Essays on the Performance, Subsidization and Internationalization of Social Enterprises

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UiA University of Agder

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To my mum

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Table of Contents

Acknowledgements vii
Table of Contents ix
Introduction 1
1. Understanding social enterprises 1
1.1 Social purpose or mission 1
1.2 Business objectives 4
1.3 Hybridity 5
2. Three perspectives 7
2.1 Performance assessment 8
2.2 Subsidization 9
2.3 Internationalization 11
3. Microfinance 12
4. Overview of the chapters 13
References 16
CHAPTER 1: Do Social Enterprises Walk the Talk? Assessing Microfinance Performances with Mission Statements 25
Abstract 25
Acknowledgements 25
1. Introduction 26
2. Data, Methods, and Hypotheses 28
3. Empirical Results 32
4. Conclusion 42
References 44
CHAPTER 2: Donations, Subsidized Loans, and the Governance of Social Enterprises 49
Abstract 49

Acknowledgements 49
1. Introduction 50
2. Hypotheses Development and Related Literature 52
3. Data 54
4. Method 55
4.1 Factor analysis 55
4.2 Multiple regression 62
4.3 Econometric strategy 64
5. Findings 68
5.1. Supplementary analyses 72
6. Conclusion 78
References 81
CHAPTER 3: Gender Discrimination and Lending to Women: The Moderating Effect of International Founder 91
Abstract 91
Acknowledgements 91
1. Introduction 92
2. Relevant Literature and Hypotheses 95
2.1 Microfinance and Outreach to Women 95
2.2 Gender discrimination and Microfinance Outreach to Women 98
2.3 Internationalization of Microfinance Institutions and Outreach to Women 100
3. Method and Data 102
3.1. Method 102
3.2. Data 105
4. Empirical findings 111
4.1. Further analyses and robustness checks 115
5. Conclusion 118
References 122

CHAPTER 4: A Hybrid Approach to International Market Selection: The Case of Impact Investing Organizations 131
Abstract 131
Acknowledgements 132
1. Introduction 133
2. Conceptual Framework: The International Market Selection of Social Enterprises 135
2.1. Social Enterprises 136
2.2. International Market Selection and Host-Country Macroenvironmental Climate 137
3. Data and Methodology 140
3.1. Context 140
3.2. Sample and data sources 140
3.3. Dependent Variable 143
3.4. Independent Variables 143
3.5. Control Variables 144
3.6. Econometric Models 146
4. Empirical Findings and Discussion 147
4.1. Descriptive Statistics 147
4.2. Results 152
5. Conclusions 159
References 161
General Conclusion 171
1. Background 171
2. Key findings and directions for future research 172
3. Final remarks 175
References 177
Full Bibliography 181

Introduction

1. Understanding social enterprises

Social enterprises combine business and social welfare logics to tackle societal challenges such as starvation, inequality, unemployment, poverty and poor health care (Defourny & Nyssens, 2010; Smith, Gonin, & Besharov, 2013). These organizations span institutional boundaries by combining characteristics from the for-profit and non-profit sectors (Tracey, Phillips, & Jarvis, 2011). Management scholars theorize social enterprises as hybrid organizations, positioning them midway betwixt for-profit and non-profit organizations (Battilana & Dorado, 2010; Pache & Santos, 2013; Jay, 2013; Battilana & Lee, 2014; Doherty, Haugh, & Lyon, 2014; Ebrahim, Battilana, & Mair, 2014). For profit organizations are typically guided by market principles, they mostly aim at maximizing shareholder wealth through the generation of economic value, i.e., profits (Friedman, 1970; Godfrey, 2005). Shareholders, otherwise called residual claimants, receive profits after all commitments are paid. By contrast, non-profit sector organizations pursue a philanthropic mission, primarily aiming at environmental and social value creation (Dees, 1998).

Social enterprises supply goods and services that satisfy basic human and environmental needs unmet by social, market and governmental institutions (Seelos & Mair, 2005). They integrate logics and help create public goods (Peredo & McLean, 2006). In sum, social entrepreneurship can be viewed as "entrepreneurial activity with an embedded social purpose" (Austin, Stevenson, & Wei-Skillern, 2006, p. 1). By definition, social enterprises have three salient dimensions: social purpose or mission, business objective, and hybridity. In the following, we delve deeper into each of these dimensions.

1.1 Social purpose or mission

According to Peredo and McLean (2006) and Seelos and Mair (2005), the commitment to a social purpose is the common denominator of all social enterprises. The large research network, Emergence of Social Enterprises in Europe (EMES), emphasizes that the goal of social enterprises is to benefit the society (e.g., Defourny & Nyssens, 2010). Social enterprises pursue developmental initiatives that satiate the unmet needs of disadvantaged people and protect the environment; including poverty eradication, food security, recycling, access to potable water, among others. Unmet social needs, or institutional voids, are often the consequences of government or market failures (Austin et al., 2006; Santos, 2012). The emergence of social enterprises is sometimes regarded as

an innovative response to funding challenges in non-profit organizations facing difficulties in soliciting grants and donations (Defourny, 2001; Dees, 1998). While sharing the social ideals of non-profits, social enterprises tap the innovation, efficiency, resourcefulness and operational effectiveness of the for-profit sector in the design, production and delivery of products and services that are better adapted to societal needs (Smith et al., 2013).

"Social" is an equivocal term that conveys different meanings and connotations depending on cultural background and life experience (Young & Lecy, 2014). It becomes further complicated considering the possibility of ranking social needs to inform the allocation of scarce resources. Seelos and Mair (2005) maintain that setting the boundaries and the scope of social enterprises is required to unpack their unique features, which distinguish them from other enterprises. They argue that social mission ambiguity can be solved by conceptualizing social enterprises from the lens of universally adopted sustainable development goals, which incorporate environmental concerns and the basic needs of the current and future generations.

Because of the centrality of social mission, organizations that fall short are accused of what the literature calls "mission drift" (Mersland & Strøm, 2010; Armendariz & Szafarz, 2011). Mission drift is said to have occurred when social enterprises move away from their social mission in pursuit of financial goals (Mersland & Strøm, 2010; Cull et al., 2007). Grimes, Williams, and Zhao (2019), view mission drift as organizational actions that are inconsistent with its identity and image. Mission drift is a grave concern for social enterprises because it poses a severe risk that threatens their legitimacy as pro-social ventures (Ebrahim et al., 2014). Thus, organizations that are set up to satisfy the unmet needs of disadvantaged people may end up sacrificing their social goals in favour of profitability. But to Grimes et al. (2019), mission drift is not necessarily negative, especially if it is a response to external demand or if it is combined with skillful execution.

Studies have linked mission drift to several factors such as excessive commercialization (Augsburg & Fouillet, 2010), volatility of subsidies (D'Espallier, Hudon, & Szafarz, 2017) and unfavourable macroeconomic conditions (Xu, Copestake, & Peng, 2016). Armendariz and Szafarz (2011) maintain that separating mission drift from cross-subsidization can be difficult due to the multidimensionality of social missions. Consistent with this view, Varendh-Mansson, Wry & Szafarz (2020) posit that mission drift can be understood if "mission" is theorized as a "nuanced and variegated construct" (p. 2).

The difference between the social mission of social enterprises and the corporate social responsibility (CSR) of capitalistic firms is rather intricate. Here, I front two perspectives. First, the two concepts may differ based on their degree of centrality to the corporate strategy. Social mission is conceptualized as a core element of corporate strategy and is deemed central to the *raison d'être* of social enterprises (Peredo & McLean, 2006). Social value creation is proactive and woven into the fabric of these organizations. For this reason, social value is regarded as the principal outcome of social enterprises' endeavour (Perrini, Vurro, & Costanzo, 2010; Wilson & Post, 2013). In contrast, CSR, or corporate philanthropy, is often secondary and discretionary to capitalistic firms, as their ultimate goal is encapsulated in shareholder wealth maximization (McWilliams & Siegel, 2000). Put differently, CSR is subordinated to the main objective of maximizing shareholder value. To expound, some CSR initiatives are reactive responses to community pressures and stakeholder activism. For instance, the government of India enacted a legislation that required all large companies to commit a minimum of 2% of their annual profits into CSR actives.[1] In some other instances, companies engage in CSR activities to build legitimacy (Groza, Pronschinske, & Walker, 2011). Whether CSR is compatible with shareholder wealth maximization is inconclusive as available evidence is mixed (Godfrey, Merrill, & Hansen, 2009; McWilliams & Siegel, 2000; Servaes & Tamayo, 2013). According to McWilliams and Siegel (2000), the inconsistent findings may be attributed to misspecification errors, especially the failure of researchers to account for the effects of investments in research and development in their empirical models. Notwithstanding this difference, the boundary between social mission and CSR blurs when one considers mainstream firms that incorporate CRS into their mission, corporate strategy and core business model (Porter & Kramer, 2006; Vilanova, Lozano, & Arenas, 2009).

The second point of distinction relates to how social mission of social enterprises and CSR of mainstream firms are funded. On the one hand, social enterprises harness funds from commercial, and sometimes non-commercial sources (Teasdale, 2010). On the other hand, capitalistic firms usually finance their CSR activities with a discretionary proportion of profits (Godfrey et al., 2009). For social enterprises whose customers are distinct from beneficiaries, this difference is less profound as they tend to operate like capitalistic firms. For such social enterprises, value is extracted from clients in the form

[1] Further information can be obtained from the website of the Indian government: https://www.csr.gov.in/

of profits and channeled into the provision of social services for beneficiaries (Ebrahim et al., 2014).

1.2 Business objectives

Social enterprises are committed to economic value creation, because they need to be financially sustainable (Austin et al., 2006; Santos, 2012; Smith et al., 2013). Unlike non-profits, which are subsidy dependent, social enterprises engage in commercial activities to generate revenues (Mair, Battilana, & Cardenas, 2012). Some social enterprises also receive donations, either in cash or in kind. Yet, such donations constitute only a fraction of their financing mix (Teasdale, 2010). Distinguishing between profit maximization of regular firms and the business goals of social enterprises is tricky since both involve making business. Yet, for regular firms, there is broad consensus that profits must provide sufficient returns to capital providers (Godfrey, 2005) whereas for social enterprises, there is lack of consensus on how much profit is admissible, and on which stakeholders stand to benefit from it. The discourse of these two issues intertwines with the debate on what is considered as moderate, non-exploitative or fair profit in social enterprises (Hudon, Labie, & Reichert, 2018).

Permissible profit levels concern pricing primarily. Whether prices should be set at market or below market is contentious and intermingled with ethical considerations (Hudon & Ashta, 2013; Hudon et al., 2018). Though economic success is a legitimate goal for social enterprises, excessive profits are often criticized and sometimes considered as "mission drift" (Mersland & Strøm, 2010; Armendariz & Szafarz 2011). However, higher profitability is not ruled out if social enterprises deliver on their social mandate (Doherty et al., 2014). Furthermore, pricing decisions are tricky in social enterprises because prices must be affordable for their low-income clients (Austin et al., 2006) and at the same time, they should be high enough for the organization to break-even at least (Dorfleitner, Leidl, Priberny, & von Mosch, 2013). To strike a balance, the literature uses the phrase "financial sustainability" to convey the notion of generating incomes that covers operating costs (Doherty et al., 2014; Mersland & Strøm, 2012; Wilson & Post, 2013). Notwithstanding, a few social enterprises are profitable, others are about the break-even point, while many struggle to survive without subsidies (Hermes & Lensink, 2011). Yet, to finance sustained growth and expansion, social enterprises ought to look beyond breaking even by generating retained earnings (Cull, Demirgüç-Kunt, & Morduch, 2009).

The second dimension of profitability relates to surplus distribution among stakeholders. Like capitalistic firms, some social enterprises can distribute surpluses to specific

stakeholders (Labie & Mersland, 2011) instead of shareholders only (Smith et al., 2013). Recognized stakeholders include suppliers, clients, employees, the community and shareholders (Freeman, 1984). For instance, surplus can be transferred to employees in the form of increased compensation packages, to clients in the form of lower prices or to shareholders through higher dividends (Hudon et al., 2018). According to Hudon and Ashta (2013), surplus distribution among stakeholders determines whether prices (or profits) are fair (see also, Hudon et al., 2018). An example of unethical behaviour is the case of a social entrepreneur charging exploitative prices to the poor while generating high financial returns (Sandberg, 2012). This is the case of the Mexican microfinance organization, Banco Compartamos, which went public in 2007 leading to a handful of investors amassing over USD 450 million (Rosenberg, 2007). In the aftermath of its successful initial public offering, Compartamos came under intense criticism, with some commentators arguing that the value generated could have been leveraged to lower borrowers' interest rate, which at that time stood at almost 100%. In spite of the ongoing scholarly debate, there are few practical guidelines on surplus distribution in social enterprise, especially in balancing the often-diverging interests of stakeholders. Evidence however shows that some social enterprises adopt code of ethics (Kleynjans & Hudon, 2016).

In their fair-profit framework, Hudon et al. (2018) add two dimensions regarding pricing and surplus distribution: operational sustainability (profitability) and focus on social mission (social mission). The authors report that only a few organizations can satisfy all the requirements and most of them experience trade-offs between pricing, surplus distribution, and social mission.

1.3 Hybridity

The final defining characteristic of social enterprises is their hybridity. In natural sciences, hybrids are the offspring of two existing species. For social enterprises the corresponding "species" are the for-profit and non-profit organizations (Doherty et al., 2014). Hybridity means that social enterprises combine dual institutional logics, social welfare and business orientation (Mair, Mayer, & Lutz, 2015). Simply put, social enterprises couple social and financial objectives. To succeed and survive in the long term, social enterprises ought to excel in both objectives (Mair & Marti, 2006; Santos, 2012).

Hybridity is a source of legitimacy that enables these unconventional organizations to obtain resources from philanthropic, private and public sources (Doherty et al., 2014). Achieving the twofold objectives is challenging because the social and financial goals

can conflict and thereby creating tensions and trade-offs where one objective is sacrificed to achieve the other (Reichert, 2018; Townsend & Hart, 2008; Wry & Zhao, 2018). Management studies have confirmed the existence of trade-offs between social and financial goals (e.g., Hermes & Lensink, 2011; Hermes, Lensink, & Meesters, 2011). Wry and Zhao (2018) show that these trade-offs are context-contingent, being moderated by institutional factors such as market conditions and inter-group discrimination. Sometimes, social and financial outcomes reinforce each other (Battilana, Sengul, Pache, & Model, 2015; Mersland & Strøm, 2010). Overall, hybridity is a source of both legitimacy and tensions (Doherty et al., 2014).

Tensions are a unifying characteristic of social enterprises (Battilana et al., 2015; Smith et al., 2013). These tensions manifest in several aspects of these organizations, ranging from governance, human resource practices, performance assessments, among others. Building on the paradox literature (Smith & Lewis, 2011), Smith et al. (2013) identify four categories of tensions in social enterprises: performing, belonging, organizing and learning tensions.

Performing tensions are linked to the pursuit of divergent goals, the use of qualitative non-standard performance metrics, and the need to address inconsistent demands of multiple stakeholders. Assessing success across conflicting goals is challenging especially when progress in one may result in a failure in the other (Smith et al., 2013). Moreover, when tracking performances with competing metrics managers may—advertently or inadvertently—emphasizes one aspect over the other. According to the authors, economic goals dominate when there is a preference for unambiguous quantifiable metrics, while social goals dominate when the social entrepreneur shows strong passion and commitment to long-term social impact.

The belonging tensions concern the identity of social enterprises. It a question of "who we are", "what we do" and "what we stand for" (Smith et al., 2013). Because social enterprises are hybrids, their organization identity is complicated (Wry & York, 2017). Are they "social organizations" or "business ventures"? Managers typically struggle to create a common organization identity that balances their plural logics (Battilana & Dorado, 2010). Belonging tensions manifest when articulating organizational identity to and managing relationships with both internal and external stakeholders. Internally, employees may distinctively identify with social or business logics depending on their backgrounds and previous experiences, thus creating sub-groups and fault lines within the organization (Battilana & Dorado, 2010). The critical issue here is whether social

enterprises should hire people from the social or business sector. External stakeholders such as donors align with social welfare logics whiles others, such as commercial investors, align with business logics.

The third type of tensions comes from competing organizational designs and processes (Smith et al., 2013; Smith & Lewis, 2011). It involves the choice of a legal form, an organizational structure, and routine practices. Regulatory systems for social enterprises vary across the globe, therefore the extent of complexity may depend on the country of origin (Defourny & Nyssens, 2010; Kerlin, 2006). While non-profit organizations adopt organizational structures that permit participatory governance, regular firms adopt structures that are associated with non-participatory governance. The question is whether and how social enterprises should create organizational structures that align with one of these polar structures or integrate elements of both.

Lastly, the learning tensions are associated with balancing hybridity across different time horizons. Whereas profits are easily measured in the short term, social outcomes are better assessed in the long term. Therefore, short term financial goals can conflict with long term social goals, thereby resulting in contradictory predictions for strategic action. Learning tensions occur specifically during growth and scaling. Smith et al. (2013) argue that while social enterprises embark on growth strategies to enjoy scale economies and increase social impact, same strategies erode the mechanisms that sustain social mission and trigger mission drift.

2. Three perspectives

This thesis makes empirical contributions to the understanding of social enterprises and their hybridity. These contributions to the literature are documented from three different but interrelated perspectives: performance assessment, subsidization, and internationalization. Though these perspectives are part of the basic fabric of social enterprises, several underlying mechanisms such as diversity and the influence of institutional logics are not sufficiently theorized (Beisland, Djan, Mersland, & Randøy, 2020; Cull et al., 2018; Seelos & Mair, 2005; Zahra et al., 2009). Yet such theorization is a needed basis for a broader understanding of social enterprises, their hybridity and how they couple logics (Doherty et al., 2014). Before elaborating on the four studies that comprise the dissertation, I reflect on each of the three perspectives.

2.1 Performance assessment

As established earlier, social enterprises must account for both social and financial value creation, because of their hybridity. Monitoring and measuring financial success are less problematic as metrics (e.g., returns on assets or returns on sales) are well developed, more specific, standardized across industries and are primarily used by shareholders and other investors who represent a narrower stakeholder group (Smith et al., 2013). Social performance assessment on the other hand is more complicated, involving ambiguous and less convergent measures (Mair & Marti, 2006). The complexity is further exacerbated by the diverse nature of the social enterprise universe as boundaries of "social" are hard to define (Seelos & Mair, 2005). Thus, measures for assessing social outcomes in one social enterprise may not apply to another if they are involved in heterogenous interventions. Even for social enterprises belonging to the same industry, specific social interventions pursued by individual organizations can vary. For example, in the microfinance industry, some individual organizations may target women while others target rural dwellers.

The challenge of assessing the social performance of social enterprises is also due to the presence of multiple stakeholders, e.g., funders, communities, beneficiaries, family members and employees, whose expectations may diverge (Doherty et al., 2014). For example, a microfinance organization that seeks to empower women may not be exclusively assessed on the basis of number of women reached but also on enhancement of women's social status, subjective family wellbeing and income stability (Garikipati, 2008; Kabeer, 2001). Similarly, the social success of a work integration social enterprise may go beyond the number of disadvantaged people employed to include other subjective measures such as the self-esteem of those individuals employed (Doherty et al., 2014; Smith et al., 2013). These conflicting demands originating from diverse objectives, metrics and stakeholder expectations, are what Smith et al. (2013) termed "performing tensions".

