Strategic Decision Making in Microfinance Organizations: Stakeholder Perspective

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Abstract
Micro finance organizations have been increasing dramatically worldwide. This increment calls attention for these organizations to making strategic decisions which will enable them compete. We examine and discuss the roles that micro finance stakeholders in boards can play in the process of making these decisions. We combine board, strategic decision making and stakeholders' literature in order to show how micro finance stakeholders' representation in boards can be advantageous to these organizations, specifically in strategic decision making process. Future empirical research on stakeholders and strategic decisions in Microfinance organizations is identified and encouraged.

Key Words: Microfinance Organizations, Stakeholders, Boards, Strategic decision making process

Introduction

Micro finance organizations (MFOs) deal with the provision of loans and other financial services to the low income people. These organizations have evolved as a result of the efforts of committed individuals and development agencies to reduce poverty by promoting self-employment and entrepreneurship. Over the last decade these organizations have increased dramatically and this has led the industry to be very competitive (Rock, Otero et al. 1998; McIntosh and Wydick 2004; Hartaska 2005). With

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stiff competition, MFOs are currently challenged to operate more strategically in order to develop competitive advantage and hence be able to compete in the industry (McIntosh, Alain et al. 2005). To be able to operate strategically, MFOs among other things, need to make strategic decisions.

Strategic decision making involves two perspectives; content and process. Content perspective deals with issues of strategy content such as growth strategy and diversification while process deals with the process by which strategic decisions are made. Process perspective concentrates on the way in which decision makers influence the organization's strategic position through the strategic decision making process (SDMP) that they use (Eisenhardt 1992; Elbanna 2006).

Strategic decision makers are often members of board of directors of organizations. This is because one of the roles of the board is formulating strategies for the organizations. From the governance perspective, in order for the board to make strategic decisions, its composition in terms of size and diversity should be taken into consideration. Good composition will allow the members to bring their expertise and different perspectives to the organization and to aid strategic decisions (Hillman, Keim et al. 2001; Hartaska and Mersland Forthcoming).

This paper focuses on stakeholder representation in boards as part of board diversity. This is the focus because MFOs are working to meet dual objective of achieving outreach and sustainability (Chua 1998; Morduch 2000; Dafic, Rovcanin et al. 2008). This implies that management of these organizations reveals more information to their board than what they would revealed under a single profit maximization objective. Thus the board plays an important role in an MFO and this role can be best captured if there is enough stakeholder representation who would influence the dual objective of such organizations (Hartaska and Mersland Forthcoming).

Furthermore, the characteristic of decision making process for a diverse board is likely to be different comparing to a non diverse board. This is again because of the difference in nature, experience and expertise of board members. In this case, this paper is aiming at

using insights from the governance literature of strategic decision making, boards and stakeholder perspective in order to identify the MFOs stakeholders and discuss their involvement and roles in boards during the process of making strategic decisions.

The rest of the paper is organized as follows. A literature review on Stakeholder perspective is presented next, followed by MFO stakeholder representation in boards. Literature reviewed on strategic decision making is another section where by it followed by the section which discuss the board's involvement in the process of making strategic decisions. Propositions and conclusion are presented at the final section of the paper.

Stakeholder Perspective

Stakeholders

(Freeman 1984) defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives. In other words, it is the person or an organization that can be positively or negatively impacted by, or cause an impact on the actions of an organization. There has been however several debates over whether to broaden or narrow this definition, but most studies have continued to base their definition on Freeman's or its variation (Goodpaster 1991; Jawahar and MClaughlin 2001; Harrison, Bosse et al. 2007).

These stakeholders are further distinguished in terms of the immediacy of their effect and their location. In terms of effect, there are two categories which are primary and secondary stakeholders. Primary stakeholders are those who are directly affected either positively or negatively by organization's actions. They are those groups whose continuing participation is necessary for the survival of the organisation. (Wijnberg 2000) and (Jawahar and MClaughlin 2001) identify primary stakeholders as shareholders, investors, employees, customers and suppliers. Secondary stakeholders on the other hand, are those individuals, groups or organizations which can indirectly affect or be affected by the organization's actions. They are not essential to the operations of the organisation although their actions can significantly damage (or benefit) the organisation (Freeman 1984). These may include the public groups such as the community.

