



## Corporate Governance Performance Relationship and the Role of Institutions and Culture: New Evidence from Asian Microfinance Institutions

**Ahmad Nawaz**, Department of Economics, COMSATS University Islamabad, Lahore Campus, Pakistan

**Sidra Shahbaz**, COMSATS University Islamabad, Lahore Campus, Pakistan

**Abdul Farooq**, Department of Economics, COMSATS University Islamabad, Lahore Campus, Pakistan

\***Muhammad Masood Anwar**, Women University of Azad Jammu Kashmir, Bagh, Pakistan

\*Corresponding author's email: [smasood\\_ajk@yahoo.com](mailto:smasood_ajk@yahoo.com)

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### ABSTRACT

**Purpose:** In a globalized world today, Microfinance Institutions (MFIs) are concerned about their corporate governance mechanism to enhance financial and social performance. However, it largely depends on the existing institutional, cultural and economic factors. This paper furthers the debate on the impact of corporate governance on the financial and social performance of Microfinance Institutions (MFIs) in Asian Context.

**Design/Methodology/Approach:** The paper utilizes a panel cross-country data set comprised of 183 MFIs in 18 Asian countries over the period of 2010-2018. For empirical analysis, it applies GMM regression technique to control for the endogeneity issue.

**Findings:** The results show that generally corporate governance mechanism contributes more towards social performance of MFIs than the financial performance and a conducive institutional environment enhances both financial and social performance. However, good cultural and economic values contribute only towards the social performance of MFIs.

**Implications/Originality/Value:** Since majority of MFIs irrespective of their status are socially oriented. Therefore, good corporate governance mechanism is more effective in enhancing social performance in particular. Progress towards human development contributes to both financial and social performance of MFIs.



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## **Introduction**

Microfinance institutions (MFIs) provide both financial and non-financial services to Relatively marginalized section of the society (Mersland and Strom 2013; World Bank 2006). Corporate governance (CG) plays a very important role for structuring and protecting the objective of the organizations and help to achieve these objectives. “It is a *process through which stakeholders guide the MFI to define and protect the mission and the institutions assets*” Campion et al. (2008).The fact that corporate governance mechanisms affect firm’s performance has been substantiated by ample literature (Zagorchev et al. 2015; Bozec et al. 2012; Fooladi et al. 2011; De Jong et al. 2002; Mitton 2002).In the microfinance context, recently CG performance relationship is empirically investigated in many studies (Nawaz et al., 2018; Thrikawala et al. 2013; Galema et al. 2012; Hartarska and mersland, 2012; Tehuigoua 2010; Bassem 2009; Manderlier et al. 2009; Mersland and Strom, 2008; 2009; Coleman and Osei 2008; Polanco 2005).

However, the literature suggests that corporate governance-performance nexus is affected by various country specific economic, cultural and institutional factors which are investigated in few studies in the context of conventional firms (Strese et al. 2016; Li, J et al. 2016; Griffin et al. 2015; Handley et al. 2015).The controversy surrounds about the role of country level factors, whether they as external governance mechanisms which constrain managerial discretion within firms (e.g., investor protection, disclosure regimes, market for corporate control) or they should capture the national context and the outcomes of the quality of national governance systems. Kaufmann et al. (2011) argues that governance research would benefit from finer distinction between rules-based and outcome-based indicators of national governance. Whereas rules-based indicators measure if countries have adequate anticorruption legislation or agencies and outcome-based indicators capture if anticorruption laws are actually enforced. Schiehl and Martins (2016) highlights the contextual factors to distinguish between the country and firm specific governance mechanisms. Which act as external mechanisms by reducing managerial through highlighting the agency conflicts within the firm. Besides cultural effects vary across countries in ethical context because of the difference in sensitivity (Simga-Mugan et al. 2005), value system (Ford et al. 2005), judgments (Whipple and Swords 1992), decision making (Srnrka 2004), and perception (Vitell and Paolillo 2004) among others. Therefore, the corporate governance-performance relationship at cross country level controlling for institutional, cultural and economic factors is an area worth investigating.

In this backdrop, this paper aims to find out “*to what extent cultural, institutional and economic factor affect the relationship between corporate governance-performance relationship*. And more specifically “Do cultural, institutional and economic factors affect the relationship between corporate governance and MFIs financial and social performance in Asia?”

The paper is organized as follows. Section II discusses the relevant literature followed by research methodology presented in section III. The descriptive and empirical analysis is presented in section IV. Finally, we conclude in section V.

