

Roles Of Stakeholders In Strategic Decision-Making Of Microfinance Organizations

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ABSTRACT

Microfinance organizations provide financial services to low income people. These organizations have been increasing dramatically worldwide. This increment calls attention for these organizations and their boards to make strategic decisions which enable them perform well and compete with each other. Based on literature, this paper identifies six types of microfinance stakeholders who sit on boards. These are clients, employees, government, donors, creditors and owners. This paper discusses the different roles of these stakeholders when they sit on boards of microfinance organizations and these roles are further explained to show how they contribute to the process of making strategic decisions. Literature on boards, strategic decision-making and stakeholder theory are used as guides in showing how microfinance stakeholders on boards can be advantageous to these organizations, specifically in strategic decision-making. Practical implications, propositions and areas for future research on stakeholders and strategic decisions in microfinance organizations are identified and encouraged.

Keywords: Microfinance Organizations, Stakeholders, Boards, Strategic decision-making process

INTRODUCTION

Microfinance organizations (MFOs) deal with the provision of loans and other financial services to poor and low income people. These organizations are around worldwide and have evolved as a result of the efforts of committed individuals and development agencies to reduce poverty by promoting self-employment and entrepreneurship. MFOs are currently approximated to serve more than 100 million clients worldwide (Cull et al. 2009). Over the last decade, these organizations have increased dramatically, which has led the industry to be global and competitive, especially in urban areas (Hartaska and Mersland Forthcoming). With globalization of the industry and stiff competition, MFOs are currently challenged to operate more strategically (McIntosh et al. 2005). To be able to operate strategically, MFOs, among other things, need to make strategic decisions. Strategic decision-making involves two perspectives - content and process. Content perspective deals with issues of strategy, such as growth strategy and diversification, while process perspective deals with the process by which strategic decisions are made. Process perspective, which is a focus of this paper, concentrates on the way in which decision makers influence the organization's strategic position through the strategic decision-making process (SDMP) that they use (Elbanna 2006).

Strategic decision makers are often members of boards of organizations (Christensen and Westenholtz 1999). One of the roles of the board is formulating strategies for organizations. From the governance perspective, in order for the board to make effective strategic decisions, its composition, in terms of diversity, should be taken into consideration. Board diversity allows members to bring different expertise, experience and perspectives to the organization and to aid strategic decisions (Hillman et al. 2001).

Responding to a research call by (Mersland 2009b; Hartaska and Mersland Forthcoming), this paper focuses on stakeholder representation on MFO boards as part of board diversity and discusses their importance and roles on boards. In his review, (Mersland 2009b) argued and showed that different stakeholders, such as donors and

clients, have important roles to play in governance of MFOs. Moving beyond (Mersland 2009b), this paper also shows how stakeholders' roles can contribute to the process of making strategic decisions that are required by organizations for better performance. Furthermore, MFOs are working to meet dual objectives of achieving outreach (by reaching the poor or social performance) and sustainability (self sufficiency or financial performance) (Morduch 2000; Cull et al. 2008; Mondal 2009). This implies that management of these organizations reveals more information to their boards than what they would reveal under a single profit maximization objective. Thus, boards play important roles in MFOs, and these roles can be best captured if there is enough stakeholder representation to influence the attainment of dual objectives.

In order to identify microfinance stakeholders, discuss their roles on boards and contributions to SDMP, this paper reviews the literature from various sources. Specifically, boards and governance literature, strategic decision-making literature and stakeholder theory are used to guide this study. A model presented in Figure 1 shows an integrative framework that identifies the conceptual links between stakeholders and dimensions of the strategic decision-making process.

