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ABSTRACT

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Abstract

This thesis analyzes microfinance institutions (MFIs) as hybrid organizations that pursue simultaneously a dual mission, balancing financial sustainability and social impact. Due to the dual nature, MFI's performance is also divided into financial performance and social performance. Research on MFIs' social performance is still in its infancy. Hence, the aim of the study is to gain a better understanding of MFI's social performance and its evaluation by considering the influence of MFI's profit orientation and key stakeholders, and by identifying different dimensions of social performance and methods to evaluate each dimension.

This study was conducted as a qualitative content analysis. The study was based on secondary data, using peer-reviewed academic articles as data. The findings from the data were reflected on the theoretical framework and existing literature.

The findings show that profit orientation and key stakeholders influence MFI's social performance. Depending on how well MFI's dual mission is balanced, the profit orientation can have negative or positive influence on social performance. Key stakeholders' interests influence whether they push the MFI to pursue its social or financial mission. Conflicts may occur between stakeholder groups, which forces the MFI to prioritize some stakeholders' interests. This also influences MFI's social performance.

In this thesis, social performance is divided into three dimensions: breadth of outreach, depth of outreach, and social impact. The data provided indicators for each dimension of social performance. However, it was noted that simple indicators are not the best method to evaluate the complex nature of social performance. Therefore, also more complex indices, and certifications and social ratings granted by third parties were proposed as approaches to social performance assessment. It was concluded that future research should develop improved methods particularly for the evaluation of social impact.

Key words	microfinance, microfinance institution, hybrid organization, social performance

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Tiivistelmä

Tämä tutkielma analysoi mikrorahoituslaitoksia hybridiorganisaatioina, jotka pyrkivät samanaikaisesti toteuttamaan kaksoismissiota, jossa tasapainotellaan taloudellisen kestävyyden ja yhteiskunnallisten vaikutusten välillä. Mikrorahoituslaitosten suorituskyky on myös jaettu taloudelliseen suorituskykyyn ja yhteiskunnalliseen suorituskykyyn. Tutkimus mikrorahoituslaitosten yhteiskunnallisesta suorituskyvystä on vielä varhaisessa vaiheessa. Siksi tämän tutkimuksen tavoite on saada parempi ymmärrys mikrorahoituslaitosten yhteiskunnallisesta suorituskyvystä ja sen arvioinnista ottamalla huomioon niiden tuloshakuisuuden ja keskeisten sidosryhmien vaikutukset sekä tunnistamalla yhteiskunnallisen suorituskyvyn eri ulottuvuudet ja arviointikeinoja kullekin ulottuvuudelle.

Tämä tutkimus toteutettiin laadullisena sisällönanalyysinä. Tutkimus perustui toissijaiseen aineistoon, ja aineistona käytettiin vertaisarvioituja akateemisia artikkeleita. Aineistosta tehtyjä havaintoja heijasteltiin teoreettiseen viitekehykseen ja olemassa olevaan kirjallisuuteen.

Tulokset osoittavat, että tuloshakuisuus ja keskeiset sidosryhmät vaikuttavat mikrorahoituslaitoksen yhteiskunnalliseen suorituskykyyn. Riippuen siitä, kuinka hyvin mikrorahoituslaitoksen kaksoismissio on tasapainossa, tuloshakuisuudella voi olla negatiivinen tai positiivinen vaikutus sen yhteiskunnalliseen suorituskykyyn. Keskeisten sidosryhmien motiivit vaikuttavat siihen, painostavatko ne yhteiskunnallisen vai taloudellisen mission priorisointia. Sidosryhmien välillä saattaa syntyä konflikteja, mikä pakottaa rahoituslaitoksen priorisoimaan tiettyjen sidosryhmien motiiveja. Tämä vaikuttaa myös yhteisenkunnalliseen suorituskykyyn.

Tässä tutkielmassa yhteiskunnallinen suorituskyy on jaettu kolmeen ulottuvuuteen: tavoittavuuden laajuus, tavoittavuuden syvyys ja yhteiskunnallinen vaikutus. Aineisto tarjosi mittareita kullekin yhteiskunnallisen suorituskyvyn ulottuvuudelle. Yksinkertaiset mittarit eivät kuitenkaan ole paras tapa arvioida monitahoista yhteiskunnallista suorituskykyä. Siksi myös monimutkaisempia indeksejä sekä kolmansien osapuolten myöntämiä sertifikaatteja ja sosiaalisia luokituksia ehdotettiin yhteiskunnallisen suorituskyvyn arviointimenetelmiksi. Jatkotutkimuksissa tulisi kehittää paranneltuja menetelmiä erityisesti yhteiskunnallisen vaikutuksen arviointiin.

Avainsanat	mikrorahoitus, mikrorahoituslaitos, hybridiorganisaatio, yhteiskunnallinen suorituskyky

UNIVERSITY
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EVALUATING THE SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS AS HYBRID ORGANIZATIONS

Master's Thesis
in International Business

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1 INTRODUCTION

1.1 Microfinance – banking for the poor

Through generations, one common goal around the world has been to alleviate poverty (Kent & Dacin 2010, 760). In 2015, the United Nations (UN) launched 17 Sustainable Development Goals which aim to create a sustainable future for people and the planet, and one of these goals is to reach zero poverty by 2030 (United Nations 2021b). It includes targets of ensuring that all people have equal access to economic resources and financial services, and abolishing extreme poverty for all people. (United Nations 2021a). Extreme poverty is defined as having less than USD 1,90 for daily income (World Bank 2020, 2).

Global poverty has been decreasing for decades, although the rate of poverty reduction has been decelerating since 2013. In 2017, there were still 689 million people living in extreme poverty. (World Bank 2020, 2; United Nations 2021a.) Poverty has concentrated in specific regions of the world: Sub-Saharan Africa and Southern Asia represent 80 % of the poor, and 70 % of the global extreme poor live in just 10 countries (World Bank 2015, 2). The concentration has partly caused slowing poverty reduction. Sub-Saharan Africa accounts for a large part of world's extreme poor, and its poverty reduction rate is lower than in other regions. (World Bank 2020, 3.)

Moreover, according to reports by UNCTAD (2020, 13) and World Bank (2020, 1), COVID-19 has caused an increase in poverty rates for the first time in 25 years. It is estimated that the COVID-19 pandemic will increase extreme poverty in least developed countries by 35 % and push over 100 million people into extreme poverty. Those who have recently escaped extreme poverty are vulnerable to falling back easily if they face a crisis, such as a pandemic, conflict or climate change. Therefore, it is unlikely that UN's ambitious goal of eradicating extreme poverty by 2030 will be achieved, and thus global poverty will probably persist. (UNCTAD 2020, 13; World Bank 2020, 1–2; United Nations 2021a.)

Microfinance is one of the invented business models used to reduce global poverty. Microfinance refers to all the financial activities that are targeted at the low-income population who would otherwise be excluded from conventional financial services provided by commercial banks. (Rahman et al. 2015, 65; Lensink et al. 2018, 2386; Piot-Lepetit & Nzongang 2019, 1189). In 2017, there were 1,7 billion unbanked adults who

did not have a bank account via financial institution or mobile money provider (Duvendack & Mader 2020, 594–595; Milana & Ashta 2020, 259). Piot-Lepetit and Nzongang (2019, 1189) argue that not having access to credit is one of the key reasons why poverty persists in developing countries. Initially, the idea of microfinance was to grant small loans to the poor so they could establish their own businesses and ensure their livelihood. (Battilana & Dorado 2010, 1422; Kent & Dacin 2013, 759). Nowadays, the scope of services has expanded to various financial and non-financial services (Rahman et al. 2015, 65).

Although microfinance has traditionally focused mainly on the poorest of the society, i.e. women and rural residents, microfinance institutions (MFIs) have extended their offerings to serve the near-poor as well. They are people who live slightly above the poverty line, such as microenterpreneurs and small farmers. (Ferdousi 2015, 51.) Microenterprise is defined as a business that employs less than 10 people and makes less than USD 100 000 in annual sales revenues (Thapa 2015, 581–582). Hence, MFIs' client base consists of individuals and microenterprises. Today, MFIs reach 140 million clients globally (Sun & Liang 2021, 1).

Having access to affordable financial services is called financial inclusion. Financial inclusion supports poverty reduction as it enables less fluctuating income and consumption, and better assimilation into the modern market economy. (Beck 2015, 3–4; Ault 2016, 952; Duvendack & Mader 2020, 594–595.) There are two types of barriers to financial inclusion. Supply barriers are factors that hinder financial institutions from reaching out to the lower end of the financial market, while demand barriers are factors that restrain people from utilizing financial services. (Beck 2015, 6.) The leading supply barriers are increased risk and high costs. Traditional banks are not willing to lend to the poor because they are not able to place adequate collateral, making the risk of lending too high for the bank. Also the volatility of emerging economies increases risks. Low-income customers have fewer and smaller transactions which causes high fixed costs per transaction. In addition, screening and monitoring costs would be too high for banks to simultaneously offer low interest rates and ensure profitable business. (Yunus et al. 2010, 308; Beck 2015, 6; Piot-Lepetit & Nzongang 2019, 1189.) For demand barriers, clients' lack of financial literacy is a notable barrier to utilizing financial services. It means inadequate understanding of financial instruments. (Beck 2015, 6; Macchiavello 2018, 7–8.) Next, the different stages in MFIs' development are discussed.

1.2 Development of hybrid microfinance institutions

Modern microfinance was born in Bangladesh in 1976, when Muhammad Yunus founded Grameen Bank (Yunus et al. 2010, 308; Rahman et al. 2015, 65). At first, Grameen Bank and other MFIs were non-governmental organizations (NGOs) financed by donations and subsidies. In the 1990's, the industry was growing rapidly, but donor funds were limited. Hence, many MFIs felt the pressure to commercialize in order to respond to the increasing demand and to access additional funding. At the same time, the phenomenon of social entrepreneurship was emerging, which emphasizes innovative solutions to social problems (Moss et al. 2008, 1; Chliova et al. 2020, 1024). As a result of commercialization pressures and the logic of social entrepreneurship, hybrid MFIs were established. Hybrid organizations combine two institutional logics: commercial banking logic, which emphasizes financial sustainability and profitability, and social development logic, which highlights the social mission of alleviating poverty. A challenge for hybrids is finding balance between the two institutional logics as they may impose conflicting demands for the organization. (Battilana & Dorado 2010, 1419–1420; Ault 2016, 956; Nanayakkara 2017, 901.)

The beginning of the 21st century was filled with optimism for the microfinance sector. There was strong belief that the more productive hybrid MFIs would be the key to ending poverty. The UN declared the year 2005 as the International Year of Microcredit. (Kent & Dacin 2013, 761; Beck 2015, 1; Rahman et al. 2015, 65.) Yunus had become known as *the banker for the poor*, and in 2006, Yunus and Grameen Bank won jointly the Nobel Peace Prize for their work on supporting entrepreneurs in developing countries and lifting families out of poverty. (Yunus 2007, 77; Rahman et al. 2015, 65.)

However towards the 2010's, there was increasing dissatisfaction with MFIs. They were criticized for focusing on commercialization and making large profits at the expense of social mission. Moreover, this led to some clients becoming overindebted which prompted more criticism. There were difficulties to monitor and regulate the industry because there was no generally agreed code of conduct for the more and more heterogenous MFIs. Consequently, some attempts have been made to professionalize and institutionalize the sector. For example, client protection has been brought into discussion, the role of corporate governance has been highlighted, and industry-wide collection of performance data has been initiated. These actions have improved transparency and contributed to the development of more sustainable practices. (Milana

& Ashta 2012, 314; Microfinance barometer 2019, 1–7.) Milana and Ashta (2020, 257) state that the microfinance industry has now reached the stage of cold acceptance after the despair in the early 2010's. They argue that MFIs do business as usual: If there is demand for microfinance, the low-income people must value their services, and if the clients are able to repay their loans, they must have earned enough savings using microfinance services.

1.3 Aim of the study

The nature of MFIs is characterized by duality and constant juggling between two objectives. They are not only balancing financial mission and social mission, but also their performance can be evaluated at financial and social levels. (Kent & Dacin 2013, 759; Hermes & Hudon 2018, 1486.) Financial performance is assessed by economic sustainability and profit maximization, while social performance is evaluated by the success of reaching the poor and lifting them out of poverty (Aslam et al. 2019, 267). Because of pressures to generate profit, more attention has been paid to the financial performance of MFIs. Furthermore, financial performance is easier to evaluate because standardized accounting metrics can be utilized. Social performance, on the other hand, is less explored and more difficult to measure. (Kent & Dacin 2013, 759; Hermes & Hudon 2018, 1486.) Growing social awareness has led to an increasing number of hybrid organizations alongside commercial businesses, which is why it is important to gain better understanding of the concept of social performance (Santos et al. 2015, 55). Hence, this thesis is outlined on analyzing the social performance of MFIs.

When MFI's social mission and social performance are discussed in this thesis, some closely related concepts are used, so it is arguable to define them and point out their differences. *Social impact* is an established concept in the literature of hybrid organizations that refers to the social value that an organization creates on a society (Santos et al. 2015, 39). Social impact is used interchangeably with *welfare impact*. *Social value* is defined as a positive, short-term byproduct of organization's operations. Social value creation and social impact can lead to *social change* in a society. Unlike social value, social change is a long-term outcome of organization's activities. Social value fulfills the social mission of MFI, but does not necessarily eradicate the social problem that the organization aims to tackle, whereas social change can have fundamental influence on the social issue. (Ran & Weller 2021, 6–7.) *Social performance* measures

how well MFI implements its social mission, i.e. how well it generates social value, social impact and social change (Aslam et al. 2019, 267).

Research on MFI's dual performance is still in its infancy, and further studies are needed. Although there is consensus over the definition of social performance, commonly agreed measures for evaluating social performance are still missing. (Hermes & Hudon 2018, 1484.) Social impact studies used to dominate the field of research on MFIs, but recently the focus has shifted more towards performance (Ashta 2019, 308). This indicates growing interest in the performance of MFIs. This thesis aims to gain a better understanding of MFI's social performance and its evaluation by conducting a qualitative content analysis where academic articles are used as data. The research question is "*How to evaluate the social performance of microfinance institutions?*", which is supported by three sub-questions:

1. How does the profit orientation of a microfinance institution influence its social performance?
2. How do key stakeholders influence the social performance of microfinance institutions?
3. What are the different dimensions of social performance and how can they be evaluated?

Evaluating the social performance of MFI reveals how well MFI's social mission is implemented. In this thesis, *evaluation* covers not only the measurement of social performance, but it also takes into account factors that influence the implementation of social mission and consequently the social performance. Without comprehensive understanding of social performance, it is difficult to assess the overall performance of MFI and its contribution to poverty reduction, or to suggest relevant policy recommendations. (Milana & Ashta 2012, 314; Hermes & Hudon 2018, 1485–1504.)

The first two sub-questions address the two influencing factors that are considered in this thesis: the profit orientation of MFI and key stakeholders. When it comes to profit orientation, MFI can be either for-profit or non-profit. Different profit orientations may have different motives which guide MFI's dual mission. Non-profit and for-profit organizations may also thrive in different environments. (Ault 2016, 952–956.) Therefore, the influence of profit orientation on social performance will be observed in this thesis.

Stakeholder refers to a party who directly or indirectly interacts with an organization, influencing its mission and operations, and who is affected by organization's activities

(Bezboruah & Pillai 2015, 916). In this thesis, key stakeholders include financiers and internal stakeholders. Financiers consist of investors and donors. In this thesis, donors include also public funders who provide subsidies to MFIs. Donors and public funders are discussed as one unit, as they provide grants to MFIs. In this thesis, internal stakeholders are limited to credit officers, managers, and board members. All these stakeholders have direct influence on MFIs' decision-making. Hence, they have the power to influence how well the social mission is implemented. Also, conflicts can occur between key stakeholders, and the tension can influence MFI's social performance. (Laher & Proffitt 2020, 113–115.) Hence, the influence of these key stakeholders and the relationship between stakeholders will be analyzed.

With the third sub-question, this thesis attempts to identify different dimensions of MFI's social performance, and evaluation methods for each dimension. Social performance is a multifaceted concept with various elements. Hence, this thesis explores which dimensions constitute MFI's social performance. There are also different approaches to social performance evaluation, so the aim is to identify which are the most important measures for each dimension. Indicators are a common tool for performance evaluation, so the main focus is on identifying key indicators, but the researcher will remain receptive to new approaches of social performance evaluation as well. (Milana & Ashta 2012, 314; Hermes & Hudon 2018, 1485–1504.)

This thesis observes social performance from the perspective of MFIs that operate in developing countries. There are MFIs operating in for example Europe and North America as well, but access to financial services is not as limited there. In developed countries, poverty is not as deep-rooted, which makes MFIs' operations in developing countries and developed countries different from each other. (Pedrini et al. 2016, 283.) That is why the focus is limited to MFIs in developing countries.

This thesis has the potential to benefit MFIs. As external expectations are increasingly demanding social sustainability, MFIs can no longer focus just on their financial performance; social performance must be taken into consideration as well. Knowing how to evaluate and report about their social performance can be beneficial for MFI's market position. If MFIs are aware of how to combine financial and social missions efficiently, i.e. how to achieve high dual performance, they can gain competitive advantage. (Santos et al. 2015, 55.)

The contribution of this thesis is not limited to benefiting only MFIs. By conducting a qualitative content analysis, a scorecard of indicators will be collected to assess different

dimensions of social performance. Having proper evaluation methods would allow the comparison of MFIs, which would help stakeholders, such as financiers, regulators, and clients, to evaluate which MFIs are creating social value for the community. That way financiers and regulators can make informed decisions on which MFIs to support financially, and they know what is the social return on their investments. Prospective clients, on the other hand, can utilize the information to choose an MFI that is the most suitable for their needs. (Brau & Woller 2004, 14.)

This thesis is structured as follows: Chapters 2 and 3 will introduce theoretical framework for MFIs and their social performance. Chapter 2 discusses the dual nature of MFIs as hybrid organizations and their pursuit for social impact. Chapter 3 focuses on the dimensions of performance evaluation and factors that influence MFI's social performance. Chapter 4 describes the research method and the process of conducting the study step by step. Chapter 5 presents the findings of the thesis, exploring the influence of profit orientation and key stakeholders, and the different methods of evaluating social performance. Finally, chapter 6 presents the conclusions of the thesis and gives suggestions for future research, and chapter 7 summarizes the thesis.

