Corporate Governance Research in Microfinance Institutions: A Systematic Literature Review

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ABSTRACT

This study aims to systematically review the literature on corporate governance (CG) in Microfinance Institutions (MFIs). Specifically, this study identifies how CG is defined and operationalized, examines its role in improving transparency and accountability, and maps the antecedents, mechanisms, challenges, and consequences of CG in the context of the dual mission of MFIs. This study uses the Systematic Literature Review (SLR) method following the PRISMA guidelines. English articles from the Scopus database were selected based on specified keywords. After eliminating duplicate, irrelevant, and inaccessible articles, 50 articles were analyzed using content analysis to identify patterns of concepts and empirical findings related to MFI governance. The review results show that CG in MFIs has unique characteristics due to its dual objectives: financial sustainability and social outreach. CG mechanisms such as board independence, gender diversity, audit quality, and board committees play a positive role in improving financial and social performance. The main challenges include conflicts of interest, founder dominance, information asymmetry, institutional voids, and the risk of mission drift. The effectiveness of CG is greatly influenced by law, culture, ownership structure, and institutional conditions. This study is limited to English-language articles in the Scopus database. Future research needs to expand the scope of cross-country data, use stronger econometric methods to address endogeneity, and explore the internal dynamics of boards through a qualitative approach. The results confirm that strengthening governance is necessary for regulators, donors, and MFI management to improve transparency, reduce risk, and ensure the long-term sustainability of institutions. This study is the first SLR to focus specifically on CG in MFIs. It consolidates scattered findings, develops an integrative CG framework, and provides directions for future research.

Keyword : Corporate governance; Microfincane Institutions; Social Performance; Finansial Performance; Dual Mission.

INTRODUCTION

Corporate governance practices in microfinance institutions (MFIs) have attracted attention. The failure to achieve a balance between financial and social objectives has made corporate governance a complex and pressing issue in this sector (Dato et al., 2018). his study aims to map and review previous studies to evaluate and explore this topic in depth, as well as to identify gaps as opportunities for future research. Corporate governance (CG) has become a key foundation in modern business practices, public policy, and academic studies that reflect the increasing complexity and interconnectedness of global markets (Tricker, 2019). In microfinance institutions, corporate governance acts as a complex leader that must ensure that these dual-purpose institutions play together harmoniously, that the instruments used are of high quality, so that stakeholders can continue to trust and invest in the long-term success of the institution (Dato et al., 2018; Hossain et al., 2024; Thrikawala et al., 2015). To ensure long-term sustainability and effectiveness in achieving its dual mission, the implementation of strong corporate governance (CG) is very important (Poluan et al., 2024).

Microfinance Institutions (MFIs) have emerged as important actors in promoting financial inclusion, particularly in developing countries and emerging economies, by providing financial services to low-income communities and small businesses that are often beyond the reach of formal banking services (Labie, 2001;

Makuya, 2024). By providing access to credit, savings, and other financial services, MFIs play a vital role in poverty alleviation and economic empowerment, especially in developing countries. However, the effectiveness and sustainability of these institutions are increasingly determined by the quality of MFIs corporate governance frameworks, which serve not only as control mechanisms but also as strategic enablers for balancing financial and social objectives (Mishra & Pahi, 2025). The main challenge faced by MFls is the management of dual objectives that are often simultaneously conflicting (Hossain et al., 2024). The challenge is exacerbated by the need to maintain credibility and operational integration in an environment often characterized by resource constraints and regulatory ambiguity (Iqbal et al., 2019).

Many major failures of MFIs around the world have been linked to inadequate governance practices (Bakar et al., 2020; Labie, 2001). Weak governance can increase pressure on internal control systems and cause management to take unwarranted risks (Galema et al., 2012; Nalukenge et al., 2017). The occurrence of mission drift, where social objectives have been sacrificed for economic results, also highlights the importance of effective governance (Labie, 2001). Although good governance is considered vital for the performance and long-term survival of MFIs, existing research on corporate governance (CG) mechanisms and their impact on performance is limited, underdeveloped, and often inconclusive (Galema et al., 2012; Okoye & Siwale, 2017; Thrikawala et al., 2015; Wamba et al., 2018). Ongoing debates suggest that there is no established "best set-up" for MFIs governance(Beisland et al., 2014).

This article aims to conduct a systematic literature review (SLR) to map, synthesize, and critically evaluate existing research on corporate governance in microfinance institutions.Specifically, this study seeks to answer the following research questions: (1) How is corporate governance (CG) conceptualized and operationalized in research on microfinance institutions (MFIs)? (2) What are the mechanisms of corporate governance (CG) in microfinance institutions (MFIs)? And (3) What are the challenges of corporate governance (CG) in microfinance institutions (MFs)? By doing so, this review is intended to provide a structured foundation for academics and practitioners to navigate the complexities of governance in MFIs.

This study contributes to the literature in several ways. First, it offers the first SLR specifically focused on MFI governance, thereby consolidating a scattered body of knowledge. Second, it provides a critical analysis of methodological approaches and theoretical applications, highlighting strengths and inconsistencies. Third, it develops an integrative framework linking the antecedents, mechanisms, and consequences of CG, which can guide future empirical investigations. Finally, it proposes a research agenda that can be followed up to advance the field. The remainder of this article is organized as follows: Section 2 details the systematic literature review methodology. Sections 3 to 5 present findings on the definition of corporate governance in microfinance institutions, the role of corporate governance in microfinance institutions, and outcomes. Section 6 discusses future research directions, and Section 7 concludes..

