

# The Effect of Boards on the Performance of Microfinance Institutions: Evidence from Tanzania and Kenya

Neema Mori and Donath Olomi



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# **The Effect of Boards on the Performance of Microfinance Institutions: Evidence from Tanzania and Kenya**

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# List of Abbreviations

<b>CEO</b>	Chief Executive Officers
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CSFI</b>	Centre for the Study of Financial Innovation
<b>GOs</b>	Governmental Organizations
<b>IMED</b>	Institute of Management and Entrepreneurship Development
<b>MFI</b> s	Microfinance Institutions
<b>NGO</b> s	Non-governmental Organizations
<b>OSS</b>	Operational Self-Sustainability
<b>UDBS</b>	University of Dar es Salaam Business School
<b>REPOA</b>	Research on Poverty Alleviation
<b>ROA</b>	Return on Assets
<b>SACCO</b> s	Savings and Credit Cooperatives
<b>TAMFI</b>	Tanzania Association of Microfinance Institutions
<b>TOR</b> s	Terms of Reference



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# Abstract

Although microfinance institutions (MFIs) are the most prominent providers of financial services to low-income people, their economic and social performance is subject to debate. How MFIs are governed is likely to affect their efficiency, outreach to the poor, sustainability, and impact on poverty alleviation. This study explores and examines the effects of the governing board on the social and financial performance of MFIs. The first phase of the study explores MFI board members' awareness and perception of their roles and how this affected their participation in the board and their influence on it. The second phase examines the effect of specific board member characteristics (external representation, international source, education, and gender) on the economic and social performance of the MFI through a survey of 337 board members in Kenya and Tanzania. The pilot study established that although MFI board members are largely aware of their role, a few are either not aware or assertive enough, and this impacts the extent of their influence. Contrary to expectations, less educated, female, and local directors bring about superior financial and social performance of MFIs. The main implication is that we need to look beyond the traditional dimensions of capacity when considering what resources are appropriate for supporting MFIs, including at the board level. Specific policy measures are recommended.



# Introduction

Although microfinance institutions (MFIs) deal with the provision of loans and other financial services for low-income people, their ability to impact poverty as well as their economic efficiency are subject to debate. These institutions serve more than 200 million customers worldwide (Maes & Reed 2012). In contrast to formal banks, most MFIs choose dual objectives of outreach to poor customers (social performance), while covering their costs and being financially sustainable (financial performance) (Hermes & Lensink 2011). Nevertheless, the impact of MFIs on poverty alleviation is still contested by some scholars who question their value in particular contexts, and some studies even report negative effects on poverty (Armendariz & Szafarz 2009). Driven by the financial performance objective, or because of their limited institutional and human capital capabilities, some MFIs may limit their outreach to a few relatively well-off customers around urban areas, or offer a one-size-fits-all product rather than customizing their offerings to the needs and characteristics of different socio-economic groups of customers. The impact on the poor may therefore be connected to how MFIs are organized and governed.

MFIs are organized as non-governmental organizations (NGOs), banks, financial cooperatives, government agencies (GAs), projects, or non-bank financial institutions (Hartarska 2005). These forms have different governance structures. Furthermore, some MFIs aim to make a profit, whereas others operate on a non-profit basis (Galema, Robert Lensink, & Mersland 2012). For example, most NGOs operate as non-profit organizations and are partly or wholly funded by donors. There are no shareholders, but instead the NGO founders run the organizations, and different stakeholders such as donors come into play. Financial cooperatives are owned by customers. In this case the owners are also beneficiaries.

Since there are several institutional forms in the industry, and most strive to meet dual objectives, the governance system is seen as a means to MFI success (Lahie & Mersland 2011). Generally, the aim of the governance system is to efficiently achieve an institution's goals. Boards are one of the governance measures which are in place for overseeing and monitoring the managers and making sure that institutional goals are met accordingly (Thomsen 2008). Boards help resolve agency problems between principals (owners) and agents (managers) (Fama & Jensen 1983). Board members' incentives are aligned with those of the principals because of the provision that the board can be held legally responsible for failing to monitor effectively.

Literature on the board points out that board composition is an important determinant of its effectiveness and the performance of an organization (Dalton, et al. 1998; King III 2009; Zahra & Pearce 2007). Board composition can be analysed in terms of, among others, its independence (external versus internal members), the experience and education of board members, gender balance, etc. Because of the nature of MFIs' services, their boards need to have a mixture of members in order for them to share experiences, learn from each other, and contribute effectively to the performance of MFIs.

Since the microfinance industry is currently growing rapidly in East Africa (of which Kenya and Tanzania are the largest economies) (CGAP 2009a; Kessy & Urrio 2006), it is important to find out what is happening in the industry, including how MFIs are managed and governed and how this affects their performance. Furthermore, it is important to note that board composition may vary from one context to another. The diversity of MFI types means that capacities (skills) and other contextual issues also vary. For example, MFIs in some countries may be characterized by weak management capacities not only within institutions but also among stakeholders.

Some MFIs may lack the capacity to attract or select the right mix of board members, which may hamper financial sustainability and their ability to reach poor people. In this regard, the present research benefits from learning by comparing and contrasting the practices, experiences, and performance of MFIs in different countries. This research is therefore used to empirically analyse the effect of board composition on the social and financial performance of MFIs in Kenya and Tanzania. Specifically, this study sought to:

- Determine the salient characteristics and diversity of people who sit on MFI boards
- Examine the influence of board members on the social performance of MFIs
- Explore the perception of board members with regard to interpretation of TORs and their contribution to MFIs' outreach to poor customers
- Examine the effects of board members' characteristics on the financial performance of MFIs

This report is therefore organized as follows. Section 2 introduces microfinance in Kenya and Tanzania, while section 3 presents the theoretical background and related empirical literature. Section 4 demonstrates the approach and results of the pilot study. Section 5 offers hypotheses and the conceptual framework, followed by Section 6, which elaborates on the methods used. Section 7 examines the findings, and Section 8 wraps up with the conclusions and implications.

## Microfinance in Tanzania and Kenya

This section describes the access to financial services in the two countries, the providers of these services, and the reason we are studying these countries. MFIs provide financial services to poor people. Africa is considered the poorest continent in the world, with women accounting for the largest proportion of the poor and particularly the desperately poor (CGAP 2010). The proportion of female customers is commonly used as one of the social indicators of whether or not an MFI is targeting the poor (Schreiner 2002).

Therefore, choosing two countries in the region provides a suitable context in which to investigate the effect of MFI services on desperate poverty. The East African countries chosen for this study are Kenya and Tanzania. These countries show significant similarities in their legal and regulatory regimes (La Porta, Lopez, Shleifer, & Vishny 1997) but are heterogeneous in terms of the development of their national microfinance industry. This combination of cross-country institutional similarities and industry variations makes them suitable examples for microfinance research.