In an effort to understand the coexistence of multiple goals and logics, several studies have theorized about tensions and the social performance of social enterprises, including how tensions could trigger "mission drift" which is a situation where the dominance of economic logic pressure pro-social organizations to move away from their social mission (Hudon & Sandberg, 2013). Yet, the underlying social mission diversity that drives these outcomes is less theorized and seldom accommodated in existing frameworks, thereby resulting in an implicit assumption of a unified social mission, logics and practices across organizations. Recent studies have begun to challenge this approach by viewing a social

enterprise or a certain homogenous set of social enterprises as a unique institutional arrangement where logics and identity vary (Cetindamar & Ozkazanc-Pan, 2017; Varendh-Mansson et al., 2020). Arguably, this approach recognizes and accounts for diversity among social enterprises and circumvents normative judgements (Santos, 2012).

The first and third chapters of the thesis contribute to understanding the social "lever" of social enterprises' hybridity by addressing questions that offer nuanced perspectives. Indeed, an objective definition and measurement of "social" is difficult (Beisland et al., 2020; Seelos & Mair, 2005) and has been at the centre of recent scholarly debates (Grimes et al., 2019; Grimes et al., 2020; Varendh-Mansson et al., 2020). Rather than taking a unified stance, these two chapters theorize social missions and outcomes and make empirical contributions by adopting a variegated perspective which underpins diversity, contextual contingencies and plurality of logics and values (Drori, Manos, Santacreu-Vasut, & Shoham, 2019; Wry & Zhao, 2018). We stress that to understand social enterprises and hybridity as their central characteristic, a fine-grained conceptualization of their social mission and outcomes is needed.

2.2 Subsidization

Hybridity confers legitimacy on social enterprises to attract funding from both commercial and non-commercial sources (Doherty et al., 2014). Thus, social enterprises construct a financing architecture which consist of equity, commercial debt, public and private donations, concessionary loans and internal reserves. To attract external resources, social enterprises, leverage their social embeddedness (Kent & Dacin, 2013) and maintain stronger ties and engagements with their key stakeholders (such as campaigners, charities and customers) (Mair & Marti, 2006). Managing divergent expectations of funders is challenging. For instance, the influx of commercial funds elevates the market logic in social enterprises and can have disruptive effects on hybridity by inadvertently displacing social ideals (Kent & Dacin, 2013). Managers are confronted with the tough task of managing the incoherent demands and expectations of pro-social and commercial funders. Yet, Teasdale (2010) claims that SEs exploit organizational impression management to balance expectations of resource providers, while resisting coercive pressures.

At early stages, most social enterprises rely on donor funds due to low internal reserves and sustainability challenges. Nonetheless, because social outreach is costly, subsidies are indispensable for the continuous operation of many of these organizations

(Armendáriz & Morduch, 2010). Consistent with this argument, recent studies show that subsidies, such as soft loans and donations, are pervasive in social enterprises, regardless of their legal form (Cull et al., 2018). Usually, subsidies come from international donor agencies, foundations and philanthropic organizations. The rise of social investment funds has increased financing opportunities for social enterprises. These funds attract investors who are willing to accept below-market rate returns in exchange for the opportunity to invest in a social cause (Nicholls, 2010). Yet this market for altruism is more dynamic as the fund allocation decisions of the players—private, public, foundations and societies—involve a complex blend of logics that are inspired by cultural norms and institutional factors, personal values and expected returns (Dorfleitner et al., 2012; Henderson & Malani, 2009; Nicholls & Emerson, 2015). Subsidy providers employ a wide range of instruments, including concessionary loans, donations, guarantees, government grants and corporate intangibles (Henderson & Malani, 2009; Hudon, Reichert, & Szafarz, 2018). Typically, donors—both public and public—adhere to a development or social welfare logic unlike commercial funders who adhere to a financial logic (Cobb et al., 2016; Kent & Dacin, 2013). Yet, in the face of uncertainties, the practices motivated by the logics adhered to by commercial and non-commercial funders tend to converge (Cobb et al., 2016).

The design and deployment of funding instruments does not only influence the financing architecture of recipient social enterprises, but also the blend of logics in these organizations and particularly how they balance their social and financial objectives. This is a core subject of the crowding-in and crowding-out literature (Andreoni, 1993; Eckel, Grossman, & Johnston, 2005). To illustrate, the influx of subsidies from public donors can crowd-out (i.e., displace) private donations and equally crowd-in (i.e., attract) commercial capital (e.g., equity) and additional donor funds (Hudon et al., 2018; Morduch, 2006). Consequently, the logics with which social enterprises operate evolve in response to the composition of their key stakeholders such as funders (Kent & Dacin, 2013). For social enterprises, subsidies seem to moderate the trade-off between their social and financial objectives as extensive social outreach is onerous without donor support. In fact, in the absence of subsidies, many organizations would be at the risk of mission drift as they force to finance their operations entirely from generated profits and commercial funds (Armendáriz & Morduch, 2010; D'Espallier et al., 2017b). Though studies have examined the provision of subsidies to social enterprises in relation to efficiency, performance and business model (e.g., Cull et al., 2018; Hudon & Traca, 2011), little is known on the determinants of the giving decision of subsidy providers.

The second chapter of this thesis contributes to filling this knowledge gap from a governance perspective.

2.3 Internationalization

The internationalization of social enterprises is a new topic of scholarly interest (Zahra et al., 2009) as evidenced by the forthcoming special issue of the *Journal of World Business.*[2] Social enterprises are community-embedded organisations, deeply rooted in their political, socio-economic and cultural contexts (Defourny & Nyssens, 2010; Mair & Marti, 2006). This contribute to the sector's diversity. For example, the social enterprise concept differs between one side of the Atlantic and the other side (Kerlin, 2006). In Europe, the definition of social enterprise reflects the cooperative tradition by emphasizing democratic governance and social purpose whereas in the USA, the definition is broader, embracing a wide range of social organizations involved in earned income generating ventures (Defourny & Nyssens, 2010; Kerlin, 2006).

Recent developments in the literature relate to the rise in cross-border activities (Wang, Alon, & Kimble, 2015; Xing, Liu, & Lattemann, 2018). International social enterprises engage in the delivery of products and services beyond their national borders (Zahra et al., 2008; Zahra et al., 2009). Internationalization in the sector also takes other forms, including support-based partnerships with foreign organizations, personnel and knowledge transfer, foreign funding as well as the spread of social intervention programmes from one country to other countries across the globe through replication mechanisms (Drori et al., 2019; Golesorkhi et al., 2019a; Golesorkhi et al., 2019b).

The internationalization of social enterprises can be incremental. For example, the German social enterprise *Dialogue in the Dark* extended its operations to China through social franchising, and it is now present in several countries (Wang et al., 2015). The process may also be rapid, such as in the case of the Florida-based *Lifenet International* organization, which provides 150 health centres for poor people in East Africa (https://www.lninternational.org/). Social enterprises are also exposed to international influences (Mersland et al., 2011) through international board directorship, international network membership, international initiation, and international funding. Tukamushaba et al. (2011) and Zahra et al. (2009) conceptualize international social enterprises.

[2] Call for papers can be accessed via the following link:
https://globaledge.msu.edu/academy/announcements/call-for-papers/59483

Being hybrid organizations, the internationalization of social enterprises is not straightforward and may involve several considerations. From a macro standpoint, not all countries offer the potential to achieve their hybridity. Thus, while some are more socially attractive because of the prevalence of societal challenges, others are only financially attractive because of their safe investment climate (Edwards & Hulme, 1996; Aidt, Dutta, & Sena, 2008; Verbeke & Kano, 2013). As with other trade-off situations, striking a balance between countries for investment purposes would be challenging. Moreover, social issues are often context specific, and may require tailored offerings that are adapted to local norms (Drori et al., 2019). Additionally, the nature of internationalization and the extent of resource commitment may require varied degrees of community embeddedness, stakeholder engagement and the need to obtain local resources such as socially motivated employees (Dacin, Dacin, & Tracey, 2011). This process is complex and costly due to the liabilities of being foreign (see, Zaheer, 1995) and may consequently weaken the ability of social enterprises to straddle social and financial goals. For example, in developing a legitimizing account of their operations to foreign stakeholders, social enterprises may disproportionately draw on only one of their dual logics (Kent & Dacin, 2013; Smith et al., 2013).

The internationalization of social enterprises is an incipient phenomenon and the hybrid literature is yet to cover many of the complexities that come with it. The third and fourth chapters of this thesis contribute to the nascent literature by addressing questing relating to how hybridity as a central characteristic of social enterprises impact targeting strategy and foreign location selection decisions.

3. Microfinance

Our four empirical studies are carried out using data from the microfinance industry. Microfinance involves the provision of financial and non-financial services to people who lack access to formal banking services. From a small beginning in the 1970s (Morduch, 1999), the microfinance has grown into a global industry reaching over 211 million borrowers (World Bank, 2015). Organizations in this industry are well suited for studying social enterprises. First, microfinance organizations (MFOs) are typical social enterprises (Battilana & Dorado, 2010), which combine the logics of formal banks and the social orientation of serving poor people,[3] empowering women and financially including rural

[3] Millions of people across the globe are stuck in poverty due to lack of access to financial services. Most poor people are either under-served or entirely neglected by the formal banking sector. The World Bank's estimates show that over 75% of the world's poor are unbanked (World Bank, 2012). Microfinance aims to lift such people out of poverty by giving them access to banking services.

areas (Kent & Dacin, 2013). Some MFOs complement their financial services with non-financial services, e.g., financial education and business development services, that are meant to empower and develop their clients in a holistic sense (Lensink, Mersland, Vu, & Zamore, 2018). The importance of these organizations is evidenced by the United Nations' declaration of 2005 as the year of microcredit and the award of the Nobel peace prize to Grameen Bank and its founder, Muhammad Yunus.

Second, MFOs constitute a group of fairly homogenous social enterprises, which is valuable for empirical investigation. Though individual organizations may differ in terms of age, size and founder characteristics, they are commonly identified under the overarching goal of delivering financial services to disadvantaged people (Armendáriz & Morduch, 2010). Their global spread allows researchers to study a large number of social enterprises that have a common business model and hence common bottom lines. At the same time, there is diversity among MFOs' missions: while some promote women's empowerment, others target rural dwellers. Likewise, not all MFOs offer "plus" services. This diversity offers opportunities for drawing insights that can be generalizable to social enterprises.

The microfinance literature is well developed, offering a rich theoretical outlook to study social enterprises. Importantly, the literature has developed an array of metrics for assessing social and financial performances of MFOs (D'Espallier & Goedecke, 2019; Hermes & Hudon, 2018).

4. Overview of the chapters

This thesis aims to add to our understanding of social enterprises from three interrelated perspectives: performance assessment, subsidization and internationalization. It comprises four papers, each one includes an empirical analysis.

This first paper, forthcoming in the *Journal of Business Venturing Insight*, is titled "Do Social Enterprises Walk the Talk? Assessing Microfinance Performances with Mission Statements" (co-authors: Roy Mersland and Ariane Szafarz) examines whether social enterprises stick to the actual mission enshrined in their mission statements by analyzing the coherence between their stated mission(s) and social performance. In contrast to studies that assume that all MFOs have the same bottom lines, we assess social performance of MFOs based on their own stated social mission(s). Our original dataset comprises mission statements, social performance indicators, and other organizational variables retrieved from the reports of three microfinance rating agencies. We use content

analysis performed on mission statements to identify whether MFOs state any of the following three standard microfinance social missions: poverty alleviation, women's empowerment and rural financial inclusion. Next, we use one-way analysis of variance and regression techniques to match stated missions with corresponding outcome variables. The results show a strong coherence between mission and practices, suggesting that MFOs tend to fulfil their own stated missions. Specifically, we find that MFOs that state a poverty alleviation mission give out smaller loan amounts, serve higher number of credit clients and often use group-based lending methods. Those that state a women's empowerment mission have larger share of women among their clients and those that state rural mission have more rural clients and are more likely to offer agricultural loans. We contend that the findings underlining the diversity among social enterprises should be taken seriously in the conceptualization of mission, social performance, and related concepts such as mission drift.

The second paper is titled "Donations, Subsidized loans, and the Governance of Social Enterprises" (co-authors: Marek Hudon and Ariane Szafarz), and it investigates the effect of corporate governance on the subsidization of social enterprises. The accounting literature is our theoretical lens (Harris, Petrovits, & Yetman, 2015; Kitching, 2009; Aggarwal, Evans, & Nanda, 2012) and we depart from previous studies in two ways. First, we use data on social enterprises rather than non-profits, which is still an unchartered territory. Second, we differentiate two major sources of subsidy: donations and concessionary loans. Our methodology inspired by Harris et al. (2015) proceeds in two steps. First, we employ an exploratory factor analysis technique to summarize 14 governance variables into five governance dimensions. Next, we use regressions where we explain the level of donations and concessionary loans with the five governance dimensions. The findings show a positive association between four of the five governance dimensions and the level of concessionary loans received by MFOs. In contrast, donations are insensitive to the tested governance dimensions, which suggests that donors are motivated by other factors than governance, such as social performance. For concessionary loan providers, corporate governance may provide cues regarding loan repayment.

The third paper is titled "Gender Discrimination and Lending to Women: The Moderating Effect of International founder." In line with studies exploring how internationalization intertwines with societal norms (Drori et al., 2019), we investigate the influence of gender discrimination on the women outreach performance of MFOs and tests the moderating effect of international founder. In doing so, we revisit the subject of social mission and

associated outcomes and investigate the effect of institutional mechanisms. Our MFO level data are obtained from both social and institutional microfinance rating reports while country level data is obtained from the databases of the World Bank and the Organization for Economic Cooperation and Development. The results show that outreach to women is lower in countries where women face much discrimination. Moreover, gender discrimination interacts with international founder to increase outreach to women. These findings suggest that discriminatory societal norms paradoxically militate against MFOs' redress efforts. The findings also highlight the role of international actors in driving the women focus in microfinance.

The fourth paper titled "A Hybrid Approach to International Market Selection: The Case of Impact Investing Organizations" (co-authors: Roy Mersland and Amila Buddhika Sirisena) is forthcoming in the *International Business Review*. Though there is increase in cross-border operations among social enterprises, little is known about where these organizations go and how they choose their markets. As a response, this paper examines the international market selection decision of social enterprises based on host countries' macroeconomic conditions. We use data from 41 impact investing organizations listed in the 2013 directory European Microfinance Platform as well macroeconomic data on 153 developing countries. Based on previous literature, we hypothesize that social enterprises, in our case impact investing organizations, are likely to expand into countries where they have the opportunity to balance the competing demands of their dual institutional logics. Supporting this hypothesis, the results suggest that impact investing organizations operate in foreign countries that offer a desirable balance between social and financial outcomes. Thus, the international market selection of social enterprises is tied to their hybridity, the overarching characteristic that sets them apart from other types of organizations.

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CHAPTER 1:
Do Social Enterprises Walk the Talk? Assessing Microfinance Performances with Mission Statements[4]

Abstract

We study mission drift in social enterprises by examining whether these organizations stick to the *actual* mission enshrined in their mission statements. We use data from microfinance organizations (MFOs), a homogeneous group of social enterprises which have been scrutinized—and sometimes criticized—for mission drift. We focus on three publicly recognized and non-mutually-exclusive microfinance social missions identified by previous studies: poverty alleviation, women's empowerment, and rural financial inclusion. Based on hand-collected data from 199 MFOs worldwide, our results suggest strong coherence between social missions and actual practices. Hence, we argue that, with respect to MFOs' own stated social missions, mission drift is no serious concern. The trustworthiness of social mission statements makes them suitable evaluation tools for social enterprises.

Keywords: Mission statement, mission drift, microfinance, social enterprise, content analysis

JEL classifications: G21, G23, G28, G32, L21, O50, P36

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1. Introduction

Social enterprises (or hybrid organizations) couple logics from conventional business and social welfare (Pache & Santos, 2013; Stevens et al., 2015; Zahra et al., 2009). Recently, scholars have raised concerns that social enterprises can experience "mission drift" by losing sight of their social mission in pursuit of financial sustainability or profit (Cetindamar & Ozkazanc-Pan, 2017; Ramus & Vaccaro, 2017). Mission drift poses a severe risk to the fulfillment of social enterprises' raison d'être of creating social value (Ebrahim et al., 2014). In this paper, we focus on a unique and relatively homogeneous set of social enterprises: microfinance organizations (MFOs) (Battilana & Dorado, 2010). MFOs seek to pursue developmental goals by providing financial services to poor and marginalized populations (Armendáriz & Morduch, 2010; Morduch, 1999). The microfinance industry provides an interesting setting for examining mission drift in social enterprises.

The topic of microfinance mission drift is still controversial. It can be understood in two ways. The first is when MFOs diverge from desired social outcomes over time. They become increasingly commercial and serve less-poor clients (Augsburg & Fouillet, 2010; Hermes et al., 2011).[5] Previous studies tackle microfinance mission drift from this standpoint (Mersland & Strøm, 2010; Cull et al., 2007; Copestake, 2007; D'Espallier et al., 2017a; Beisland et al., 2018). The second interpretation of mission drift is when MFOs deviate from their own stated mission(s). This bottom-up approach is new to the microfinance literature and has the merit of being aligned with the literature on mission drift in social enterprises (Cetindamar & Ozkazanc-Pan, 2017). Thus, contrary to the frequent assumption that all MFOs pursue the same mission(s), we argue that inquiry into mission drift starts with an examination of what MFOs themselves advertise as their main mission and continues with an examination of whether MFOs "walk the talk." Accordingly, we test for the occurrence of microfinance mission drift by comparing the content of the mission statements of MFOs with their actual social performances. Evidence abounds on the diversity of MFO characteristics, including size, location, clientele, products, and legal status. This paper argues that the one-mission-fits-all approach to mission drift is unsuitable for MFOs. Like other social enterprises (Bagnoli & Megali, 2011; Kaplan, 2001), MFOs should be judged by their accomplishments of

[5] It is commonly argued that commercialization infuses market logics and projects' economic rationales and subsequently break down the social ethos by which MFOs operate (Kent & Dacin, 2013). This argument is tied to the conflicting relationship between social enterprises' social and financial objectives (Gamble, 2018; Peredo & McLean, 2006; Wry & Zhao, 2018). Other studies, however, contend that commercialization is compatible with the social mandate of MFOs (Mersland & Strøm, 2010). This standpoint supposes that the objective of reaching financially excluded people is constant over time (Schreiner, 2002).

their mission(s) as mentioned in their mission statements. This approach to mission drift acknowledges that MFOs pursue social objectives for which they have the resources and strategic competence (Roberts, 2013; Bart & Baetz, 1998).

A mission statement defines the purpose of an organization. It represents the most symbolic enunciation of organizations' raison d'être, as it "distinguishes one organization from other similar enterprises" (David, 1989, p. 90). As such, it is an important tool for targeting a market, planning, setting financial priorities, and assigning tasks (Moss et al., 2011; Palmer & Short, 2008). Mission statements drive organizational processes and outcomes, including strategy (Bart, 1997), performance (Bartkus et al., 2006; Bart & Baetz, 1998), stakeholder management (Bartkus & Glassman, 2008), and corporate ethos and identity (Williams, 2008). Although Armendariz and Szafarz (2011) provide some examples of missions claimed by MFOs, microfinance mission statements are still largely uncharted both in the social-enterprise literature and in the microfinance literature. To address the topic, we rely on the assumption that, like other organizations, MFOs craft their mission statements to reflect what they consider important principles to guide their actions (Peyrefitte & David, 2006). Thus, we assert that an MFO is at risk of mission drift if it significantly deviates from its stated social purpose in its mission statement. On the other hand, we assert that if an MFO remains loyal to its stated social mission(s) it cannot be justifiably accused of mission drift. By the same token, we refrain from criticizing MFOs for not doing something they did not set out to do.