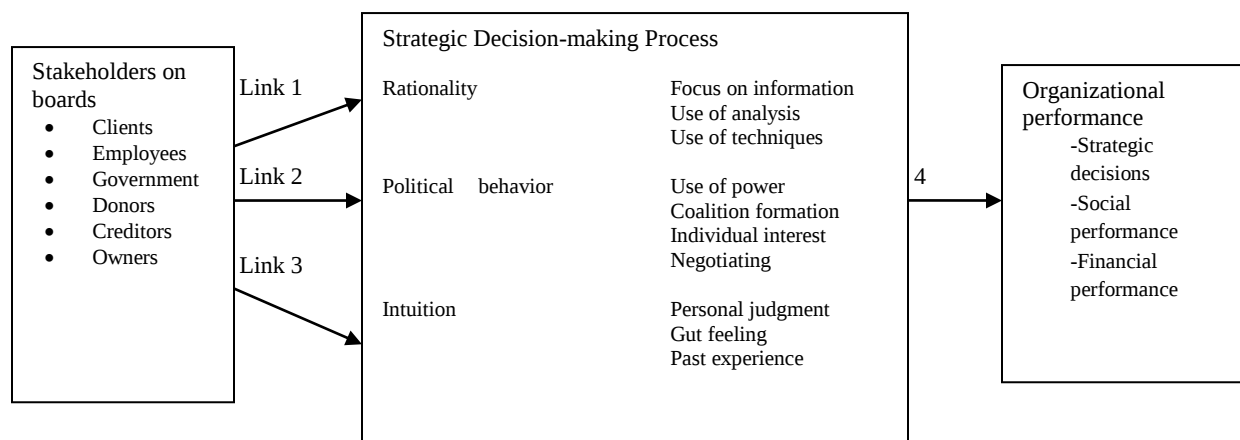


Figure 1: Stakeholders and Strategic Decision-making Process

Conceptual Overview of the Model

Proponents of stakeholder theory suggest that including stakeholder representatives on boards is a “formal mechanism in place that acknowledges the importance of their relationship with the organization” (Mitchell et al. 1997; Hillman, et al., 2001). Following these suggestions and the literature, this paper identifies six stakeholders who may participate in organizational activities and specifically on microfinance boards (Hartaska and Mersland Forthcoming; Lapenu and Pierret 2005). These are clients (customers), employees, government, donors or technical assistance providers (TAPs), creditors (debt holders) and investors (owners). I also categorize these stakeholders as either local or international. Local stakeholders include those who are in the country of MFO operations, such as clients, and international stakeholders are those outside the country of operations, such as donors. One clear role of stakeholders is that they have important and necessary information that they bring on board and if the information is well captured by MFOs, it will lead to better organizational performance. Since boards make strategic decisions, stakeholders represented on these boards are impliedly involved in the process of making these decisions.

Literature synthesis reveals that involving stakeholders in strategic decision-making results in a process characterized by rationality, political behavior and intuition. Rationality occurs when decision makers (stakeholders in this case) gather information and act upon the information they have in making strategic decisions (Chaserant 2003). I argue that rich information is likely to be available when there is a variety of stakeholders who are well informed (Link 1 in the model). Because of this, decision makers enter into decision situations with known objectives. These objectives determine the value of the possible consequences of an action and develop a set of alternative actions. They then select the optimal alternative (Elbanna and Younies 2008).

Political behavior occurs because decision makers have different power and conflict of interests. Boards with different stakeholder representation are likely to face political behavior since every member is representing different interests and different people. However, literature indicates that these conflicts are minimized when efforts are made to ensure shared vision, approach and goal congruence among members. Following Eisenhardt and Zbaracki (1992), political behavior will arise in SDMP so long as there are many individuals with different interests (Link 2), but the heart of this behavior is where conflicts are resolved among individuals with competing preferences.

Intuition assumes that most decisions are made based on different perspectives of decision makers at that particular time (Elbanna and Younies, 2008). In this case, strategic decisions are made based on deep and intimate knowledge of the situation faced by decision makers. Since different stakeholders have different expertise and experiences, when they are involved in decision-making, their intuition becomes a necessary contributor of decisions made (Link 3 in the model). To this end, I argue that for MFOs to perform well, they should (among other things) involve their key stakeholders on boards and in making strategic decisions. Involving them will lead to a process that is characterized by at least one dimension of SDMP; and this, as seen from the literature, may result in better results (link 4 in the model).

The concepts shown in this model yield a stakeholder typology of SDMP, which has been absent from the literature on microfinance governance. Researchers have examined the representation of stakeholders on boards of MFOs and their contribution to organizational performance (Hartaska, 2005; Hartaska and Mersland Forthcoming; Mersland and Strøm, 2009a). This paper moves a step further by theoretically examining how stakeholders on boards contribute to strategic decisions and subsequently to organizational performance. The model presented in this paper serves as a theory-based framework useful for developing a more comprehensive understanding of microfinance stakeholders who sit on MFO boards and their roles on strategic decision-making.

This paper is organized in the following manner. First, a literature review on stakeholder theory is presented, followed by stakeholder representation on MFO boards. The strategic decision-making process is presented afterwards, followed by the section that discusses boards' involvement in the process of making strategic decisions. Throughout the discussion, the paper pays specific attention on how stakeholders are represented on boards and how boards are involved in SDMP (focusing on the model presented earlier). The paper concludes with possible propositions and suggestions for future research.

