln number of customers	Proportion of female customers	Ln average loan
Independent board	2.037**	0.119	−2.155***
International board	1.340**	0.349***	−0.186
Gender-diverse board	−0.061	0.413***	0.961***
Founder members	2.794**	0.105	−0.100
Founder — MFI age	−0.335***	−0.022*	−0.032
Control variables			
Board size	0.469	−0.203***	1.635***
MFI age	0.223***	0.008*	0.001
MFI type	0.358	0.146***	−0.310
Operating self-sustainability	−0.424	−0.012	0.416**
Return on assets	1.886*	0.076	−0.339
Kenya	0.119	−0.122***	0.469***
Uganda	−0.701*	−0.174***	0.689***
Year dummies	Yes	Yes	Yes
Obs.	148	148	148
R^2	0.533	0.459	0.686
Chi^2	167.32	125.73	323.50
Pr	0.000	0.000	0.000

* $p < .05$; ** $p < .01$; *** $p < .001$.

positively and significantly associated with the number of customers and the percentage of female customers served. The relationship between MFI type and outreach is not very strong; we only find evidence that non-profit MFIs have a higher proportion of female borrowers. The idea that for-profit MFIs would be less concerned about the social mission appears intuitive. Yet, the fact that we do not find strong evidence of this may suggest that the social mission is important throughout the industry, regardless of the legal status of the MFI. Operating self-sustainability and return on assets are only significant for average loan size and number of customers, respectively. Overall, these results do not provide strong evidence for either complementarity or substitution between social and financial performance. Finally, the country dummies are mostly statistically significant in the three regression models, indicating that country differences affect outreach performance.

Conclusion

During recent years, microfinance practitioners have stressed that the governance of MFIs should receive more attention because inadequate governance presents one of the most important risks to the industry. This study has explored the relationship between MFIs' board composition as a governance mechanism and outreach (i.e., social) performance. Combining agency theory and resource-based theory, we suggest that four characteristics of boards may be instrumental in helping MFIs to achieve higher outreach performance: the independence of board members; their nationality; their gender; and whether or not they were among the original founders of the institution.

The results further suggest that board members with specific attributes may help MFIs to attain social objectives. For example, independent board members may have greater incentives and capabilities, international board

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DOI: 10.1002/jsc

members may have superior monitoring abilities and better access to valuable resources, and female board members may have unique competencies and knowledge with respect to the specific needs of female customers. Our main conclusion is therefore that boards and board composition matter for MFIs aiming to increase their outreach performance.

Our study makes several important contributions. First, we fill a research gap by focusing on the link between board composition and social performance. This link has largely been untouched in previous studies. Studying the link is a valuable addition to the existing research on MFIs. Understanding board composition and its role in the achievement of the social objective has implications for best practices related to selecting board members in the MFI industry. In particular, the main policy message of this study suggests that MFIs can create incentives and mechanisms to improve their social performance by intentionally choosing board members who have traits linked with better social performance. Enhancing board diversity — typically by adding more independent, international, and/or female members — should be considered as a means of improving the board's expertise in monitoring management and focusing on social performance. Adding more board diversity might also enhance the understanding of poor customers' needs and provide strong linkages to the providers of resources that are important to the MFI's mission.

Our research indicates that founder board members can also be of benefit, but that such board membership tends to become less advantageous as the MFI gets older. Studying the role of founders in the context of MFIs is an important aspect as the microfinance industry is still rather and strongly entrepreneurial.

Finally, the East African context is one of the poorest regions in the world, with one of the largest market potentials for microfinance. Improving our knowledge about what makes microfinance more effective in this particular region may help in highlighting the potential role MFIs can play in development and the alleviation of poverty in this region.

This study has several limitations. First, the econometric analysis of this study does not fully capture the potential of endogeneity and/or reverse causality. Therefore, we acknowledge that the results in our study must be interpreted cautiously. Future research should aim at more adequately solving these econometric issues.

The analysis only considers MFIs in three countries in East Africa. We therefore suggest a similar analysis should be carried out using data from a larger set of MFIs from a greater number of countries to test whether the relationship between board composition and outreach performance holds in different institutional and country-specific contexts. We also suggest analyzing further the role played by founding members in influencing outreach performance. It may be that personal characteristics such as background, commitment, and leadership moderate the relationship between the presence of founders on a board and the MFI's outreach performance. This, however, would require more detailed data on board members than we gathered for this study. Fourth, we used rough proxies for outreach performance. Although these measures have been used widely in the microfinance literature, future research may benefit from developing measures that better measure the poverty of microfinance customers.

Finally, future studies could focus on analyzing what is really happening in the boardrooms of MFIs, by focusing more on board processes such as mutual trust between board members, the existence of conflict, and the types of conflict management practices used. Such avenues of research will help to deepen our knowledge of how the board — as an important governance mechanism — is linked to the attainment of MFIs' social mission.

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