We use a cross-country dataset comprised of 199 MFOs from 59 developing countries. Based on standard procedures, the content analysis of the mission statements focuses on the three social missions most commonly reported in the microfinance literature (Armendáriz & Morduch, 2010; D'Espallier et al., 2013b; Gutierrez-Nieto & Serrano-Cinca, 2018): poverty alleviation, women's empowerment, and rural financial inclusion. We gain statistical robustness by matching—when feasible—a single mission to multiple outcome variables, which leads us to estimate six models. The results show a significant coherence between what MFOs say in their mission statements and what they do in practice, suggesting that the social missions of MFOs are trustworthy. This is good news for donors and subsidy providers. Our findings dispel existing fears of mission drift in MFOs. From a methodological perspective, this study broadens the existing theoretical framework on microfinance mission drift.

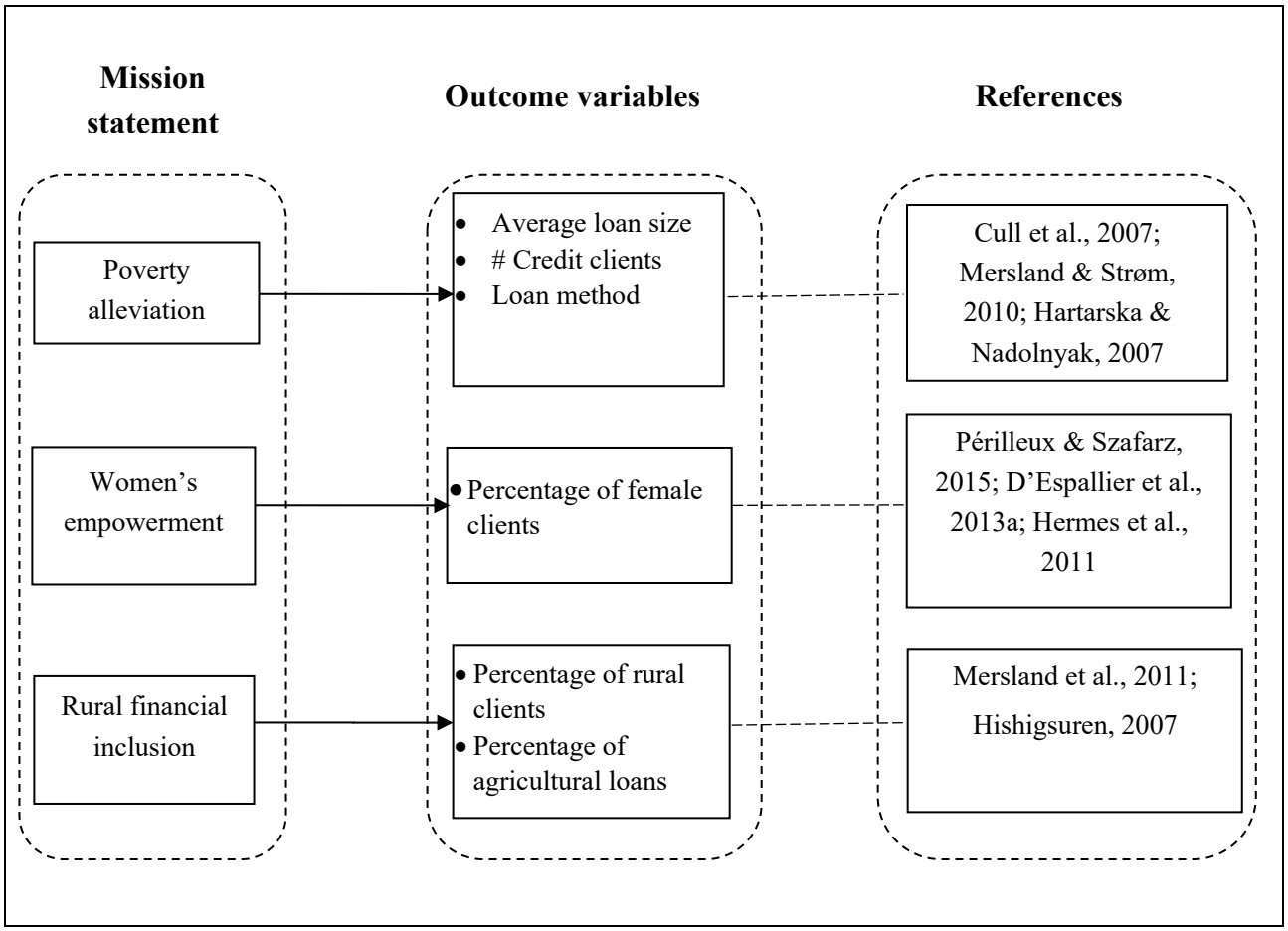
The paper is organized as follows. Section 2 presents the data, methodology, and hypotheses. Section 3 discusses the empirical findings and Section 4 concludes.

2. Data, Methods, and Hypotheses

We benefited from access to original data on MFO social ratings supplied by specialized rating agencies: MicroRate, Microfinanza, and Planet Rating. These independent agencies offer MFOs an opportunity to undergo an assessment of their social performance management. While data from rating agencies may not perfectly represent the whole microfinance industry, they do provide a fairly representative picture of the larger players in the field (D'Espallier et al., 2013a; Mersland & Strøm, 2009). In contrast to other sources of self-reported microfinance data (e.g., MIX Market), rating agencies release data audited by third parties (Mersland et al., 2011; Hudon & Traca, 2011).

Our unique dataset covers 199 MFOs from 59 countries. The mission statements were taken from 2007–2014 rating reports with about 84% of them relating to 2008–2011. All performance and control variables relate to this eight-year period. We focus on the fulfillment of the three most commonly claimed microfinance missions: poverty alleviation, women's empowerment, and rural financial inclusion (Armendáriz & Morduch, 2010; Gutierrez-Nieto & Serrano-Cinca, 2018). Figure 1 shows the standard proxies used in the literature to test the fulfillment of these missions, and so provides the hypothesized relationship between the missions contained in the mission statements and the actual practices of MFOs.

Figure 1: Mission Statement and Outcome Variables



The first column of Figure 1 lists the social missions: poverty alleviation, women's empowerment, and rural financial inclusion. The second column of Figure 1 shows the associated proxies, and the third column cites previous studies that use these proxies. Poverty alleviation is typically assessed by average loan size (scaled by GNI per capita), number of credit clients, and group-based lending methods. Average loan size is commonly used by scholars and donors to approximate clients' poverty levels, also known as the depth of outreach (Xu et al., 2016; D'Espallier et al., 2017b).[6] The number of active credit clients is a proxy for the *breadth* of outreach of MFOs (Schreiner, 2002; Hartarska & Nadolnyak, 2007). The last proxy for poverty alleviation is the use of group-based lending methods (Cull et al., 2007; Mersland & Strøm, 2010). Using these variables, we hypothesize that:

[6] Even though a small average loan size might be driven by specific lending practices such as cross-subsidization and progressive lending (Armendariz & Szafarz, 2011), it is still a standard measure of the social performance associated with poverty alleviation.

Hypothesis 1*: MFOs do not deviate from their mission statement claiming to alleviate poverty if they give out smaller average loans, have a higher number of credit clients, and are more likely to adopt group-based lending methods, compared to their counterparts without this mission.*

The next social mission of interest is women's empowerment, which is accomplished by giving priority to female borrowers. The percentage of females in the MFO's clientele is the corresponding proxy (Périlleux & Szafarz, 2015; Hermes et al., 2011). We therefore hypothesize that:

Hypothesis 2*: MFOs do not deviate from their mission statement claiming to empower women if they serve a higher percentage of females, compared to their counterparts without this mission.*

The third social mission is rural financial inclusion. The literature supplies two measurable proxies for this orientation: the percentage of rural clients and the supply of agricultural loans (Mersland et al., 2011; Hishigsuren, 2007). Since most rural people rely on agricultural activities for livelihood (Berhane & Gardebroek, 2011), agricultural loans are more likely targeted at rural people (Hishigsuren, 2007). We therefore hypothesize that:

Hypothesis 3*: MFOs do not deviate from their mission statement claiming to foster rural financial inclusion if they have a higher percentage of rural clients and are more likely to offer agricultural loans, compared to their counterparts without this mission.*

To analyze the MFOs' mission statements, we followed the standard content analysis procedures used in previous studies (Williams, 2008; David, 1989; Pearce & David, 1987). Content analysis involves the use of systematic qualitative procedures for making inferences from a given text by identifying specific characteristics. Extant studies apply content analysis to mission statements to draw inferences on corporate identity (Moss et al., 2011; Williams, 2008; Leuthesser & Kohli, 1997), stakeholder management (Bartkus & Glassman, 2008), and strategy (Bart, 1997). Other studies such as David (1989), Pearce and David (1987), and Williams (2008) rely on content analysis methods to determine whether mission statements exhibit characteristics of certain key components (e.g., products and services). Their coding technique involves assigning a value of "1" if the mission statement demonstrates a given component and a value of "0" otherwise. We followed a similar methodology. Each mission statement was independently read and

classified by two human coders who are microfinance experts. The two experts evaluated the mission statements to assess if they were aligned with any of the three microfinance missions. We employed Cohen's kappa (Landis & Koch, 1977) to assess inter-coder reliability. Since we were dealing with three missions, we inferred inter-coder reliability by calculating a pooled kappa instead of simply averaging the individual kappas. Following the procedure of De Vries et al. (2008), we defined the pooled kappa as:

$$K_{Pooled} = \frac{\bar{P}O - \bar{P}E}{1 - \bar{P}E},$$

where $\bar{P}_O$ is the average observed agreement between the independent coders for all missions and $\bar{P}_E$ is the average agreement expected by chance. The observed pooled kappa was 0.7125 ($p<0.01$), indicating significant nonrandom agreement between the coders and hence the coding was reliable for valid inferences (Landis & Koch, 1977). After this procedure, the coders conferred about the incongruities and resolved them together.

Figure 2: Share of MFOs that State Each of the Social Missions in Their Mission Statements

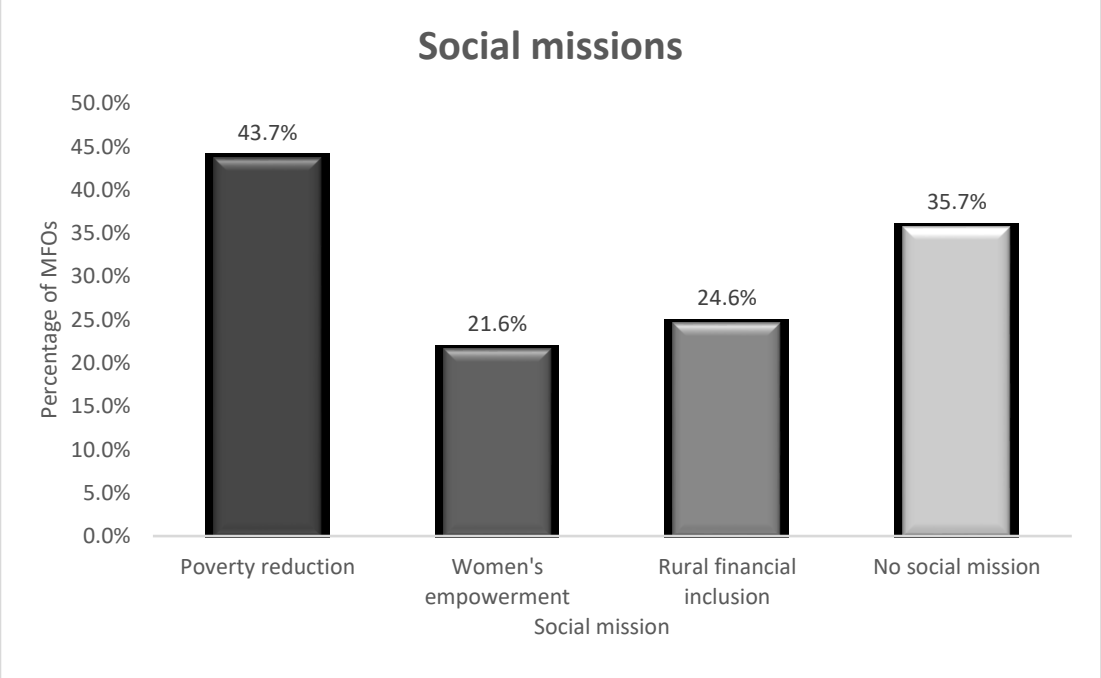


Figure 2 shows the percentage of MFOs that subscribe to each of the social missions or none at all. Note that some MFOs state multiple missions.

Table 1: Breakdown of the Mission Statement Components

Missions	Percentage of MFOs	Subtotal (%)
One mission only		
Poverty	23.6	
Women	6.0	
Rural	12.1	**41.7**
Two missions		
Poverty + Women	10.1	
Poverty + Rural	7.0	
Women + Rural	2.5	**19.6**
All Three missions		
Poverty + Women + Rural	3.0	**3.0**
No social Mission	35.7	**35.7**
Grand total	**100.0**	**100.0**

The content analysis shows that 43.7% of the MFOs claim to alleviate poverty, 21.6% claim to focus on women, and 24.6% claim to have a rural mission (see Figure 2). Overall, 64.3% of the mission statements mention at least one of these social missions. Table 1 shows how different missions coexist in the same MFOs: 41.7% of the MFOs state a single mission, 19.6% state two missions, and 3% state all three social missions. A strikingly high number (35.7%) of the mission statements are silent about the three social missions.[7] These findings alone are of interest, particularly with respect to the microfinance literature, which typically measures social performance—and subsequently identifies mission drift—based on whether MFOs are strong in reaching out to female and rural customers. In fact, our results show that most MFOs do not give priority to these customer groups.

3. Empirical Results

To assess the coherence between mission statements and actual practices of MFOs we proceed in two steps. First, we run a one-way analysis of variance (ANOVA) to compare the social performances of the MFOs stating a given mission simultaneously to their counterparts with either other social missions or with none of them. Second, we use either a linear or a probit regression model depending on the nature of the explained variable. The idea is to check whether mission statements explain the ex-post performances proxied by the outcome variables reported in Figure 1, while controlling for the characteristics of MFOs that may influence social outcomes in MFOs, including age, size,

[7] The mission statements that exclude the three social missions tend to focus on the type of product and service they offer and their target geographical market. Here is an example of such statement: "Our mission is to mobilize resources to maximize value by offering services, product and solutions appropriate to the market and to pioneer credit technology appropriate to Mozambican entrepreneurs."

portfolio-at-risk, legal status, regulatory regime, and region (Hartarska, 2005; Mersland et al., 2011; Zhao & Wry, 2016). We also account for the language in which the mission statements are drafted. Table 2 defines all the variables we use and shows their summary statistics.

Table 2: Definition of Variables and Summary Statistics

Variable	Definition	Obs	Mean	Std. Dev	Min	Max
Independent variables: Social missions						
Poverty alleviation	1 if the MFO has a poverty alleviation mission and 0 otherwise	199	0.437	0.497	0	1
Women's empowerment	1 if female focus is expressed in mission statement and 0 otherwise	199	0.216	0.413	0	1
Rural financial inclusion	1 if MFO has a rural mission and 0 otherwise	199	0.246	0.432	0	1
No social mission	1 if the MFO states none of the above missions and 0 otherwise	199	0.357	0.480	0	1
Dependent variables: Outcomes						
Avg. loan to GNI/capita	Average loan size relative to GNI per capita (PPP adjusted)	196	0.221	0.306	0.011	2.147
# Credit clients	Total number of active credit clients	198	35739	57303.52	500	352592
Group-based lending	1 if group lending or village banking and 0 otherwise	198	0.717	0.452	0	1
Female clients (%)	Percentage of female clients	165	0.643	0.232	0.175	1
Rural clients (%)	Percentage of rural clients	151	0.494	0.317	0	1
Agric. Loan	1 if the MFO offers agricultural loans and 0 otherwise	187	0.642	0.481	0	1
Control variables						
Age	Age since MFO began microfinance activities	199	14.471	7.968	1	47
Size	Logarithm of total assets	199	16.215	1.290	12.736	19.438
PaR30	Proportion of gross loan portfolio that is overdue for 30 days or more	199	0.052	0.068	0	0.528
SHF	1 if MFO is shareholder-owned and 0 otherwise	199	0.417	0.494	0	1
NGO	1 if MFO is a nongovernmental organization and 0 otherwise	199	0.432	0.496	0	1
COOP	1 if MFO is a member-based cooperative and 0 otherwise	199	0.151	0.359	0	1
Regulation	1 if regulated by banking authorities and 0 otherwise	199	0.432	0.497	0	1
LAC	1 if in Latin America and Caribbean and 0 otherwise	199	0.397	0.491	0	1
SSA	1 if in Sub-Saharan Africa and 0 otherwise	199	0.246	0.432	0	1
ECA	1 if in Europe and Central Asia and 0 otherwise	199	0.106	0.308	0	1
SEAP	1 if in Southeast Asia and the Pacific and 0 otherwise	199	0.186	0.390	0	1
MENA	1 if in Middle East and North Africa and 0 otherwise	199	0.065	0.248	0	1
English	1 if mission statement is written in English and 0 otherwise	199	0.437	0.497	0	1
French	1 if mission statement is written in French and 0 otherwise	199	0.121	0.326	0	1
Spanish	1 if mission statement is written in Spanish and 0 otherwise	199	0.442	0.498	0	1

Tables 3, 4, and 5 provide the ANOVA and regression results for the coherence between the proposed missions and the actual practices of MFOs.[8] In each table, panel A shows the ANOVA results[9] and inter-group tests of equal means (Scheffé, 1953; Weerahandi, 1995) and panel B shows the regression results. In the regressions, the specifications denoted by "(a)" include only the tested missions while the "(b)" specifications comprise all the possibilities, including the "no social mission" case.

In panel A of Table 3, the results show that the MFOs that claim to have a poverty alleviation mission have a significantly lower average loan size, a higher number of credit clients, and a higher propensity to use group-based lending methods—solidarity group lending and village banking, than their counterparts that state either other missions or none of the three missions. With group-lending, MFOs reach poorer clients than with individual lending (Mersland & Strøm, 2010; Cull et al., 2007). For all outcome variables, MFOs that align with other missions and those that state none of the social missions perform similarly. These findings are confirmed by the multivariate regression results displayed in panel B. The mission of poverty alleviation is significantly and negatively associated with average loan size and is significantly and positively associated with number of credit clients and use of group-based lending methods. These results support Hypothesis 1. Thus, MFOs that claim to pursue a poverty alleviation mission act accordingly.

[8] Endogeneity arising from reverse causality is not a serious concern in our estimations since the mission statements we used predated the performance variables. For each MFO, we only considered performance information that related to the (end of the) year of the mission statement and thereafter. According to our checks, the mission statements remained unchanged throughout the sample period.
[9] The robustness of the ANOVA test results are confirmed with the Welch (1951) test.