STAKEHOLDER THEORY

Stakeholder theory posits that an organization is a social construction made of interaction of various stakeholders. The organization is envisioned as the centre of a network of stakeholders, a complex system of exchanging services, information, influence and other resources (Freeman, 1984; Mersland and Strøm, 2009a; Freeman and Evan, 1990). The theory further argues that an organization's value is created when it meets the needs of the firm's important stakeholders in a win-win fashion (Harrison et al., 2007). The concept of stakeholder refers to those categories of individuals or organizations that have a stake in an organization. According to Bryson (2003), the contemporary use of the concept refers to a claimant toward whom an organization has fiduciary responsibility. As much cited, the definition of stakeholder has been formulated by Freeman (1984). According to Freeman, stakeholders are those individuals or groups who are influenced by or have an influence on the activities of the organization.

Stakeholders are further distinguished in various ways. In terms of effect, there are two categories - primary and secondary stakeholders. Primary stakeholders are those who are directly affected, either positively or negatively, by an organization's actions. They are those groups whose continuing participation is necessary for the survival of the organization. According to Jawahar and McLaughlin (2001), primary or key stakeholders include shareholders, investors, employees, customers and suppliers. Secondary stakeholders, on the other hand, are those individuals, groups or organizations who can indirectly influence or be influenced by the organization's actions. They are not essential to the operations of the organization, although their actions can significantly damage (or benefit) the organization (Freeman, 1984). These may include public groups, such as the community.

Another distinction is in terms of their location, which includes internal and external stakeholders (Rousseau and Shperling, 2003). The internal stakeholders are those groups which belong inside the organization, such as managers and employees. External stakeholders are groups that are outside the organization and have effects on the survival of the organizations (Harrison, 1996). These groups consist of customers, suppliers, government agencies, local communities and unions. It is further argued that the core idea of stakeholder theory is not only to recognize internal stakeholders with whom stakeholder communication has been implemented for a longer time and has become obligatory (e.g., employee councils), but also external stakeholders whose claims are patently political or social in nature (Freeman, 1984 and Harrison, 1996). This is in line with what some literature argues - that all stakeholder entities have legitimate values and equal interests and a mutual dependency exists between them and the organization (Donaldson and Preston, 1995).

Advocates of stakeholder theory further suggest that including stakeholder representatives on boards is a “formal mechanism in place that acknowledges the importance of their relationship with the organization” (Mitchell et al., 1997 and Hillman et al., 2001). This implies that stakeholder groups represented are both powerful and legitimate, as well as a part of the organization’s “dominant coalition” (Mitchell et al., 1997; Luoma and Goodstein, 1999). That is, by including stakeholders on boards, organizations are signalling their commitment to stakeholders in a visible way.

Despite the importance of stakeholders, it is evidenced that stakeholder management, whether on boards or not, is often a challenge for many organizations (Harrison, 1996 and Harrison et al., 2007). Some reasons for this challenge are that there are many stakeholder entities and all of them have different stakes and different interests. Involving all of them in organizations’ activities may lead to a lot of conflicts of interests and politics (Gijssels, 2009). Because of these challenges, it is important for organizations to first identify their stakeholders and know what roles different stakeholders play in contributing to organizations’ activities, including making strategic decisions when they sit on boards.

Stakeholder Representation on MFO Boards

The microfinance industry is very different in terms of organizational types. There are MFOs, which are organized as non-governmental organizations (NGOs), banks, financial cooperatives, government agencies (GAs), projects, and nonbank financial institutions (Hartarska, 2005; Brau and Woller, 2004; Labie, 2001; and Mersland, 2009b). These types lead to a variety of stakeholders who may be involved and represented on boards. For example, NGOs are expected to have donors on boards, while financial cooperatives are expected to have clients. Lapenu and Pierret (2005) and Hartarska and Mersland (forthcoming) suggested a list of different stakeholders that may participate in the life of an MFO. I borrow stakeholder groups from these authors and further categorize them as either local or international stakeholders. Local stakeholders are defined as those groups who are within the country of MFO operations, while international stakeholders are those outside the country of MFO operations. Table 1 below defines stakeholders that this paper discusses.

Table 1: Stakeholders in Microfinance Organizations

Category	Group	Details
Local	Clients	Individual customers, group customers, NGO customers and cooperative customers
	Employees	Middle management, credit officers, employees at headquarters and employees in branches
	Government	Officials from local government, central bank officials, members of parliament and ministers
	Creditors	Banks, debt holders and other financial institutions
	Owners	Founders, classic investors, social responsible investors
International	Donors	Development organizations, International NGOs
	Owners	Founders, classic investors, social responsible investors, Trustees
	Technical Assistance providers	International NGOs, Consultants
	International Creditors	International loan providers

Having local and international stakeholder representative on boards is an indication of diverse and independent boards. Several empirical studies conclude that independent boards lead to better performance of MFOs (Hartaska, 2005; Hartaska and Mersland, forthcoming; and Mersland and Strøm, 2009a). Furthermore, being an independent board does not necessarily imply there is good representation of stakeholder groups. Some previous studies (Olomi, 2008) show that for-profit MFOs, like banks, tend to be dominated by outsiders who have commercial interests only, like investors, while NGOs are dominated by development-oriented stakeholders, like donors. Here I am suggesting that the independency and diversity of the board should be in terms of having a mixture of both local and international stakeholder representation and not only the members with one-minded direction.