## **Literature Review**

The essence of corporate governance is to enhance the welfare gains in a society and one way of achieving this is to increase the performance of firms (Mersland and Strøm 2010; Labie 2001). However, considering the agency theory, suggesting a conflict between the managers

and owners, a permanent conflict exists between managers and owners, the corporate governance practices comes handy in minimizing these conflicts through various internal and external corporate controls, competition in the market, regulations regulating the institutional structures and financial markets (Jensen, 1993). The literature provides conclusive evidence of the effectiveness of good CG controls in increasing the firms performance (Liu et al, 2015; Black and Kim, 2012) which eventually leads to decision making strategically devised to increase the firms revenues through strict monitoring and controls (Salim et al. 2016; Rock et al. 1998). The optimum value of board size is one of many other effective control mechanisms, for which the literature provides ample evidence. As suggested by Jensen (1993), the optimal number of Bods (Board of Directors) is around seven or eight members, beyond which the performance of board starts diminishing. Whereas the Lipton and Lorsch (1992) suggested this optimal number to be ten members, beyond which it is difficult to summarize the opinions of all members. In social performance perspective, Hartarska and Mersland (2012) finds this optimal board size to be of nine members.

Along with the board size, the literature highlights other effective corporate control mechanisms which are the presence of international directors on board (Herrera et al. 2016; Beisland et al. 2014; Mersland et al. 2009) qualification of board members (Manderlier et al. 2009), and gender diversity (Thrikawala et al. 2013; Bassem 2009). Chen (2015) finds a strong relationship between board structure and firm characteristics. Board diversity affects the decision-making processes (Varhegyi, 2016; Rao & Tilt 2015). Female representatives on board leads to increased firm performance (Tremblay 2016; Thrikawala et al. 2013; Bassem 2009). MFIs can generate incentives and mechanisms to improve their social performance by intentionally choosing board members with more social oriented profiles (Mori et al. 2015). The experience and knowledge of board member in the field of microfinance also increase efficiency (Manderlier et al. 2009). Another corporate governance indicator which is highly used in literature is CEO duality (Duru et al. 2016; Tang 2016; Van Damme et al. 2016; Walthoff-Borm 2015; Beisland et al. 2014 Thrikawala et al., 2013). Agency theory advocates that in firm having separate CEO & chairman, the conflict between management and board tends to be minimized which increases firm performance (Coleman and Osei. 2008). On the other hand, once the role of CEO and chairman of the board is combined, the CEO is likely to have greater control and liberty in decision making which leads to riskier decisions (Galema et al. 2012; Hartarska et al. 2012; Mersland et al. 2009). MFIs performance is also affected by its ownership status. Nonprofit organizations (NPOs) focus more on the social welfare of the society while for-profit shareholder firms are more profit oriented (Gebremichael et al. 2016; Salustri, et al. 2015). NPOs are more prone to agency conflicts as compared to SHFs, because of their weak governance and monitoring structure (Galema et al. 2012). Regulation in SHFs, in addition to decreased agency conflicts, also provide some indirect benefits which ultimately increase the outreach of MFIs (Tchuigoua 2010; Lauer 2008; Mersland et al, 2008; 2009; Hartarska and Nadolnyak, 2007). Majority of NPOs, on the other hand, lend primarily to women particularly in Asia. Presence of female CEO in such MFIs contributes towards social performance (Strom et al. 2016; Périlleux et al. 2015; RØ Strøm et al. 2014; Mersland and Strom 2009; Welbourn, 1999). At cross-country level, the heterogeneity exists in cultural, institutional and economic conditions cause variation in corporate governance mechanism and its relationship with firm's performance (Hahn and Kühnen, 2013; Baughn et al. 2007; Welford, 2004, 2005; Maignan and Ralston, 2002; Howell, 2001). The absence of religious and military leaders from politics, lower levels of religious and ethnic tensions, and minimal levels of armed conflict are also related to institutional stability (Ramady, 2014). Chen and Hao (2011) argue that institutional institutions can affect the country's information environment and thus shareholders' ability to monitor firms. Similarly, Piotroski