METHODOLOGY

Research Design

This study was conducted by performing a systematic review of the literature to achieve the objectives outlined above. In addition, to reduce the possibility of bias and error, the value of systematic reviews depends on rigorous methodology and clarity of reporting. Ultimately, the review is replicable, meaning that other researchers may replicate the review procedures and arrive at the same data set and supporting findings. This systematic literature review is based on the recommended reporting guidelines for systematic reviews and meta-analyses.

The research questions that determine the topic, object, and scope of the study serve as the main reference in the systematic review process. Therefore, this study answers the following research questions as the first review protocol:

RQ1: What are the definitions of corporate governance in microfinance institutions?

RQ2: How does corporate governance work in microfinance institutions?

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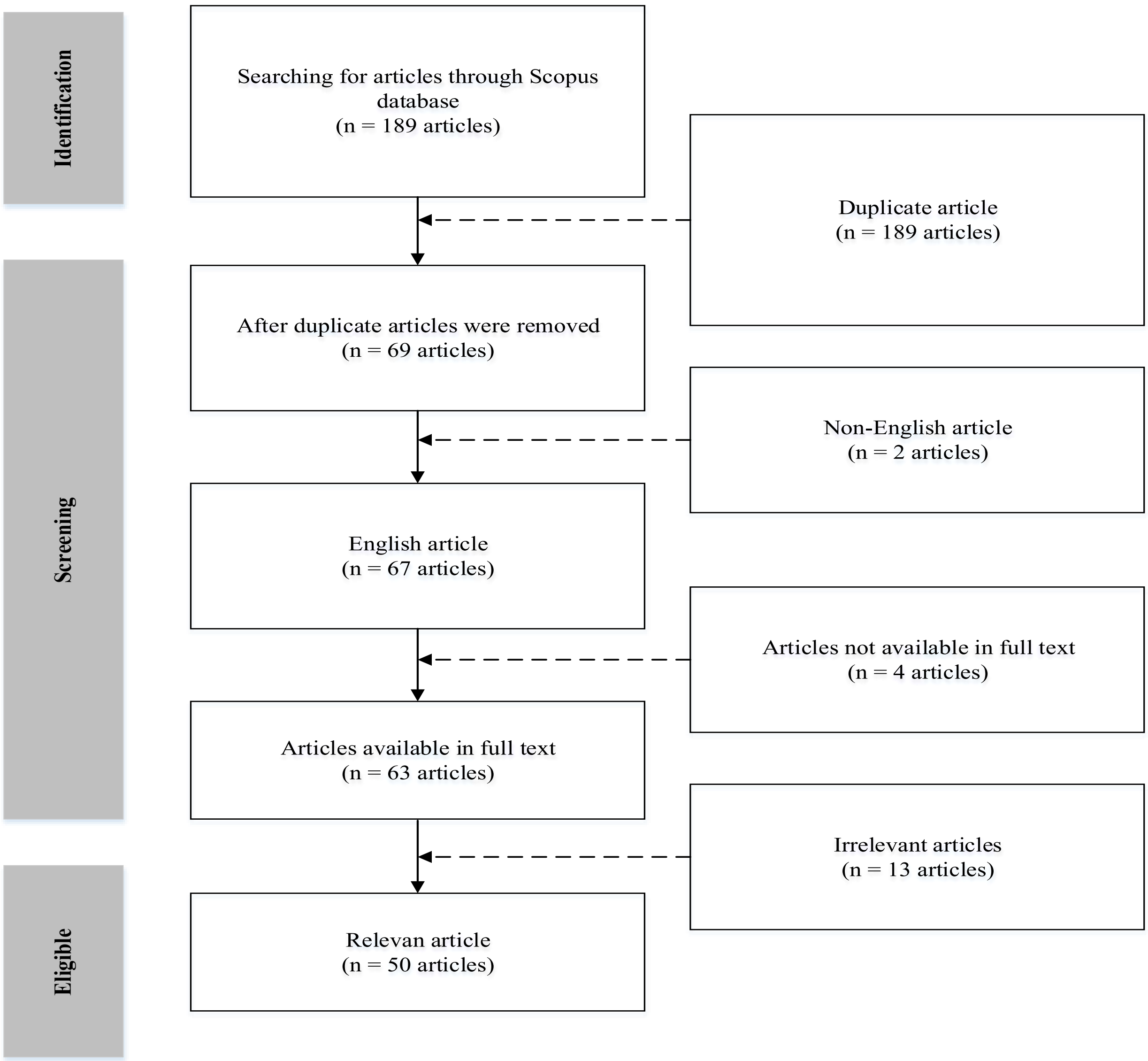
RQ3: What are the challenges of corporate governance in microfinance institutions?

Literature Research

As inclusion criteria, this study focuses on corporate governance in microfinance institutions.The author only included studies written in English. The literature was searched using the keywords shown in Table 1 in the Scopus database because most researchers often use it. The keywords were selected based on the researchers' interest in corporate governance in microfinance institutions.

