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Profit-oriented micro-finance institutions in India: A governance and performance perspective

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Abstract---Micro-finance institutions (MFIs) as financial intermediaries, help poor to come out of extreme poverty through the purposeful lending to those looking to generate income for the livelihood needs. These micro-finance institutions need good governance to ensure improved performance to achieve sustainability and growth. The review of literature has produced mixed results in studies on the influence of governance on the performance of microfinance institutions. There is no enough research undertaken in measuring the impact of governance on the functioning of micro finance institutions, particularly in the context of 'Profit-Oriented' MFIs in India exclusively. This research examined the effect of governance on the overall performance of 'Profit-Oriented' micro-finance institutions. Using regression technique, evaluation of governance and performance of 'Profit-Oriented' MFIs has been undertaken to check the possible impact and it is being found that governance has an impact on the performance. This research emphasized on the impact of governance on the performance of 'Profit-Oriented' micro-finance institutions. The governance and performance indicators, identified as independent and dependent variables respectively, from the review of literature using regression technique. As this research can be useful for the microfinance institutions, as several MFIs are transforming from 'Non-Profit Oriented' MFIs to 'Profit-Oriented' MFIs in providing micro-finance services. They aim to enable clients, in undertaking productive economic activities to

achieve the objectives of poverty reduction through micro-finance service and remaining profitable. This research has produced mixed yet favorable results. The Null Hypothesis is being rejected to claim governance has a significant impact on the performance of Profit-Oriented MFIs.

Keywords---profit-oriented MFIs, impact, governance, performance.

Introduction

Financial inclusion is a key enabler to reducing poverty and boosting prosperity-World Bank, 2022.

Most of the micro finance institutions claim to have a dual mission to accomplish -reaching out to low-income households with micro-finance and be financially sustainable (Roy Mersland R. Øystein Strøm (2007).The provision of micro-finance is undertaken as non-collateral credit to the low-income households for income generating activities, on recurring basis, for livelihood purpose. Micro-finance institutions play a key role in an economy as financial intermediaries, contributing to the goal of achievement of financial inclusion.The operations of micro-finance institution need good governance to provide direction and control to meet the expectations of various stakeholders. Considering the amount of importance microfinance institutions carry, and the nature and kinds of micro finance institutions exist, there is a need to assess the effectiveness of governance on the performance of micro finance institutions. Although Rhyne (1998) studies the two key goals of financial performance and outreach to be a 'win-win. condition, claiming that those individual microfinance institutions follow the ideologies of good banking will be same that reduce the most poverty Woller et al. (1999); Morduch (2000).

Primarily, the micro-finance institutions need to perform well in order to stay in business.The effective governance can make a difference to the performance of an institution. The way micro-finance institutions are managed could be critical in the overall performance of micro finance institutions.Hence, to strengthen the performance of micro-finance institutions it is required to have a better understanding of the impact of different corporate governance structures on the industry (Roy Mersland R. ØysteinStrøm June 22, 2007). The impact of governance is being evaluated on the performance with the help of certain indicators as independent variables and dependent variables. Good corporate governance has been recognized as a main blockage in strengthening MFIs' financial performance and increase their outreach (Rock et al., 1998; Labie, 2001; Helms, 2006; United Nations, 2006; Otero and Chu, 2002).

This study is undertaken to measure the effectiveness of governance in managing the financial performance of selected commercial micro-finance institutions running with profit motive on commercial basis.Some of the governance indicators are viz., Board Size(BS), Board Independence(BI), Board Meetings(BM), CEO-Chairman Role Duality(Role- Duality) and Woman Director On Board (WDB) were used for the study as independent variables. Whereas, for

the assessment of performance certain indicators were used as dependent variables viz., Operational Self Sustainability(OSS), Return On Assets(ROA), Portfolio-At-Risk (PaR), Outreach(OR), and Financial Self Sufficiency(FSS).

The data was derived from published annual reports of five consecutive years as per the regression equation developed. The data was collected on Non-Banking Finance Companies-Micro-Finance Institutions (NBFC-MFIs). The current study is quantitative in nature done using Regression analysis. The population sample for the study is 35 MFIs selected on all India basis that are as 'Profit-Oriented MFIs (NBFC-MFIs), having published Annual Reports of at least five [5] consecutive years.

The impact of governance on the performance was almost positive. It clearly indicate that Board Size, Independent Directors and No. of. Board Meetings have positive impact on OSS, of for Profit MFI. Further it indicates that Independent Directors, CEO_Chairman_Role and Duality Board Size, have positive impact on Portfolio at Risk [PaR] and Outreach of 'For Profit' MFI respectively. CEO_Chairman_Role Duality has positive impact on Return on Assets [ROA] and PaR respectively. Whereas, Board Size has adverse effect on Financial Self Sufficiency (FSS). Women Director on Board do not have any impact on any of the performance indicators of "For Profit MFIs". This research paper examines the impact created by good governance practices on the performance of select commercial micro-finance institutions. This research is in response to the Morduch (1999); Harstarska (2005) recommend further research to analyse the influence of corporate governance on the performance of MFIs in the microfinance industry.