et al. (2010) claim that the benefits of transparency in many developing countries are masked by high levels of ownership concentration, politicized institutions, and corruption. Inclusive institutions contribute towards overall economic development of countries and in this process firms too are better regulated leading towards better performance (e.g., Roe and Siegel, 2009, 2011; Keefer, 2008; Rajan and Zingales, 2003). Glaeser et al. (2004) and Qi et al. (2010) argue that institutional institutions should reflect the ex-ante view of restrictions on government behavior rather than the ex post government performance. Culture also affects the relationship of corporate governance and performance. “It consists of the unwritten rules of the social game and is the mutual programming of the mind that differentiates the members of one group or category of people from others” (Hofstede et al., 2010). Heterogeneous societies divided among the cultural lines have greater element of mistrust among the society member unlike homogeneous societies (Strese et al, 2016; Li et al 2016; Engelen et al. 2014; Malik & Zhao, 2013; Trompenaars & Hampden1998; Sales & Mirvis, 1984;). No wonders that prevailing national culture strongly effects the corporate governance and eventually firm’s performance (Schneider & Meyer, 1991; Langlois & Schlegelmilch, 1990;). Cross- country evidence shows that there exists minimum connection between firm-level corporate governance practices and firm value in individualism societies. However, societies which avoid uncertainties have fond to have strong relationship between firm level corporate governance and performance (Dale Griffin et al., 2015).

## Methodology

### Data and Sample

Data from 183 MFIs in 18 Asian countries has been collected for the period of nine years from 2010 to 2018. Only 4 diamond rated and above MFIs listed on the mix market website are included in the sample. Overall the population comprised of 1684 MFIs located in 18 countries of Asia. The final sample included in the study is 183 MFIs having 4 diamond rating. Data for the financial and social performance indicators is taken from the MIX market website. Whereas, data related to the construction of CGI index is collected from various sources including rating reports of various agencies. The summary statistics of all independent and dependent variables and their definitions are presented in Table 3.1. The maximum value of CGI is 7 and the lowest is 2. The average values of ROA and OSS are positive and majority of MFIs lend to women.

**Table 3.1. Summary Statistics of the variables**

Variables	Definition	Mean	Std.Dev	Min	Max	Median
<b>Corporate governance Index (CGI)</b>	Self-constructed as shown in table 3.2	4.062	1.028	2	7	4.09
<b>Return on asset (%) (ROA) (ROAA)</b>	net income after taxes and before donations/average assets	0.082	0.533	-2.78	7.6	0.03
<b>Operational sufficiency (%) (OSS)</b>	financial revenues / (financial expenses + loan Expenses + loan loss expenses + operating expenses)	1.166	0.468	-0.12	11.4	1.15
<b>Women to total borrowers (%) (WTB)</b>	Percentage of women clients/ total clients	0.709	0.308	0	1.1	0.81
<b>Average loan size (%)</b>	Outstanding loans/ no. of borrowers	0.386	0.596	-0.78	6.13	0.19
<b>Human development index (HDI)</b>	Three dimensions: Income, Health and Education	0.621	0.095	0.44	0.91	0.607
<b>Domestic credit (DC)</b>	Ratio of Domestic credit to private sector	41.692	17.363	13.18	99.93	41.79
<b>Globalization index (GI)</b>	KOF index of Globalization	52.232	7.885	34.5	75.51	51.36

<b>Inflation (%)</b>	Taken from Worldbank data set	7.629	8.412	-0.94	247	6.91
<b>Democracy index (DI)</b>	Taken from the Polity IV data set	0.338	1.190	0	5	
<b>Corruption perception index (CPI)</b>	Taken from Worldbank governance index	30.005	7.462	18	53	28
<b>Hofstede index (HI)</b>	Taken from Hofstede Index website <a href="https://geert-hofstede.com/countries.html">https://geert-hofstede.com/countries.html</a>	46.738	5.969	35	61	47.67

### Corporate Governance Index

This paper has extended the corporate governance index originally devised by Nawaz et al (2018). The selection of variables in the construction of CGI index is based on the existing literature among which, the board size (Salim et al; 2016; Jensen .1993), female CEO (Pérlilleux et al.2015; Mersland and strom, 2009; Strom et al.2016), board qualification (Manderlier et al. 2009), international directors (Mersland et al. 2009), CEO/Chairman duality (Thrikawala et al. 2013; Duru et al. 2016; Tang, 2016), and ownership type (Salustri, et al.2015).are extensively used

**Table 3.2: Description of corporate governance Index**

<b>Indicator</b>	<b>Description</b>
<b>Board size</b>	Dummy equals 1 if the board size is greater than equals to mean value and less than equals to 9, 0 otherwise.
<b>Female directors</b>	Dummy with value 1 if MFI has female presence in board, 0 otherwise.
<b>Board qualification</b>	Dummy with value equals 1 if board has enough experience and knowledge in microfinance, 0 otherwise.
<b>International directors</b>	Dummy with value equals 1 if board has no international director, 0 otherwise.
<b>CEO/Chairman duality</b>	Dummy with value equals 1 if CEO and chairman roles are separated, 0 otherwise.
<b>Ownership type</b>	Dummy with value 1 if MFI is a SHF, 0 otherwise.
<b>Female CEO</b>	Dummy indicating value 1 if MFIs CEO is female, otherwise 0.

