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Corporate Governance in Microfinance Institutions: Board Composition and the Ability to Face Institutional Voids

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By:

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Abstract

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Research Question/Issue: We utilize institutional theory to examine corporate governance in microfinance institutions (MFIs). Many MFIs operate at the bottom of the economic pyramid (BOP), which is usually agrarian, impoverished, and plagued with institutional voids. We investigate the link between the composition of the boards of MFIs and the ability of the MFIs to face institutional voids to ensure organizational viability.

Research Findings/Insights: We find that MFIs with boards that have more socio-economic expertise and female representation are better able to lower the MFI's costs of operating at the BOP. However, this relationship weakens when the effectiveness of agrarian institutions at the BOP is low. When agrarian institutions are ineffective, the board of the MFI may have difficulty in helping the MFI reduce its costs of operating at the BOP. Agrarian crises arising from ineffective agrarian institutions tend to aggravate the various institutional voids present at the BOP, making it harder for the board to guide the MFI around the institutional voids.

Theoretical/Academic Implications: We extend institutional theory to understand how boards direct and control firms operating at the BOP to face institutional voids. In some cases, a firm can fill an institutional void. However, because other institutional voids exist, the board must also help the firm develop workarounds to ensure organizational viability. We extend existing literature on board composition to highlight how human capital and gender diversity of boards can help improve the viability of firms operating at the BOP.

Practitioner/Policy Implications: MFIs with high operating costs may benefit from electing a board with socio-economic expertise and female representatives. Governments and policy makers can work toward building effective social, economic, and political institutions to help create contexts that are favorable to firms (such as MFIs) that often find it difficult to operate at the BOP.

Keywords: Corporate Governance, Bottom of the Economic Pyramid, Board Composition, Agrarian Institutions, Microfinance

Introduction

Markets at the bottom of the economic pyramid (BOP) differ greatly from those of developed countries. The BOP represents nearly two-thirds of the world's population, or four billion people that live on less than US$1.25 per day (UNDP, 2007). Further, BOP markets tend to be largely agrarian, with the poor

often surviving on agriculture-related activities (Varman, Skålén, & Belk, 2012). Many social and economic issues exist in BOP markets. Social issues include poverty, lack of education and health services, and gender inequality (Cheston & Kuhn, 2002; Robinson, 2001). Economic issues include, among others, a lack of hard and soft infrastructure, low per capita income, and underdeveloped entrepreneurial and business activity. Despite these socio-economic issues, the BOP is recognized for its market potential and opportunities for future economic development (World Bank, 2011).

Many socio-economic issues at the BOP are manifested from institutional voids. Institutional voids can be defined as absent or weak institutional arrangements that prevent the effective functioning of society (Mair & Martí, 2009). Institutional voids exist in the environment external to a firm and are thus often outside the firm's control. These voids create difficulties and threaten organizational viability for firms operating at the BOP. Institutional voids prevent firms from engaging in efficient economic exchanges and enforcing contracts – both of which can contribute to the costs of operating at the BOP (Khanna, Palepu, & Sinha, 2005). Firms operating in these contexts must either fill or "work around" the institutional voids (Khanna et al., 2005: 64).

The microfinance industry emerged as a way to fill the institutional void in financial services at the BOP. Microfinance institutions (MFIs) provide basic financial services such as loans, savings, etc., to the poor who would otherwise not have access to these services (CGAP, 2011). MFIs connect impoverished borrowers with financial markets and, in doing so, help address socio-economic issues such as poverty and depressed economic activity (Morduch & Haley, 2002; Schreiner, 2002). While MFIs help fill an institutional void in the financial sector, they often struggle to work around the numerous other institutional voids that persist at the BOP such as "the voids in a country's product markets, its input markets, or both" (Khanna et al., 2005: 73).

One possible source of guidance for firms to work around the numerous institutional voids could be effective corporate governance. Corporate governance of a firm operating at the BOP can be viewed as "the system, or the set of mechanisms" that internally "direct and control" the firm in the prevalent social and economic context (Mersland, 2007: 10). In this study, we ask: can effective corporate governance help MFIs work around institutional voids and thereby help lower their costs of operating at the BOP?

We address this question by examining a key facet of corporate governance – board composition. We examine board composition and its influence on the costs of operating at the BOP. We suggest that two facets of board composition – socio-economic expertise and female representation – are associated with the board's ability to lower the MFI's costs of operating at the BOP. We define socio-economic expertise as the knowledge of finance/banking services, legal/non-financial services, and government/public services that is held by members of the MFI's board. We define female representation as the number of females that serve on the MFI's board. We define an MFI's costs of operating at the BOP as the overall costs incurred by the MFI to provide and administer loans to borrowers at the BOP.

We contribute to the literature on corporate governance of MFIs in several ways. First, MFIs operate in BOP markets rife with institutional voids. Effective corporate governance can guide an MFI to work around institutional voids. Second, we emphasize the importance of demographic and human capital characteristics of board composition for MFIs. Female representation (demographic characteristic) and socio-economic expertise (human capital characteristic) are important for furthering our understanding

of corporate governance at the BOP. Third, contextual differences exist between the BOP and the more developed markets. In sum, our study provides important insight about how corporate governance can play a role in guiding firms operating at the BOP to simultaneously address socio-economic issues and ensure viable operations.

Literature Review

Theoretical Perspectives of Corporate Governance

Research on corporate governance is multi-theoretic. The theories offer varying lenses to understand the board's ability to direct and control the firm. The focus of our study is to understand board composition and the ability of boards to direct and control MFIs that face institutional voids. Therefore, we review some theories of corporate governance in light of whether the context – of institutional voids – is considered with regard to the ability of boards to direct and control firms. We highlight these different theoretical perspectives in Table 1.

Management Hegemony. The management hegemony literature argues that "boards are a legal fiction dominated by management" (Hendry & Kiel, 2004: 502). Boards often serve to simply "rubber stamp" decisions made by the firm's management (Hung, 1998). From this perspective, the role of the board is symbolic and is influenced by internal (managerial) pressure (Hung, 1998). As such, managers usurp the direction and control of the firm from the board (Mace, 1971). This perspective is concerned with the inner workings of the firm rather than how external institutions modify the board's ability to direct and control the firm.

Agency Theory. Agency theory focuses on the contract or governing relationship between the principal and the agent. It centers on addressing and resolving (1) the conflicting interests of the principal and the agent, (2) information asymmetry, and (3) risk propensity concerns (Jensen & Meckling, 1976). Agency theory, as applied to corporate governance, implies that "the major role of the board is to reduce the potential divergence of interest between shareholders and management, minimizing agency costs, and protecting shareholders' investments" (Hendry & Kiel, 2004: 503). Agency theory provides insight into how boards monitor the behavior of managers. However, it does not take into account how the external institutional environment can modify the board's ability to direct and control the firm.

Stakeholder Theory. Stakeholder theory argues that firms are concurrently responsible to multiple stakeholders inside and outside the firm. These stakeholders include, among others, employees, customers, shareholders, and members of the community (Freeman, 1984). Thus, both boards and the firms they serve are influenced by the conflicting interests of these multiple stakeholders. The role of boards is to coordinate, and if necessary negotiate, the interests of multiple stakeholders (Hung, 1998). From this view, boards should be moral and philosophical guides for the firm (Hung, 1998). Stakeholder theory acknowledges that boards and firms are influenced by groups internal and external to the firm. However, it does not explicitly take into account the possibility that the absence or ineffectiveness of external institutions can strain the ability of boards to direct and control firms.

Stewardship Theory. Stewardship theory has conventionally argued that management executives should be viewed as stewards of the firm (Donaldson, 1990). At the same time, the directors serving on a firm's board can be viewed as positively contributing to the stewardship. From this perspective, the "role of the board contributes to its overall stewardship of the company", and the purpose of the board

is viewed as contributing “knowledge, expertise, and commitment to the firm” so that the firm can achieve its objectives (Hendry & Kiel, 2004: 503). Boards can serve to empower managers to take self-directed action. However, the theory does little to take into account how the absence or ineffectiveness of external institutions might hurt the board's ability to facilitate and empower the managers of the firm.

Resource Dependence Theory. Resource dependence theory (RDT) suggests that firms operating in the same external environment vie for resources from a finite resource pool (Bass & Chakrabarty, 2014; Pfeffer & Salancik, 1978). The overarching perspective of RDT as applied to corporate governance is that boards are a mechanism for firms to gain access to resources in the external environment (Hendry & Kiel, 2004). RDT provides insight into how boards function to create or maintain a network for firms and connect firms to external resources. RDT does make prominent the external environment in terms of connecting the firm to external resources. However, the theory does not provide much indication of how the absence or ineffectiveness of external institutions could limit a board's ability to garner and provide resources for the firm.