Table 3: Poverty Alleviation in Mission Statement and Actual Outreach

Panel A: One-Way ANOVA

Outcome variable(s)	Poverty alleviation	Other social missions	No social mission	F statistic	Multiple comparisons		
					Poverty alleviation vs. other social missions	Poverty alleviation vs. no social mission	Other missions vs. no social mission
Avg. loan to GNI/cap	0.145	0.285	0.286	6.390***	-0.141**	-0.143***	-0.002
# lnCredit clients	9.979	9.398	9.267	5.983***	0.581*	0.712***	0.131
Group-based lending	0.837	0.585	0.648	5.902***	0.252**	0.189**	-0.063

Panel B: Regressions

VARIABLES	Avg. loan to GNI/cap (a)	Avg. loan to GNI/cap (b)	# lnCredit clients (a)	# lnCredit clients (b)	Group-based lending (a)	Group-based lending (b)
Mission statement						
Poverty alleviation	**-0.101****	**-0.092****	**0.559*****	**0.406****	**0.194*****	**0.249*****
	(0.047)	**(0.0469)**	**(0.131)**	**(0.174)**	**(0.067)**	**(0.086)**
Women's empowerment		0.027		0.205		0.149*
		(0.043)		(0.140)		(0.077)
Rural financial inclusion		0.042		-0.155		-0.007
		(0.041)		(0.163)		(0.092)
No social mission		0.061		-0.197		0.118
		(0.069)		(0.219)		(0.107)
Control variables						
Age	0.001	-0.004	0.007	0.008	0.014***	0.013***
	(0.005)	(0.0040)	(0.010)	(0.010)	(0.005)	(0.005)
Size	0.015	0.018	0.853***	0.843***	-0.038	-0.041
	(0.020)	(0.019)	(0.049)	(0.050)	(0.028)	(0.028)
PaR30	0.488	0.402	-2.965***	-2.912***	-0.389	-0.292
	(0.408)	(0.400)	(1.054)	(1.022)	(0.517)	(0.520)
NGO	0.003	0.018	-0.130	-0.154	0.010	0.007
	(0.046)	(0.044)	(0.150)	(0.151)	(0.097)	(0.097)
COOP	0.149**	0.135*	-0.374*	-0.449**	-0.072	-0.080
	(0.074)	(0.071)	(0.201)	(0.203)	(0.134)	(0.137)
Regulation	0.172**	0.152**	-0.389**	-0.368**	-0.108	-0.089
	(0.068)	(0.067)	(0.178)	(0.180)	(0.100)	(0.098)
Constant	-0.111	-0.126	-4.895***	-4.593***	2.185	2.064
	(0.290)	(0.297)	(0.762)	(0.804)	(1.497)	(1.563)
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes
Language dummies	Yes	Yes	Yes	Yes	Yes	Yes
Model statistics						
Observations	196	196	198	198	198	198
R^2/Pseudo R^2	0.204	0.213	0.702	0.709	0.169	0.185
F/Wald χ^2 statistic	4.41	4.27	40.42	33.91	37.78	36.09
Prob > F/ χ^2	0.000	0.000	0.000	0.000	0.000	0.002

Table 3 assesses whether MFOs that claim to have a poverty-alleviation mission really do so in practice. Panel A and panel B show one-way ANOVA and regression results, respectively. See Table 2 for the definitions of variables. In Panel B, specifications (a) and (b) of group-based lending, the reported coefficients are the marginal effects of the probit regressions. Robust standard errors are in parentheses. *, **, and *** denote statistical significance at 0.1, 0.05, and 0.01, respectively.

Table 4: Women's Empowerment in Mission Statement and Actual Women Outreach

Panel A: One-Way ANOVA

Outcome variable	Women's empowerment	Other social missions	No social mission	F statistic	Multiple comparisons		
					Women's empowerment vs. other social missions	Women's empowerment vs. no social mission	Other missions vs. no social mission
Female clients (%)	0.805	0.600	0.586	14.473***	0.205***	0.219***	0.014

Panel B: Regressions

VARIABLES	Female clients (%) (a)	Female clients (%) (b)
Mission statement		
Women's empowerment	**0.192*** **	**0.207*** **
	(0.035)	**(0.042)**
Poverty alleviation		0.061
		(0.047)
Rural financial inclusion		-0.009
		(0.052)
No social mission		0.0547
		(0.058)
Control variables		
Age	-0.0004	-0.0004
	(0.0022)	(0.002)
Size	-0.003	-0.003
	(0.014)	(0.014)
PaR30	-0.837***	-0.822***
	(0.250)	(0.245)
NGO	0.003	-0.002
	(0.044)	(0.046)
COOP	-0.120**	-0.117*
	(0.058)	(0.061)
Regulation	-0.067	-0.071
	(0.049)	(0.049)
Constant	0.551**	0.510**
	(0.215)	(0.224)
Regional dummies	Yes	Yes
Language dummies	Yes	Yes
Model statistics		
Observations	165	165
R^2	0.435	0.446
F statistic	13.92	10.99
Prob > F	0.000	0.000

Table 4 assesses whether MFOs that claim to have a women's empowerment mission really do so in practice. Panel A and panel B show one-way ANOVA and regression results, respectively. See Table 2 for the definitions of variables. Robust standard errors are in parentheses. *, **, and *** denote statistical significance at 0.1, 0.05, and 0.01, respectively.

In Table 4, panel A suggests significant differences between the three groups of MFOs. MFOs whose mission statement focuses on women have an impressive 80.5% of females in their clientele base. This is 20.5% higher than the share of female clients in MFOs that state other missions and 21.9% higher than for MFOs that state no mission. These differences are statistically significant at 1%. The figures in panel B confirm the results in panel A. The women's empowerment mission drives an increase in the percentage of female clients. A remarkable 19% increase in female clients resists the inclusion of control variables, such as geographic dummies, MFO characteristics, and even the other mission variables. Altogether, these results suggest that MFOs that claim to target and empower women really do so in practice, given their superior women-outreach performance. These results validate Hypothesis 2.

In Table 5, panel A shows that rural-focused MFOs have a significantly higher percentage of rural clients in their loan portfolios and are more likely to offer agricultural loans than their counterparts with either other missions or none. As much as 59.2% of the clients of rural-focused MFOs live in rural areas. Similarly, 83.7% of rural-focused MFOs offer agricultural loans, as compared to 61.6% of the MFOs that state other missions and 53% of the mission-free ones. Panel B of Table 5 delivers a general picture confirming the results in panel A. The mission of rural financial inclusion is positively associated both with serving rural clients and with supplying agricultural loans. The results suggest that MFOs that claim to target rural populations make every effort to do so. These results validate Hypothesis 3.

Table 5: Rural Focus in Mission Statement and Actual Rural Outreach

Panel A: One-Way ANOVA

Outcome variable(s)	Rural financial inclusion	Other social missions	No social mission	F statistic	Multiple comparisons		
					Rural financial inclusion vs. other social missions	Rural financial inclusion vs. No social mission	Other missions vs. No social mission
Rural clients (%)	0.592	0.467	0.444	3.528**	0.143*	0.167**	0.023
Agricultural loans	0.833	0.616	0.530	5.990***	0.217**	0.303***	0.086

Panel B: Regressions

VARIABLES	Rural clients (%) (a)	Rural clients (%) (b)	Agricultural loans (a)	Agricultural loans (b)
Mission statement				
Rural financial inclusion	**0.116****	**0.145****	**0.249*****	**0.294*****
	(0.057)	**(0.071)**	**(0.068)**	**(0.113)**
Poverty alleviation		0.112*		-0.049
		(0.067)		(0.109)
Women's empowerment		-0.205***		0.313***
		(0.066)		(0.081)
No social mission		-0.027		0.116
		(0.092)		(0.139)
Control variables				
Age	0.001	0.004	0.003	0.005
	(0.004)	(0.004)	(0.005)	(0.005)
Size	-0.005	-0.0144	0.028	0.032
	(0.026)	(0.026)	(0.032)	(0.033)
PaR30	-0.033	-0.269	-0.326	-0.168
	(0.327)	(0.302)	(0.505)	(0.521)
NGO	0.095	0.033	0.025	-0.033
	(0.069)	(0.074)	(0.104)	(0.113)
COOP	0.164*	0.080	-0.019	-0.018
	(0.091)	(0.092)	(0.139)	(0.143)
Regulation	0.052	0.042	-0.039	-0.063
	(0.079)	(0.076)	(0.103)	(0.104)
Constant	0.589	0.689	0.286	-0.313
	(0.411)	(0.434)	(1.500)	(1.661)
Regional dummies	Yes	Yes	Yes	Yes
Language dummies	Yes	Yes	Yes	Yes
Model statistics				
Observations	151	151	151	187
R^2/Pseudo R^2	0.136	0.184	0.136	0.153
F/Wald χ^2 statistic	2.49	0.184	2.49	40.08
Prob > F/ χ^2	0.004	0.000	0.004	0.000

Table 5 assesses whether MFOs that claim to have a mission of rural financial inclusion really do so in practice. Panel A and panel B show one-way ANOVA and regression results, respectively. See Table 2 for the definition of variables. In Panel B, specifications (a) and (b) of agricultural loans, the reported coefficients are the marginal effects of the probit regressions. Robust standard errors are in parentheses. *, **, and *** denote statistical significance at 0.1, 0.05, and 0.01, respectively.

Overall, the results of the three tables suggest that the actual practices of MFOs mirror their stated missions. The estimations of the specifications (b) confer robustness to our results. Even though social missions are related since the world's poor and financially excluded populations comprise a majority of women (Agier & Szafarz, 2013; Garikipati et al., 2017) as well as a disproportionate share of rural dwellers (Marr, 2012), our results show that outcome variables relate directly to their corresponding missions, and less so to other missions. There are, however, a few exceptions. First, one proxy for poverty alleviation, group-lending, is positively influenced by the women's empowerment mission. Second, the poverty-alleviation mission has a significantly positive impact on the percentage of rural clients. Third, women-focused MFOs serve less rural dwellers but are likely to offer agricultural loans.

As Table 1 shows, MFOs actively combine missions. We conduct a further analysis with interaction terms to assess whether MFOs can concurrently fulfil dual missions. In the new regressions, "no social mission" is the omitted reference variable. The results reported in Table 6 suggest that MFOs struggle to excel in expected outcomes when pursuing dual social missions. Unexpectedly, the interaction between the missions of poverty alleviation and women's empowerment has a positive impact on average loan size. Thus, when MFOs combine these two missions, they may end up serving fewer very poor clients. Figure 3 illustrates the interaction effect between poverty alleviation and women's empowerment. In Graph A where the response variable is average loan size, MFOs that combine the two missions give out bigger loans than their counterparts do. Additionally, Graph B shows that MFOs that combine the two missions reach out to more women. Perhaps, there is a trade-off between the two social missions in the sense that MFOs focusing on empowering women find it more challenging to reach out to the very poor. Serving women is as costly as serving the poorest of the poor (D'Espallier et al., 2013a; Navajas et al., 2000). To be sustainable, MFOs may be cross-subsidizing between poor and less-poor clients when pursuing both missions contemporaneously.

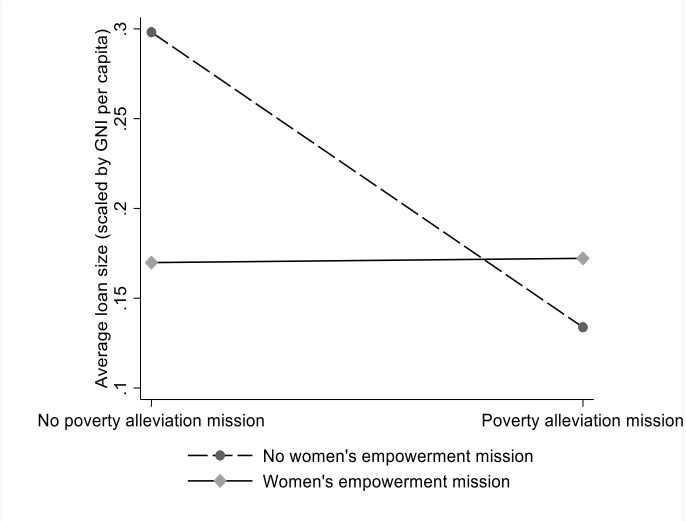
Table 6: Combined Missions in Mission Statement and Actual Outreach Performance

VARIABLES	Avg. loan to GNI/cap	# lnCredit clients	Group-based lending	Female clients (%)	Rural clients (%)	Agricultural loans
	(1)	(2)	(3)	(4)	(5)	(6)
Mission statement						
Poverty alleviation	-0.171***	0.607***	0.571*	-0.016	0.179**	0.419
	(0.063)	(0.174)	(0.310)	(0.045)	(0.075)	(0.268)
Women's empowerment	-0.156***	0.520**	0.476	0.155***	0.081	-0.472
	(0.059)	(0.239)	(0.456)	(0.0547)	(0.118)	(0.472)
Rural financial inclusion	-0.087	-0.022	-0.658**	-0.049	0.200***	0.732**
	(0.066)	(0.184)	(0.309)	(0.045)	(0.077)	(0.347)
Poverty × Women	0.206***	-0.370	-0.434	0.091	-0.182	0.514
	(0.073)	(0.264)	(0.576)	(0.073)	(0.131)	(0.584)
Poverty × Rural	0.111	-0.015	0.773	0.072	-0.095	0.695
	(0.080)	(0.260)	(0.523)	(0.077)	(0.115)	(0.591)
Women × Rural	0.093	-0.147	0.929	-0.060	-0.190	-0.181
	(0.101)	(0.306)	(0.702)	(0.095)	(0.133)	(0.630)
Control variables						
Age	-0.001	0.008	0.048***	-0.001	0.004	0.011
	(0.005)	(0.010)	(0.016)	(0.002)	(0.004)	(0.015)
Size	0.022	0.840***	-0.128	-0.003	-0.018	0.091
	(0.020)	(0.050)	(0.094)	(0.014)	(0.028)	(0.096)
PaR30	0.547	-2.898***	-0.607	-0.836***	-0.097	-0.532
	(0.403)	(1.043)	(1.742)	(0.246)	(0.315)	(1.513)
NGO	0.019	-0.166	-0.034	0.007	0.051	-0.027
	(0.048)	(0.152)	(0.326)	(0.046)	(0.075)	(0.316)
COOP	0.191**	-0.482**	-0.396	-0.103*	0.121	0.032
	(0.081)	(0.209)	(0.412)	(0.061)	(0.099)	(0.404)
Constant	-0.148	-4.738***	2.366	0.569**	0.679	0.053
	(0.292)	(0.768)	(1.525)	(0.219)	(0.426)	(1.566)
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes
Language dummies	Yes	Yes	Yes	Yes	Yes	Yes
Model statistics						
Observations	196	198	198	165	151	187
R-squared	0.231	0.711	0.202	0.454	0.195	0.160
F/Wald χ^2 statistic	3.56	30.32	46.19	10.18	2.92	41.13
Prob > F/ χ^2	0.000	0.000	0.000	0.000	0.000	0.001

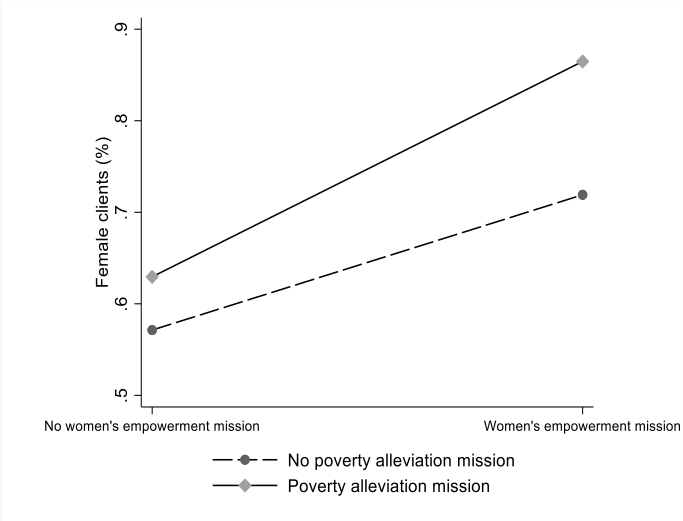
The regressions assess whether MFOs combining two missions excel in the outcomes relating to the missions. See Table 2 for the definitions of variables. Robust standard errors are in parentheses. *, **, and *** denote statistical significance at 0.1, 0.05, and 0.01, respectively.

Figure 3: Impact of Combined Missions on Poverty Alleviation and on Women's Empowerment

Graph A: Average loan size (scaled by GNI per capita)



Graph B: Female Clients (%)



The coefficients for the interaction terms in the remaining estimations are insignificant and have inconsistent signs. Several reasons could account for this. First, subscribing to multiple missions could potentially blur the overarching strategic goal of the organization. In such a case, the missions may be less useful to garner the commitment of organizational members. Secondly, when MFOs multitask by combining missions, they may fail to build competence in achieving optimal outcomes in either, thus becoming "a jack of all trades but a master of none." This is more likely to occur when management information systems are ill suited to face compelling demands from each of the combined missions.

4. Conclusion

This study revisits the controversy on mission drift in social enterprises from the novel perspective of mission statements. Our bottom-up analysis contributes to the literature by dispelling existing fears of mission drift in MFOs (Mersland & Strøm, 2010; Hishigsuren, 2007; Cull et al., 2007) since our findings suggest a strong coherence between the mission statements and the ex-post practices of MFOs. Specifically, we estimate the impacts of the three well-recognized social missions of microfinance—poverty alleviation, women's empowerment, and rural financial inclusion—on a collection of outcome variables acting as proxies for the fulfilment of a given mission. We obtain uniform consistency between each stated mission and its corresponding outcome variable(s). The findings therefore

suggest that MFOs strictly observe the social goals they have publicly declared to pursue in their mission statements. In short, they "walk the talk."

Measuring mission drift is as difficult as measuring social impact (Mair & Marti, 2006). But the advantages of using mission statements go beyond the issue of mission identification. Perhaps, if policy makers and other stakeholders in the industry would eschew unified approaches of "mission" and would focus instead on what MFOs are saying in their mission statements, there would be less fear of mission drift than currently prevails. This change of attitude through acknowledging that there is increasing diversity in the microfinance industry could create a virtuous circle: better-informed stakeholders, equipped with trustworthy mission statements, could make wiser decisions—on giving, investing, and collaborating—and thereby impose external discipline on MFOs to stick with their stated missions.

Contrary to conventional wisdom, our results show that not all MFOs claim to focus on either women or rural people, nor even on poverty alleviation. The low correlations between the social missions pinpoint mission heterogeneity. Future studies should consider extending our work to other types of social enterprises, such as the Work Integration Social Enterprises (WISEs) and the Fair Trade Social Enterprises (FTSEs) (Battilana et al., 2015; Mason & Doherty, 2016). The universe of social enterprises is known to be rife with much complexity. Most social enterprises signal their goals to stakeholders by publicizing mission statements. Trustworthy missions are key to addressing the informational asymmetries plaguing the socially oriented economic sector. Therefore, mission statements of social enterprises are critical for legitimacy and accountability purposes. Stakeholders in social enterprises ought to take into account mission statements during performance monitoring and evaluations.

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CHAPTER 2:
Donations, Subsidized Loans, and the Governance of Social Enterprises[10]

Abstract

We use data from leading microfinance rating agencies to scrutinize the effect of corporate governance on the subsidization of social enterprises. First, exploratory factor analysis based on a sample of 250 microfinance organisations (MFOs) identifies five major governance dimensions. Next, based on the donor's demand model, we estimate fixed effects generalized least square regressions where we assess whether these governance dimensions affect the level of subsidization of MFOs, by differentiating between donations and subsidies from concessionary loans. Our results confirm the theoretical expectation that the level of subsidies from concessionary loans is positively associated with good governance. Surprisingly though, the level of donations is insensitive to governance. We suggest interpretations for the facts and open avenues for further research on the still little-known philanthropic funding of social enterprises.

Keywords: Subsidies, Donations, Subsidized debt, social enterprises, Governance, Microfinance

JEL codes: G21, G34, H25, L30, M40, M41.

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1. Introduction

Nonprofits typically publicize their governance mechanisms to signal their commitments to transparency and accountability (Harris & Neely, 2018; Maines et al., 2002). By doing so, they also attract fresh donations and subsidies. Evidence shows that well-governed nonprofits benefit from increased donations (Harris et al., 2015). This paper investigates the robustness of the impact of corporate governance on subsidies by focusing on a different group of mission-driven organizations, namely social enterprises.