Source: Nawaz et. al (2018)

### The Method

#### Dynamic Panel Generalised Method of Moment (GMM) Estimation

In the conventional finance literature, the relationship between CG and firm performance has been thoroughly investigated. However, there exist potential sources of endogeneity leading towards biased results and only few recent studies have taken up this issue. However due to the complexity in identifying the exogenous factor in corporate governance, the researchers followed different approached to tackle the endogeneity in this context fixed and random approach and conventional instrumental approach lack dealing with dynamic endogeneity which arises when the CG–firm performance relationship is influenced by past performance. The dynamic nature of this relationship is hardly been investigated in microfinance context (Mersland & Strøm, 2009;Bassem, 2009; Hartarska, 2005;). As proposed by (Thrikawala et al.2017) this paper applies the dynamic panel generalized method of moments (GMM) technique to provide robust results.

Based on GMM technique originally proposed by Hansen (1982) various studies (Holtz-Eakin, Newey, and Rosen (1988), Arellano and Bond (1991), Arellano and Bover (1995) and (Blundell & Bond, 1998) further refined this technique in dynamic panel data models. GMM technique results in unbiased consistent and efficient estimators through non-parametric approach and it further control for possible co-relations among independent variables (Schultz et al., 2010; Baltagi, 2008). Therefore, the problems of heteroscedasticity, simultaneity and dynamic endogeneity is accounted for.

This paper follows the model proposed by Wintoki et al. (2012), where CG has a dynamic relationship with firm performance and is a function of past performance and other firm characteristics. Thus, the dynamic model for CG is as follows;

$$X_{it} = f(Y_{i,t-1}, Y_{i,t-2}, \dots, Y_{i,t-p}, Z_{i,t}, \mu_i, \varepsilon_{it}) \dots\dots\dots 1$$

Where,  $X$  represents the board governance of firm  $ith$  in year  $tth$ ;  $Y$  represents the firm performance (social and financial);  $Z$  represents the other control variables,  $\mu$  denotes the unobserved time-invariant firm effects,  $\varepsilon$  represents the random error term and  $p$  is the number of lags of firm performance.

Based on the above equation 1, the estimations of the effect of CG on firm performance can be expressed as follows:

$$Y_{it} = f(Y_{i,t-1}, Y_{i,t-2}, \dots, Y_{i,t-p}, X_{i,t}, Z_{i,t}, \mu_i, \varepsilon_{it}) \dots\dots\dots 2$$

The key assumptions in this model are the use of lags as instrumental variables (IVs) (Wintoki et al., 2012). The benefit of using lag variables is that they control for potential simultaneity and reverse causality. This method is only designed for situations where there are “short T, large N” panels, which means a panel with few time periods and many individual firms (Roodman, 2009). As our data set comprise of 183 MFIs over the span of nine years, this method is very appropriate, using the instrument based on the lag of the independent variables.

In this paper system GMM approach as developed by Blundell and Bond (1998), is used because it reduces the small sample biased unlike the differences GMM approach. Further as advocated by (Nguyen, Locke, & Reddy, 2015a) it is suitable for dealing with consistent values of corporate governance in the model.