Review of Literature

The literature review section, focused on the review of research articles on the governance, performance of microfinance institutions in general and the impact of governance on the commercial microfinance institutions in particular. The financially poor and underprivileged people experience among themselves a constant part of vicious circle of poverty. Hence, they find it really difficult to come out of scarcity and are unable to make progress in their living standards. Deficiency of basic financial resources is the core reason of anxiety in refining the economic status of emerging states. Microfinance is progressively being treated is proven and tested tools of dipping poverty. Micro lending is having a substantial participation in bridging the difference among the organized banking system providing secured lending and the economically underprivileged people in rural and semi urban areas having nothing to provide as collateral for borrowing to finance the economic opportunities like earning livelihood and venture in to microenterprises.

The 'micro-finance' is the preferred source of funding for rural and micro enterprises undertaken by village households mainly comprising of women. Most micro-enterprises concentrate in the provision of goods or services to the local people in the local areas, using the resources outsourced locally. Most of the micro-enterprises are built by people from rural and semi-urban areas in developing countries, who happen to be poor. The micro-enterprises are

established to undertake generate livelihood income generation activities, especially by women to supplement the meagre family income. But to establish these enterprises they require smaller amount of non-collateral finances/loans. This drives demand for micro-finance services.

Microfinance has emerged as a tool for economic development, intended to serve low-income people with financial needs (Ledgerwood, 1999). Micro finance institutions play a critical role in any economy and its financial system in contributing to the achievement of financial inclusion. Financial inclusion helps in achieving integrated economic development as economically well off people will have an access to formal sector of lending, such as bank lending but microfinance sector helps poor and economically deprived people through micro lending as microfinance institutions. Microfinance institutions thus reduce financially excluded people- deprived of formal collateral based lending. These micro finance institutions need to be well governed to ensure sustainability and profit. Ensuring good governance in improving the performance of an organization is a challenging. Today, micro-finance institutions are most sought financial intermediaries for the poor from rural and urban areas (especially women borrowers) that are engaged for the provision of non-collateral credit to undertake income generation activities. Management of microfinance institutions becomes critical in terms of effective lending, timely recovery, efficient operations and sustained growth.

Though examining the effectiveness of management/governance and its influence on the performance of 'Profit-Oriented' MFIs. An empirical study being conducted comprising of 35 such institutions are analyzed statistically using key governance and performance indicators through regression techniques. The study will reveal how institutions differ from management and governance practices indicated through the variables. This paper offers an evaluation of governance and performance of select microfinance institutions in India.

Microfinance is the supply of loans, savings and other financial services to the poor. Microfinance involves the delivery of small loans and other financial services which the poor can use to build up their assets, establish or further develop a business, increase their wealth, and protect against risks. Micro Financing has a long way to go. As world is facing several major socio-economic challenges and issues such as poverty, unemployment, illiteracy, food & malnutrition etc.

Over a period of time, research findings reveal that micro-finance has a capability to reduce poverty. There has been a lot of discussion on directing and controlling the institutions and influencing superior results of micro-lending industry but lesser research efforts have been made on measuring the effect of effective management on the functioning of MFIs. This research has been undertaken to know exactly what role of governance and performance of microfinance institutions.

Microfinance has attracted considerable attention of academic and research community in recent years, ever since UN has declared the Year 2005 as year of Microcredit after Grameen Bank and its founder, Mohammed Yunus won the Noble Peace Prize in 2006. Good Governance is to ensure that the organizations

are managed in most effective and efficient way. Effective governance is essential across the organizations in any industry. The need for good governance cannot be undermined even in case of micro finance institutions. There are lot of studies have been done to understand the significance of governance in microfinance institutions globally but they lack in India.

About the connection between governance and the performance of micro-finance institutions, several studies are undertaken. There are numerous studies having wide ranging theories covered with diverse theories and techniques followed in assessing the linkage across geographies. Let's explore the relationship between Governance and Performance in the context of micro-finance institutions. Commercialization of Micro Finance: Vichore. S., (2012) analysed that commercial approach to micro financing. Micro Finance institutions going public, merely to enrich shareholders will not give them better chances of success unless stakeholders such as employees and customers interests are taken care. The responsibility lies on the management of an organization to provide good governance at all levels so that organization's resources put to best possible use and enable it to meet the needs and expectations of various stakeholders through the principles of trust, transparency, accountability and honest disclosure.

The analysis covered transition of microfinance institutions from an impact-driven micro finance institutions (Non-Profit Oriented) to a commercially motivated (Profit Oriented) Micro-Finance Institutions over a period of time. It is found that, micro-finance institutions relying on aid, grants and donations found to be working as 'Not-For-Profit Oriented' microfinance institutions whereas, micro-finance institutions relying on bank borrowings, private equity and raising capital through public issue as sources of funding, found to be engaged in to microfinance activities with 'Profit' Orientation. 'Non-Profit-Oriented' Micro finance institutions often found weaker structures as they lack owners with a financial stake (Jansson and Westley, 2004). It is found to be lesser in over financial performance compared to commercial MFIs. Therefore Ledgerwood and White (2006); Hishigsuren (2006); Fernando (2004) argue for the conversion of 'Non Profit' micro finance institutions in to commercial MFIs.