Board size is another concern when having stakeholder representation. If the board has to be diverse and independent, it also has to be controlled in terms of its size. The average size, which has been suggested by the literature, is eight members (Hartaska and Mersland, forthcoming and Judge and Zeithaml, 1992). It is argued that this size enables the board to be efficient and to allow the opinion and expertise of the members to be fully utilized. On the other hand, boards with many members are considered as 'large' and they may suffer from free riding and may have negative effects on performance. A study by Hartaska and Mersland (forthcoming) shows that MFOs with excessively large boards (more than eight members) had negative performance. Their study also suggests that there are some benefits to larger boards, but the benefits cease after a certain size.

Literature also indicates that financial intermediaries, of which MFOs falls within, have large boards (Hartaska, 2005; Adams and Mehran, 2003); but their results as to the relationship between size and performance are mixed, showing both positive and negative effects. However, because of the dual objectives of MFOs, I argue that boards of these organizations should be large, at least to meet the requirement suggested of eight members. If we make an assumption of picking one stakeholder group from the above table as a board member, the number will not exceed eight. In this case, the board composition will be fair in terms of both the size and diversity.

Furthermore, since stakeholders have intrinsic values (Charreaux and Desbrieres, 2001), they should be viewed instrumentally as factors potentially affecting the overarching goal of optimizing shareholders' interests. By having them on boards, they become sources of either organizational goodwill or retaliation. They also represent the diverse interests that may lead the organization to make effective strategic decisions. Strategic decisions are very important for the organization and they chart a direction of the organization (Freeman, 1984). Therefore, the groups that can affect that direction must be represented on boards, implying that they should be involved in the process of strategic decision-making.

STRATEGIC DECISION-MAKING PROCESS

The Strategic decision-making Process (SDMP) refers to a set of activities through which strategic problems are identified, interpreted, tackled and solved (Elbanna, 2007b). In reality, the process of making strategic decisions is complex; i.e., it involves many conflicting interests, takes a long time, and faces many interruptions, delays and disruptions. It is also shaped by environment, decision specific and decision makers' factors (Elbanna and Younies, 2008 and Hart, 1992).

Past research in the field of strategic decision-making has modeled the process and identified two major categories of SDMP - synoptic formalism and incrementalism (Dean and Sharfamn, 1996; Elbanna, 2006 and 2007a). The synoptic perspective is based on a rational model of decision-making and the "incremental" alternative purports to provide a more accurate description of how organizations actually make strategic decisions (Dean and Sharfamn, 1996, and Frederickson, 1984). These two perspectives are discussed and represented in three main dimensions or characteristics, which are rationality (synoptic formalism), political behavior and intuition (incrementalism).

Henden (2004) defines rationality as the potential outcomes, their probabilities, and their values to the decision maker at the time the decision is made, that lead people to judge a particular choice to be wise or foolish. It is the reason for doing something, and to judge a behavior as reasonable is to be able to say that the behavior is understandably within a given frame of reference' (Elbanna, 2007b). In many of its uses, rationality is

approximately equivalent to intelligence or success and it describes actions that have desirable outcomes. Rationality in SDMP is mostly characterized and constructed by bounded rationality and comprehensiveness. Bounded rationality emphasizes the SDMP, which is limited by cognitive and political realities, and as a result, decision makers aim to achieve objectives that are good enough rather than those which are best (Chaserant, 2003; Eisenhardt and Zbaracki, 1992). Comprehensiveness refers to the extent to which organizations attempt to be exhaustive or inclusive in making and integrating strategic decisions (Frederickson, 1984). Decision makers, in these cases, enter into decision situations with known objectives. These objectives determine the value of the possible consequences of an action. The actors gather appropriate information and develop a set of alternative actions. They then select the optimal alternative (Elbanna and Younies, 2008).

