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Darline Augustine[1]

Abstract

This dissertation abstract and reflection essay presents the work of Dr. Darline Augustine. The dissertation examines variance in firm performance in the microfinance industry. The investigations unfold throughout six dissertation chapters, four of which are empirical. Each chapter illustrates the complex nature of the practice of corporate governance within microfinance firms, and the relationship of transparency to performance. In particular, the dissertation illustrates the influence of firm-level transparency—a proxy for good practice in corporate governance—and positive firm performance. The chapters focus primarily on financial performance and, and to a lesser extent, social performance is also examined. This extended abstract explains the research question, setting, and methods. The reflection essay in the appendix discusses the author's journey in the research process as a junior scholar.

Keywords

transparency, good practice in corporate governance, performance, microfinance firms

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Scholars in the microfinance industry (Mersland & Strom, 2007, 2009) have explored the relationship between corporate governance and performance from an agency theory perspective. This theoretical approach has focused on corporate governance practices stemming from the principal-agent problem. Researchers have not been able to explain the heterogeneity in corporate governance practices and performance of microfinance firms operating in the same competitive and institutional contexts and facing similar stakeholder and institutional arrangements. The scholars, who address the relationship between the practice of corporate governance and performance from an institutional theory standpoint, ignore that managers and firms interpret their environment.

To understand the variance in performance within the microfinance industry, the author concentrated on understanding the firms or the supply-side, as opposed to the examining their impact on clients or the demand-side. In order to comprehend organizational outcomes such as client-impact, organizational actions and practices must be clear and understood. Also, a host of microfinance insiders, including practitioners and scholars, have already contributed much to the literature on client-impact, or on what is deemed social performance, so the purpose of this dissertation was not to dwell on this aspect of the industry. What the microfinance literature needs now are more in-depth studies of the supply-side variables that can serve as predictors for successful performance in microfinance organizations. It would be equally worthwhile to study microfinance firms that have failed; however, this data is more difficult to uncover. It is, nevertheless, essential to study microfinance firms with varying ownership structures and practices that are considered leaders in the industry. By carefully watching and recording the processes of the microfinance firms that survive various crises, scholars may be able to identify the strongest elements required for success.

The dissertation examines the relationship between good practices in corporate governance, firm-level transparency, and performance in the microfinance industry. In order to explore this phenomenon, two types of suppliers, nonprofit and for-profit firms, must be identified, defined and analyzed. While microfinance insiders and the public may see a stark distinction between nonprofit and for-profit firms, the similarities and differences between the two are not always clear and are frequently misunderstood. This dual categorization serves two purposes. First, observing both actors in their different institutional environments helps to construct a more complete understanding of the factors that can influence performance. Second, examining the multiple ownership structures in varying institutional contexts helped to illustrate whether the transparency story can be generalized in different national environments. Third, the research aims to determine whether there are notable characteristics and behavioral differences between the socially and commercially oriented microfinance firms.

I conducted several empirical studies to probe the relationship between good practice in corporate governance, firm-level transparency, and performance in the microfinance industry. One was based on two sets of statistical analyses—the first emerged from a perceptual survey, and the second combined independently collected archival data from the Microfinance Information Exchange (MIX)[1] and Transparency International (TI) databases. Case studies of both nonprofit and for-profit microfinance organizations were also employed. The importance of contextual contingencies, such as nonprofit and for-profit microfinance firms in a state-controlled environment, China, was also observed.

My research makes at least two contributions to the study of the relationship between corporate governance and performance in the microfinance industry. First, it is the first large-scale, multilevel, cross-national study in the microfinance industry that examined the relationship between good practice in corporate governance, namely firm-level transparency, and firm performance. Second, both agency theory and institutional theory inform my analysis. Previous research on corporate governance in the microfinance industry has been mainly conceptualized in terms of the agency perspective such as board and CEO level theories (Council of Microfinance Equity Funds, 2005; Hartarska, 2005; Mersland & Strom, 2007, 2009). By broadening the theoretical lens, this dissertation offers a comprehensive approach to corporate governance in the microfinance industry. No other study, to date, has looked at the relationship between transparency and performance through different analytical levels—individual, organizational and national.