## Results and Discussion

**Table4.1: CGI and Financial performance**

	ROA		OSS		ROA		OSS		ROA		OSS	
	(1) a	(1) b	(2) a	(2) b	(3) a	(3) b	(4) a	(4) b	(5) a	(5) b	(6) a	(6) b
<b>LROA</b>		0.235* (2.01)				0.061** * (1.88)				0.063* * (1.94)		
<b>LOSS</b>				0.183* * (2.56)				0.177** (2.54)				0.177** (2.54)
<b>LWTB</b>												
<b>LAOL</b>												
<b>CGI</b>	-0.004 (-0.36)	-0.001 (-0.12)	-0.017* (-1.76)	-0.013 (-1.40)	-0.004 (-0.30)	-0.003 (-0.23)	- 0.175 *	-0.013 (-1.40)	-0.004 (-0.37)	-0.004 (-0.30)	- 0.017* (-1.75)	-0.013 (-1.42)
<b>HDI</b>	1.087* ** (5.16)	1.061** * (5.24)	.446** * (2.31)	0.405* * (2.06)	.894*** (3.46)	0.945** * (3.62)	0.701* ** (3.58)	0.653** * (3.31)	0.871* ** (3.45)	0.920* ** (3.62)	0.698** * (3.52)	0.647*** (3.25)
<b>GDPPC</b>	-0.15** * (-3.72)	-0.98** * (-3.60)	-6.89 (-0.88)	-5.16 (-0.67)	-1.25*** (-65)	-1.35** (-2.92)	-2.03*** (-3.49)	-1.82*** (-3.15)	-9.10* * (-1.89)	-9.91** (-2.09)	-1.97** * (-3.29)	-1.73*** (-2.94)

<b>GI</b>	- .006** * (-3.28)	- 0.006* * (-3.14)	-0.002 (-1.11)	-0.001 (-0.81)	- .006** ** (-)	- 0.007* ** (-3.38)	0.000 (0.26)	0.000 (0.45)	- 0.006* ** (- 3.16)	- 0.006* ** (-3.20)	0.000 (0.32)	0.001 (0.55)
<b>D C</b>	.001** (2.16)	0.001* (1.73)	-0.000 (-0.51)	-0.000 (-0.50)	.000 (1.42)	0.000 (1.39)	0.001* (1.74)	0.001 (1.62)	0.001* (1.70)	0.001 (1.68)	0.001* (1.83)	0.001* (1.71)
<b>Inflatio n</b>	-.002* * (-2.63)	0.002 * (-2.53)	-0.000 (-0.47)	-0.000 (-0.05)	-.002*** (-2.37)	-0.002 (-2.37)	- 0.001 (- 1.01)	-0.000 (-0.65)	-.002*** * (- 2.43)	-.002* * (-2.43)	- 0.001 (- 0.99)	-0.000 (-0.63)
<b>DI</b>					.020* (1.29)	0.018 (1.23)	- 0.010 (- 0.77)	-0.011 (-0.90)	0.038* ** (2.56)	0.037* * (2.57)	- 0.007 (- 0.44)	-0.007 (-0.47)
<b>CPI</b>					.002* (1.45)	0.002 (1.33)	-.009** * (- 5.64)	-.008*** (-5.61)	0.002 (1.19)	0.002 (1.07)	-.009** * (- 5.88)	-.009** * (-5.84)
<b>HI</b>									-.005* * (- 2.30)	-.005* * (-2.41)	- 0.000 (- 0.38)	-0.001 (-0.60)
<b>Age</b>	.004 (1.23)	0.005 (1.47)	.000 (0.19)	0.002 (0.54)	.005* (1.70)	0.006* (1.82)	- 0.000 (- 0.21)	0.000 (0.17)	0.005* (1.53)	0.005 (1.66)	- 0.001 (- 0.24)	0.000 (0.14)
<b>Age<sup>2</sup></b>	-0.000 (-1.02)	-0.000 (-1.44)	-0.000 (-1.27)	-0.000 (-1.45)	-.000* (- 1.48)	-0.000 (-1.65)	-0.000 (- 0.82)	-0.000 (-1.05)	- 0.000 (- 1.25)	-0.000 (-1.43)	- 0.000 (- 0.79)	-0.000 (-1.01)
<b>LAsse</b>	-.034** (-1.96)	-0.026 (-1.67)	.009 (1.39)	0.006 (0.99)	- .035* * (- 2.81)	- 0.034* * (-1.98)	0.013* (1.86)	0.010 (1.42)	- 0.035* * (- 2.02)	- 0.034* * (-1.97)	0.013* (1.87)	0.010 (1.43)
<b>Regula ted</b>	0.083* ** (2.83)	0.067* (2.42)	0.000 (0.01)	0.007 (0.16)	.080* * (2.51)	0.075* * (2.34)	- 0.019 (- 0.41)	-0.010 (-0.21)	0.075* ** (2.41)	0.070* * (2.22)	- 0.020 (- 0.42)	-0.011 (-0.24)
<b>Rura bank</b>	-.157 (-1.73)	-0.112 (-1.34)	.209* * (4.37)	0.186* ** (4.37)	-.160* (- 1.78)	-0.148 (-1.70)	0.232* ** (5.51)	0.207* ** (4.81)	- 0.151* (- 1.70)	-0.139 (-1.61)	0.233* ** (5.61)	0.210* ** (4.89)
<b>NBFI</b>	- .170** * (-2.49)	0.139* * (2.15)	.065* * (2.18)	0.056* (1.88)	-.171* ** (- 2.44)	0.164* * (2.55)	0.084* ** (2.79)	0.074* * (2.44)	0.165* ** (2.52)	0.158* * (2.48)	0.085* ** (2.83)	0.075* * (2.49)
<b>NGO</b>	-.163** (-2.20)	- 0.138* * (-1.99)	.166* * (2.07)	0.146* ** (2.80)	-.163* * (- 2.22)	0.159* * (2.21)	0.165* ** (3.10)	0.145* ** (2.84)	- 0.155* * (- 2.13)	- 0.151* * (-2.11)	0.166* ** (3.18)	0.147* ** (2.90)
<b>Credit Union</b>	- .224** * (-2.73)	0.190* * (2.55)	.198 (1.26)	0.161 (1.02)	-.198* ** (- 2.44)	0.193* * (2.42)	0.146 (0.91)	0.113 (0.70)	- 0.1707 ** (- 2.20)	- 0.164* * (-2.17)	0.151 (0.94)	0.120 (0.75)
<b>Group Lendin g</b>	.035 (1.19)	0.057* (1.86)	-.128* * (2.42)	0.120* ** (2.42)	.031 (1.06)	0.038 (1.31)	- 0.108* ** (- 3.12)	- 0.104* ** (- 3.04)	0.038 (1.25)	0.046 (1.51)	- 0.107* ** (- 3.01)	- 0.102* ** (- 2.92)
<b>Individ ual and Group lending</b>	.030 (1.11)	0.033 (1.24)	-.088* * (- 2.39)	0.078* * (-2.13)	.0373 (1.46)	0.038 (1.52)	0.097* * (- 2.57)	0.088* * (-2.32)	0.040* (1.54)	0.041 (1.60)	0.097* ** (- 2.55)	0.087* * (-2.30)
<b>Consta nt</b>	.350 (1.12)	0.161 (0.55)	.930* * (3.19)	0.717* ** (3.19)	.413 (1.33)	0.365 (1.20)	0.831* ** (3.79)	0.629* ** (2.80)	0.654* (1.82)	0.613* (1.73)	0.873* ** (3.21)	0.690* * (2.55)