2 MICROFINANCE INSTITUTIONS AS HYBRID ORGANIZATIONS

2.1 Hybrid organizations with dual mission

To link microfinance to a wider context and to show the motives behind MFIs, microfinance is considered a sub-category of social entrepreneurship in this thesis. Social entrepreneurship remains an ambiguous concept that is missing a generally accepted definition, as the scope of the concept makes it more difficult to define (Dacin et al. 2010, 38; Grassl 2012, 37; Ran & Weller 2021, 1–2). However, many of the definitions include the following traits: innovative solutions to tackle social problems, aim for social value creation, and dual mission that balances social and financial objectives (Austin et al. 2006, 2; Dacin et al. 2010, 38–41; Swanson & Zhang 2010, 72; Ashta 2019, 302; Ran & Weller 2021, 4). The social mission aims at tackling social issues, while the financial mission targets economic sustainability (Piot-Lepetit & Nzongang 2019, 1189; Lassoued 2021, 1). Social enterprises can emerge in non-profit, commercial and public sectors (Austin et al. 2006, 2; Swanson & Zhang 2010, 72; Ran & Weller 2021, 2). Hence, in this thesis social entrepreneurship is defined as entrepreneurial activities, either for-profit or non-profit, with the goal to create innovative social change by combining social and financial missions.

According to Ashta (2019, 301), microfinance is an exemplar of social entrepreneurship. MFIs have discovered innovative business models to reach the people who traditional financial institutions have neglected. The social cause that drives MFIs is to reduce poverty by creating employment, business growth and women empowerment. At the same time, MFIs aim at financial self-sufficiency, generating profit or at least breaking even. (Yunus 2010, 310; Lensink et al. 2018, 2386; Lassoued 2021, 1.)

According to Grassl (2012, 37) and Staessens et al. (2019, 327) hybridity is an essential trait of social entrepreneurship. Different MFIs place varying degree of focus on their social and financial targets, creating a continuum of possibilities for MFI's orientation. The two missions are not necessarily competing with each other. (Staessens et al. 2019, 327–337.) When MFIs are managed successfully, they do not need to compromise on either mission. Instead, they are equally invested in ensuring economic self-sufficiency and creating social impact. (Piot-Lepetit & Nzongang 2019, 1189.) However, this optimal state is not always achieved. Mission drift occurs when a hybrid

organization emphasizes one of the missions more, causing the balance to shift either to the social or the commercial side. (Aslam et al. 2019, 266.) Mission drift can occur unconsciously, or MFI can make an informed decision to change its mission statement (Laher & Proffitt 2020, 118). Figure 1 illustrates the dual mission of a hybrid organization and the risk of mission drift.

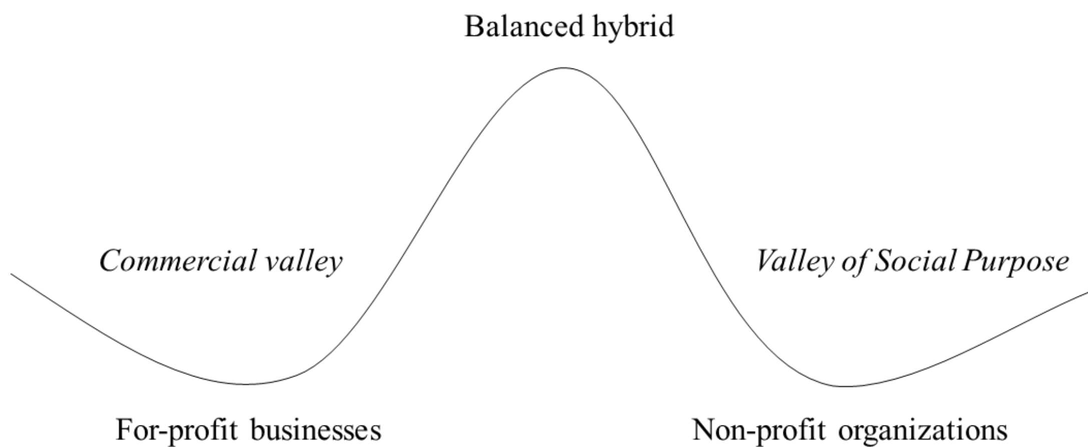

Figure 1 Mission drift of a hybrid organization (Young 2012, 25)

At the peak of figure 1, social and financial missions of the hybrid are balanced. However, a push for mission drift can cause the organization to land either to the Commercial Valley with commercial for-profit businesses or to the Valley of Social Purpose with non-profit organizations. (Young 2012, 24–25.) It is more common that MFIs prioritize their economic targets over social mission due to pressures to commercialize and ensure profitability. Therefore, mission drift is often described as abandoning the social mission. (Ferdousi 2015, 51; Ault 2016, 951–953; Beisland et al. 2019, 119–120.)

Lending to the poorest indicates small loans and hence high transaction costs, which could pose a threat to economic sustainability. As economic sustainability is a precondition for continued operations, MFIs may be tempted to increase their interest rates, grant larger loans, and shift focus away from the poor, rural clients to wealthier, urban clients in order to generate higher revenues and reduce transaction costs, pushing them to the Commercial Valley. Wealthier clients usually have more regular income streams and more predictable consumption patterns, and therefore they pose a smaller credit risk. Moreover, urban clients have better access to developed infrastructure which further reduces costs as they are easier to reach. (Nega & Schneider 2014, 371–372;

Ferdousi 2015, 51; Ault 2016, 951–954; Aslam et al. 2019, 266.) Mission trade-off is the consequence of mission drift. For example, when MFI prioritizes financial profits, they may have to compromise on the outreach to the poor, which is the trade-off. (Hermes & Hudon 2018, 1485.)

In contrast, mission drift can also occur to the other direction. Reverse mission drift takes place when MFI pays more attention to its social mission at the expense of economic sustainability. (Staessens et al. 2019, 325–326.) MFI can maintain low interest rates by relying on subsidies and grants, but it compromises financial independence (Nega & Schneider 2014, 371–372; Aslam et al. 2019, 266). This could push the organization to the Valley of Social Purpose. MFI can even face mission lock-in if it neglects all economic aspects of its activities. Mission lock-in causes MFI to be unable to perform well socially or financially, due to its weak economic standing. In that case, MFI would first have to improve its economic performance before being able to strive for social impact. (Staessens et al. 2019, 325–326.)

2.2 Social impact on a community

By pursuing their social mission, MFIs can have social benefits on the surrounding community. According to Grassl (2012, 41), social enterprises create value not only to their clients, but also to a larger community. Nonetheless, it should be taken into consideration that the far-reaching impacts of microfinance are still contested and it remains to be proven if microfinance can have significant macro-level impacts. While some studies confirm some benefits, others refute those findings or even argue that microfinance has negative impacts on a society. (Miled & Rejeb 2015, 705–706; Rahman et al. 2015, 65–66; Duvendack & Mader 2020, 594.) Social impacts are also very context-specific, depending on the cultural and geographical environment (Brau & Woller 2004, 15; Duvendack & Mader 2020, 594). Therefore, the social benefits of microfinance should be discussed with caution.

However, there is evidence that some social benefits can be realized via microfinance. Rahman et al. (2015, 68) found that microfinance can have influence on poverty reduction, increased incomes, women empowerment, increased access to education and healthcare services, decreased family size, and housing improvement. Also Miled and Rejeb (2015, 706–708) support findings on similar benefits, highlighting poverty alleviation and increased expenditure of consumption in countries heavily penetrated by MFIs. On the other hand, Santoso et al. (2020, 494) emphasize that poverty

reduction is not the most significant outcome of MFIs. Instead, the reduced vulnerability plays a more significant role, as it smoothens income and consumption fluctuations.

To categorize the social impacts of MFIs, Santoso et al. (2020, 495) divide MFI's social benefits into three levels: individual benefits, household benefits, and village-level benefits. Beck (2015, 20) divides social impact into three categories: economic outcomes, gender outcomes and social outcomes. Some outcomes that have been recognized are divided into these categories in table 1.

Table 1 Categories of social impact

	Economic outcomes	Gender outcomes	Social outcomes
Individual level	• Changes in financial behavior • Improved financial standing • Reduced consumption fluctuations • Higher incomes	• Women empowerment • Reduced domestic violence • Improved health for women • Increased contraceptive usage	• Improved access to healthcare services • More balanced nutrition • Changes in behavior regarding health • Improved social standing • Improved access to beneficial services
Household level	• Changes in financial behavior • Improved financial standing • Reduced consumption fluctuations • Higher incomes	• Higher level of education for children • Reduced domestic violence	• Improved access to healthcare services • More balanced nutrition • Changes in behavior regarding health • Improved access to beneficial services
Village level	• Improved business productivity • Reduced unemployment rate	• Awareness of women's rights • Women's mutual support	• Strengthened social ties and community bonds

The first column in table 1 introduces economic outcomes which can occur if MFIs prompt changes in clients' financial behavior. MFIs' services can encourage clients to be more open-minded towards new financial services, and save or invest their assets instead of spending them. Changes in behavior can have immediate positive outcomes, such as establishing or expanding a business, having more savings and hence a better financial standing, and having more stable consumption patterns. The immediate outcomes can lead to more transformative benefits, including sustainably higher incomes, increased assets and wealth, improved productivity of a business, improved social standing in the society, and reduced unemployment thanks to job creation. (Beck 2015, 21; Rahman et al. 2015, 65; Duvendack & Mader 2020, 597; Santoso et al. 2020, 494.) Small businesses

could be more capable to implement transformative changes and create jobs than microenterprises which often do not have plans to expand the business (Beck 2015, 25–36). Ultimately, economic outcomes lead to reduced poverty.

Historically, MFIs have focused particularly on female clients to create women empowerment. One reason is that generally financial services are not as accessible to women. Secondly, women represent a large share of the self-employed in emerging economies, and therefore women are in need of financing. (Beck 2015, 34.) The second column in table 1 summarizes gender outcomes which refer to improvements in women's standing in a community. By gaining access to financial services, women get a possibility to earn income independently, gain control over financial affairs in the household, and improve their overall control of their own lives. These are forms of women empowerment. This could reduce domestic violence, improve women's mental and physical health, and increase contraceptive usage. (Beck 2015, 22; Zhao & Lounsbury 2016, 657; Duvendack & Mader 2020, 599.) It has been found that women are more likely to allocate resources to household welfare, such as children's education and healthcare services, than men (Beck 2015, 34; Kasali et al. 2016, 501–502; Zhao & Lounsbury 2016, 657). Therefore, having access to microfinance can have a significant influence on the future of household's children. Duvendack and Mader (2020, 608) argue that the greatest enablers of women empowerment are group interactions where MFIs deliver financial services and women gather together. The meetings give women an opportunity to leave the house, learn about their rights, and get mutual support from other women.

Finally, social outcomes in the third column of table 1 can be further divided into health benefits, social-relational benefits, and access to beneficial services. For health benefits, increased income allows households to have better access to healthcare services and to afford balanced nutrition. Some financial services, such as microinsurances, can directly provide access to health services. MFIs can additionally contribute to better knowledge of physical and mental health, which can consequently change clients' behavior when it comes to health and nutrition. Social-relational benefits refer to strengthening social ties and community bonds. Regular group interactions relating to financial services can create strong community ties and build social capital, and poverty reduction can improve individual's social standing in a community. Access to beneficial services, such as school or clean water, are often a result of increased income level thanks to microfinance services. Having access to the beneficial services can further accelerate poverty reduction because having access to clean water reduces diseases and hence

increases income-earning ability, and having education helps escaping intergenerational poverty transmission. (Beck 2015, 27; Duvendack & Mader 2020, 599.)

The social impacts discussed above have an influence at the micro-level of a society. Additionally, the macro-level benefits have drawn the attention of academics as well. Although the scope of macro-level impacts is more difficult to measure because the limited data is mostly household- and business-based, MFIs can play a part in macroeconomic growth and development. Mobilizing savings and investments, and reducing transaction costs in productive sectors could benefit not only low-income clients, but also the economy by creating growth. (Duvendack & Mader 2020, 600.) Miled and Rejeb (2015, 706–708), supported by Raihan et al. (2017, 4), find that countries where MFIs have longer-lasting, extensive operations have lower levels of poverty and higher consumption expenditure. Also Kasali et al. (2016, 501–507) advocate for microfinance's macro-level benefits, arguing that financial services and the consequent employment generation and increased income contribute to alleviating poverty, increasing standards of living, and reviving the economy particularly in rural areas.

Duvendack and Mader (2020, 615) argue that MFIs are more likely to have positive than negative outcomes, but they are rarely transformative. Similarily, Beisland et al. (2019, 119) state that MFIs show consistently positive, but modest outcomes. Therefore, microfinance is not a quick solution to eradicate poverty, yet it cannot be denied that it would not have any benefits. Next, the discussion will move to different types of microfinance services that implement the social mission and create social impact.

2.3 Microfinance services as instruments for social impact

MFIs offer a variety of services to improve their clients' standards of living. Initially, microfinance started as granting uncollateralized microcredits to the poor. Nowadays, the industry has expanded to a wide range of financial and non-financial services. (Ferdousi 2015, 51; Rahman et al. 2015, 65; Chikalipah 2018, 1072.) The categories of microfinance services are presented in figure 2.

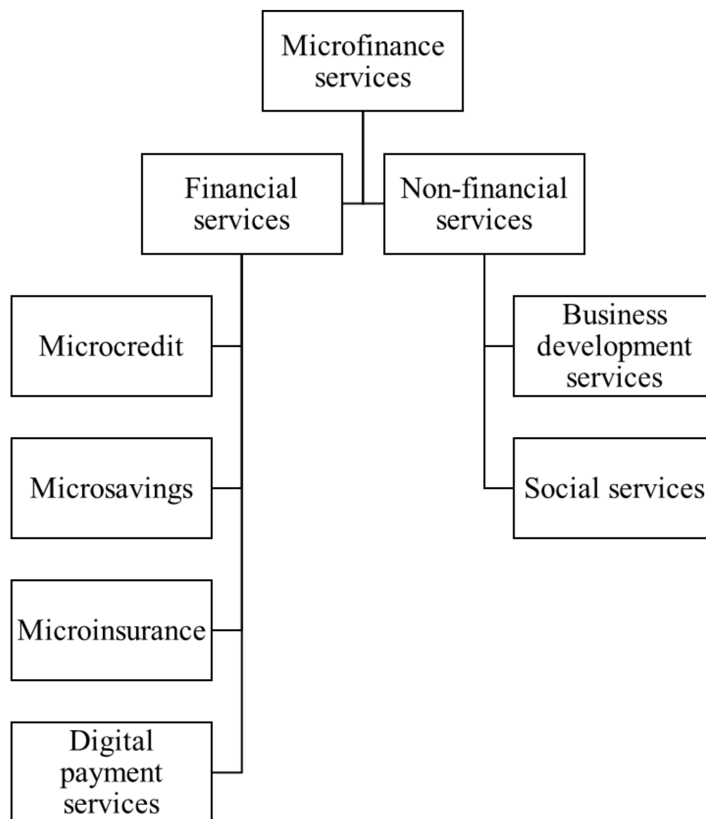

Figure 2 Categories of microfinance services

As illustrated in figure 2, financial services include microcredit, microsavings, microinsurance, and digital payment services (Beck 2015, 6; Milana & Ashta 2020, 257). These services allow low-income people to manage risks and volatility in their lives (Platteau et al. 2017, 149). Non-financial services refer to business development services and social services that are not directly related to MFI's financial services (Lensink et al 2018, 2388). They complement the financial services by increasing financial literacy and promoting financial inclusion with other means than financial tools (Milana & Ashta 2020, 257). Next, each category and their connection to MFI's social mission will be discussed.

2.3.1 Microcredit

Microcredit was the pioneering form of microfinance. The amount of credit can start from USD 20 and grow up to several thousand dollars. Commonly the loans are repaid within a month, and at maximum, the credit terms are 24–36 months. Microcredit allows borrowers to start up their own businesses and thus pursue higher income and better social security protection. (Milana & Ashta 2012, 303–314; Ferdousi 2015, 54; Santoso et al.

2020, 492; Lassoued 2021, 4.) Yet, only a small share of microcredit is used for entrepreneurial activities. A majority is used for consumption, health and medical purposes, and housing. (Beck 2015, 23; Milana & Ashta 2020, 260.)

As part of their social mission to improve financial inclusion, MFIs require no collateral for microcredit. However, this causes higher risks for the MFI, possibly compromising its financial sustainability. MFIs can balance the risks by adopting joint liability lending, i.e. group lending. It means that borrowers form a group and share the liability for loan repayment, even though each member receives an individual loan. If a group member defaults, other members will repay on their behalf. This reduces MFI's credit risk, i.e. risk of default, and encourages reaching out to poorer people. (Beck 2015, 7–9; Chakravarty & Shahriar 2015, 129–130.)

2.3.2 Microsavings

Microsavings is a form of microfinance that allows otherwise unbanked people to open a bank account, make deposits and thus accumulate savings (Beck 2015, 11). Microsavings have surpassed microcredit in popularity in many developing countries (Brau & Woller 2004, 7; Chikalipah 2018, 1073). Microsavings can be either forced, compelling people to commit to regular deposits and teaching financial discipline, or voluntary with smaller, less consistent savings. The forced method has been the more widespread form. (Brau & Woller 2004, 7.) The clients tend to have low level of education, which can be reflected in lack of interest or skills to plan for financial future. Additionally, it may be difficult to decline family member's or friend's request for financial support and instead deposit the extra funds. In these cases, the forced method helps clients to commit to savings. (Labie et al. 2017, 322.)

Microsavings services can have social benefits in various ways. Ashraf et al. (2006, 5–6) found that when people are offered the possibility to make deposits, they are less likely to take credit and more likely to commit to savings. This contributes to financial independence of people in low-income countries. Having savings allows people to prepare for medical expenses or to increase food reserves instead of having to live from hand to mouth. Hence, microsavings acts as a risk management tool.

MFIs may also reward their customers with access to credit if they make deposits conscientiously (Brau & Woller 2004, 7; Ashraf et al. 2006, 5–16). For example, initially Grameen Bank had employed compulsory weekly savings before granting access to microcredit (Raihan et al. 2017, 2). This combines MFI's financial and social missions:

Complementing credit services with savings services can help reduce the risk of clients becoming overindebted, reducing default risk, and at the same time contributing to financial inclusion by providing more financial services to the poor (Beck 2015, 13).

2.3.3 Microinsurance

As emerging economies tend to be volatile societies, microenterprises and households are liable to higher risk of income or expenditure shocks. Additionally, households can encounter individual economic shocks, such as illnesses or theft. The social contribution of microinsurance is to provide low-income people with a means to protect themselves against volatility and uncertainty. For example, farmers are particularly susceptible to high risks, being more dependent on rainfall and other meteorological phenomena. Hence, microinsurance providers offer insurance against harvest losses to reduce the risks of the domain. Another popular form of insurance is health microinsurance which brings healthcare services to people who would otherwise not be able to afford them. (Beck 2015, 15–16; Platteau et al. 2017, 139–140; Alhassan & Magazi 2021, 358–365.)