Picture 1. PRISMA Diagram



Source: Image by the authors

Corporate governance in microfinance institutions is linked to a combination of keywords. To identify the population, this study began by searching the literature for words commonly used to describe governance in microfinance institutions and used the following combinations of words: "Corporate Governance" AND "Microfinance"; "Corporate Governance" AND "MFI"; "Corporate Governance" AND "Microfinance Organization"; "Corporate Governance" AND "Microfinance Organization"; "Corporate Governance" AND "Microfinance Industry"; "Corporate Governance" AND "Microfinance Institutions";. "Corporate Governance Mechanisms" AND "Microfinance"; and "Corporate Governance" AND "microcredit", as shown in Table 1. The total number of search results was 189 articles. After that, the authors removed duplicate articles, resulting in 69 articles. There were two articles written in languages other than English, which the authors removed, resulting in 67 articles. The authors removed articles that were considered irrelevant based on their titles, abstracts, and content, determining that 13 articles were irrelevant, resulting in 50 articles that were considered relevant. Next, the authors checked the availability of articles that could be viewed in full and found that four articles were not accessible in full text, resulting in 50 articles that could be reviewed.

Table 1. Article search Results

No.	Keyword	Scopus
1.	“Corporate Governance” AND “Microfinance”	67
2.	"Corporate Governance" AND "MFI"	43
3.	"Corporate Governance" AND “Microfinance Organization"	4
4.	"Corporate Governance" AND “Microfinance Industry"	14
5.	"Corporate Governance" AND “Microfinance Institutions"	52
6.	"Corporate Governance Mechanisms" AND "Microfinance"	4
7.	"Corporate Governance" AND "Microcredit"	5
	Total	189
	Duplicates	120
	Non English	2
	Irrelevant	13
	Full text not available	4
	Articles to be reviewed	50
Source: Table crated by the authors		

Exploration and selection of article titles, abstracts, and identified keywords were conducted based on eligibility criteria. Articles that were not eliminated in the previous stage were read in full or in part to determine whether they were eligible for inclusion in the study according to the criteria. Articles were collected manually using a form consisting of the author, journal name, article title, abstract, research context, and research methodology. Potentially relevant articles were assessed by each author. The assessment consisted of reading the full text and extracting key information. Discussions between authors helped resolve any disagreements.

Data Analysis Method

The SLR study conducted by the author used content analysis to find meaning and patterns in the reviewed articles. Given the level of subjectivity involved in the content analysis process, the author took several steps. We referred to corporate governance in MFIs that had been developed, then analyzed the dimensions of corporate governance in MFIs from the reviewed studies to ensure the validity of the dimensions of corporate governance in MFIs. In addition, to increase the reliability of this study, coding was performed by the researchers and periodically confirmed during the content analysis process to reduce subjectivity. During the assessment process, the authors discussed any issues that arose.

RESULTS AND DISCUSSION

Definition of Corporate Governance in Microfinance Institutions

Corporate governance (CG) in the context of Microfinance Institutions (MFIs) is a fundamental and crucial concept. In general, CG is defined as a system, or a set of mechanisms, used to direct and control an organization in achieving its mission (Djan & Mersland, 2022). This definition emphasizes that CG is a mechanism that allows fund providers (such as investors, donors, and creditors) to ensure that their funds are used for their intended purposes (Okoye & Siwale, 2017).

The literature on corporate governance in microfinance institutions (MFIs) shows a variety of perspectives, but all emphasize that the definition of CG has unique characteristics because MFIs are a type of social enterprise with dual objectives, namely financial sustainability and social outreach (social outreach or outreach to the poor) (Gupta & Mirchandani, 2020; Nawaz et al., 2018; Saeed et al., 2018; Vishwakarma, 2017).

Experts define CG in MFIs as:

1. Command and Control System: CG is a structure used to set goals and the means to achieve them, while monitoring performance. In the context of MFIs, CG must consider the prevailing social and economic context, as FIs often operate at the bottom of the economic pyramid (BOP) or in areas facing institutional voids (Chakrabarty & Bass, 2014).

2. Accountability and Transparency Mechanisms: CG is defined as practices that demand transparency, accountability, and good performance from corporate managers (Gupta & Mirchandani, 2020; Ssekiziyivu et al., 2018). Firm-level transparency is considered a proxy for good governance practice (Augustine, 2012). The goal is to ensure that the interest of all stakeholders are recognized and protected (Wamba et al., 2018).

3. Mission Setting and Protection Process: In MFIs, CG is a process in which stakeholders guide MFIs to define and protect the mission and assets of the institution (Iqbal et al., 2019). This is very important because MFIs have complex responsibilities and must manage trade-offs between financial and social objectives. The quality of governance distinguishes stronger MFIs from weaker ones, as it affects the quality of management, strategy, and decision-making (Hussain & Ahmed, 2021; Iqbal et al., 2019).

4. Ssekiziyivu et al. (2018) define governance as a system or mechanism that directs and controls a company in the prevailing social and economic context. This definition emphasizes the role of governance as an organizational steering structure. In line with this, Shettima and Dzolkarnaini (2018) view governance as a series of relationships between management, the board, shareholders, and stakeholders in setting goals and monitoring their their achievement. This perspective emphasizes the importance of inter-actor relations in the governance process. Meanwhile, Iqbal et al. (2019) highlight the social mission of MFIs by defining governance as a process through which stakeholders guide microfinance institutions to define and protect their mission and assets.

