



## Impact of Internal Corporate Governance Mechanism on Social Performance of Microfinance Institutions in Pakistan

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### ABSTRACT

**Purpose:** The purpose of this research is to examine the impact of internal corporate governance mechanisms on the social performance of microfinance institutions of Pakistan.

**Design/Methodology/Approach:** A survey questionnaire was used to collect data. Data were collected manually and online (Google survey form). The data collected were analyzed through Smart PLS.

**Findings:** The results showed that board of directors, board meetings and frequency of board meetings as components of internal corporate governance mechanism have a positive and significant impact on the social performance of microfinance institutions of Pakistan.

**Implications/Originality/Value:** The originality and contribution of this study is that this is the first study that analyzed the impact of board of directors, board meetings and frequency of board meetings as a component of internal corporate governance mechanism on the social performance of microfinance institutions of Pakistan.



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### Introduction

Microfinance institutions emerged five decades ago to empower the poor via microcredits in Bangladesh. Since then, microfinance intuitions have been increasing globally and offering various products and services to eradicate poverty and social development to achieve their financial and social goals. Now microfinance institutions have started to provide non-financial services to their clients and financial services. These non-financial services are children's schooling, agricultural education, health care services, technical aid, and specialized training to improve the environment and individual development. Provision of these non-financial services is now part of microfinance

institutions' environmental, social, and governance (ESG) performance.

The United Nations (UN) in 2015 launched SDGs (Sustainable Development Goals) that are total of 17 in numbers and out of the one goal is to reduce poverty to zero till 2030 (United Nations 2021b). The goal of poverty reduction also included eliminating dangerous poverty for all the people by ensuring equal access to financial and economic resources (United Nations 2021a). According to (World Bank 2020), extreme poverty has been defined as earning less than 1.90 Dollars daily.

According to Czura et al. (2022), the microfinance sector has served up to 140 million poor household borrowers worldwide who have been deprived of borrowing from the traditional banking system. According to Zamore et al. (2019), microfinance institutions are socially focused organisations committed to providing non-collateralized micro-credit to people of low income and SMEs who do not have access to finance in the formal banking system. According to Hevia and Neumeyer, 2020; and Loayza and Pennings, 2020, the literature shows that firms working in poor and developing countries have limited access to financial marketplaces.

According to Sulimany et al. (2021), a good corporate governance mechanism can play a vital role in the performance of microfinance institutions and in improving financial sustainability and share value of microfinance institutions. Corporate governance has become a topic of attention of educators, administrators and researchers over the many years. The literature revealed scant studies on corporate governance and its relation with share price and financial sustainability and microfinance institutions' financial, social and environmental performance. Therefore, in this study, different components of internal corporate governance mechanisms like the board of directors, board meetings and frequency of board meetings have been used to measure the social performance of microfinance institutions of Pakistan which have not been measured before.

### **Research Gap**

Microfinance institutions have played a vital role in eradicating poverty, providing health and education to the deprived class of the community, and enhancing their standard of living. Few studies have been conducted in Pakistan to evaluate the performance of microfinance institutions. Still, no study has been made to examine the impact of internal corporate governance mechanisms on the social performance of MFIs in Pakistan.

The literature review found that there is a rare presence of literature on components of internal corporate governance like board education, board meetings, and CEO tenure and frequency of board meetings. Only one paper was found during the review, which mainly focused on board education, board meetings, and CEO-chairmanship duality. The focus of the internal governance mechanism is to enhance the internal monitoring and control of microfinance institution boards.

In addition, microfinance institutions have been studied widely regarding financial performance, but they gained little attention regarding social performance. According to CGAP (2013), the social performance of microfinance institutions is vital for achieving the social objectives of MFIs. Because of the scanty literature on the social performance of microfinance institutions, this study aims to measure the impact of internal corporate governance mechanisms (board of directors, board meetings and frequency of board meetings) on the social performance of MFIs of Pakistan.

### **Significance of the Study**

This study is helpful for the regulators of MFIs to protect the rights and interests of shareholders of MFIs. First, this study makes an addition to the existing literature of corporate governance mechanisms by discussing corporate governance mechanisms, their challenges and strategies for ameliorating corporate governance mechanisms in MFI's of Pakistan. Second, this study

contributes to the literature by examining the board of directors, board meetings and frequency of board meetings as elements of internal corporate governance, which already have not been discussed. Third, according to the best of my knowledge, this is the first study investigating the impact of internal corporate governance mechanisms (Board of Directors, Board Meetings and Frequency of Board Meetings) on the social performance of microfinance institutions in Pakistan. Fourth, methodologically, this is the first study to examine the impact of internal corporate governance mechanisms on the social performance of microfinance institutions in Pakistan through primary data.