In developing countries, insurance products do not have an established standing due to lack of trust towards financial institutions and lack of familiarity with formal insurances. To create trust and encourage insurance take-up, MFIs can design products that pay frequently. Additionally, when it comes to payout, it should be ensured that the payout is processed rapidly, as clients have liquidity constraints. It is common that MFIs offer both products, credit and insurance, to make it possible for clients to pay the premiums with credit and thus increase up-take of insurances. (Beck 2015, 15–16; Platteau et al. 2017, 139–151.)

2.3.4 Digital payment services

In emerging economies, it is common that bills and remittances are paid in cash. It requires walking to the office to pay or receive money, which involves high risks of for example theft. As a solution, various digital payment services have been invented. In many developing countries, mobile phone penetration is higher than bank account penetration. In other words, people are more likely to have a mobile phone than a bank account. Consequently, mobile banking platforms have achieved a strong market position in many developing countries. Kenya is a prime exemplar of success of mobile banks, as

73 % of adults have a mobile account. (Beck 2015, 4–17; Kajiita & Kang'ethe 2020, 103; Milana & Ashta 2020, 259.)

The platforms are mostly used for payments, but initiatives have been launched to expand to other financial services as well, such as credit repayments and insurance premiums. Thus, providing digital payment services can complement MFI's other services by making them accessible to more people. It can be easier to reach rural clients by digital platforms than by physical locations. With digital platforms, people are not tied to geographical location and they do not need to rely on cash, which allows safer and faster transactions. (Beck 2015, 4–33; Milana & Ashta 2020, 259.)

2.3.5 Non-financial services

The efficacy of microfinance as a poverty alleviation tool has been questioned by some academics (Biosca et al. 2014, 507; Lensink et al. 2018, 2386). Biosca et al. (2014, 507) propose that combining financial services with non-financial ones could bring increased benefits to society. Also Milana and Ashta (2020, 257) argue that microfinance can work well as a tool to reduce poverty if it is accompanied with services that enhance human and social capital. Non-financial services, also known as microfinance "plus" services, are supplementary services provided by MFIs. The aim is to induce social inclusion in a broader manner, by not relying only on financial means. Lensink et al. (2018, 2387) point out that because poverty is multidimensional, financial tools are not enough to overcome poverty; other forms of support are needed as well.

For MFIs, non-financial services can present an opportunity to competitive advantage if the services are rare, valuable to the client, and difficult to replicate. As there is criticism revolving around MFIs' high profits, MFIs can promote non-financial services to highlight their commitment to social mission. For smaller players in the market, high-quality "plus" services can help them differentiate from the market leaders. (Biosca et al. 2014, 508–515; Lensink et al. 2018, 2388; Milana & Ashta 2020, 261.)

Non-financial services can be divided into two categories: business development services and social services. The target of business development services is to advance the competitiveness of microenterprises by enhancing their productivity, market access, product design or service delivery. Forms of services can include for example management and vocational skills training, legal advice, and technical assistance. (Biosca et al. 2014, 508–515; Lensink et al. 2018, 2388.) For example AlSol, a Mexican MFI, offers business courses free of charge after credit meetings. The courses teach participants

how to administer company and household finances and how to carry out financial planning. (Biosca et al. 2014, 510.)

Social services on the other hand aim at improving the welfare of their clients. They can include for example healthcare services and education. Healthcare services can range from maternal and child healthcare services to preventive healthcare education and screenings for diseases. To be entitled to the partially subsidized healthcare services, clients may have to be enrolled in the financial program over a certain period of time and may not be allowed to default their payments during that time. (Biosca et al. 2014, 510; Lensink et al. 2018, 2388.)

A common target of non-financial services is to improve clients' financial literacy. Although Platteau et al. (2017, 144–152) found that financial training may increase significantly the understanding of financial concepts, such as credit and insurance, they argue that the training does not necessarily correlate directly with increased interest in microfinance services. Similarly, Beck (2015, 14) claims that financial education has little effect on the probability to open a bank account. As the level of general education is normally low in developing countries, it could be useful to allocate resources to teaching general skills, such as math, as well to improve the results of education (Beck 2015, 17).

To conclude the discussion on MFI's services aiming at social impact, microcredit seems to have only limited influence on poverty reduction, and microinsurance struggles with low take-up. Microsavings have shown more potential to create financial inclusion. At the moment, digital payment services have had the most immediate benefits on a society, facilitating the everyday-life of clients with easier payments. (Beck 2015, 41.) In order to achieve comprehensive social impact, MFIs should consider including also non-financial services in their portfolio. In the next chapter, the focus will move from hybrid MFI's dual mission to its performance.

3 PERFORMANCE EVALUATION OF MICROFINANCE INSTITUTIONS

3.1 Dual performance of hybrid organizations

Along with dual mission, hybrid organizations also have dual performance. It is not enough to focus on the economic value that has been created. Instead, when evaluating the performance of MFIs, both financial and social dimensions should be taken into consideration. (Staessens et al. 2019, 327.) The dual nature of MFIs is illustrated in figure 3.

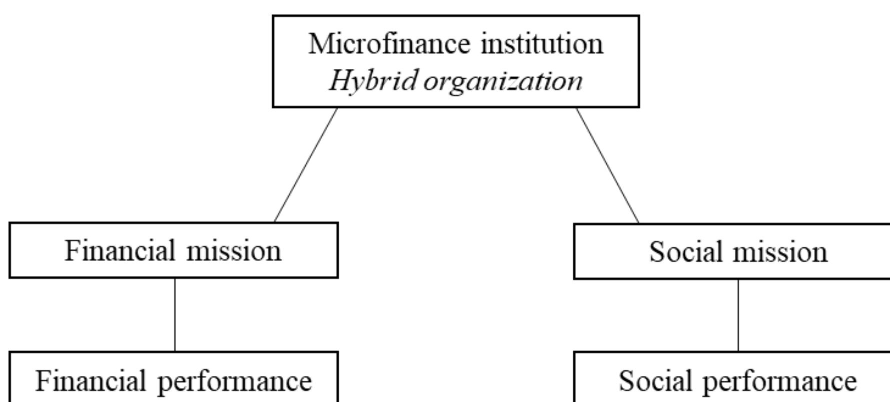

Figure 3 Dual nature of microfinance institutions

Figure 3 presents the relation between MFI's dual mission and dual performance. The successful pursuit of financial mission is measured by financial performance. Financial performance of MFI can be evaluated based on self-sufficiency and economic sustainability. Social performance, on the other hand, measures how successfully MFI achieves its social mission of reaching out to the poor and lifting them out of poverty. (Lensink et al. 2018, 2391; Aslam et al. 2019, 267.) Social performance management is the organizational process of how MFI translates its social mission into practice, i.e. what actions the MFI takes to achieve its social mission. It includes for example defining and monitoring social goals, ensuring that the board, managers and employees are committed to the social mission, and conducting social audits and ratings to evaluate the performance. (Ledgerwood et al. 2013, 340–341.)

While assessing financial performance is rather simple because financial accounting standards can be applied, the evaluation of social performance is more complex. Social outcomes of microfinance are difficult to pinpoint, and they are even harder to measure.

There are numerous cause-and-effect relationships that should be isolated, and converting tangible and intangible outcomes into units of measurement is challenging. However, stakeholders are still interested in assessing the social value creation of MFIs, which is why tools for social performance evaluation are needed. (Brau & Woller 2004, 14; Weller & Ran 2021, 7.)

Staessens et al. (2019) studied the performance of hybrid organizations and their balance between social and financial orientations. They found that top-performing organizations have a stronger emphasis on commercial activities, which would indicate mission drift. However, these organizations were also performing better when it comes to social goals. This reveals that ensuring financial sustainability allows successful operations in the long-term. By contrast, the lowest performers systematically emphasize their social mission and ignore economic aspects of their operations, which poses a threat to their long-term sustainability. In other words, superior MFIs achieve economic sustainability first, and then focus on serving the social mission. When financial performance is strong, it frees resources to be allocated to improve social performance. (Satessens et al. 2019, 325–336.)

3.2 Dimensions of microfinance institution's performance

Zeller and Meyer (2002) introduced *the critical triangle of microfinance* which consists of three dimensions used to evaluate the performance of MFIs: financial sustainability, welfare impact (social impact), and outreach to the poor. Although the framework has been published in the beginning of the 21st century, it is still relevant, as recent articles still use these three components as criteria for assessing the performance of MFIs (see e.g. Ashta 2019, 302; Aslam et al. 2019, 266; Laher & Proffitt 2020, 118–123). The framework is illustrated in figure 4.

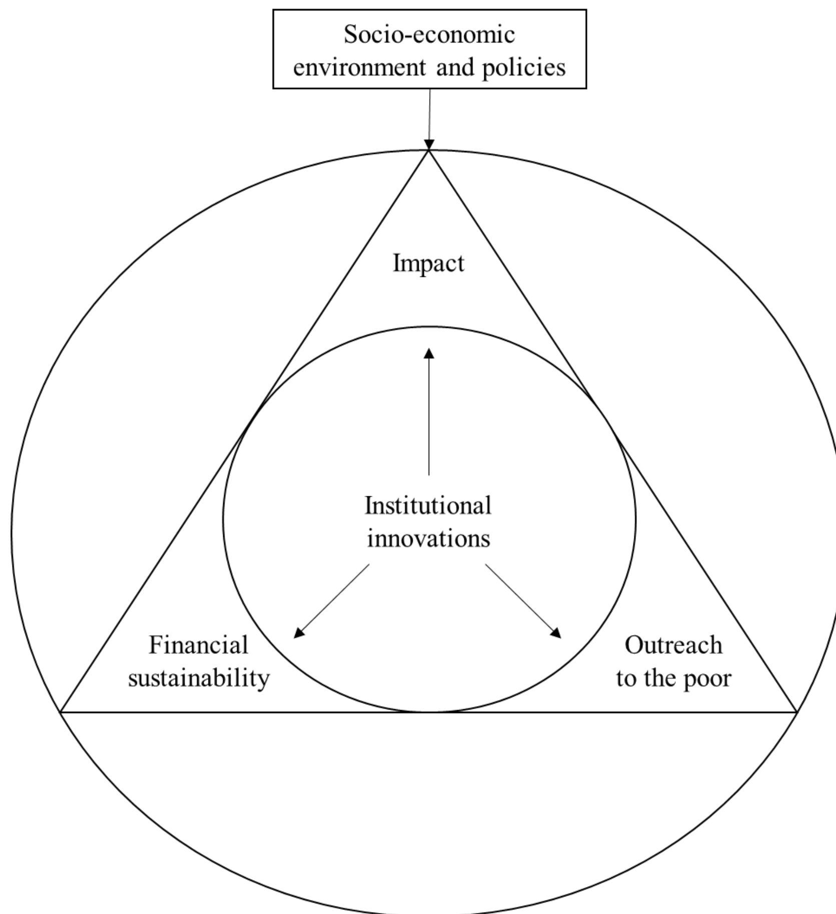

Figure 4 Triangle of microfinance (Zeller & Meyer 2002, 6)

The corners of the triangle in figure 4 represent the three dimensions for assessing MFI's performance. Financial sustainability means that the organization is able to cover its costs. Impact on welfare refers to the progress made on clients' quality of life, and can be realized for example in the form of economic growth, alleviation of poverty, or food security. Out of the three elements of microfinance triangle, welfare impact is the most problematic to measure due to its complex nature; there is a long time lapse between social intervention and social impact. Outreach refers to how well MFI reaches the poor client base. (Zeller & Meyer 2002, 4–5; Agrawal & Hockerts 2021, 173.)

Schreiner (2002) introduced a framework consisting of six dimensions of outreach: worth, cost, breadth, depth, length and scope of outreach. Out of these six dimensions, breadth and depth are commonly used to evaluate MFI's outreach. Breadth of outreach indicates how many people are reached, often represented by the number of active clients. On the other hand, depth of outreach refers to how well MFI reaches truly poor clients, which is represented for example by the percentage of rural or female clients and the average loan size. The smaller the loan size, the poorer the clients are and the better the

outreach. (Zeller & Meyer 2002, 4–5; Aslam et al. 2019, 265–266; Laher & Proffitt 2020, 118–119.)

The inner circle in figure 4 represents institutional innovations that further the three objectives. For financial sustainability, they can be for example innovations that employ cost-reducing information systems, such as algorithm-based credit scoring. For social impact, services can be designed to better match the audience's needs or to provide better education. For outreach to the poor, financial services that attract a particular group of prospective clients can be introduced. For example, mobile payments have revolutionized the payment services for the poor. In general, innovations enable offering financial services to the poorest who are normally neglected by the financial sector. (Zeller & Meyer 2002, 7–9; Beck 2015, 36; Milana & Ashta 2020, 257–258.) The outer circle of the framework illustrates the socio-economic environment, and sectoral and macro-economic policies that influence the performance of MFIs, either directly or indirectly. The inner circle's institutional innovations and the outer circle's improvements in policies can contribute to the overall performance of MFIs. (Zeller & Meyer 2002, 7–9.)

Although MFIs aim to achieve all three objectives of the microfinance triangle, it is likely that they give emphasis to one objective over the others. Some may have significant social impact but only on a small target group, limiting the outreach. Others may be financially stable but their impact on society is modest. There can also be synergies among the three goals. Financially sustainable MFIs are perceived as reputable, which can attract more clients and consequently improve MFI's outreach. (Zeller & Meyer 2002, 5–7.) In this thesis, the analysis of financial sustainability will be excluded, as it is an element of financial performance, and the focus will be limited to the two dimensions of social performance, outreach and social impact. Next, factors that have an influence on social performance are reviewed.

3.3 Influence of profit orientation

MFIs can be categorized based on the profit orientation, i.e. legal status, into non-profit and for-profit MFIs. Initially, MFIs were mostly NGOs with non-profit orientation, relying on subsidies and donations. Another form of non-profit MFIs are cooperatives which are member-owned and use members' deposits to grant loans. This makes them more sustainable in comparison to commercial banks and NGOs. (Milana & Ashta 2012, 310–318; Tchuigoua 2015, 318.) When the industry started to commercialize in the 1990's, many non-profit MFIs were transformed into for-profit commercial banks.

Today, there are both types of organizations in the microfinance industry. (Milana & Ashta 2012, 304–308; Beck 2015, 18; Lassoued 2021, 4.) They have differences in values and goals, and profit orientation has an influence on MFIs' funding, client base, and performance. (Milana & Ashta 2012, 308–309; Lassoued 2021, 13.)

Rather than being direct competitors, non-profit and for-profit MFIs are complementary service providers, as they target different client bases. The industry may even benefit from having both types of organizations, because they can specialize in providing finance to niche borrowers. Non-profit MFIs tend to be more focused on smaller-sized loans and support female clients. On the contrary, for-profits grant on average larger loans and are more likely to reach wealthier micro-entrepreneurs. For-profits are also more likely to focus on individual clients instead of group lending. Individuals who are eligible to get credit alone are usually wealthier than those who have to rely on joint liability to get credit. Hence, credit risk is lower with wealthier individuals. Consequently, for-profit MFIs are more prone to commercialization and the consequent abandonment of social mission (Ault 2016, 951–952). On the other hand, when considering mission drift, decreasing public funding and more fierce competition can cause constraints on non-profits to improve their efficiency and optimize processes. This can pose increased economic pressure to focus on financial performance. (Jiao 2011, 139.)

Non-profits usually have higher unit costs and lower profitability, but their social impact on poverty alleviation and women empowerment can be stronger. For-profits tend to be more likely to prioritize financial sustainability over social impact, even if it means compromising on outreach to poor clients who are costly to attain. That is why commercial MFIs have received critique for their high profits and preferring wealthier clients over the poor. (Milana & Ashta 2012, 309–319; Beck 2015, 18.) In addition to profit orientation, also MFI's stakeholders can influence its social performance. This will be discussed next.

3.4 Influence of key stakeholders

Freeman (1984) introduced the stakeholder theory which argues that organizations operate in a dynamic, turbulent environment where the interests of internal and external stakeholders must be taken into consideration. Internal stakeholders include employees, managers and board members. External stakeholders include for example clients, government and media, but this thesis focuses only on financiers as external stakeholders.

(Freeman 1984, 3–27; Bezboruah & Pillai 2015, 916.) Stakeholders have different motives and priorities regarding MFI's dual mission, which may influence MFI's decision-making processes. This can consequently affect the balance between social and financial performance. (Bezboruah & Pillai 2015, 916; Laher & Proffitt 2020, 113–114).

Another aspect to be considered when discussing stakeholders are agency problems. According to Jensen and Meckling (1976, 308), agency theory refers to the relationship between the principal (for example an investor) and the agent (manager), where the agent performs activities on principal's behalf and the principal delegates some of their decision-making power to the agent. An agency problem arises when the agent does not act in the best interest of the principal. This can cause conflicts between stakeholders. If one stakeholder's interests are more towards social mission and the other's are more towards financial mission, the way MFI resolves the conflict can influence its dual performance. (Jensen & Meckling 1976, 308; Laher & Proffitt 2020, 113–115.)

Investors and donors as financiers, and credit officers, managers and board members as internal stakeholders are considered as key stakeholders because they influence directly MFI's strategic and operational decision-making. Hence, they are in key position when it comes to implementing MFI's social mission. Next, these stakeholder groups are discussed in more detail.

3.4.1 Financiers

Even though the industry has become more profit-driven, a large part of MFIs still rely on external financing. Financiers of MFIs can be charitable donors, public operators, or commercial investors who expect revenues from the investment. (Milana & Ashta 2012, 310; Zhao & Lounsbury 2016, 647–648; Milana & Ashta 2020, 261). According to a study by Zhao and Lounsbury (2016, 647–648), over 70 % of MFIs' capital comes from commercial investors, which comprises financial institutions, private companies, and microfinance investment funds. Public funders, i.e. governments and development agencies, account for 25 % of capital. Charitable donors compose only a little over 3 % of all capital. Donors can be foundations, NGOs or individuals.

Typically MFIs use different forms of financing in different stages of their life cycle. In the beginning, MFIs often rely on public loans and subsidies to establish operations and infrastructure, and to build capacity. As MFIs mature, they can expand their scope to commercial investors to enable portfolio growth, increased outreach and new market entries. (Zhao & Lounsbury 2016, 647–648.) For-profit commercial banks rely less on

subsidies than other forms of MFIs. Not only are they able to finance themselves, but they also have better access to other forms of funding apart from donations, such as capital equities, bank loans, and international funding. (Milana & Ashta 2012, 308; Beck 2015, 18; Zhao & Lounsbury 2016; Lassoued 2021, 4).

