

Does Gender Diversity Influence the Operational Sustainability of Microfinance Institutions (MFIS) In Sri Lanka

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Abstract

This study examines the relationship between gender diversity and operational sustainability of Sri Lankan Microfinance Institutions (MFIs). The static OLS regression and random effect models are used to analyse an unbalanced panel data comprising 243 firm-year observations over the period 2007 to 2012. Findings show that the institutions with female directors on the board have a negative effect on operational sustainability. This study also discovered that MFIs with female CEOs and female chairpersons have a positive effect on operational sustainability. This research provides insight to the policy-makers regarding gender diversity on boards in Sri Lankan MFIs.

Keywords: Corporate Governance, Financial Performance, Gender Diversity, Microfinance Institutions (MFIs), Operational Sustainability, Sri Lanka.

Introduction

Corporate governance practices first appeared in the microfinance literature in 1997 (Lapenu & Pierret, 2006), emphasising the importance of enhancing the viability of the industry in developing countries (Hartarska, 2005; Labie, 2001; Mersland, 2011; Mersland & Strøm, 2009; Varotttil, 2012). Although many studies have focused on the relationship between corporate governance practices and firm performance, there is scant literature relating to the microfinance sector. The empirical analysis in relation to for-profit organisations provide support to the view that good corporate governance practices leads to an improved financial performance and it is argued that improved governance practices in the MFIs will also lead to improved financial performance and outreach (Bassem, 2009; Cull, Demirgüç-Kunt, & Morduch, 2007; Hartarska, 2005, 2009; Hartarska & Nadolnyak, 2007; Mersland, 2009; Mersland & Strøm, 2009). As corporate governance practices is in its infancy in the MFIs, little or no consideration has been given to the measuring impact and evaluating processes for enhanced performance of MFIs in Sri Lanka.

This study selects gender diversity as the main corporate governance factor to examine the MFI operational sustainability as it has become one of the major corporate governance factors in recent years. Adams and Ferreira (2009), state that board directors around the world are now under pressure to appoint female directors to their boards. Many governance reforms stress the importance of gender diversity in boards with a view that women on boards have potential to add value to firm performance in a significant way (Adams & Ferreira, 2009; Carter, Simkins, & Simpson, 2003; Erhardt, Werbel, & Shrader, 2003). For example, governance reforms in UK, Sweden, Norway and Spain have explicitly stressed the importance of gender diversity in the boardroom. However, it is questionable whether women directors have a significant impact on the governance of companies because prior research has provided inconclusive and debatable evidence in different contextals (Adams & Ferreira, 2009; Campbell & Mínguez-Vera, 2008; Hewa-Wellalage & Locke, 2013; Lückerath-Rovers, 2013).

The motivation to examine the impact of gender diversity on MFI financial performance in Sri Lanka is as follows. Enhanced microfinance activities became one of the major economic development goals in Sri Lanka (Central Bank of Sri Lanka, 2012) and there is a lack of corporate governance guidelines for Sri Lankan MFIs to improve their service in broader context (Modoran & Grashof, 2009). Therefore, the findings of this study will contribute to existing literature relating to corporate governance practices in MFIs in the Sri Lankan context.

The remainder of this paper is structured as follows. The first section gives a brief introduction to the MFIs in Sri Lanka. Second, a review of literature relating to

gender diversity and development of the hypotheses are presented. Data collection and research method are described next and finally, this paper presents the findings and concludes it by discussing the implications of the study.

MFIS in Sri Lanka

According to GTZ ProMiS (2010), the microfinance movement formally began in 1906 in Sri Lanka with the establishment of Thrift Credit Cooperative Societies (TCCSs). According to GTZ-ProMiS (2010), a number of different local and international non-governmental organizations (NGOs) entered the microfinance sector between the late 1980s and early 1990s. Similarly, the commercial banks and financial institutions entered the microfinance industry in Sri Lanka (SAMN, 2010) in the late 1980s. Following the tsunami which struck Sri Lanka in 2004, an influx of foreign aid channelled into the microfinance sector. As a result, the microfinance sector had significant growth over the years.