Recent Debates in the Microfinance Industry

The modern microfinance industry began in 1976 with a US$27 loan portfolio managed by Professor Muhammad Yunus, the founder of the Grameen Bank. The sector has since evolved to encompass more than 10,000 organizations with a collective asset base of around US$70 billion, which serves approximately 150 million clients across the globe. Total assets of the top 10 microfinance investment vehicles (MIVs) reached US$3.6 billion at the end of 2009, having grown 31% in 2008 and 23% in 2009. The success of the industry has convinced both microfinance insiders and the "new entrants" to the industry that any individual, organization or institution, including social or civil society/nongovernmental organizations (NGOs), for-profit commercial corporations and state or collectively owned government establishments, can achieve successful performance.

While there have been great accomplishments in the microfinance industry, the demand for scrutinizing these firms and their practice of corporate governance has grown exponentially. The role and performance of modern microfinance firms are increasingly challenged by the industry's multiple stakeholders,[2] the changing marketplace, and the growing public expectations and demand for accountability. It seems that the shift of the industry's roots in nonprofit, socially oriented missions is creating alarm because the new entrants do not necessarily adhere to a primary orientation towards the original social concepts of the industry. Instead, they have developed a profit-seeking motivation and are active participants in the capital markets.

On October 27, 2010, Vijay Mahajan—President of the Microfinance Institutions Network in India—warned that "We are facing a collapse in the Indian microfinance sector" (India Microfinance Business News, 2010). He stated that commercial bank loans were drying up, and that financial institutions were refusing to lend even a sanctioned line of credit to microfinance organizations after controversies were revealed regarding opaque governance and usurious interest rates. Mahajan (India Microfinance Business News, 2010) cautioned that "unless something changes on the ground, the industry as we know it is basically gone." On November 17, 2010, an article in *The New York Times* reported that India's rapidly growing microcredit industry faced imminent collapse because borrowers had stopped repaying their loans and that bank executives with exposure to the microfinance sector were "extremely worried about their loans" (MacFarquhar, 2010). The article asserted that India's crisis was likely to reverberate around the globe. On November 26, 2010, *The Indian Express* wrote that "SKS Microfinance, recently feted by the stock markets, has seen a 54 per cent drop in share price in the last two months" ("SKS Microfinance," 2010). It is too soon to determine the sustainability of SKS, but the fact is that SKS declared that it would reduce interest payments to 24% throughout India. Vijay Mahajan feared that critical risks could seriously undermine the sustainability of the modern microfinance industry. His statement signaled that there was then and there is still anxiety and worry concerning both firm performance and the sustainability of the microfinance industry, particularly in India.

As the microfinance industry changes to welcome some of the most profit-focused suppliers and investors, the quality of the practice of corporate governance becomes even more critical. The Centre for the Study of Financial Innovations (CSFI) 2008 and 2009 surveys of the commercial microfinance industry warned that poor corporate governance posed a serious risk for microfinance organizations. Amid the clamor against corporate governance systems that are opaque, it has become the popular normative view to demand more information and more transparency.

Literature Review

Studies concerning microfinance organizational practices and its effect on performance have been prevalent since the 1990s. They reveal that many of the risks to financial and social performance in the industry are internal to the organizations (CSFI, 2008). Several scholars have clearly associated microfinance corporate governance with performance (Council of Microfinance Equity Funds, 2005; Hartarska, 2005; Mersland & Strom, 2007, 2009). In the latter part of the 2000-10 decade, the initial public offerings of shares in Banco Compartamos in 2007 and then SKS in 2010 have strengthened the scrutiny of the practices of corporate governance in the microfinance industry.

Corporate governance has both external and internal dimensions. The agency approach focus on the motives, values and intent of the individuals or a firm, especially the founders, while the institutional lens provides a way to view the larger context in which individuals operate. These are the internal and external dimensions of corporate governance, which are not set against each other, but rather serve to complement each other and contribute to a deeper understanding of the link between good practice in corporate governance and performance by exploring the different facets of this phenomenon. Both agency and institutional theoretical lenses are necessary for a more complete analysis of the factors that influence the relationship between good practice in corporate governance and performance in the microfinance industry.

Transparency is a set of corporate governance mechanisms used to control the behavior within a firm. Transparency has become something of a synonym or proxy for good governance (Casement, 2008; Rossouw, 2005). Transparency is defined as the availability of firm specific-information (Bushman, Piotroski, & Smith, 2004) to both, internal and external stakeholder on a voluntary or mandatory basis. Transparency is fundamentally about the availability of information to all the actors within the firm, principals, agents and stakeholders (Hebb, 2006). Transparency has several components: financial disclosures, governance transparency (Bushman et al., 2004) and performance transparency. Financial transparency captures the timeliness and audit quality of financial disclosures and their interpretation and dissemination by intermediaries. Governance disclosures are used by investors and other patrons of a firm to hold officers and directors accountable. Governance disclosures therefore include identity of major shareholders, remuneration, and shareholding of officers and directors. Performance transparency is understood to operate as a tool that delineates performance measures for the employees, especially with regard to clients.