Different types of financiers have different motives. Commercial investors aim at financial returns via MFI's profitable operations, although an increasing amount of commercial investors are also socially motivated. Conversely, charitable donors offer grants to MFIs mainly as philanthropic support. (Zhao & Lounsbury 2016, 645–648.) They tend to be more interested in social value creation than profit, because donations are usually not tied to financial outcomes (Laher & Proffitt 2020, 113–114). This enables MFIs to offer affordable services to low-income clients (Milana & Ashta 2012, 310; Milana & Ashta 2020, 261).

Public funders grant subsidies to support infrastructure building and other developmental objectives (Zhao & Lounsbury 2016, 645–648). Subsidies can improve the efficiency and financial inclusion of MFIs to a certain threshold. With more financial resources, MFIs can reach more clients and offer a wider variety of services across a larger geographical area. (Milana & Ashta 2012, 310; Lassoued 2021, 1.) However, excessive subsidies can decrease the incentive to have efficient and productive operations (Hermes & Hudon 2018, 1495).

Financiers have an influence on how MFIs balance between social and financial objectives. Even if financiers do not directly dictate MFI's decision-making, MFIs must take into consideration their expectations if they want to secure continued funding. MFIs may struggle to manage the competing objectives of their financiers. Often this may result in prioritizing financial objectives over social mission to please the commercial investors, and consequently decreased social performance and financial inclusion. (Pache & Santos 2010, 458; Zhao & Lounsbury 2016, 645–648; Milana & Ashta 2020, 261.)

3.4.2 Internal stakeholders

The first group of internal stakeholders being considered in this thesis are credit officers. They are employees who handle loan applications and monitor MFI's clients. Before accepting an applicant as a client, credit officer visits prospective client's community to scout whether they are eligible for a loan, and evaluates their repayment capacity. (Battilana & Dorado 2010, 1424; Ledgerwood & Earne 2013, 217.) When the applicant is accepted as a client, the credit officer maintains a close relationship with the client via

regular monitoring visits. According to a study by Agbeko et al. (2017, 25), credit officers monitor their debtors on average four times a year. Monitoring includes not only observing client's business performance, but also providing business advice and networks (Agbeko et al. 2017, 24). MFIs invest resources to train credit officers and to make sure that they adopt the social-driven mission of the organization (Battilana & Dorado 2010, 1430). As credit officers possess the daily decision-making power of who are eligible for financial services, they ultimately dictate how well the social mission is implemented (Beisland et al. 2019, 119–131).

The second group of internal stakeholders includes managers. Although managers often strongly believe in the social mission of MFI, they are prone to giving emphasis to financial viability over social mission. Particularly if the organization is facing financial trouble, managers may want to secure the continuation of the business and their career. Opting for wealthier clients means larger loans, which brings economies of scale and thus lower operating costs and higher profit margins for the MFI. In some cases, managers may be forced to compromise short-term fulfilment of MFI's social mission if it means securing MFI's long-term viability and thus future social benefits. (Laher & Proffitt 2020, 113–114.)

Managers act as agents for financiers and board members, and agency problems may arise when financiers' and board members' expectations are in conflict with manager's own motives. For example, when it comes to taking risks and serving the poorest, financiers may pressure managers to take action. However, managers may be unwilling to take risks if it poses a threat to their career. So, managers may place their personal goals above MFI's goals and choose less risky alternatives. (Kickul et al. 2012, 454–460; Laher & Proffitt 2020, 113–124.)

Finally, the third group of internal stakeholders comprises board members. The task of board of directors is to monitor MFI's operations and make sure that the organization is managed according to stakeholders' expectations. Board members' main challenges include balancing between social and financial mission, and combining different stakeholders' interests when it comes to decision-making. (Hermes & Hudon 2018, 1496–1497.) The board does not take part in the daily management of MFI, but it influences policies that are implemented in order to achieve strategic goals. In that manner, board members influence MFI's dual performance. (McConaghy 2013, 352.)

The composition of the board influences MFI's social performance (Hermes & Hudon 2018, 1497; Milana & Ashta 2020, 261). Diverse boards with different

nationalities and women representation are found to contribute to better social performance. Diverse boards can utilize wider networks and knowledge base as a competitive advantage to solve problems. Diverse boards are also more likely independent from the management, which allows better monitoring and consequently better performance. (Hermes & Hudon 2018, 1497.) However, diverse boards often consist of internal and external stakeholders, who each bring their own interests to the board. This can pose a constraint on MFI's performance. (Rahman et al. 2015, 69.) Pache and Santos (2010, 471) point out that MFIs should be careful with bringing external stakeholders to the board that challenge the dual objectives, as they may pose a threat to the organization in the long-term.

3.5 Synthesis on theoretical framework

Chapters 2 and 3 introduced the key theoretical aspects of MFIs. Chapter 2 discussed the dual nature of MFIs and how MFIs can create social impact on a community by offering financial and non-financial services to the poorest of the society. Chapter 3 focused on the dimensions of MFI's performance and the key factors that influence MFI's performance. The main elements of the theoretical background are included in figure 5.

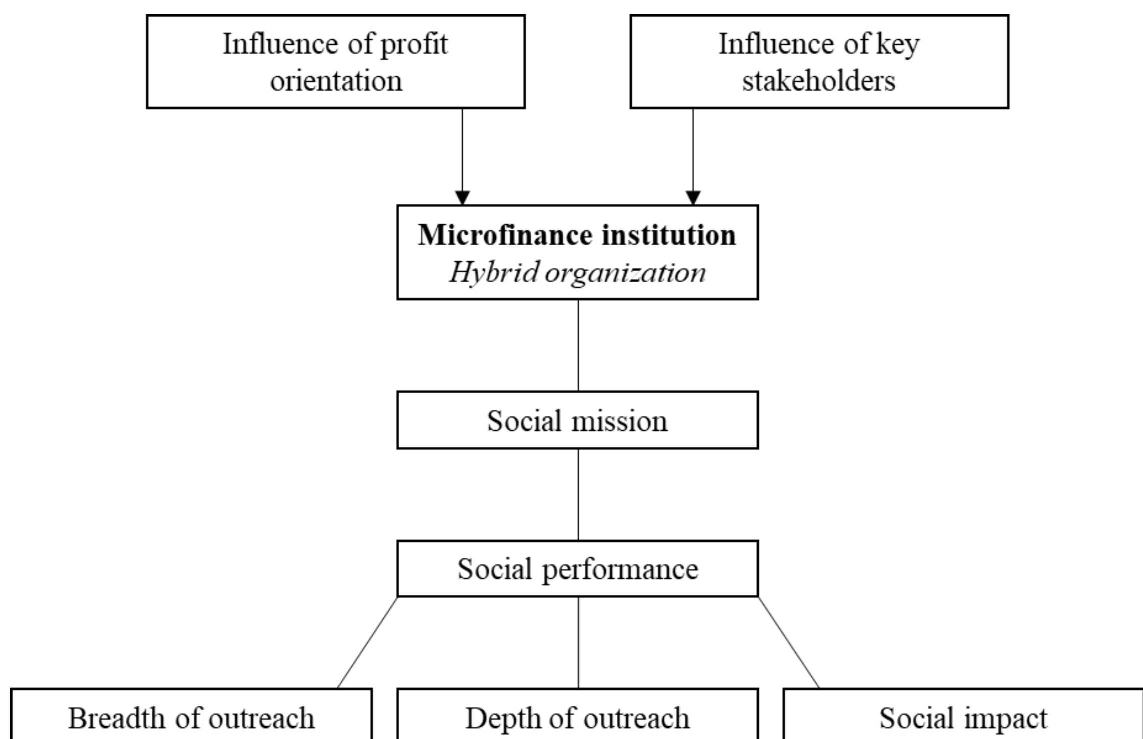

Figure 5 Theoretical framework on MFI's social performance

Figure 5 demonstrates the elements of MFI's social performance. Two factors were identified that influence MFI's social performance: the profit orientation of MFI and key stakeholders. These factors play a significant role in pursuing MFI's social mission. MFIs can be either non-profit or for-profit oriented. For-profit organizations can be more prone to commercial pressures, which can force them to neglect the social mission. Non-profit organizations, on the other hand, are often funded by donations and subsidies, so they do not face similar commercial pressures. Therefore, they can pay more attention to pursuing the social mission. As long as they do not ignore the importance of economic viability, non-profits can have high social performance. If MFI has weak financial standing, it can hinder not only the financial performance, but also the social performance.

For MFI's key stakeholders, they have different motives which direct the decision-making processes. If the motives differ greatly from each other, MFI is faced with the challenge of balancing between conflicting interests. For example, commercial investors may be mainly interested in profitable returns on investment, while donors want to see social impact generated by their funds. Managers and credit officers have often internalized the social mission, but the desire to secure their employment can encourage them to prioritize financial mission. The interests of the board depend on the composition of the board. The role of profit orientation and key stakeholders in relation to social performance will be further explored in the systematic review part of the thesis.

Microfinance institution is at the center of figure 5. The foundation of this study is the assumption that MFIs are hybrid organizations that are motivated by a social cause but at the same time, they must be financially viable and cover their operating costs. The success of MFI's pursuit for social mission is evaluated by social performance. While there are numerous methods for measuring financial performance, social performance remains a more ambiguous concept. Hence, this study focuses on furthering the understanding of social performance. The critical triangle of microfinance introduced by Zeller and Meyer (2002) offers two dimensions for social performance evaluation: outreach to the poor and social impact. Outreach is further divided into two commonly used dimensions proposed by Schreiner (2002), breadth and depth of outreach. In the systematic review part of the thesis, it will be attempted to identify units of measure for breadth of outreach, depth of outreach, and social impact. Next, the methodological choices of the study are discussed.

4 RESEARCH DESIGN

4.1 Research approach and method

This study was conducted using qualitative content analysis. Qualitative research approach is a suitable approach for studying issues that require interpretation and understanding of a social construct (Eriksson & Kovalainen 2008, 4–5). Qualitative research method is applied in this study because the topic of social performance of MFIs is still modestly explored and calls for better, holistic understanding. Qualitative research provides in-depth information and takes into account the context of a complex phenomenon (Klenke 2016, 33–36). In qualitative research, context is what makes the data meaningful (Schreier 2012, 22). The context of this study is exploring poverty in emerging economies and MFIs' role in alleviating poverty. The context guides the perspective of data analysis. Qualitative research often intends to produce practically relevant knowledge (Flick 2007, 6). This study not only aims to further the understanding on the subject, but also to provide practical information for management and other stakeholders.

Qualitative content analysis is a method for systematically analyzing and describing data by coding the material into categories. The focus of qualitative content analysis is not limited to frequencies of certain phrases or words. Instead, patterns, trends, and themes are sought. It is a suitable research method when the data requires some level of interpretation. Qualitative content analysis does not pursue a comprehensive understanding of the data as a whole. Instead, it gives a holistic description of the data in respect of a selected aspect that is determined in the research question. In this sense, qualitative content analysis reduces data in the process, as irrelevant parts are left outside of consideration. However, at the same time new information is produced, as interpretations and conclusions are made across cases. (Schreier 2012, 2–14; Klenke 2016, 33–34.) In this study, the material is analyzed from the viewpoint of MFI's social performance, more specifically its evaluation methods and the influence of profit orientation and key stakeholders.

After the research objective has been defined, the process of qualitative content analysis follows systematic steps (Schreier 2012, 5–6):

1. Collecting data

2. Building a coding frame based on research questions and theoretical framework
3. Dividing data into coding units
4. Running a trial for the coding frame
5. Altering the coding frame if necessary
6. Categorizing data using the coding frame and analyzing the information
7. Making interpretations of the findings.

The above steps were followed when conducting this study. The first step is described in chapter 4.2, steps 2–6 are explained in chapter 4.3, and step 7 is discussed in chapter 5.

4.2 Data collection

The data used in this study is secondary data, meaning data that has been initially collected for a different objective and is being reused for another purpose. Secondary data is easier to access, but it may be difficult to interpret the data without information about the data's context. Moreover, secondary data may not answer to the research question exactly, so the researcher needs to assess which sources are acceptable. (Hox & Boeije 2005, 593–598.) In this study, the collected data consists of textual documents, more specifically academic articles.

The data was collected from two databases that are focused on academic business journals: EBSCO Business Source Complete and ProQuest ABI/INFORM Collection. Using academic databases allows systematic collection of trustworthy, academic sources. These two databases were selected because they were accessible for the researcher and they are large databases that are able to provide large amounts of data on the topic. To compare databases, also Emerald was tested, but it provided significantly fewer results and its search results were also included in EBSCO's and ProQuest's results. As Emerald did not generate any new, relevant data, use of databases was limited to EBSCO Business Source Complete and ProQuest ABI/INFORM Collection.

The keywords were selected by reviewing which are the key concepts of each sub-research question. 'Microfinance' and 'social performance' are critical for the main research question and all sub-questions. Hence, they were required to appear in all of the articles that are used as data. Sometimes microfinance is referred to as microfinancing, so 'microfina*' was deployed as the form of keyword. In addition, concepts related to

each sub-question were tested and one key concept was selected for each sub-question. They were tested with the combination of ‘microfina*’ and ‘social performance’ to see how many search results would be generated. For the first sub-question, ‘stakeholder’ was selected over ‘financier OR manager OR employee OR board’ because it provided more accurate search results and it would leave an opportunity to identify other important stakeholders from the data. For the second sub-question, ‘earning-logic’ was tested first, but it did not generate any search results. After that, ‘non-profit OR for-profit’ and ‘profit orientation’ were tested. ‘Profit orientation’ generated more accurate articles, so this was selected as the keyword. For the third sub-question, ‘measure*’ was selected as the keyword so that it would include ‘measure’ and ‘measurement’. It generated better search results than ‘indicator’.

After the keywords were finalized, the database searches were conducted on 6th October 2021 with keyword combination ("profit orientation" OR stakeholder OR measure*) AND microfina* AND “social performance”. With the final combination of keywords, generated data would answer each of the sub-research questions and the total amount of articles would be controllable. Microfina* was filtered to appear in subject terms in EBSCO and anywhere except full text in ProQuest to exclude articles that only briefly mention microfinance and thus ensure that the generated articles focus on microfinance industry. Other keywords could appear anywhere in the text. The search results were limited to only peer-reviewed academic journals to make sure that the data is reliable. Only articles that were available in full text were taken into consideration. The results were further narrowed down by limiting the time frame to articles published between 2012 and 2021. This allows focusing only on recent studies and articles. Only articles published in English were included.

With these parameters, EBSCO generated 172 search results and ProQuest 170, which totaled 342 articles. These articles were cross-referenced and duplicates were removed, after which 302 articles remained for more detailed evaluation. First, the articles were reviewed based on their titles and abstracts. 167 articles were discarded because they did not provide relevant information to answer the research questions. Instead, they addressed for example solely financial performance of MFIs, influence of religion on social performance, or environmental impacts of MFIs. Additionally, articles that focused only on European countries instead of developing countries were rejected. Also three articles written in French language had passed through the language filter, so they were

discarded at this point due to language constraints. After the initial evaluation, 132 articles remained for more detailed review. These articles were read through carefully.

When reading and examining the articles, 60 articles were discarded because they failed to provide relevant information to answer the research questions. The discarded articles focused for example on a microfinance crisis in a certain country, gender diversity in MFI without connection to social performance, or stakeholders that are not taken into consideration in this study, such as regulators or investment managers of microfinance investment vehicles. Finally, 72 articles out of the original 302 were coded and analyzed (see Appendix 1). Each of them provided information for at least one of the sub-research questions. The process of qualitative content analysis is explained in detail in the next chapter.

4.3 Data analysis

The collected data was analyzed using qualitative content analysis. The goal of qualitative content analysis is to construct categories and identify patterns by reorganizing the data (Saldaña 2011, 90–91). According to Klenke (2016, 98), coding is the heart and soul of qualitative content analysis. Coding is the process of categorizing data under themes so that it can be analyzed (Klenke 2016, 98). Coding is an interpretive process, as different researchers may select different categories and codes from the same set of data. That is because people are affected by their own motives and earlier knowledge of the topic. (Saldaña 2011, 97; Schreier 2012, 2.) Following Schreier's (2012, 5–6) steps of qualitative data analysis, data collection is followed by construction of coding frame.

The construction starts with identifying main categories and their sub-categories that will be used to build the coding frame (Schreier 2012, 59–60). For this purpose, the operationalization table (see Appendix 2) was designed. To evaluate social performance of MFIs, three main categories arose from the research questions and theoretical framework: influence of profit orientation, influence of key stakeholders, and social performance evaluation tools. These main categories were further divided into sub-categories. The sub-categories determine which aspects of the main categories are relevant to answer with the research questions. (Schreier 2012, 60–62.) After the main categories and sub-categories were identified, a coding frame was built. It operates as a filter through which the data is processed and analyzed (Schreier 2012, 60–63). The coding frame is presented in figure 6.

Influence of profit orientation

- NO
- YES
  - For-profit MFI
    - Financial sustainability leads to stronger social mission
    - Mission drift
  - Non-profit MFI
    - Weak financial standing leads to weaker social mission
    - Stronger social mission
  - Other

Influence of stakeholders

- NO
- YES
  - Financiers
    - Donors
    - Investors
  - Internal stakeholders
    - Credit officers
    - Managers
    - Board members

Tool for social performance evaluation

- NO
- YES
  - Breadth of outreach
  - Depth of outreach
  - Social impact
  - Other

Figure 6 Coding frame

In figure 6, the three main categories formulate coding frame's three dimensions. Each dimension has either two or three levels, which represent the sub-categories. The first level of each dimension is NO/YES question, meaning that the first question that is posed is whether or not the article addresses this sub-research question. This allows using articles that do not address simultaneously all three dimensions of the coding frame as data, thus expanding the amount of data that can be utilized in this study. The next levels

of sub-categories can be either concept-driven or data-driven. Concept-driven sub-categories are selected from the theoretical framework or prior research, while data-driven sub-categories emerge from the data. It is not uncommon to combine concept-driven and data-driven categories in a coding frame. (Schreier 2012, 84–89.)

For the first dimension, dividing the discussion between for-profit and non-profit MFIs was concept-driven. The third level of different influences of profit orientation emerged from data. Sub-category *Other* includes influences that did not fit under any other sub-category but were interesting and relevant enough to be included in the analysis. For the second dimension, key stakeholders are concept-driven from the theoretical framework. For the third dimension, the three sub-categories of social performance evaluation are concept-driven, adopted from the triangle of microfinance. Outreach was divided into breadth and depth of outreach, as they are the two most commonly used dimensions of outreach. For social impact, the selected key indicators followed the categories that were discussed in chapter 2.2. In addition to simple indicators, the data provided also more complex indices which were coded into suitable sub-categories together with the indicators. Furthermore, the data presented new methods for social performance evaluation that were not encountered when conducting the literature review. They were coded into *Other* sub-category.