No. of Obs	1593	1592	1531	1510	1593	1591	1531	1510	1593	1591	1531	1510
F Value	2.84	2.86	4.57	4.92	2.55	2.46	5.26	5.72	2.42	2.34	5.58	6.15
Prob	0.0001	0.000	0.0000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

\*, \*\* & \*\*\* denote significance level at 10, 5 & 1 % respectively

Table 4.1 presents the results of impact of corporate governance on financial performance using GMM analysis. Considering the dynamic nature of this relationship the analysis indicates the persistence of financial performance where the past financial performance significance determine the variation in the current performance. Therefore, to control for this dynamic endogeneity two year lag financial performance variable included as explanatory variables in all (1b-6b) equations. Overall the results confirm insignificance impact of corporate governance on financial performance even controlling for endogeneity. Through, in particular corporate governance has significant negative impact on financial performance when proxies by OSS. In economic variables the human development and domestic credit contributes to financial performance whereas per capita GDP, globalization index and inflation reduces it. Further, evidence found that size of MFI has inclusive impact on financial performance. Further, MFIs which are regulated having bank status financially perform better. Further, some evidence has been found that the institutional variables of having more democratic values and less perception about corruption prevailing in the society leads to better financial performance (eq 3-4). Furthermore, little evidence has found that cultural values undermine the financial performance (eq 5-6).