On the other hand, 'Non-Profit' MFIs are expected to have better reach to the poor clients. Thus ownership and legal structure also determine the financial performance but reach less poor clients than 'Non-Profit Oriented' micro-finance institutions. Joyeeta Deb (2018) analyzed the consequences for the microfinance sector due to the commercialization led competition.

Effective corporate governance has been recognized as a critical factor in strengthening financial performance of micro finance institutions and increasing the outreach through microfinance products (Rock et al., 1998; Labie, 2001; Otero and Chu, 2002 Helms, 2006; United Nations, 2006). There are large number of microfinance institutions which are already functioning as commercial micro-finance institutions (NBFC-MFIs) or Trusts/NGOs/'Not-Profit Oriented' Companies that are looking to get converted in to commercial micro finance institutions. These institutions find it useful to understand the need for effective governance norms. There are also several financial institutions that are trying to get in to micro finance services.

In a study, Roy Mersland and R. Øystein Strøm (2007) revealed that, when the roles of CEO and Chairman were separated, in case MFI had a woman CEO or executive head, or when loans were made to individuals than a group, ROA (the financial performance) position was found to be improved one. Reduction in Operational costs, improvement in portfolio yield as well as Return on Assets (ROA) was found when the competition was stronger. To bridge the research gap between corporate governance and firm performance this study was undertaken by the researchers as it is in the context microfinance institutions as other studies focused on governance and performance in general across the industries. Sujani Tarikawala et al., (2013) did a study on relationship between Performance and Corporate Governance in Micro Finance Institutions. Similar to Roy Mersland and R. Øystein Strøm (2007) study on Performance and corporate governance in microfinance institutions, Sujani Tarikawala et al., (2013) have considered Performance of microfinance institutions from dual perspective of Financial Performance and outreach.

Sujani Tarikawala et al., (2013) have also recognized the importance of governance in microfinance institutions in the context of stakeholders expecting greater trust, honest disclosure, accountability and transparency in their dealings. Having strong governance practices can lead to the reduction in management failures. This research too uses similar rationale and includes more as dependent and independent variables. Several researchers have tried to study the influence of corporate governance on both social and both financial performance indicators. Yet, empirical findings of this relationship between Governance and Performance is inconclusive and inconsistent.

It was revealed through the review of literature that, some researchers found that governance quality having favorable impact on the performance of micro-finance institutions: (Kyereboah-Coleman and Osei, 2008; Tchakoute-Tchuigoua, 2010; Strøm et al., 2014; Augustine, 2012; Allemand et al., 2013; Chakrabarty and Bass, 2014; Augustine et al., (2016) Nihel and Younes, 2015; Mori et al., 2015;; Pascal et al., 2017; ; Thrikawala et al., 2016a, 2017; Dato et al., 2018; Wamba et al., 2018) . While some found mixed results regarding the influence of governance on MFI performance. (Hartarska, 2005; Mersland and Strøm, 2009; Bassem, 2009; Hartarska and Mersland, 2012; Abate et al., 2014; Bakker et al., 2014; Estapé-Dubreuil and Torreguitart-Mirada, 2015; Gohar and Batool, 2015; Van Damme et al., 2016.

While in some researchers, it was found that, there was no impact of governance variables on the performance variables of microfinance institutions. (Aboagye and Otioku, 2010; Hartarska, 2009; Mersland and Strøm, 2008; Siwale and Okoye, 2017). As we see through the review the research findings have been very inconclusive and did not produce clear results regarding the impact of governance on the performance of Micro Finance Institutions. Though scholarly contributions to the field, the results of these studies, reveal multiple research gaps in microfinance governance literature in the present scenario and give rise to different dimension to research directions for further consideration. Our comprehensive literature review encourages microfinance governance scholars to examine numerous issues in order to reach a mature understanding of the phenomenon and take microfinance governance research a further step forward.

As it requires further exploring the field this current research is undertaken to assess the impact. It focuses on exclusively on impact of governance on the performance of commercial microfinance institutions known as NBFC-MFIs.

The findings from this research reveal that the manner the microfinance institutions are governed, accordingly the performance is influenced. Majority of the reviewed papers, although a few attempts have been made to explain the interconnection between corporate governance (CG) and Firm Performance. Our findings also show that existing studies use a variety of techniques to measure MFI performance vis-à-vis their hybrid mission, such as profitability and outreach. Moreover, the study found that common topics discussed in the mainstream literature include board structure, Board Size, Board Meetings, CEO characteristics, audit quality, external governance, disclosure and MFI ownership type.

Even though research work on the governance and performance of Micro-Finance is extensive, preceding research works lack studies on Commercial Micro Finance Institutions [NBFC-MFIs] from governance and performance perspective, in Indian context. For the purpose of the study 35 such commercial MFIs have been identified, having 5 consecutive years of published annual reports. Systematic method to review past studies on microfinance governance and performance is adopted applying regression technique to analyze.