Institutional Theory. Institutional theory focuses on external norms, regulations, and the social pressures outside a firm's immediate control that affect the firm's behaviors and outcomes (Selznick, 1957). The general notion of institutional theory is that “organizations are constrained by social rules and follow taken-for-granted conventions that shape their form and practice” (Hung, 1998: 107). The role of boards is to identify both institutional deficiencies and institutional pressures and suggest ways for firms to navigate the same (Hung, 1998). As such, institutional theory emphasizes that the presence vs. absence and the effectiveness vs. ineffectiveness of external institutions be considered when assessing the board's ability to direct and control the firm.

Comparing Theories: Studying Corporate Governance of Firms Operating at the BOP

Our review of multiple theories suggests that institutional theory allows us to theorize most effectively on how the presence versus absence of effective external institutions modifies the ability of boards to direct and control firms operating in those contexts. The institutional theory literature addresses at least two scenarios. On the one hand, when effective institutions are present, a major concern for organizations is to gain legitimacy (Hall & Taylor, 1996; Scott & Meyer, 1994; Selznick, 1957). On the other hand, when effective institutions are absent, a major concern for organizations is to fill or work around the institutional voids (Chakrabarty, 2009; Khanna et al., 2005; Mair & Martí, 2006). The context of this study is most relevant to the latter scenario.

Institutional voids exist when institutions are either inefficient or nonexistent, and they are especially prevalent at the BOP (Khanna et al., 2005; Mair & Martí, 2006). Institutional voids may exist in the political and social system (e.g., lack of accountability, ineffective legislature, judiciary, or executive, government interference, lack of property rights, corruption, incompetence in bureaucracy, problems due to social or religious intolerance, lack of independent media, etc.). They can also exist in labor markets (poor educational institutions/infrastructure, hard to enforce employment contracts, labor practices that are anti-business, etc.) and product markets (e.g., difficult to enforce market contracts, lack of reliable sources of product market data, poor logistics and transportation infrastructure, etc.). Additionally, the financial system at the BOP may have voids, which prevent those living in poverty from accessing financial markets. Regardless of where institutional voids exist, they create difficulties for

many firms to operate viably. We illustrate the presence of institutional voids in our theoretical framework in Figure 1.

In this study, we extend the sociological stream in institutional theory (Hall & Taylor, 1996) which suggests that entities "are seen, not simply as influenced by the wider environment, but as constructed in and by it" (Meyer, 2008: 792). In the wider environment, "everywhere, there are models put in place by law, ideology, culture, and a variety of organizational constraints and opportunities" (Meyer, 2008: 793). We argue that these pervasive "models" can shape the way that directors on boards think about socio-economic issues, especially when the directors have a background of personal expertise in the socio-economic issues plaguing institutional voids. We use this sociological approach to suggest that (i) institutional voids are major challenges that boards have to consider as they guide their respective firms and (ii) boards that appreciate, understand, and have been immersed in the socio-economic issues at the BOP are better able to guide their respective firms in the face of institutional voids.

The Microfinance Industry

Microfinance reaches in excess of 152 million people (CGAP, 2011) in more than 110 countries, many of which are part of the BOP (MIX Market, 2010). Microfinance provides financial services to the poor, which can help alleviate poverty and improve the welfare of the society as a whole (Morduch & Haley, 2002; Schreiner, 2002). More information on the varying characteristics of MFIs and their global dispersion is presented in Table 2.

Though MFIs are financial institutions, they are quite different from the usual financial institutions. Unlike other financial institutions, MFIs operate with both social and economic goals. That is, in addition to providing impoverished borrowers with access to financial services, MFIs also seek to catalyze "social change" and address "important social needs in a way that is not dominated by direct financial benefits" (Mair & Martí, 2006: 36). Further, differences between MFIs and other financial institutions are made apparent in the nature of their relationships with borrowers, depositors, and donors. We illustrate the differences in Table 3.

MFIs' Costs of Operating at the Bottom of the Economic Pyramid

As illustrated in the theoretical framework in Figure 1, MFIs fill a specific institutional void – the problem of "lack of access to finance" faced by impoverished people at the BOP. By filling this void, MFIs help increase entrepreneurial activity, productivity, and economic development at the BOP (Morduch & Haley, 2002). In addition, microfinance can create positive socio-economic impact – such as poverty alleviation (Morduch, 2000; Prahalad & Hammond, 2002), gender equality (Cheston & Kuhn, 2002), and improved health and education among those that receive financial services from MFIs (Robinson, 2001).

Though microfinance is believed to be a promising mechanism contributing to socio-economic development, it is plagued with the high costs of operating in BOP markets rife with institutional voids (Chakrabarty & Bass, 2013; Morduch, 2000; Shankar, 2007). For MFIs, the "greatest challenge is to lower operating costs in order to reduce the cost of service borne by borrowers" (Gonzalez, 2007: 37). Without properly controlling costs, the MFI could fail to operate continually in such contexts. Controlling operating costs is one way the MFI can be self-sustaining. As such, a "self-sustaining MFI is critical to the health of the sector and for it to continue to provide microfinance services to its clients" (MIX Market, 2010). If an MFI cannot sustain its operations by efficiently controlling costs, its ability to

contribute to socio-economic development is hindered. For instance, it would be limited in its ability to reach more impoverished borrowers or offer additional services to existing borrowers.

Much of MFIs' costs arise from the relationships they create and maintain with borrowers. MFIs have high expenses associated with administering, monitoring, and recovering loans (Agarwal, 2006; Akula, 2008; Shankar, 2007). To cover these expenses, MFIs must charge high interest rates from borrowers at the BOP (Fernando, 2006; Helms & Reille, 2004; Morduch, 2000). Because loan monitoring and recovery is expensive and interest rates contribute to the viability of the MFI, the microfinance industry is not immune to unethical actions. The microfinance industry has come under scrutiny for unethical actions by MFI loan agents recovering loans from impoverished borrowers (Chakrabarty & Bass, 2014a, b; Karim, 2011). Thus, the costs of operating at the BOP can involve a complex set of factors, which includes the administrative cost structure, interest rates, and the costs of creating and maintaining relationships between the MFI and its borrowers. See Table 4 for detailed information on the concerns associated with the MFIs' costs of operating in BOP markets.

Corporate Governance of MFIs

A recent trend in microfinance research is to examine the role of corporate governance in MFIs. Corporate governance is a key mechanism to strengthen MFIs' financial and social performance (Labie, 2001; Mersland, 2007). Boards, as a mechanism of corporate governance, often guide firms in relation to economic issues so that the firm operates in a successful and viable way (Zahra & Pearce, 1989). However, corporate governance in MFIs also encompasses involvement in social issues at the BOP. As illustrated in Table 5, MFIs operate in institutional contexts that are less stable, have more informal institutions, have ineffective or nonexistent laws and regulations, and where exchanges among economic actors are poorly supported.

In typical financial institutions, the purpose of corporate governance – and specifically boards – is to monitor the actions of managers and increase transparency by reducing information asymmetry. Boards strive to ensure that managers act in the interests of owners (rather than the managers' self-interests). In comparison, the purpose of the boards in MFIs is not only to monitor the actions of managers but also to ensure that the organization is achieving social and economic goals simultaneously (Labie, 2001). Boards in MFIs strive to ensure that the managers are not neglecting the larger societal interests.

Hypotheses Development

Corporate governance is a mechanism within the MFI that can help direct the MFI in tackling institutional voids in BOP markets. We develop this idea in the following sections.

Board Composition and the MFI's Costs of Operating at the BOP

Corporate governance at the BOP is ineffective when those involved in corporate governance, such as boards, are not willing to challenge the status quo at the BOP “due to lack of experience and expertise” (Gandy, Shaw, Tebbutt, & Young, 2006: 95). Corporate governance of firms operating at the BOP can be different from corporate governance of firms operating in developed markets. For instance, the expertise and experience of boards of firms operating at the BOP can differ from those operating in developed markets. The boards of firms operating at the BOP need to be aware of the inefficient or ineffective institutions in these markets. They also need to successfully direct and control the firm in the face of institutional voids. As such, an outcome that is relevant to MFIs is the high cost of operating at

the BOP (Agarwal,2006; Morduch, 2000; Shankar, 2007). The composition of boards of MFIs can potentially help the MFI lower the costs of operating at the BOP in the face of many institutional voids. Board composition is especially relevant to research on BOP markets because of the traditional lack of diversity in boards (Mahadeo, Soobaroyen, & Hanuman, 2012). We suggest that board composition may be an important consideration for MFIs that wish to lower costs of operating at the BOP.

Socio-Economic Expertise of the Board. Board expertise may help address MFIs' costs of operating at the BOP. MFIs that have boards that take an active role in directing the firm (Hendry & Kiel, 2004; Hung, 1998) may be better able to achieve social and economic objectives.