Political behavior, on the other hand, assumes that decisions emerge from a process in which decision makers have different goals, forming agreements to achieve their goals in which the preferences of the most powerful prevail (Dean and Sharfamn, 1993). The key assumption here is that organizations are coalitions of people with competing interests. These people may share some goals and they may have some conflicts (Elbanna, 2006). For example, in MFOs, some people (stakeholders) may favor growth in terms of increased outreach while others favor sustainability. The conflicting preferences arise from different bets on the shape of the future, biases induced by position within the organization and clashes in personal ambitions and interests. The heart of the political approach is the process by which conflict is resolved among individuals with competing preferences. Simply put, decisions follow the desires and subsequent choices of the most powerful people (Eisenhardt and Zbaracki, 1992).

The other dimension is intuition, which assumes that most decisions are made based on different perspectives of decision makers at that particular time. Eisenhardt and Zbaracki (1992) define intuition as incremental adaptations based on deep and intimate knowledge of the situation faced by decision makers. It is often associated with having a hunch or a strong feeling of knowing what is going to occur without explaining the rationale behind it (Elbanna, 2006). Khatri and Ng (2000) suggest the properties of intuition, which are subconscious, complex, quick, a component of all decisions, not emotional and not essentially biased. Moreover, they propose three indicators of intuition; namely, reliance on judgment (if work is not analyzable, decision makers have to employ judgment rather than computational routines), reliance on experience (based on a deep knowledge of problems related to a specific job or environment) and the use of gut feeling (having a strong feeling about the decision, which is made without any base).

These dimensions (or characteristics) of SDMP are widely discussed in the literature of corporate organizations and related to different constructs, such as strategic decisions and organizational performance. However, most studies based on rationality dimension have made conclusions that are controversial (Elbanna, 2006; Eisenhardt and Zbaracki, 1992). They show that rationality in SDMP brings both positive and negative performance. On the other hand, most studies that concentrated on political behavior of the SDMP made conclusions that political behavior brings negative performance in corporate organizations (Elbanna, 2006, and Elbanna, 2007b). Intuition has received limited attention, but in a few studies, results indicate that most strategic decisions, which are done intuitively, bring positive performance to organizations (Khatri and Ng, 2000, and Henden, 2004); and this is basically because of reliance on experience, gut feeling and variety of expertise (Elbanna and Younies, 2008). Several studies have also taken a combination of two or more dimensions, simultaneously, into consideration and concluded that if the process of making strategic decisions is characterized by a combination of these dimensions, then the organization is likely to perform well in terms of decisions made, than otherwise. For example, Hart and Banbury (1994) found that organizations that have high process capability (simultaneous use multiple SDMP dimensions) outperform the single-dimension process organizations. Hermalin and Weisbach (2001) also show that independent and diverse boards employ multiple decision processes and they are associated with better strategic decisions. From a stakeholder's perspective, I argue that boards with stakeholder diversity will likely practice at least one of these dimensions, simultaneously, in their process of decision-making which, in turn, will lead to better strategic decisions.

Board's Involvement in Strategic Decision-making

Involvement in strategic decision-making has been one of the important governance and strategy roles of boards (Christensen and Westenholz, 1999). The Board's involvement here refers to the overall level of participation

of board members in the process of making non routine, organization-wide resource allocation decisions that affect the long-term performance of an organization (Judge and Zeithaml, 1992). For the MFOs, the main strategic decisions made are those concerning growth strategy in terms of new product development and increased geographical outreach, choice of directors, lending policies and interest rates to be charged (Rock et al., 1998, and Lapenu and Pierret, 2005). With the current globalization and increasing competition MFOs face, strategic decisions are becoming more important and the involvement of boards in making these decisions is also very important (Woller, 2002; Lapenu and Pierret, 2005).

As mentioned earlier, the stakeholder diverse board is necessary in order to bring different perspectives, experiences and expertise when involved in the process of making strategic decisions, decreasing (increasing) the political power and increasing the level of intuition of the process which, in turn, have influence on organizational performance. Several studies have looked at stakeholders on MFOs' boards and their effect on organizational performance, and these studies have important implications for involvement in SDMP.

For example, in her study on governance and performance of MFOs, Hartaska (2005) found that microfinance boards with a diversity of stakeholders, mainly outsiders, achieved better results. Her findings also showed that boards with high proportion of international donors improve depth of outreach (social performance) but worsen sustainability (financial performance), and those with high proportion of local stakeholders, mainly clients' representation, lead to high sustainability and low outreach. This implies that involving both stakeholders (in equal proportion) on boards is important in order to get both perspectives and to bring in various information and experience. Relying on one group only might lead to a decision that is not of interest to others and may lead the organization unable to meet its dual objectives. Another empirical evidence is from Hartaska and Mersland (forthcoming) who study which governance measures promote efficiency in reaching poor clients. They defined performance as efficiency in reaching many poor clients. They look at measures such as board size and representation by various stakeholders. Their results show that MFOs with a large proportion of employees on boards are less efficient, high proportion of donors is not beneficial, and representation of both local and international creditors is beneficial. Mersland and Strøm (2009) study whether and how different governance measures, such as stakeholder representation and board size, affect financial performance and outreach. Their results indicate that financial performance improves when boards are informed by internal auditors (employees) and has local members.