Social enterprises are hybrid organizations that combine social and financial goals (Pache & Santos, 2013; Peredo & McLean, 2006; Zamora, 2012). Typical examples of social enterprises include microfinance organizations (Battilana & Dorado, 2010; Datar et al., 2009), work integrating social enterprises (Battilana et al., 2015) and fair-trade social enterprises (Mason & Doherty, 2016). Subsidies are a vital component of the financing mix of these enterprises (Cull et al., 2018); and in fact, such charitable contributions are often indispensable to accomplish their social mission (Armendáriz & Morduch, 2010). The lack of subsidies is suspected to trigger mission drift (Armendariz & Szafarz, 2011, D'Espallier et al., 2017b). Yet, the literature is surprisingly scarce on what attracts donor's interest when they compare social enterprises with similar social goals. We fill the gap by examining how governance features affect the level of subsidies received by social enterprises.

Social enterprises are located midway between nonprofits and for-profit firms. It is therefore worth to examine how governance mechanisms influence the funding of capitalistic companies. Oxelheim and Randøy (2003) show that good corporate governance enhances both corporate performance and firm value. According to Carter et al. (2003), board diversity—representation of women and racial minorities—enhances firm value through better understanding of the marketplace, effective problem solving, effective corporate leadership and increased innovation and creativity. Al-Akra and Ali (2012) document a positive relationship between transparency, i.e. voluntary corporate disclosure, and performance. Holt and DeZoort (2009) also show that good governance mechanisms, such as board and audit committee independence, can enhance investors' confidence by limiting expected earnings management. In sum, fund providers to nonprofits and for-profit firms alike react positively to signals about good governance designs. In both cases, corporate governance remedies agency problems stemming from information asymmetry between funders and the managers of the organizations they

finance (Evans et al., 2010; Dikolli, 2010; Harris & Neely, 2018; Jensen & Meckling, 1976).

Accordingly, in prosocial organizations, good governance mechanisms assure donors and other finance suppliers that resources are used for the intended purpose, especially in fulfilling the organization's social goals (Harris et al., 2015). In well governed organizations, the personal goals of managers are aligned with those of the fund providers as well as with the mission of the organization they serve, leading to the likelihood that commercial funds and subsidies will be used for the intended purpose. Evidence shows a positive association between good governance and donations. Extant studies on non-profits have established this relationship by focusing on governance features such as audit quality (Harris et al., 2015; Kitching, 2009), voluntary disclosure (Saxton et al., 2014; Blouin et al., 2018), board size (Aggarwal et al., 2012; Olson, 2000), and board independence (Harris et al., 2015). In this paper, we extend the argument to social enterprises and theorize that well governed social enterprises attract more subsidies than their poorly governed counterparts. We argue that governance mechanisms in social enterprises are meant to deter managers from wasting, misusing, and diverting donor funds and other organizational resources (Ebrahim et al., 2014; Harris et al., 2017). Testing this hypothesis is the contribution of this paper.

We build on two streams of scholarly literature on accounting sciences and social entrepreneurship, respectively. The accounting literature pays a special attention to corporate governance systems, both internal and external, which contribute to the earnings of the providers of funds. Our study is the first to investigate the subsidy-governance relationship using data from social enterprises. Specifically, we consider microfinance Organizations (MFOs) in developing countries, a group of relatively homogenous social enterprises (D'Espallier et al., 2013a; Mersland et al., 2011). MFOs are established social enterprises, which supply financial services to the unbanked poor (Armendáriz & Morduch, 2010; Battilana & Dorado, 2010). The microfinance industry offers a well-suited setting and a good fit to study the subsidy-governance relationship due to the pervasiveness of subsidies. About USD 1B of donor subsidy is committed annually into microfinance. Cull et al. (2018) show that even commercial MFOs depend on subsidies.

In addition to donations which have been the focus of prior research, the wealth of the database we use allows us to investigate separately the effect of governance on donations and concessionary loans, also known as subsidized debt. The distinction between the two

kinds of subsidies is important. With subsidized debt, the beneficiary organization is expected to pay back the principal plus (below-market) interests to the lender. By contrast, donors retain no financial interest or stake in the beneficiary organization and, in some cases, the relationship between the donor and beneficiary ends after the donation is made. Thus, in the case of subsidized loans, the lender retains formal financial stake in the recipient organization and has more incentives to care about governance than donors.

Empirically, governance is multifaceted concept. To grasp its complexity, we follow the methodology used by Harris et al. (2015) and conduct an exploratory factor analysis based on 14 well-recognized governance variables, which are subsequently summarized into five dimensions. We use these governance dimensions to explain the levels of subsidy—donations and subsidized debt—in 250 MFOs. Our results show that governance factors have little impact on donations while subsidized debt is significantly influenced by them. A possible interpretation is that, unlike lenders who require MFOs to pay back, donors reap no direct benefit from their philanthropic activities and may therefore neglect governance issues. Why do our results contrast with previous findings on nonprofits? It could be that in social enterprises, donors track social outreach performance more than they track governance since donations are purposed to strengthen the social outreach of social enterprises (Mersland & Urgeghe, 2013). Possibly, donors who support MFOs in developing countries have alternative motivations which may include seeking elevated status among peers (Glazer & Konrad, 1996) and obtaining other utility gains that accrue from the act of giving, such as "warm glow" (Andreoni, 1990). Hybridity can also significantly affect donors' perspective toward governance since the focus on financial discipline induced by the market logic can act as a substitute for the virtuous role of governance principles. Further work is still needed to better understand why there is such a gap between nonprofits and hybrids when it comes to donors' interest in governance characteristics.

The paper proceeds as follows. In Section 2, we present the theory and formulate hypotheses. Sections 3 and 4 describe the dataset and methods respectively. The findings are presented in section 5 and Section 6 presents our conclusions.

2. Hypotheses Development and Related Literature

Social enterprises tackle societal challenges with conventional business models (Luke et al., 2013; Nicholls, 2009). As double bottom-line organizations, they pursue both social and financial goals (Hamid et al., 2017; Samad et al., 2017). Thus, social enterprises mix features of nonprofits and for-profit firms. Owing to their hybridity, these firms receive

financing from both commercial and non-commercial sources. Good governance principles assure fund providers—donors, lenders, and equity investors—that their resources will be used for the intended purposes, i.e. in line with the organization's social goals (Ebrahim et al., 2014; Harris et al., 2015).

Available evidence from the non-profit sector suggests that good governance is positively associated with donations. Harris et al. (2015) find that good governance practices such as formal written policies, independents audit, board independence, review and approval of management compensation and accessibility of financial information are positively associated with higher donations. Kitching (2009) reports a positive association between audit quality, such as use of a Big 5 auditor, and the volume of donations received by non-profits. Other governance dimensions that positively impact donations include board size (Aggarwal et al., 2012; Olson, 2000), voluntary web disclosure (Blouin et al., 2018; Saxton et al., 2014), executive compensation (Balsam & Harris, 2013; Balsam & Harris, 2018), transparency (Harris & Neely, 2018) as well as average tenure and board members with executive background (Olson, 2000). Gaver et al. (2016) document that donors also use external governance information such as ratings by specialized third party rating agencies (e.g. bond ratings by Moody's or S&P). Governance information from watchdog organization such as the US based Better Business Bureau Wise Giving Alliance is also relevant to donors (Chen, 2016).

In conventional firms, corporate governance addresses agency problems by persuading managers (agents) to act in the interest of owners (principals) (Shleifer & Vishny, 1997). Even in nonprofits that have no formal owners, governance mechanisms are crucial to safeguard organization resources from being misused by managers. Without effective governance, non-profit managers may pursue selfish ambitions and divert donor funds into their self-seeking ventures (Harris et al., 2017). Thus, effective governance is relevant for nonprofits, for-profit firms, and hybrids regardless of their legal status. Likewise, governance makes sense in any economic framework, be it developed, developing or in transition (Bokpin & Isshaq, 2009). Overall, the literature suggests that good governance practices are universally useful to align the stakeholder interests within enterprises.

We are unaware of studies investigating the relationship between subsidies and governance in social enterprises or hybrid organizations. Given the unanimity in the literature on the role of good governance principles in other types of organizations, we are left with no other choice than hypothesizing that good governance is interpreted as a

positive signal by donors and concessionary loan suppliers alike when assessing the potential benefactors of their charitable contributions. Based on these arguments we predict that:

> ***Hypothesis 1a:*** *There is a positive association between governance and the level of donations received by social enterprises.*
>
> ***Hypothesis 1b:*** *There is a positive association between governance and the level of subsidized debt received by social enterprises.*

However, for debt providers, governance information should be even more crucial since these stakeholders are directly concerned with the repayment capacity of the recipient organization (Mersland & Urgeghe, 2013). This is because defaults stifle their operating model, their ability to continue their charitable giving as well as the development goal of maintaining a functioning social sector (Cobb et al., 2016). Lenders use reimbursed loans to provide new loans to same or different MFOs (Cobb et al., 2016). Thus, as the case is for conventional lenders, reimbursement by borrowers is essential to sustain the business model of concessionary loan providers and as a result they may increase loans to investee organizations that have less risk of default (Cobb et al., 2016; Renneboog, Ter Horst, & Zhang, 2008). Evidence suggest that better corporate governance reduces the likelihood of default and bankruptcy risk (Cao et al., 2015; Frantz & Instefjord, 2013; Wang & Lin, 2010). In effect, debtholders may stand to benefit from improvements in the governance of their investee organizations (Frantz & Instefjord, 2013). In keeping with these arguments, we expect concessionary loan providers to treat governance information with higher importance as this information could signal an MFOs commitment and discipline to reimburse loans when they fall due (see, Renneboog et al., 2008). In line with this argument, previous studies have established that effectively governed organizations attract lower lending rates (Lorca et al., 2011). Putting these together, we hypothesize that:

> ***Hypothesis 2:*** *Providers of subsidized debt are more concerned about governance than providers of donations*.

3. Data

Our dataset comes from rating reports released by five leading microfinance rating agencies (Microrate, Microfinanza, Planet rating, crisil, and M-Cril). MFOs undergo two kinds of ratings: institutional and social. Institutional rating assesses the risks, governance and overall financial health of MFOs. Social rating relates to the management information

systems used to address the social mission. Data from rating agencies are deemed representative of MFOs in the microfinance industry, they have the merit of being audited, and therefore less prone to errors than self-reported information (D'Espallier et al., 2013a; Hudon & Traca, 2011). Rating agencies are one of the two main major sources of microfinance data, with the other being the microfinance information exchange (https://www.themix.org/) where MFOs self-report their data. In addition, we compiled data on the Gross Domestic Product (GDP) per capita and Official Development Assistance (ODA) from the World Bank (https://data.worldbank.org/), Economic freedom index from the Heritage Foundation (https://www.heritage.org/index/), political instability from State Failure Problem dataset, and democracy which is obtained from Polity IV Project's Political Regime Characteristics and Transitions dataset (http://www.systemicpeace.org/inscrdata.html). Overall, our sample consists of 250 MFOs from 64 developing countries worldwide. The majority originate from Latin America and the Caribbean (33.6%), followed by Sub-Saharan Africa (27.4%), then Europe and Central Asia (20.7%), South East Asia and the Pacific (12.2%), and Middle East and North Africa (6.1%). Our dataset is related to the period from 1999 to 2015.

4. Method

4.1 Factor analysis

Governance is recognized as multidimensional (Harris et al., 2015), involving several normative prescriptions and underlying dimensions that are difficult to measure. The microfinance literature[11] has identified key governance mechanisms for this relatively young industry, out of which the major fourteen ones are recorded in our dataset, defined and statistically characterized in Table 1. They include: female CEO, female chairperson of the board, proportion of female directors, international CEO, proportion of international directors, internal audit, board audit committee, big four audit, CEO duality, proportion of outside directors, proportion of directors with business education, proportion of directors with high education, proportion of directors from the business/financial sector, and proportion of directors from the NGO/social sector.

According to Larcker et al. (2007), measuring governance with a single indicator (e.g. capturing board independence with only CEO duality) or with an arbitrary index which is generated by naively summing a set of indicators can be misleading as it may result in measurement error. Thus, following Harris et al. (2015), we use an exploratory factor

[11] See Dato et al. (2018); Galema, Lensink, and Mersland (2012); Hartarska and Mersland (2012); Mersland and Strøm (2009); Mori et al. (2013); Mori et al. (2015); Périlleux and Szafarz (2015); Strøm et al. (2014)

analysis to identify latent governance dimensions that underlie the 14 governance variables in our dataset. With minimal information loss, factor analysis exploits the interrelationship among the governance variables and explains these variables in respect of their common underlying dimensions which are called factors (Hair et al., 2010). Each resulting factor from the factor analysis represents a separate latent governance dimension.

We assess the suitability of the data for factor analysis by using the Kaiser-Meyer-Olkin (KMO) measure and the Bartlett test of sphericity (Hair et al., 2010). The results show that the sample is adequate (KMO = 0.737) and the intercorrelations between the variables is sufficient to conduct factor analysis (χ^2 = 2687.137; p-value = 0.000)[12]. Consistent with Harris et al. (2015), we include all 14 variables in a principal component factor analysis. Following Kaiser (1970)'s criterion, we retain only factors that have an eigenvalue greater than 1. The results reported in Table 2a show that the 14 initial variables load on five factors, which represent unique latent governance dimensions and jointly explain 60.8% of the variation in the original governance variables. One would observe that the resulting factors are intuitive, as the governance variables that load on a given factor are reasonably related. The factor loading of each governance variable shows how the variable correlates with the factor at stake. Loadings below 0.4 are considered weak and insignificantly correlated with factors (Ford et al., 1986; Hair et al., 2010). Following this generally accepted rule we label factors based on loadings equal to or greater than 0.4 (see also, Harris et al., 2015). Consequently, the five governance dimensions (factors) are: *director skills, gender diversity, audit, internationalization and independence* (see Table 2b). Below, we elaborate on each governance dimension. Guided by our research hypotheses we also provide a corollary on the expected direction of the relationship between a given governance dimension and level of subsidy.

[12] Factor analysis is suitable for the data when the KMO value is greater than 0.5 and when the Bartlett test of sphericity is significant (Hair et al., 2010)

Table 1: Definition and summary statistics of governance indicators

Variable	Definition	Obs	Mean	Std. Dev.	Min	Max
Female CEO	"1" if CEO is a woman and "0" otherwise	1,074	0.236	0.425	0	1
Female chair	"1" if the chairperson of the board is a woman and "0" otherwise	1,074	0.198	0.399	0	1
Female director (%)	Proportion of women on the board	1,074	0.236	0.181	0	1
Int. CEO	"1" if the CEO is from abroad and "0" otherwise	1,074	0.112	0.315	0	1
Int. director (%)	Proportion of international directors on the board	1,074	0.135	0.232	0	1
Internal audit	"1" if the internal auditor reports directly to the board and "0" otherwise	1,074	0.466	0.499	0	1
Board audit	"1" if the board has an audit committee and "0" otherwise	1,074	0.473	0.500	0	1
Big four audit	"1" MFO's external auditor is one of the big four and "0" otherwise	1,074	0.239	0.427	0	1
CEO duality [a]	"1" if the CEO is the chairman of the board and "0" otherwise	1,074	0.881	0.324	0	1
Outside director (%)	Proportion of outside directors on the board	1,074	0.966	0.106	0	1
Bus. Edu. Director (%)	Proportion of directors with business education	1,074	0.356	0.265	0	1
High Edu. Director (%)	Proportion of directors with higher education (bachelor's degree and above)	1,074	0.508	0.346	0	1
Bus. Fin. Director (%)	Proportion of directors from the business or financial sector	1,074	0.493	0.356	0	1
NGO Soc. Director (%)	Proportion of directors from non-governmental or social sector	1,074	0.389	0.379	0	1

[a] The CEO duality variable is reverse coded so that a value of "1" signifies absence of duality. This is to improve clarity by making it have same expected direction as the other governance variables

Table 2a: Rotated factor loadings (pattern matrix)

Variable	Director skills	Gender diversity	Audit	Internationalization	Independence
High Edu. Director (%)	**0.827**	0.076	0.126	0.011	0.104
Bus. Edu. Director	**0.686**	0.106	0.233	0.195	-0.115
NGO Soc. Director (%)	**0.653**	0.105	-0.131	0.196	0.221
Bus. Fin. Director (%)	**0.625**	-0.158	0.235	0.229	-0.042
Female CEO	0.018	**0.774**	0.119	0.164	0.019
Female chair	0.017	**0.732**	0.194	0.076	0.020
Female director (%)	0.116	**0.705**	-0.257	-0.093	0.075
Big four audit	0.033	-0.029	**0.764**	0.148	0.004
Internal audit	0.252	0.026	**0.674**	-0.012	0.079
Board audit	0.263	0.350	**0.596**	-0.064	0.119
Int. director (%)	0.293	-0.046	0.097	**0.778**	0.002
Int. CEO	0.019	0.208	0.000	**0.754**	0.127
CEO duality	-0.056	0.033	0.006	0.253	**0.773**
Outside director (%)	0.184	0.052	0.097	-0.129	**0.757**

Table 2a shows the results of exploratory factor analysis with Varimax rotation. Factors are identified with eigenvalues greater than 1. Governance variables are defined in Table 1

Factor	Proportion	Cumulative	Mean	Q1	Median	Q3	Std. dev.
Director skills	0.231	0.231	0.000	-0.937	0.122	0.833	1.000
Gender diversity	0.124	0.354	0.000	-0.668	-0.348	0.549	1.000
Audit	0.094	0.449	0.000	-0.737	-0.258	0.736	1.000
Internationalization	0.082	0.531	0.000	-0.655	-0.280	0.339	1.000
Independence	0.077	0.608	0.000	0.074	0.379	0.554	1.000

Director skills

The *director skills* governance dimension increases when there is an increase in the proportion of directors with high education, proportion of directors with business education, proportion of directors from the business or financial sector and proportion of directors from the NGO or social sector. Board members' skills are important for the oversight responsibility of the board (Van der Walt, & Ingley, 2003; Rose, 2007). A board with the relevant skill set is equipped to deliver its mandate. Board members with business education or high education (such as a bachelor's degree) are better placed to understand the relevant business environment, the activities of the organizations on whose board they sit, as well information that is presented to them by management (Rose, 2007). Practitioner research has stressed the need for diverse skills and experience among directors of prosocial organizations' boards (Campion & Frankiewicz, 1999; CMEF, 2012). Because social enterprises combine social and financial objectives, it is imperative for board members to possess experiences from both business and social sectors. Presence of persons with relevant industry expertise is also crucial. For example, since microfinance involves the provision of banking services to the poor, it becomes important for board members to have financial or banking experience (CMEF, 2012; Hartarska, 2005). In sum, diverse skills complement each other to enhance the effectiveness of the board in accomplishing its monitoring and advisory roles. To the extent that subsidy providers' confidence is boosted when the governing board is endowed with the relevant skills, we expect a positive association between *director skills* and level of subsidy received.

Gender diversity

Gender diversity increases when there is high proportion of female directors on the board and when there is female board leadership (female chairperson) and female executive leadership (female CEO). A number of studies have explored board gender diversity as a key predictor of board effectiveness in terms of monitoring management, providing advisory services and providing resources (e.g., Adams & Ferreira, 2009; Gul et al., 2011). Scholars have advanced several arguments in favour of female board membership in fostering good corporate governance. For instance, female directors promote good board deliberations, effective communication of board matters, accountability, improve board attendance and are better at monitoring managers (Gul et al., 2011; Hillman et al., 2007). Empirical investigations on prosocial organizations show that female leaders, both at management and board levels, are instrumental in advancing the mission of such

organizations (Bradshaw et al., 1996; Strøm et al., 2014). For example, female led MFOs exhibit high social outreach performance than their male led counterparts. (Mori et al., 2015; Périlleux & Szafarz, 2015). Because female leadership and board gender diversity are associated with better oversight and high social outreach, we argue that such governance mechanisms, when present, would attract higher subsidies. Hence, we expect a positive association between *gender diversity* and level of subsidy received.