Various forms of expertise represent measures of human capital in board composition. First, boards with expertise in finance and banking are more aware of how to use this expertise to benefit the financial operations of the MFI. Boards with financial expertise are especially important for debt and earnings management. These board members are especially useful in BOP markets in which financial systems are either nonexistent or difficult to access (Mair, Martí, & Ventresca, 2012). Second, an MFI consisting of a board with legal expertise may be at an advantage in terms of regulating or lowering the MFI's costs of operating at the BOP. These boards are better able to use their legal acumen to guide MFIs to create and maintain equitable relationships with borrowers, depositors, and donors in markets in which the legal or regulatory environment is inefficient or nonexistent.

Third, boards with more expertise in socio-economic and nonfinancial matters would better understand the socio-economic issues faced by both the MFIs and their borrowers at the BOP. These boards are better able to use their knowledge to provide MFIs with guidelines of how to provide services to borrowers effectively at the BOP. Finally, MFIs with boards that have expertise in government and public services may employ available government or public services to either aid in relationship building with borrowers or reduce inefficiencies in the operation of the MFI itself. Thus, we propose:

> *Hypothesis 1. An MFI having a board with greater expertise will be better at reducing its costs of operating at the BOP.*

Female Directors on MFI Boards. MFIs with more female directors on the board may be better able to relate to institutional voids existing at the BOP. Many BOP markets have gender inequality issues (Cheston & Kuhn, 2002). Women are often a marginalized segment of society at the BOP (Mair et al., 2012). Not surprisingly, women are underrepresented on boards, especially on boards of firms operating in BOP markets (Mahadeo et al., 2012).

Table 6 presents a select sampling of females that serve as directors on boards of MFIs. This table highlights the diverse experience these females bring to the boards on which they serve. Expertise in gender issues, education, and community development are recurring themes in the biographies of these women. Female directors can help the MFI work around institutional voids to achieve social and economic objectives. Female directors often have first-hand experience with gender inequality issues arising from institutional voids at the BOP. In general, they are good at comprehending the characteristics of institutional voids and are committed to helping the MFI achieve its social and economic objectives (Hendry & Kiel, 2004). For instance, recent research suggests that more female representation on a board could lead to greater corporate social responsibility (Post, Rahman, & Rubow, 2011). Female directors' focus on serving borrowers in a socially responsible manner may be positively reciprocated by the borrowers. Building a genuinely trusting relationship between the MFI

and its borrowers can reduce the need for the MFI to frequently monitor and evaluate the borrowers, thereby reducing the costs incurred by the MFI. As such, we suggest:

> *Hypothesis 2. An MFI having a board with more female representation will be better at reducing its costs of operating at the BOP.*

The Moderating Role of the Effectiveness of a Country's Agrarian Institutions

BOP markets tend to be largely agrarian, with residents depending on agriculture-related activities (Varman et al., 2012). The poor in rural areas usually survive by working in agricultural fields, whereas their impoverished counterparts in urban areas often survive by trading agricultural produce. A country's agrarian institutions, especially those controlled by the government, are important drivers of agrarian productivity at the BOP. Agrarian institutions impact economic prosperity in BOP markets by building country-wide irrigation systems and controlling tariffs, export subsidies, and market access (Anderson, Martin, & Valenzuela, 2006). These institutions are also effective in providing support to the agrarian economy through agricultural funding, procurement and disbursal of supplies such as fertilizers, seeds, irrigation machinery, and other forms of support (Anderson et al., 2006; World Bank, 2004). Further, economic prosperity from agrarian institutions contributes to the development of hard and soft infrastructure and social development, such as increased access to public goods.

High agrarian prosperity is an indicator that the country-level agrarian institutions are effective. For MFIs operating at the BOP, the presence of effective agrarian institutions can aid boards in effectively directing the organization's economic and social efforts (Gandy et al., 2006). Agrarian prosperity arising from effective agrarian institutions helps alleviate the institutional voids present at the BOP, making it easier for the board to guide the MFI around the institutional voids. In contrast, ineffectiveness of agrarian institutions makes it more difficult for boards to help MFIs reduce their costs of operating at the BOP. Agrarian crises arising from ineffective agrarian institutions tend to worsen the institutional voids present at the BOP, making it harder for the board to guide the MFI around the institutional voids.

When the effectiveness of a country's agrarian institutions is low, even a board that has more socio-economic expertise and female representation may not be able to help the MFI reduce its costs of operating at the BOP. This inability to help is because of the numerous transactional difficulties arising from agrarian institutional failures. Because the BOP is largely agrarian, there is a contagion or downward spiral, whereby agrarian crises worsen the various other institutional voids at the BOP. When the various institutional voids at the BOP are worsened, the boards find it more difficult to work around the voids. Given the “low level of development in market exchange institutions in poor rural areas,” which “leads to very high transaction risks and costs in financial, input, and output markets” (Dorward et al., 2004: 613), an agrarian crisis can have catastrophic consequences for MFIs. In agrarian crises, poor borrowers are not able to repay at the high interest rates that MFIs typically charge, making it challenging for the MFI to recover loans. In the midst of agrarian crises, there is very little that MFI boards of directors can do to help the MFI lower its costs of operating at the BOP. Thus, we suggest:

> *Hypothesis 3. When the effectiveness of a country's agrarian institutions is high (rather than low), an MFI having a board with greater socio-economic expertise will be much more effective at reducing its costs of operating at the BOP.*

Hypothesis 4. When the effectiveness of a country's agrarian institutions is high (rather than low), an MFI having a board with more female representation will be much more effective at reducing its costs of operating at the BOP.

Methods

Sample

Our primary sample consists of MFIs from regions across the world – Eastern Europe and Central Asia, East Asia and the Pacific, Africa, South Asia, Latin America and the Caribbean, and the Middle East and North Africa. Data on MFIs are collected by the MIX (Microfinance Information Exchange), a non-profit private organization (MIX Market, 2010). Financial indicator data are directly submitted to the MIX by each MFI (or by the affiliated network that files on the MFI's behalf) or are gathered by the MIX from public documents published by MFIs (such as annual reports). This financial data is supplemented by organizational data voluntarily provided to the MIX by the institution or affiliated network. The MIX began collecting organizational data of MFIs in 2008. Because this study focuses on the characteristics of the board of directors of MFIs, only MFIs that report organizational data on boards are utilized. For the purpose of this study, a dataset is created by merging the MIX data with the World Bank Development Indicators data. The sample size is dictated by the extent of overlap among the merged databases and the availability of non-missing data for the variables of interest. The merged panel dataset allows a sample size of 280 MFIs.

We arrived at this sample size of 280 MFIs as follows. Over the past few years, MIX has managed to assemble basic profile information and financial/operational data of 1,931 MFIs across 116 countries. Of these MFIs, 1,321 MFIs were surveyed by MIX in order to gather additional data for the year 2009 (such as the characteristics of their boards in 2009). Of these 1,321 MFIs, there are 389 MFIs for which (i) a reasonable amount of survey data (such as on board characteristics) and a reasonable amount of financial/operational data (such as for firm-level control variables) are available for the year 2009, and (ii) a reasonable amount of financial/operational data for the dependent variable is available for the year 2010. Of these 389 MFIs, there are: (i) 326 MFIs with non-missing survey data for board-related variables for the year 2009, (ii) 372 MFIs with non-missing country-level data in the World Bank Development Indicators database needed to measure the moderator “effectiveness of country's agrarian institutions” for the year 2009, and (iii) 331 MFIs with non-missing data for the dependent variable “costs of operating at the BOP” for the year 2010. In combination, there are 280 MFIs that have non-missing data for all the necessary variables of interest (board related variables, country-level moderator, and dependent variable).

Table 7 provides the sample characteristics. The MFIs included in this sample are distributed across 59 countries, with MFIs from the Latin American region having the largest representation. The World Bank defines high-income countries as those with GNP per capita greater than $12,275 (World Bank, 2011). None of the MFIs in our sample operate in high-income countries. Forty-four percent of the MFIs in our sample are non-governmental organizations (NGOs). The sample means of financial and operational data suggest that an average MFI is relatively small in size (in terms of total assets and number of employees), with a very strong focus on the microfinance business (more than 90 percent of operations is in microfinance).

Measures for Variables in Hypotheses: Composition of MFI's Board of Directors

Socio-Economic Expertise in MFI's Board of Directors. The board of directors of MFIs often comprise people who have expertise in socio-economic issues. Accordingly, this variable is measured as the aggregate number of areas of expertise in the MFI's board of directors. Data are obtained from the MIX organizational survey database. MFIs responded to the question: "What are the areas of expertise of your institution's board members? (Check all that apply)". Four areas of expertise were included as options, one or more of which could be checked. The areas of expertise were: (i) Financial and Banking, (ii) Legal, (iii) Development/Non-financial Services, and (iv) Government/Public Services. The value of this variable therefore ranges from an aggregate of 0 to 4 (an MFI whose board has expertise in all the areas would get the highest aggregate score of 4).