In summary, these studies show that there are microfinance stakeholders who sit on boards and their representation has influence on performance of MFOs. Even though these studies look at stakeholders on boards as a governance measure, we know from literature that boards have roles of making strategic decisions and therefore, if stakeholders are on these boards, it implies that they are involved in strategic decision-making. Despite the influence of stakeholders on performance, literature indicates that it is only a few MFOs that have mechanisms that allow their stakeholders to sit on boards and be involved in strategic decision-making (Hartaska and Mersland, forthcoming; Mersland and Strøm, 2009a). Because of this, it is necessary to explain how important each stakeholder is and the reasons for them to sit on MFOs' boards in order to contribute to SDMP.

Clients

Clients are local low income and poor people who are mostly excluded by the formal banking sector. Most of these clients need special kinds of consideration, which is the reason the lending methodology for most of them is different. For example, the way MFOs organize their individual and group lending methods is different from formal banking (Sharma and Zeller, 1997; Aghion and Morduch, 2000; and Ghatak, 1999). This indicates that it is important for MFOs to include representatives of clients so that when strategic decisions are made, they match the clients' needs and objectives. Currently there are studies showing that MFOs are now embarking on a market-oriented view and not only on product view as it was in the past (Pischke, 2002, and Woller, 2002). This is due to competition and clients' knowledge and experience of various products and services. Having a marketing approach means that clients' needs are put first and therefore their involvement on boards and SDMP is very important. Their main role here is to bring information of what is best for clients in terms of products needed, ways of delivery and means of attracting and retaining clients. This information is very useful for MFOs since it enables them to design products and services that meet clients' needs. This is one of the important means for organizations to compete with others and to improve performance.

Employees

For the MFO to be able to have a deep outreach and good financial performance, it needs committed employees. Middle managers and other employees, such as credit officers, are heavily involved in and identified with the organization. They are often in contact with clients, both in offices and in clients' sites, so that they can bring a lot of relevant information on boards concerning how to improve and innovate services and delivery process, which might lead to very competitive strategies (Lapenu and Pierret, 2005). It is also argued that employees have direct access to detailed information concerning organizational activities (Clapham and Cooper, 2005). Having them on boards and in the process of making strategic decisions will give them the opportunity to participate in the long-term growth of the organization and a feel of ownership which, in turn, will motivate them and improve their performance and organizational performance. A study by Cerise (2002) in Lapenu and Pierret (2005) established that MFOs that include employees on their boards achieve better social and financial performance faster than those organizations that do not. However, this finding contradicts with what Hartaska (2005) and Hartaska & Mersland (forthcoming) found whereby boards with high proportion of employees were negatively related to performance. This contradiction has two implications. One is that if the board is represented with more of one type of stakeholders, the results may be negative. The other implication is that stakeholder capacity in representing others should be taken into consideration. It should be noted that MFOs need to carefully identify a representable and knowledgeable member who can be active in contributing to strategic decision-making and performance, in general.

Government

Local government's role in MFOs is important, especially if it was involved in the initial stages of the MFO formation or if it is the owner of that organization. However, it should be noted that there is always an involvement of the government in most MFOs. Their role here is in terms of implementation of policy and regulations set for the microfinance industry (Hartarska and Nadolnyak, 2007, and Mersland, 2009b). Having government representation on MFO's boards poses the risk of having the process which is characterized by political behavior. However, this risk can be minimized if efforts are made to ensure shared vision, approach, and goal congruence among members of the board (Eisenhardt, 1999). Also, board members may decide to rely on their intuition, such as their experience, to choose the best alternative of decisions which are capable of resolving the political conflicts (Elbanna and Younies, 2008).

Donors and Technical Assistance Providers

International stakeholders, such as donors and technical assistance providers (TAPs), are like genetic engineers whose job it is to speed the evolution of sturdy and strong MFOs. Donors and TAPs are good at giving funds, measuring progress, and spreading good practice through providing technical assistance (Schreiner, 2000). Their role in SDMP is important because they contribute to the ability of the MFO to achieve the organizational dual objectives (Mersland, 2009b). These stakeholders also bring international expertise and different culture aspects that may be fruitful to MFOs. Their representation would bring intuition to the process, and because they are mostly foreigners, the MFOs having them are likely to make good strategic decisions. This was also found by (Oxelheim and Randøy, 2003) whereby their results show that organizations with international board members outperform those that do not. However, Hartaska and Mersland (forthcoming) found boards with higher proportion of donors to be less efficient while Hartaska (2005) found them to be efficient. Again, it is important to have a balanced involvement and not rely on high representation of one group of stakeholders.