Another distinction is in terms of their location which includes internal and external stakeholders. The internal stakeholders are those groups which belong inside the organization such as managers and employees. External stakeholders are groups which are outside the organization and have effects on the survival of the organizations (Harrison 1996). These groups consist of customers, suppliers, government agencies, local communities and unions.

Stakeholder Theory

The 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; Labie 2000; Mersland and Strøm 2009). The theory further argues that an organization's value is created when it meets the needs of the firm's important stakeholders in a win-win fashion (Harrison, Bosse et al. 2007). In efforts to improve the theory, some studies proposed three stakeholder theory types- normative, instrumental and descriptive/empirical. These types have been proposed in order to add coherence to the theory (Donaldson 1995; Jones and Wicks 1999), to make it more precise (Freeman 1999) and guide discussions of the stakeholder literature (Jawahar and MClaughlin 2001). These types are briefly discussed below.

Normative stakeholder theory prescribes how organizations ought to treat their stakeholders (Freeman 1999). One of the central points in this realm is that organizations should attend to the interests of all their stakeholders - not just their shareholders. A common theme among the scholars of this theory is that firms should treat stakeholders as "ends" (Jawahar and MClaughlin 2001). Normative theory is discussed with strong pillars of moral principles and ethics and thus organizations should view their stakeholders as having intrinsic value (Jones and Wicks 1999).

Instrumental stakeholder theory posits that certain outcomes will be obtained by the organization if certain behaviours are adopted (Jones and Wicks 1999). According to this theory, if the behaviour of the managers is in-line and accepted by the stakeholders then the organization will have certain outcomes. (Freeman 1999) puts this as "if managers want to maximize shareholders' wealth, they should pay attention to their key

stakeholders". In this theory, stakeholders are treated as both means and ends. The general proposition for this theory is that managers of organizations are employed based on mutual trust and cooperation between them and the stakeholders.

Descriptive stakeholder theory explains how organizations manage and or interact with stakeholders (Freeman 1999). This theory purports to describe the actual behaviour. According to (Jawahar and MClaughlin 2001), the descriptive stakeholder theory of an organization posits that the nature of its stakeholders, their values, their relative influence on decisions and the nature of the situation are all relevant information for predicting the organizational behaviour and performance.

However, all these three approaches to stakeholder theory are nested within each other with descriptive being supported by instrumental and normative being the central core of the rest (Donaldson 1995; Kaler 2003). They are all important and furthermore this distinction is rooted from the old philosophy of science in which descriptive theory explain what the world really is (reality), normative prescribes how the world should be and instrumental links means and ends (Freeman 1999).

MFO Stakeholder representation in Boards

Microfinance Industry is very different in terms of organizational types. There are MFOs which are organized as Non Governmental Organizations (NGOs), banks, credit cooperatives, Government Agencies (GAs), projects and nonbank financial institutions (Labie 2000; Brau and Woller 2004; Hartaska 2005). In general, these types falls under two major categories, for profit and not for profit MFOs. These categories imply that the board representation may be different as far as stakeholders are concerned.

However, the microfinance literature has identified key stakeholders for the MFOs as those who have very significant effects on the nature and survival of their organizations. These key stakeholders can be primary/secondary or internal/external so long as they have significant effects in the organizational survival. This identification is mostly based and adapted from (Lapenu and Pierret 2005). The table below offers groups of stakeholders categorized in for profit MFOs and not for profit MFOs.