## **Literature Review**

### **Internal Corporate Governance Mechanism**

The internal mechanism of corporate governance includes characteristics of internal board directors, board independence, the board size, board committees, ownership types, gender diversity, CEO-chairmanship Duality internal stakeholders, chief executive officers, capital structure and internal auditing (Augustine et al., 2016; Dato et al., 2018). This study will include board of directors, board meetings, and frequency of board meetings as components of internal corporate governance.

Many studies have been carried out from the past few years related to finance, such as corporate governance mechanisms. So, ownership structure, corporate directors, board meetings, board diversity are the major issues regarding the corporate governance ([Fu, 2019](#); [Murtaza, Noor-Ud-Din, Aguir, & Batool, 2020](#)). A good corporate governance mechanism increases the shareholders' interest and boosts firm performance.

### **Board of Directors**

Furthermore, Ehugbo (2021) investigated the relationship between corporate governance board features and the performance of microfinance institutions, concluding that board independence and the yield on MFI assets have a close and favourable relationship. The study also found a link between gender diversity and microfinance institution performance that is both unfavourable and substantial. The study also found that liquidity, board independence, and gender diversity of microfinance institutions have a positive and relevant association. It is also observed that in the board of microfinance institutions, the representation of women is deficient.

From the past studies, research by ([Tejerina-Gaite & Fernández-Temprano, 2021](#)) examined the role of board characteristics and firm performance of Spanish listed firms for the period 2005-2015. Findings of the study depicted that internal and external directors have a significant difference impact on firm performance. Whereas, inside directors' age has no significant impact and outsider's generation has a negative effect on firm performance. The following hypothesis is proposed based on the literature.

**Hypothesis 1:** The board of directors influences the social performance of MFIs in Pakistan.

### **Board Meetings**

The corporate governance measures have been classified as traditional measures like non-executive board members, percentage of independent members and true board true measures like board independence, number of board meetings, board attendance, financial expertise of the directors, and age of directors. The researchers found that traditional board measures do not affect company performance, whereas true governance measures positively affect firm performance.

The literature demonstrates that board meetings can enhance the board's effectiveness, leading to control and monitoring of the team. Board effectiveness is examined by board meetings frequency. From the arrangement of corporate meetings, the board members can take many well-developed

strategic and corporate decisions to increase the board's efficiency. It is stated that the numerous arrangements of the board meeting can control and monitor the team in a better way and minimise the operating liquidity. In contrast, the cost for the arrangement of board meetings is high as well as it also consumes more time of firms ([J. Khan & Rehman, 2020](#)). According to the literature, the following other hypothesis is proposed.

**Hypothesis 2:** The board meetings influence the social performance of MFIs in Pakistan.

### **Frequency of Board Meeting**

Eluyela et al. (2018) investigated the link between the frequency of board meetings and the firm's performance. They discovered a link between the frequency of board meetings and company performance. The study also found a positive and negligible association between board size and firm performance, but a negative and significant relationship between firm size and company performance. The study also recommended that to make corporate governance effective, the management of the microfinance institutions should have to increase their frequency of meetings. There should be four meetings per annum. The study also argued that companies, success, efficiency and effectiveness are the results of the decisions of the corporate board of directors taking in their frequency of meetings.

There are mixed results of the board meeting and firm performance. Some studies find a positive relationship with Field (Francis, Hasan, & Wu, 2012), a study by Field (Jackling & Johl, 2009) finds an insignificant relationship between a board meeting and firm performance. While another study by ([Fich & Shivdasani, 2005](#)) find an inverse relationship between the frequency of board meetings and firm performance. The large number of frequencies of board meetings may lead to a decrease in the attendance of meetings by directors. Based on the literature on the frequency of board meetings, the following hypothesis is proposed.

**Hypothesis 3:** The frequency of board meetings influences the social performance of MFIs in Pakistan.

### **Corporate Governance and MFI Performance**

There are mixed results about the corporate governance mechanism and MFI performance. Studies like (Thrikawala et al., 2016a, 2017; Wamba et al., 2018; Dato et al.2018) showed that the governance structure has a positive impact on the performance of microfinance institutions. Studies like (Van Damme et al., 2016) revealed that governance structure has both positive and negative impacts on MFI performance. On the other hand, studies like (Hartarska, 2009; Siwale and Okoye, 2017) found that there is no association between governance structure and microfinance institutions' performance.