5. Other researchers highlight aspects of transparency and compliance. Thulasi & Dharmaraj (2025) emphasize that governance in MFIs also includes transparency through disclosure, compliance with regulations, and board structure to maintain accountability. Overall, these definitions show that corporate governance in MFIs does not merely follow the conventional corporate approach, but must reflect a balance between financial efficiency and the achievement of social missions.

Corporate governance (CG) in Microfinance Institutions (MFIs) can be defined as a system of mechanisms that govern how an organization is directed and controlled, which plays a crucial role in enhancing the stability and reliability of the institution and supporting the achievement of sustainable development (Mersland, 2011). Efficient CG is very important because it helps MIs reduce poverty and improve financial access (Thulasi & Dharmaraj, 2025). Good governance practices and quality of information disclosure are directly related to the healthy operational performance of institutions and their ability to generate public trust, for which CG must support standards of consistency and transparency (Vranovci, 2025).

Corporate Governance Mechanisms in Microfinance Institutions

The governance of microfinance institutions (MFIs) is not merely a matter of compliance or risk management; it is central to the institution's ability to fulfill its social and financial mission (Iqbal et al., 2019). Unlike commercial banks, MFIs often operate in environments with limited resources, weak institutional frameworks, and higher vulnerability to institutional governance failures. CG mechanisms in MFIs involve a complex set of structures, practices, and actors, particularly because MFIs have these dual objectives (Hossain et al., 2024).

Key actors in MFI governance

Governance in MFIs essentially revolves around determining the organization's goals and objectives and the means to achieve them, while monitoring the institution's performance (Bakker et al., 2014). The three main actors in the MFI governance system are:

1. The three main actors in the MFI governance system are: (Hussain et al., 2019; Hussain & Ahmed, 2021; Labie, 2001). Dewan juga berfungsi sebagai mekanisme untuk mengurangi konflik kepentingan antara prinsipal dan agen (Kamau et al., 2018; Ssekiziyivu et al., 2018)

2. Top-lebel management: responsible for implementing strategy, managing risk, and ensuring that daily operations run smoothly (Adambekova et al., 2024; Hussain & Ahmed, 2021).

3. External Governance: Responsible for ensuring compliance with applicable standards, policies, and procedures (through regulators, auditors, etc (Hussain & Ahmed, 2021)

Key Components of Corporate Governance Mechanisms in Microfinance Institutions

Governance mechanisms in MFIs are implemented through various complementary internal and external structures to ensure that MFIs achieve the dual objectives of the institution (Bakker et al., 2014).

1. Internal Structure

The most dominant internal structure is the board of directors (BOD), whose existence is very important for supervising and providing strategic direction to management (Aboagye & Otieku, 2010). Various characteristics and compositions of the board are the main focus.

1. Board size, the ideal board size is a matter of debate. This is because some studies state that larger boards can provide broader resources and expertise, which is in line with resource dependence theory as they have a broader spectrum of knowledge that helps them make better decisions and have sufficient capacity to monitor and direct the company (Khan & Shireen, 2020), but may also face higher coordination costs and free-rider problems in line with agency theory (Adem & Dsouza, 2024; Mori et al., 2013; Thrikawala et al., 2017). However, there are several studies that show the benefits of a moderately sized board (e.g., no more than nine members) because it can achieve high outreach performance to the poor, which is beneficial for MFI performance (Adem & Dsouza, 2024; Dato et al., 2018; Hussain et al., 2019).

2. Board independence means that a more independent board (non-executive directors/outside parties) is trusted because it is free from the influence of company management (Tumwebaze et al., 2020), enabling it to monitor management effectively and thereby reduce agency costs (Hossain et al., 2024; Thrikawala et al., 2016). Non-executive directors are advised to have the outside perspective necessary for effective oversight (Thrikawala et al., 2016). However, boards dominated by insiders/founders tend to have lower independence, which can affect social performance (Hossain et al., 2024; Mori et al., 2013). Independent board members tend to monitor management better, leading to better internal control (Nalukenge et al., 2018).

3. CEO duality occurs when the CEO also serves as the chair of the board of directors (Hussain et al., 2019). Agency theory states that the chair of the board of directors and the CEO of an organization should be different people to prevent concentration of power and improve monitoring (Kyereboah-Coleman & Osei, 2008; Nalukenge et al., 2017). Conversely, stewardship theory suggests that the chairman of the board of directors and the CEO should be the same person. Therefore, this study highlights that if the chairman of the board of directors or the CEO is the same person, the combination of roles can increase the effectiveness of decision-making, resulting in CEO duality (Hussain et al., 2019; Nalukenge et al., 2017). In MFls, findings show that CEO duality is generally negatively related to the dual mission of the institution (Gohar & Batool, 2015; Mersland & Strøm, 2009).

4. The presence of female directors (board gender diversity, in MFIs tends to be high, and they receive greater attention because the majority of clients are women (Strøm et al., 2014). Their presence is associated with the dual mission of the institution, leadership that is likely to improve financial performance, and social outreach (Mia et al., 2025; Strøm et al., 2014). Female leadership can also improve operational efficiency and sustainability (Mia, 2022; Shettima & Dzolkarnaini, 2018).