The report on the state of microfinance in Sri Lanka prepared by the Institute of Microfinance (InM) emphasises that there were about 1,061,457 active borrowers in 2008 in 20 key MFIs, compared to 981,724 in 2006 in the same 20 MFIs. In terms of portfolio growth, the total outstanding loan balance was around Rs.18 billion (USD 157 million) in 2008 which is approximately a Rs.6 billion (USD 52 million) increase from 2006.

The Sri Lankan microfinance sector consists of a diverse range of institutions which do not fall under the purview of a single authority. The diverse range of MFIs exists as they registered under various types of laws. Some institutions are regulated by many authorities and some may not have any regulation at all. Absence of a cohesive regulatory and supervisory system for the microfinance sector hampered the growth of the sector, especially for NGO-MFIs (Modoran & Grashof, 2009). As a result, the Sri Lankan government recently enacted the Microfinance act, no. 6 of 2016 to regulate and supervise MFIs in Sri Lanka. This legal and operational framework for microfinance would help to expand the availability of financing micro enterprises (Central Bank of Sri Lanka, 2012, p. 187).

Literature Review relating to Gender Diversity and Firm Performance

In recent years, the phrase ‘board diversity’ has become entrenched in the corporate governance vocabulary but still there is no consensus among scholars about what board diversity actually is? Arguably, board diversity as a concept relates to board composition and mixture of attributes, characteristics and expertise that support board processing and decision making by individual members in the board (Milliken & Martins, 1996; van der Walt & Ingley, 2003). Board diversity is supported on the basis of moral obligation to shareholders, stakeholders and for commercial reasons by obtaining extensive decisions (Daily

& Dalton, 2003; Kasey, Thompson, & Wright, 1997; Mattis, 2000). The Board of Directors in a company need to have right composition to provide diverse viewpoints (Milliken & Martins, 1996). An increase in board diversity would provide linkages to additional resources (Kasey et al., 1997) and improve organisational value and performance (Huse & Solberg, 2006).

In a Sri Lankan context, the study conducted by Heenetigala (2011) using a sample of 37 companies from the top 50 Colombo Stock Exchange (CSE) listed companies, shows there is a positive relationship between board composition and return on equity. In the MFI context, many firms still struggle to identify board members with an appropriate background who are able and willing to dedicate the time that effective monitoring requires (Armendariz & Labie, 2011). Most of the board members of not-for-profit MFIs are generally upper or middle class professionals. Further, Mersland and Strøm (2009) noted that stakeholders such as donors, customers, employees and debt holders are generally absent from MFI boards.

There are two theoretical perspectives underlining the argument of board diversity in corporate governance literature, i.e. Agency Theory and Resource Dependency Theories. The Agency Theory explains the board's monitoring role in relation to protect the shareholders interest from its management due to the separation of corporate management from its owners. This theory describes two key issues, which are influence of board composition on firm performance and the impact of firm leadership structure (Jensen & Meckling, 1976; van der Walt & Ingley, 2003). Resource dependency theory highlights that the board members should consist of stakeholders and influential community parties who can provide legitimacy and prestige with their knowledge, skills and important external links (Hillman, 2005; Hillman, Cannella, & Harris, 2002; Hillman & Dalziel, 2003; Huse & Rindova, 2001; Provan, 1980). This can be achieved by increasing the number of board members and their diversity (Pfeffer, 1973).

In most recent studies, the relationship between board diversity and firm performance has highly concentrated on demographic factors, like gender and ethnicity (Erhardt et al., 2003). In the broader conception of board diversity, gender diversity is widely used in recent studies as a corporate governance factor (Milliken & Martins, 1996) than demographic factors (van der Walt & Ingley, 2003). Some scholars (Huse & Solberg, 2006; Singh & Vinnicombe, 2004; van der Walt & Ingley, 2003) have shown that few women sit on corporate boards but Daily, Certo, and Dalton (2000) state that women's representation on boards is gradually increasing. In the 1980s and 1990s, women had more opportunities to enter corporate boards as the size of boards gradually increased (Bathula, 2008).