### **Social Performance of MFI**

According to (Agrawal & Hockerts 2021), one of the dimensions of measuring social performance is social outreach, which is how well microfinance institutions reach the base of poor clients. According to (Aslam et al. 2019; Laher & Proffitt 2020), better outreach can be achieved by having access to poorer clients that demand small loan sizes. It is the innovation that enables microfinance institutions to provide financial services to the poor who have been neglected by the traditional financial system (Milana & Ashta 2020).

In light of the literature mentioned above, it can be inferred that different governance dimensions significantly influence microfinance institutions' performance. South Asian countries are affected by extreme poverty, but there is no association between governance and MFIs performance of Asian countries in the existing literature. In this study, we seek to fill the literature gap by using internal corporate governance mechanisms to determine the social performance of microfinance

institutions in Pakistan.

**Hypothesis 4:** Internal corporate governance influences the social performance of MFIs in Pakistan.

### Conceptual Framework

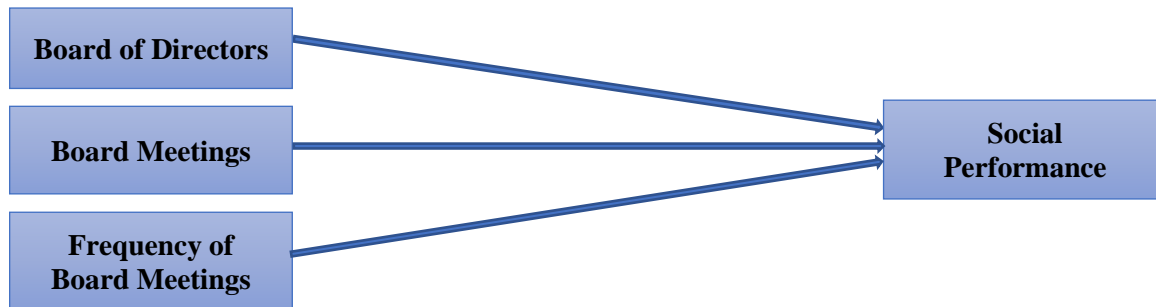


Figure 1 Model 1



Figure 2 Model 2

### Methodology

#### Population

The study aimed to investigate the impact of internal corporate governance mechanisms on the social performance of microfinance institutions in Pakistan. So the population of this research was the staff of microfinance institutions working at top-level management, middle-level management, and lower-level management and at the non-managerial level of microfinance institutions of Pakistan.

Table 1: Variables and their Definitions

Abbreviations	Terms	Definitions
ICG	<b>Internal Corporate Governance Mechanism</b>	The internal mechanism of corporate governance includes characteristics of internal board directors, board independence, board size, board committees, ownership types, gender diversity, CEO-chairmanship Duality internal stakeholders, chief executive officers, capital structure and internal auditing (Dato et al., 2018; Mersland and Strøm, 2008)
BoD	<b>Board of Directors</b>	Board of Directors are responsible for monitoring and controlling of corporate affairs and are also responsible for strategic decision making of the organization.
BM	<b>Board Meetings</b>	According to Adams & Ferreira (2009), board meeting is the source of getting information about the company affairs that enable directors to use this information for performing of effective controlling and monitoring role.
FoBM	<b>Frequency of Board Meeting</b>	Firth & Rui (2012) described that directors activeness is perceived by the higher number of meetings held in a year.
SP	<b>Social Performance</b>	Social Performance is the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve.

### Data Collection, Sample size and instrument

The data was collected through survey technique to investigate the hypothesized relationship among the variables as stated in the research model of the study. The data was collected through distributing questionnaires and through Google form. A total of 150 questionnaires were distributed manually, and only 117 responses were received. The response rate of respondents remained 78%. All other responses have been recorded through Google survey form. The sample size of 372 responses has been used for analysis. A sample size of 372 observations fulfill the both conditions of Cochran's sample size formula (i.e. 390) for unknown population and an average sample size of  $N=207$  for PLS-SEM studies.

The questionnaire was based on six questions of board of directors and six questions of board meetings taken from the work of Ssekiziyivu et al. (2018); five questions of frequency of board meetings taken from the work of Jackson Ngunjiri Wanjau (2007), and seven questions of social performance taken from the work of Garcia Perez et al. (2018).