5. Stakeholder Representation: MFI boards often include representatives from outside parties such as international directors/donors and client representatives (Dato et al., 2018; Hossain et al., 2024). MFI performance will be positively related to the presence of international directors and/or directors representing donors/fund providers on the board of directors (Mori et al., 2013; Thrikawala et al., 2016). Proponents argue that client representation on the MFI board of directors helps provide accurate information about the target market, thereby helping to reduce information asymmetry, and is associated with increased sustainability (Thrikawala et al., 2017).

Another internal structure is board committees, whereby the formation of subordinate board structures such as audit and risk management committees can improve board effectiveness by reducing coordination, communication, and free-rider issues. Committees can be divided into Advisory Committees (e.g., risk management, human resources, fundraising) that are resource-oriented, and Monitoring Committees such as audit, compliance, and remuneration that focus on oversight (Dato et al., 2018).

The next internal structure is internal and external audit. The presence of internal auditors who report to the board of directors is an indicator of stricter governance (Djan & Mersland, 2017). In addition, the presence of internal auditors helps ensure that management complies with applicable policies and procedures (Beisland et al., 2015; Mersland & Strøm, 2009). Furthermore, the use of high-quality external auditors (duch as the Big 4) is considered evidence of good governance. Christian MFls, for example, tend to have better audit quality and are more likely to use the services of Big 4 external auditors. High-quality audits increase stakeholder confidence in financial reporting (Djan & Mersland, 2017).

2. External Structure

External structures complement internal oversight. One of the most important external mechanisms is regulation and supervision, which is often carried out by banking authorities or regulatory bodies, depending on the legal status of MFls (Bakker et al., 2014; Hossain et al., 2024; Mori et al., 2013). Regulation is intended to ensure the safety of depositors' funds, solvency, and compliance (Aboagye & Otieku, 2010; Okoye & Siwale, 2017). Regulation can also raise awareness of the importance of high-quality reporting(Beisland et al., 2015). However, the effectiveness of supervision can be an issue, especially in developing countries, where regulators may lack capacity and resources (Okoye & Siwale, 2017).

The second internal structure is external ratings. Ratings by third-party agencies such as MicroRate or Planet Rating serve as an external governance mechanism that provides independent information to stakeholders about the overall performance of MFIs, including their governance (Bakker et al., 2014; Beisland et al., 2014). These ratings promote transparency and can assist in funding decisions (Beisland et al., 2014).

The third point is market competition. Stiffer market competition can reduce managerial slack and increase companies' need for control (Aboagye & Otieku, 2010; Mersland & Strøm, 2009). Strong competition can encourage MFis to improve their management procedures and have more comprehensive governance. From a public policy perspective, regulators should promote competition and expect better MFI performance (Beisland et al., 2014).

The final external structure is transparency and accountability. The quality of financial reporting, such as compliance with International Financial Reporting Standards (IFRS), is an important indicator of transparency and accountability (Nya et al., 2023). Firm-level transparency, as a proxy for good governance, positively affects performance and creates trust among stakeholders (Augustine, 2012; Okoye & Siwale, 2017). CG mechanisms in MFIs are designed to help organizations balance their dual objectives, manage risk, and address the unique challenges arising from the nature of the industry and its operating environment, especially in emerging markets (Chakrabarty & Bass, 2014).

Challenges in corporate governance in microfinance institutions

Corporate Governance in MFIs faces a series of complex and unique challenges, mainly due to the nature of MFIs as hybrid organizations that pursue dual objectives, namely financial sustainability and social outreach or outreach to the poor (Mersland et al., 2011).

Internal Challenges: Structure and Conflict of Interest

Most governance issues stem from conflicts of interest and immature internal structures:

1. Dual Mission Trade-Off Conflict: The need to balance financial and social objectives often results in difficult trade-offs (Hossain et al., 2024). The pressure to achieve financial sustainability can cause MFIs to sacrifice social outreach efforts (e.g., serving poorer clients) (Thrikawala et al., 2015).

2. Founder and Family Dominänce: The presence of founder directors and family ties on the board has a detrimental impact on the social performance of MFIs. Founder directors tend to trade off social outcomes for economic outcomes in order to protect their capital interests, while founding family members exacerbate this problem (Hossain et al., 2024).

3. Agency Costs and Information Asymmetry: The microfinance industry has been criticized for its weak corporate governance and inconsistent structures (Beisland et al., 2014). This creates more serious agency cost and information asymmetry problems between managers and capital providers than in other industries (Beisland et al., 2015).

4. Board Inefficiency: Large board structures can lead to higher coordination costs and free-rider problems *(Mori et al., 2013)*. In addition, duality (the CEO also serving as the Chair of the Board) can be an indication of CEO entrenchment, which reduces board oversight and is negatively associated with performance (Hussain et al., 2019).

5. High Operational Costs: MFIs face high operational costs due to the small nature of transactions, a widely dispersed client population, and the need for intensive and personalized monitoring, which places a heavy burden on their cost structure (Chakrabarty & Bass, 2014).

Eksternal Challenges: Environment and Risk

External challenges in MFI governance are closely related to the operational environment and the need for external oversight:

1. Institutional Voids: MFIs operate in markets rife with institutional voids. These voids include a lack of accountability, ineffective legislative or judicial systems, lack of property rights, corruption, and poor logistics infrastructure, all of which hinder effective governance (Chakrabarty & Bass, 2014).