Methodology

The research methodology used for the study included: The Background, Sampling Technique & Procedure, Data Collection and Analysis and the tools of data analysis. Background of the study: After the review of literature on microfinance it was concluded that there were rarely studies undertaken on management and governance of commercial micro-finance institutions by the 'previous researchers but there were some studies on functional areas such as financial management, operations, micro-finance delivery models; Self-Help Group (SHG) -Bank Linkage Programme, impact studies on livelihood were held independently by some researchers and also on performance of micro-finance institutions but not on 'Governance and Performance of "Profit-Oriented" MFIs' separately. There were few independent studies on governance, performance, sustainability and profitability as in relation to MFIs.

The Data: This is a Descriptive (correlation) and Analytical study (Testing of Hypothesis). The study was quantitative in nature. The population sample for the study is 35 MFIs which are 'For Profit MFIs which were having Annual Reports of at least five [5] consecutive years. Research Design: This research is carried out using regression (statistical) techniques with the help of established indicators/variables derived from 'profit-oriented' category of NBFC-MFIs. The Annual Reports were relied upon to extract data.

Experimental Research Design: Experimental Research Design speaks about the cause and effect of the condition and their association with each other. It is done as part of the proper reflection of 'independent' variables on the 'dependent' variable. The 'independent' variable is always changed or manipulated by the

researcher in order to change the discourse of the research and to gain control over the research methodology.

Sampling Technique and Procedure: Convenient sampling technique was used for this particular study. The institutions selected for the study are based on the convenient sampling on the criteria of availability of financial and other information through Annual Reports consecutively for five financial years). **Data Collection:** The data collection was through published audited Annual Reports (for quantitative study). The data used for the study is both primary as well as secondary data. For the purpose of statistical analysis using regression analysis for a period of five years data from 2011-12 to 2015-16. **Tools for Data Analysis:** The study employed regression technique to determine the influence of governance and performance of 'profit-oriented' micro-finance institutions. Regression technique is found to be steadfast technique of finding which variables have influence on a topic of interest.

Regression techniques are used for quantitative analysis of in to three categories, to determine the influence of Governance Indicators (Independent Variables) on Performance Indicators (Dependent variables):

Hypothesis testing: "There is no influence of governance on the performance of 'For-Profit' Micro- Finance Institutions".

Tool for Research Data Analysis: The regression formulae for key governance and performance indicators objective-wise.

Regression Formulae/Equation for Assessing Impact of Governance on the Performance of 'For-Profit' Micro-finance Institutions:

$$\text{OSS} = \beta_0 + \beta_1 (\text{Board Size}) + \beta_2 (\text{Independent Directors}) + \beta_3 (\text{No of Board Meetings}) + \beta_4 (\text{CEO_Chairman_Role Duality}) + \beta_5 (\text{Women Director on Board}) \dots\dots\dots 1$$

$$\text{ROA} = \beta_0 + \beta_1 (\text{Board Size}) + \beta_2 (\text{Independent Directors}) + \beta_3 (\text{No of Board Meetings}) + \beta_4 (\text{CEO_Chairman_Role Duality}) + \beta_5 (\text{Women Director on Board}) \dots\dots 2$$

$$\text{PaR} = \beta_0 + \beta_1 (\text{Board Size}) + \beta_2 (\text{Independent Directors}) + \beta_3 (\text{No of Board Meetings}) + \beta_4 (\text{CEO_Chairman_Role Duality}) + \beta_5 (\text{Women Director on Board}) \dots\dots \dots\dots 3$$

$$\text{OTR} = \beta_0 + \beta_1 (\text{Board Size}) + \beta_2 (\text{Independent Directors}) + \beta_3 (\text{No of Board Meetings}) + \beta_4 (\text{CEO_Chairman_Role Duality}) + \beta_5 (\text{Women Director on Board}) \dots\dots\dots 4$$

$$\text{FSS} = \beta_0 + \beta_1 (\text{Board Size}) + \beta_2 (\text{Independent Directors}) + \beta_3 (\text{No of Board Meetings}) + \beta_4 (\text{CEO_Chairman_Role Duality}) + \beta_5 (\text{Women Director on Board}) \dots\dots\dots 5$$

Results & Discussion

This research is carried out based on secondary data analysis is using Regression Analysis using following Governance (dependent) and Performance (independent) variables.

Table 1. Showing Dependent (Performance) and Independent (Governance) Variables

Sl. No.	Governance Indicators/Independent Variables	Sl. No	Performance Indicators/Dependent Variables
1	Board Size: (BS)	1	Operational Self Sustainability (OSS)
2	Board Independence (BI)	2	Return On Assets (ROA)
3	Board Meetings (BM)	3	Portfolio-At-Risk (PAR)
4	CEO-Chairman-Role-Duality(Role-Duality)	4	Outreach (OTR)
5	Women Director on Board	5	Financial Self Sufficiency (FSS)

This study concentrates on the analysis of governance and performance of select micro finance institutions. This analysis is quantitative in nature (Regression analysis). The data for analysis is derived from the annual reports of these 35 micro-finance institutions for a consecutive period of financial years as secondary data.