**Table 2: Construct and No of items**

Construct	No of items in this research	References
<b>Internal Corporate Governance</b>		
Board of Directors	06	Ssekiziyivu et al. (2018);
Board Meetings	06	
Frequency of Board Meetings	05	Jackson Ngunjiri Wanjau (2007)
<b>Social Performance</b>	07	Garcia Perez et al. (2018)

### Data Analysis and Results

#### Data Analysis

The data collected was analysed by using Smart PLS software.

#### Results

##### Descriptive Statistics

Descriptive statistics provide information about gender, age, number of years in service, marital status, job position and educational level. The results showed that 76.4 % of respondents are male and 23.6% are female. 76.5% of respondents were married, and 23.5% were unmarried. 38.1% of respondents are up to 30 years of age, 42.6% are between 31 to 40 years, 13.2% are between 41 to 50 years, and 6.1% are 51 and above. Moreover, 20.8% of respondents have less than five years of work experience, 46.1% have between 6 to 10 years of work experience, 26.4% have between 11 to 20 years of work experience, and 7.2% have more than 21 years of work experience. 10.1% of respondents were top-level managers, 23.9% were middle-level managers, 31.1% were supervisory level employees, and 34.6% were non-managerial level employees. An analysis of the educational level of respondents revealed that 1.9% of respondents have an intermediate level education, 30.7% have bachelor's degree, 52.6% have master's degree, and 14.8% have M.Phil. and Ph.D.

##### Validity and Reliability of the Construct

Loadings, Cronbach's Alpha and Composite Reliability and average variance extracted (AVE) tests are used to measure the validity and reliability of the construct of the study. The minimum value of reliability for acceptance of the research construct is 0.70 for loadings, Cronbach's Alpha and Composite Reliability. While for the average variance extracts (AVE), the value should be 0.5 and above. If the values of the variables of the research construct are more than 0.70, then the research construct is accepted for study.

Table 3 shows that values of the loadings, Cronbach's Alpha and Composite Reliability of all variables are above 0.7 and the value of AVE for all variables are above 0.5.

**Table 3: Validity and Reliability for Constructs**

<b>Model 1</b>				
	<b>Loadings</b>	<b>AVE</b>	<b>CR</b>	<b>Cronbach's Alpha</b>
ICGBM		0.533	0.820	0.707
ICGBM1	0.679			
ICGBM2	0.746			
ICGBM3	0.764			
ICGBM4	0.727			
ICGBOD		0.526	0.816	0.701
ICGBOD1	0.647			
ICGBOD4	0.768			
ICGBOD5	0.739			
ICGBOD6	0.742			
ICGFBM		0.529	0.848	0.776
ICGFBM1	0.666			
ICGFBM2	0.750			
ICGFBM3	0.793			
ICGFBM4	0.747			
ICGFBM5	0.674			
SP		0.510	0.862	0.808
SP1	0.689			
SP2	0.718			
SP3	0.722			
SP4	0.752			
SP5	0.690			
SP6	0.710			
<b>Model 2</b>				
	<b>Loadings</b>	<b>AVE</b>	<b>CR</b>	<b>Cronbach's Alpha</b>
ICGBOD		0.523	0.845	0.772
ICGBM3	0.612			
ICGBOD1	0.765			
ICGBOD2	0.747			
ICGBOD3	0.715			
ICGBOD4	0.766			
SP		0.509	0.861	0.808
SP1	0.676			
SP2	0.716			
SP3	0.730			
SP4	0.767			
SP5	0.674			
SP6	0.712			

**Table 4: Discriminant Validity (Fornell-Larcker Criterion)**

<b>Model 1</b>				
	<b>ICGBM</b>	<b>ICGBOD</b>	<b>ICGFBM</b>	<b>SP</b>
<b>ICGBM</b>	0.730			
<b>ICGBOD</b>	0.526	0.726		
<b>ICGFBM</b>	0.357	0.403	0.728	
<b>SP</b>	0.426	0.472	0.419	0.714
<b>Model 2</b>				
	<b>ICG</b>	<b>SP</b>		
<b>ICG</b>	0.723			
<b>SP</b>	0.422	0.713		