Microfinance operations in East Africa officially started in the 1990s (Hospes, et al. 2002; Olomi 2008b; Randhawa & Gallardo 2003). However, there were microfinance-related activities before then. For example, Kenya's Women's Finance Trust was established in 1982. The current major providers of microfinance services are banks, financial cooperatives, and non-bank financial institutions (Lafourcade, Isern, Mwangi, & Brown 2005). Table 1 summarizes the financial service providers and the percentages of people accessing their services.

**Table 1: MFIs and Access Strands**

Financial Access and Number of MFIs	Kenya	Tanzania
Formal included (banks)	18.5%	12.4%
Semi-formal included (SACCOs and MFIs)	8.1%	4.3%
Informal included (groups, individual, money lenders)	35.0%	27.3%
Excluded (no access)	38.4%	56%
Number of SACCOs (approximate)	4,000	3,000
Number of NGOs (approximate)	300	200

**Sources:** Extracted from FSDT 2009; S. Johnson & Zarazua 2011

The governments of these countries have recognized the importance of providing financial services to the poor and have introduced several rules and regulations to support the industry (Randhawa & Gallardo 2003). In addition, they have introduced wholesale financial providers, which aim to provide wholesale finance to MFIs so that they can lend on a retail basis to poor customers. However, despite all these efforts, it is evident (as shown in Table 1) that the majority of poor people still do not have access to financial services. Past research also indicates that only a small percentage of poor people have access to financial services, and that there is a huge unmet need (FinScope 2006, 2009).

In other words, the outreach of MFIs to the poor has not yet been successful. In this study, we highlight some of the factors that are believed to explain this lack of supply, such as weak governance of MFIs, that contributes to failure or underperformance. For example, some board members do not have the necessary qualifications or experience, while some sit on many different boards, which may limit their full participation and contribute to the MFIs' poor outreach performance (Sabana 2006). Thus, as argued above, we believe it is appropriate to investigate the extent to which board characteristics in these countries' MFIs affect poor people's access to financial services that could potentially contribute to the alleviation of poverty in these countries.



# Literature Review

This part discusses the relevant theories that address the research objectives above. There are several theories that can be used to study boards and governance, depending on the research objectives. For the purpose of our study and research objectives, we chose to employ the agency theory and resource dependence theory. We further argue that these theories suit this study since the microfinance literature suggests that board roles broadly consist of monitoring (grounded in the agency theory) and advising (grounded in the resource dependence theory) (Dorado & Molz 2005). This section also discusses related empirical studies and the gaps this study fills.

## 3.1 Agency and Resource Dependence Theories

The agency theory assumes that owners of an organization (principals) and those that manage the organization (agents) have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests (Fama & Jensen 1983). In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests (Jensen & Meckling 1976). The theory suggests that board composition is important for effectively monitoring top management (Hussein & Kiwia 2009). Boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization.

In addition to monitoring, board members are also required to provide organizations with resources (Hillman & Dalziel 2003). The provision of resources is linked to the resource dependence theory. This theory holds that organizations are interdependent (Pfeffer & Salancik 1978) in that they depend on each other and various actors for their survival as well as for resources. As a result, they need to find different ways of managing this dependence and ensuring they get the resources and information they need. From this perspective, the board is seen as one means of reducing uncertainty by creating influential links (Hillman & Dalziel 2003; Peng 2004). Board members provide organizations with various resources through board members' skills, experience, and expertise. Pfeffer and Salancik (1978) also note that 'when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will invariably present it to others, and will try to aid it'.

Diversity in the composition of boards is important if boards are to effectively provide advice and resources. Board members with different skills and experience and of both genders contribute to effective resource provision and to the beneficial performance of organizations. In summary, both theories advocate that boards should have a diversity of competent members who are able to effectively monitor top managers and provide organizations with the resources they need. By performing these roles, board members are able to positively influence the performance of organizations.

## 3.2 Empirical Studies on Board Composition and Performance

Several studies in other fields (other than microfinance) have examined the effect of board composition on the performance of organizations. Although these studies have been conducted in other fields and other countries, they make an important contribution as they show how board composition can benefit or harm performance.

Hermalin and Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. They defined board composition in terms of the percentage of board members who are employees of organizations (internal board members) and of board members who are outsiders. Their sample consisted of 142 companies listed on the New York stock exchange and used pooled data of five years. Their results indicated that there was no strong relationship between board composition and firms' financial performance. The major explanation for this was that board composition simply does not matter. Inside and outside directors are equally bad (or possibly good) at representing shareholders' interests.

Another related study was conducted by Sanda, et al. (2005), who examined corporate governance mechanisms and the financial performance of organizations in Nigeria. The authors looked at board size (defined as number of board members), board composition (defined as proportion of external board members), and top management experience (defined in terms of whether the CEO comes from another country). Their sample consisted of all companies listed on the Nigerian stock exchange. Their results regarding board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards (with more than ten members) are not very efficient. They further found that organizations with international CEOs who are part of the board outperformed those which did not have international CEOs.

This finding is similar to Oxelheim and Randøy (2003), who studied the influence that foreign board members have on organizations' values. These authors studied organizations in the Scandinavian countries and analysed the relationship between foreigners on boards and organizations' values. They found that organizations which had at least one foreign board member outperformed those which did not have a foreigner on their boards. The authors concluded that foreign board members are able to bring a variety of experiences and expertise, which can benefit the organizations.

Hussein and Kiwia (2009) studied the relationship between female board members and the performance of 250 US firms from 2000 to 2006. Their findings indicate a positive relationship between firm performance and the level of female representation inside the boardroom. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries.

Barako et al. (2006) studied the relationship between corporate governance attributes and voluntary disclosure in Kenyan listed companies. The authors examined the extent to which board composition (defined as the percentage of external board members) and the existence of board audit committees affect company disclosure (defined as the release of financial and non-financial information through annual reports above mandatory requirements). Their results in regard to board composition reveal a negative relationship between the existence of external board members and voluntary disclosure, which implies that external board members do not matter much when it comes to convincing companies to reveal information.

A few studies in the microfinance sector have also analysed the influence of board composition on the performance of organizations. Hartarska (2005) examined the link between the governance mechanisms and performance of MFIs in Central and Eastern European countries. She studied how managerial compensation, board size and independence (percentage of external board members), prudent regulations, and auditing affect financial and outreach performance. The results with regard to boards show that boards with greater external representation have better financial performance, and boards with employee representation (internal) result in poorer financial and social performance.