Several scholars have empirically tested the consequences of women directors on firm performance (Carter et al., 2003; Farrell & Hersch, 2005; Fields & Keys, 2003; Smith, Smith, & Verner, 2006). However, this is a debatable issue whether

gender diversity assists in improving the firm's performance. Even though gender diversity is identified as a corporate governance indicator its impact on firm performance provides ambiguous predictions (Erhardt et al., 2003; Hewa-Wellalage & Locke, 2013; Milliken & Martins, 1996; Rose, 2007). For example, using data for the 2,500 largest Danish firms in the period of 1993-2001, Smith et al. (2006) indicate that women in top management jobs tend to have a significant positive impact on firm performance. Carter et al. (2003) found a positive relationship between gender diversity and firm value among fortune 1000 firms. Board diversity is positively associated with these financial indicators of firm performance (return on asset and investment) for 127 large US companies in 1993 and 1998 (Erhardt et al., 2003). Reddy, Locke, Scrimgeour, and Gunasekarage (2008) found a significant positive relationship between female directors on the board and financial performance. In the MFI context, Bassem (2009) notes that board diversity with a higher percentage of women enhance MFI performance. By using random effect panel model for 278 MFIs in 60 countries between the years 2000 and 2007, Mersland and Strøm (2009) pinpoint that the financial performance of MFIs improves with a female CEO.

However, Farrell and Hersch (2005) were unable to find a relationship between firm performance and women directors on the board. Similarly, Rose (2007) also couldn't find a significant relationship between gender diversity and firm performances from a cross sectional analysis of all Danish companies listed in Copenhagen Stock Exchange in the period between 1998 and 2001. After a study of 240 YMCA organisations, Siciliano (1996) highlighted that gender diversity had a positive impact on social performance, but a negative impact on the amount of received funds. In an Asian context, Bonn, Yoshikawa, and Phan (2004) found mixed evidence after comparing the female directors on the board and firm performance in Japan and Australia. In a recent study conducted by Hewa-Wellalage and Locke (2013), for the listed companies in Sri Lanka, found a significant negative relationship between the female directors and firm performance.

Based on the indication given by many empirical studies, it is important to further explore the impact of gender diversity of boards on MFI performance as it leads to better corporate governance by providing diverse viewpoints, value and new ideas to the boards, provoking lively boardroom discussions (Burke, 1997; Daily, Certo, & Dalton, 1999; Huse & Solberg, 2006; Pearce & Zahra, 1991; Singh & Vinnicombe, 2004). Previous studies have reached inconsistent results which leads to unclear ideas about gender diversity's influence on firm performance. Therefore, this study argues that MFI boards are likely to have a high level of diversity, proposing the following hypotheses as:

H₁: There is a significant positive relationship between female directors on the board and a firm's operational sustainability in MFIs in Sri Lanka

H₂: There is a significant positive relationship between female CEOs on the board and a firm's operational sustainability in MFIs in Sri Lanka

H₃: There is a significant positive relationship between a female chairman on the board and a firm's operational sustainability in MFIs in Sri Lanka

Data Collection

Estimating the precise number of MFIs in Sri Lanka is quite significant due to the diverse legal forms in the microfinance sector. Therefore, the MFIs considered in this study are firmly limited to the more formal and semi-formal financial institutions (excluding informal providers such as moneylenders, thrift and saving societies) as they are conducting their microfinance activities under regulations. It is hard to trace the microfinance activities in informal organisations as they do not register under any regulation or regulated body. This study employs board characteristics of formal and semi-formal institutions as independent variables and no information is gathered for informal institutes due to the unavailability of director board information.