**Table 5: Cross Loadings**

<b>Model 1</b>				
	<b>ICGBM</b>	<b>ICGBOD</b>	<b>ICGFBM</b>	<b>SP</b>
<b>ICGBM1</b>	0.679	0.436	0.244	0.281
<b>ICGBM2</b>	0.746	0.354	0.224	0.329
<b>ICGBM3</b>	0.764	0.397	0.261	0.304
<b>ICGBM4</b>	0.727	0.360	0.312	0.325
<b>ICGBOD1</b>	0.342	0.647	0.306	0.307
<b>ICGBOD4</b>	0.396	0.768	0.351	0.373
<b>ICGBOD5</b>	0.352	0.739	0.218	0.340
<b>ICGBOD6</b>	0.435	0.742	0.294	0.346
<b>ICGFBM1</b>	0.302	0.300	0.666	0.294
<b>ICGFBM2</b>	0.285	0.308	0.750	0.280
<b>ICGFBM3</b>	0.209	0.278	0.793	0.314
<b>ICGFBM4</b>	0.254	0.320	0.747	0.342
<b>ICGFBM5</b>	0.255	0.258	0.674	0.282
<b>SP1</b>	0.263	0.340	0.290	0.689
<b>SP2</b>	0.266	0.355	0.310	0.718
<b>SP3</b>	0.333	0.352	0.323	0.722
<b>SP4</b>	0.307	0.368	0.298	0.752
<b>SP5</b>	0.322	0.261	0.306	0.690
<b>SP6</b>	0.331	0.339	0.266	0.710
<b>Model 2</b>				
	<b>ICG</b>	<b>SP</b>		
<b>ICGBM3</b>	0.612	0.306		
<b>ICGBOD1</b>	0.765	0.311		
<b>ICGBOD2</b>	0.747	0.236		
<b>ICGBOD3</b>	0.715	0.255		
<b>ICGBOD4</b>	0.766	0.377		
<b>SP1</b>	0.252	0.676		
<b>SP2</b>	0.300	0.716		
<b>SP3</b>	0.341	0.730		
<b>SP4</b>	0.347	0.767		
<b>SP5</b>	0.229	0.674		
<b>SP6</b>	0.311	0.712		

**Table 6: Discriminant Validity (Heterotrait-Monotrait Ratio (HTMT))**

<b>Model 1</b>				
	<b>ICGBM</b>	<b>ICGBOD</b>	<b>ICGFBM</b>	<b>SP</b>
<b>ICGBM</b>				
<b>ICGBOD</b>	<b>0.753</b>			
<b>ICGFBM</b>	<b>0.485</b>	<b>0.547</b>		
<b>SP</b>	<b>0.562</b>	<b>0.625</b>	<b>0.527</b>	
<b>Model 2</b>				
	<b>ICG</b>	<b>SP</b>		
<b>ICG</b>				
<b>SP</b>	<b>0.511</b>			

**Table 7: Goodness of Fit (GoF) Index**

<b>Model 1</b>		
	<b>AVE</b>	<b>R Square</b>
<b>ICGBM</b>	<b>0.533</b>	
<b>ICGBOD</b>	<b>0.526</b>	
<b>ICGFBM</b>	<b>0.529</b>	
<b>SP</b>	<b>0.510</b>	0.312
<b>Model 2</b>		
	<b>AVE</b>	<b>R Square</b>
<b>ICGBOD</b>	<b>0.523</b>	
<b>SP</b>	<b>0.509</b>	0.178



**Discriminant Validity**

The Discriminant Validity was established through the Fornell-Larcker Criterion, cross loadings and HTMT. According to this criterion the diagonal values of the all the variables of the construct must be greater than 0.50. And according to HTMT criterion if the value of HTMT is below 0.90 then discriminant validity is established between the two reflective constructs. According to the said criteria the table 4, 5, and 6 illustrate that the diagonal values of all variables of the research constructs are greater than 0.50 and HTMT values are also below 0.90 and values of cross loadings are also within acceptable limits.

**Goodness of Fit (GoF) Index**

The value of Goodness of Fit varies from 0 to 1 and Akhter et al. (2012) took 0.36 as a cut off value for acceptance of model. The values of AVE and R square are given in table 7 and the values of Goodness of Fit index has been calculated and checked and all values are greater than the cut off criteria of 0.36 and values of AVE and R Square have been tested with both methods i.e. algorithm and bootstrapping and base on the results as given in the tables below, research model is fit for study.

**R Square**

The R Square explains the proportionate change in the dependent variable due to change in the independent variable. These are the values of R Square, which describe the association between dependent variables and independent variables of the construct. The decision criteria about the values of R square as given by the Henseler, Ringle, and Sinkovics (2009) is as follows. If the value of R square is 0.25, then the association between the dependent variable and independent variables is weak, if the value of R square is 0.50, then the relationship between the variables of the constructs is moderate, and if the value of R square is 0.75, then this is the significant value for acceptance of the construct. According to Chin (1998), the value of 0.19, 0.33, 0.67 described a weak, moderate and substantial predictive accuracy. According to Falk and Miller (1992), the value of R square should be equal to greater than 0.10 to deem the construct adequate.