Similar findings regarding board composition were revealed by Hartarska and Mersland (2012) and Mori and Mersland (in press), who used a large sample to study which governance measures promote efficiency in reaching poor clients. These studies defined performance as efficiency in reaching to many poor customers. Using the agency and stakeholder theories as a basis for their arguments, they looked at measures such as board size, board composition (percentage of internal board members), and managerial capture. Their results regarding boards show that MFIs with a larger proportion of insiders (employees) on the board are less efficient. They concluded that MFI boards with many internal members do not impact social and financial performance.

### **3.3 Summary and Research Gaps**

The theoretical and empirical literature reviewed above shows that boards have an important role to play in MFIs. Similar to organizations, MFI boards are required by both law and microfinance governance codes<sup>1</sup> to monitor and advise managers so that the goals and mission of their institution are met accordingly (CSFI 2011; Sabana 2006). Resource provision is also significant as boards consist of people with different experiences, skills, and backgrounds. Board members bring different types of resources, such as advising, counselling, facilitating access to resources such as funding, and linking the organization to important stakeholders and/or other important entities.

As argued by the agency and resource dependence theories, the diversity of board members is crucial for the attainment of good performance by organizations. Empirical evidence shows that board composition is important and has both positive and negative implications. However, most of these studies examined board composition in terms of the percentage of external versus internal board members. These studies did not simultaneously look at other composition factors such as gender, international exposure, and educational background of board members. These other aspects are also significant and are argued to better measure the monitoring and resource provision of board members (Sabana 2006; Thomsen 2008).

Furthermore, no study has explored the perceptions that board members have of their role and whether they contribute to MFIs' outreach. This study sought to explore this gap and get the perspective of board members. In addition, past studies covered mostly corporate organizations and very few looked at MFIs. These studies also looked at developed countries with the exception of a few which analysed developing countries. Developing countries, and specifically Tanzania and Kenya, represent distinct contexts and are at a different level of development, which may influence the selection of people who sit on boards. It was therefore important for this study to specifically examine these countries to learn from these contexts.

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<sup>1</sup> As an example of this, in 2011 the BBVA Microfinance Foundation, in collaboration with the Inter-American Development Bank (IDB), published a guide to the adoption of good governance principles in MFIs. According to this guide, "good corporate governance contributes to efficient management and to considering stakeholder interests, boosting the microfinance institution's reputation and integrity and fostering customer trust" (p. 7).

# 4

## Pilot Study on the Composition and Role of Boards

### 4.1 Study Issues and Approach

The objective was to gain a better understanding of MFI boards, their composition, the motives of members, and how members perceived their role. This led to the development and testing of informed hypotheses in the main study. The pilot study was conducted by interviewing 35 board members and the chief executive officers of MFIs (15 Kenyan and 20 Tanzanian) at their headquarters in Nairobi, Dar es Salaam, and Arusha. For these interviews, we used the snowball process (Strauss and Corbin 1998), whereby we visited one member from whom we obtained contacts of other board members. Data collection took three months between June 2010 and December 2010.

The interview focused on how the respondents came to be board members, what motivates them to remain board members, their backgrounds, how their backgrounds inform or influence their contributions to the MFIs, what they perceive to be their roles, whether they have written terms of reference (TORs), whether they are guided by some form of board manual or policy, and whether they feel that they have an influence on key decisions and the performance of the organization. We also inquired about how decisions regarding financial objectives and outreach to the poor are made, what kind of board members are most influential in such decisions, and how differences between members are resolved.

During the pilot study, we also collected brochures, leaflets, board policies, board TORs, and other relevant information from the offices of the MFIs visited, as well as from websites, some of which had a clear description of their mission, vision, target groups, and in some cases even board composition. The secondary information proved useful for asking focused or follow-up questions. Data analysis continued during and after data collection and focused on identifying patterns, differences, similarities, and apparent links in the data. Furthermore, we clustered information that addressed primary questions such as what, why, who, how, and when (Lofland 1976). This clustering allowed us to identify emergent themes in the data without introducing premature analytical bias.

### 4.2 Profile of MFIs and Board Members

During the pilot study, we identified a range of MFIs based on important characteristics. Some of the characteristics that are likely to influence board composition and capacity include type of founders, level of outreach, degree of formalization, main source of funds, and whether the organization is regulated by the central bank.

- **Type of founders.** MFIs founded by nationals and individuals tended to be dominated by internal members, whereas those founded by foreigners and institutions tended to be dominated by external board members.
- **Outreach.** MFIs with national or international outreach tended to be structured, with a board policy, including a formalized appointment procedure, whereas those with local outreach had a less formalized governance structure.
- **Source of initial funding.** MFIs whose initial funding came from the government or donors were more likely to have gender balance than those with local private investors.
- **Regulation status.** MFIs regulated by the central bank tended to have more educated and experienced board members. This is natural because central banks require a certain minimum level of capacity of board members and must approve them.

It should be noted that although the MFIs covered included some NGOs, which are supposedly not-for-profit, some of the founders are driven by economic motives and have actually invested their own personal savings in the MFIs. To safeguard their financial interests, these founders appoint family members and close friends to the board.

### 4.3 Challenges and Issues in MFI Boards

CEOs and board members of MFIs shared a number of challenges in constituting and running the board. These are:

- **The difficulty in finding the right board members.** MFIs' CEOs and board members reported difficulties in finding the right board members. It is even more difficult to arrange a board with a balanced skill set. The reasons given include shortage of board members with the right background who are prepared to contribute their time and are willing to work without full compensation. Chairpersons, CEOs, and founders of MFIs reported stiff competition when looking for good board members, not only among MFIs, but among other organizations, including private firms, NGOs, and projects. Several board members reported being approached by several MFIs and had to decide which one to join.
- **Multiple board membership.** Partly as a result of the shortage of good board members, some board members belong to many boards, including several MFIs. According to the banking and financial institutions regulations in both countries law, a person cannot belong to more than one board of a regulated financial institution. However, this rule does not apply to unregulated MFIs, which are the majority. Yet belonging to several financial institutions presents a challenge in terms of conflict of interest.
- **Board members are too busy to contribute their full potential.** It was also reported that some board members are very competent, but have no time to make a meaningful contribution to their board because they are extremely busy. Some have no time to thoroughly read board papers, while the attendance of others is erratic.
- **Some board members are not assertive.** On rare occasions it was reported that some board members lack the confidence to question management or to raise controversial questions. Others are said to perceive their role as that of advisers and therefore desist from asking questions or following up on matters they feel management or other influential or internal board members are not comfortable discussing.
- **Limited awareness of their role.** Some board members, particularly external ones, are not sure what their role is. MFIs that have provided the board with training on governance or the role of the board members reported that there has been a substantial improvement in the contribution of board members. There are also cases where external board members appointed to chair the board have a limited understanding of their role, with many considering it their duty simply to chair meetings.
- **Dominance of founders.** Some founders of MFIs regard themselves as the owners of the institution. Not only are they unprepared to relinquish board membership, but they are unprepared to change their stance when other board members have different views.