Sample and sample period are constrained by the data availability. This study collected data from the MFIs that are registered with MIX market and Lanka Microfinance Practitioners' Association (LMFPA), the Sri Lankan microfinance network. MIX market is a non-profit private organization focused on promoting information exchange in the microfinance industry. Recent studies (Bassem, 2009; Cull, Demirgüç-Kunt, & Morduch, 2011; Gonzales, 2007; Lin & Ahlin, 2011; Shahzad, Tripe, Matthews, & Ozer Balli, 2012) have used MIX market database for their empirical studies as MIX collects its data mainly through the contracted consultants and the country level networks that are based on each country (Lafourcade, Isern, Mwangi, & Brown, 2006). These data were self-reported by MIX and reclassified based on the international accounting standards (Lafourcade et al., 2006).

Data sources have been consolidated into one separate country specific database that includes 54 MFIs for Sri Lanka. The institutions in this study are purposely selected due to the availability of audited financial statements and accessibility of data through the databases and some have been omitted from the total sample due to insufficient data. These databases cover the majority of MFIs of significant size that generally provide small uncollateralised loans to underserved people. The director information has been collected from the individual institutions by researching their websites and contacting them. Table 2 describes the percentage of types of organisations included in the sample.

Table 2: Organisation Types

NGO	46.15 %
Company	38.46 %
Licensed Specialized Bank	9.23 %
Cooperative	3.08 %
Credit Union	1.54 %
NBFI	1.54 %

Source: Computed data

Table 3 depicts the definitions of variables used in the study. The operational sustainability measure, which is known as operational self-sufficiency (OSS), is the dependent variable that is used in order to find the relationship with gender diversity. MFIs required sufficient operating income to cover operational costs such as salaries, supplies, loan losses, and other administrative costs (Lin & Ahlin, 2011; Nawaz, 2010). OSS derives from the revenue earnings of operations by dividing the total value of financial expenses, loan expenses and operating expenses. This is a widely used variable in any organisation type to measure their institutional performance, which is a major indicator for MFI sustainability when comparing to other financial performance variables (Bassem, 2009; Hartarska, 2005; Hartarska & Nadolnyak, 2007; Mersland, Randøy, & Strøm, 2011; Mersland & Strøm, 2009; Strøm, d'Espallier, & Mersland, n.d.; Tchakoute-Tchuigoua, 2010). OSS with higher than one may reflect that the firm is viable to cover its costs through the revenues when comparing the financial revenue with financial and operating expenses including provision for loan impairment.

Table 3: Dependent and Independent Variable Definitions

Variables	Acronym	Definition
Dependent Variable		
Operating Self-Sufficiency	Oss	Operating Self-Sufficiency is the total financial revenue divided by the financial expenses, loan loss provision expenses and operating expenses
Independent Variable		
Percentage of female directors	Perfemdir	The ratio of female directors to total number of directors on the board
Dummy variable for gender diversity	Dumfemdir	Dummy variable that takes a value of 1 if there is at least one female directors on the board
Female CEO	Femceo	Dummy variable that takes a value of 1 if the CEO of the firm in a female

Female Chairperson	Femchair	Dummy variable that takes a value of 1 if the Chairperson of the firm is a female
Board Size	Lnbsize	The natural logarithm of the total number of directors on the board
Control Variables		
Firm Age	Lnfage	The natural logarithm of the number of years from the date of establishment
Firm size	Lnfsiz	The natural logarithm of the firm's total assets
Leverage	Lev	The ratio of the firm's total debt to its total assets
Year dummy variables	Year	Six year dummies for each of the years from 2007 to 2012
Organisation Type dummy variables	Otype	Dummy variables for each of the organisation type: NGO, Company, NBFI, Specialised Licenced Bank, Cooperatives and Credit Unions

A percentage of female directors on the board, gender dummy variables for female directors on the board, female CEO and female chairperson are used as the proxies for gender diversity on the board. Board size is employed as the other corporate governance variable. Firm age, firm size, leverage, year dummy variables and organisation type dummy variables are treated as control variables in line with previous studies (Bassem, 2009; Galema, Lensink, & Mersland, 2012; Hartarska, 2005, 2009; Hartarska & Mersland, 2009; Hartarska & Nadolnyak, 2007; Hewa-Wellalage, Locke, & Scrimgeour, 2012; Kyereboah-Coleman, 2006; Kyereboah-Coleman & Osei, 2008; Mersland et al., 2011; Mersland & Strøm, 2009; Reddy et al., 2008; Strøm et al., n.d.).