2. Regulatory and Supervisory Challenges: Although regulations are well-intentioned, MFIs face challenges because supervision is often weak and inadequate (Okoye & Siwale, 2017). Regulated MFIs often have to

prioritize compliance with regulatory requirements, which can lead to mission drift (Mersland, 2009). Furthermore, regulation can increase costs and does not always guarantee improved performance (Bakker et al., 2014).

3. Criticism and Industry Reputation: The industry is vulnerable to public criticism regarding excessively high interest rates and harsh collection practices, as well as over-indebtedness (Bakar et al., 2020). This reputation crisis can damage the trust of among investors and clients, which is crucial for MFls to survive (Visconti & Quirici, 2014).

4. Innovation and technology challenges: Technological innovations (such as M-banking) can create market barriers between strong and weak MFIs, where only the strongest are able to upgrade their technology.

   Overall, the complexity of MFI governance arises from the convergence of dual objectives (social and financial), internal structures prone to conflict (particularly founder dominance), and an operational environment characterized by institutional weaknesses and the need for strong oversigh (Beisland et al., 2015; Galema et al., 2012).

Precedents, Consequences, and Contingencies of Corporate Governance in MFIs

1. Internal Precedents

1.1 Ownership characteristics and legality: regulated microfinance institutions tend to have larger and more independent boards. The presence of regulation is one of the factors that determines the structure of the board (Mori et al., 2013)Then, in terms of profit orientation, profit-oriented MFIs tend to have lower costs related to ownership practices compared to non-profit MFIs or cooperatives (Mersland, 2009). Furthermore, MFIs managed by their founders tend to have smaller and less independent boards, as founders seek to maintain control and influence. For example, when a CEO seeks the approval of the board of directors, it is easier for him or her to speak informally with a small number of board members individually (Mori et al., 2013).

1.2 Institutional characteristics, MFI size, measured by the logarithm of total assets, positively correlates with board size and is the most dominant determinant of audit quality (as a proxy for governance) (Beisland et al., 2015). Larger MFIs require larger boards to address the complexity of their operation (Mersland, 2011). Furthermore, the age and maturity of MFIs, older (mature) institutions tend to attract more independent and diverse boards. In addition, there are findings that older MFIs (more than 10 years tend to have weak internal controls (Nalukenge et al., 2017).

2. Eksternal Precedents

2.1 Institutional voids are defined as absent or weak institutional arrangements that prevent communities from functioning effectively. These voids often occur in markets at the bottom of the economic pyramid (BOP) and are beyond the direct control of companies operating within them (Chakrabarty & Bass, 2014). Institutional voids create difficulties and threaten the organizational viability of companies operating in the BOP, as they hinder efficient economic exchange and contract enforcement. This ultimately increases operational costs for MFIs in the BOP (Chakrabarty & Bass, 2014).

2.2 Donor and Investor Pressure: Donors and investors are external parties that provide funds to MFIs and can exert significant pressure on MFI governance and operations. MFIs often depend on grants and Donations, especially in the early stages, because interest income is insufficient to cover operational and funding costs. This capital is largely provided by social investors who aim to support MFIs in meeting the needs of poor clients, especially women (Mia et al., 2025)Because MFIs have dual objectives (profitability and social outreach), pressure from donors/investors is also dual. Donors want to ensure their funds are used in accordance with the social mission, but commercial investors demand financial returns (Hussain et al., 2019). This duality can lead to trade-offs, where founding directors, for example, may sacrifice social outcomes for economic outcomes to protect their capital interests (Hossain et al., 2024).

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2.3 Market competition refers to the level of competition faced by MFls in their local markets. More intense market competition can reduce managerial slack and increase the company's need for control. Therefore, strong competition can emphasize corporate governance. MFIs in more competitive markets tend to use internal auditors who report to the board. However, this competition does not always increase the demand for high-quality external auditors (Big Four), possibly because MFIs operating in competitive markets may want to hide their actual profitability (Beisland et al., 2015). The presence of competition increases the risk of aggressive practices, although some studies show that competition can improve the double-bottom-line performance of MFIs (Hossain et al., 2024).

