

Does Social Performance Drive Corporate Governance Mechanism In Case of Asian MFIs? An Issue of Endogeneity

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Ahmad Nawaz¹
Sana Iqbal²
Sadaf Ehsan³

Abstract

The current study contributes to the existing literature on the relationship between corporate governance (CG) and social performance (SP) of microfinance institutions (MFIs) by introducing CG index for the first time purely in the perspective of Asian MFIs. Moreover, this research also investigates the existence of endogeneity by checking the reverse causality between CG and SP as many previous studies highlighted the endogenous nature of many governance and performance variables. Using a panel of 173 MFIs in 18 Asian countries for the period of 5 years, a comprehensive CG index (CGI) based on seven internal governance mechanism variables is constructed as an indicator of the overall CG mechanism of MFIs. By employing generalized least squares (GLS) model, our results indicate insignificant impact of CG on many SP variables which are attributed to the endogenous nature of this relationship as the significance of results improved by studying relationship in reverse direction by employing ordered logit model. Our results indicate that SP is an important determinant of CG mechanism of MFIs even after controlling for MFI-related characteristics.

Keywords

Microfinance, corporate governance, social performance, endogeneity, Asia

Introduction

The organizations that provide small-scale services to the microenterprises and poorest of the economy who are excluded from traditional financial sector services are termed as microfinance organizations.

¹ Department of Management Sciences, COMSATS Institute of Information Technology, Lahore, Pakistan.

² Department of Business Administration, School of Liberal Arts & Social Sciences (SLASS), Beaconhouse National University (BNU), Lahore, Pakistan.

³ Department of Management Sciences COMSATS Institute of Information Technology, Lahore, Pakistan.

Corresponding author:

Sadaf Ehsan, Lecturer, PhD Scholar, Department of Management Sciences COMSATS Institute of Information Technology, 1.5 KM Defence Road, Off Raiwind Road, 54000, Lahore, Pakistan.
E-mail: sadafehsan@ciitlahore.edu.pk