## 4.4 Board Member Recruitment and Motives

We found that board members were mainly of two types: those who were part of the formation of an MFI (founders) and those who were invited to sit on the board before or after the MFI was established. Other board members were approached by friends, senior officers, sitting/outgoing board members, or other professional acquaintances and requested to join the boards of MFIs on the basis of their expertise, experience, networks, or profile in society. Naturally, MFIs want to populate their boards with resourceful individuals.

Most of the board members we interviewed are motivated principally by the opportunity to contribute to the sustainable functioning of an organization that will make a difference in other people's lives. Other motives include the opportunity to learn about governance and the workings of MFIs, to meet and network with other important people, to enhance their personal CV/profile, and to put their skills to use. Founding board members wanted to ensure that their investment of time, money, and other resources, as well as their initial mission, was secure.

## 4.5 Board Member Contribution to the Agenda of MFIs

Regarding how board members perceive their contribution to MFIs' ability to reach out to poor customers, the respondents mentioned various issues. First, it was revealed that most members sit on boards because they believe in the mission of reaching out to poor people. Most of the respondents were biased towards poor customers. They explained that the poor are bankable and need financial services. They believe that MFIs have to work hard to reach the poor because that is the reason for their existence – otherwise banks would suffice. Members believe they sit on these boards in order to provide ways of accessing those clients who are not reached by other providers.

Board members who thought they were really contributing to reaching out to poor people had various characteristics. They tended to be a) founding members (local and international); b) officers retired from the public and private sector; c) relatively lacking in relevant experience; d) female. Founding members, some of whom are nationals, were passionate about working for the institution and serving the poor. However, they did not found MFIs simply to give loans to the poor. As one founder member revealed:

*Poor people have the same needs as others. Their challenge is getting access to what they need. We founded this MFI in order to serve them. We provide them with various services such as loans, training and insurance. We plan to continue expanding our services to them as long as they tell us they need those services (Interview, June 2010).*

Most retiree board members are well educated. They volunteer to sit on MFI boards because they want to share their expertise. They also wanted to give back to society after having worked for themselves, and viewed sitting on an MFI board as a way to attain this objective. One retired board member explained:

*I have worked in several local and international organizations including the central bank for more than forty years. After my retirement, I thought I have something unique to share with others but I could not figure out what it was. Then I was approached to advise some MFI founders. It then clicked in my mind: "this is what I want to do for the rest of my life", advising and helping poor people get financial services. From then up to now, I have*

*volunteered to sit on the boards of MFIs which have this social mission and I advise them to fulfil this mission sustainably.*

Some of the respondents revealed that they see poor people as part of their family and they want to see them change. Apart from guiding MFIs to find better strategies for reaching the rural poor, respondents also participate in meetings with customers and share their experience with them. In doing so, board members believe that they are able to inspire poor people by sharing advice on how to change their way of life by having a positive attitude. As one respondent explained:

*I was born and raised by my mother in a poor family with four siblings. My mother worked hard to put food on the table and to educate us. In that process I promised myself that if I were to come out of this life of poverty, I would make sure that in turn I would contribute to society, by inspiring people to realize that it is possible to come out of poverty and by helping them to access finance (since that was the huge need of my mother). This is what I do now, and I know that I am fulfilling that promise.*

Some female board members noted that an advantage to being on the board is knowing what fellow women need and how to deliver financial products to them.

International board members typically represent external funders. These board members all had dual objectives. On the one hand, they wanted the MFIs to achieve social goals (reaching the poor), because that is why these organizations were established. However, they also insisted that the MFIs achieve sustainability, since it cannot forever rely on external funding. National board members tended to see this as a long-term objective. They were of the view that seeking to achieve sustainability too quickly would compromise their social goals.

## **4.6 Board Policy and Terms of Reference**

Most of the board members interviewed have a good idea of what their role requires of them. Founding members were involved in preparing TORs for other board members. Other members were invited and given TORs to guide them concerning the mission and objective of the institution and what was expected of them. When they agreed to sit on the board, they asked what they were supposed to do, but after being given the TORs that detailed everything, it became clear to them what they had to do. One board member explained:

*TORs enabled me to know a lot about this institution before agreeing to sit on board. Apart from detailing the mission and objectives of the institution, it elaborated on the role of board members and board guidelines, such as how and when board meetings (and committees) are conducted. From this I came to know what I would do in that institution and on that basis I was able to say yes I am prepared to sit on this board (Interview, August 2010).*

With regard to founding board members, TORs stipulated the way things were done at the board and institutional level. These founding board members developed TORs as they continued working on the board. They explained that it is a challenge to develop workable TORs when starting an institution. As one founding board member explained:

*We had a sample TORs when we were starting this institution. We thought we would use it if we invited other board members to join us. When we started with the first few meetings, we realized that most of the content of the TORs did not really match what we were*

*doing and what we are looking for from board members. For example, one of the roles of members was to advise on banking matters, but we realized we were in the microfinance business and were not a typical bank (Interview, June 2010).*

In summary, board members of MFIs realize that TORs are important for clarifying what they are supposed to do. TORs also provide guidelines as to when meetings should be conducted, how to follow board policies and practices, and how long members are supposed to sit on the respective board. Most MFI board members are volunteers because the industry is still too young to fully compensate members. This is also indicated in some TORs.

## **4.7 Conclusions**

The pilot study largely corroborated what is reported in the literature. However, it also provided useful insights, which helped in the development of the hypotheses for the main study as well as in explaining the findings therein. The pilot study results support the proposition that board members with distinct characteristics not only contribute diverse resources, but also take different positions on important decisions, particularly those relating to social and financial performance. We therefore felt confident when employing these characteristics to quantitatively test how they affect MFI performance.

# Conceptual Framework for the Main Study

Based on the literature and the pilot study, we developed hypotheses which were tested in the main study.