There are three criteria that can be used to evaluate the quality of a coding frame. The categories of a coding frame should be unidimensional, mutually exclusive and exhaustive. Unidimensionality means that the main categories should capture only one aspect of the data. (Schreier 2012, 71–75.) In this coding frame, this is ensured by each main category focusing on a sub-research question, and each sub-category reflecting the main category. The sub-categories are either types of profit orientations, stakeholders or social performance dimensions. Sub-categories within a main category should be mutually exclusive, which means that a unit of coding should be assigned to one sub-category only (Schreier 2012, 75–76). This is done by making sure that the sub-categories are different enough from each other and for example not synonyms for each other. A unit of coding is defined as a part of data that brings valuable information to the category, i.e. part that one wants to include in the data analysis (Schreier 2012, 131). Sub-categories should also be exhaustive, meaning that each unit of coding should be able to be assigned to at least one sub-category (Schreier 2012, 76–77). This requirements can be satisfied by creating a residual sub-category, where coded units that do not fit in any other sub-category can be placed. This method was used for two of the main categories. For the

second main category, this was not necessary because the framework for key stakeholders is inclusive and only those fixed stakeholders are taken into account in the analysis.

After the coding frame was altered to its final form and the data was divided into units of coding, the data was categorized by using the coding frame. NVivo software was used as a tool to help coding, organizing and analyzing the data. The data coded into the first dimension of the coding frame was categorized and analyzed based on what factors cause the negative or positive influences of profit orientation. The second dimension was analyzed with the focus on characteristics of key stakeholders that are reflected to their influence on MFI's social performance. Also linkages between the first and second dimension were noted during the analysis. To answer the third sub-research question, the selection of *key* indicators from the coded data required more researcher's own interpretations. The goal was to select a combination of widely accepted indicators and indices that would give a comprehensive picture of each social performance dimension. Trustworthiness of the study will be evaluated next.

4.4 Evaluation of the study

When conducting research, it is important to evaluate the trustworthiness of the study throughout the process. If the evaluation is only done at the end of the project, it cannot direct the process towards high-quality results. Lincoln and Guba (1985) have developed a framework for establishing trustworthiness which consists of four criteria: credibility, transferability, dependability and confirmability. These criteria are used to assess the trustworthiness of this study.

The first criterion, credibility, is associated with how familiar the researcher is with the research topic, whether the research is conducted using good practice, and whether the findings are logical and supported with adequate data. Another researcher should be able to agree with the conclusions if they are provided with the same materials. (Lincoln & Guba 1985, 301–302; Eriksson & Kovalainen 2008, 294; Bryman & Bell 2015, 401.) Lincoln and Guba (1985, 301–307) argue that credibility can be established via prolonged engagement, persistent observation and triangulation. Prolonged engagement and persistent observation was achieved by meticulously familiarizing oneself with peer-reviewed literature on microfinance industry published between 2012 and 2021 in academic journals. Triangulation could have been improved by expanding data sources to for example institutional documents or interviews with representatives of MFIs. Due to limited resources, the decision to focus only on academic articles was made.

Transferability means that the research findings could be applied to another context or to the same context at another time (Lincoln & Guba 1985, 296–298; Bryman & Bell 2015, 402). This thesis focuses on the context of microfinance sector in developing countries and MFIs as hybrid organizations. The findings could be transferred to other types of hybrid organizations, for example when it comes to the influence of profit orientation and key stakeholders. However, some aspects that are tied to financial sector may not be applicable to other industries. According to Eriksson and Kovalainen (2008, 294), transferability can be proved by showing some similarities between the conducted research and previous studies. This is done in this thesis by reflecting the findings on earlier research discussed in literature review.

Dependability indicates the consistency of the findings, meaning whether the same results could be yielded if the research was repeated (Lincoln & Guba 1985, 298–299). As stated by Eriksson and Kovalainen (2008, 294), dependability can be ensured by documenting the research process and making it traceable. A trustworthy research is open about the decision-making process when conducting the study. In this study, the data collection process and construction of coding frame were described in detail. However qualitative content analysis emphasizes interpretation, which is subjective to the researcher. Hence, different researchers may draw different conclusions from the same set of data.

Finally, confirmability refers to the study being as unbiased as possible. Findings should not be imaginary or based on assumptions. Data and its interpretations should be linked so that reader can understand the connections. Qualitative research is based on researcher's interpretations of the subject, so there is a possibility that the study could be affected by biases. (Lincoln & Guba 1985, 299–301; Eriksson & Kovalainen 2008, 294; Bryman & Bell 2015, 403.) The coding-frame that guided data analysis was largely concept-driven, which improves confirmability as the main themes were dictated by theoretical framework instead of researcher's own interests. Data-driven parts of the data analysis kept occurring frequently in the material, so it is justifiable to say that they were relevant information revealed by the data instead of researcher making assumptions from the data. Overall, this study fulfills the criteria by Lincoln and Guba (1985) fairly well. Credibility, transferability, dependability and confirmability are addressed satisfactorily, and therefore the trustworthiness of the findings is acceptable.

In addition to trustworthiness, ethical aspects must be taken into consideration as well when conducting a study. The researcher has familiarized themselves with data protection

policy and ethical requirements, and the study has been conducted with good scientific practices. As this study is based on secondary data that consists of public material, no personal information was acquired. Next, the findings of the qualitative content analysis will be discussed.

5 SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS

5.1 Profit orientation guiding the dual mission

The content analysis highlighted MFI's institutional form, i.e. profit orientation, as an important factor when it comes to social performance. There are inherent differences between for-profit and non-profit MFIs, which influences social performance. When the articles were analyzed, four clear categories regarding the influence of profit orientation emerged from the data. The profit orientation of MFI can have either negative or positive influence on MFI's social performance. Based on these findings, the matrix in table 2 was designed.

Table 2 Profit orientation's influence on dual mission

	Negative influence	Positive influence
For-profit	Mission drift	Financial sustainability leads to stronger social mission
Non-profit	Mission lock-in	Internally a stronger social mission

As discussed in chapter 2.1, if a for-profit MFI focuses too much on its financial mission at the expense of the social mission, it can face mission drift. A noteworthy finding of the content analysis is that having for-profit orientation can also enhance MFI's social performance, if the strong financial standing is leveraged to reach more clients below the poverty line. The content analysis supports the argument that non-profit MFI may face mission lock-in if its financial standing is so weak that it restrains from serving the social mission. The social mission is often deeply internalized in non-profit MFIs. When a socially-driven non-profit MFI is managed without forgetting financial viability, it can reach high levels of social performance. A deeper discussion on for-profit and non-profit MFIs will follow next.

5.1.1 For-profit microfinance institutions

MFIs with for-profit orientation are more susceptible to mission drift, and a large part of for-profit MFIs face mission drift. Several reasons behind mission drift emerged from the data. One perspective draws attention to efforts to improve profitability as a cause for mission drift. High operating costs can drive MFIs to increase interest rates and loan sizes, thus facing the risk of mission drift. (Akanga 2016, 229; Arrassen 2017, 210.) Another perspective argues that institutional transformation causes mission drift. Transforming MFI from an NGO into a regulated bank and thus acquiring access to capital markets can expose the organization to commercial pressure from investors. MFIs that have transformed into for-profits tend to have higher loan sizes and fewer female and rural clients, indicating mission drift. (Halouani and Boujelbène 2015, 247; Javid and Abrar 2015, 373.)

The phenomenon behind the various reasons leading to mission drift is commercialization. Commercialization is likely to occur as the MFI matures and grows. Profit-seeking habits are slowly adopted and the MFI starts prioritizing wealthier clients. This could lead to the abandonment of the initial poorer client base. If MFI starts to increase interest rates in order to generate more profit, poorer clients can no longer afford microfinance services, which causes decline in outreach.

Several studies (see e.g. Casselman & Sama 2013, 455; Pedrini & Ferri 2016, 2590; Bensalem & Ellouze 2019, 426) argue that commercialized MFIs are not able to fulfill simultaneously their dual objectives: They will inevitably face trade-off between social and financial mission. Commercial pressures may subdue the social objective, or for-profit MFIs may not possess the expertise or resources to address social objectives. Specifically, if MFI has not established mechanisms for social performance management and evaluation, it can cause mission drift and trade-off. In addition to trade-off between financial sustainability and outreach, there can be trade-off between depth and breadth of outreach as well. If MFI aims at reaching the extreme poor clientele, it can limit the number of clients they can reach due to resource constraints.

Conversely, there were also articles that found no trade-off between financial mission and social mission (see e.g. Im and Sum 2015, 113; Javid and Abrar 2015, 373; Lam et al. 2020, 225). Financial mission and social mission are not necessarily mutually exclusive. More efficient MFIs are able to address the trade-off better. MFIs can reach their dual objectives, but it requires paying attention particularly to their return on assets.

However, more efficient MFIs are also more likely to overlook the poorest client segment and focus on the wealthier client base. Thus, there arises an internal conflict between efficiency and social mission. Efficient MFIs should pay particular attention not to overlook the poorest clients and abandon their social mission, as they are the ones who have the best potential for significant outreach. The internal conflict between financial and social logics can explain why there are so mixed results when it comes to the outreach and social impact of MFIs: Different MFIs prioritize different motives when they face the conflict.

Moreover, some articles suggest that financial sustainability can lead to better social performance. Several studies find that for-profit MFIs outperform non-profits in both, financial sustainability and social performance. (See e.g. Nurmakhanova et al. 2015, 242; Roy & Pati 2019, 118; Churchill 2020, 1346). It is argued that for-profit MFIs are more efficient in translating financial sustainability into social outreach than non-profits.

For-profit orientation does not necessarily indicate profit maximation. Poverty reduction involves long-term commitment to serving the poor, which requires financial sustainability. Financial sustainability and profit maximization are often mixed up. Socially-driven for-profit MFIs tend to strive for moderate surplus instead of maximizing profits. Moderate profits allow them to allocate excess resources to increasing their outreach instead of distributing the surplus to shareholders as dividends, thus improving the social performance. Financially sustainable MFIs are self-sufficient, i.e. they can cover their expenses by revenues. Particular attention is drawn to minimizing costs: Offering small loans with low interest rates causes high transaction costs to MFI. Only if the MFI has low operational costs, it is able to offer the affordable loans to its clients. (Mersland 2019, 1581.)

Having for-profit orientation can make MFIs more efficient in outreach to the poor. Self-reliant for-profit MFIs are able to serve a larger client base, thus improving the breadth of outreach. Financially viable MFIs are also able to take higher risks. This means that they can target more extreme poor clients who are associated with higher risks, which improves the depth of outreach as well. For-profit MFIs have also more financing alternatives, as they are able to access commercial funding, unlike non-profit NGOs. This makes it easier to expand their activities and reach even more clients.

5.1.2 Non-profit microfinance institutions

For non-profit MFIs, one set of articles argued that there is a risk that they overlook financial aspects, which can endanger their financial viability and cause mission lock-in (see e.g. Bakker et al. 2014, 641; Arrassen 2017, 209). Non-profit MFIs can be more fragile because they are not driven by financial motives. They also have a weaker organizational structure because they do not have owners with financial stakes. The lack of financial motives makes non-profit MFIs less financially efficient.

Non-profit MFIs tend to focus more on female and rural clients, indicating deeper outreach. However, reaching out to the extreme poor with low interest rates causes high transaction costs. Non-profits cannot access capital markets to raise more funds, so they have to rely on limited donations and subsidies, which can cause resource constraints. Also the lack of management control and governance in less formal NGOs can endanger MFI's sustainability. These factors hinder MFI from growing and reaching more clients, and may even pose a threat to the future of the MFI.

If MFI is not able to establish a sustainable financial foundation for its operations, it may turn MFI's outreach to decline or even force MFI to quit the market. Due to financial constraints, non-profit MFIs are not able to reach the same level of social performance as financially sustainable for-profit MFIs. They cannot maximize their social impact and outreach, because moving from credit-only strategy to providing social services, such as programs in basic education and primary health care, involve high costs. (Casselman & Sama 2013, 456–457.)

On the other hand, if non-profit MFIs manage to establish a sustainable foundation for operations, they have the potential to create greater social impact than for-profit MFIs. Several of the analyzed articles find that non-profit MFIs can outperform for-profit MFIs when it comes to outreach (see e.g. Arrassen 2017; Bensalem & Ellouze 2019; Churchill 2020). Lam et al. (2020, 221–224) argue that non-profit MFIs are more proficient at achieving financial sustainability after realizing social outcomes. This can be interpreted as meaning that non-profit MFIs are better at creating sustainable, long-term social impact than for-profits. Moreover, trade-off between financial and social mission occurs less with non-profit MFIs, which indicates that non-profits are able to accommodate dual mission better.

One aspect that drives the social performance of non-profits is that all revenues are reinvested back to the social mission. Unlike for-profit MFIs that have to pay dividends

to investors, non-profit MFI’s profits are reallocated to help the poor. Non-profits tend to establish closer relationships with their clients and have more local knowledge, improving the social performance. Non-profit MFIs also tend to utilize methods that are proved to enhance social outreach to the poorest: using joint liability lending and reaching out particularly to women in rural communities. These methods help maximizing the amount of clients, improving both, depth and breadth of outreach.

5.1.3 Reflecting on the profit orientation

The articles did not always agree on the influence of profit orientation. For example, when it comes to trade-off, some articles (see e.g. Adair & Berguiga 2014; Reichert 2018) find that there is significant trade-off between social and financial mission and that MFIs are not able to pursue dual mission simultaneously, while other studies (see e.g. Abdulai & Tewari 2017; Al-Azzam 2019) find no trade-off. Hence, the profit orientation is not the sole influencing factor behind the implementation of dual mission. For example, the operating environment and involved stakeholders have a role in how well MFIs balance their dual mission.

Profit orientation is the starting point for how MFI views its dual mission. The profit orientation can enable either stronger social outreach or the abandonment of social mission. It depends on other factors, which direction MFI selects. In an optimal instance, MFI would develop a balanced approach towards its dual mission and thus, it would avoid mission drift. However, this is rarely the case. Whether the profit orientation has negative or positive influence on MFI’s social mission is defined by the parties who are involved in the decision-making processes. The next chapter will take a closer look at the stakeholders who influence MFIs’ social performance.

5.2 Key stakeholders influencing decision-making processes

The content analysis suggests that profit orientation and stakeholders are interrelated. Depending on stakeholders’ motives, a for-profit MFI may target all its resources towards maximizing profits or it may choose to allocate resources to improve the outreach to the extreme poor. If the stakeholders of a non-profit MFI lack financial skills or interest towards the commercial aspects, the organization may face mission lock-in. But if the MFI is properly managed by taking financial viability into consideration, a non-profit

MFI may achieve sustainable social impact. The content analysis investigated how each group of stakeholders relates to the profit orientation and social performance.

5.2.1 Investors

The data suggests that there are two types of investors: commercial and social investors. Both types aim to make profit with the investment, but social investors are additionally driven by the social welfare logic. There may occur conflicts between commercial and social investors. Managing the two types of investors simultaneously may be challenging for MFI because they may put opposing pressures on the decision-making. Hence, the MFI must evaluate whose interests are more valuable for the organization. Profit-driven MFIs may value commercial investors more, while MFIs that are driven by social welfare logic tend to prioritize social investors.

Commercial investors often place commercial pressure on MFIs because their primary goal is to maximize financial success. Therefore, they may push the MFI to move away from poorer clients to wealthier ones in order to improve investors' return on investment. This can cause a decline in MFI's depth of outreach. Studies also find that commercial investors are more likely to prefer profitable MFIs with high financial performance as investment targets, driving mission drift (Mersland and Urgeghe 2013, 19; Pedrini and Ferri 2016, 2592). This indicates that MFIs which are commercially-driven have easier access to commercial capital markets. Thus, they have better resources to grow and strengthen their position in the market, and thus reach more clients. However, this could ultimately lead to industry-wide mission drift, as non-profit, socially-driven MFIs may have difficulties to raise funds for their operations and therefore they may be tempted to become commercialized.

On the other hand, social investors are linked with deeper outreach. They are associated with smaller average loan sizes which indicates poorer clients. Particularly MFIs that are focused on female clients attract more investments from social investors. However, Beisland et al. (2021, 53) draw attention to whether social investors are driven by intrinsic, i.e. truly altruistic motives or by extrinsic motives which are related to for example reputation or regulations. Initially, it was arguable that MFIs and their investors were driven by intrinsic motives because they have been awarded with numerous awards, Grameen Bank's Nobel Peace Prize being the ultimate one. Nevertheless, as social performance is increasingly being formally rated, and institutional investors have started to consider social factors, it suggests that extrinsic motives are taking over in the industry.

(Beisland et al. 2021, 53.) The disappearance of altruistic motives would further indicate the commercialization of microfinance industry.

Some of the articles discuss also the influence of foreign investors (Martins & Winkler 2013, 667; Xu et al. 2016, 1127). Most foreign investors are international NGOs, development finance institutions or other organizations that share the social mission of poverty alleviation. Nonetheless, there is criticism for foreign investors, claiming that they are not able to address the needs of local people and that they do not reinvest profits in the local economy. However, if foreign investors have a majority ownership in MFI, the breadth of outreach tends to be significantly higher. This would indicate that having foreign investors would assist MFIs to grow faster and reach more clients. On the other hand, foreign investors often have negative influence on the depth of outreach. Foreign investors are increasingly entering the microfinance markets in emerging economies because of high profitability and light regulation. They pressure MFIs to opt for wealthier clients to increase their profits, causing decline in the depth of outreach.

5.2.2 Donors

The data highlights donors as prominent stakeholders particularly for non-profit MFIs. For-profit MFIs tend to avoid dependence on subsidies, but non-profits prefer to use subsidies and donations as additional resources to boost their social mission. Donors are commonly more socially-driven than investors. The same way as with social investors, conflicts of interest may arise between donors and commercial investors. Unlike many investors, donors value better outreach over better financial sustainability. Therefore, donors monitor and control MFIs to ensure that they operate in accordance with donors' social interests. If guidelines are not followed, MFI may not qualify for the next round of grants.

The articles provide support for the argument that donors have a positive influence on MFI's social performance (see e.g. Al-Azzam 2019, 1625; Boubacar 2020, 218). Subsidies make the operations more viable and thus allow MFIs to reach poorer, costlier clients. Thus, donors encourage MFIs to deepen their outreach. Receiving donations and subsidies also enables MFIs to lower their interest rates, which makes their services accessible to poorer clients. Similarly as social investors, donors are particularly interested in supporting MFIs that target women.