The study comprises of analysis about the functioning of micro-finance institutions (MFIs) on well-established key governance indicators comprising of Board Size, No. of Independence Directors, No. of Board Meetings, CEO-Chairman Role Duality & Presence of Women Director on Board as independent variables and key performance indicators comprising of Operating Self-Sufficiency(OSS), Return on Assets (ROA), Portfolio at Risk (PaR>30), Outreach(OTR) and Financial Self Sufficiency(FSS) as dependent variables using published data of 35 MFIs collected over five financial years from annual reports. These parameters/indicators of governance and performance have been emphasised as key indicators as found in several studies.

Regression Result of impact of governance on the 'Profit-Oriented 'Micro Finance Institutions

To understand the influence of different variables on OPERATING SELF-SUFFICIENCY (OSS) (in %) , we have devised an ordinary regression model where the dependent variable is the OSS and the independent variables are Board Size, Number of independent board members, number of board meeting, CEO-Chairman Role Duality ('1', if one of the director is woman, '0' – Otherwise), Woman_Director_Board ('1', if there is a woman director on the Board, '0' – Otherwise) on the Board and so on.

Dependent Variable: Operating Self Sufficiency (OSS)

Null Hypotheses: Governance (Indicators) have no influence on the Operating Self Sufficiency (OSS) of 'Profit-Oriented Micro Finance Institutions (MFIs).

Table 2: OLS regression results – Understanding influence of independent variables on OSS

Independent variable	Co-efficient (B)	Std error	t-value	p-value
Intercept	83.883	6.720	12.483	0.000
Board Size	4.350	.939	4.631	0.000*
Board_Independence	6.474	2.091	3.096	0.002*
No_Board_Meeting	1.958	1.022	1.916	0.057
CEO_Chairman_RoleDuality	0.183	2.201	0.083	0.934
Women_Director_Board	2.061	3.859	0.534	0.594
R ² = 0.277, Adj R ² = 0.255, F _(5,94) = 12.925, sig = 0.000*, Significant at 5 % level				

* Significant at 5 % level,

From the above regression result (Table 2), it is emerged that the p-value of three independent or predictive variables namely Board Size (p = 0.000), Board independence (p = 0.002) has lesser than the significance alpha level of 0.05 and No_board_meeting with a p-value of 0.057 is less than the significance alpha level of 0.10. Hence, we can conclude that there is a statistical evidence to say that the above mentioned independent variables namely Board independence and board size are significant determinants of OSS.

Now, the coefficient of 4.350 for Board size indicate that for every one unit increase Board size one would expect on average of 4.35 percentage increase in OSS. Similarly, a coefficient of 6.474 for Board Independence indicates that for every one unit increase Board independence, one would expect on average an increase of 6.5 percent in OSS keeping other variables fixed or constant. A coefficient of 1.958 for number of board meeting indicates that for every one unit increase Board meeting, one would expect on average an increase of two percent in OSS keeping other variables fixed or constant. However, this hypothesis is partially accepted because the p-value is accepted at 10 % level of significance.

Dependent Variable: Return on Assets (ROA)

Null Hypothesis for the study was, “There is no effect of governance on the performance of ‘For-Profit’ Micro-finance institutions”.

Null Hypotheses: Governance (Indicators) have no influence on the Return on Assets (ROA) of “For-Profit” Micro Finance Institutions (MFIs).

Table 3: OLS regression results – Understanding influence of independent variables on ROA

Independent variable	Co-efficient (B)	Std error	t-value	p-value
Intercept	-0.220	0.466	-0.471	0.638
Board Size	-0.033	0.065	-0.508	0.612
Board_Independence	0.049	0.145	0.339	0.735

No_Board_Meetings	0.050	0.071	0.701	0.484
CEO_Chairman_Role Duality	0.280	0.153	1.832	0.069**
Women_Director_Board	-0.020	0.268	-0.075	0.940
R ² = 0.028, Adj R ² = 0.001, F _(5,94) = 0.958, sig = 0.401,				

* Significant at 5 % level, ** significant at 10 % level.

From the above regression result (Table 3), it is emerged that the p-value of variable namely CEO_Chairman_Role Duality (p=0.069) is less than the significance alpha level of 0.10. Hence, we can conclude that there is a statistical evidence to say that board independence is partially (not a complete) significant determinant of ROA.

Now, the coefficient of 0.280 for CEO-chairman-duality, the interpretation is that with company having CEO Chairman Duality on the board the ROA would be increased by about 0.28 percent as compared with no CEO Chairman Duality on the board. However, this hypothesis is partially accepted because the p-value is accepted at 10 % level of significance.

Dependent Variable: Portfolio at Risk (PaR) (%)

Null Hypothesis for the study was, 'There is no effect of governance on the Portfolio at Risk (PaR) of 'For-Profit' Micro-finance institutions'.

Table 4: OLS regression results – Understanding influence of independent variables on PaR

Independent variable	Co-efficient (B)	Std error	t-value	p-value
Intercept	-4.191	1.776	-2.360	0.019
Board Size	0.919	0.248	3.701	0.000*
Board Independence	1.724	0.553	3.119	0.002*
No_Board_Meeting	0.027	0.270	0.098	0.922
CEO_Chairman_Role Duality	1.684	0.582	2.896	0.004*
Women_Director_Board	0.387	1.020	0.380	0.705
R ² = 0.282, Adj R ² = 0.261, F _(5,94) = 13.272, sig = 0.000*, Sig at 5 % level.				