Table 4.2: CGI and Social performance

	WTB		AOL		WT		AOL		WTB		AOL	
	(1) a	(1) b	(2) a	(2) b	(3) a	(3) b	(4) a	(4) b	(5) a	(5) b	(6) a	(6) b
LROA												
LOSS												
LWTB		0.401* * *				0.399** * (15.8)				0.386* * *		
LAOL				0.426* * *				0.418** * (6.33)				0.418* * *
C GI	.014** * (2.57)	0.011* * (2.44)	- .064** * (-)	- 0.050* * *	0.012** (2.25)	0.010** (2.13)	- 0.062** * (-5.12)	- 0.050* ** (-4.50)	0.013* * (2.38)	0.011* * *	- 0.063* * *	- 0.050* * *
HD I	1.542* * *	1.170* * *	.527* * (2.08)	0.08 8 (0.3)	1.454** * (-10.00)	1.12** * (-10.00)	0.880** * (3.3)	0.1465* * (1.82)	- 1.393* * *	- 1.085* * *	0.865* * *	0.462 * (1.77)
GDPP C	3.32** * *	2.64** * *	3.68** * (-)	-1.20 (-1.41)	3.08*** (5.16)	2.57*** (5.26)	- 5.67** * (-)	-3.20*** (-2.72)	2.47** * *	2.13** * *	- 5.44** * (-)	- 3.15* *
G I	-0.000 (-0.45)	- 0.000 (-)	- .009** * (-)	- 0.007* * (-)	0.002* (-1.85)	0.002* * (-2.05)	-0.004 (-1.39)	-0.003 (-1.02)	0.003* * *	0.003* * *	- 0.004 (-)	- 0.003 (-)
D C	.005** * *	0.003* * *	- .001* * *	0.001* * (-)	0.004** * (10.4)	0.003** * (8.6)	0.001 (0.99)	0.000 (0.62)	0.003* * *	0.002* * *	0.00 1	0.00 0
Inflatio n	-0.000 (-0.87)	-0.000 (-0.73)	- .006** * (-3.40)	- 0.006* * (-5.61)	-0.000 (-1.24)	-0.000 (-0.90)	- 0.007** * (-3.05)	- 0.007** * (-5.91)	- 0.000* * (-1.63)	-0.000 (-1.10)	- 0.007* * (-3.08)	- 0.007* * (-5.93)



<b>D</b>					0.023** * (- 4.29)	- 0.018** * (-4.02)	- 0.005 (- 0.33)	-0.016 (-1.02)	0.052* *	- 0.040* *	0.00 6 (0.02)	- 0.014 (-)
<b>CP</b>					0.004** *	0.004** *	- 0.017** *	- 0.013* ** (-	0.005* *	0.005* *	- 0.017* *	- 0.013* * (-
<b>H</b>									0.009* *	0.006* *	- 0.003 *	- 0.000* * (-
<b>Age</b>	- .006** * (-	- 0.002 (-)	.016** * (2.76)	0.018* *	- 0.006** * (- 2.64)	-0.003 (-1.23)	0.013** * (2.4	0.015** (2.59)	- 0.005* * (-	- 0.00 2 (-	0.013* * (2.39)	0.015* * (2.56)
<b>Age<sup>2</sup></b>	.000** * (5.19)	0.000* *	- .000** * (-	- 0.000* *	0.000** * (5.4	0.000** * (3.4	- 0.000** * (- 3.96)	0.000* ** (-	0.000* *	0.000* *	0.000* *	0.000* *
<b>LAsset</b>	-0.000 (-0.13)	-0.002 (-0.71)	.010 (1.01)	0.016* (1.89)	- 0.002 (- 0.63)	-0.004 (-1.33)	0.016* (1.57)	0.021** (2.39)	- 0.003 (- 0.89)	-0.004 (-1.57)	0.016* (1.58)	0.021* *
<b>Regulate d</b>	- .053** * (-	- 0.040* * (-	.115** *	0.04 2	- 0.031* * (- 1.75)	-0.020 (-1.36)	0.074** * (2.5	0.016** *	- 0.024	- 0.016	0.070* *	0.01 6
<b>Rural</b>	.157** * (4.35)	0.108* *	- .584** * (-	- 0.421* *	0.139** * (3.8	0.091** * (3.2	- 0.541** * (- 6.18)	- 0.393* ** (-	0.119* *	0.078* *	- 0.536* *	- 0.392* *
<b>NBFI</b>	.220** * (11.80)	0.175* *	- .482** * (-	- 0.343* *	0.204** * (10.5	0.160** * (8.8	- 0.447** * (- 5.31)	- 0.321* ** (-	0.192* *	0.153* *	- 0.443* *	- 0.320* *
<b>NGO</b>	4 .178** *	0.128* *	- .554** * (-	- 0.447* *	0.176** * (7.5	0.126** * (6.1	- 0.552** * (- 6.94)	- 0.448* ** (-	0.159* *	0.115* *	- 0.547* *	- 0.447* *
<b>Credit Union</b>	5 .226** *	0.164* *	- .452** * (-	- 0.299* *	0.229** * (6.8	0.172** * (5.8	- 0.534** * (- 5.82)	- 0.375* ** (-	0.180* *	0.138* *	- 0.516* *	- 0.372* *
<b>Group Lending</b>	.142** * (7.27)	0.079* *	- .286** * (-	- 0.195* *	0.133** * (6.8	0.069** * (3.8	- 0.257** * (- 6.97)	- 0.175* ** (-	0.119* *	0.061* *	- 0.253* *	- 0.174* *
<b>Individual and</b>	.121** * (7.92)	0.084* *	- .066* * (-	- 0.065 (-)	0.118** * (7.7	0.083** * (5.8	- 0.080* * (-	-0.079** (-2.07)	0.112* *	0.080* *	- 0.079 * (-	- 0.078* * (-
<b>Constant</b>	1.181* *	0.810* *	1.194* *	0.860* *	1.181** * (12.0	0.825** * (9.0	1.038** * (4.2	0.717** (2.99)	0.818* *	0.574* *	1.197* *	0.752* *
<b>No. of Obs.</b>	1575	1565	1594	1591	1575	1565	1594	1591	1575	1565	1594	1591
<b>Value of</b>	153.15	233.16	23.69	27.00	132.70	207.37	21.20	24.29	157.94	227.07	21.61	25.52
<b>Prob &gt;</b>	0.0000	0.000	0.0000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