Audit

The *audit* governance dimension increases when MFOs install an internal audit function that reports to the board, when the board has an audit committee that supervises financial reporting and audit related matters and when the independent external auditor of the MFO is one of the big four global accounting firms (i.e., KPMG, Deloitte, Ernst & Young and PwC). Audit provides oversight functions that mitigate agency costs and information asymmetry which are often far more complex in prosocial organizations than in regular firms. Evidence shows that donors use financial information (Yetman & Yetman, 2012) and are responsive to audit quality, therefore nonprofit organizations benefit from hiring a high-quality external auditor such as one of the big four (Kitching, 2009). Accounting information is accorded high credibility when it audited by a reputable external auditor. Thus, an independent auditor provides an external oversight that ensures credible financial reporting and thereby reducing agency costs. In a related argument, presence of an audit committee, which is usually composed of independent non-executive directors, increases the information value of financial statements by providing further oversight. Similarly, an internal audit function provides independent assurance services in several areas including management controls and risk management (Petrovits et al., 2011). Typical internal audit activities include, ensuring operating effectiveness, reliable reporting, safeguarding of organization assets and compliance with procedures and regulations (Dittenhofer, 2001). Prawitt et al. (2009) report that quality internal audit is associated with moderation in earnings management and for that matter increasing external financial reporting quality. Most importantly, evidence shows that subsidy providers use internal audit information and disclosures (Petrovits et al., 2011). In sum, audit fosters accountability, transparency and credible financial reporting as well as maintenance of adequate internal controls. Given that these outcomes send positive signals to subsidy providers and assure them of judicious use of their funds, we expect a positive association between *audit* and the level of subsidies received.

Internationalization

The *Internationalization* governance dimension increases when there is an increase in the proportion of foreign directors on the board and when the CEO is from abroad. Findings of prior studies suggest that international directorship is associated with better governance mechanisms such as independence and reduced managerial entrenchment (Choi & Hasan, 2005; Gulamhussen & Guerreiro, 2009; Oxelheim & Randøy, 2003). It is believed that international directors often possess requisite expertise and experience that enhance the monitoring and advisory function of the board. Moreover, international board members may strengthen board effectiveness through the transfer of international corporate governance best practices that (Mersland et al., 2011; Oxelheim & Randøy, 2003). Most of the arguments for international board members also apply to international CEOs, especially in terms of their possession of value enhancing knowledge, experience and competence. For example, several scholars have highlighted the positive effect of CEO's international experience on organizational processes and outcomes (e.g., Carpenter, et al., 2001; Daily et al., 2000; Le & Kroll, 2017; Slater & Dixon-Fowler, 2009). Based on the above arguments, we postulate that subsidy providers will treat international board membership and international executive leadership as positive signals. After all, most subsidy providers are also international players that originate from the global north (Mersland & Urgeghe, 2013). We therefore expect a positive associational between *internationalization* and the level of subsidy received.

Independence

Higher proportion of outside (non-affiliated) directors and absence of CEO duality increases *independence*. A CEO who doubles as the chairperson of the board becomes powerful and solely influences major decisions (Adams et al., 2005). CEO duality can negatively affect the monitoring function of boards, leading to less protection of funders' interests (Tuggle et al., 2010). This is because, with CEO duality, the board has less incentive to monitor the CEO and the management team, a situation that results in higher agency costs (Fama and Jensen, 1983). In social enterprise research, Galema et al. (2012) have shown that powerful CEOs (duality) of microfinance NGOs possess much decision-making freedom which results in detrimental and risky decisions. Boards are also independent when there is limited employee participation (Hartarska, 2005; Linck et al., 2008; Mori et al., 2013). Outside (non-employees or non-affiliated) directors are deemed to be effective monitors because they have no material pecuniary relationship with the organization and are less susceptible to conflict of interest (Hillman & Dalziel, 2003).

Thus, outside directors are likely to protect organization from financial statement fraud as well as the misuse and misappropriation of resources (Beasley, 1996). In line with this argument, studies have reported a negative relationship between the proportions of employee directors on the board and performance of MFOs (Hartarska, 2005; Mori et al., 2015). To the extent that subsidies providers would feel confident about the proper use of their charitable funds when boards execute their oversight responsibility without conflict of interests, we expect a positive association between *independence* and the level of subsidies received.

4.2 Multiple regression

In the next step, we estimate regression models explaining the level of subsidies with the identified governance dimensions. We adopt the donor's demand model originally developed by Weisbrod and Dominguez (1986) and extensively used in accounting research by, e.g., Saxton et al. (2014), Harris et al. (2015) and Yetman & Yetman (2012). Following previous studies, we measure *subsidies* with two variables: donations and subsidized debt (Cull et al., 2018; D'Espallier et al., 2017a).[13] However, instead of adding up the two types of subsidies, as is usually done, we refine the analysis by considering them separately. In this way, we will be able to assess and compare the impacts of the governance factors on each of them. Our measures for the two kinds of subsidy follow the convention in microfinance research. The level of donations is measured by total accumulated donations expressed as a percentage of average equity (D'Espallier, et al., 2017b; Hudon & Traca, 2011). Subsidy from debt is calculated as the difference between market rate cost of borrowing and MFO's financial expenses expressed as a percentage of average debt (Cull et al., 2018; D'Espallier et al., 2017a).

We use the typical control variables listed in the microfinance literature. Table 3 reports their definitions and summary statistics. *Age* measures the experience of MFOs. The effect of age on subsidy is ambiguous. On the one hand, young MFOs need subsidies to be financially sustainable (Cull et al., 2018). On the other hand, older organizations can attract more subsidies by building a reputation over time (Okten & Weisbrod, 2000). *Size* accounts for scale effects (Harris et al., 2015) and is measured with a confirmatory factor analysis of three indicators of size; total assets, total number of employees and total number of branch offices (Cobb et al., 2016). Regulation and ownership type can influence the importance which an MFO attaches to social performance (Frank, 2008;

[13] In practice, subsidy providers utilize a wide range instruments, including corporate intangibles, donations, procurements, and subsidized debt (Hudon et al., 2018).

Hudon, 2010; Roberts, 2013). MFOs' performance, social and/or financial, could influence the level of subsidies they receive (Cull et al., 2018). To account for this, we control for MFOs' social and financial performance using *average loan size* and *sustainability* respectively. *Sustainability* is measured using a confirmatory factor analysis of operating self-sufficiency, return on assets and write-off ratio (Cobb et al., 2016). We control for other MFO characteristics such as main lending method (individual lending versus group-based lending) (Cull et al., 2007) and savings collection (mandatory and voluntary savings) (Cozarenco et al., 2016; Cozarenco et al., 2018). Last, we include five variables to control for the investment climate and macroeconomic conditions of the countries in which MFOs operate. These include, *Official Development Assistance (ODA)* received (as a percentage of Gross National Income) and *GDP per capita* from the World Bank database, *economic freedom* from the Heritage foundation, *political instability* from State Failure Problem dataset which was created by the Political Instability Task Force, and *democracy* which is obtained from Polity IV Project's Political Regime Characteristics and Transitions dataset (Wry & Zhao, 2018). To reduce as much as possible the risk of endogeneity, we lag all the explanatory variables by one period. The estimated model is:

$$
\begin{aligned}
Subsidy_{it} = \beta_i + \sum_{1}^{5} \beta_i Governance\ factor_{it-1} + \beta_6 Age_{it-1} + \beta_7 Size_{it-1} \\
+ \beta_8 Ownership\ type_{it-1} + \beta_9 Regulation_{it-1} + \beta_{10} Sustainability_{it-1} \\
+ \beta_{11} average\ loan\ size_{it-1} + \beta_{12} Individual\ lending_{it-1} \\
+ \beta_{13} Mandatory\ savings_{it-1} + \beta_{14} Voluntary\ savings_{it-1} \\
+ \beta_{15} GDP\ per\ capita_{it-1} + \beta_{16} Economic\ freedom_{it-1} \\
+ \beta_{17} Political\ instability_{it-1} + \beta_{18} Democracy_{it-1} + \beta_{19} ODA_{it-1} + \mu_{it}
\end{aligned}
$$

Table 4 reports the pairwise correlations between the explanatory and control variables. The highest correlation is -0.693 (between GDP per capita and ODA), hence multicollinearity would not be a problem to our models given the accepted upper threshold of 0.9 (Hair et al., 2010). To confirm that there are no multicollinearity concerns, we performed variance inflation factor (VIF) diagnostics. The mean and highest VIFs are 1.50 and 3.10 respectively.

4.3 Econometric strategy

We implement generalized least square models to analyze the level of subsidies received per MFO per year. We rely on Hausman specification test to formally assess whether fixed effects panel data estimation method is preferred over random effects. The results show that fixed effects is the suitable method for our data. This holds true whether donations ($\chi^2 = 106.78$, $p < 0.001$) or subsidized debt ($\chi^2 = 70.42$, $p < 0.001$) is the dependent variable. The fixed effects method, a within effects estimator, allows us to control for all unobserved time invariant heterogeneity across MFOs and helps to isolate changes in the level of subsidy received by individual MFOs over time and how this change is influenced by changes in the various governance dimensions.

Table 3: Summary statistics all variables

Variable		Obs	Mean	Std. Dev.	Min	Max
Dependent variables						
Subsidized debt	Total subsidy from concessionary loans as a percentage of average debt	1,074	0.099	0.117	0	1.278
Donations	Total donations as a percentage of average equity	1,074	0.367	0.386	0	1.590
Independent variables						
Director skills	Governance factor representing skills of directors	1,074	0.000	1.000	-2.207	2.101
Gender diversity	Governance factor representing gender diversity	1,074	0.000	1.000	-1.477	3.819
Audit	Governance factor representing audit	1,074	0.000	1.000	-2.021	2.473
Internationalization	Governance factor representing internationalization	1,074	0.000	1.000	-1.715	3.711
Independence	Governance factor representing board independence	1,074	0.000	1.000	-7.081	1.181
Control variables						
Age	Age since MFO began microfinance activities	1,074	11.121	7.333	0	46
Size	Confirmatory factor analysis of total assets, total number of employees and total number of branch offices	1,074	-0.035	1.043	-2.859	2.699
NGO	"1" if MFO is a non-governmental organization and "0" otherwise	1,074	0.452	0.498	0	1
Regulation	"1" if MFO is regulated by local banking authorities and "0" otherwise	1,074	0.386	0.487	0	1
Sustainability	Confirmatory factor analysis of operating self-sufficiency, return on assets and write-off ratio	1,074	0.012	0.387	-2.997	1.313
ALS/GNI per cap	Average loan outstanding as a percentage of GNI per capita	1,074	0.373	1.330	0.001	22.929
Individual lending	"1" if MFO uses individual lending method and "0" otherwise	1,074	0.599	0.490	0	1
Mandatory savings	"1" if MFO requires mandatory savings from clients and "0" otherwise	1,074	0.599	0.490	0	1
Voluntary savings	"1" if MFO offers voluntary savings to clients and "0" otherwise	1,074	0.372	0.483	0	1
GDP per capita	GDP per capita of the country where MFO operates	1,074	5109.195	3824.128	644.787	20163.590
(ln)GDP per capita	Logarithm of GDP per capita of the country where MFO operates	1,074	8.245	0.802	6.469	9.912
Economic freedom	Heritage index of the country where MFO operates	1,074	57.484	5.478	29.400	72.200
Political instability	A measure of the degree of political instability of the country in which MFO operates	1,074	1.046	0.846	0	3.326
Democracy	A measure of democracy of the country in which MFO operates	1,074	2.278	11.641	-88	10
ODA	Official Development Assistance received as a percentage of GNI	1,074	0.061	0.059	-0.001	0.363

Table 4: Correlation matrix

	No.	VIF	1	2	3	4	5	6	7	8	9
Director skills	1	1.05	1.000								
Gender diversity	2	1.22	0.000	1.000							
Audit	3	1.19	0.001	0.001	1.000						
Internationalization	4	1.16	-0.001	0.000	0.001	1.000					
Independence	5	1.08	-0.002	-0.001	0.003	-0.002	1.000				
Age	6	1.34	-0.001	-0.091	0.103	-0.220	0.106	1.000			
Size	7	1.52	-0.075	-0.369	0.279	0.020	0.044	0.295	1.000		
NGO	8	1.72	-0.074	-0.030	-0.089	-0.150	-0.001	0.090	0.054	1.000	
Regulation	9	1.54	0.059	-0.055	0.086	0.129	0.113	-0.055	0.125	-0.508	1.000
Sustainability	10	1.10	-0.083	-0.019	0.028	-0.075	0.003	0.113	0.081	0.054	0.014
ALS/GNI per cap	11	1.06	-0.027	0.070	-0.008	0.019	-0.071	-0.039	-0.048	-0.136	0.034
Individual lending	12	1.38	0.100	0.084	-0.033	0.030	0.043	0.023	-0.216	-0.161	0.122
Mandatory savings	13	1.57	-0.053	0.080	-0.088	-0.105	0.106	0.098	0.040	-0.125	0.076
Voluntary savings	14	1.81	-0.092	0.168	0.014	-0.023	-0.014	0.131	0.064	-0.407	0.286
(ln)GDP per capita	15	3.10	0.030	-0.068	0.082	-0.118	-0.030	0.115	-0.013	0.228	-0.190
Economic freedom	16	1.35	0.085	-0.034	0.116	0.078	-0.018	-0.055	-0.050	-0.074	-0.070
Political instability	17	1.43	-0.016	-0.083	0.101	0.062	0.004	-0.024	0.202	-0.079	0.037
Democracy	18	1.44	0.039	-0.047	-0.037	-0.168	-0.035	0.143	-0.028	0.047	-0.100
ODA	19	2.37	0.040	0.164	-0.034	0.124	0.028	-0.189	-0.149	-0.230	0.187

	No.		11	12	13	14	15	16	17	18	19
Sustainability	10	1.000									
ALS/GNI per cap	11	-0.019	1.000								
Individual lending	12	0.084	0.014	1.000							
Mandatory savings	13	-0.139	-0.023	-0.231	1.000						
Voluntary savings	14	0.001	0.124	-0.005	0.362	1.000					
(ln)GDP per capita	15	0.078	-0.087	0.170	-0.455	-0.429	1.000				
Economic freedom	16	-0.084	-0.009	0.095	-0.173	-0.198	0.078	1.000			
Political instability	17	0.063	0.021	-0.222	0.196	0.176	-0.320	0.010	1.000		
Democracy	18	-0.055	0.012	-0.024	0.049	-0.048	0.131	0.312	-0.309	1.000	
ODA	19	-0.053	0.061	0.110	0.237	0.230	-0.693	0.045	0.197	-0.096	1.000

5. Findings

Table 5 presents the results from regressing donation on the governance factors and the control variables. We follow the estimation design proposed by Harris et al., (2015). Column 1 is the base model which includes only the control variables. In columns 2 to 6, we add a single governance factor. In column 7, all the governance factors are included simultaneously. Surprisingly, all five governance factors are insignificant in all the regression results related to donations, suggesting that corporate governance is irrelevant for explaining the level of donations. This result contradicts not only our Hypothesis 1a, but also the bulk of studies about donations to the nonprofit sector (Harris et al., 2015; Kitching, 2009; Olson, 2000). We perform additional analyses to dig further into these surprising results. While MFOs are established double bottom-line organizations, they may have a non-profit or for-profit orientation. We split non-profit and for-profit MFOs and re-ran the analyses on the sub-samples. Base on the premise that non-profit social enterprises may share some commonalities with conventional non-profits, we test whether the role of governance in relation to donations would differ between the sub-samples. The results (unreported) are qualitatively identical to those reported in Table 5: all governance dimensions were insignificant except *Board skills* which showed moderate statistical significance. Thus, even for non-profit MFOs, the level of donations is insensitive to governance.

Like the governance dimensions, the control variables are mostly insignificant even though the coefficients bear the expected signs. A notable exception is average loan size whose coefficient is negatively significant in all regressions. This finding suggests that MFOs that exhibit higher social performance benefit from higher donations. In a further analysis, we test whether this holds when we use alternative measures of social performance; percentage of female clients and a categorical variable that indicates whether a given MFO serves rural markets. Confirming the results, the coefficients of percentage of female clients and rural market were both positively significant (results are untabulated). This insight may help to expound the non-significance of the governance dimensions since donors may directly observe the social performance of MFOs instead of governance. Stated differently, donors may reward MFO for extensive social performance rather than better governance. This makes sense as donations support the social mission of social enterprises (D'Espallier et al., 2013b). The results also show that MFOs that require mandatory savings receive higher donations, in line with (Cozarenco, Hartarska, & Szafarz, 2018). Also, *democracy* is

negatively significant in all regressions, suggesting that MFOs in undemocratic countries receive higher donations.