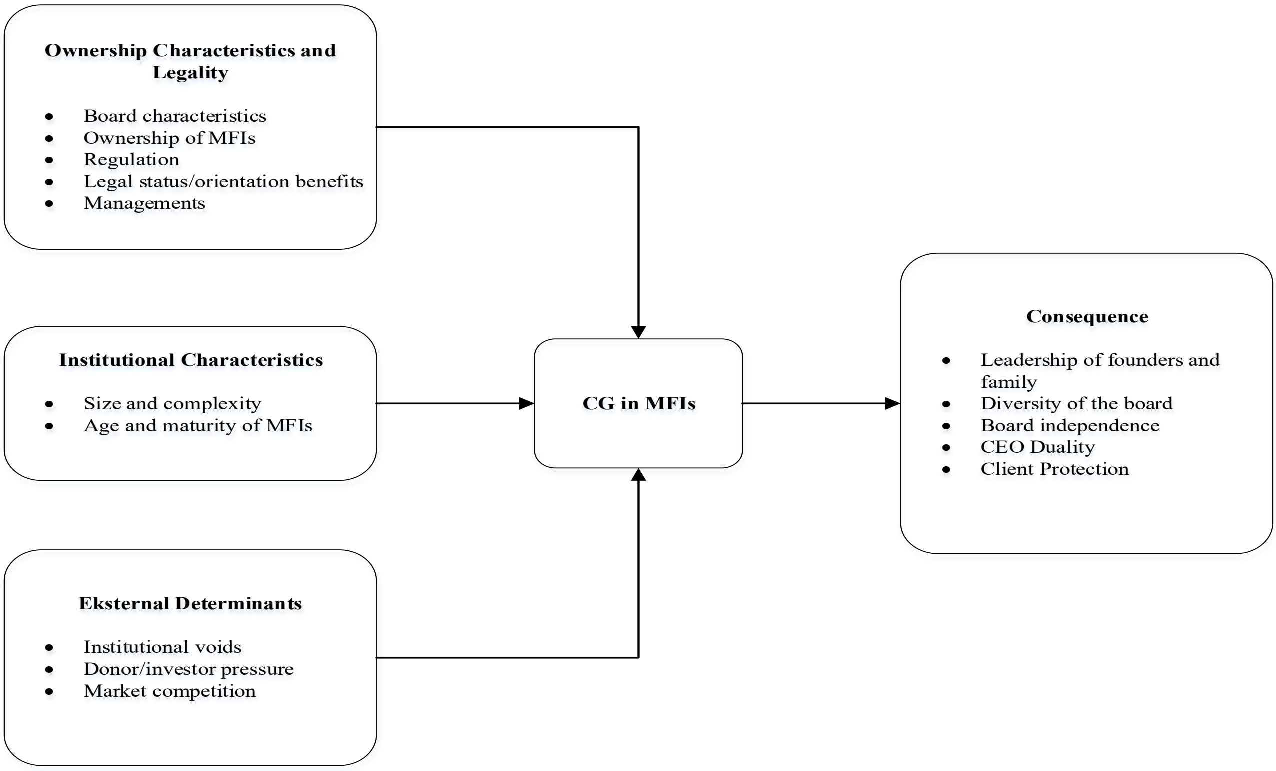

Image by authors

3. Consequences

CG impact refers to the results of a particular governance structure, which is generally measured based on financial performance, social performance, or overall performance. In general, empirical findings show. that an ideal board structure can improve oversight and decision-making, while a flawed structure can trigger trade-offs between the dual missions of MFIs (Hossain et al., 2024).

3.1 Social performance is measured based on the MI's ability to reach the poorest populations (depth of outreach) and serve a wide range of clients (breadth of outreach). The presence of founding directors and board members with family ties has been shown to have a negative impact on the social performance of MFIs. This is because founding directors tend to face a trade-off dilemma between financial and social interests. To protect their capital interests, they are more likely to sacrifice social outcomes for economic outcomes, thereby negatively impacting the social performance of MFIs (Hossain et al., 2024).

3.2 oard diversity: The majority of studies support that female leadership (female CEOs or female chairpersons) has a positive and significant relationship with MFI performance. In addition, a higher percentage of female directors on the board (proxied by Female Dir) has a positive relationship with the percentage of female borrowers (FemBorr) (Moalla et al., 2020). This is in line with findings that female directors may be more focused on gender inequality and promote lending to more female clients (Thrikawala et al., 2016).

3.3 Board independence, the presence of independent directors (non-executive directors), is positively related to performance (ROA and outreach) (Adem & Dsouza, 2024). However, there are also findings that show a negative relationship with operational sustainability (OSS) and Portfolio Yield, which may be due to a lack of specific knowledge of MFIs (Thrikawala et al., 2016).

3.4 CEO duality, the separation of the roles of CEO and Board Chair (non-duality), tends to have a positive effect on financial performance (ROA, OSS) (Kyereboah-Coleman & Osei, 2008). Conversely, CEO duality is associated with lower financial performance and increased risk (Galema et al., 2012). However, duality can increase the number of clients (reach) (Mersland & Strøm, 2009).

3.5 Client protection, particularly accountability and good debt collection policies, is positively and significantly correlated with the sustainability of MFIs (Bakar et al., 2020)This suggests that treating clients well can reduce the risk of default. Conversely, findings show that transparency and transaction costs do not have a significant impact on MFI sustainability in some contexts (Vranovci, 2025).

4. Contigencies

Contingency factors (context) are conditions that moderate or alter the direct relationship between Corporate Governance (CG) mechanisms and their outcomes (social and financial performance financial performance) in Microfinance Institutions (MFls). This context can be external, such as the institutional environment, or internal, such as the quality and complexity of the board.

One key finding is how the effectiveness of external institutions influences the benefits of a particular board composition (Chakrabarty & Bass, 2014). For example, the negative relationship between socio-economic expertise or female representation on the board and MFI operating costs was found to weaken significantly when the effectiveness of state agrarian institutions was low. In markets dominated by institutional voids, the failure of agrarian institutions tends to exacerbate other institutional voids, which in turn makes it difficult for boards to provide effective guidance and reduce MFI operating costs (Chakrabarty & Bass, 2014).

Based on legal status and the level of managerial discretion acting as contingency factors for risk-taking (Galema et al., 2012). CEOs with greater power are more likely to increase risk, and this influence is more pronounced in NGO-type MFIs (Non-Governmental Organizations) than in other types of MFIs. This may be due to the higher managerial discretion enjoyed by NGO-MFIs due to the non-distribution of profits and the lack of shareholder market supervision (Djan & Mersland, 2022).