## 5.1 Internal versus External Members

External board members (non-employees, not related to the organization) are expected to act as better monitors and advisors to MFIs compared to internal board members (Hartarska 2005; Mori & Randøy 2011). Empirical studies of other organizations have found both a positive and negative relationship between the proportion of outside directors and an organization's performance (Hermalin & Weisbach 1991; Johnson, et al. 1996; Rock, Otero, & Saltzman 1998). Empirical evidence of MFIs in other countries has shown that boards with a higher proportion of internal board members have a negative effect on MFIs' social and financial performance (Hartarska 2005). Our pilot study also suggests that external board members have greater exposure and experience. There are a few empirical studies which report that external members have a positive influence. We therefore hypothesized the following:

*Hypothesis 1a: There is a positive association between external board members and the financial performance of MFIs.*

*Hypothesis 1b: There is a positive association between external board members and the social performance of MFIs.*

## 5.2 Local versus International Members

Local board members are important for MFIs because they have local and environmental experience. On the other hand, the literature shows advantages in having international people sitting on boards (Mersland, Randøy, & Strøm 2011; Mori & Randøy 2011). It is also argued that MFIs have a lot of interaction with development partners and foreign investors, who are mainly from international organizations, such as the consultative group to assist the poor (CGAP) (CGAP 2008, 2009b). If these organizations are represented on MFIs' boards, it means they can bring their international experience of operating in different environments. This may enable them to contribute to better monitoring and resource provision, as advocated by the theories. Several MFIs in Kenya and Tanzania were initiated and are supported by international donors (Hospes et al. 2002; Kessy & Urjo 2006). This implies that having donors on boards is a mechanism for ensuring that their interests are met accordingly and that the performance of these institutions is better. Our pilot study also showed that international board members tend to push for the achievement of both the social and financial objectives. This resulted in the following hypotheses:

*Hypothesis 2a: There is a positive association between international board members and MFIs' financial performance.*

*Hypothesis 2b: There is a positive association between international board members and MFIs' social performance.*

### 5.3 Education Level of Board Members

Education is important for building people's skills in any field. People are invited onto boards as a way for them to use their skills and knowledge for the benefit of the organizations. Campion (1998) and Hartarska (2005) argue that the skills board members bring to the MFI board matter. The literature further stresses that the occupation of board members can affect the ability of the board to solicit funds from different sources and to improve board monitoring (Oster & O'Regan 2003). The unique nature of microfinance activities means that board members need to have financial and banking skills as well as knowledge of social services (Rock et al. 1998; Sabana 2006). One important way of acquiring these skills and knowledge is through formal education. It was therefore important to examine the level of education of East African board members to see whether they have these skills. This discussion led to the following hypotheses:

*Hypothesis 3a: MFIs which have highly educated board members have better financial performance than MFIs which do not.*

*Hypothesis 3b: MFIs which have highly educated board members have better social performance than MFIs which do not.*

### 5.4 Gender Balance

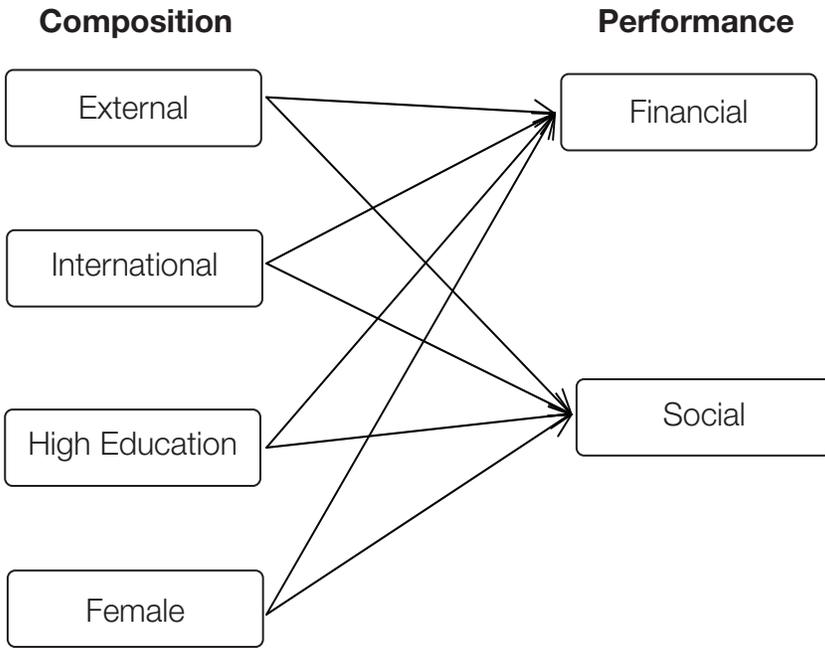
Board diversity in terms of gender is another issue that has attracted attention. Organizations in the developed world have started to actively include female board members in order to benefit from their monitoring expertise and competence. Empirical evidence shows that gender balance has a positive influence on the performance and values of organizations (Erhardt, et al. 2003; Hussein & Kiwia 2009). In addition, it is recognized that MFIs mostly serve female customers and are better at it (Mersland & Strøm 2009). Mersland and Strøm (2009), in their corporate governance study, found that MFIs with female CEOs (who are also board members) outperform MFIs with male CEOs. The authors argue that since MFIs serve mostly female customers, female CEOs are better able to obtain relevant information useful for making decisions, which in turn leads to better performance. Our pilot study suggests that female board members are better at relating to the situation and needs of female clients. Hence female board members can contribute to developing products that are more accessible, relevant, and useful for female clients. This, in turn, increases outreach, which leads to improved client repayment rates and hence to the successful financial performance of the MFI. These observations justified the testing of the following hypotheses in relation to East African MFIs:

*Hypothesis 4a: MFIs which are gender balanced (have females on boards) have better financial performance than MFIs which are not.*

*Hypothesis 4b: MFIs which are gender balanced (have females on boards) have better social performance than MFIs which are not.*

These hypotheses are summarized in the conceptual model shown in figure 1.

**Figure 1: The Conceptual Model**





# Methods

## 6.1 Sample and Data

The present study employed the *positivist philosophy* and *deductive approach* to test the aforementioned hypotheses. This approach is suitable for analysing relationships while at the same time controlling for some variables to ensure validity (Saunders, et al. 2003). The population for the study included banks, non-bank financial institutions, and NGOs, which offer microfinance services in Kenya and Tanzania. The sampling frame was built from the association of MFIs in both countries. We selected MFIs with headquarters in Nairobi, Mombasa, Dar es Salaam, and Arusha. These are the most commercially active MFIs operating in the two countries with headquarters in one of these cities. We obtained data from the MFIs' publications or websites.