Female Representation in MFI's Board of Directors. This is calculated as the ratio of the number of female board members to the total number of board members. Data are obtained from the MIX organizational survey database.

Measures for Variables in Hypotheses: Moderator and Outcome

Effectiveness of Country's Agrarian Institutions. The effectiveness of a country's agrarian institutions is measured using the country's crop production index. The crop production index of a country in a given year is the agricultural production for that year relative to a base period. It includes all crops except fodder crops (World Bank, 2011). The index is obtained from the World Bank Development Indicators database, which creates the index using regional and income group aggregates of the United Nation's Food and Agriculture Organization's (FAO's) production indices (World Bank, 2011).

MFI's Costs of Operating at the BOP. A substantial portion of the operating costs of MFIs functioning at the BOP is the cost of monitoring and maintaining relationships with borrowers. Monitoring of borrowers is important for MFIs to assess and manage risk exposure (especially because borrowers often lack property that can be pledged as collateral) and to ensure that borrowers make their payments on time. This monitoring may involve MFI personnel travelling from village to village at regular intervals to meet borrowers to assess their payment capacity. The locations are usually difficult and time-consuming to reach due to the tough terrain, geographic dispersion, and lack of public infrastructure and transportation, all of which increase the MFI's operational costs. Data for measuring this variable are obtained from the MIX financial indicators database.

The MFI's operational cost per borrower is calculated as the ratio of the annual operating expense to the number of active borrowers (MIX Market, 2010). The numerator, operating expense, is the expense related to operations, including all personnel, travel, and administrative expenses. The denominator, number of active borrowers, is the number of individuals or entities who currently have an outstanding loan balance with the MFI or are primarily responsible for repaying any portion of the MFI's gross loan portfolio. An individual/entity that has taken multiple loans from an MFI is counted as a single borrower. We also carried out analysis with an alternative measure – the MFI's operational cost per loan, calculated as the ratio of the annual operating expense to number of loans outstanding. The denominator, number of loans outstanding, is the number of loan accounts associated with any outstanding loan balance and portion of the loan portfolio that needs repaying. We used this alternative measure because we observed that a single borrower could take multiple loans from an MFI. Further, the recovery of some loans could potentially be more difficult than others. We found the results of the hypotheses tests to very similar irrespective of the measure used, which suggests that our findings are robust.

Measures for Control Variables

MFI Size. Firm size is included as a control because a larger MFI is likely to have a greater influence among its stakeholders and have more opportunities to diversify its loan portfolio. Larger MFIs, therefore, might be more effective in mitigating risk. Further, while larger size allows for greater economies of scale, it can also result in a lack of focus and management/coordination problems. Furthermore, larger firms may have access to more resources (e.g., finance, technology, human capital, etc.). Moreover, firm size commonly reflects the amount of output a firm can produce. Firm size is measured as the log of total assets, where total assets is reported in dollars. Data are obtained from the MIX financial indicators database.

MFI Operates as NGO. Table 2 enumerated the various forms of legal structures that an MFI can take. This variable is coded as 1 if the MFI has a legal status of being an NGO and is coded as 0 if it has a non-NGO legal status (i.e., among the other forms in Table 2: bank, credit union, NBFI, or rural bank). Data are obtained from the MIX databases.

MFI Loan Loss Rate. Write-offs are a major risk facing MFIs operating at the BOP. An MFI's write-offs are a result of non-recovery of uncollectable loans. This variable is measured as [(adjusted write-offs – value of loans recovered)/adjusted average gross loan portfolio]. The numerator includes the total amount of loans written off during the year. A write-off is an accounting procedure that removes the outstanding balance of the loan from the loan portfolio and from the impairment loss allowance when these loans are recognized as uncollectable. The denominator is the gross loan portfolio, which is the aggregate of all outstanding principals due for all outstanding client loans. It includes current, delinquent, and renegotiated loans but does not include loans that have been written off and does not include interest receivable. In sum, an MFI's loan loss rate is an indicator of both the extent of risk it has taken and the extent of its underperformance in proportion to the risk taken. Data are obtained from the MIX financial indicators database.

Country Mortality Rate. The country mortality rate is measured as the crude death rate for the country, or the number of deaths occurring during the year per 1,000 population, estimated at midyear (World Bank, 2011). This human factor measure, in contrast to the economic measures of country prosperity, is an indicator of human suffering that arises from poverty and poor health infrastructure. This variable is included as a control because borrowers from marginalized sections of society – low-end borrowers and women borrowers – tend to suffer the most under conditions of high mortality. Data are obtained from the World Bank Development Indicators database.

Country Economic Trade. A country's trading activity is an indicator of economic wealth generation. It is often positively related to modern corporate governance practices and negatively related to poverty. It is measured as merchandise trade as a share of gross domestic product (GDP) (World Bank,2011). That is, the sum of merchandise exports and imports divided by the value of the GDP, all in current US dollars. This measure is included as a control because firms in countries with high levels of economic trade are more likely to follow modern corporate governance practices, such as having greater expertise and greater female representation on the board of directors. Data are obtained from the World Bank Development Indicators database.

Results

Table 8 provides the descriptive statistics and correlations for our study. Ordinary least square (OLS) regressions are used to test the hypotheses, the results of which are included in Table 9. For the regressions, all the independent variables were standardized (with mean set to zero) to avoid multicollinearity problems and to obtain standardized parameter estimates. The independent variables were lagged behind the dependent variables by 1 year to indicate the longitudinal direction of the effects being tested. Figure 2 provides the interaction plots (the moderator variables are continuous, but only lines representing high and low values of the moderators are plotted for ease of visualization).

The results of our econometric analysis are largely supportive of the hypotheses. First, consistent with Hypothesis 1, the association of "socio-economic expertise in MFI board" on the "MFI's costs of operating at the BOP" is negative and significant ($\beta = -0.23$, $p < .01$ in model D2 and $\beta = -0.20$, $p < .01$ in model D8 of Table 9). Further, consistent with Hypothesis 2, this negative association is significantly moderated by the contextual variable "effectiveness of country's agrarian institutions" ($\beta = -0.14$, $p < .05$ in model D6 and $\beta = -0.17$, $p < .01$ in model D8 of Table 9). As shown in the interaction plot in Figure 2, the association of socio-economic expertise of MFIs' boards on the MFIs' costs of operating in the BOP is more strongly negative when effectiveness of the country's agrarian institutions is high (simple slope = −61.651, $p < .001$) rather than low (simple slope = −6.634, $p > .10$).

Second, consistent with Hypothesis 2, the association of "female representation in MFI board" on the "MFI's costs of operating at the BOP" is negative and significant ($\beta = -0.12$, $p < .05$ in model D3 and $\beta = -0.12$, $p < .05$ in model D8 of Table 9). Further, consistent with Hypothesis 4, this negative association is significantly moderated by the contextual variable "effectiveness of country's agrarian institutions" ($\beta = -0.14$, $p < .05$ in model D7 and $\beta = -0.15$, $p < .05$ in model D8 of Table 9). As shown in an interaction plot in Figure 2, the association of female representation in MFIs' boards on the MFIs' costs of operating in the BOP is more strongly negative when effectiveness of the country's agrarian institutions is high (simple slope = −222.584, $p < .001$) rather than low (simple slope = −43.382, $p > .10$).

Overall, we find that (i) appropriate board composition (as indicated by socio-economic expertise and female representation) can help lower an MFI's costs of operating at the BOP and (ii) the effectiveness of a country's agrarian institutions moderates the association between board composition and the costs of operating at the BOP.

Discussion

We use institutional theory to highlight the role of institutional voids in the ability of boards to guide firms operating at the BOP. Results from our study suggest that an MFI's board composition influences the MFI's costs of operating at the BOP. Further, the effectiveness of the country's agrarian institutions moderates this influence.

Contributions and Research Implications

Our findings lead to several contributions and implications that provide greater understanding of the role of corporate governance in MFIs. First, there are both opportunities and challenges for corporate governance at the BOP. MFIs have the opportunity to help in the socio-economic development of the BOP by providing services to impoverished borrowers. MFIs fill an institutional void in the financial system at the BOP by providing impoverished borrowers with access to financial markets. However, other institutional voids are present at the BOP. As such, MFIs face challenges as they attempt to work

around these institutional voids. We suggest that firms should create boards with the ability to guide the firm in the face of institutional voids.