In corporate governance, violations to the transparency principle are so widespread that some legal scholars argue that secrecy is the norm rather than the exception in the relation between shareholders and managers (Prat, 2005); even the largest corporations have always been treated by the legal system as "private" institutions. Prat asserts that "When questions about the availability of corporate information have arisen, the inquiry has begun from the premise that corporations, like individuals, are entitled to keep secret all information. Prat further states that "So deeply embedded in our world view is this principle that it is not at all uncommon to hear serious discussions of a corporate 'right to privacy.'" In the microfinance industry, managers of microfinance firms argue that revealing financial data such as interest rates can hurt the firm. They also argue that their actions can be mimicked or anticipated by competitors.

The availability of information is alleged to be a key determinant of the efficiency of resource allocation decisions (Bushman et al., 2003). When organizations are opaque and interests are secret, decision-making does distort efficiency.

Pension funds have been developing measures that increase transparency in firm-level decision making in businesses that they invest in (Hebb, 2006). Pension funds use transparency to ensure that shareholders are the primary interest being served by the firm. Transparency not only aligns managers and owners, it also raises issues of firm behavior that allow other stakeholders to engage the corporation more broadly. In the microfinance industry, the fact that firms such as Citibank are demanding greater transparency in microfinance firms,in which they have transactional contracts, is not surprising. As investors, they want to ensure that their primary interests are served. Secrecy is economically inefficient (Hebb, 2006).

Firm-level transparency has an exogenous dimension of meeting prescribed requirements in the microfinance industry, which disclosure statements and reports can provide. Such legal demands create some degree of transparency for donors, investors, advocacy groups and clients, but the bulk of this reporting provides only a limited indication of the quality of the practice of corporate governance within each company. In addition, legal measures are not perfect in encouraging microfinance organizations and individuals to take responsibility on their own. Endogenous transparency, on the other hand, is inspired by internal obligations of responsibility, which spring from individual motivation and a strong organizational mission.

Research Question and Method

What effect does good practice in corporate governance—firm-level transparency—have on performance in the microfinance industry? There are at least three sets of scenarios or hypotheses that accompany this investigation. On one hand, firm-level transparency does not have a relationship with performance; on the other hand, transparency does have a negative effect on performance; or another potential outcome is that transparency has a positive effect on performance in the microfinance industry. The author explores the hypotheses in the context of attitudes and the adoption of transparency measures by microfinance firms.

My multimethod research draws attention onto characteristics of managers, organizational disclosure practices within the microfinance field to explain the relationship between firm-level transparency and performance. The dynamics of various analyses are important for the evaluation of firm-performance. I include a 'grounded theory' approach to develop a deep understanding of the phenomenon of firm-level transparency that draws on both qualitative and quantitative methods (Strauss & Corbin, 1998).

The data-collection process officially occurred between 2006 and 2008 and yielded detailed information on individuals and organizations from four data sources: (a) a perceptual survey of top managers from approximately 100 countries; (b) archival data from the MIX database and Transparency International; (c) in-depth case studies of microfinance firms: Grameen Bank of Bangladesh (the first mover of modern microfinance), Jamii Bora of Kenya and SKS of India; and, (d) field studies of microfinance firms in China.

Perceptual Study

An online anonymous survey was administered to senior managers representing social, commercial and governmental institutions[3] within the microfinance industry. When respondents are asked to report on their own success, particularly when evaluating performance, it is difficult for scholars to know if the answers are accurate and honest. Senior managers who wish to portray their organizations as highly successful and performing well may inflate their numbers, which reinforces the need to conduct an anonymous survey.

The survey was designed to elicit perceptions of microfinance senior managers regarding their organizations' identity and performance. The assumption was that senior managers were more likely to know the policies and performances of their organizations and would report them honestly. The survey data allowed me to ascertain whether senior managers in varying institutional/ownership structures differed in their perceptions of organizational values and principles. My intent here was to identify whether there were certain perceptions that appeared to be particularly prominent for managers across ownership types, and to test whether there were certain perceptions that appeared to be particularly prominent for managers within a particular ownership category.