In some organizations, we were able to get secondary data from internal documents on the profile of board members and performance reports. However, in other cases, we had to administer a brief questionnaire to board members via email, telephone, or face-to-face interviews. We collected information from a total of 337 board members (172 from Kenya and 165 from Tanzania), representing 47 MFIs (23 in Kenya and 24 in Tanzania). The researchers were also able to collect the performance data of all 47 MFIs in 2009. This number was considered adequate given the variables that were to be analysed. After the data was collected, we coded and edited it to determine eligibility of the data and degree of responses. The data was checked for errors and entered into the computer using the selected software package. In an effort to test for association between the hypothesized variables, we then analysed the data in the form of simple frequency analysis and t-tests in order to find out the various differences. Next we run correlation analyses in order to test for association between the hypothesized variables.

## 6.2 Variables and Definitions

### Performance Variables

Because of the nature of the microfinance industry (dual objectives and differences in the form of MFIs), their performance is normally viewed from two perspectives, namely financial performance and social performance. Financial performance refers to the ability of the MFI to cover its operating costs and to become sustainable (or profitable). Social performance concerns the ability of the MFI to reach poor clients and micro-enterprises, which is the main mission of many MFIs (Labie & Mersland 2009; Mersland 2009a). Empirical studies that examined the financial performance of MFIs have used a variety of indicators, mostly borrowed from the corporate and banking literature. The ones most commonly used are 'return on assets'<sup>2</sup> and 'operational self-sufficiency'.<sup>3</sup> These indicators are suggested for examining the level to which the organization is sustainable and can survive in the long run.

The second perspective from which to examine an MFI's performance is its social performance (outreach), which is critical as it reflects its mission and objectives. The literature indicates that the social performance indicators an MFI has in place have consequences for its choice of business model (Mersland & Strøm 2009c). Some MFIs may choose to focus solely on female clients while others may not; some may choose to serve those in rural areas, while others may operate in both rural and urban areas. Since there are different choices, several indicators have been suggested, and some are used to assess the social performance of MFIs.

<sup>2</sup> Computed as (net operating income)/(average annual assets). See Mersland and Strømme, (2009a).

<sup>3</sup> Computed as operating revenue/(financial expense + loan loss provision + operating expenses). See Mueller and Uhde, (2009).

Schreiner (2002) suggests six aspects of outreach, which are also used by many actors for examining MFIs' social performance. These are cost, depth, breadth, length, scope, and worth.

Cost is defined as the sum of monetary costs and transaction costs to clients; depth is defined as clients' poverty level or other social factors, such as the percentage of women reached, and breadth is the number of clients served. Length is defined as the timeframe of the supply of services; scope is the number of types of financial contracts supplied, and worth estimates the degree to which clients value MFI services. It is argued that some of these indicators (like worth) are difficult to measure. This study employed the most commonly used indicators: breadth and depth of outreach. Breadth is defined as "the number of individuals who currently have an outstanding loan balance with the MFI" (Hartarska & Mersland 2012). Depth is measured by the average loan per client, the number of female clients served by the MFI, and the number of products offered by the MFI.

### Board Composition Variables

These variables include those hypothesized in Section 5. They consist of i) external board members; ii) international board members; iii) highly educated members; and iv) female board members. Table 2 provides the definitions and measures of all performance and composition variables.

**Table 2: Definitions of Variables**

<b>Variables</b>	<b>Definition</b>
<b>Financial Performance</b>	
Return on assets	Measures how well the MFI uses its total assets to generate returns; higher return on assets (ROA) implies better financial performance
Operational self-sustainability	Measures how well the MFI can cover its costs through its operating revenue; higher operational self-sustainability (OSS) implies better financial performance
<b>Social Performance</b>	
Credit customers	Defines the number of customers the MFI has; a high number implies better social performance (or deeper outreach to the poor)
Female customers	Defines the percentage of MFI customers who are female; high percentage implies better social performance (or deeper outreach to the poor)
Average loan size	Defines the average size of loan a customer can have; lower average loan size implies better social performance (or deeper outreach to the poor)
Products offered	Defines the number of financial products offered by MFIs; a high number implies better social performance (deeper outreach to the poor)
<b>Composition Variables</b>	
External board members	A binary equal to 1 if the board member is not affiliated with the MFI Binary and 0 otherwise
International board members	A binary equal to 1 if the board member is a foreigner (neither Tanzanian in Tanzania nor Kenyan in Kenya) and 0 otherwise
Education	A binary variable equal to 1 if the board member has a bachelor's degree and above, 0 otherwise
Gender (female members)	A binary equal to 1 if the board member is female and 0 if he is a man

# Findings Review

## 7.1 Descriptive Results

Table 3 presents a summary of the statistics and variables used in this study. It also shows the characteristics of board members who sit on MFI boards.

In terms of the financial performance of MFIs, we found that, on average, MFIs in Kenya and Tanzania have negative return on assets (ROA). This means that most MFIs are making a loss. The value of ROA is negative, but very low, which indicates that MFIs are moving towards having positive returns. Operational self-sustainability (OSS) is widely used in the microfinance literature to assess the ability of an MFI to cover its operating costs (Mersland & Strøm 2009). The higher the OSS the better the MFI is able to cover its costs. The OSS in our data set is 98%, which implies that MFIs are not yet covering their operational costs by generating funds internally. This poor financial performance can be attributed to the infancy of the microfinance industry.

**Table 3: Summary Statistics**

Variables	Mean	Min	Max	Observations
<b>Dependent Variables</b>				
<b>Financial Performance</b>				
Return on assets (ROA)	-0.022	0	1	295
Operational self-sustainability	98.332	28.11	159.12	299
<b>Social Performance</b>				
Credit customers	72.195	400	71,5969	261
Female customers	63.715	10.1	100	236
Products offered	3.265	1	11	321
Average loan	475.379	24	1,922	219
<b>Independent Variables</b>				
External members	0.379	0	1	337
International members	0.211	0	1	337
Highly educated members	0.884	0	1	337
Female members	0.287	0	1	337

By contrast, MFIs have good social performance, as indicated by the number of customers reached. On average, 72,195 customers are reached while the maximum number of customers reached is more than 700,000. Outreach to people of lower income is greater in these countries than those reached globally. For example, Mori and Mersland (in press) estimate that the average number of customers reached by MFIs globally is 14,000. Women are strongly associated with poverty, and our data showed that more women customers (63%) are reached by MFIs. Poor people borrow small amounts (Armendariz & Szafarz 2009).

The characteristics of MFI board members are interesting. Most members are internal (either employees, founders, or former employees). Only 37.9% of board members are external (outsiders). This is not surprising as the industry is not yet mature. We further noted that 21% of board members are international. This means that boards are mostly made up of Tanzanian and Kenyan nationals. A large majority (88%) of board members have at least a bachelor's degree. As in other sectors, gender balance is still an issue: only 28.7% of board members are women. In summary, MFI board members in Kenya and Tanzania are mostly internal and local and have higher education. In addition, most board members are men.