Second, we focus on board composition to understand the corporate governance of MFIs. We suggest that boards can be instrumental in helping organizations navigate their way to organizational viability by filling or working around institutional voids. Board composition in terms of female representation (a demographic characteristic) and socio-economic expertise (a human capital characteristic) is important for effective corporate governance at the BOP. For instance, women are generally underrepresented on boards in BOP markets (Mahadeo et al., 2012). We suggest that a board with greater female representation can positively influence the firm's ability to achieve social and economic objectives (Post et al., 2011). Effective board composition helps the MFI to be more aware of the socio-economic issues at the BOP and helps the MFI work around institutional voids.

Third, while the notion of "serving the world's poor, profitably" has been romanticized in recent times (Prahalad & Hammond, 2002), we extend the literature by recognizing the difficulties faced by MFIs and their boards in pursuing this endeavor. We focus on how effective corporate governance can mitigate the MFIs' costs of serving impoverished borrowers. The costs of operating at the BOP are a major concern for the microfinance industry. We find that having a board with socio-economic expertise and female representation may help lower the costs of operating at the BOP. Such a board can not only help address social issues, such as reducing poverty and gender inequality, but also have positive financial effects. The board's expertise and commitment to work around institutional voids can help improve the MFI's viability and ability to meet the socio-economic needs at the BOP. Hence, corporate governance of MFIs is instrumental in tackling institutional voids that plague BOP markets. Effective corporate governance can lead to viable MFIs that sustain their operations over the long term and continually address socio-economic issues at the BOP.

Implications for Practice

From a practitioner perspective, we offer three noteworthy implications, especially for corporate governance at the BOP. First, the commitment of MFIs to address social and economic objectives can largely be influenced by the MFI's board. Our findings suggest that MFIs that elect boards with expertise in addressing social and economic issues can do so with the assurance that it can ultimately help lower costs. In doing so, an MFI, under the direction of its board, would be better able to address socio-economic issues. MFIs should strive to find suitable board members with genuine expertise and commitment toward addressing socio-economic issues at the BOP.

Second, an MFI that finds itself bloated with high operating costs, but without a board that is able to help guide the firm to reduce these costs, places both the MFI and its impoverished borrowers at a disadvantage. The MFI may find it difficult to operate as a viable entity, thereby compelling its borrowers to go to alternate MFIs for services, or perhaps, in more extreme circumstances, give up on microfinance altogether. Further, the withdrawal of this MFI from society can have detrimental socio-economic effects on the context in which it operates. Hence, we advocate that the microfinance industry should strive to improve its corporate governance practices.

Third, governments and policy makers in these markets must be aware of the role that institutional effectiveness plays in the viability of businesses and social entrepreneurship initiatives. Effective corporate governance can only do so much for MFIs operating in BOP markets. The presence of

institutional voids at the BOP is real and potentially troublesome for firms, such as MFIs, operating in these contexts. Although we demonstrate that effective corporate governance can be influential in helping MFIs fill and work around institutional voids, corporate governance is not the magic wand for tackling all institutional voids at the BOP. Governments and policy makers can work toward building effective institutions, create contexts that allow better corporate governance of firms, and help firms navigate the institutional voids at the BOP.

Limitations and Future Research

Though we believe our study provides novel insights, we are aware of some limitations that can be addressed by future research on the role of corporate governance in social entrepreneurship, corporate social responsibility, and sustainability. First, the scope of this study is limited to the influence of board composition. Though we believe that our findings provide unique insight to the microfinance industry and beyond, future research may benefit from examining other facets of corporate governance such as the role of owners and top management teams (Chakrabarty & Whitten, 2011; He, Chakrabarty, & Eden, 2014). Second, the costs of operating at the BOP was an appropriate outcome variable in this study because of the heightened awareness of such costs in the microfinance industry (Gonzalez, 2007) and other industries (Whitten, Chakrabarty, & Wakefield, 2010; Zardkoohi, Bierman, Panina, & Chakrabarty, 2011). Nonetheless, future research can certainly investigate other outcomes/consequences that may be influenced by the composition of boards of MFIs. Finally, other antecedents could play a role, especially those related to corporate social responsibility and sustainability (Chakrabarty, 2014; Chakrabarty & Wang,2012, 2013). Future research can consider incorporating additional variables of interest when studying MFIs.

Conclusion

Board composition is an important mechanism of corporate governance. However, little is known of the influence of board composition on organizational viability at the BOP. We focus on corporate governance in MFIs and argue that MFIs with boards that have greater commitment to social and economic objectives may be better able to reduce costs associated with providing loans to impoverished borrowers. Further, we highlight the role of country-level agrarian institutions in moderating the relationship between a board's composition and the MFI's costs of operating at the BOP. We contribute to the literature on social entrepreneurship, corporate social responsibility, and sustainability by demonstrating how board composition influences a firm's ability to face institutional voids at the BOP. Our study paves the way for greater research on the importance of corporate governance in firms operating in institutional voids at the BOP.

TABLE 1
Theoretical Perspectives of Corporate Governance: Application to Board of Directors

Theory	Management hegemony (Mace, 1971)	Agency theory (Jensen & Meckling, 1976)	Stakeholder theory (Freeman, 1984)	Stewardship theory (Donaldson, 1990)	Resource dependence theory (Pfeffer & Salancik, 1978)	Institutional theory (Selznick, 1957)
Overarching perspective	Boards are a legal fiction under management's control (Hendry & Kiel, 2004; Mace, 1971)	Boards reduce the divergence of interest between principals and agents to minimize agency costs and protect shareholders' investments (Fama & Jensen, 1983)	Boards coordinate the interests of multiple stakeholders (Hung, 1998)	Management executives can be viewed as stewards of the firm and the board can positively contribute to stewardship (Hendry & Kiel, 2004; Hung, 1998)	Boards link firms with the external environment, giving the firm access to external resources. Boards also serve as a buffer between the firm and adverse environmental change (Hendry & Kiel, 2004; Zahra & Pearce, 1989)	The presence/absence and the efficacy/inefficacy of institutions influence the choices and actions of boards in directing and controlling the firm (Hung, 1998; Scott & Meyer, 1994)
Normative elements of the theory for corporate governance research	Board serves the management. Board acts as a "rubber stamp" of (i.e., rarely disagrees and endorses without careful thought) the decisions of professional managers (Hung, 1998)	Boards should monitor and control management of the firm (Hendry & Kiel, 2004)	Boards should be moral and philosophical guides for the firm (Hung, 1998)	Boards should contribute knowledge, expertise and commitment to the firm (Hendry & Kiel, 2004; Muth & Donaldson, 1998)	Boards should help firms attain, rather than use, external resources (Hendry & Kiel, 2004; Hung, 1998; Stiles & Taylor, 1996)	To effectively direct a firm, its board should take into account institutional deficiencies, rules, and taken-for-granted conventions (Hung, 1998)
Factors of influence	Institutionalized internal pressure (Hung, 1998)	Contingencies arising from the internal environment (Hung, 1998)	Conflicting interests of multiple stakeholders in the internal and external environments (Freeman, 1984)	Contingencies arising from the internal environment (Hung, 1998)	Contingencies arising from the external environment (Hung, 1998; Zahra & Pearce, 1989)	Institutionalized external pressures and institutional deficiencies (Hung, 1998; Scott & Meyer, 1994)
Function of the board	To be tools of management (Mace, 1971)	To focus on the present (Fama & Jensen, 1983)	To coordinate the multiple interests of stakeholders (Hung, 1998)	To focus on the future (Donaldson, 1990)	To network (Hung, 1998; Zahra & Pearce, 1989)	To help the firm navigate the institutional context (Hung, 1998; Selznick, 1957)
Prominence of the presence/absence and functioning of external institutions on board's ability to direct and control firm strategy	Less prominent	Less prominent	Less prominent	Less prominent	Less prominent	More prominent

TABLE 2
Variety in Characteristics of MFIs: By Legal Status, Target Market, and Geography