Table 5: Fixed effects regressions for the relationship between governance and donations

	Dependent variable: Donation						
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board skills		0.013					0.013
		(0.011)					(0.010)
Gender diversity			-0.006				-0.001
			(0.015)				(0.016)
Audit				-0.014			-0.013
				(0.013)			(0.015)
Internationalization					0.011		0.002
					(0.026)		(0.026)
Independence						0.012	0.011
						(0.014)	(0.014)
Age	-0.000	-0.000	-0.000	-0.000	0.000	-0.001	-0.001
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.007)	(0.007)
Size	0.004	0.002	0.005	0.012	0.001	0.006	0.011
	(0.035)	(0.035)	(0.035)	(0.034)	(0.034)	(0.035)	(0.034)
NGO	-0.007	-0.007	-0.009	-0.009	-0.006	-0.007	-0.010
	(0.065)	(0.066)	(0.067)	(0.065)	(0.069)	(0.064)	(0.068)
Regulation	-0.017	-0.019	-0.018	-0.014	-0.018	-0.017	-0.016
	(0.063)	(0.063)	(0.063)	(0.063)	(0.063)	(0.062)	(0.062)
Sustainability	-0.033	-0.031	-0.033	-0.034	-0.034	-0.033	-0.033
	(0.027)	(0.027)	(0.027)	(0.027)	(0.028)	(0.027)	(0.028)
ALS/GNI per capita	-0.057***	-0.058***	-0.057***	-0.057***	-0.058***	-0.057***	-0.058***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Individual lending	-0.042	-0.040	-0.041	-0.041	-0.039	-0.041	-0.037
	(0.048)	(0.048)	(0.049)	(0.049)	(0.047)	(0.050)	(0.050)
Mandatory savings	0.118**	0.115*	0.118**	0.109*	0.115*	0.118**	0.107*
	(0.059)	(0.059)	(0.059)	(0.062)	(0.059)	(0.058)	(0.061)
Voluntary saving	0.026	0.018	0.029	0.032	0.027	0.025	0.025
	(0.068)	(0.066)	(0.068)	(0.065)	(0.068)	(0.067)	(0.062)
(ln)GDP per capita	-0.026	-0.029	-0.018	-0.016	-0.025	-0.027	-0.019
	(0.085)	(0.085)	(0.086)	(0.083)	(0.085)	(0.084)	(0.085)
Economic freedom	-0.004	-0.003	-0.004	-0.003	-0.004	-0.003	-0.003
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Political instability	0.333	0.337	0.328	0.344	0.331	0.330	0.343
	(0.244)	(0.249)	(0.238)	(0.233)	(0.243)	(0.245)	(0.238)
Democracy	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ODA	0.081	0.078	0.078	0.076	0.081	0.064	0.057
	(0.323)	(0.322)	(0.323)	(0.320)	(0.324)	(0.321)	(0.316)
Constant	0.458	0.466	0.407	0.346	0.447	0.462	0.350

	(0.571)	(0.579)	(0.584)	(0.569)	(0.579)	(0.571)	(0.583)
Model statistics							
Observations	842	842	842	842	842	842	842
Number of MFOs	250	250	250	250	250	250	250
R^2 Within	0.0948	0.0973	0.0951	0.0990	0.0956	0.0967	0.103
R^2 Between	1.06e-05	3.82e-05	1.93e-05	6.52e-05	1.92e-05	1.45e-05	0.000134
R^2 Overall	0.00171	0.00168	0.00150	0.00129	0.00148	0.00192	0.00138
F statistic	6.607	7.429	6.217	6.324	6.197	6.081	5.985
Prob>F	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Table 5 shows the fixed effects regression results for the influence of governance on donations. Details of the governance dimensions are reported in Table 2. Refer to Table 3 for definition of variables of all other variables. The dependent variable is measured at time *t* whiles the explanatory variables are measured at tine *t-1*. Standard errors are clustered at the MFO level and shown in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

Table 6: Fixed effects regressions for the relationship between governance and subsidized debt

	Dependent variable: Subsidized debt						
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board skills		0.030***					0.023**
		(0.009)					(0.009)
Gender diversity			0.070***				0.043***
			(0.015)				(0.015)
Audit				0.043***			0.031***
				(0.009)			(0.007)
Internationalization					0.003		-0.001
					(0.015)		(0.013)
Independence						0.022**	0.020**
						(0.010)	(0.009)
Age	-0.001	-0.001	0.002	-0.001	-0.001	-0.002	-0.000
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)	(0.004)
Size	0.036*	0.033	0.028	0.012	0.036	0.040**	0.014
	(0.021)	(0.021)	(0.022)	(0.019)	(0.022)	(0.020)	(0.019)
NGO	0.009	0.008	0.032	0.016	0.009	0.007	0.027
	(0.033)	(0.022)	(0.026)	(0.020)	(0.033)	(0.036)	(0.020)
Regulation	-0.017	-0.022	-0.009	-0.028	-0.017	-0.017	-0.024
	(0.027)	(0.016)	(0.027)	(0.020)	(0.027)	(0.029)	(0.015)
Sustainability	0.008	0.011	0.011	0.011	0.008	0.007	0.013
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.011)	(0.011)
ALS/GNI per capita	0.005	0.004	0.004	0.003	0.005	0.005	0.002
	(0.004)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.003)
Individual lending	-0.020	-0.015	-0.031**	-0.024	-0.019	-0.019	-0.024
	(0.018)	(0.018)	(0.014)	(0.026)	(0.018)	(0.019)	(0.021)
Mandatory savings	-0.022	-0.029	-0.026	0.006	-0.023	-0.021	-0.008
	(0.034)	(0.032)	(0.031)	(0.024)	(0.034)	(0.033)	(0.022)

Voluntary saving	0.028	0.010	-0.018	0.007	0.028	0.026	-0.031*
	(0.021)	(0.020)	(0.014)	(0.029)	(0.022)	(0.018)	(0.018)
(ln)GDP per capita	0.244***	0.236***	0.154**	0.212***	0.244***	0.242***	0.158***
	(0.067)	(0.064)	(0.064)	(0.065)	(0.067)	(0.068)	(0.060)
Economic freedom	-0.002	-0.001	-0.001	-0.003*	-0.002	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Political instability	0.058	0.066	0.122	0.023	0.058	0.053	0.073
	(0.110)	(0.098)	(0.097)	(0.086)	(0.111)	(0.109)	(0.085)
Democracy	-0.000	-0.000	0.000	0.000	-0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ODA	0.143	0.136	0.180	0.158	0.143	0.110	0.142
	(0.159)	(0.161)	(0.159)	(0.158)	(0.160)	(0.152)	(0.151)
Constant	-1.841***	-1.824***	-1.230***	-1.488***	-1.844***	-1.834***	-1.186***
	(0.497)	(0.473)	(0.469)	(0.499)	(0.497)	(0.497)	(0.456)
Model statistics							
Observations	842	842	842	842	842	842	842
Number of MFOs	250	250	250	250	250	250	250
R^2 Within	0.254	0.279	0.354	0.339	0.254	0.268	0.410
R^2 Between	0.001	0.001	0.00001	0.003	0.001	0.00002	0.0198
R^2 Overall	0.002	0.007	0.015	0.017	0.002	0.004	0.053
F statistic	11.36	12.68	36.36	16.90	10.72	11.40	14.36
Prob>F	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Table 6 shows the fixed effects regression results for the influence of governance on subsidized debt. Details of the governance dimensions are reported in Table 2. Refer to Table 3 for definition of variables of all other variables. The dependent variable is measured at time *t* whiles the explanatory variables are measured at tine *t-1*. Standard errors are clustered at the MFO level and shown in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

Table 6 shows the results from regressing subsidized debt on the governance factors and the control variables. The specifications in Columns 1 to 7 follows the same progression as in Table 5. In line with the theoretical expectations, four out of five governance dimensions are indeed significant in all the regressions. These governance dimensions include *director skills, gender diversity, audit and independence*. The results suggest that well-governed MFOs benefit from increased subsidy in the form of concessionary loans. Unlike donors, subsidized debt providers seem to be highly concerned about MFOs' governance. Specifically, MFOs that have highly skilled directors, gender-diversified boards, high audit quality and independent boards receive higher subsidies from loans. Internationalization has no significant effect on the level of subsidized and the sign of the coefficients is inconsistent in (5) and (7). Internationalized boards are costly to MFOs and are associated with poor financial performance (Mersland et al., 2011). This might plausibly explain why the subsidy providers giving decisions are insensitive to internationalization. All in all, the estimation

results validate both Hypothesis 1b and hypothesis 2 since good governance is found to positively influence subsidized debt, a result that which is starkly contrast with the findings about donations.

Like Table 5, most of the control variables in Table 6 are insignificant. Yet, a few observations are worth commenting. First, size comes out significantly positive in models (1) and (6). This may mean that scale economies could help MFOs to attract larger subsidized loans. Arguably, scale advantages could position MFOs to repay their debt more swiftly. Second, individual lending has a negative coefficient in all regressions, suggesting that MFOs that use this as their main lending model may obtain less subsidized debt. But this is only significant in model (3). Third, the GDP per capita of the country where the MFO operates has a positive and significant coefficient in all the estimations, suggesting that subsidized debt providers target less-poor countries preferably. This fact again can testify to the concern of lending to organizations that are more likely to reimburse their debt timely.

Our puzzling findings about the indifference of donors to governance quality could stem from several sources. First, whereas previous studies use data on organizations that are based in advanced countries (e.g., USA), the MFOs in our sample operate in developing and emerging countries. Plausibly, donors that support organizations in developing and transition economies screen their beneficiaries based on alternative criteria, such as social performance, rather than governance characteristics (Mersland & Urgeghe, 2013). Considering our finding relating to the effect of average loan size and the outcome of the supplementary analysis on female clients and rural market, this position is likely. This would make sense since donations are meant to support the social mission of MFOs (D'Espallier et al., 2013b). Second, donors may have private motivations for supporting organizations in developing countries. These motivations may include the goal to demonstrate wealth, elevated status or keep up with peers (Glazer & Konrad, 1996). Similarly, personal utility gains from the act of giving can trigger what Andreoni (1990) calls "warm glow giving".

5.1. Supplementary analyses

In addition to the earlier discussed models, we conduct supplementary analysis to assess the robustness of our findings and to rule out alternative explanations. Reported results of the supplementary analyses are shown in Tables 7 and 8 for donations and subsidized debt respectively.

Alternative specification: although the fixed effects model controls for time invariant heterogeneity across MFOs, it does not fully solve all endogeneity concerns or establish causality. In a further analyses we have taken steps to address other potential endogeneity concerns by including an MFO's lagged change in subsidy as a regressor. With this procedure, we control for other unobserved effects on the dependent variables and further isolate the yearly movements in the level of subsidy received by MFOs. The results shown in column 1 of Tables 7 and 8 are consistent with those reported earlier, with the coefficients of *director skills, gender diversity, audit and independence* being positively significant in Table 8 but insignificant in Table 7. Also, it is possible that the governance – subsidies relationship is dynamic, where current governance structure is influenced by past subsidies received by MFOs. Following previous governance studies (e.g., Bennouri et al., 2018; Wintoki et al., 2012), we address this potential source of endogeneity by estimating a system generalized method of moments (GMM), a dynamic panel data modelling technique. As shown in column 2 of Tables 7 and 8, the outcome of this estimation technique confirms those reported. Finally, we perform cross-sectional analyses using pooled ordinary least square regressions and the results are qualitatively identical to those reported earlier (see column 3 of Tables 7 and 8).

Additional controls variables: we take steps to reduce the risk of omitted variable bias by adding additional controls. By doing this, we also lessen endogeneity concerns that may result from omission of confounding variables. First, we control for capital structure. Previous studies have established links between governance and capital structure (e.g., Berger et al., 1997). Similarly, capital structure is linked to the sustainability of pro-social organizations and perhaps the extent to which such organizations rely on donor funds (Bogan, 2012; Hoque, et al., 2011). Thus, capital structure may be confounder for the governance—subsidy relationship. We account for this potential effect using the ratio of debt to equity. Our findings remain robust (see column 4 of Tables 7 and 8).

Secondly, we control for growth. Growth potentially influences the governance set up and the financing of organizations. For example, high growth may be associated with presence of outside directors (Bathala & Rao, 1995; Hossain et al., 2000). In microfinance, organizations with high growth are likely to minimize their reliance on subsidies (Bogan,

2012; Hoque, et al., 2011). Our findings remain robust after including total assets growth in the models (see column 5 of Tables 7 and 8).

Third, we control for market competition. Extant studies have suggested an association between market competition and internal governance as well as management decisions (Laksmana & Yang, 2015). For example, a strand of the literature suggests a substitution effect between market competition and internal governance (Tian & Twite, 2011). It is therefore possible that the extent of local competition may be correlated with our governance dimensions. To account for this, we include an index of market competition in our models. As shown in column 6 of Tables 7 and 8, our findings on the governance dimensions remain unchanged.

Finally, we control for the effect of the last global financial crisis. Though the microfinance industry was less affected by the 2008-2009 global financial crisis (Di Bella, 2011), it might have possibly influenced the finances of subsidy providers. Thus, the amount of subsidy flows into MFOs might have been impacted for the period during and after the crisis. We assess whether our findings are robust to the crisis by including a dummy variable which is set to "1" for the years after 2007. We also add time dummies to account for possible temporal effects (column 7). Consistent with earlier results, all governance dimensions remain insignificant in Table 7 after adding these controls. Again, *director skills, gender diversity, audit* and *independence* remain statistically significant in Table 8.

Alternative dependent variables: some studies proxy subsidization with the logarithm of the total dollar amount of subsidies received by organizations (e.g., Kitching, 2009; Saxton et al., 2014). In this further analysis, we investigate whether our findings hold for this alternative dependent variable. The untabulated results match those reported; governance influences the dollar amount subsidized debt but not the dollar amount of donations.

According to the life cycle theory, the financing sources of MFOs follows their development trajectory and that MFOs tend to finance their operations through donations at formation stage and later use debt and equity as they mature (Bogan, 2012). Though we control for the age of the organizations in our models, we take additional steps by measuring the level of subsidy relative to the volume assets that an MFO controls (see, Bogan, 2012; D'Espallier et al., 2013b). Thus, we use total assets as the denominator when computing the level of

subsidies (both donations and subsidized debt). The untabulated results validate those reported.

Finally, our measure of donations has limitations in that it is stock and represents accumulated donations since inception (Cozarenco et al., 2018; D'Espallier et al., 2013b). Hence it does not distinctively capture the actual donations received per year. Moreover, this measure excludes unreported in-kind donations such as corporate intangibles (e.g., voluntary labour and technical assistance) which are often difficult to value in pecuniary terms (Hudon et al., 2018). In a further analysis we use the yearly donations reported in the income statement as an alternative dependent variable. Due to several missing observations, this analysis covers a reduced sample of 161 MFOs. The results (unreported) confirmed earlier findings that donations is insensitive to the governance dimensions.

Table 7: Relationship Between Governance Factors and Donations

	Dependent variable: Donations						
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board skills	0.004	0.018	-0.014	0.011	0.020*	0.012	0.014
	(0.007)	(0.022)	(0.012)	(0.010)	(0.011)	(0.010)	(0.010)
Gender diversity	-0.005	0.018	0.005	0.000	-0.009	-0.002	-0.002
	(0.011)	(0.015)	(0.014)	(0.016)	(0.016)	(0.017)	(0.017)
Audit	-0.003	0.016	-0.042***	-0.014	-0.010	-0.012	-0.013
	(0.010)	(0.017)	(0.012)	(0.015)	(0.013)	(0.015)	(0.015)
Internationalization	0.006	-0.022	-0.039***	0.001	-0.013	-0.008	-0.001
	(0.018)	(0.033)	(0.012)	(0.027)	(0.032)	(0.027)	(0.026)
Independence	0.014*	0.017	0.021	0.009	0.024	0.005	0.010
	(0.008)	(0.039)	(0.014)	(0.014)	(0.019)	(0.014)	(0.014)
Age	-0.001	0.001	0.000	-0.000	-0.001	0.004	0.002
	(0.005)	(0.006)	(0.002)	(0.007)	(0.009)	(0.008)	(0.014)
Size	-0.002	-0.037	-0.017	0.010	-0.006	0.012	0.015
	(0.025)	(0.031)	(0.014)	(0.035)	(0.042)	(0.036)	(0.035)
NGO	-0.021	0.171*	0.098***	-0.011	-0.013	-0.037	-0.008
	(0.047)	(0.099)	(0.034)	(0.069)	(0.053)	(0.066)	(0.068)
Regulation	-0.021	0.014	-0.056*	-0.015	-0.012	-0.022	-0.014
	(0.043)	(0.054)	(0.031)	(0.062)	(0.042)	(0.062)	(0.063)
Sustainability	-0.030	-0.036	-0.217***	-0.022	-0.045	-0.038	-0.030
	(0.025)	(0.046)	(0.038)	(0.021)	(0.036)	(0.029)	(0.028)
ALS/GNI per capita	-0.037***	-0.004	-0.013**	-0.053***	-0.053***	-0.058***	-0.057***
	(0.006)	(0.031)	(0.006)	(0.009)	(0.008)	(0.008)	(0.008)

Individual lending	0.002	-0.040	-0.098***	-0.040	-0.010	-0.027	-0.041
	(0.031)	(0.059)	(0.028)	(0.050)	(0.041)	(0.048)	(0.054)
Mandatory savings	0.094*	0.170**	0.042	0.108*	0.107*	0.079	0.105
	(0.057)	(0.068)	(0.028)	(0.063)	(0.064)	(0.057)	(0.065)
Voluntary saving	-0.016	-0.076	-0.146***	0.027	0.017	-0.010	0.028
	(0.042)	(0.081)	(0.034)	(0.063)	(0.072)	(0.066)	(0.070)
(ln)GDP per capita	0.013	-0.016	-0.035	-0.036	-0.023	-0.022	-0.011
	(0.055)	(0.039)	(0.027)	(0.084)	(0.117)	(0.086)	(0.100)
Economic freedom	-0.003	0.002	-0.003	-0.003	-0.001	-0.004	-0.003
	(0.002)	(0.003)	(0.002)	(0.004)	(0.004)	(0.004)	(0.004)
Political instability	0.136	-0.024	-0.035**	0.348	0.066	0.386	0.360
	(0.118)	(0.021)	(0.017)	(0.249)	(0.128)	(0.251)	(0.289)
Democracy	-0.003***	-0.003***	-0.004***	-0.005***	-0.007***	-0.004***	-0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ODA	0.222	0.282	0.845***	0.018	0.062	0.107	0.023
	(0.273)	(0.426)	(0.299)	(0.276)	(0.321)	(0.317)	(0.294)
Donations	0.518***	0.645***					
	(0.066)	(0.097)					
Debt equity ratio				0.002			
				(0.001)			
Assets growth					0.000**		
					(0.000)		
Market competition						-0.045**	
						(0.020)	
Financial crisis							-0.036
							(0.220)
Time dummies	No	No	No	No	No	No	Yes
Constant	0.109	0.072	0.913***	0.477	0.588	0.585	0.285
	(0.359)	(0.458)	(0.277)	(0.580)	(0.765)	(0.641)	(0.746)
Model statistics							
Observations	842	842	842	829	673	827	842
Number of MFOs	250	250	250	245	226	246	250
R^2 Within	0.291			0.132	0.120	0.119	0.120
R^2 Between	0.572			0.000460	0.00704	2.38e-06	6.65e-05
R^2 Overall	0.594		0.238	0.00236	0.0291	0.00255	0.00110
Wald χ^2 / F statistic	14.87	265.2	17.70	4.927	7.531	5.768	54.31
Prob > χ^2 / F	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Method	FE	GMM	OLS	FE	FE	FE	FE

Table 7 shows the fixed effects regression results for the influence of governance on donations. Details of the governance dimensions are reported in Table 2. Refer to Table 3 for definition of variables of all other variables, with the exception of debt equity ratio, assets growth, market competition and financial crisis which are defined in the supplementary analysis. The dependent variable is measured at time *t* whiles the explanatory variables are measured at tine *t-1*. Standard errors are clustered at the MFO level and shown in parentheses. GMM statistics: Arellano-Bond AR(1) = -3.31 (p=0.001), Arellano-Bond AR(2)=0.61 (p= 0.545), Hansen test = 98.22 (p = 0.968). *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

Table 8: Relationship Between Governance Factors and Subsidized Debt

	Dependent variable: Subsidized debt						
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board skills	0.023**	0.032**	0.030***	0.023**	0.027**	0.023**	0.023**
	(0.009)	(0.014)	(0.003)	(0.009)	(0.011)	(0.009)	(0.009)
Gender diversity	0.041***	0.050***	0.045***	0.043***	0.035**	0.042***	0.043***
	(0.014)	(0.019)	(0.006)	(0.015)	(0.016)	(0.015)	(0.015)
Audit	0.031***	0.033**	0.032***	0.031***	0.033***	0.031***	0.034***
	(0.007)	(0.014)	(0.004)	(0.007)	(0.008)	(0.007)	(0.007)
Internationalization	0.001	-0.005	0.002	-0.001	0.005	-0.003	0.000
	(0.013)	(0.028)	(0.004)	(0.013)	(0.016)	(0.013)	(0.013)
Independence	0.019**	0.031*	0.017***	0.020**	0.023**	0.019**	0.020**
	(0.008)	(0.018)	(0.003)	(0.009)	(0.011)	(0.009)	(0.008)
Age	-0.000	-0.001	-0.000	-0.001	-0.000	0.002	0.003
	(0.004)	(0.003)	(0.001)	(0.004)	(0.005)	(0.004)	(0.006)
Size	0.002	-0.016	-0.008*	0.016	0.012	0.015	0.011
	(0.018)	(0.017)	(0.005)	(0.020)	(0.023)	(0.019)	(0.020)
NGO	0.020	0.051	0.002	0.026	0.031	0.018	0.031
	(0.022)	(0.066)	(0.009)	(0.020)	(0.023)	(0.018)	(0.021)
Regulation	-0.028**	0.016	0.005	-0.025	-0.028*	-0.027*	-0.018
	(0.013)	(0.041)	(0.008)	(0.015)	(0.015)	(0.015)	(0.015)
Sustainability	0.013	0.035	0.001	0.015	0.017	0.011	0.012
	(0.010)	(0.028)	(0.008)	(0.011)	(0.014)	(0.011)	(0.012)
ALS/GNI per capita	0.003	-0.018	0.006**	0.003	0.002	0.003	0.003
	(0.003)	(0.027)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Individual lending	-0.027	-0.018	0.015*	-0.026	-0.016	-0.021	-0.028
	(0.017)	(0.047)	(0.009)	(0.020)	(0.024)	(0.023)	(0.023)
Mandatory savings	-0.005	0.006	-0.001	-0.012	-0.008	-0.018	-0.011
	(0.017)	(0.050)	(0.008)	(0.020)	(0.023)	(0.016)	(0.025)
Voluntary saving	-0.032*	0.021	0.008	-0.029	-0.029	-0.043**	-0.025
	(0.019)	(0.066)	(0.010)	(0.018)	(0.022)	(0.021)	(0.016)
(ln)GDP per capita	0.141**	-0.008	-0.001	0.156**	0.186**	0.157***	0.150**
	(0.056)	(0.031)	(0.008)	(0.062)	(0.072)	(0.058)	(0.066)
Economic freedom	-0.001	0.002	0.002**	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
Political instability	0.069	-0.011	-0.011**	0.071	0.042	0.077	0.090
	(0.089)	(0.009)	(0.004)	(0.085)	(0.150)	(0.087)	(0.104)
Democracy	0.000	-0.000	-0.000	0.000	0.001**	0.001	0.000
	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ODA	0.169	-0.256	-0.296***	0.132	0.140	0.162	0.202
	(0.142)	(0.213)	(0.081)	(0.150)	(0.167)	(0.149)	(0.153)
Subsidized debt	0.205**	0.448***					
	(0.086)	(0.167)					
Debt equity ratio				0.000			
				(0.000)			
Assets growth					0.000***		
					(0.000)		
Market competition						-0.017**	