According to table 7, and figure 3, 4, 5 and 6, the values of R square showed that there is a positive and significant relationship between internal corporate governance mechanism (Board of Directors, Board Meetings and Frequency of Board Meetings) and social performance of Microfinance institutions of Pakistan. The R square value is acceptable and supports hypotheses No H1, H2 and H3.

**The Model of the Construct**

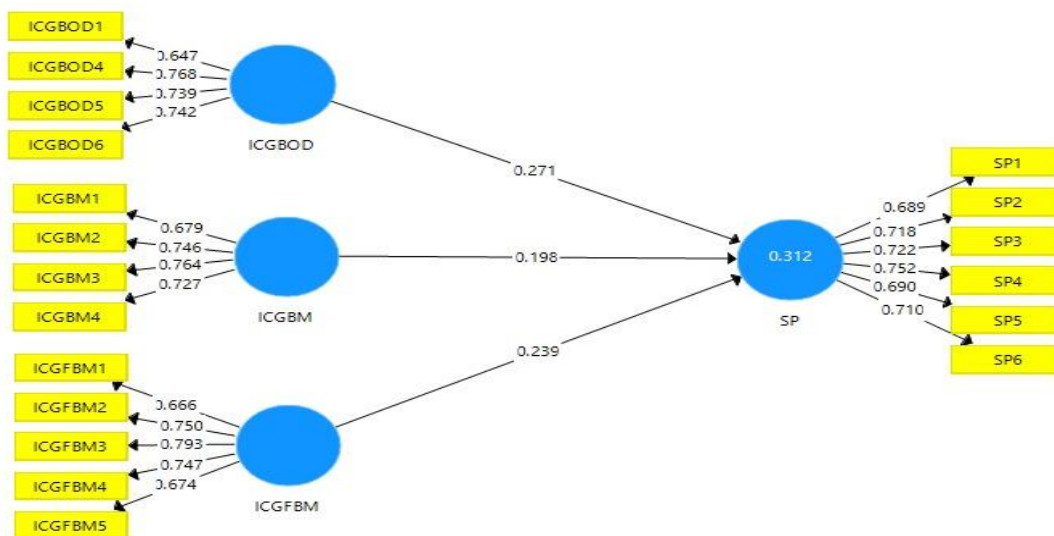


Figure 3: Results of PLS SEM for Model 1

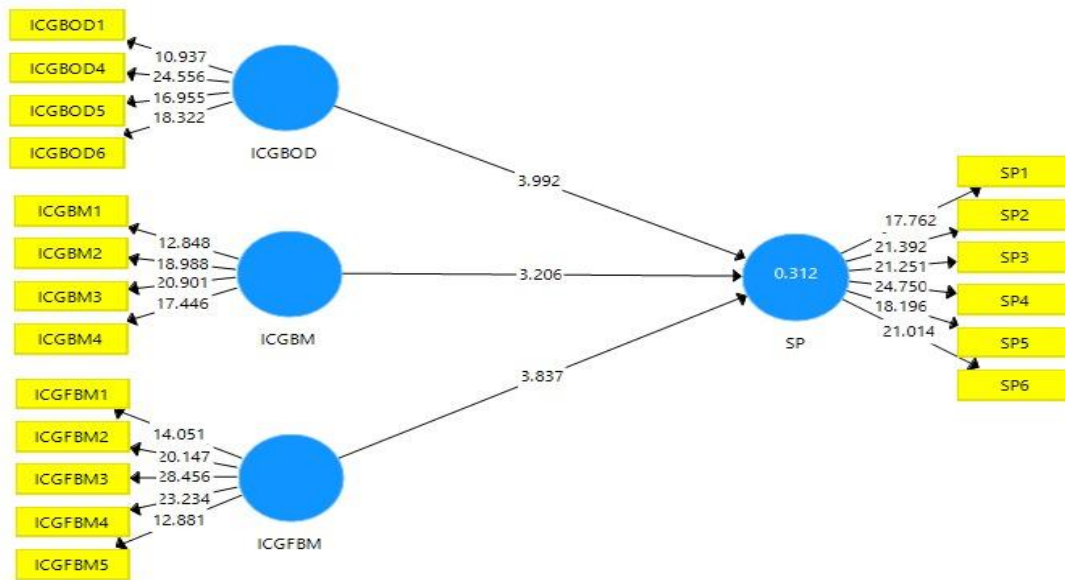


Figure 4: Bootstrapping Results of PLS SEM for Model 1

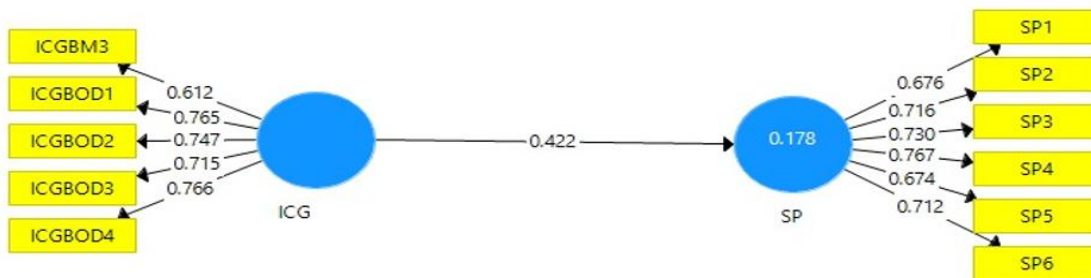


Figure 5: Results of PLS SEM for Model 2

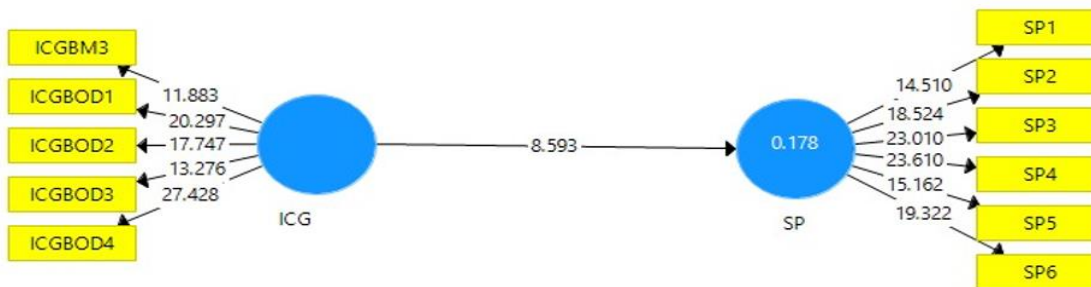


Figure 6: Bootstrapping Results of PLS SEM for Model 2

**Hypotheses Testing**

Table 8 shows that the p-value of all relations is less than 0.5; therefore, based on the p values, all hypotheses are accepted.

Table 8: Structural Estimates (Hypothesis Testing)

Model 1					
Hypothesis		Original Sample (O)	T Statistics ( O/STDEV )	P Values	Result
H1	ICGBM -> SP	0.198	3.206	0.001	Accepted
H2	ICGBOD -> SP	0.271	3.992	0.000	Accepted
H3	ICGFBM -> SP	0.239	3.837	0.000	Accepted
Model 2					
H4	ICG -> SP	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Result
		0.422	8.593	0.000	Accepted

## Discussion

In this section, a detailed discussion about the proposed hypothesis, their acceptance and rejection, and the kind of relationships among different variables are made.

**Hypothesis 1:** The board of directors influences the social performance of MFIs in Pakistan.

The first hypothesis hypothesised a favourable and significant association between the board of directors of microfinance banks in Pakistan and their social performance. The results reveal a positive and substantial association between the board of directors and the social performance of microfinance institutions in Pakistan, therefore hypothesis 1 is approved, and the result is also consistent with the findings of Thrikawala et al. (2016a, 2017); Wamba et al. (2018); Dato et al. (2018); Pascal et al. (2017); and [A. W. Khan & Abdul Subhan, \(2019\)](#). Because the board of directors has a positive and significant impact on the social performance of microfinance institutions in Pakistan, they can improve their performance by strengthening and improving their board of directors to improve the internal corporate governance framework.

**Hypothesis 2:** The board meetings influence the social performance of MFIs in Pakistan.

The second hypothesis proposed a favourable and significant link between board meetings and the social performance of Pakistani microfinance institutions. The findings revealed a positive and significant link between board meetings and the social performance of Pakistani microfinance companies. Microfinance institutions can improve their performance by improving their board meetings, which have a favourable and significant effect on social performance.