Creditors

The relationship between creditors (banks) and organizations is accredited for increasing an organization's access to funding (Gerschenkron, 1962, and Hoshi et al., 1994). It is documented that creditor representation on boards has two implications for organizations - through loans to organizations and the aggregation and exercise of proxy voting rights (Agarwal and Elston, 2001). Their representation on boards also provides a strong channel of information in both directions. For example, if banks have access to private information that is used to reduce agency costs, organizations with close bank relationships (creditors on boards) may benefit from better access to finance. These relationships should lead to both higher social and financial performance of organizations. On the

other hand, creditors on boards may cause a potential conflict of interest that may manifest itself in organizational financing decisions (Kroszner, 2001). For example, conflicts of interest could include the bank influencing management to undertake higher risky projects in case that the bank is financing the project. These projects might not bring the expected returns, which may hamper organizational performance. These arguments imply that creditors on boards are able to influence the SDMP. They may make the process rational since they have crucial information and they can make the process to be characterized by political behavior because of different interests. A study by Hartaska and Mersland (forthcoming) found boards with creditor representation to be more efficient in reaching poor clients, which may imply that creditors are still important on boards and strategic decision-making.

Owners

Owners who are shareholders and/or investors of MFOs have important roles in SDMP. These owners appear in different forms. Some are international agencies, or NGOs, such as Consultative Group to Assist the Poor (CGAP), who through its “Council of Microfinance Equity Funds” place equity in return for shares or influence (Rhyne, 2005). Some are local members of societies who contribute to MFOs and some are local and international institutions who own shares. Similar to other corporate organizations, MFO boards are mostly represented by owners. MFO owners are further divided into classic and mixed types (Labie, 2001) depending on the interests of the owners. Classic shareholders are highly profit motivated and their involvement on boards and decision process is basically on the side of making decisions that are profit-oriented. On the other hand, mixed shareholders (or social responsible investors) would like to have some level of profit and social impact. For them, the board should have a variety of stakeholders and decisions made should meet the organization’s dual objectives. The most important role of shareholders is to monitor the management and make decisions that will lead the organization to be sustainable. Table 2 below summarizes stakeholder roles and their implication on SDMP.

Table 2: Roles of Stakeholders on Boards and their Implication on Dimensions of SDMP

Stakeholder	Roles on Boards	Dimension of SDMP
Clients	Provide information concerning clients’ needs. Make decisions that enable organization’s design market-led products and hence improve performance.	Rationality process that requires information gathering, analysis and interpretation.
Employees	Provide information on behalf of clients for which products are needed. Provide information of inside the organization instead of relying only on top management.	Rationality process that requires ability to focus on crucial information. Intuition process that requires the usage of past experience.
Government	Regulating and supervising MFOs. May bring information from other organizations since they also supervise others.	Political behavior because of being attached to government. Conflicts of interests if the government is the owner of the MFO.
Donors/TAPs	Monitoring funds. Providing assistance to organizations, such as training and mentoring.	Intuition process that requires usage of judgment and experience. Rationality process that requires a focus on crucial information.
Creditors	Monitoring lending relationships. Bring information on sources of finance.	Conflicts of interest concerning projects to finance which may lead to political behavior. Rationality processes which requires analysis and interpretation of information.
Owners	Monitoring management.	Intuition and political behavior because of different interests with other stakeholders.

Stakeholders and SDMP

As seen in Table 2 above, different roles of stakeholders on boards automatically make the process of decision-making to be characterized by any or a combination of SDMP dimensions (rationality, political behavior and intuition). A study by Elbanna and Younies (2008) further shows that decision makers could be simultaneously

rational, political and intuitive. They also argue that when this is the case, strategic decisions made are effective, which contributes to good organizational performance.

Rationality of the decision process is improved when there is diversity of stakeholders on boards because the process under this dimension depends on the extent to which information regarding the decision is available, and based on this information, the decisions can be made (Dean and Sharfamn, 1996, and Chaserant, 2003). I argue that rich information is likely to be available when there are more and well informed stakeholders than when there are few. MFOs that are able to involve more stakeholder groups are likely to have rational processes, which leads to effective strategic decisions. I therefore propose that:

Proposition 1: Stakeholder representation on boards will be positively related to rationality of strategic decision-making process.

