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RESEARCH SEMINAR

organized by the

Centre for European Research in Microfinance

Prof. Niels Hermes

(University of Groningen, NL)

Making Microfinance Board Effective: An Empirical Analysis

Tuesday, November 27th, 2012

From 12.15pm to 1.45pm

**At Seminar Room R42.2.110 (ground floor)
of the Solvay Brussels School of Economics and Management
Université Libre de Bruxelles - ULB**

Abstract:

One potentially important factor supporting the development of a sustainable microfinance model is the governance of the organizations, which refers to how these organizations deal with representation of different stakeholders and who is responsible for taking the final decisions reflecting different stakeholder interests. Decisions that may influence outcomes regarding the performance of MFIs are determined among other things by the way the governance is structured. More specifically, board processes (i.e. the interaction between members of the board) may be very important in determining board decision making outcomes, and ultimately also organizational outcomes. Investigating these board processes may be particularly interesting for MFI boards as several different stakeholders may be involved in microfinance, depending on the legal status of the institution. This is different from what is generally the case for corporate boards. Board processes such as the extent to which board members and managers exchange information, whether board members show commitment before and during meetings and/or whether there is critical debate during board meetings may be influenced by the nature of stakeholder representation in MFI boards, which in turn may have an impact on the relationship between board functioning and institutional performance.

In this paper we analyze the relationship between boards and performance by using a survey that contains detailed questions on board processes, particularly focusing on processes of information sharing, critical debate and commitment within boards of MFIs. We focus on measuring the impact of these processes on performance of MFI boards as well as on MFIs as a whole. First, we distinguish measures of board performance (also referred to as board effectiveness), focusing on the two most important board tasks, i.e. advice and monitoring. These two measures are embedded in resource-based theory (advice) and agency theory (monitoring). Second, we focus on measures of performance at the level of the MFIs, using measures of the financial (e.g. operational self-sufficiency and return on assets) and social performance (e.g. the depth and breadth of outreach) of these institutions. The survey has been filled out by 79 CEOs of MFIs in Kenya, Tanzania and Uganda. The data have been collected in 2010.

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