Table 1: MFO Stakeholders

Group	For profit MFOs	Not for Profit NFOs
Employees	Directors, Top Management, Middle management, employees at head quarters, employees in branches	Directors, Top Management, Middle management, employees at head quarters, employees in branches
Leaders		Members or non-members who are elected as leaders of the MFO
Owners	Private individuals and institutions	Public institutions, NGOs, members, Trustees
Clients	Individual customers and firms	Individual and institutional
Technical Assistance providers	Consultants	Local government extension workers, other NGOs
Donors	Development companies, private investors	Donors, Dev, companies, private investors
Banks	Several Loan providers; (Local and International)	Several Loan providers; (Local and International)
Government	Ministry of Finance, Central Bank	Ministries concerned with community development, gender, economy

Source: Modified from (Lapenu and Pierret 2005)

It is important for MFOs to identify and know their stakeholders in order to find ways and strategies of managing them in terms of getting to know them and to know their needs and more importantly in this paper, involving them in strategic decision making by appointing their representation in boards.

Having different stakeholder representative in boards is an indication of an independent board which is considered as a board with many outsiders and with diversity. Looking at the above table, it is clear that most stakeholders are outsiders. There are some empirical studies which have concluded that an independent board leads to better performance of an organization and vice versa (Hartaska 2005; Mersland and Strøm 2009; Hartaska and Mersland Forthcoming). Furthermore, being an independent board does not necessarily imply there is a good representation of stakeholder groups. Some previous studies (Olomi 2008) have shown that for profit MFOs tend to be dominated by outsiders who have commercial interests only like investors while not for profit are dominated by development oriented stakeholders like donors. Here we are suggesting that the independency and diversity of the board should be in terms of having stakeholder representation and not only the outsiders with one minded direction.

Board size is another concern when thinking of having stakeholder representation. If the board has to be diverse and independent, it also has to be controlled in terms of its size. The average size which has been suggested in the literature is between seven and eight members (Judge and Zeithaml 1992; Hartaska and Mersland Forthcoming). This size will enable the board to be efficient and to allow the opinion and expertise of the members to be fully utilized. On the other hand, boards with more than eight members are considered as large and they may suffer from free riding and may have negative effects on performance. For example, (Hartaska and Mersland Forthcoming) found out that MFO which had excessively large boards had a negative performance. However, their study suggests that there are some benefits to larger boards but the benefits ceases after a certain size.

Also, there is empirical evidence which indicates that financial intermediaries (both for profit and not for profit) have large boards. But their results as to the relationship between the size and performance are mixed showing both positive and negative effects. However because of the dual objective of MFOs, we are arguing that the boards of these organisations should be large at least to meet the requirement suggested of eight members. If we make an assumption of picking one stakeholder group from the above table as a board representative, the number will not exceed eight. In this case the board composition will be fair in terms of both the size and diversity.

Furthermore, since stakeholders have intrinsic values, they should be viewed instrumentally, as factors potentially affecting the overarching goal of optimizing shareholders' interests. By having them in the board, they become source of either organizational goodwill or retaliation (Goodpaster 1991). They also represent the diverse interests which may lead the organization to making effective strategic decisions which will in turn lead to better performance. Strategic decisions are the most important for the organization and they chart a direction of the organization (Freeman 1984). Therefore the groups which can affect that direction must be represented in the boards which imply that they are involved in the process of strategic decision making.

Strategic Decision Making Process (SDMP)

SDMP refers to a set of activities through which strategic problems are identified, interpreted, tackled and solved (Elbanna 2007). In reality, the process of making strategic decisions is complex: it involves many conflicting interests, takes a long time, and faces many interruptions, delays and disruptions. It is also shaped by environment, decision specific and decision makers' factors (Elbanna and Younies 2008). However as the important as the strategies (decisions) are, the process of making them is as important also. In other words, both content (decisions) and process categories complement each other and the content aspect can aid the process to be adopted (Christensen and Donovan 2000).

SDMP therefore, focuses on how strategic decisions are made and implemented and the factors which affect it (Elbanna 2006; Elbanna 2007). This paper is however; focusing on one aspect of making (formulating strategic decisions), the implementation aspect of the process is beyond our focus.