Method

The research method is to investigate empirically the relationship between gender diversity and operational sustainability of MFIs in Sri Lanka. The research design of this study is longitudinal (panel) as it collects data from different types of cases within a panel study framework by improving the understanding of causal influence over time by illuminating social change (Bryman, 2012). Therefore, this panel comprises of 243 firm-year observations over the period of 2007 and 2012. The rationale for selecting this period is to include up-to-date information. The data are annual and analyse using STATA statistical packages for further interpretation.

This study employs different statistical methods to analyse the data. Descriptive statistics including mean, standard deviation, minimum and maximum values are computed to identify the overall behaviour of the data. In particular, data is normally distributed so that parametric form of statistical modeling can be employed. Correlation matrix of variables are used to measure the relationships between variables which helps to identify the independent variables that are highly correlated with each other (Bernard, 2013). This study computed the variance inflation factor (VIF) diagnostic to measure the multicollinearity. Two-sample *t*-tests were used to compare means of operational self-sufficiency between director boards with women directors and without women directors (Bernard, 2013). However, the *t*-test analysis does not support to find the gender diversity impact on operational sustainability along with other corporate governance factors.

Inferential statistic, such as the multivariate (multiple) linear regression model, called multiple-R, which has more than one independent variable at a time on a dependent variable was developed to test the hypotheses by identifying the relations between variables (Bernard, 2013, p. 551 & 654). This model is employed to understand the combined correlation of a set of independent variables on the dependent variables, taking into account the fact that each independent variable might be correlated with each of the other independent variables (Bernard, 2013, p. 660).

The commonly used multivariate statistical data analysis technique for econometric, finance and social science researches is panel data analysis as it can recognise the unobservable heterogeneity which exists when the relationship between corporate governance variables and performance variables are influenced by the unobserved factors. The two methods, fixed-effect and random effect, are used normally to diagnose the unobserved factors in panel a model. Hausman Test is used to choose between fixed-effect and random effect models (Hausman, 1978). It examines whether the individual effects are uncorrelated with other regressors in the model. Under the null hypothesis that individual effects are random, these estimators should be similar as both are consistent (Cameron & Trivedi, 2010, p. 266). If the Hausman test fails to reject the null hypothesis then the random effect model can be employed for the study. Further, fixed-effects model is impractical in most corporate governance research as it only uses time variation not within firm variation to drive the results (Brown, Beekes, & Verhoeven, 2011). Based on the Hausman test results, this study has used only the random effect model to explain the significant relationship of data.

Findings and Discussion

Table 4 provides descriptive statistics for major variables in the study. The mean value of OSS is 0.97, which is closer to the one. This indicates that the MFIs in Sri Lanka are not lucrative. The percentage of women directors on the board is approximately 46% which is higher than the value obtained by Hewa-Wellalage et al. (2012) for listed companies in Sri Lanka (7.4%). Catalyst census shows that in the USA in 2001 there were only 12.4% women directors among Fortune 500 companies and overall 6.4% in UK companies in the same year (Singh & Vinnicombe, 2004). However, MFIs with female CEO and chairpersons are 26% and 33% respectively. Similarly, Mersland and Strøm (2009) found in their study on 278 MFIs from 60 countries that there are approximately 24% female CEOs. The number of board members in Sri Lankan MFIs are around 8.55 and this research findings is aligned with the Mersland and Strøm (2009) as they noted that most MFIs have a board of 7-9 directors.