Although donors are associated with improved social performance, the risk of mission lock-in caused by subsidies should be taken into consideration. Al-Azzam (2019,

1622) suggests that because there is often trade-off between outreach and financial profitability, MFIs need to rely on subsidies if they want to have significant outreach. Decent outreach and financial sustainability are not easily combined without subsidies. Nonetheless, dependence on subsidies does not create a sustainable financial basis for an organization. There has been a trend of decreasing local and international subsidies. Furthermore, if an emerging economy reaches a certain level of economic development, international donors may remove the country from the list of poor countries. This could cause a decline in the amount of grants, which could be detrimental to MFIs that are dependent on donations. That is why MFIs should not rely only on grants. If MFIs are not able to operate in a financially viable manner, their long-term pursuit for poverty alleviation may be threatened. On the other hand, without donors MFIs would be inclined to commercialize, which presents the issue of mission drift. Again, the importance of balance between social and financial missions is highlighted.

5.2.3 Credit officers

The articles support the statement that credit officers are critical stakeholders for social performance because they act as the link between MFIs and clients. Managers set the mission objectives and may attempt to control credit officers, but ultimately, credit officers make decisions rather independently. Majority of credit officers' work occurs in the field, interacting with existing and prospective clients, and managers have little influence on the interactions that take place outside of office.

As credit officers operate independently, their engagement to the social mission is important to the social performance of MFI. Having employees who are committed to the social objectives is one of the most important factors contributing to MFI's social performance. High attrition rate is characteristic to the industry, so investments in training and capacity building could be a way to strengthen employee commitment to the mission and to the MFI. (Sayed and Ghalib 2016, 597; Beisland et al. 2021, 69.)

Incentive systems are another tool stressed by the data that influence credit officer's contribution to social performance. Incentives can either encourage or reduce credit officer's engagement to the social mission. Encouraging commitment to the social mission would require incorporating social measures to the incentive system. If the performance of credit officers is measured only with financial indicators, it would drive employees' focus towards the financial mission over social impact. Financial measures can make credit officers avoid the poorest clients as they consider them too risky and they

could hurt their performance evaluation. However, having social evaluation measures is notably less common than having financial incentive systems implemented. (Ulrich and Hoback 2014, 125; Pedrini and Ferri 2016, 2580.) This is an indication that social performance management is still insufficiently understood and enforced in MFIs.

The differences between employees working for non-profit and for-profit MFIs are highlighted. Credit officers working for non-profits tend to strongly identify with the social mission and therefore, they are willing to accept lower salaries and are less keen to look for new job opportunities. High commitment to the employer and its mission can lead to improved organizational performance. On the other hand, employees from for-profit MFIs may be willing to switch to a non-profit MFI in order to achieve mission fulfilment. High staff turnover can have negative influence on social performance. Therefore, non-profit MFIs' better employee retention rate could indicate better social performance.

Some individual characteristics of credit officers emerge from the data as contributing factors to better social impact. Credit officers who are residents of the community where MFI operates are able to establish deeper relationships with the clients. Outsiders may not be able to understand or show sensitivity to the clients' living conditions. Thus, having local credit officers ensures better social outreach. It is also highlighted how female credit officers can better understand the needs of female clients. These findings indicate that having employees who understand and have first-hand knowledge of their clients' experiences make the most successful credit officers in terms of social performance. (Siti-Nabiha et al. 2018a, 200; Ghosh and Guha 2019, 438; Marconatto et al. 2020, 146.)

5.2.4 Managers

The data analysis revealed that managers of MFIs are prone to opportunistic behavior. Attempts to maximize personal benefits, such as bonuses, can lead to managers prioritizing economic profits over social outreach. Related to opportunistic behavior, some articles discuss the presence of agency problems (see e.g. Ahmed and Khan 2016, 327; Arrassen 2017, 209). Conflicts can indeed occur between managers and board members or financiers when their interests do not align, which can threaten the balance of dual mission. Non-profit MFIs may face more agency conflicts than for-profits. Non-profits do not employ incentive-based compensation, such as stock options for managers, which would bring the interests of managers and financiers closer.

A solution to steer managers' interests more towards social goals could be to introduce an incentive system where managers would be rewarded for achieving certain social mission objectives. An essential part of social performance management is establishing a compensation system for managers where performance is evaluated using social indicators along with financial measures. Currently, social incentive systems are mostly used only for credit officers. Hence, developing similar systems for managers could encourage their commitment to the social objectives.

Another approach to align managers' objectives with MFI's mission would be to establish control mechanisms that would prevent opportunistic behavior. However, management discipline and control are often deficient in MFIs. Control is particularly lacking for MFIs that are NGOs, where it is common that the board is less involved in decision-making and therefore managers have more autonomy. Thus, developing appropriate corporate governance could have a positive influence on both, MFI's financial and social performance. (Mori et al. 2015, 100; Saeed et al. 2017, 250; Ghose et al. 2018, 317.)

CEO duality, i.e. CEO holding also the position of the chair of the board, is related to lack of control mechanisms. Although CEO duality is common in MFIs, the positions of CEO and the chair should be kept apart. CEO duality poses a conflict of interests when the same person would be in charge of strategic management and evaluation of the effectiveness of that strategy. Thus, the board would not be able to effectively monitor the management. Separation of the two positions would have positive influence on the social and financial performance of MFI. (Mori and Mersland (2014, 288.)

The content analysis reveals that the individual characteristics of managers have a more significant influence on MFI's social performance than credit officers' characteristics do. Similarly as with credit officers, female managers are found to have positive influence on MFI's social performance because they understand better what women need from microfinance services. Hence, MFIs managed by women can respond to the demand better, resulting in deeper outreach. However, female managers may be more risk averse, which can lead to avoiding riskier, poorer clients.

Other managers' characteristics that influence social performance are their background and personal belief systems. Pascal et al. (2017, 351) address the educational background of MFI CEOs and find that only 55 % of CEOs in their study have business education. The percentage is lower than in commercial banking on average, which indicates that MFIs do not consider only business qualifications when selecting the CEO.

Evaluating also other merits than financial competences and selecting a CEO who is committed to the social mission is likely to contribute to the future social performance of the MFI. CEOs with business education reach more and poorer clients, implying better breadth and depth of outreach. Hence, the combination of business education and social drive would be preferable in a CEO.

5.2.5 Board members

Management and the board are usually in close interaction with each other. If the interaction is lacking, it can lead to weak internal control from the board and confusion about the differing roles between management and board. Subsequently, the lack of cooperation can lead to weaker performance. Particularly board members of NGOs have low involvement in monitoring the management, and they pay less attention to the financial sustainability of the MFI. As NGOs tend to have strong social engagement, the board members might pay more attention to social aspects at the expense of internal control and financial viability.

The content analysis demonstrated that the composition of the board has a significant role when it comes to MFI's social performance. When MFI is selecting new board members, diversity aspects should be taken into consideration, as MFIs with diverse boards can achieve better depth and breadth of outreach. Diversity refers to having both external and internal stakeholders in the board, and promoting gender diversity. Having diversity in the board ensures that board members have varying areas of expertise, which allows considering more perspectives in decision-making.

Financiers and clients often represent external stakeholders in the board. Financiers contribute to reaching more and poorer clients, thus improving both breadth and depth of outreach. It could be either because financiers are proficient at monitoring and advising the management, or because they provide additional funding to reach more clients. Positive influence applies even to investors, who are commonly thought to be commercially-driven. Their association with smaller loan sizes is an indication of investors' social motives.

On the other hand, including clients in the board ensures that the voice of beneficiaries is heard in the decision-making. Poor clients with little education may not be able to participate in the technical discussions of the board, but they provide insight to clients' needs and expectations. Despite this, the articles agree that clients as board members tend to have negative influence on social performance. Mori and Mersland

(2014, 309) note that MFIs with clients as board members have fewer customers, which implies weaker breadth of outreach and that they monopolize the services for only a few people.

The articles focus mainly on employees as internal stakeholders in the board and propose that they have similar influence on social performance as clients (Bakker et al. 2014, 641; Mori and Mersland 2014, 290). Employees can bring relevant information to discussions the same way as clients do. Particularly credit officers are well aware of the issues that the MFI faces in the field. However, their information can be biased by their own interests and past experiences, which could mislead the decision-making process.

The second aspect of diversity, gender diversity, is prominent in the content analysis, and the articles are unanimous about female board members having positive influence on MFI's social performance. As with female credit officers and managers, female board members can relate to the gender inequality issues and other challenges women encounter, which encourages them to drive the social mission. Hence, boards with female members are more likely to target women and other vulnerable groups of the community. Nonetheless, it is still rare to have women as board members in MFIs. Same applies to positions in management. There is still a long way to adequate gender diversity in MFIs.

Apart from diversity of the board, another notable factor influencing the board's social contribution is its size. The data illustrates two viewpoints on the optimal size of the board. On one hand, a smaller board is more efficient at monitoring, as it is easier to coordinate, decisions are made faster, and there are fewer misunderstandings in communication. This would imply better organizational performance. On the other hand, a bigger board consists of members with different areas of expertise. Thus, the board may be able to give better advice to the management, which would contribute to MFI's performance. Larger boards are also able to establish committees for example to oversee social performance or promote gender diversity. However, larger boards are often associated with decreased focus on women and larger average loan size, indicating weaker depth of outreach. Hence, MFIs should define what is the optimal board size for their specific needs.

The content analysis emphasized some differences between non-profit and for-profit MFIs in terms of board diversity and size. Non-profit NGOs tend to have larger boards with more diversity and female representation. Particularly gender diversity contributes to non-profit MFIs' social performance. Usually NGOs have more donors and employees as board members, cooperatives have larger representation of customers in the board, and

for-profit MFIs have a larger proportion of investors as board members. It is fitting that commercially-oriented MFIs have more commercial investors in their board, while socially-motivated non-profits have a majority in board members who speak for the poor and drive the social mission.

5.2.6 Reflecting on key stakeholders

The stakeholders that were discussed in this chapter form two larger stakeholder groups: financiers and internal stakeholders. These stakeholder groups play different roles in the context of microfinance and social performance. Financiers have more directly either positive or negative influence on MFI's social performance because of their commercial or developmental interests. Internal stakeholders, on the other hand, are not as easily categorized as either positive and negative influencers. Their influence on MFI's social performance depends more on organizational mechanisms and personal characteristics. Table 3 summarizes the key features of financiers in terms of MFI's social performance.

Table 3 Comparison on key features of financiers

FINDINGS	COMMERCIAL INVESTORS	SOCIAL INVESTORS	FOREIGN INVESTORS	DONORS
Influence on social performance	Associated with better breadth, but weaker depth of outreach	Associated with better depth of outreach	Associated with better breadth, but weaker depth of outreach	Associated with better depth of outreach
MFI type preference	Prefer financially sustainable MFIs	Prefer MFIs that target vulnerable groups, such as women	Prefer financially sustainable MFIs	Prefer MFIs that target vulnerable groups, such as women

Table 3 includes three types of investors that emerged from the data, commercial investors, social investors and foreign investors, along with donors. The more financially-driven commercial investors and foreign investors have similar characteristics: They tend to set commercial pressures on MFIs which can lead to weaker depth of outreach. However, they often provide MFIs with vast resources that enable reaching more clients, improving the breadth of outreach. These types of financiers tend to prefer investments

in financially sustainable, profitable MFIs that will generate revenue to their investors. On the other hand, social investors and donors are often associated with improved depth of outreach. They both are socially-driven and prefer MFIs that target vulnerable client groups, such as women. While donors do not require financial profitability from MFIs, social investors still wish to make profit with their investment. Table 4 illustrates the key features of internal stakeholders from the perspective of social performance.

Table 4 Comparison on key features of internal stakeholders

FINDINGS	CREDIT OFFICERS	MANAGERS	BOARD MEMBERS
Methods to improve commitment to social mission	Training and incentive systems	Incentive systems and control mechanisms	Control mechanisms
Characteristics influencing social performance	First-hand knowledge of clients' experiences (women, local communities)	Gender (women), business education, social drive	Diversity regarding stakeholders, gender diversity, size of the board

For credit officers, the content analysis highlights training and social incentive systems as methods to engage employees in the social mission of MFI. Similar social incentive systems are suggested for managers. For managers and board members, the role control mechanisms is stressed. Corporate governance makes sure that managers and the board are following the principles of dual mission. These methods help MFIs ensure that their internal stakeholders are committed to pursue the social mission and do their best to maximize the social performance. The lack of these mechanisms can reduce internal stakeholders' engagement to the social objectives.

For characteristics enhancing MFI's social performance, female representation has proven to contribute to the social mission at all levels of the organization: among credit officers, managers and board members. Social logic is emphasized among managers, and ideal managers have a combination of appropriate business education and social drive. For board members, diversity is key: The board should consist of internal and external stakeholders. Moreover, MFI should define what is the optimal board size for its specific requirements. Critical factors influencing MFI's social performance have now been

discussed. Next, the focus will move to methods that are used to evaluate the social performance of MFIs.

5.3 Tools for social performance evaluation

Majority of the articles that discussed social performance evaluation used different indicators as tools. The articles largely followed the threefold categorization of social performance dimensions used in this thesis: breadth of outreach, depth of outreach, and social impact. Judging by the amount of articles that addressed each category, it could be said that the evaluation of depth of outreach has attracted the most academic interest: 33 articles discussed MFIs' depth of outreach, while 26 articles addressed breadth of outreach and 18 articles discussed social impact. As noted by Bakker et al. (2014, 639), there is more data available publicly on outreach and scope of microfinance, which is why majority of studies have focused on depth and breadth of outreach over social impact.

The data supports the argument that social performance management and reporting are still in infancy in MFIs. The collection of social performance data from MFIs was started only in 2011 by Microfinance Information Exchange (MIX), a global information provider. As the methods for social performance evaluation are still evolving, new approaches are being developed. Some new approaches in addition to indicators were identified during this content analysis as well.

5.3.1 Breadth of outreach

Regarding MFI's breadth of outreach, the number of clients is generally used as the main indicator, and the articles confirm that. Additionally, there were other indicators introduced in the data that complement the most commonly used indicator. The selected key indicators are listed in table 5.

Table 5 Key indicators for breadth of outreach

INDICATOR	DEFINITION
Number of active clients	Total number of people currently served by MFI
Growth in number of clients	Total number of clients (year t) / Total number of clients (year t-1)
Number of offices	Number of branches, administrative sites and other staffed points
MFI Breadth of Outreach Index (MFI BOI)	Total number of clients in relation to country-level variables (e.g. population, poverty rate)

The number of clients was the most prominent indicator suggested by the data. There emerged some variations of that indicator, such as *Number of active clients*, *Number of borrowers per employee*, and *Number of female clients*. Although Abdulai and Tewari (2017), Nurmakhanova et al. (2015) and Reichert (2018) mention the number of female clients as an indicator for breadth of outreach, it is a more effective indicator for assessing depth of outreach. That is why it is left out of consideration in this discussion. It is important to count only active clients, as including passive clients does not give a realistic image about the outreach. Therefore, the number of active clients was selected as the key indicator.

The size and age of MFIs are positively related to the number of active clients. It can be interpreted that more established, larger MFIs have more resources to reach more customers. On the other hand, number of female clients is found to have negative correlation with the number of clients (Rao and Reda 2015, 13). It would imply that outreach to the poor requires more resources and therefore it constrains reaching a wider clientele. This suggests that MFIs would struggle to combine breadth and depth of outreach, unless the MFI has vast resources.

The second indicator, growth in number of clients, shows the progress that MFI makes in its breadth of outreach: the faster the growth rate, the better the breadth of outreach. Pascal et al. (2017, 348) propose that the growth rate also indicates MFI's

willingness to take risks. Thus, low growth rate can demonstrate risk aversion instead of lack of social drive.

The third indicator, number of offices, takes into consideration all staffed points of the MFI. The number of offices highly correlates with the number of clients. Particularly with rural clients, a local office is important to reach the clientele. In many emerging economies, mobile banks are a significant form of banking that operate without offices, so this indicator would not be applicable to mobile banking. However, level of illiteracy is still high in certain rural areas. That is why physical branches are still needed, making this indicator relevant.

The fourth key indicator, MFI Breadth of Outreach Index (MFI BOI) was introduced by Churchill (2020) as a response to the lack of indicators that would take into consideration country-level factors. Thus, MFI BOI also assesses the number of clients, but it take into account for example the country size, population and share of population living below the poverty line. Churchill (2020, 1136) gives an example that 3000 MFI clients in Ghana demonstrate a significantly higher level of outreach than the same amount of clients in India. That is why the number of clients alone could be misleading and external factors should be considered. MFI BOI provides an updated approach to evaluating the breadth of outreach.

However, breadth of outreach may not be an optimal approach to evaluate social performance because MFIs usually have wealthier clients as well. As the number of clients increases, the share of the poor tends to decrease. Thus, reaching many clients does not automatically imply social contribution. That is why depth of outreach could be a more effective method for social performance assessment, which is discussed next.

5.3.2 Depth of outreach

Indicators for depth of outreach assess the level of how deep into the poor population MFIs are able to reach. Depth of outreach is an assessment of MFI’s engagement to poverty eradication. However, evaluating the depth of outreach accurately is more challenging than evaluating breadth of outreach because it would require data on each client’s poverty level, income level and assets. This information is not widely available because MFIs rarely collect this data. Hence, evaluation must be conducted using indirect information which includes for example average loan sizes and shares of vulnerable customer groups, mainly women and rural clients.

In the content analysis, there emerged three categories of indicators for depth of outreach: average loan size (ALS), inclusion of vulnerable customer groups, and indices designed to evaluate depth of outreach. For vulnerable customer groups, majority of the articles addressed the inclusion of female and rural clients because they tend to be among the poorest in a society. Therefore, they were selected as the vulnerable groups to be included in the key indicators. The selected indicators are portrayed in table 6.

Table 6 Key indicators for depth of outreach

INDICATOR	DEFINITION
Average loan size adjusted to GNI per capita (ALS/GNI)	(Total value of loans / number of clients) / GNI per capita ratio
Share of female clients	Number of female clients / Number of active clients
Share of rural clients	Number of rural clients / Number of active clients
Social Outreach Index (SOI)	ALS/GNI - Absolute poverty line
MFI Depth of Outreach Index (MFI DOI)	Combines ALS/GNI and share of female clients
Poverty Probability Index (PPI)	Scoring based on 10 questions about asset ownership and household characteristics. Indicates the likelihood to live in poverty.