On the other hand, diversity of stakeholders might lead to a lot of political behavior because of different conflicting interests. MFO decision makers should be aware that political behavior could lead to unsuccessful decisions and consequently poor organizational performance. They all need to defuse political tactics in order to achieve successful decisions (Elbanna, 2006). One direct way of defusing political behavior is through balanced power structure in which each key decision maker (stakeholder involved) has a clear area of responsibility, but in which the leader is the most powerful decision maker (Eisenhardt, 1999). Another means is that there should be common goals that suggest each decision maker knows his/her responsibility and they all have a shared vision of where they want to go. Since literature argues that these ways will defuse political behavior, I propose the following:

Proposition 2: Stakeholder representation on boards will be negatively related to political behavior of the strategic decision-making process.

Intuitive processes are critical for effective strategic decision-making. Diversity of stakeholders in the decision process would lead to high levels of intuition in a sense that they are able to bring in everything they have seen, felt, tasted, and experienced in an industry (Khatri and Ng, 2000) and this will likely lead to effective decisions. I argue that the five qualities of intuition (un biasness, complex, subconscious, quick and not emotional), which were mentioned by Khatri and Ng (2000), will be met when MFOs involve diversified stakeholders. As it has been argued by the literature that independent boards use intuition in their SDMP, the following proposition is therefore made:

Proposition 3: Stakeholder representation on boards will bring high levels of intuition in the process of making strategic decisions.

In summary, stakeholders' diversity and involvement is crucial on boards and the strategic decision process for MFOs. Their role is of great importance in making sure that the strategic decisions made are in line with stakeholders' interests and contribute to sustainability of MFOs. In other words, strategic decisions at all levels influence the importance of various stakeholders (Harrison, 1996). Furthermore, if the process in which decisions are made is characterized by rationality, less political behavior and intuition, simultaneously, it is very likely that the output of that process will be effective decisions and good performance. This leads to the following proposition:

Proposition 4: The strategic decision-making process, which is characterized by high rationality, less political behavior and high intuitive thinking, will lead to good performance in terms of effective strategic decisions.

CONCLUSION AND IMPLICATIONS

The purpose of this paper is to identify stakeholders of microfinance organizations, discuss their roles and contributions in strategic decision-making processes. The literature synthesis reveals that stakeholders have important roles in strategic decision-making. Their involvement on boards would enable the organization to meet their two main objectives - reaching the poor to be financially sustainable and also increase the ability to compete in the industry. Several studies indicate that competition is a major driver of performance of MFOs and it should be

encouraged in order to lower interest rates, which will result in more clients and more outreach (Hartaska and Mersland, forthcoming; McIntosh et al., 2005; and Mersland and Strøm, 2009a). To be able to compete in this industry, MFOs need to operate strategically. One way of doing this is to have a close relationship with their stakeholders (Harrison et al., 2007). As discussed earlier, stakeholders have intrinsic values, and having a relationship with them will make an organization build trust. Once stakeholders have trust with the organization, they can reveal a lot of information that will help the organization serve them better.

Involving stakeholders on boards and strategic decision-making is one means of having a close relationship. The strategic decision-making process is the central part of the organizational survival and performance. Having trusted stakeholders will improve the decision process, which is characterized by one or a combination of rationality, political behavior and intuition. Also, a trusted relationship with stakeholders will open doors for more strategic decision outcomes, such as new products that match demand, new ways of providing services, and so on because all this information will easily be obtained.

To be able to involve key stakeholders on boards, MFOs should first identify their key or primary stakeholders. Not all stakeholders in the industry are important to an individual organization. Some stakeholders may be key to one organization, but not key to another depending on their ownership nature and type. After identification, the organization needs to know and create values with them by probing for interests. Also, it should be noted that there are some stakeholders who, by their representation on boards, can be a curse. This depends on the agenda that they pursue and their influence. This can also lead to misrepresentation and create problems in strategic decision-making. Therefore, MFOs need to be as careful as possible when selecting their board members based on stakeholderhood.

Misrepresentation may be one of the implications of why some studies (Hartaska and Mersland, forthcoming; Mersland and Strøm, 2009a; and Mersland, 2009b) found that very few MFOs have mechanisms that allow a variety of their stakeholders to have a true direct influence on their boards and decisions. These organizations also believe that having diversity of stakeholders on boards is expensive and their presence might complicate the decision-making process. This raises more questions for future empirical studies on who is really involved in MFO strategic decision-making and why are they involved. Another question is for those who are involved, “What influence do they have in strategic decisions made?” Future studies can further test the propositions suggested in this paper to see if what is proposed here can empirically be verified or falsified.

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