Table 4: Descriptive Statistics

	Mean	Std. Dev.	Min	Max
Operational self-sufficiency (OSS)	0.97	0.35	0	2.08
Female CEO	0.26	0.44	0	1
Female Chairperson	0.33	0.47	0	1
Percentage of Female Directors	0.46	0.33	0	1
Number of board members	8.55	4.3	1	30
Firm Age	13.5	8.6	0	41
Firm Size	16.2	6.37	0	24.8
Leverage	0.69	0.25	0	1.1

Source: Computed data

Table 5 presents the Pearson's correlation matrix for dependent and independent variables in the model. The percentage of female directors, female CEO and female chairperson variables are significantly correlated with OSS with weak correlation coefficients of -0.104, 0.128 and 0.154 respectively. However, these provide an indication for hypotheses testing. Even though the coefficients are smaller than 0.7, they were checked for multicollinearity.

Allison (September 10, 2012) states that there will be multicollinearity issue when a VIF is greater than 2.50, which corresponds to an R^2 of 0.60 with other variables. However, a commonly given rule of thumb is when the VIF is 10 or more there is multicollinearity among the independent variables and it is a considerable situation. As per the research findings, it is evident that all VIF and R^2 values in table 6 are less than 2.5 and 0.60 respectively.

Table 5: Correlation matrix for OSS

	Oss	perfemdir	femceo	femchair	lnbsize	lnfsize	lnfage	lev
oss	1							
perfemdir	-0.104*	1						
femaleceo	0.128**	0.436***	1					
femchair	0.154**	0.559***	0.387***	1				
lnbsize	-0.00254	0.354***	0.251***	0.284***	1			
lnfsize	0.249***	-0.115**	0.00737	0.0833	0.657***	1		
lnfage	0.0556	0.344***	0.00421	0.193***	0.306***	0.0509	1	
lev	-0.144**	0.149**	0.105	0.0259	0.0574	0.142**	0.0441	1

Note: *, **, and *** denote statistical significance at 10%, 5%, and 1% levels, respectively

Source: *Computed data*

Table 6: Multicollinearity diagnostic of variables

Variable	VIF	SQRT VIF	Tolerance	R-Squared
Oss	1.21	1.1	0.8237	0.1763
Perfemdir	2.25	1.5	0.4445	0.5555
Femaleceo	1.34	1.16	0.7475	0.2525
Femchair	1.64	1.28	0.6086	0.3914
Lnbsize	1.28	1.13	0.7825	0.2175
Lnfsize	1.39	1.18	0.7219	0.2781
Lnfage	1.33	1.15	0.7526	0.2474
Lev	1.12	1.06	0.8907	0.1093

Source: *Computed data*

According to the tables 7, 8 and 9, the null hypotheses of equal population means are rejected due to the corresponding two-tailed p-values of 0.0085, 0.0474 and 0.0147 are less than 0.01 and 0.05 respectively, which means that the differences of means in OSS between gender diversity are significantly greater or less than 0 by allowing for differences in variances across groups.

Table 7: Independent sample *t*-test for female directors on the board

	Without female directors	With female directors	Difference
Mean of OSS	1.086122	0.9429293	0.14***
Standard Deviation	0.3294428	0.3427901	
Observations	49	194	

Note: *, **, and *** denote statistical significance at 10%, 5%, and 1% levels, respectively. P-Value = 0.0085

Source: *Computed data*

Table 8: Independent sample *t*-test for female CEO

	Without female CEO	With female CEO	Difference
Mean of OSS	0.9445	1.043433	-0.10**
Standard Deviation	0.3404897	0.3467055	
Observations	176	67	

Note: *, **, and *** denote statistical significance at 10%, 5%, and 1% levels, respectively. P-Value = 0.0474

Source: Computed data

Table 9: Independent sample *t*-test for female Chairperson

	Without female Chairperson	With female Chairperson	Difference
Mean of OSS	0.9329012	1.044588	-0.11**
Standard Deviation	0.3436806	0.3354335	
Observations	178	65	