Internal contingency factors also play an important role, particularly those related to the size and composition of the board.

1. Board Quality (Independence): Better financial performance associated with founding directors or family members is more prominent when the presence of independent directors is lower (Hossain et al., 2024). This means that board independence can moderate the impact of family governance (founder/family ties) on MFI financial performance.

2. Board Size (Committee Effectiveness): The benefits of establishing board committees for financial performance and social outreach are more pronounced in larger boards. This suggests that subcommittee structures are operational mechanisms to offset the potential coordination costs associated with large boards, thereby enhancing the overall effectiveness of large boards(Dato et al., 2018).

Overall, these findings emphasize that there is no "one-size-fits-all" CG solution in microfinance; CG success is highly dependent on adaptation to the MI's operating environment and internal structure (Adem & Dsouza, 2024).

CONCLUSION AND RECOMMENDATIONS

Conclusion

The objectives of this study indicate that corporate governance (CG) is a key element for the sustainability and effectiveness of Microfinance Institutions (MF]s). Strong CG, including an independent board, effective committee structure, quality audits, and good transparency, contributes positively to the achievement of MFIs' dual mission of financial sustainability and social outreach. However, the implementation of CG in MFls faces significant challenges, such as conflicts between social and financial objectives, founder dominance of founders, institutional weaknesses, inconsistent regulations, and the risk of mission drift.

The findings also confirm that there is no single governance model that fits all MFIs; the effectiveness of CG is greatly influenced by the internal and external context of the institution. Overall, this study confirms that strengthening governance is a key prerequisite for improving the performance, stakeholder trust, and long-term sustainability of MFls, and opens opportunities for further research to develop more adaptive and contextual CG approaches.

Recommendation

Future research directions in MFI CG should address the limitations of existing studies, such as the lack of contextual and methodological diversity, and deepen the understanding of the dual mission mechanism of MFIs.

1. Theoritical Recommendations

The direction of theoretical research should focus on developing and applying a richer and more specific theoretical framework for the unique microfinance sector:

1.1 Integration of dual mission theory and conflict of interest. Research needs to further explore how CG in MFIs manage conflicts arising from their dual nature (social vs. financial), especially how Agency Theory can be synthesized with Stakeholder Theory in the context of MFIs. Specifically, it is necessary to examine how the trade-off between social and economic outcomes is moderated by these theories, and how founding/family directors trade off social outcomes for economic interests (Hossain et al., 2024)Then, theoretically, it is necessary to investigate whether female leadership (female CEO/chairperson) brings a new management style to MFIs, and how this style affects performance, which may not be fully explained by the traditional governance framework (Strøm et al., 2014).

1.2 The application of institutional theory in the context of MFIs requires more studies using Institutional Theory to understand how boards of directors help MFIs overcome and work around institutional voids, rather than just how external institutions influence boards. Research can expand its focus on the role of CG in filling institutional voids in the financial sector (Chakrabarty & Bass, 2014).

1.3 Understanding the governance process and board dynamics. Previous CG research has focused heavily on board structure and composition (board composition and board size), but has paid less attention to the internal functioning of boards (inner working). A more in-depth study is needed on the functions and effectiveness of board committees, and how committees (monitoring vs. advisory) affect the performance of MFIs (Dato et al., 2018). Furthermore, future studies could adopt a qualitative and multidisciplinary approach, including in-depth interviews with founding directors or family members on the board, to gain richer insights into how decisions are made and how they manage dual mission trade-offs (Hossain et al., 2024).

2. Empirical Recommendations

The direction of empirical research should focus on expanding the scope of data, improving methodologies to address endogeneity issues, and exploring less tested variables:

Most studies are based on data from a single country (e.g., Bangladesh, Sri Lanka, East Africa) or rated MFIs. Further research should test the results across different types of MFIs (non-licensed MFIs, commercial banks, etc.) and in different legal and cultural environments to verify the generalizability of the findings (Moalla et al., 2020). Most studies are based on data from a single country (e.g., Bangladesh, Sri Lanka, East Africa) or rated MFIs. Future research should test the results across different types of MFIs (non-licensed MFIs, commercial banks, etc.) and in different legal and cultural environments to verify the generalization of the findings (Vishwakarma, 2017).

The next step is to improve the methodology and control for endogeneity. Existing research highlights endogeneity issues (such as unobserved heterogeneity and reverse causality) in the CG-performance relationship (Thrikawala et al., 2017). Future studies should use advanced econometric methods such as the Generalized Method of Moments (GMM), which has proven to be more robust in addressing dynamic endogeneity issues in MFI panel data (Moalla et al., 2020). Research can use mixed-methods (a combination of quantitative and qualitative) to gain a better understanding of board committees and their dynamics (Dato et al., 2018). Furthermore, since CG is measured based on management perceptions (as in Uganda), control variables must be refined to avoid omission variable bias (Ssekiziyivu et al., 2018).

The third recommendation is to explore the role of leadership at the executive level. Although the role of founding directors (on the board) has been studied, further research should investigate founding CEOs or other top management roles (such as CFOs) and their relationship with family members on the board (Hossain et al., 2024). SMEs should be assessed based on broader and better non-financial performance indicators that go beyond traditional outreach metrics to strengthen existing speculation (Moalla et al., 2020).

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