Past research in the field of strategic decision making have modeled the process and identify the major categories or types of SDMP. Most have categorized the process in two major perspectives which are synoptic formalism and incrementalism (Dean and Sharfamn 1996; Elbanna 2006; Elbanna 2007). The synoptic perspective is based on a rational model of decision making and the "incremental" alternative purports to provide a more accurate description of how organizations actually make strategic decisions (Frederickson 1984; Dean and Sharfamn 1996). These two perspectives are discussed and represented in three main dimensions (characteristics) which are rationality (synoptic formalism), political behavior and intuition (incrementalism).

(Henden 2004) defines rationality, as the potential outcomes, their probabilities, and their values to the decision maker, at the time the decision is made, that lead people to judge a particular choice to be wise or foolish. It is the reason for doing something and to judge a behavior as reasonable is to be able to say that the behavior is understandable within a given frame of reference' (Elbanna 2007). In many of its uses, rationality is approximately equivalent to intelligence or success, and it describes actions that have desirable outcomes. Rationality in SDMP has been mostly characterized and constructed

by bounded rationality and comprehensiveness. Bounded rationality emphasizes the SDMP which is limited by cognitive and political realities and as a result, decision-makers aim to achieve objectives which are good enough rather than those which are the best (Eisenhardt 1992). Comprehensiveness refers to the extent to which organizations attempt to be exhaustive or inclusive in making and integrating strategic decisions (Frederickson 1984). Decision makers in these cases enter into decision situations with known objectives. These objectives determine the value of the possible consequences of an action. The actors gather appropriate information, and develop a set of alternative actions. They then select the optimal alternative (Elbanna and Younies 2008).

Political behavior on the other hand, assumes that decisions emerge from a process in which decision makers have different goals, forming agreements to achieve their goals in which the preferences of the most powerful prevail. The key assumption here is that organizations are coalitions of people with competing interests. These people may share some goals and they may have some conflicts (Eisenhardt 1992; Elbanna 2006). The heart of the political approach is the process by which conflict is resolved among individuals with competing preferences. Simply put, decisions follow the desires and subsequent choices of the most powerful people

The other dimension is intuition which assumes that most decisions are made based on different perspectives of the decision makers at that particular time. (Eisenhardt and Zbaracki 1992) define intuition as incremental adaptations based on deep and intimate knowledge of the situation faced by decision-makers. It is often associated with having a hunch or a strong feeling of knowing what is going to occur (Vaughan 1989) without explaining the rationale behind it (Nutt 1998). (Khatri and Ng 2000) suggest the properties of intuition which are: subconscious, complex, quick, a component of all decisions, not emotional and not essentially biased. Moreover, they propose three indicators of intuition, namely, reliance on judgment (if work is not analyzable, decision makers have to employ judgment rather than computational routines.), reliance on experience (based on a deep knowledge of problems related to a specific job or environment) and the use of gut feeling (having a strong feeling about the decision which is made without any base).

These dimensions or characteristics of SDMP have been discussed substantially in the Strategic decision making literature and related to different perspective such as organizational behavior and performance of organizations. However most studies based on rationality dimension per-se have made conclusions which are controversial (Eisenhardt 1992; Elbanna 2006). The results indicate that rational behavior in SDMP may bring both positive and negative performance. On the other hand, studies which concentrated on the political behavior of the SDMP have made conclusions that politics brings negative performance in the organizations. Intuition perspective has received a limited attention, but in the few studies; the results indicate that most decisions which are done intuitively bring positive performance to the organizations (Khatri and Ng 2000; Henden 2004) and this is basically because of reliance on experience and gut feeling (Elbanna and Younies 2008). There are however few studies which have taken at least two dimensions simultaneously into consideration, and concluded that if the process of making decision is characterized by a combination of these dimensions, then the organization is likely to perform well than otherwise. For example, (Hart and Banbury 1994) found that organizations that have high process capability (simultaneous use multiple SDMP dimensions) outperform the single dimension process organizations. Furthermore, on stakeholder perspective, we argue that the boards with stakeholder diversity will likely practice at least two of these dimensions simultaneously in their process of decision making which in turn will lead to better performance.