Note: *, **, and *** denote statistical significance at 10%, 5%, and 1% levels, respectively. P-Value = 0.0147

Source: Computed data

Table 10 depicts the multivariate regression results for ordinary least squares (OLS) and random effect approaches. The OLS results for pooled data are presented in column 2 and 3. Findings revealed that the percentage of female director variable is significantly negatively correlated to OSS at 5% level ($t = -2.88$), whereas *femaleceo* and *femchair* variables are positively and significantly related to OSS.

Hausman test result suggests that it is important to employ the random effect model than fixed-effect model due to the acceptance of null hypothesis as P-value is insignificant and greater than 0.05 level ($p = 0.0811$, $\chi^2(7) = 12.65$). According to the random effect model in column 4 and 5 of table 10, the coefficients of *perfemdir*, *femaleceo* and *femchair* variables are significant at 1% and 5 % respectively, however, *perfemdir* is significant negatively to OSS ($t = -2.83$).

Table 10: Pooled OLS and Random-Effects Regression Results

	Pooled OLS		Random effects	
	b	t	b	t
	-			
	0.2571**			
perfemdir	*	-2.88	-0.3129***	-2.83
femaleceo	0.1182**	2.1	0.1282**	2.04
femchair	0.1204**	2.28	0.1264**	2.07
lnbsize	-0.0095	-0.22	0.0183	0.33
lnfsize	0.0285**	2.1	0.0204	1.04
lnfage	0.0127	0.42	0.0313	0.77
	-			
	0.3436**			
lev	*	-3.24	-0.2163**	-2.08
constant	0.5847*	1.97	0.5944*	1.65
year dummies	Yes		Yes	
otype dummies	Yes		Yes	
N	243		243	
R2	0.3572			

Note: Asterisks indicate significance at 10% (*), 5% (**), and 1% (***). Year dummy 2007 and Organisation Type dummy Company are treated as the benchmark categories to avoid dummy variable trap.

Source: Computed data

After controlling for firm size, age, leverage, organisation type and year variables, this study found a significant negative relationship between the percentage of women directors and firm performance, which fails to accept the H₁ hypothesis of the study. In addition, findings of this study are similar to the findings of Shrader, Blackburn, and Iles (1997); Smith et al. (2006); Kyereboah-Coleman (2006) and Strøm et al. (n.d.) that show that the female CEOs are significantly positively related to firms' performance. However, female directors on the board have a significant negative impact on the performance which is similar to studies conducted by Hewa-Wellalage and Locke (2013) for Sri Lankan listed companies and Adams and Ferreira (2009) for the US market. Furthermore, it has been realised that the female chairperson and OSS effect is similar to that of the female CEO, where OSS is better in MFIs with a female chair. These put forward to accept H₂ and H₃ hypotheses of the study.

Conclusion

This study makes an advanced contribution to the understanding of corporate governance practices in MFIs, identifying the impact of gender diversity on firm operational sustainability. In prior studies, the nature of corporate governance practised by MFIs are less understood and no substantive work using multiple MFI outcomes over a number of years has been undertaken in Sri Lanka. A positive impact of this study for the microfinance industry is to observe how MFIs can be strengthened to achieve better performance through gender diversity. This study also points out guidance for selecting directors for MFI boards based on their gender diversity. The findings encouraged MFIs to consider further significant governance factors which will improve and sustain the industry.

The concerns raised in reviews of individual MFIs and normative discussions of what should constitute best practice do point to the need for better understanding of the nature of corporate governance practised by the MFIs and also, to understand the nature of the relationship that exists between institutional success and corporate governance. The Microfinance sector needs to be more effective if it wants to become the miracle cure for poverty. Now the sector is attempting to reinvent itself. This study points to the need for further empirical research for MFIs using dynamic panel generalised methods of moment estimator to strengthen the speculations found in this study.

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