Majority of the articles addressed ALS as a relevant indicator, but there was variation in the form of indicators. Some forms consider only ALS per borrower, while others are adjusted to GDP or GNI to balance country-related differences in living conditions. ALS adjusted by GNI per capita was selected as a key indicator because it allows effective comparison across countries. There is a presumption that poorer people are only able to take smaller loans and that wealthier clients are not interested in small loans. Hence, smaller ALS/GNI ratio is associated with poorer clients and better depth of outreach. According to Hudon et al. (2020, 631), if the ratio is under 20 %, the clients are considered

as the poorest segment. The benefit of ALS/GNI as an indicator is that it is cost-efficient and it is easy to gather the needed data. That is why it is one of the most commonly applied indicators for depth of outreach.

The same applies to the share of female clients and rural clients. The data is often readily available in MIX's databases or social rating firms' reports which makes social performance assessment easy with these indicators. Majority of the articles that discussed depth of outreach mentioned the share of female clients as an important proxy when assessing social performance. Share of rural clients was not as prominent, but it is still significant as an indicator. As female and rural clients often represent the poorest segment of the society, having a larger percentage of these groups as clients indicates better depth of outreach. Moreover, MFIs are commonly targeting women, which is why it is relevant to assess the outreach to this particular target group.

Though the three indicators discussed above are the most commonly used indicators for evaluating depth of outreach, they have received criticism. ALS is criticized for focusing only on loans, as nowadays MFIs provide a wide variety of other additional services. Furthermore, increasing ALS can indicate clients' improved level of welfare and thus successful social mission instead of weaker depth of outreach. Moreover, critics argue that simple indicators are not enough to assess the complex nature of social performance. (Churchill 2020, 1335; Beisland et al. 2021, 52–54.) That is why different indices have been created to evaluate depth of outreach. They are able to take into account more than one variable.

ALS/GNI ratio is criticized because in some countries, the average income per capita is higher than the income at the poverty line, which questions the effectiveness of the proxy. Therefore, Social Outreach Index (SOI) has been developed. The index compares ALS/GNI ratio to the absolute poverty lines that are defined by the World Bank. The first poverty line (PL1) is USD 1,00 a day for income (very poor) and the second poverty line (PL2) is USD 2,00 a day (poor). The value of the index can be 1, 2 or 3, which indicates how deep the level of outreach is:

- 1: ALS/GNI - PL1 < 0, MFI is targeting the very poor.
- 2: PL1 < ALS/GNI < PL2, MFI is targeting the poor.
- 3: ALS/GNI - PL2 > 0, MFI is targeting the non-poor.

Thus, SOI offers an improved method to evaluate depth of outreach compared to ALS/GNI, as it takes into account the relation between ALS/GNI and standard poverty lines, and the distance between the two variables. (Arrassen 2017, 213.)

MFI Depth of Outreach Index (MFI DOI) is another index introduced by Churchill (2020) which combines ALS/GNI and the share of female clients to evaluate MFI's social performance. These are two of the most commonly used indicators for depth of outreach, but they measure different dimensions of outreach. Hence, combining the two indicators provides a more comprehensive picture about MFI's outreach.

Finally, the third index, Poverty Probability Index (PPI) is a poverty scorecard used to evaluate the level of poverty among MFI's clients. A client household fills in a questionnaire, and a PPI score is given based on the answers. The PPI score is referred to a chart that indicates the probability of poverty. The questionnaire and scoring chart can be found in Appendix 3. The lower the score, the higher the probability of living below the national poverty line. The average poverty probability percentage of the clients indicates how well the MFI has reached the poor, i.e. the depth of MFI's outreach. PPI is country-specific, as it is tied to national poverty lines, so it allows the comparison of MFIs within one area but not across countries. PPI also allows evaluating the progress that MFI and its clients have made in terms of escaping poverty if the same group of clients fills in the same questionnaire for example annually. (Sierra et al. 2018, 234–235.)

The indicators of breadth and depth of outreach assess the first larger dimension of social performance, outreach to the poor. They do not address the scope of social benefits MFIs have on a society. Next, the discussion will move to reviewing the second main dimension of social performance, social impact, and its indicators.

5.3.3 Social impact

There arose clear indicators for outreach from the data. On the other hand, evaluation of social impact and selecting its key indicators leave more room for interpretation. The challenge with assessing microfinance's welfare impact is excluding external factors, as positive impacts on welfare may be due to a combination of factors instead of solely microfinance. Social impact is often evaluated by comparing client's income and living standards before signing up for microfinance to the conditions after a certain time period with microfinance services has passed. It is difficult to say with certainty that the improvements in living standards or income would have been brought by microfinance, but its contribution cannot be denied either.

Social impact is a multifaceted concept, so the same grouping that was introduced in chapter 2.2 is used to categorize the key indicators of social impact. Indicators are divided into three categories based on whether they evaluate economic outcomes, gender

outcomes or social outcomes. Key indicators are listed in table 7. They all are indicators that compare changes in one factor before and after microfinance engagement. If there has been growth instead of decline in the factor over time, MFI may have created social impact. More abstract concepts were excluded, and selected indicators focus on factors that can be easily assessed.

Table 7 Key indicators for social impact

CATEGORY	INDICATOR	DEFINITION
Economic outcomes	Income per capita	Change in clients' annual income per capita
	Asset building over time	Change in clients' amount of savings or investments
	Clients' enrollment rate in training programs	Change in the share of clients enrolled in training
	Number of self-employed clients	Change in the number of self-employed clients
Gender outcomes	Number of self-employed female clients	Change in the number of self-employed female clients
	Contraceptive use	Change in the share of clients using contraception
	School enrollment rate of clients' children	Change in the share of clients' children enrolled in school
Social outcomes	Access to healthcare services and medicine	Change in the share of clients that had access to healthcare when needed
	Food consumption	Change in the share of clients that have three meals a day
Index	Social Impact Index (SII)	Combines borrowing capacity, empowerment and outreach

There were numerous indicators proposed for economic and social outcomes in the data. On the other hand, there were fewer indicators for gender outcomes. Majority of the articles only discussed women empowerment at a general level. That could be because women empowerment is a rather abstract concept that can be difficult to turn into measurable units.

For indicators of economic outcomes and subsequently poverty reduction, increased income per capita emerged the most frequently in the data. It signals how well clients have escaped poverty because poverty is tied to low, insufficient income. An increase in income is an indication of improved welfare and reduced poverty. Another indicator of improved financial standing is asset building. In microfinance, this refers more commonly to savings accumulation than investments, but microentrepreneurs can also accumulate investments in their business. Asset building brings security, which is a form of social impact. Additionally, willingness to make deposits to a savings account instead of spending all income indicates change in client's financial behavior.

Ganesh and Singh (2015, 103) suggested improved financial literacy as an indicator of social impact, but it was condemned as a too abstract concept. Instead, clients' enrollment rate in training programs was selected as a third indicator of economic outcomes because it is easier to assess and compare over time. By providing financial training, MFIs can contribute to clients' financial literacy and business skills development. Enrollment in training programs is also reflected in improved productivity of businesses, which is a village-level economic outcome, as it can lead to increased employment. Another indicator for assessing village-level social impact is the change in number of self-employed people. More entrepreneurs can generate more employment for the community.

For the second category of gender outcomes, the number of self-employed women can be viewed as an indicator of women empowerment: Starting a business requires that the woman is aware of her rights, and is able to take control of her own life and earn her own income. Another theme that is related to gender outcomes and women empowerment is family planning, including family size and contraceptive use. It is commonly acknowledged that increased welfare is related to smaller family sizes. However, it is difficult to show that MFIs would be connected to smaller family sizes over time. On the other hand, increased contraceptive use is easier to evaluate, which is why it was selected as a second indicator of gender outcomes. It relates to better awareness of women's rights and women's willingness to pursue other goals than staying home with children. Finally,

as women empowerment is also related to allocating more resources to household welfare, the data proposed the increased school enrollment rate of clients' children as an indicator for gender outcomes. Providing better education for their children secures long-term social impact, as the children can build a better life for themselves.

For the third category, social outcomes were selected to focus on access to healthcare and nutrition, as they were the most prominent themes in the data. Access to healthcare services and medicine was selected as the first indicator of social outcomes. MFIs can contribute directly to healthcare accessibility by providing their clients with health insurance or by investing in infrastructure and building health centers. Moreover, increased income thanks to microfinance can allow households to afford healthcare services and medicine. The second indicator, increased food consumption, is an indication of increased welfare among clients. Mansurali and Swamynathan (2013, 48) use three meals a day as a threshold for sufficient food consumption. Hence, this was employed as a measure for the indicator.

Finally, Ganesh and Singh (2015) have developed Social Impact Index (SII) to provide a more multi-level view of social impact. SII consists of three dimensions: Borrowing capacity, empowerment and outreach. Average loan size adjusted by GNI per capita (ALS/GNI) in a measure for borrowing capacity. Share of female clients is a variable for empowerment, and outreach is assessed by the number of active clients. These are indicators that are related to breadth and depth of outreach, and their combination evaluates MFI's social impact. The higher the score, the higher the impact. (Ganesh & Singh 2015, 106–108.) The value of the index can be compared over time to see MFI's progress on social impact.

The data for social impact indicators is often collected with questionnaires that clients fill in regularly to capture changes that occur in their living standards. It should be noted that indicator-based, quantitative approach to social impact evaluation can give a limited picture of the client's life, as it touches only on aspects that can be assessed with measurable units and numbers. Therefore, evaluation could be enriched with interviews that provide live stories about how microfinance has changed clients' lives to get a more holistic picture of MFI's social impact. However, experiences with microfinance are heterogenous, and social impact can take different forms depending on the microfinance program, region, and how the client uses the financial resources. This could make it difficult to compare clients' stories and the social impacts that have occurred. A

combination of different methods could be a suitable approach to assess the compound nature of social impact.

5.3.4 Alternative approaches to social performance evaluation

Although majority of the data was in line with the social performance dimensions of the microfinance triangle and indicators used to evaluate them, there emerged also some new approaches to social performance evaluation. As the awareness and understanding of organization's social performance increases, better tools for social performance assessment are being developed. Although indicators have been widely used for assessment, they are not the best method to capture the complex nature of social performance. They have started to become outdated, and universal social standards, certificates, and social ratings have been introduced as improved evaluation methods. These alternative methods also utilize indicators to rate MFIs, but where indices combine few indicators, social standards can use over 100 indicators to evaluate MFIs. Thus, the alternative methods assess MFIs in a more comprehensive manner.

Developing international standards for social performance evaluation brings it closer to the level of reliability and recognition that financial performance has. Currently there are three main sets of social standards for MFIs: the Universal Standards for Social Performance Management (USPM), the Client Protection Principles (CPPs), and the Pro-Poor Principles (PPPs) (see Appendix 4). Social standards are best practices that MFIs should consider in their activities. External certification institutions and social rating agencies utilize the social standards to evaluate how well MFIs have implemented practices to pursue their social mission, and to give social performance scores. The indicators and indices that have been discussed earlier are suitable for organization's internal social performance evaluation, while certificates and social ratings are methods of external social performance assessment.

There are two widely used microfinance certifications, the Smart Certification and the Pro-Poor Seal of Excellence. The Smart Certification requires that MFI fulfills the CPPs. The Pro-Poor Seal of Excellence is based on PPPs and has different levels of performance: Starting Commitment, Aspirant, Emerging Practitioner, Achiever, and Leader. Each level has minimum requirements to achieve the status, and only MFIs that achieve Leader-status are qualified for the Pro-Poor Seal of Excellence certificate. (Sierra et al. 2018, 235.)

Rating agencies use rating scales to give MFIs a grade on their social performance. Factors that are usually considered in the rating include country context, social responsibility, client protection, social performance management, quality of services, depth of outreach, and outcomes. Social ratings conducted by a third party can be valuable to MFIs because they can show investors and other stakeholders how committed MFIs are to their social mission. As the analyzed data widely suggests that indicators alone are insufficient to evaluate the social performance of MFIs, it is promising that recent articles increasingly introduce alternatives to proxy-based evaluations. Particularly the proliferation of third-party certifications and ratings speaks for professionalization of social performance evaluation. However, ratings are still not standardized across agencies, so there still remains room for development.

5.4 Modified theoretical framework

Based on the findings of the content analysis, the theoretical framework on MFI's social performance was updated. The modified version is illustrated in figure 7.

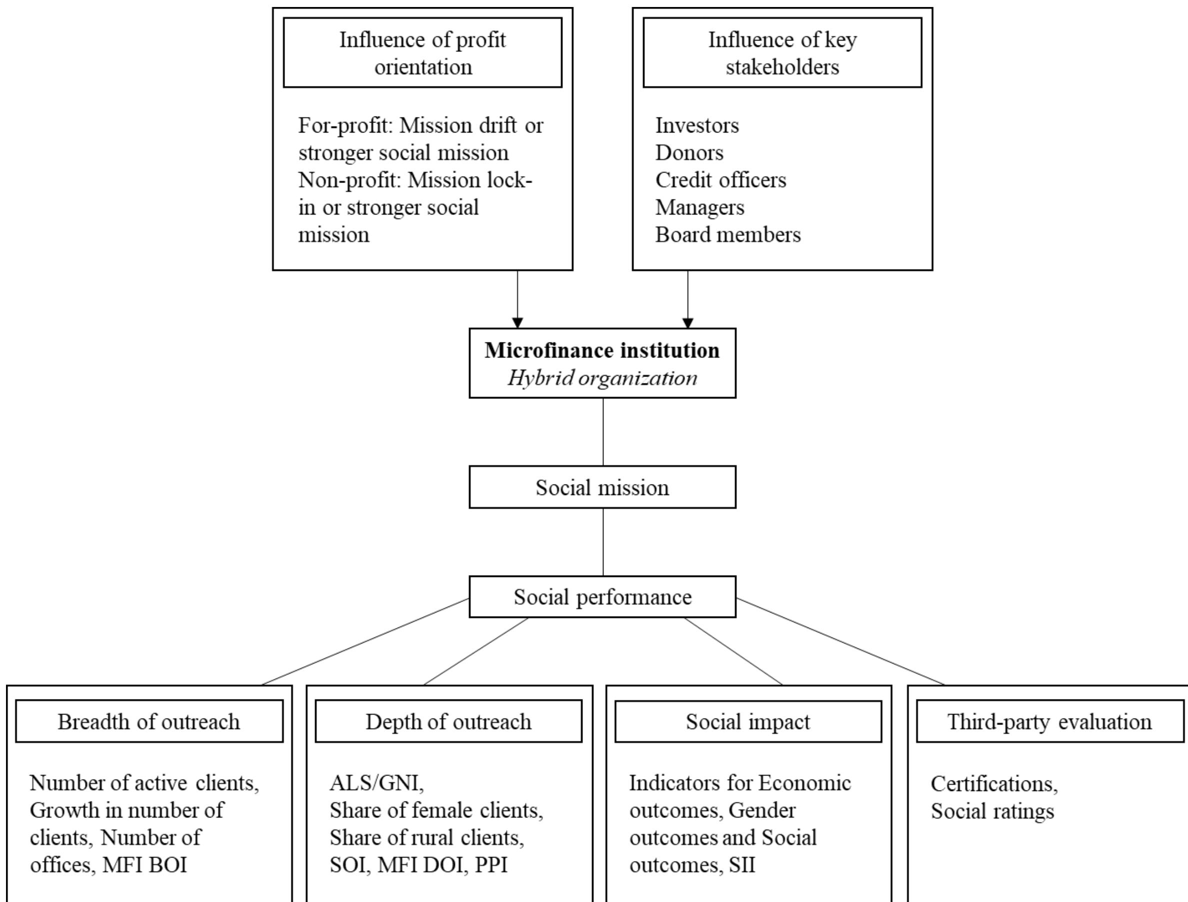

Figure 7 Modified theoretical framework

Influence of profit orientation was updated to include the two profit orientations and their influences that were identified in the content analysis. The negative influence of for-profit orientation, mission drift, can occur if MFI does not find a balance between social and financial missions and instead prioritizes financial objectives over social goals. Similarly, non-profit MFI can face mission lock-in if it neglects its financial mission. If the MFI is managed properly and dual mission is balanced, social mission and social performance can be stronger, regardless of the profit orientation.

Influence on key stakeholders was modified so that the analyzed stakeholders are visible: Investors, donors, credit officers, managers and board members have different types of influences on MFI's social performance. As it was concluded in chapter 5.2.6, investors and donors as financiers have more direct influence on MFI's social performance; either positive or negative depending on their interests. The influence of credit officers, managers and board members as internal stakeholders depends more on their personal characteristics and organizational mechanisms that either encourage or reduce commitment to the social mission.

The bottom of the framework, which represents social performance evaluation methods, was expanded to include *Third-party evaluation* in addition to the original dimensions of social performance evaluation. Third-party evaluation methods include certifications and social ratings. Moreover, the three original dimensions of social performance evaluation, *breadth of outreach, depth of outreach and social impact*, were updated to include the key indicators and indices that were selected during the content analysis. Having summarized the main findings of the content analysis in the modified theoretical framework, the discussion will next proceed to the conclusions.

6 CONCLUSIONS

6.1 Theoretical contributions

The aim of this thesis was to gain a better understanding of microfinance institutions' social performance and its evaluation. In order to perform a comprehensive analysis on MFI's social performance, three sub-research questions were defined. First two sub-questions focused on the influence of MFI's profit orientation and key stakeholders. The third sub-question sought to identify different dimensions of MFI's social performance, and evaluation methods for each dimension. The main focus was on indicators used to evaluate different dimensions of social performance, but the researcher also remained receptive to new approaches of social performance evaluation during the study and alternative methods were identified.

For the first sub-question, the theoretical background divided MFIs into for-profit and non-profit MFIs based on their profit orientation (Milana & Ashta 2012, 310–318; Tchuigoua 2015, 318). The literature highlights that for-profit orientation drives mission-drift, while non-profit orientation improves social performance (Milana & Ashta 2012, 309–319; Beck 2015, 18; Ault 2016, 951–952). However, the findings suggest that profit orientation can have either positive or negative influence of MFI's social performance depending on how balanced the dual mission is. Imbalance between social drive and financial viability can lead to mission drift for-profit MFIs and to mission lock-in for non-profit MFIs. On the other hand, if the MFI has found balance between the social and financial missions and does not overlook one of the missions, it is more likely to have stronger social performance.

The second sub-question is built upon Freeman's (1984) stakeholder theory. MFIs operate in a dynamic environment where stakeholders' motives influence how well MFIs achieve their dual mission (Freeman 1984, 3–27; Bezboruah & Pillai 2015, 916). The content analysis delved into the role of key stakeholders and their mutual relationships. It was found that financiers and their interests largely dictate the course of MFI's operations. Internal stakeholders rarely have as contrasted interests either for or against the social mission. Instead, their engagement to the social mission can be supported or reduced by incentive systems and control mechanisms.