I identified survey participants by using e-mail addresses for senior managers and staff across ownership structures that were in the MIX database. I conducted a global survey and I also had two subsamples in China and Haiti. These two countries were selected because: China presents a state-controlled environment which has implemented microfinance, and it also provides a different institutional setting to observe transparency within an organization across social and commercial actors. The key motivation for conducting research in Haiti is that it is a fragile state; it offers a clear contrast to China, where the state control is strong. The questionnaires were prepared in English for the global microfinance industry, in Mandarin for the Chinese respondents and in French for the Haitians. As the surveys were sent via e-mail worldwide, only those respondents who were comfortable reading and writing in these languages were able to participate in the online questionnaires.

When the lists for the Global, China and Haiti surveys were constructed in August 2007, there were approximately 800 organizations in the MIX database. In an attempt to ensure that the e-mails would go directly to senior managers, generic e-mail addresses were avoided. For example, if an e-mail was recorded as info@sample.org it was not included in the list. These restrictions caused the sample to be reduced naturally. Human error may have caused some e-mail addresses to be recorded incorrectly, which added to delivery failures. Problems may have also occurred because of the poor Internet infrastructure in developing countries where power outages can be frequent. I also drew from a series of contacts that I have in the microfinance industry. The final sample was reduced to 500 microfinance organizations.

The online surveys were conducted via e-mail over one month, from September to October 2007. The respondents were told that the survey was anonymous, so they were not given the option to be identified. For ethical reasons, it was important that the respondents trusted that the survey was strictly anonymous, so they would answer the questions comfortably and honestly. Maintaining anonymity also indicated that additional information concerning the respondents was not obtained through other means. The respondents were prompted to complete the survey in three minutes. There were twelve questions and one with three parts, which brought the total number of questions to 14. The respondents were limited to one answer per question, and all the questions required a reply or the respondents could not proceed. Weekly reminders were sent to all three samples.

I received responses from 180 senior managers out of the 500 surveys that were distributed for a 36% response rate. It is possible that there was a self-selection bias, with representatives of better performing organizations more inclined to participate, but it is not obvious why this would lead to a spurious correlation between performance and transparency. As this was a supply-side or firm study, as opposed to a client-focused, survey, the questionnaire was designed to collect information from senior managers regarding their perceptions of their organizations' values, purposes, practices, and performance (see Table 1).

Archival Study

I then boost the perceptual survey with archival data founded on objective statistical information from the MIX. This data set provides detailed information on organizations in the microfinance industry from 1998-2009. In particular, I used the firm-level transparency scores which the MIX assigns to each firm in its database. The database also provides yearly data on each firm on profit status, regulation status, and leverage. This data set has more than 1,500 firms and more than 7,000 observations and complements the perceptual survey. The MIX data are somewhat tilted towards financially sustainable institutions (Cull, Demirguc-Kunt, & Morduch, 2011) and included standard performance measures such as return on assets, return on equity, and write-offs. I also drew data from Transparency International[4] to assess transparency-related features of the market contexts in which these organizations operate.

The MIX data set does not provide variance in transparency for each firm represented. To circumvent the challenge of not having variance for both dependent and independent variables, this study controlled instead for the age of the firms and also isolated the data set for young firms only. All regressions were performed using robust standard errors, clustered on firms (see Table 2).

Discussion of Statistical Results

Both the perceptual survey and the archival studies reveal a clear, positive relationship between transparency and performance. Although transparency does come through as relevant for sustained performance, it is not clear from

Table 1. Logit Model Estimates of Predictors of Self-Reported Loan Repayment

	Model 1	Model 2
Age 5-10 years	−0.492	−0.201
	(0.566)	(0.594)
Age > 10 years	0.942	0.915
	(0.629)	(0.636)
Provides educational services	−0.352	−0.235
	(0.730)	(0.741)
Provides vocational services	−0.064	−0.003
	(0.519)	(0.535)
MF firms in China only	−0.363	−0.304
	(0.740)	(0.744)
MF firms in Haiti only	0.081	0.121
	(1.123)	(1.158)
Considered social responsibility before profit	0.028	0.097
	(0.697)	(0.709)
Client productivity more important	0.296	0.251
	(0.639)	(0.650)
Governance structure supporting sustainable longevity important	0.261	0.019
	(0.232)	(0.273)
Transparency important		0.579**
		(0.286)
Constant	0.491	−1.231
Pseudo R^2	.056	.087
N	180	180