\*, \*\* & \*\*\* denote significance level at 10, 5 & 1 % respectively

Evidence related to the impact of corporate governance on social performance is present in table 4.2. Like the financial performance analysis, the significant co-efficient of lagged social performance proxy depict the persistence nature of social performance variable where the past

social performance effects the present social performance. Therefore, two year lagged social performance variable is included as explanatory variables in all equations (1b-6b). Overall the evidence suggests that unlike corporate governance-financial performance relationship, the good corporate governance significantly increases the social performance as proxies by women borrowers and average loan size of MFIs controlling for economic, institutional and cultural variables. Considering economic variables, per capita income enhances the social performance whereas surprisingly human development undermines the social performance. The result suggests that MFIs better serve their social agenda in areas having low level of human development.

Similarly, the results suggest that globalization reduces the social performance through less focus on female clients. Moreover, increase inflation also causes MFIs to focus on poor clients. The evidence further suggests that increase in domestic credit do significantly increase the social performance. The evidence related to institutional variable proxies by democracy index and CPI provides mixed evidence. This suggests that more democratic values lead to decrease in social performance through targeting less female clients. Whereas, lower level of corruption perception in the society contribute towards social performance. Interesting the un-linearity of experience of an MFIs with its social performance is empirically established which suggests that mature MFIs tend to more focus on social performance unlike the young MFIs. The evidence related to culture variable suggests that good culture values promote the social performance. Considering the categorical variables MFIs having bank status have individual lending methodology and those who are regulated have lower social performance.

## **Conclusion**

This paper investigates the relationship of corporate governance and performance of microfinance institutions controlling for institutional, cultural and economic factors by utilizing a panel data set comprised of 183 MFIs in Asia from 2010 to 2018. It employs in addition to OLS, the GMM method to take care of the issue of endogeneity. A comprehensive CGI comprised of seven dimensions has been constructed. Comparing the CGI and performance relationship our results suggests that good corporate governance practices significantly increase the social performance of MFIs. Whereas some evidence has found that it undermines the financial performance. The result is robust even after controlling for economic, institutional and cultural factors. In the backdrop of agency theory and resource dependence theory we conclude that presence of international directors, board diversity and their qualification, female representation in the board and non-profit ownership structure results in more lending to female clients and targeting relatively less well off. Microfinance sector is increasingly becoming regulated and they are compelling to put in place the corporate governance mechanism. Since majority of MFIs irrespective of their status are socially oriented. Therefore, good corporate governance mechanism is more effective in enhancing social performance in particular. Progress towards human development contributes to both financial and social performance of MFIs. Interestingly we conclude that increase in globalization and domestic credit make MFIs more socially oriented. Further we conclude that inflation though undermines MFIs financial performance but at the same time increases its social performance as it compels MFI to reach to the poor. Furthermore, democratic regimes are conducive for the performance of MFIs and people perception of less corruption enhances the social performance of MFIs. We further conclude that MFIs in long run tend to be more social oriented. Furthermore, MFIs having non-profit status, credit union having those lend to the group tend to be more socially oriented.

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