* Significant at 5 % level.

From the above regression result (Table 4), it is emerged that the p-value of three variables namely Board Size (p=0.000), Board Independence (p=0.002) and CEO Chairman Role Duality (p=0.004) is less than the significance alpha level of 0.05. Hence, we can conclude that there is a statistical evidence to say that board independence is a significant determinant of PaR. Now, the coefficient of 0.919 for Board size indicate that for every one unit increase Board size would result in a increase of PaR by 0.92 % (almost one percent) holding other variables constant or fixed.

Similarly, a coefficient of 1.724 for Board independence indicates that for every one unit increase Board independence, one would expect on average an increase

of 1.72 percent in PaR keeping other variables fixed or constant. Finally, the coefficient of 1.684 for CEO-chairman-duality, the interpretation is that with company having CEO Chairman Duality on the board the PaR would be increased by about 1.7 percent as compared with no CEO Chairman Duality on the board.

Dependent Variable: OUTREACH (OTR)

Null Hypothesis for the study was, “There is no effect of governance on the OUTREACH of ‘For-Profit’ Micro-finance institutions”.

Table 5: OLS regression results – Understanding influence of independent variables on OUTREACH

Independent variable	Co-efficient (B)	Std error	t-value	p-value
Intercept	-63740.736	20773.384	-3.068	0.003
Board Size	16587.430	2903.977	5.712	0.000*
Board_Independence	26132.307	6464.543	4.042	0.000*
No_Board_Meeting	-908.443	3159.372	-0.288	0.774
CEO_Chairman_Role Duality	3988.379	6803.398	0.586	0.559
Women_Director_Board	3695.214	11929.258	0.310	0.757
R ² = 0.343, Adj R ² = 0.323, F _(5,94) = 17.610, sig = 0.000*, Significant at 5 % level.				

* Significant at 5 % level

From the above regression result (Table 5), it is emerged that the p-value of two independent or predictive variables namely Board Size (p = 0.000) and number of board independence (p = 0.000) has lesser than the significance alpha level of 0.05. Hence, we can conclude that there is a statistical evidence to say that the above mentioned independent variables namely Board Size and Board independence are significant determinants of OUTREACH.

Now, the coefficient of -16587 for Board size indicate that for every one unit increase Board size one would expect on average of 16587 members decline in the OUTREACH. On the other, a coefficient of 26132 for number of board meetings indicates that for every one unit (number) increase in Board meeting, one would expect on average an increase of 26132 members in the OUTREACH keeping other variables fixed or constant.

Dependent Variable: Financial self sufficiency

Null Hypothesis for the study was, there is no effect of governance on the FINANCIAL SELF SUFFICIENCY OF “Profit-Oriented” micro-finance institutions.

Table 6: OLS regression results – Understanding influence of independent variables on FINANCIAL SELF SUFFICIENCY

Independent variable	Co-efficient (B)	Std error	t-value	p-value
Intercept	85.683	4.010	21.369	.000

Board Size [BS]	-1.117	.561	-1.993	0.048*
Board_Independence [BI]	-1.475	1.248	-1.182	0.239
No_Board_Meeting [BM]	-.467	.610	-0.766	0.445
CEO_Chairman_Duality [Role Duality]	.994	1.313	0.757	0.450
Women_Director_Board	-2.350	2.303	-1.021	0.309
R ² = 0.065, Adj R ² = 0.037, F _(5,94) = 2.231, sig = 0.045*, Significant at 5 % level				

* Significant at 5 % level.

From the above regression result (Table 6), it is emerged that the p-value of one independent or predictive variable namely Board Size ($p = 0.048$) has lesser than the significance alpha level of 0.05. Hence, we can conclude that there is a statistical evidence to say that the above mentioned independent variables namely Board Size is a significant determinant of FINANCIAL SELF SUFFICIENCY. Now, the coefficient of -1.117 for Board size indicate that for every one unit increase Board size one would expect on average of 1.11 percent decline in the FINANCIAL SELF SUFFICIENCY keeping other variables fixed or constant.

Overall Regression Result on the Performance of 'Profit-Oriented' of Micro-Finance Institutions

Null Hypothesis for the study was, 'There is no effect of governance on the performance of "Profit-Oriented" micro-finance institutions'.

Table 7 shows the consolidated regression results of Performance Indicators of 'Profit-Oriented' MFIs

	Impact on 'Profit-Oriented' Micro Finance Institutions							
	β_0	β_1	β_2	β_3	β_4	β_5	F	R ²
OSS	83.883	4.35	6.474	1.958	0.183	2.061	12.925	0.277
	0	0.000*	0.002*	0.057**	0.934	0.594	0	
ROA	-0.22	-0.033	0.049	0.05	0.28	-0.02	0.958	0.028
	0.638	0.612	0.735	0.484	0.069**	0.94	0.401	
PaR	-4.191	0.919	1.724	0.027	1.684	0.387	13.272	0.282
	0.019	0.000*	0.002*	0.922	0.004*	0.705	0	
OTR	-63741	16587.4	26132.3	-908.44	3988.38	3695.21	17.61	0.343
	0.003	0.000*	0.000*	0.774	0.559	0.757	0	
FSS	85.683	-1.117	-1.475	-0.467	0.994	-2.35	2.231	0.065
	0	0.048*	0.239	0.445	0.45	0.309	0.045	

Table (7.) shows the consolidated regression results of Performance indicators of "Profit-Oriented" micro finance institutions. It shows that, Board Size, Board Independence (Independent Directors), CEO_Chairman_Role Duality (CEO-Chair), have positive impact on Portfolio at Risk (PaR) and Outreach of 'For Profit' MFI respectively. The probability values of F statistics clearly indicate that overall regression models are significant. As per Table7. (Testing of Hypothesis) we find following implications.