Boards' involvement in Strategic Decision Making

Involvement in strategic decision making has been one of the important governance and strategy roles of boards. Board's involvement here refers to the overall level of participation of board members in the process of making non routine, organizational wide resource allocation decisions that affect the long term performance of an organization (Judge and Zeithaml 1992). For the MFOs, the main strategic decisions made are those concern the vision and mission in terms of the target clients and financial services to be offered, geographic outreach, growth strategy in terms of new product development, choice of directors, lending policies and interest rates to be charged (Rock, Otero et al. 1998; Lapenu and Pierret 2005). With the current competition these organization face,

strategic decisions are becoming of more important and the involvement of boards in making these decisions is also very important (Woller 2002; Lapenu and Pierret 2005).

In this aspect, the diverse board is also necessary in order to bring different perspectives, experiences and expertise to strategic decision process, decrease (increase) the political power and increase level of intuition of the process which in turn brings effective strategic decisions and better performance.

There are some studies which have looked at MF board composition and performance. These studies have very important implications for the strategic decision making. For example, in her study on governance and performance of MFOs, (Hartaska 2005) found that microfinance boards with a diversity of stakeholders mainly outsiders achieved better results. Her findings also showed that boards with high proportion of donor representation improve depth of outreach but worsen sustainability and those with high proportion of clients' representation lead to greater sustainability and low outreach. This implies involving both these stakeholders (in equal proportion) in the board is important in order to get both perspectives, to bring in various information and experience. Relying only on one group of stakeholders might lead to a decision which is not of interest to others and may lead the organisation not to meet its dual objectives.

(Mersland and Strøm 2009) studied corporate governance and performance. They found that boards with many members outperform those with few members in terms of outreach. This implies that large boards have more stakeholder representative compared to small boards. (Mersland and Strøm 2009) also found the effect of board size in performance. They show that there is a positive relationship between the two up to a certain board size, above that the relationship become negative. The average size recommended from their study was not more than eight which we argue it is enough for a stakeholder diverse board. Furthermore, a study by (Judge and Zeithaml 1992) found that large boards of more than eight members were less likely to become involved in strategic decision making.

(Mersland and Strøm 2009) also found that only 11% of the MFOs studied had client representations in their boards. This representation is very low as with the outreach objective of these organizations would seem to see clients as very important stakeholders. The clients (beneficiaries) are those who are excluded by the formal banking sector. Most of these clients need some special kind of consideration and that is the reason the lending methodology for most of them is different. For example; the way the MFOs organize their individual and group lending methods is different from the formal banking (Sharma and Zeller 1997; Ghatak 1999; Aghion and Morduch 2000). This indicates that it is important for MFOs to include representative of clients so that when strategic decisions are made, they match the clients' needs and objectives. Currently there has been studies which show that MFOs are now embarking on market oriented view and not only product view as it was previously, and this is because of the competition (Woller 2002; Brau and Woller 2004; Counts 2008). Having a marketing approach means that clients' needs are put first and therefore their involvement in the boards and SDMP is very important (Lapenu and Pierret 2005). Their main role here is to bring information of what is best for the clients in terms of products and services needed.

Furthermore, for the MFO to be able to have a deep outreach and good financial performance, it needs committed employees. Middle managers and other employees, such as credit officers are heavily involved in and identified with the organization. They are often in contact with clients both in offices and in clients' sites, so they can bring a lot of relevant information in the board, concerning how to improve and innovate services and delivery process which might lead to very competitive strategies (Lapenu and Pierret 2005). Having them represented in the board and in the process of making strategic decisions will give them the opportunity to participate in the long term growth of the organization and a feel of ownership which in turn will motivate them and improve their performance. A study by Cerise (2002) established that the MFO which includes employees and clients' representatives in their boards achieve both social impact and financial sustainability faster than those organizations which do not. However, this finding contradicts with what (Hartaska 2005; Hartaska and Mersland Forthcoming) found whereby boards with large employee representation were negatively related to financial and social performance. This contradiction has two implications. One is that if

the board is represented with many employees, the results will be negative. The other implication is that, stakeholder capacity in representing others should be taken into consideration. It should be noted that the MFO need to carefully identify a representable member who can be active in contributing to the strategic decision process.