Two-tailed t tests.
*$p < .055$. **$p < .05$. ***$p < .01$. ****$p < .001$.

the data that ownership type, such as being identified as a social or commercial firm, has a systematic direct effect on performance or an indirect effect via its influence on transparency. The MIX data provides some opportunity to go beyond correlation. The fact that transparency matters for young organizations (as illustrated in Table 1, above) indicates that it is not just a luxury that mature firms can indulge in and suggests causality. The strength of this statistical study is built on combining these two independent data sets. Results from both indicate similar conclusions, which add to the robustness and credibility of each.

Table 2. OLS Models of MFI Performance

	Full sample		Young firms only	
	Model 1: ROA	Model 2: Loan repayment	Model 3: ROA	Model 4: Loan repayment
Country characteristics				
Country transparency rank	0.000**	0.000	0.000**	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Regulated	−0.003	0.002	0.001	0.001
	(0.007)	(0.002)	(0.009)	(0.002)
East Asia region	0.029**	0.007	0.021	0.005
	(0.013)	(0.004)	(0.021)	(0.006)
Eastern Europe region	0.056****	0.010***	0.059****	0.011***
	(0.012)	(0.003)	(0.015)	(0.004)
Latin America region	0.011	−0.001	−0.004	−0.001
	(0.015)	(0.004)	(0.023)	(0.006)
Middle East region	0.035***	0.012***	0.045***	0.012***
	(0.013)	(0.004)	(0.016)	(0.005)
South Asia region	0.018	0.021****	0.020	0.024****
	0.000**	0.000	0.000**	0.000
MFI characteristics				
MFI Age	0.001****	0.000**	0.005****	−0.000
	(0.000)	(0.000)	(0.001)	(0.000)
Log (total assets)	0.010****	−0.001	0.010***	−0.000
	(0.003)	(0.001)	(0.004)	(0.001)
Log (average loan size)	0.003	0.003***	0.005	0.003
	(0.003)	(0.001)	(0.004)	(0.001)
Nonprofit	0.008	0.000	0.003	0.001
	(0.007)	(0.002)	(0.010)	(0.002)
GLP per ALB (access)	−0.000	−0.000**	−0.000	−0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Transparency	0.015**	0.003**	0.018**	0.003*
	(0.006)	(0.001)	(0.009)	(0.002)
Constant	−0.294****	0.950****	−0.354****	0.944****
R^2	.048	.037	.057	.036
N	4,841	4,500	3,050	2,859

Two-tailed *t* tests.
*$p < .055$. **$p < .05$. ***$p < .01$. ****$p < .001$.

Case Studies

While the statistical analyses within the quantitative segment of the dissertation suggested a link between firm-level transparency and performance, it could not explicate the nuances of this relationship. In the next phase of my investigations, I used organizational case studies to further examine good practice in corporate governance—transparency—through deeper observations of the two models that are perceived to be vastly different: (a) socially oriented firms or nonprofit organizations and (b) commercially focused or for-profit organizations. Several data sources were combined to construct the case studies including formal and informal interviews with the leadership of several microfinance firms and Chinese government officials. I also used original documents as well as several bibliographical sources.

The first set of case studies observed microfinance firms on an organizational level. Because the Grameen Bank is well recognized as the first mover of modern microfinance, this case study is used to illustrate the Grameen Bank standards that were put in place and which subsequently provided the identity of the microfinance movement. The Grameen Bank model has been replicated in a variety of forms around the world, primarily through two main types of microfinance firms: social and commercial. Two well-known microfinance organizations, Jamii Bora in Kenya and SKS in India, noted for their social and commercial orientations respectively, are compared and contrasted. Proponents of each model vigorously debate the values and deficiencies of both.

The social model—which is represented by Jamii Bora—is accused of being too slow to meet the needs of the billions of households and individuals worldwide who are in need of financial services. On the other hand, the profit model—which is exemplified by SKS—is criticized as having misplaced priorities. The commercial model is on trial for favoring shareholders and giving primacy to this group while operating under the guise of having a social mission. While these discourses are essential for the future of modern microfinance, it is important to identify the basic mechanisms within a microfinance firm that afford it legitimacy in the social organization realm and support its strong financial performance. Arguably, good practice in corporate governance, primarily through intelligible firm-level transparency, is essential for creating trust and delivering performance in the microfinance industry. In the SKS case, firm-level transparency is provided through professionalization, which is driven by standardization. In the Jamii Bora case, transparency occurs through client and employee interaction. This participatory style management is seamless because the clients are also employed in the organization. Everyone involved in Jamii Bora's enterprises benefits from this transparency, from clients and managers to applicants and staff and including the surrounding community.