Zhao and Lounsbury (2016, 645–648) discussed that conflicts may occur between different types of financiers. The findings supported this argument and demonstrated that

commercial and foreign investors often have conflicting interests with social investors and donors. This can pose constraints to MFI, and whether it prioritizes social or financial mission directs how it handles the conflicts. Similarly, findings confirm that conflicts of interest may occur between managers and financiers or board members, which supports Jensen and Meckling's (1976, 308) agency theory. Where managers may be prone to opportunistic behavior and prioritizing personal benefits, financiers and board members may push for deeper social impact.

The findings highlight the interrelatedness of profit orientation and stakeholders. Certain stakeholder groups and stakeholder behavior are tied to specific profit orientation. Commercial and foreign investors are more likely to invest in for-profit MFIs because they can generate the required profits, while social investors and donors prefer socially-driven non-profit MFIs that focus on welfare impact. It was found that credit officers working in non-profit MFIs are often more committed to the employer and their social mission. It is arguable that in a non-profit organization, the employees experience more mission fulfilment which encourages loyalty to the employer. This has positive influence on organization's social performance. Another finding was that managers in non-profit MFIs are likely to face more agency problems because non-profits do not employ incentive-based compensation and they tend to have weaker internal control from the board.

The theoretical framework on social performance evaluation was built on Zeller and Meyer's (2002) critical triangle of microfinance, where outreach and social impact were determined as the two dimensions of social performance. To capture the nature of social performance better, outreach was further divided into two dimensions introduced by Schreiner (2002): breadth and depth of outreach. This framework acted as a basis for seeking appropriate indicators and other evaluation methods for social performance. After the content analysis, the original theoretical framework was modified to include the main findings of this thesis. The updated version was introduced in chapter 5.4. The modified framework includes key points to be considered in terms of profit orientation and key stakeholders, and key indicators and other methods that could be used to evaluate MFI's social performance. Thus, this framework could be used as a model for comprehensive social performance evaluation.

The content analysis revealed that outreach and social impact are still commonly used as the two elements of social performance, although studies on social performance evaluation have mainly focused on outreach. Thus, this thesis deepens the understanding

of social performance evaluation by exploring also the dimension of social impact. Three categories for social impact were identified: economic outcomes, gender outcomes and social outcomes. Moreover, key indicators were selected for each of the categories.

Majority of the data used indicators as a tool to evaluate the dimensions of social performance due to lack of better methods. It is widely agreed that proxies are not an adequate method to evaluate the complex nature of social performance, and better tools are called for. The introduction of indices has been a step forward, as they include more than one indicator in the evaluation. However, quantitative methods that rely on indicators and measurable units are not optimal particularly for social impact assessment which involves more abstract variables. Recently, universal social standards have been adopted and they have allowed the emergence of external certifications and social ratings. This shows that social performance management is becoming more professional, and social performance evaluation is becoming an integrated part of overall organizational performance evaluation.

6.2 Managerial implications

This thesis offers some noteworthy findings that are valuable for MFI management. First, this thesis draws attention to the set-up that MFI's profit orientation creates for its operations. There are certain risk factors that managers should be wary of and some benefits that could be leveraged for each profit orientation. *Commercially-driven for-profit MFIs should acknowledge that they are prone to mission drift*. If they want to avoid it, they should pay special attention not to neglect their social mission. As a benefit, *for-profit MFIs can exploit the wider range of financing alternatives* to secure financial sustainability and long-term social impact. On the other hand, *non-profit MFIs should be aware of their financial constraints* and, if possible, not rely only on subsidies and donations. *Non-profit MFIs' strength is often having better local knowledge and deeper client relationships* which are reflected in better social performance. Hence, they should focus on exploiting these strengths and engage in local interactions with communities.

Employee and management commitment to the social objective plays a significant role in MFI's social performance. Therefore, it is important to *provide sufficient training to credit officers* so that they adopt the socially-driven belief system of the organization. It is proposed that management's commitment to social mission could be improved by *incentive systems that include also social measures*. Such incentive and review systems

are already being used for credit officers. The results suggest that similar systems could be deployed for management as well.

The findings revealed that the role of the board of directors is more significant than anticipated. Even though board members do not make operational decisions, they influence the organizational culture and strategy that drives MFI's dual mission. The board is an interesting stakeholder as it can consist of other key stakeholder groups. Thus, key stakeholders can bring their interests to the highest hierarchical level of MFI and their conflicting motives may clash. Hence, *the composition of the board should be carefully considered to avoid unnecessary internal conflicts*.

The findings draw attention to the importance of diversity among credit officers, managers and board members, as it contributes to social performance. It is shown that including people who can relate to the clients' experiences in the organization has a positive influence on social outreach. As one of the main objectives of MFIs is women empowerment, it is encouraged to *include women in the management and the board*, and to *hire female credit officers*. The findings show that women can address the needs of female clients better. The same applies to *hiring local credit officers*; they have better competence to approach local communities.

It is increasingly expected that MFIs include social performance assessment in their performance reports. This thesis provides an assortment of *indicators and indices that can be utilized to showcase MFI's commitment to social mission*. The indicators and indices were selected so that social performance can be evaluated from multiple perspectives to give a comprehensive view of MFI's social commitments. Also external certifications and social ratings are mentioned as a social performance evaluation method. MFIs can *utilize the third-party validation to improve their negotiating position*. Also external stakeholders benefit from the findings of this thesis, as it is advised how social measures can be incorporated in the evaluation process. Thus, for example financiers can make financing decisions based on not only financial factors, but also social indicators.

6.3 Limitations of the study and suggestions for future research

There are some limitations to be considered with this study. The study relied on secondary data which has not been collected for this specific purpose. Therefore, the researcher had to interpret the data in a way to find answers for the research questions. This could have caused biases. Hence, further research using primary sources is recommended. Interviews could be conducted with for example MFI representatives and rating agencies to acquire

information on how social performance evaluation is conducted in practice. Moreover, insight to MFI's social impact could be achieved by interviewing clients of MFI.

The largest limitation of the study relates to the ambiguity of social impact. It is challenging to propose generally applicable evaluation methods for a concept that is lacking consensus on how to turn it into measurable units. Despite this, the thesis succeeded in identifying indicators and indices for social impact. Nonetheless, it is called for to explore the evaluation of social impact further with future research. Similarly, only the surface was scraped for MFI certifications and social ratings. Further research is needed for investigating certificates, ratings and other third-party evaluation mechanisms.

This thesis does not address the microfinance industry in any specific geographical region. Instead, MFIs and their social performance is observed at a universal level. However, there may be varying practices of social performance evaluation in different regions. Therefore, further studies could be conducted in different emerging economies in order to further understanding of different practices and do comparative studies across regions. Also the analysis on stakeholders was limited to internal stakeholders and financiers. For further research, it could be interesting to explore how the government influences MFI's dual mission and social performance with for example regulations and public incentives.

7 SUMMARY

This thesis studied microfinance institutions which are considered hybrid organizations. This means they have to balance dual mission of social and financial objectives, and consequently social and financial performances. The aim of the study was to gain a better understanding of microfinance institutions' social performance and its evaluation by conducting a qualitative content analysis which used academic articles published between 2012-2021 as data. The study was divided into three sub-research questions:

1. How does the profit orientation of a microfinance institution influence its social performance?
2. How do key stakeholders influence the social performance of microfinance institutions?
3. What are the different dimensions of social performance and how can they be evaluated?

The findings of the content analysis suggested that the profit orientation can have either negative or positive influence on MFI's social performance. If MFI's dual mission is in imbalance, for-profit MFI may face mission drift and non-profit MFI may suffer from mission lock-in. But if the MFI is managed properly and dual mission is balanced, both profit orientation may lead to improved social performance.

Five groups of key stakeholders were analyzed in this thesis: investors, donors, credit officers, managers and board members. The findings illustrated that different stakeholders have different interests which can cause conflicting pressures on MFI's operations. Hence, MFI's decision on which stakeholder's interests it prioritizes influences its social performance. Moreover, the individual characteristics of certain stakeholders influence MFI's social performance: Including women and local residents as credit officers, managers and board members helps the MFI to get first-hand knowledge about their clients' experiences and hence contributes to MFI's social performance.

Social performance was divided into three dimensions, breadth of outreach, depth of outreach and social impact, and indicators for evaluating each dimension were identified. While there are rather established methods for evaluating breadth and depth of outreach, the tools for assessing social impact are still insufficient due to the difficulty of transforming social impact into measurable units. It was also found that simple indicators are not an optimal approach to evaluate social performance; its complex nature requires more multi-faceted methods. Hence, more complicated indicators, and certifications and

social ratings as external evaluation methods were introduced as alternative approaches to social performance evaluation. In conclusion, this thesis provided a range of tools that can be used for assessing social performance, but there still remains demand for more developed methods that would provide a more comprehensive image of MFI’s social performance.

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APPENDICES

Appendix 1 List of articles included in the content analysis

Abdulai, A. – Tewari, D. D. (2017a) Determinants of microfinance outreach in Sub-Saharan Africa: A panel approach. *Acta Commercii*, Vol. 17 (1), 1–10.

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Appendix 2 Operationalization table

Research question	Sub-research questions	Theoretical background	Themes for content analysis
How to evaluate the social performance of microfinance institutions?	How does the profit orientation of a hybrid microfinance institution influence its social performance?	Non-profit organization, For-profit organization, Hybrid organization, Dual mission	Social mission, Commercialization, Mission drift, Mission trade-off, Mission lock-in
	How do key stakeholders influence the social performance of microfinance institutions?	Stakeholder theory, Agency theory	Investors, Donors, Credit officers, Managers, Board members
	What are the different dimensions of social performance and how can they be evaluated?	Triangle of microfinance, Outreach, Social impact	Breadth of outreach, Depth of outreach, Social impact

Appendix 3 Poverty Probability Index questionnaire and scoring chart

Grameen Foundation (2008) Progress out of Poverty Index. <https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-progress-out-of-poverty-index-ppi-pilot-training-mar-2008.pdf>, retrieved 19.12.2021.

Name of the index was changed to Poverty Probability Index in 2017.

Questionnaire

Indicator	**Values**				**Points**
1. How many people in the family are aged 0 to 17?	≥5	3 or 4	1 or 2	Zero	
Points	*0*	*7*	*16*	*27*	
2. Does the family own a gas stove or gas range?	No	Yes			
Points	*0*	*13*			
3. How many television sets does the family own?	Zero	1	≥2		
Points	*0*	*9*	*18*		
4. What are the house's outer walls made of?	Light (cogon, nipa, or sawali, bamboo, anahaw)	Strong (iron, aluminium, the concrete, brick, stone, wood, asbestos			
Points	*0*	*4*			
5. How many radios does the family own?	Zero	1	≥2		
Points	*0*	*3*	*10*		
6. Does the family own a sala set?	No	Yes			
Points	*0*	*9*			
7. What is the house's roof made of?	Light (Salvaged, makeshift, cogon, nipa, or anahaw)	Strong (Galvanized iron, aluminum tile, concrete, brick, stone, or asbestos)			
Points	*0*	*2*			
8. What kind of toilet facility does the family have?	None, open pit, closed pit, or other	Water sealed			
Points	*0*	*3*			
9. Do all children in the family of ages 6 to 11 go to school?	No	Yes	No children aged 6-11		
Points	*0*	*4*	*6*		
10. Do any family members have salaried employment?	No	Yes			
Points	*0*	*6*			

Scoring chart

PPI Score	Probability: Below the poverty line		Probability: Total below national poverty line	Probability: Total above national poverty line
	Bottom half below national poverty line	Top half below national poverty line		
0-4	85,0 %	14,3 %	99,3 %	0,7 %
5-9	79,7 %	12,8 %	92,5 %	7,5 %
10-14	61,9 %	30,0 %	91,9 %	8,1 %
15-19	70,5 %	22,9 %	93,4 %	6,6 %
20-24	53,2 %	24,4 %	77,6 %	22,4 %
25-29	42,4 %	34,4 %	76,8 %	23,2 %
30-34	35,2 %	42,6 %	77,8 %	22,2 %
35-39	23,8 %	24,8 %	48,6 %	51,4 %
40-44	22,2 %	26,1 %	48,3 %	51,7 %
45-49	16,5 %	17,1 %	33,6 %	66,4 %
50-54	12,6 %	21,8 %	34,4 %	65,6 %
55-59	8,4 %	14,2 %	22,6 %	77,4 %
60-64	4,7 %	5,4 %	10,1 %	89,9 %
65-69	2,5 %	7,6 %	10,1 %	89,9 %
70-74	1,7 %	5,2 %	6,9 %	93,1 %
75-79	1,6 %	2,2 %	3,8 %	96,2 %
80-84	0,7 %	1,4 %	2,1 %	97,9 %
85-89	0,0 %	0,0 %	0,0 %	100,0 %
90-94	0,0 %	0,0 %	0,0 %	100,0 %
95-100	0,0 %	0,0 %	0,0 %	100,0 %

Appendix 4 Social standards for social performance evaluation

Sierra, J. – Muriel-Patino, V. – Rodríguez-López, F. (2018) The evaluation of microfinance performance in Bolivia. *Enterprise Development & Microfinance*, Vol. 29 (3), 227–243.

Table 2 Universal Standards for Social Performance Management

Dimension	*Standards*
1. Define and monitor social goals	1.A The provider has a strategy to achieve its social goals
	1.B The provider collects and discloses accurate client data specific to its social goals
2. Ensure board, management, and employee commitment to social goals	2.A Members of the board of directors hold the provider accountable to its mission and social goals
	2.B Senior management oversees implementation of the provider's strategy for achieving its social goals
	2.C Employee recruitment and evaluation is based on both social and financial performance criteria
3. Design products, services, and delivery channels that meet clients' needs and preferences	3.A The provider understands the needs and preferences of different types of clients
	3.B The provider's products, services, and delivery channels are designed to benefit clients, in line with the provider's social goals
4. Treat clients responsibly	4.A Prevention of over-indebtedness
	4.B Transparency
	4.C Fair and respectful treatment of clients
	4.D Privacy of client data
	4.E Mechanisms for complaints resolution
5. Treat employees responsibly	5.A The provider follows a written human resources policy that protects employees and creates a supportive working environment
	5.B The provider communicates to all employees the terms of their employment and provides training for essential job functions
	5.C The provider monitors employee satisfaction and turnover
6. Balance financial and social performance	6.A The provider sets and monitors growth rates that promote both institutional sustainability and social goals
	6.B Equity investors, lenders, board, and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms, and desired return
	6.C The provider sets prices responsibly
	6.D The provider compensates senior managers in a way that is appropriate to a provider with stated social goals

Table 3 Client Protection Principles

Client Protection Principle	*Standards*
1. Appropriate product design and delivery	1.1 The financial inclusion (FI) offers products and services that are suited to clients' needs
	1.2 The FI monitors the suitability of products, services, and delivery channels
	1.3 A policy and documental process are in place to prevent aggressive sales techniques and forced signing of contracts
2. Prevention of over-indebtedness	2.1 The FI has a sound policy and well-documented process for loan approvals and makes decisions using appropriate information and criteria
	2.2 The FI uses credit reporting information, when feasible in the local context
	2.3 FI senior management and board monitor the market and respond to heightened over-indebtedness risk
	2.4 The FI maintains sound portfolio quality
	2.5 The FI incentivizes staff to approve quality loans
3. Transparency	3.1 Policy and documented processes are in place to require transparency on product terms, conditions, and pricing
	3.2 The FI communicates with clients at an appropriate time and through appropriate channels
	3.3 The FI takes adequate steps to ensure client understanding and support client decision making
4. Responsible pricing	4.1 The FI is managed sustainably to provide services in the long term
	4.2 The FI's pricing policy is aligned with the interest of clients
	4.3 The FI's financial ratios do not signal pricing issues
5. Fair and respectful treatment of clients	5.1 The FI promotes and enforces fair and respectful treatment of clients in line with a code of conduct
	5.2 The FI has a policy and documented processes to avoid discriminating against protected categories in selecting clients and setting terms and conditions
	5.3 Loans are collected by staff and collection agents in an appropriate manner
	5.4 The FI has effective systems to prevent and detect fraud
	5.5 Insurance claims are processed in a fair and timely manner
	5.6 The FI management and oversight support fair and respectful treatment of clients
6. Privacy of client data	6.1 Client data is kept secure and confidential
	6.2 Clients are informed about data privacy and consent to use their data
7. Mechanisms for complaint resolution	7.1 The FI has an effective system in place to receive and resolve client complaints
	7.2 The FI informs clients about their right to complain and how to submit a complaint
	7.3 The FI uses information from complaints to manage operations and improve product and service quality

Table 4 Pro-Poor Principles

Pro-Poor Principles	*Categories*	*Essential practices*
1. Purposeful outreach to people living in conditions of poverty	Intent and strategy	Intent and systems to offer services to people who are poor by comparison to relevant poverty lines in different regions
	Measurement, data quality, and analysis	Poverty measurement of at least a representative sample of clients upon entry, using data collection methods and checks that generate robust data with appropriate analysis
	Results achieved	Poverty gap is positive: percentages of entering clients below selected poverty lines is higher than percentages for the national or regional population
	Use of findings	Poverty outreach results are used to monitor outreach goals and effect operational and strategic decisions regarding geographic expansion, delivery channels, and product development
2. Services that meet the needs of people living in conditions of poverty	Intent and strategy	Product/service design is informed by systems in place to continuously source insights about poor clients' needs, constraints, and behaviours at entry and over time
		Processes in place to recognize and support clients in vulnerable situations or suffering financial stress
	Measurement, data quality, and analysis	Robust systems for quality assurance monitoring of services to poor clients and for client protection and retention, with special attention to client and field officer feedback and experience, generate good quality data with appropriate analysis
	Results achieved	Evidence from poor clients' use of products/services, their feedback and retention indicates products/services and protection are appropriate for poor clients and their households
	Use of findings	Results are used to assess and improve quality of products and services and their delivery
3. People living in conditions of poverty	Intent and strategy	Systematic tracking of progress of poor clients and their households is based on indicators relevant to the institution's specific poverty alleviation objectives
	Measurement, data quality, and analysis	Periodic tracking of poor clients over time through representative sample or census approach, using reasonably accurate and credible measures of the chosen indicators, generates quality data with appropriate analysis
	Results achieved	Evidence of change in lives of poor clients and their households over time, disaggregated by location, gender, service use, and starting poverty status indicator values
	Use of findings	Board of directors and senior management draw practical inferences from findings and apply these to review social goals and to think strategically about ways to add value for poor clients