Government's role in MFO is important especially if it was involved at the initial stages of the MFO formation or if it is the owner of that organization. However, it should be noted that, there is always an involvement of the government in most MFOs (Lapenu and Pierret 2005). Their role here is in terms of implementation of policy and regulations set for the Micro finance (MF) industry. Having government representation in MF boards poses the risk of having the process which is very political. However, this risk can be minimized if efforts are made to ensure shared vision, approach and goal congruence among the members of the board (Eisenhardt 1999). Also board members may decide to rely on their intuition such as their experience, to choose the best alternative of decisions which is capable of resolving the political conflicts (Elbanna and Younies 2008).

Development partners (donors) and Technical assistance providers are like genetic engineers whose job is to speed the evolution of sturdy and strong MFOs. Development partners are good at giving funds, measuring progress, and spreading good practice through providing technical assistance (Schreiner 2000). Their role in SDMP is important because they contribute to the ability of the MFO to reach sustainability with dual objective. Their representation would bring intuition to the process and because they are mainly outsiders, the MFOs having them are likely to reach good strategic decisions. This was also found out by (Oxelheim and Randøy 2003) whereby their results show that organizations with international directors outperform those which do not. However, (Hartaska and Mersland Forthcoming) found boards with higher proportion of donors are less efficient. Again, it is important to have a balanced involvement and not relying on high representation of one group of stakeholders.

Financial providers such as international lenders, local financial institutions (banks) and creditors have important role in boards' SDMP. Their role can be special to specific strategic decision which is needed by the organization (Harrison 1996). For example, if

an organization wants to pursue an aggressive growth strategy, in terms of increasing its outreach, then it will need the involvement of financial providers representation in its decision making so that the organization hear out their side especially if it is possible to get finance from them. Furthermore, (Hartaska and Mersland Forthcoming) found a board with higher proportion of creditors to be more efficient. However, we argue that higher proportion of creditors will lead to one direction of perspective in decision process and therefore it is better to have equal proportion despite of this positive finding.

The final group of stakeholders we would like to discuss here is shareholders. These are the owners of the MFO. The owners of MFOs are in different forms. Some are international agencies who place equity in return for shares or influence. Some are local members of society who contribute to the MFOs and some are local and international institutions who own shares. MFO boards are mostly represented by shareholders. Shareholders are also divided into classic and mixed types (Labie 2000). Classic shareholders are highly profit motivated and their involvement in board and decision process is basically on the side of making decisions which are profit oriented. On the other hand, mixed shareholders would like to have some levels of profit and social impact. For them, the board should have a variety of stakeholders and decisions made should meet the dual objectives. The most important role of shareholders is to make decisions which will make the organization sustainable.

This discussion has so far been on the involvement of stakeholders in boards and in decision process. However, apart from having these representations as groups, gender representation is also important. (Mersland and Strøm 2009) study indicates that MFOs with women representation (such as MF CEO) in their boards outperform those which do not. This implies that having close ratio of men and women in the decision making will improve the process and bring more insights. Furthermore, most of micro finance clients are women (Mayoux 2000) and therefore their representation implies they are taken into consideration which leads to better decision process. Women clients have also evidenced to be better credit risks for the MFOs (D'Espallier, Guerin et al. 2009) and this also implies that involving women clients' as part of stakeholders will bring more information to the decision making.

When talking of better strategic decision process, we refer to the process which is characterized by all three dimensions in decision making. (Elbanna and Younies 2008) call this process as multi dimensional. Their study also found out that decision makers could be simultaneously rational, political and intuitive. When this is the case, the decisions made are effective which is likely to lead to good organisational performance. If MFOs will involve a diversity of stakeholders, they will likely have a multidimensional process in making decisions.

Rationality of decision process is improved when there is a diversity of stakeholders' representation. This is because, the process under this dimension depends on the extent to which the information regarding the decision is available and based on this information the decision can be made (Dean and Sharfamn 1996). Rich information is likely to be available when there are more and well informed stakeholders than when there are few. MFOs which are able to involve more stakeholder' groups are likely to have a rational process which leads to effective strategic decisions.