I then turn my observations to microfinance firms in a state-driven context, China. My studies revealed that Chinese microfinance firms stand outside the core of civil society traditions that characterize the lending behavior of most modern microfinance organizations. The lesson learned from this study is that the lending patterns of microfinance organizations in China—and perhaps even globally—cannot be generalized. It is important to understand that in any microfinance organization, the particular characteristics of the managers and staff, the attitudes of local government personnel, as well as the support of the local community in which the microfinance organization operates, are important elements in determining the mechanisms that are adopted by the microfinance organization.

The historical and contemporary relationships between state and civil society in China are instructive and account for the attitudes towards financial inclusion. Rather than maintaining a strict focus only on the character and standards of managers and staff, this study has found that the ideals of members of local and central government, as well as of the Chinese Communist Party (CCP), must also be taken into consideration when evaluating the corporate governance practices that are adopted as well as the performance of any microfinance company.

The Longshuitou Microfinance Fund (LMF) case study highlighted in this discussion reveals that the organization invites journalists and photographers to tour their facilities and ask questions on a regular basis. This is to help ensure that LMF discloses its practices to the community in which it exists. Moreover, transparency to the clients is confirmed. Each client is fully aware of the loans lent out and loans collected. This type of disclosure is welcomed in a society that values family and community. These observations on transparency are consistent with the organizational case studies previously discussed—Grameen Bank, SKS, and Jamii Bora.

Discussions and Conclusions

Both quantitative and qualitative evidence suggest that organizational transparency as a proxy for good practice in corporate governance in the microfinance industry has positive implications for firm performance, irrespective of ownership or institutional environment. These findings suggest that microfinance firms oriented towards good practice of corporate governance or firm-level transparency are more likely to outperform their peers. This relationship is not simply about nonprofit or for-profit objectives, compliance with laws, or institutional standards imposed on microfinance organizations. Transparency leads stakeholders to trust the firm. The evidence also indicates that the link is not contingent on ownership type—whether social or commercial. Transparency delivers information, procedures, and services that create conviction for the relationship between microfinance organizations and their constituents, clients, employees, patrons or investors and beyond.

The dissertation concludes with the broad implication of these observations: Microfinance firms must continuously self-evaluate their corporate governance practices to manage both institutionally driven and agency-driven corporate governance practices—how transparency practices are implemented and the value added for stakeholders. Institutionally driven transparency is a reactive response to concerns about public trust. It is about doing the minimum and complying with the law, disclosing whatever information is necessary in order to account for resource use, and taking fiduciary responsibility seriously in order to prevent fraud and malfeasance. Under this method, managers in microfinance organizations share information about their performance largely because patrons demand it. While institutionally driven transparency fulfils reporting requirements that are biased in favor of easily measurable assessments of progress, it undervalues adaptive assessments that are essential for understanding the fundamental principles that allow microfinance organizations to be successful. Agency-driven transparency, on the other hand, is linked to the "spirit of the law." It is a proactive way to address concerns about public trust. It is focused on achieving a mission and, therefore, also focused on performance. Managers of microfinance organizations following this course share information that can help them achieve their long-term goals. Agency-driven transparency builds trust through the improved behavior of the microfinance staff.

The secret to successful performance and longevity for all firms that choose to operate within the microfinance industry is to have "no secrecy." The evidence in this dissertation indicates that transparency—in all aspects of an organization's operations—that creates trust between the firm and all of its stakeholders is essential for successful performance. Firm-level transparency as a component of good corporate governance is based on the essential tenet of being held accountable to external actors and standards, as well as taking internal responsibility for actions whether or not the firm has primarily a social or commercial objective.

Appendix

Darline Augustine—Commentary on the Research Process

There is a saying that has evolved into something like "The race is not to the swift but to those who can endure." This saying is what I felt after I completed my PhD. The PhD process is a test of resilience filled with passion, hope, and humility.