Criteria	Characteristics of the MFI	Description			
MFI's legal status	• Non-government organization	"An organization registered as a nonprofit for tax purposes or some other legal charter. Its financial services are usually more restricted, usually not including deposit taking. These institutions are typically not regulated by a banking supervisory agency" (MIX Market, 2010).			
	• Non-bank financial intermediary/ institution	"Persons or entities whose principal functions include the lending, investing, or placement of funds or evidences of equity deposited with them, or otherwise coursed through them, either for their own account or for the account of others" (NSCB, 2012).			
	• Credit union	"Financial credit institutions that are created in the form of a cooperative in order to assist its members by merging the personal savings of credit union members and their use for mutual credit and providing other financial services" (CGAP, 1999).			
	• Bank	"Corporations, companies or associations which are engaged in the lending of funds obtained from the public through the receipt of deposits and the sale of bonds, securities or obligations of any kind" (NSCB, 2012).			
	• Rural bank	"Government-sponsored/assisted banks which are privately managed and largely privately owned that provide credit facilities to farmers and merchants, or to cooperatives of such farmers or merchants at reasonable terms and in general, to the people of the rural community" (NSCB, 2012).			
MFI's target market: Economic (MIX Market, 2010)	• Low end	Average balance per borrower as a percentage of the gross national income per capita is less than 20% and the average balance per borrower is less than US$150.			
	• Broad	Average balance per borrower as a percentage of the gross national income per capita ranges between 20% and 150%.			
	• High end	Average balance per borrower as a percentage of the gross national income per capita ranges between 150% and 250%.			
	• Small business	Average balance per borrower as a percentage of the gross national income per capita exceeds 250% (MIX Market, 2010).			
MFI's target market: Gender	• Women	Women represent the target market (are explicitly targeted by the MFI) and therefore a substantial percentage of the total number of active borrowers (MIX Market, 2010).			
	• General	No gender is explicitly targeted by the MFI (MIX Market, 2010).			
Geographic Distribution of MFIs[a]		No. of countries	No. of MFIs	No. of active borrowers	Gross loan portfolio (US$)
	• Africa	31	262	7.4 million	8 billion
	• Eastern Asia and the Pacific	11	151	12.8 million	34.7 billion
	• Eastern Europe and Central Asia	21	183	2.5 million	6.8 billion
	• Latin America and the Caribbean	22	362	19.2 million	34.8 billion
	• Middle East and North Africa	9	33	1.9 million	1.1 billion
	• South Asia	7	158	47.9 million	8.3 billion

[a]Data obtained in February 2014 from http://www.mixmarket.org/mfi (countries and regions search tool, 2012 data).

TABLE 3
Differences between Financial Institutions (FIs) and Microfinance Institutions (MFIs)

Relationships	Financial institutions (FIs)		Microfinance institutions (MFIs)	
	Type of relationship	Nature of the relationship	Type of relationship	Nature of the relationship
Relationship with clients	FI–customer	• While FIs have a large amount of information about their customers (including borrowers), customers are treated as if they are anonymous (Peppard, 2000) because most FIs adopt a standardized enterprise-wide customer relationship management approach (Coltman, 2007; Peppard, 2000). Information availability and standardized processes help lower costs.	MFI–borrower	• MFIs know little about borrowers due to lack of financial histories, collateral, and credit scores (Morduch & Haley, 2002). The relationship is largely based on highly active and highly personalized monitoring to ensure loan repayment (Shankar, 2007). Thus, the relationship is costly for MFIs.
Relationship with depositors	FI–depositor	• The relationship is a well regulated and largely transparent exchange, whereby FIs provide services to depositors (such as administration of the payments, intermediation services, trust department activities, portfolio advisory services, insurance, etc.) in exchange for the use of the depositors' funds (Hodgman, 1969; Klein, 1971; Sealey & Lindley, 1977).	MFI–depositor	• Regulations are lacking. Even when regulations exist, depositors aren't aware or can't trace how MFIs use depositors' funds due to information asymmetry and the sometimes corrupt or ineffective governance and regulatory systems (Fisher & Fournier, 2002; Mersland, 2009).
Relationship with donors	na	na	MFI–donor	• Most MFIs manage a third relationship with donors, who are unaware of how MFIs use funds due to lack of reporting and information asymmetry. Some donors impose sanctions on MFIs such as auditing, rating, follow-up visits, and on-site experts. Though not a major cost for MFIs, maintenance of the MFI–donor relationship is required (Mersland, 2009).

TABLE 4
Factors Contributing to MFI's Costs of Operating at the Bottom of the Economic Pyramid

Concern	Example of evidence	Effect
Costs of doing business in the presence of institutional voids	• "[T]ransactions are uncertain majorly due to limited access to resources such as information and capital. New institutional economics describes institutional void with higher transaction cost, which is caused by higher enforcement cost and measurement cost." (Kim & Song, 2011: 6) • "[I]nstitutional voids prevent the efficient functioning of markets by increasing the cost of transactions." (Mair & Martí, 2009: 422)	• *Costs due to institutional voids*: Costs associated with doing business are greater at the BOP because of the presence of institutional voids. Thus, businesses such as MFIs must address these costs to sustain operations.
Costs associated with monitoring borrowers	• "Microfinance institutions (MFI) incur costs not only in sourcing funds and disbursement of these funds to microfinance clients but also in promotion and monitoring of microfinance client groups and development of processes for improving efficiencies of service delivery." (Agarwal, 2006: 1) • "Instead of having borrowers visit a branch office, our loan officers journey on mopeds to their villages and schedule loan meetings as early as 7:00 am so that the women don't miss part of the workday. We do this even though the costs of travel are quite high. It's not just the gasoline; our officers brave monsoons, summer heat, and sometimes harrowing driving conditions on rough dirt roads." (Akula, 2008: 57) • "[T]he cost of transaction, which includes the costs of identifying and screening the client, processing the loan application, completing the documentation, disbursing the loan, collecting repayments and following up on nonpayment. Unlike the cost of funds and the cost of defaults, transaction cost is not proportional to the amount lent. The average microfinance loan size being smaller than most other loans – corporate and personal – the transaction cost on a percentage basis for a microfinance loan tends to be higher." (Shankar, 2007: 1333)	• *Cost of monitoring*: MFI's costs of operating at the BOP are high due to the small size of the loans and personal contact between loan agents and borrowers. Further, these loan agents often travel to borrowers, sometimes located in remote villages, to monitor loans and receive repayments.
Costs associated with recovering high-interest loans	• "Microcredit costs are high because of the greater delivery costs of tiny transactions that require face-to-face interaction and because MFIs use personal contact as a substitute for formal collateral or computerized credit scoring . . . Three types of costs need to be covered by interest rates: the cost of funds for on-lending, the cost of risk (loan loss), and administrative costs (identifying and screening clients, processing loan applications, disbursing loans, collecting repayments, and following up on non-repayment)." (Helms & Reille, 2004: 2–3) • "While high microcredit interest rates have helped the industry grow, and enabled many millions of poor and low-income households to gain access to credit, there are still those who cannot afford such loans because of their high cost." (Fernando, 2006: 7) • "By eventually eschewing subsidies and achieving financial sustainability, microfinance institutions will be able to grow without the constraints imposed by donor budgets. In the process, according to the argument, these institutions will be able to serve more poor people than can be served by programs fueled by subsidies. A key tenet is that poor households demand access to credit, not 'cheap' credit. Thus, programs can charge high interest rates without compromising outreach." (Morduch, 2000: 617)	• *The high-cost spiral*: The higher costs of operating at the BOP markets induce a need to increase interest rates. In turn, the high interest rates make it challenging to recover loans, which add to the MFI's costs of operating at the BOP. This leads to a self-feeding spiral toward higher costs.
Unethical and aggressive behaviors of loan agents of MFIs	• "Borrowers claimed that BRAC field-workers spoke to them in verbally abusive language, and that Grameen was known for its tyranny in Pirpur. These verbally abusive exchanges were a regular feature of loan collections." (Karim, 2011: 90) • "These institutions are using quite coercive methods to collect. They aren't looking at sustainability or ensuring the money is going to income-generating activities. They are just making money." (Sharpe & Schwartz, 2011)	• *The distrust spiral*: Abusive/aggressive acts against impoverished borrowers to ensure loan repayment create distrust among borrowers, which makes loan recovery even more difficult.