On the other hand, diversity of stakeholders might lead to a lot of politics because of different conflicting interests. MFO decision makers should be aware that political behavior could lead to unsuccessful decisions and consequently poor organizational performance. They all need to defuse political tactics in order to achieve successful decisions (Elbanna 2006). One direct way of defusing political behavior is through balanced power structure in which each key decision maker (stakeholder involved) has a clear area of responsibility but in which the leader is the most powerful decision maker (Eisenhardt 1999). Another means is that, there should be common goals which suggest that each decision maker knows his/her responsibility and they all have a shared vision of where they want to go.

Furthermore, Intuitive processes are critical for effective strategic decision making. Diversity of stakeholders in decision process would lead to high levels of intuition in a sense that they are able to bring in everything they have seen, felt, tasted, and experienced in an industry (Khatri and Ng 2000) and this will likely lead to effective

decision output. The five qualities of intuition: un biasness, complex, subconscious, quick and not emotional which were mentioned by (Khatri and Ng 2000) will easily be met when MFOs involve diversified stakeholders.

In summary, stakeholders' diversity and involvement is crucial in boards and strategic decision process for MFOs. Their role is of great importance in making sure that the strategic decisions made are in line with stakeholders' interest and will lead to competitive advantage of the MFOs. In other words, strategic decisions at all levels influence the importance of various stakeholders (Harrison 1996). Furthermore, if the process in which the decisions are made follow the rationality, less politics and high intuition simultaneously, it is very likely that the output of that process will be effective decisions which in turn will lead to good performance.

The above discussion leads us to make the following propositions for future empirical research.

Proposition 1: Stakeholder representation in the board will be positively related to rationality of strategic decision making process

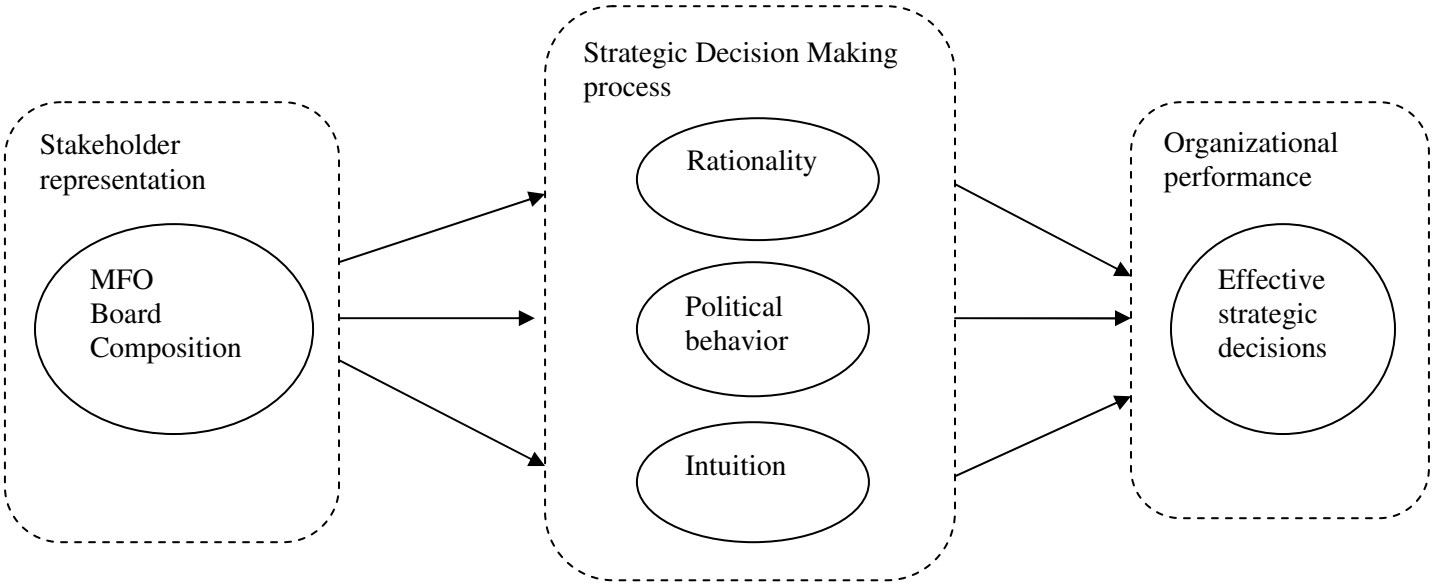
Proposition 2: Stakeholder representation in the board will be negatively related to political behavior of the strategic decision making process