**Hypothesis 3:** The frequency of board meetings influences the social performance of MFIs in Pakistan.

The third hypothesis hypothesised a positive and significant link between the frequency of board meetings and the social performance of Pakistani microfinance companies. The findings demonstrated a favourable and substantial association between board meeting frequency and the social performance of Pakistani microfinance institutions. Microfinance institutions can enhance their performance by increasing number of meetings on an annual basis. According to the researchers, it is suggested that there should be at least four meetings annually on a quarterly basis.

Moreover, the research construct has been analysed by taking the sub-variables of internal corporate governance collectively and separately using algorithms and bootstrapping. The findings demonstrated that the board of directors, board meetings, and board meeting frequency all had a favourable and significant impact on the social performance of Pakistani microfinance organisations. While measuring the impact of internal corporate governance mechanism's components, namely board of directors, board meetings and frequency of board meetings, collectively, the results showed that items of board meetings and frequency of board meetings were removed because of having less factor loading and only items of the board of directors remained with acceptable factor loading and results also showed that board of directors have a positive and significant relationship with social performance of microfinance institutions of Pakistan.

**Hypothesis 4:** Internal corporate governance influences the social performance of MFIs in Pakistan.

The fourth hypothesis proposed a favourable and significant link between internal corporate governance and the social performance of Pakistani microfinance institutions. The findings revealed a positive and significant link between internal corporate governance and the social performance of Pakistani microfinance institutions. Microfinance institutions can improve their

social performance by improving their internal corporate governance.

### **Conclusion**

The study aims to investigate the impact of internal corporate governance mechanisms (Board of Directors, Board Meetings and Frequency of Board Meetings) on the social performance of microfinance institutions in Pakistan. The results revealed that internal corporate governance mechanism (board of directors, board meeting and frequency of board meetings) has a positive and significant impact on social performance, and the results are in accordance with the results of (Thrikawala et al., 2016a, 2017; Wamba et al., 2018; Dato et al., 2018). Based on the results, it is concluded that the proposed hypothesis 1, 2, 3 and 4 are true and accepted.

### **Implications of the Study**

This study will open a new horizon for researchers in the field of microfinance and its relationship with corporate governance mechanisms. This research fulfils the research gap because this is the first research highlighting the impact of internal corporate governance mechanisms on the social performance of microfinance institutions in Pakistan. The components of internal corporate governance, i.e. board of directors, board meetings and frequency of board meetings have not been studied before in microfinance institutions of Pakistan.

The findings of the study have vital importance not only for the policymakers but also for the stakeholders of microfinance institutions. The policymakers can improve and strengthen corporate governance by making the boards of directors more effective and streamlining and fruitfulness of board meetings and evaluating decisions taken in the board meeting and their implementation. The internal corporate governance can be improved by improving and regulating the frequency of board meetings. It is recommended that for efficient corporate governance and board meeting, there should be four meetings annually, and every meeting should be held every quarter. By improving the internal corporate governance, the social performance of microfinance institutions can improve because the finding of the study showed that internal corporate governance (board of directors, board meetings, frequency of board meetings) has a positive and significant impact on the social performance of microfinance institutions in Pakistan.

### **Recommendations.**

After analysing the theoretical and practical implications of the study following recommendations are made to strengthen the microfinance sector.

- The microfinance institutions working in Pakistan should be registered with the State Bank of Pakistan.
- It is recommended that the board of directors should be independent and qualified and their number should not be too low or too high, nine to ten members are suitable.
- It is recommended that the board meeting should be effective, and all decisions taken during the meetings should be implemented and evaluated.
- It is also recommended that the frequency of board meetings should be at least four meetings per annum.

If the above recommendations should be considered and implemented, then the internal corporate governance mechanism can become an effective one and can improve the social performance of microfinance institutions.

### **Limitations and Potential for Future Research**

In Pakistan, there is a lack of transparent and single corporate governance of microfinance institutions. Therefore, there is a dire need to develop a single and transparent corporate governance structure for all types of microfinance institutions in Pakistan. It is the responsibility of the policymakers of Pakistan who should have to take the initiative to improve guidelines and

legislations and corporate governance structure, which should be applied equally to all types of microfinance institutions working in Pakistan. In a similar way, as all other financial institutions are regulated and controlled by the State Bank of Pakistan, all microfinance institutions should be controlled and regulated by the State Bank of Pakistan.

In this study, a sample size of 390 was used, but in future research, scholars can enhance the number of responses. Board of directors, board meetings, and frequency of board meetings have been used as a component of internal corporate governance mechanisms. In future, the researchers can use other variables like firm age, qualification of directors, firm size, remuneration of the board of directors, dependency and independence of the board of directors as a new variable of the study.

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