TABLE 5
Institutional Differences: Developed Countries versus Bottom of the Economic Pyramid (BOP)

External factor	Developed countries	BOP (in developing countries)	Effect on corporate governance at the BOP
Institutions			
• Stability of institutions	• More stable	• Less stable	• Instability may create changes which make directing and controlling firm behaviors more difficult (Khanna & Palepu, 2000)
• Role of informal institutions such as relational ties, business groups, family connections, and government contacts	• Smaller role	• Greater role	• Both informal and formal institutions contribute to shaping corporate governance structures and functioning (Peng & Heath, 1996; Yeung, 2006)
• Effective and predictable rule of law, including regulations with regards to accounting requirements, information disclosure, securities trading	• Exists and operates efficiently	• Absent, inefficient, or does not operate as intended	• Creates a "weak governance" environment in which changes create difficulties for compliance (Dharwadkar, George, & Brandes, 2000; Khanna & Palepu, 2000; Mitton, 2002)
Support for economic activity			
• Mutually beneficial exchanges between economic actors	• Promoted (North, 1990)	• Not promoted (Khanna & Palepu, 2000)	• Corporate governance systems and mechanisms may have difficulties finding partners and fostering economic exchanges
General administrative issues			
• Institutional support for standard corporate governance mechanisms	• Relatively strong support	• Relatively weak support	• Corporate governance may be underutilized, inefficient, or nonexistent in firms (Gandy et al., 2006; Peng, 2003, 2004)
• Form of modern corporate governance	• "Tripod" (of shareholders, boards of directors, and professional managers)	• "Tripod" may be adopted, but may not function similarly to developed countries	• Corporate governance may be similar in form but not in substance (Khanna & Palepu, 2000; Peng, 2004)
• Threats to effectiveness of corporate governance	• Poorly performing or self-interested executives need to be monitored (Fama, 1980)	• Board members are unwilling to challenge the status quo "due to lack of experience and expertise" (Gandy et al., 2006: 95)	• Unqualified or under-committed members of boards may contribute to weak corporate governance
• Ownership structure	• Usually "widely-held" (Fama, 1980)	• Usually "concentrated"	• Concentrated ownership may attempt to fill the corporate governance vacuum, creating other problems for firms (Khanna & Palepu, 2000)

TABLE 6
A Sampling of Females Serving on Boards of MFIs

Country (MFI)	Name	Education and experience (Source: MFI websites)
Yemen (Alamal Bank, 2013)	• Jalila Shouja'a Al-Dain	Represents the Yemeni government at Al Amal Bank and a member of its boards. Currently working at the Social Fund for Development (SFD) as the Head of Social Protection and Health and Educational Unit. Vice Head of public Syndicate of Educational Careers. Previously the head of Zaid Al-Moshaki School in Taiz and the Head of Child to Child Charitable association.
India (Biswa, 2013)	• Jagadamba Rao	Ex-member of the State Social Welfare Board. Eminent social worker of Sambalpur district. Joined BISWA as the Vice President since 1997. Specialization in women rights sector has benefitted BISWA as well as the community at large.
	• Mariyam Sibil	Experience in understanding her own community and effectively linking them to developmental activities of the MFI.
	• Rajasini Sibil	Participation in guiding the MFI to provide proper direction to community upliftment programs for youths and adolescents.
India (Ujjivan, 2013)	• Mona Kachhwaha	MBA from Xavier Labour Relations Institute (XLRI), Jamshedpur and a BSc in Mathematics from Delhi University. Seventeen years of financial services industry experience. In 2005, assumed responsibility for setting up and heading Citibank's microfinance business in India. As the head of microfinance business, some key responsibilities include creating business alliances and partnerships with microfinance institutions, developing relationships with industry bodies, funding agencies and networks.
Indonesia (MBK Ventura, 2013)	• Elizabeth Sweeting	PhD in Education, Sussex University, UK. Previously a Senior Consultant for several international organizations including World Bank, ADB and British Council in Africa and Asia. Fifteen years of experience in Indonesia, working with Department of Education. Founder, Ganesha Microfinance Foundation. First Head, HRD and Head, Treasury of MBK.
	• Susanti Gandaatmaja	Junior Degree in Economics, Borobudur University. Joined MBK as field officer, then promoted to branch manager and Area Supervisor, before assuming the post of Manager, Business Expansion. Recently promoted to Director, HRD and Administration.
Ghana (Sinapi Aba Trust, 2013)	• Dorothy Danso	National president of Women's Aglow Fellowship International, an International trans-denominational organization of Christian women with more than 4,000 local groups in 163 nations worldwide. Trade unionist with over three decades of experience in supporting workplace organization and managing conflicts between employees and employers. Extensive knowledge and hands-on experience in the design, implementation and evaluation of micro-credit programs; training and training needs assessment at the institutional and national/international levels. Passion for developing women and equipping poor entrepreneurs with business development skills for their financial emancipation. Instrumental in designing and creating synergies among development-oriented organizations locally and internationally.
	• Mary Ansong	Deputy National Coordinator in charge of operations of Ghana School Feeding Program. Serves as a Board member of the Oasis Christian Academy and Antoa Secondary School, both in Kumasi. Also serves as a council Member of the Asante Presbytery of Presbyterian Church of Ghana. Member of the Ghana Universities Staff Superannuation Scheme Management Board.
	• Ernestina Freduah-Antoh	Director of Bureau of Integrated Rural Development (BIRD). Gender specialist and a Coordinator of Short Courses for the College of Agriculture and Natural Resources at Kwame Nkrumah University of Science and Technology (KNUST). Her contribution on gender policies has resulted in high participation of women in development and empowerment in the country. Worked as a university lecturer and has supervised the research works, final project works and theses of students.
	• Theodosia Jackson	She is an educationist and the former Headmistress of the Kwame Nkrumah University of Science and Technology Junior Secondary School. National President of GHACOE Women's Ministry. Counselor and an advisor to leaders and religious heads.
	• Addobea Addo	Former Manager of Ecobank, Kumasi. Currently Head of Branches and Channels of Ecobank Ghana experienced banker with over 20 years' experience in marketing, credit management, domestic and foreign operations within the banking industry.

TABLE 7
Characteristics of Sample

Average financial and operations data of MFI	Mean
Total assets, in millions of dollars	58.17
Gross loan portfolio, in millions of dollars	45.52
Number of employees	470.12
Number of offices	44.71
Years since MFI was established	14.59
% Operations comprised by microfinance	92.37
Distribution of MFIs by profit status	Freq (%)
Non-profit organization	65.0
Profit-seeking organization	35.0
Distribution of MFIs by regulated status	Freq (%)
Unregulated (informal) organization	48.57
Regulated (formal) organization	51.43
Distribution of MFIs by legal status	Freq (%)
NGO (non-governmental organization)	44.29
NBFI (non-bank financial institution)	35.71
Credit union/Cooperative	10.00
Bank	6.79
Rural bank	2.86
Other	0.36
Geographic distribution of MFIs in sample . . . distributed across 6 regions and 59 countries	Freq (%)
Africa (Burkina Faso, Cameroon, Chad, Ghana, Kenya, Malawi, Mali, Nigeria, Rwanda, Senegal, South Africa, Tanzania)	5.36
East Asia and the Pacific (Cambodia, China, Indonesia, Philippines, Timor-Leste)	10.00
Eastern Europe and Central Asia (Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Macedonia, Mongolia, Poland, Russia, Tajikistan, Ukraine, Uzbekistan)	18.21
Latin America and The Caribbean (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Venezuela)	49.64
Middle East and North Africa (Egypt, Iraq, Jordan, Lebanon, Morocco, Tunisia, Yemen)	4.64
South Asia (Bangladesh, India, Pakistan)	12.14

Sample size is n = 280 firms, where data are from the year 2009.

Table 8. Correlations: Operational and Financial Data of Sample of MFIs

	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dependent variable (year Y ± 1)											
01. MFI's costs of operating at the BOP	174.15	171.15	1.00								
Controls (year Y)											
02. MFI size	16.39	1.84	0.00	1.00							
03. MFI operates as NGO	0.44	0.50	−0.16	−0.26	1.00						
04. MFI loan loss rate	2.08	3.59	0.04	0.02	0.17	1.00					
05. Country mortality rate	6.59	2.09	0.04	0.13	−0.13	0.09	1.00				
06. Country economic trade	53.74	20.23	0.03	0.01	−0.08	0.12	−0.10	1.00			
Predictors and moderator (year Y)											
07. Socio-economic expertise in MFI's board	2.19	1.06	−0.23	0.22	0.11	0.03	0.06	0.05	1.00		
08. Female representation in MFI's board	0.30	0.25	−0.13	−0.17	0.16	−0.03	−0.02	0.11	0.04	1.00	
09. Effectiveness of country's agrarian institutions	130.33	23.07	0.01	0.02	−0.16	−0.15	0.02	0.24	0.00	−0.04	0.03

Sample size is n = 280 firms. Independent variables are lagged behind the dependent variable by 1 year. Independent variables are from the year Y = 2009, whereas the dependent variable is from the year Y + 1 = 2010.