Proposition 3: Stakeholder representation in the board will bring high levels of intuition in the process of making strategic decisions

Proposition 4: Strategic decision making process which is characterized by high rationality, less political behavior and high intuitive thinking will lead to good performance in terms of effective strategic decisions.

The following framework shows a summary of these propositions.

Figure 1: Conceptual Framework



Conclusion

This review has indicated that MFO stakeholders' have important roles in strategic decision making. Their involvement in boards would likely enable the organization to meet their two main objectives and also increase the ability to compete in the industry. Some studies indicate that competition is a major driver of financial performance of MFOs and it should be encouraged in order to keep in increasing the organizations' performance and to lower interest rates which will result into more clients and more outreach (McIntosh, Alain et al. 2005; Mersland and Strøm 2009; Hartaska and Mersland Forthcoming). Furthermore, to be able to compete in this industry, it requires the organization to try and attain its competitive advantage which other organizations cannot copy easily. One of a strategy for the organization to get a competitive advantage is to have a close relationship with its stakeholders (Harrison, Bosse et al. 2007). As discussed earlier, stakeholders have intrinsic values; having relationship with them will make an organization build trust. Once stakeholders have trust with the organization, they can reveal a lot of information which will help the organization serve them better and creates its own competitive advantage towards other organizations.

Involving stakeholders in boards and strategic decision making is one means of having a close relationship with them. This process is the central part of the organizational survival and performance. Having trusted stakeholders will improve the decision process. The process will likely be multidimensional which involves rationality, less politics and high intuition. Also trusted relationship with stakeholders will open doors for more strategic decision outcomes such as new products which will match the demand, new ways of providing services and so on because all this information will be easily obtained.

To be able to involve key stakeholders in boards, MFOs should first identify their key stakeholders. Not all stakeholders to the industry are important to an individual organization. Some stakeholders may be key to one organization but not key to another depending on their ownership nature. After identification, the organization needs to know and create values with them by probing for interests. Also it should be noted that there are some stakeholders whom by, their representation in the boards can be a curse. This depends on the agenda that they pursue and their influence. This can also lead to

misrepresentation and also create problems in strategic decision making. Therefore MFOs need to be as careful as possible when selecting their board members based on stakeholder representation.

Misrepresentation may be one of the implication of why some studies (Labie 2000; Mersland and Strøm 2009; Hartaska and Mersland Forthcoming) have found out that very few MFOs have mechanisms that allows a variety of their stakeholders to have a true direct influence on their board and decisions. These organizations also believe that having diversity of stakeholders in their boards is expensive and their presence might complicate the decision making process. This raises more questions for future empirical studies on who is really involved in MFO strategic decision making and why are they involved. Another question is for those who are involved, what influence do they have in strategic decisions made.

This paper looks at the strategic decision making process perspective and has made some propositions which can be tested empirically. Another key area of interest for future studies could be boards' involvement in strategic decision making which involve the change of organizational type; downscaling or up scaling again with stakeholder perspective.

Finally, involvement of a diverse board in strategic decision making may lead to concentrated or dispersed degree of power, wide variety of interests and intuition (Elbanna 2006). Important thing to note is that, effective and successful strategic decisions emerges from a process in which decision makers can develop collective intuition, accelerate constructive conflicts, maintain decision rationality and avoid politics. With this in mind, it is possible to involve as many key stakeholders as possible. And as normative approach to stakeholders advocates, being able to involve as many stakeholders is the right thing to do.

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