## 7.2 How Does Performance Differ according to the Characteristics of Board Members?

Table 4 shows the difference in performance according to board members' characteristics. Here we ran a t-test to measure the difference between boards with varying characteristics and compared them to performance measures.

Panel A looks at the distinction between external and internal board members and the extent to which this composition brings about a difference in financial and social performance. The results failed to find significant differences in performance between boards with internal board members versus those with external members. Panel B, on the other hand, examines the difference between local and international board members and the extent to which this composition has an influence on financial and social performance. Here we observe the difference between local and international board members in terms of financial performance. We see that local board members are associated with higher ROA and higher OSS.

These findings contradict international literature which posits that international boards lead to good financial performance (Mersland, et al. 2011). The explanation for this contradiction may be related to what we found in the pilot study. While international board members tend to push for sustainability, they also want the MFI to keep interest rates low, whereas nationals are more open to keeping interest rates high as a way of ensuring sustainability. The finding may also suggest that national board members' local knowledge may be important for MFIs' ability to manage costs and generate income. International board members are associated with a higher percentage of female customers, which is an indicator of good social performance. This finding is in line with related previous studies (Mersland, et al. 2011; Mori & Mersland, in press), which reported a positive relationship between international board members and MFIs' social performance.

**Table 4: Difference in Performance in Relation to Board Members**

	Panel A: External vs. Internal Members			Panel B: Local vs. International Members		
	External BM	Internal BM	Diff.	Intern. BM	Local BM	Diff.
<b>MFI Financial Performance</b>						
Return on assets	-0.019	-0.023	-0.003	-0.083	-0.005	<b>0.079*</b>
Operational self-sustainability	99.138	97.870	1.267	83.109	102.396	<b>19.287*</b>
<b>MFI Social Performance</b>						
Number of customers	70,847	73,032	2,185	49,508	77,976	28467
Average loan	475.407	475.360	0.046	535.38	457.627	77.753
Women customers	65.781	62.324	3.457	67.661	62.573	<b>5.088***</b>
Products offered	3.320	3.231	0.088	3.300	3.200	0.01
	Panel C: Higher vs. Low Educated Member			Panel D: Female vs. Male Members		
	High Educ.	Low Educ.	Diff.	Fem. BM	Male BM	
<b>MFI Financial Performance</b>						
Return on assets	-0.021	-0.027	-0.007	0.005	-0.032	<b>0.038*</b>
Operational self-sustainability	98.052	100.320	2.268	104.884	95.772	<b>9.111*</b>

<b>MFI Social Performance</b>						
Number of customers	72,333.000	71,092.000	1,240.000	91,88.0002	63,649.000	28233
Average loan	491.379	320.762	<b>171***</b>	432.720	494.589	61.868
Women customers	63.000	70.335	<b>7.335***</b>	71.655	60.367	<b>11.287*</b>
Products offered	3.303	2.941	0.362	2.923	3.401	0.477

Asterisks indicate significance at 0.01 (\*) and 0.05 (\*\*) levels.

Panel C looks at the difference between highly educated and less educated board members and the extent to which this characteristic brings about a difference in financial and social performance. We observed better social performance with board members who are less educated, and they tend to be associated with small-sized loans and a higher percentage of female borrowers. According to the microfinance literature, small loans are an indication that the customers served are poor. This may reflect the fact that less educated board members are likely to be found in MFIs that target the poor. It could also mean that higher education is not needed in some MFIs. Also, there might be other capabilities that matter. For example, less educated entrepreneurial board members with a knack for business may outperform highly educated members who are not as dynamic or entrepreneurial.

Panel D looks at the difference between female and male board members and the extent to which this factor influences financial and social performance. We found interesting results in terms of the contribution of female board members. Female members are associated with significantly better financial performance in terms of ROA and OSS, having more female clients, providing small-sized loans, and having a greater number of customers (though the last two are not significant). The results suggest that female board members may have particular advantages that positively influence MFIs' performance. These findings lend support to the need for gender diversity on boards.

### 7.3 Correlation Analysis

To further test the hypotheses stated earlier, we used Spearman's rank correlation analysis. The results of this test are displayed in Table 5. They show no support for hypotheses 1a and 1b, which argued for a positive association between external board members and the financial (and social) performance of MFIs. This finding is in line with the result of the t-test presented earlier. It implies that it does not matter whether the members of MFI boards are either externally or internally (employees and affiliates) sourced. The result here, however, contradicts the literature, which showed that MFIs performed better when they had external board members (Hartarska 2005).

On the other hand, the results show a negative and significant association between international board members and financial performance (ROA and OSS) but a positive association with social performance (number of customers) of MFIs. This result rejects hypothesis 2a that there is a positive association between international board members and the financial performance of MFIs, but it partially supports hypothesis 2b, which argues for a positive association between international board members and the social performance of MFIs. These results imply that international members, who in most cases are international donors (Mersland et al. 2011), would monitor the MFIs to make sure they target poor people and increase their outreach to the poor at the cost of hampering financial performance.

**Table 5: Correlation Analysis of Hypothesized Associations**

	ROA	OSS	Cust.	Av. loan	Product	External	International	High Edu.
ROA								
OSS	0.82**							
No. of Customers	0.21**	0.37**						
Average Loan	0.15*	0.26**	0.34**					
Products	<b>0.11*</b>	<b>0.29**</b>	0.66**	<b>0.55**</b>				
External	0.01	0.02	0.05	0.02	0.02			
International	<b>-0.30**</b>	<b>-0.26**</b>	<b>0.06*</b>	0.01	0.01	-0.27**		
High Education	0.02	-0.02	0.08	0.09	0.05	0.11*	0.12*	
Female	<b>0.16**</b>	<b>0.13*</b>	<b>0.05*</b>	-0.03	<b>0.10*</b>	0.07	-0.14*	0.01

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

The results do support hypotheses 3a and 3b, a positive association between highly educated board members and the financial (and social) performance of MFIs. Since the t-test results showed a positive difference for local members, we decided to do a correlation analysis<sup>4</sup> for less educated versus MFI performance (instead of the hypothesized relationship of highly educated members). The results demonstrated a positive association between members with less education and social performance (number of customers and small-sized loan). We concluded that less educated board members bring about better social performance than highly educated ones, which is contrary to the literature (Oster & O'Regan 2003). As we argue, this might be because of the nature of the microfinance industry in that it aims to serve the poor, and people who are aware of the needs of the poor can help these organizations achieve this objective.

We also find support for hypotheses 4a and 4b, which state that gender balanced MFIs (have females on boards) have better financial (and social) performance than MFIs which do not. This means that MFIs should have females on their boards as they contribute views and ideas which benefit the organizations.