Board Size: It clearly indicates that Governance Board Size (BS), Operational Self Sufficiency, Portfolio at Risk, Outreach-OTR) of MFIs; and Financial Self Sufficiency. This finding reveals that, further research is recommended to examine the impact on other performance indicators. This research can also be extended to the Not for Profit Oriented MFIs.

Board Independence (Independent Directors): The research has revealed that Governance indicator (viz., Board Independence), has a positive influence on the performance of Operational Self Sufficiency (OSS) , Portfolio at Risk (PaR), Outreach(OTR) and Financial Self Sufficiency(FSS) of micro-finance institutions. Further research can be extended to examine the impact on other performance indicators such as Return on Investment (ROA) and to can be extended to the 'Not For Profit Oriented MFIs' also .

Chairman-CEO Role Duality: Chairman-CEO Role Duality has positive impact on the 'Portfolio at Risk' (PaR) of 'Profit-Oriented' micro-finance institutions. The Chairman CEO Role Duality is found to be having an impact only on the Portfolio at Risk (PaR) but not on other Indicators. So further research can be extended to examine impact on those indicators.

Further, it indicates that Independent Directors, CEO_Chairman_Role and Duality Board Size, have positive impact on Portfolio at Risk (PaR) and Outreach of 'Profit-Oriented' MFI respectively though Board Size has adverse effect on Financial Self Sufficiency (FSS).Whereas, as per this research findings Board Meetings and Woman Director on the Board are not having any influence on Operational Self Sufficiency, Return on Assets, Portfolio at Risk, Outreach and Financial Self Sufficiency. So further research is requested to examine this aspect.

According to the previous research results showed that, the overall financial performance (ROA) is improved when the roles of CEO and chairman were split. Mersland, Roy and Strøm, ReidarØystein(2007) Board Size has adverse effect on Financial Self Sufficiency (FSS). Women_Director on Board do not have any impact on any of the performance indicators of 'Profit-Oriented' MFIs. EO_Chairman_Role Duality has positive impact on ROA and PaR respectively. Women Director on Board do not have any impact on any of the performance indicators of 'Profit- Oriented' MFIs.

The impact created by the governance on the financial performance is mixed in nature and is inconclusive. Hence, this research creates scope for further research as it remains incomplete in addressing the performance concerns which requires further research and investigation in order to determine the exact impact. Whereas, the profit-oriented micro-finance institutions from the industry are concerned, they should go for ideal board size (less than 7) and companies which don't maintain Board Size should focus on maintaining smaller board size. They also should have greater share of independent directors and Separate role as CEO and Chairman to ensure good governance.

Table. 8. Showing the Status of Hypothesis Testing: Null Hypothesis for the study was, “There is no effect of governance on the performance of ‘Profit-Oriented’ Micro-finance institutions”

Governance Indicators	Performance Indicators	Hypothesis	Status
Board Size	OSS. PaR	Null	Rejected
Board Independence (No. of Independent Directors)	OSS. PaR	Null	Rejected
CEO-Chairman_Role Duality	OSS. Outreach	Null	Rejected

The research focused on the ‘impact of governance on the performance of micro-finance institutions. The Null Hypothesis of the study being; ‘The governance has no influence on the performance of ‘Profit-Oriented’ micro- finance institutions’. The consolidated regression results of performance indicators ‘Profit-Oriented MFIs’ clearly indicates that Board Size, Independent Directors and No_ of Board_ Meetings have positive impact on Operational Self Sufficiency (OSS) of Profit-Oriented MFIs. There was a statistical evidence to say that board independence is a significant determinant of Portfolio at Risk (PaR). This finding reveals that, with the help of greater Board Independence the portfolio of MFIs (i.e., the loan outstanding would get reduced) and hence implications of this would be MFIs that are profit oriented should go for greater no. of. Independent directors.

The MFIs that are operating as ‘Profit -Oriented’ micro-finance institutions largely functioning as Non-Banking Finance Companies-Micro-Finance Institutions (NBFC-MFIs), are regulated by Reserve Bank of India. This research revealed that some of the key governance indicators (3 out of 5) are found to have an impact. Thus, Null Hypothesis (The governance has no influence on the performance of ‘Profit-Oriented’ micro- finance institutions) is rejected. Among five key independent variables (governance indicators), only ‘Board Size’, ‘Board Independence’ and ‘CEO-Chairman Role Duality’ have an influence on the performance of MFIs whereas other two variables viz., ‘Board Meetings’ and ‘Women Director on the Board’ have no influence.