Table 9. Negative Association of MFI Board Competence on MFI's Costs, with Effectiveness of Country's Agrarian Institutions as Moderator

	MFI's costs of operating at the BOP as dependent variable (*Year Y + 1*) Standardized parameter estimates β								
	D1	**D2**	**D3**	**D4**	**D5**	**D6**	**D7**	**D8**	**Support**
Controls (Year Y):									
MFI size	−0.06	0.00	−0.07	0.00	−0.01	−0.00	0.01	0.01	
MFI operates as an NGO	−0.19**	−0.14*	−0.17**	−0.12†	−0.12†	−0.13*	−0.12†	−0.13*	
MFI loan loss rate	0.07	0.07	0.07	0.07	0.06	0.07	0.07	0.08	
Country mortality rate	0.02	0.03	0.02	0.04	0.05	0.04	0.03	0.02	
Country economic trade	0.01	0.03	0.03	0.04	0.04	0.05	0.04	0.05	
Predictors (Year Y)									
H1. Socio-economic expertise in MFI's board		−0.23**		−0.20**	−0.20**	−0.19**	−0.20**	−0.20**	Yes
H2. Female representation in MFI's board			−0.12*	−0.11†	−0.11†	−0.11†	−0.12*	−0.12*	Yes
Moderator (Year Y)									
Effectiveness of country's agrarian institutions					−0.02	−0.02	−0.04	−0.04	
Interactions									
H3. Socio-economic expertise in MFI's board × Effectiveness of country's agrarian institutions						−0.14*		−0.17**	Yes
H4. Female representation in MFI's board × Effectiveness of country's agrarian institutions							−0.14*	−0.15*	Yes
R^2	0.0354	0.0819	0.0485	0.1091	0.1094	0.1300	0.1276	0.1535	
F-value	2.01	4.06	2.32	4.15	3.68	4.02	3.93	4.04	
p-value	0.0774	0.0006	0.0334	0.0001	0.0002	<0.0001	<0.0001	<0.0001	
ΔR^2		0.0465	0.0131	0.0737	0.0003	0.0206	0.0182	0.0441	
F-value		13.82	4.18	7.48	0.08	6.36	5.62	4.64	
p-value		0.0002	0.0482	<0.0001	0.7806	0.0122	0.0185	0.0035	

Sample size = 280 firms. Variables are centered and standardized. Independent variables are lagged behind the dependent variable by 1 year. Dependent variable is from the year 2010, whereas independent variables are from the year 2009. Variables are winsorized at 0.5 and 99.5 percentiles to limit outliers (results are very similar without winsorizing). Max VIF = 1.31 in the above steps, indicating no evidence of multicollinearity.

**p ≤ .01, *p ≤ .05, †p ≤ .10 (conservative two-tailed tests).

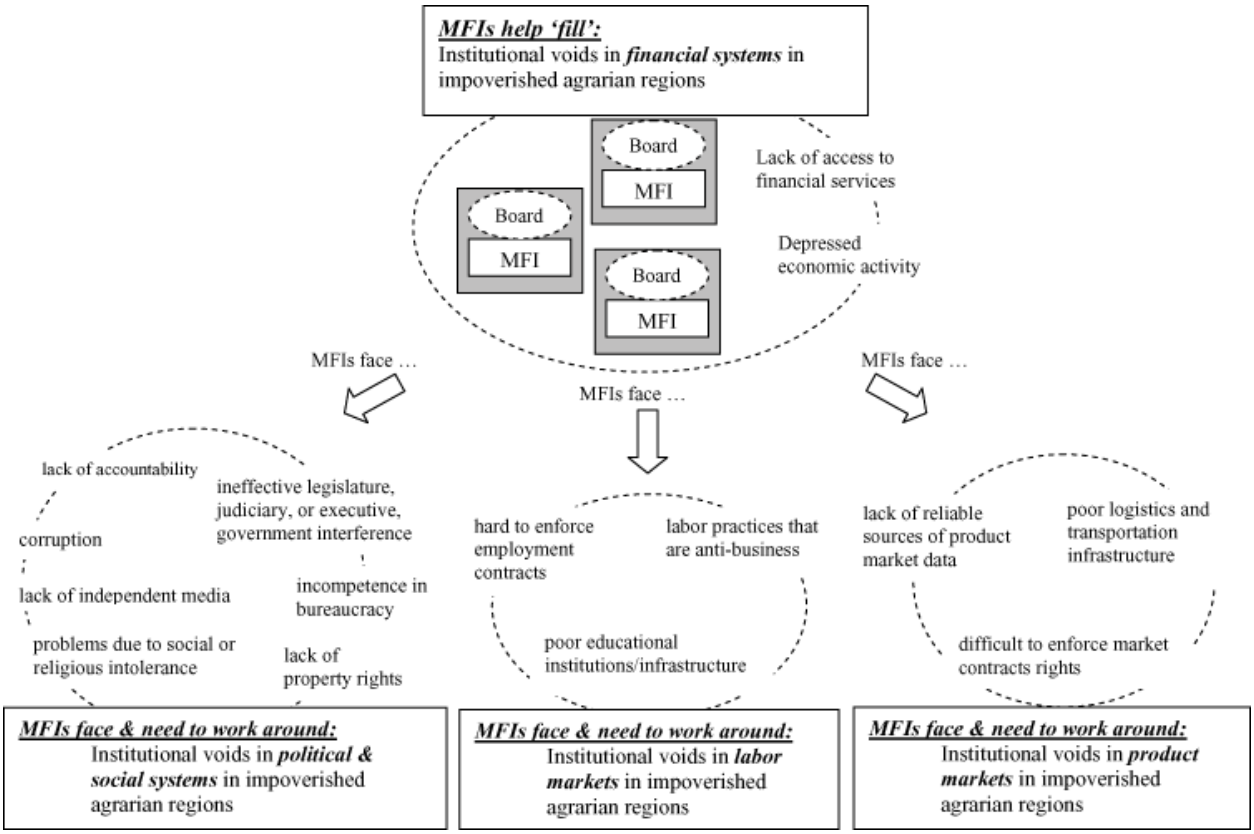

Figure 1. Theoretical Framework: Institutional Voids in Impoverished Agrarian Regions

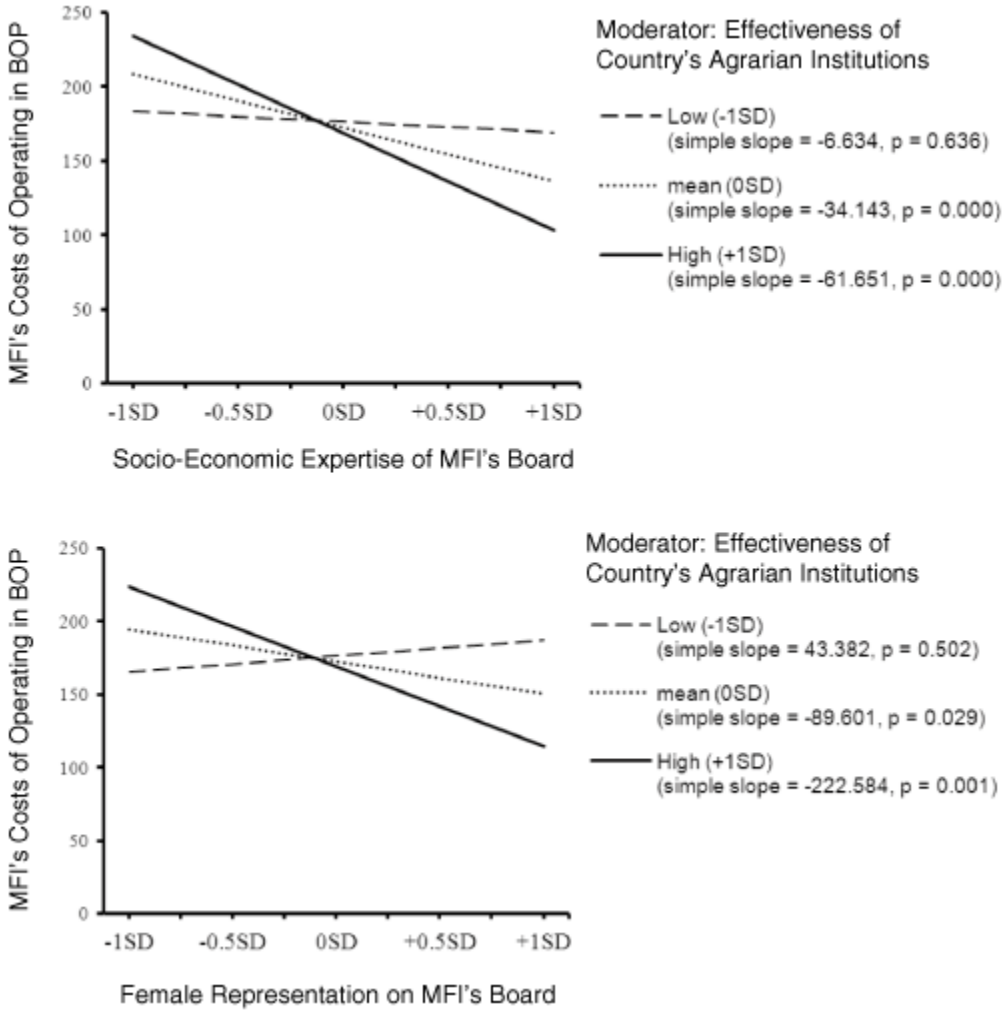

Figure 2. Interaction Plots: Negative Association of MFI Board's Composition on MFI's Costs, with Effectiveness of Country's Agrarian Institutions as Moderator

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