In summary, the correlation results show that many of the supposed associations between the characteristics of board members and financial and social performance do not hold in the East African context. For example, characteristics that are often considered 'strong points' – such as international background, being male and highly educated – do not result in superior social or financial performance. Characteristics that are associated with lower-level capacity, such as being female and being less educated, bring about positive financial and social results.

## 7.4 Comparisons between Kenya and Tanzania

Table 6 provides the t-test results showing the differences between the two countries studied. This analysis is important as it reflects how different these countries are and what they can learn from each other.

4 Results are not included in this report but are available on request.

**Table 6: Boards and Difference in Performance between Kenya and Tanzania**

	Panel A:		
Board Members	Kenya	Tanzania	diff
External members	0.475	0.275	<b>0.199*</b>
International members	0.136	0.294	<b>0.158*</b>
Higher educated members	0.954	0.806	<b>0.149*</b>
Female members	0.316	0.256	0.060
<b>MFI Financial Performance</b>			
Return on assets	-0.014	-0.029	-0.015
Operational self-sustainability	98.207	98.472	0.266
<b>MFI Social Performance</b>			
Number of customers	105197	23162	<b>88034*</b>
Average loan	451.483	520.342	68.859
Women customers	57.226	75.457	<b>18.230*</b>
Products offered	3.783	2.673	<b>1.110*</b>

In terms of board member characteristics, Tanzania has a significantly higher percentage of external and international board members than Kenya. Table 4 illustrates that the financial performance of MFIs with international members is poor. We then saw that the financial performance of Tanzanian MFIs is lower than that of Kenya. Local board members lead to better performance results, and that might be why Kenyan MFIs perform better. Kenya has more educated (95%) board members than Tanzania (80%). This is also reflected in the difference in performance. Although Kenya has more customers, most of them are men, as indicated in Table 5. Tanzania has fewer customers overall and a greater proportion of them are women. As shown in Table 4, less educated board members were associated with a high percentage of female customers. We therefore argue that there are benefits and costs in having highly educated members.

Kenya is ahead of Tanzania in terms of having more external, international, and highly educated board members. The corporate literature suggests that board members with these characteristics are better at steering and overseeing organizations. We further observed that Kenya is ahead of Tanzania in terms of the number of customers served and products offered by MFIs, reflecting a higher level of maturity of the sector.

Tanzania is ahead of Kenya in terms of reaching more female customers. This means that having fewer of the 'traditional' board members is not a disadvantage. However, there are no significant differences in terms of financial performance between these countries.



# Conclusions and Implications

## 8.1 Conclusions

There are a number of challenges facing MFIs in constituting effective boards. These challenges revolve around the shortage of good potential candidates for directors. This is partly attributed to the lack of information on who could be a good director for an MFI. Some board members currently steering MFIs also lack the capacity to do so in terms of being aware of their role and their lack of assertiveness.

The study established that many of the supposed associations between the characteristics of board members and financial and social performance do not hold in the East African context. This could be because MFIs target mainly low-income and hence less educated people; therefore these MFIs may want people who are closer to their position to contribute to making important policy decisions. This may also explain why female board members seem to attract a greater number of clients, and bring about better financial performance (they know what products will work for fellow women) and deeper outreach (more small loans).

Kenya is ahead of Tanzania in terms of having more international, highly educated, and external members. Kenya is also ahead in terms of outreach to the poor, which was also reported in the literature (Finscope 2009). However, MFIs in both countries still have poor financial performance, which needs to be improved to ensure the sustainability of the industry in the future.

## 8.2 Theoretical Implications

The results suggest that we should be careful about the value we place on different types of resources and ways of monitoring when it comes to MFI board members and perhaps even managers. Higher education or other traditional dimensions of capacity are not always an asset and may indeed be a liability. Therefore, according to the resource dependency theory, it is important to consider what resources are valuable in what context.

## 8.3 Policy Implications and Recommendations

The results of this study affirm that the composition of board members – both in terms of who sits on the board and what the mix is – matters. MFIs should therefore look for the right people as well as the right mix. To do this, they should start with what they want to achieve. This is possible if the MFI continues to maintain a pool of potential board members from which it can choose. There is a need to deliberately develop the capacity of board members in both countries and to make it easier for MFIs to identify effective directors and substitute board members where necessary. An association of MFIs could prepare a directory of potential board members and their profiles, to which interested and capable individuals could also submit an expression of interest and their profiles. Stakeholders (the government, donors, MFIs, and regulators) could also support a programme that would build the capacity of MFI directors.

The results warn MFIs and other stakeholders who want to appoint board members to look beyond traditional qualifications, such as high-level education and international exposure. Gender diversity is crucial. Regulators of financial services providers, including the central bank, may need to continue learning and possibly revisit their requirements with regard to the composition of board members, as the study suggests that the traditional dimensions of capacity are not necessarily the optimal ones in all contexts.

### **Specific Recommendations to MFIs**

In addition, this study makes specific practical recommendations regarding the composition of MFI boards as follows:

- Consider a large pool of potential board members – get advice
- Get independent members (outside personal networks, etc.)
- Consider the unique value of each member and how as a group they complement the capabilities of the founder/owner as well as the value of their own and other resources
- Ensure gender balance
- Orient board members to their role
- Have a simple board manual to guide members on their role and board processes, appraisal and refreshing
- Expose board members to risk management, including basic control systems and processes
- Evaluate the performance of board members and the board annually

### **Specific Recommendations to TAMFI**

In addition, we recommend that, if possible, TAMFI should develop the following in partnership with a training institution:

- An MFI board/governance training programme targeting sitting and potential board members
- A programme on managing MFI growth, targeting founders, board members, and managers of MFIs
- A simple generic board manual, which could be customized to suit specific MFIs
- Provide a database with the profile of potential board members

### **Specific Recommendations for Regulatory Authorities**

Provide MFIs with general guidance on governance even before the specified threshold or the institutional capacity to regulate and supervise is in place. This should include the structure and functions of the board and other basic risk management tools/processes.

## **8.4 Further Research**

More research is needed to explain how and why less educated, female, and local board members seem to outperform highly educated, male, and international board members in relation to both social and financial measures. In addition, our study tested for the association between performance and composition variables. Future studies could examine the causal relationship between these variables. This would also help to control for firm and country variations.



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REPOA, is an independent, non-profit organization concerned with poverty and related policy issues in Tanzania. REPOA undertakes and facilitates research, enables monitoring, and promotes capacity building, dialogue and knowledge sharing.

REPOA's research agenda is concerned with poverty and its alleviation. Our objectives are to:

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- contribute to policy dialogue;
- support the monitoring of the implementation of poverty related policy;
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