As Roy Marshland and ReidarOystein Strom, (2007), have found Board Size not really having a significant impact on the performance, but in my research findings Board Size can have positive influence on the performance of micro finance institutions. Which means according to this research, larger Boards of Directors are considered to be good for the microfinance organizations as there will be greater diversity in decision making at top. The view is that, the Board of Directors can be more influential in decision making process in the interest of stakeholders due to larger Board. Though there is another view is that, if Boards become larger, things become difficult to control due to possibility of conflicting views.

But several studies have claimed that, smaller Boards are better as there is a lesser conflict among the Board members thereby better decision making can be ensured. Jensen (1993), Lipton and Lorsch (1992). These researchers claim that CEO has a better control over firms when there are larger Boards. Yermack (1996); Eisenberg et al. (1998); Bøhren and Strøm (2005) report that larger boards are associated with lower firm performance, measured as Tobin’s Q6 or ROA, and

Hartarska (2005) adds the same negative result in ROA regressions for MFIs. Null Hypotheses: Governance indicators have no influence on the performance of 'Profit-Oriented' micro finance institutions (MFIs)]' is rejected since we find that, 'Governance indicators found to have been having an impact on the performance of 'For-Profit' Micro-Finance Institutions.

Implications

As per Table. 8. (Testing of Hypothesis) we find following implications. Board Size: It clearly indicates that Governance Board Size (BS), Operational Self Sufficiency, Portfolio at Risk, Outreach-OTR) of MFIs; and Financial Self Sufficiency. This finding reveals that, further research is recommended to examine the impact on other performance indicators. This research can also be extended to the Not for Profit Oriented MFIs.

Board Independence (Independent Directors): The research has revealed that Governance indicator (viz., Board Independence), has a positive influence on the performance of Operational Self Sufficiency (OSS), Portfolio at Risk (PaR), Outreach (OTR) and Financial Self Sufficiency (FSS) of micro-finance institutions. Further research can be extended to examine the impact on other performance indicators such as Return on Investment (ROA) and to can be extended to the 'Not for Profit Oriented MFIs' also.

Chairman-CEO Role Duality: Chairman-CEO Role Duality has positive impact on the 'Portfolio at Risk' (PaR) of 'Profit-Oriented' micro-finance institutions. The Chairman CEO Role Duality is found to be having an impact only on the Portfolio at Risk (PaR) but not on other Indicators. So further research can be extended to examine impact on those indicators.

Further, it indicates that Independent Directors, CEO_Chairman_Role and Duality Board Size, have positive impact on Portfolio at Risk (PaR) and Outreach of 'Profit-Oriented' MFI respectively though Board Size has adverse effect on Financial Self Sufficiency (FSS). Whereas, as per this research findings Board Meetings and Woman Director on the Board are not having any influence on Operational Self Sufficiency, Return on Assets, Portfolio at Risk, Outreach and Financial Self Sufficiency. So further research is requested to examine this aspect.

Though results are favorable to say there is an impact of governance on the performance inconclusive in terms of impact of governance and hence there is a need for further research, incorporating more number of micro finance institutions for further research. Firstly, only NBFC-MFIs are considered for the study. Secondly, the 'Not-For-Profit MFIs' are not part of this research. Thirdly, MFIs that are part of this research are limited in number [i.e., 35] warranting for further deeper in to research work, from our study. Fourthly, this study captures only financial performance and not social performance. In light of these limitations, we provide some future research directions that may shed further light on our current inquiry.

Conclusion and Scope for Future Research

This research analysis past relevant studies using a systematic approach thereby contributing significantly to the microfinance governance and performance literature. This research is new in the sense it offers new incentives and opportunities for further research in order to meet the inadequacies of reviewed papers from various theoretical, empirical, methodological and geographical standpoints.

Need for good governance of institutions is evident. All stake holders expect the MFIs function efficiently and meet their expectations. Micro finance needs to grow and expand operations, leaps and bounds as there is huge demand for the funds. Micro Finance institutions feel the need for effective governance practices and also to improve its relation with the stakeholders through trust, transparency, accountability, clear disclosure norms.

The research can be initiated in the other relevant in other sub-areas of microfinance research: Such as Governance and Performance of Not-For-Profit Organizations, Governance of Micro Finance Institutions in Indian context, Micro Finance Institutions-Regulations and Responses. Micro Finance sustainability, Influence of Firm Characteristics on MFI performance, Micro Finance as poverty alleviation tool in Indian context etc.

It concluded, that there is a statistical evidence to say that the above mentioned independent variables namely Board Size and Board independence are significant determinants of OUTREACH (OTR). Though results are favorable to say there is an impact of governance on the performance in conclusive in terms of impact of governance and hence there is a need for further research, incorporating more number of micro finance institutions for further research.

Followings are the limitations:

1. Only NBFC-MFIs are considered for the study.
2. The 'Not-For-Profit MFIs' are not part of this research.
3. MFIs that are part of this research are limited in number [i.e., 35] warranting for further deeper in to research work, from our study.
4. This study captures only financial performance and not social performance.
5. In light of these limitations, we provide some future research directions that may shed further light on our current inquiry.

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