I began my graduate studies at the London School of Economics and Political Science (LSE) with a conviction that if the creativity of the planet's poor—the majority of the world's population—were to be harnessed there would be another economic revolution similar to the tech-boom of the 1990s, except that this economic expansion would have the potential to be sustainable. In the summer of 1998, after interning with the Special Unit for Microfinance (SUM) at the United Nations in New York, I became engrossed in the concept of microfinance. Later on, I worked in the big bracket investment banking houses on Wall Street, an experience that encouraged me to consider seriously the idea of an economically beneficial and symbiotic relationship between mainstream banks and the microfinance industry. The two institutions competed in their seemingly opposite objectives of profit-making versus socio-welfare benefits, and yet they both failed to notice how they could complement each other. One institution concentrated on investors' returns, while the other focused on enhancing the greater societal good. I believed that the union of these two disparate approaches was an innovative model for increasing profits for mainstream financial institutions, while simultaneously helping the poor to gain access to conventional financial products and services.

The question that I pondered upon was whether a marriage between a socially focused entity and a profit-driven firm could work. Before I could explore this question, I needed to understand the nuances of the microfinance movement and why some microfinance organizations were sustainable and others were not. I attended hundreds of meetings and conferences on varying aspects of the microfinance industry. I listened to many researchers, but more importantly, I was able to closely observe the founders and practitioners of microfinance operations from around the world. This proved beneficial, as the successful performance of global microfinance organizations gripped my attention and became the focus of my PhD research. I spoke to more than one hundred managers of microfinance firms worldwide, and various patterns began to evolve in my mind.

Microfinance has become a global phenomenon present in every country in the world, including China. I went to China even though funding was not available—a friend encouraged me to go by making a US$500 contribution. I funded the rest of the trip myself. Also, my contacts were few at first. When I conducted my study about Chinese microfinance in 2006, very few researchers were familiar with the specifics of microfinance organizations in China. The more I learned about China's financial system, the more fascinated I became. It provided me with the opportunity to observe microfinance firms in a state-driven setting. Chinese models of development have become the envy of many countries around the world that want to engage in sustainable economic development. Comprehending the Chinese microfinance sector is essential for a more complete understanding of the factors that influence the performance of microfinance organizations globally.

In October 2006, I returned to the London School of Economics to write my doctoral dissertation and to tell the story of microfinance from the supply -side or firm's perspective as opposed to the demand or clients' side. Understanding the nature and character of the firms within the microfinance industry is essential for ascertaining their destiny, especially in both performance and sustainability.

There is a saying that nobody has gotten anywhere without help from others, and I can testify that this certainly applies to completing a doctoral dissertation. This dissertation was not produced solely with my efforts; it also developed from the inspiration I drew from the many individuals who were present in my life throughout the PhD journey. In the process of researching and writing a dissertation, one not only learns about the intricacies of the chosen topic but also realizes the significance of family, friendship and support. I am grateful for the many people who availed themselves to me for both formal and informal interviews. Equally important, I am indebted to those who read drafts of my dissertation, guided me through my abundant data, told me to re-write, and who simply said to me "let's go get a coffee." These beautiful human beings helped to shield me from the isolation that one can sometimes feel during the PhD process, and they helped me to finish stronger.

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Notes

1. The MIX, or the Microfinance Information Exchange, is a nonprofit organization that provides financial and social performance information from microfinance institutions (MFIs). It was incorporated in June 2002, with headquarters in Washington, D.C., and regional offices in Peru, Morocco, and India. The MIX focuses on strengthening microfinance institutions by improving transparency and the flow of information within the sector. MIX was founded by the Consultative Group to Assist the Poor (CGAP, 2010), and is sponsored by the Citi Foundation, Deutsche Bank Americas Foundation, International Fund for Agricultural Development (IFAD), Bill & Melinda Gates Foundation, and Omidyar Network. CGAP is a policy and research center which is housed at the World Bank. Accessed 1 February 2008, available online at http://www.mixmarket.org/en/about_mix_market.asp
2. Stakeholders are actors who control resources essential for organizational survival and performance (Pfeffer & Salancik, 1978).
3. A microfinance organization is classified as "social" if it is a nonprofit or accepted as a social actor in the microfinance industry. "Commercial" microfinance organizations are usually shareholder owned and profit oriented. Collectively owned or state-owned microfinance organizations are classified as "government."
4. Transparency International (TI) brings together relevant players from government, civil society, business and the media to promote transparency in elections, public administration, procurement and business. Accessed 14 September 2010 from http://www.transparency.org/about_us

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Bio

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