						(0.008)	
Financial crisis							-0.060
							(0.099)
Time dummies	No	no	No	No	No	No	Yes
Constant	-1.032**	0.032	0.041	-1.167**	-1.400***	-1.102**	-1.176**
	(0.422)	(0.307)	(0.073)	(0.468)	(0.534)	(0.444)	(0.541)
Model statistics							
Observations	842	842	842	829	673	827	842
Number of MFOs	250	250	250	245	226	246	250
R^2 Within	0.427			0.408	0.393	0.414	0.422
R^2 Between	0.0663			0.0163	0.0279	0.0186	0.0150
R^2 Overall	0.112		0.324	0.0518	0.0514	0.0496	0.0461
Wald χ^2 / F statistic	15.76	265.2	21.52	13.22	13.38	15.47	17.61
Prob > χ^2 / F	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Method	FE	GMM	OLS	FE	FE	FE	FE

Table 8 shows the fixed effects regression results for the influence of governance on subsidized debt. Details of the governance dimensions are reported in Table 2. Refer to Table 3 for definition of variables of all other variables, with the exception of debt equity ratio, assets growth, market competition and financial crisis which are defined in the supplementary analysis. The dependent variable is measured at time *t* whiles the explanatory variables are measured at tine *t-1*. Standard errors are clustered at the MFO level and shown in parentheses. GMM statistics: Arellano-Bond AR(1) = -2.48 (p=0.013), Arellano-Bond AR(2)=0.01 (p= 0.991), Hansen test = 104.11 (p = 0.923). *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

6. Conclusion

In this paper, we investigate the influence of governance on the level of subsidies that flow to social enterprises. Relying on factor analysis, we summarized the impact of fourteen governance characteristics by five meaningful factors representing *director skills, gender diversity, audit, internationalization and independence*. Next, we used the identified factors to explain two types of subsidies, donations and subsidized debt, granted to MFOs. Unexpectedly, with the estimations involving donations, none of the governance factors were significant. In contrast, the results for subsidized debt are aligned with the theory that views good governance practices as signaling devices for effective management and subsequently for mission fulfilment.

How to rationalize the apparent lack of sensitivity of donations to governance dimensions? First, it could be that, instead of considering governance characteristics, donors screen MFOs based on social outreach by directly observing the social performance of MFOs. Indeed, our analyses show a positive association between social outreach performance (measured with average loan size, proportion of female clients and rural market) and the level of donations received by MFOs. This finding is consistent with the notion that donations are usually meant

to support the social activities of social enterprises (D'Espallier et al., 2013b; D'Espallier et al., 2017b). By implication, MFOs ought to show higher social results if they wish to attract higher donor funds. Secondly, providers of donations might find more immediate rewards (e.g., status enhancement and "warm glow") from giving, which require collecting less information (Andreoni, 1990; Glazer & Konrad, 1996). Third, unlike the case of traditional nonprofits, donor support is not an everlasting endeavour for social enterprises. From both practical and theoretical standpoints, social enterprises out to graduate into self-sustaining institutions. Thus, it is possible that as MFOs become more professional through formal governance, donor support dwindles. All the same, we invite future studies to probe the drivers of donations flows into social enterprises if governance is irrelevant for this discussion. Particularly, it would be insightful to investigate how social enterprise strategize to sustain continued donor support. In any case, our results highlight that implementing good governance helps attract subsidized debt. Moreover, the relevance of effective governance transcends the benefit of increased subsidization. For instance, good governance enhances transparency, encourages internationally best practices, yields effective board oversight and safeguards organizational assets, by preventing asset diversion and fraud (Beasley, 1996; Harris et al., 2017).

Our study has limitations. Admittedly, good governance involves a wide-ranging list of normative prescriptions, obviously beyond the limits of a single study's scope. Though we have made effort to cover several key governance factors, our study does not cover all governance possibilities that might impact donor decisions and subsidy flows to social enterprises such as executive compensation and incentives (Balsam & Harris, 2013; Balsam & Harris, 2018). This can be a fruitful subject for future research

As a second potential limitation, our analyses do not address the effectiveness of governance dimensions neither do they show whether the various governance variable are mere nominal representations to build legitimacy. Having knowledge of donor expectations, MFOs may install certain "ideal" governance set ups to attract subsidy support while those governance mechanisms are just symbolic in reality. Future studies could investigate how governance interacts with certain organizational processes and outcomes—such as financial reporting (Krishnan et al., 2006; Yetman & Yetman, 2012)—to influence the giving decisions of subsidy providers. Finally, taking an exploratory approach, future studies could provide

qualitative evidence on how governance decisions are made in social enterprises and how this is shaped by the pressure to balance multiple bottom lines, plural logics and the incoherent demands and expectations of multiple stakeholders (Varendh-Mansson et al., 2020; Mersland et al., 2019). These nuances would enlighten our understanding on how governance affects donor decisions and subsidy flows into social enterprises.

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CHAPTER 3:
Gender Discrimination and Lending to Women: The Moderating Effect of International Founder

Abstract

Much of the microfinance rhetoric revolves around fighting female poverty, which is often the result of discriminatory gender norms and traditions. Since its inception, the microfinance industry has been subject to much influence from foreign actors, who according to the literature promote female financial inclusion. Yet, little is known about how the female targeting strategy of microfinance institutions (MFIs) is affected by the interplay between societal norms and internationalization. In response, this study investigates the influence of gender discrimination on microfinance outreach to women and tests the moderating effect of an international founder. Using data on 213 MFIs from 65 countries, the results show that microfinance outreach to women is low in contexts where women face much discrimination. The results further show that this relationship is moderated by having an international founder. This study highlights the role of international actors in driving the focus on women in microfinance and opens several avenues for future research.

Keywords: Microfinance, International founder, Internationalization, Gender discrimination, Societal norms, Women's empowerment

JEL codes: G21, F23, J17, O50, P36

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1. Introduction

In this paper, I investigate the influence of gender discrimination on microfinance's outreach to women and test the moderating effect of an international founder. Microfinance emerged as a poverty-combating intervention (Morduch, 1999). Specifically, microfinance institutions (MFIs) support the income-generating activities of the poor and the disadvantaged through the provision of financial and non-financial services to these less privileged groups (Armendáriz & Morduch, 2010). Women, a group that over-represents the world's poor, have been the focus of microfinance since the inception of the industry in the 1970s. Some of the early MFIs lent exclusively to women and, today, women still dominate the clientele base of most MFIs.[14] Mersland and Strøm (2012) regard the focus on women as one of the main innovations of microfinance and Morduch (1999) attributes the success of microfinance to its deliberate targeting of women.

Evidence shows that female poverty results from gender-based discrimination against women. Such discrimination is fueled by broadly shared societal beliefs, customs, or traditions that portray women as inferior to men (Kabeer, 2005; Sanyal, 2009). Studies have established that gender discrimination explains the low participation of women in mainstream banking systems (Fay & Williams, 1993; Drori, Manos, Santacreu-Vasut, & Shoham, 2019). Stated differently, gender stereotypes and prejudice restrict women's access to formal financial services. Although fighting gender discrimination and female poverty is key to the microfinance mandate (Garikipati, Johnson, Guérin, & Szafarz, 2017), it remains the case that the deep-seated societal norms that create these social ills can suppress outreach to women by frustrating the redress efforts of MFIs (Zhao & Wry, 2016).

Recently, scholars have begun to investigate how pro-social organizations (particularly MFIs) are affected by societal norms that create social problems, such as the marginalization of individuals (Chakrabarty & Bass, 2014; Cobb, Wry, & Zhao, 2016; Drori, Manos, Santacreu-Vasut, Shenkar, & Shoham, 2018; Drori et al., 2019; Manos & Tsytrinbaum, 2014; Wry & Zhao, 2018; Zhao & Wry, 2016). With regard to outreach to women, Drori et al. (2019) show that the gender-targeting strategy of MFIs is contingent on prevailing gender norms in the local environment and that MFIs target women in contexts where women are

[14] An estimated 70% of the over 200 million clients of today's microfinance industry are women (Microcredit Summit Campaign, 2012; World Bank, 2015). In a recent study, Mersland, Nyarko and Szafarz (2019) find that even MFIs with non-women-focused mission statements still have about 60% women clients.

likely to face discrimination in accessing financial services. However, the analysis of Drori et al. (2019) does not address whether gender norms affect the degree of outreach to women. In this regard, the earlier work of Zhao and Wry (2016) found that patriarchy, a societal logic that discriminates against women by prioritizing male attributes and interests over those of women, manifests in the family, religion, and state to suppress MFIs' outreach to women.

Intuitively, in countries with high gender discrimination, interventions that foster women's empowerment are less likely to obtain local acceptance and support because such interventions run counter to prevailing societal norms (Chakrabarty & Bass, 2014). In some cases, such interventions may trigger new forms of male dominance and increased violence against women (Rahman, 1999; Schuler, Hashemi, & Badal, 1998). Moreover, women-focused interventions can be costly in unfriendly gender environments, as studies have shown that deep-rooted societal norms (e.g., inter-group discrimination) amplify the trade-off between social outreach and financial performance (Wry & Zhao, 2018). To elaborate, MFIs with deep social outreach struggle to be financially viable when they operate in discrimination-prone contexts, a constraint that may discourage MFIs from reaching larger numbers of costly-to-serve vulnerable minorities such as women. According to Zhao and Wry (2016), due to the unlikely local support, MFIs that desire to serve women in highly patriarchal cultures ought to focus on attracting foreign support. Interestingly, over the past decades, the microfinance industry has witnessed heavy influence from foreign actors such as international capital providers, international initiators, and international networks (Mersland, Randøy, & Strøm, 2011). Building on Zhao and Wry (2016), I investigate how internationalization moderates the relationship between gender discrimination and microfinance outreach to women. By investigating this relationship, I extend previous research (e.g., Drori et al., 2019; Zhao & Wry, 2016) and heed Drori et al.'s (2019) call for studies that explore how internationalization interacts with local societal norms to impact the gender-targeting strategy of MFIs.

Outreach to women in microfinance seems to be significantly driven by international players. Studies have shown that internationalization enhances the social outreach performance of MFIs, and particularly their outreach to women (Mersland et al., 2011; Mersland & Urgeghe, 2013; Mori, Golesorkhi, Randøy, & Hermes, 2015). Funding is one of the channels through which international actors may enhance the targeting of women. Foreign subsidies in the

form of donations and soft loans help MFIs to absorb the high cost of lending to women. Supporting this argument, available evidence shows that subsidized MFIs serve more women (D'Espallier, Hudon, & Szafarz, 2013). Female clients take smaller loans than their male counterparts do (Agier & Szafarz, 2013a; Agier & Szafarz, 2013b; D'Espallier, Guerin, & Mersland, 2013). Small loans are costly for MFIs because monitoring and other administrative costs are fixed regardless of loan size (Hermes et al., 2011). Cheaper foreign funds could help MFIs to bear the already high cost of serving women plus the costs induced by crossing culturally ingrained gender barriers (D'Espallier et al., 2013; Wry & Zhao, 2018). In fact, case study evidence shows that international agencies support women-focused microfinance projects in patriarchal cultures (Sanyal, 2009). Women-focused MFIs may gain other benefits from international actors, such as technical services, knowledge transfer, and international best practices (Golesorkhi, Mersland, Piekkari, Pishchulov, & Randøy, 2019; Golesorkhi, Mersland, Randøy, & Shenkar, 2019; Mersland et al., 2011). Based on these insights, I test the following hypotheses: (1) there is a negative relationship between gender discrimination and microfinance outreach to women, (2) there is a positive relationship between an international founder and microfinance outreach to women, and (3) an international founder moderates the relationship between gender discrimination and microfinance outreach to women.

I use an original dataset that covers 213 MFIs that operate in 65 countries. The unbalanced panel consists of data from 2008 to 2015. The data was analyzed using random effects generalized least squares after running Breusch and Pagan Lagrangian multiplier test. The study employs the Social Institutions and Gender Index (SIGI) as a meaningful proxy for gender discrimination (Branisa, Klasen, & Ziegler, 2013). SIGI tracks four sources of gender discrimination: discrimination in the family, restricted physical integrity, restricted access to productive resources, and restricted civil liberties.

Confirming the hypotheses put forward above, the analyses reveal that microfinance outreach to women is significantly lower in countries where gender discrimination is high. The findings suggest that discriminatory societal norms, which hinder women's access to formal banking services, undermine MFIs' redress efforts. The findings also show that an international founder interacts with gender discrimination to enhance outreach to women. Thus, it appears that pro-social international actors take local culture into account when

establishing MFIs in developing countries and they support MFIs with a mission to reach more women in contexts where women face much discrimination. More generally, these findings suggest that international players in the microfinance industry are committed to supporting and prioritizing underprivileged and vulnerable groups such as women. This study contributes to the literature by highlighting the interplay between cultural and international factors in determining MFIs' outreach to women.

The rest of the paper is organized as follows: Section 2 presents the theory and hypotheses, Section 3 presents the data and methodology, Section 4 presents the results, and Section 5 concludes.

2. Relevant Literature and Hypotheses

2.1 Microfinance and Outreach to Women

Microfinance, an anti-poverty intervention, predominantly supports the income-generating activities of impoverished and marginalized people who lack access to formal banking services (Mersland & Strøm, 2012; Morduch, 1999). Globally, millions are stuck in poverty due to their lack of access to credit and other banking services from traditional financial institutions (Morduch, 1999). According to World Bank, about 75% of the world's poor population are unbanked (World Bank, 2012). In contrast to conventional banks, which neglect the poor—classifying them as risky and unprofitable—MFIs supply financial and non-financial services to the economically active poor and other unbanked persons (Armendáriz & Morduch, 2010). The services provided by MFIs are meant to strengthen the income-generating activities of these vulnerable groups, thereby emancipating them from poverty. The question of whether microfinance has a transformative impact on clients and communities is still controversial and debated in the literature (Banerjee, Duflo, Glennerster, & Kinnan, 2015; Banerjee, Karlan, & Zinman, 2015). Yet, today, it is estimated that microfinance reaches over 200 million borrowers worldwide and the growth prospects of the industry remains favorable (World Bank, 2015).

Much of the microfinance story has centered on empowering women and eradicating female poverty (D'Espallier et al., 2013b). Some scholars even attribute the success of microfinance

to its deliberate focus on women (Morduch, 1999). Indeed, women are less likely than men to participate in traditional banking systems.[15] By the same token, women are more likely than men to be victims of poverty (Duflo, 2012). Female poverty is a global concern and has been high on the agenda of development agencies as well as national and supranational bodies. As traditional victims of social exclusion, oppression, and discrimination (Kabeer, 2005), women are favorite targets of any poverty-eradicating intervention including microfinance (Duflo, 2012).

Why do MFIs prefer lending to women? Studies have shown that compared to men, women are more likely to invest in the wellbeing of their households, especially in areas such as education and health (e.g., Haddad & Hoddinott, 1994; Kabeer, 1997). In light of this evidence, lending to women is perceived to achieve overall greater impact on households than lending to men. This rationale for female targeting was well articulated by Nobel laureate Muhammad Yunus during his 2006 Nobel lecture: "We focused on women because we found giving loans to women always brought more benefits to the family" (Yunus, 2006).

It is important to note that, thanks to women's high repayment rates, MFIs reap efficiency gains by lending to this customer segment. Generally, women entrepreneurs are compliant and are noted for higher levels of honesty and discipline compared to men (D'Espallier et al., 2013b; Rahman, 1999). Moreover, women are cautious with investment decisions due to their risk-averse nature. As a result, women take loans that are well within their repayment capacity and hence are less likely to be in default (Boehe & Cruz, 2013; D'Espallier, Guérin, & Mersland, 2011; Sharma & Zeller, 1997). High repayment rates are crucial for the operation of microfinance business, because, as historical accounts show, microfinance emerged as a response to many government credit programs that failed due to low repayment rates (Hulme & Mosley, 1996). Nevertheless, it is still unestablished in the literature why MFIs target women: namely, it is unclear whether this targeting is to fight female poverty, to bridge gender gaps, or to benefit from women's high repayment rates and compliant behavior (D'Espallier et al., 2013b).

[15] Women constitute a significant proportion of the world's financially excluded poor. It is estimated that women are 28% less likely than men to own a bank account and one out of every three women has no access to banking services (World Bank, 2012).

Many empirical works have investigated outreach to women and other gender-related issues in microfinance. They have dealt with issues such as repayment (e.g., Boehe & Cruz, 2013; Sharma & Zeller, 1997), impact of serving women on performance (e.g., D'Espallier et al., 2013b), impact of microlending on women's empowerment (e.g., Banerjee et al., 2015a Banerjee et al., 2015b; Kabeer, 2001), female leadership (e.g., Strøm, D'Espallier, & Mersland, 2014), and economic effects of serving women (e.g., Kevane & Wydick, 2001). Conventionally, outreach to women is a recognized social mission in the microfinance literature (Mersland et al., 2019b) and MFIs that are biased in favor of women are generally regarded as more social than their counterparts that have less of a focus on women (D'Espallier et al., 2013b; Hermes et al., 2011). Accordingly, empirical studies on microfinance regularly employ the proportion of female clients and the total number of women served by MFIs as standard metrics for gauging MFIs' social performance (Mersland et al., 2019b). According to D'Espallier and Goedecke (2018), the proportion of female clients is arguably the best predictor of MFIs' social performance compared to other indicators such as average loan amount and proportion of rural clients.

As demonstrated in the literature, lending to financially excluded women is a source of legitimacy for microfinance because of the industry's mission orientation. Yet, little is known about the factors—especially those beyond the purview of MFIs such as societal norms—that affect this outreach. At the level of MFIs, studies have shown that commercially oriented MFIs target women to a lesser extent than their non-commercial counterparts. Notably, outreach to women declines rapidly after MFIs transform from NGOs to shareholder-owned firms (Wagenaar, 2014; Frank, 2008). Female-led MFIs are also associated with a higher share of female borrowers (Strøm et al., 2014; Mori et al., 2015; Périlleux & Szafarz, 2015). Recently, scholars have begun to probe broadly shared institutional factors that affect MFIs' outreach to women (Cobb et al., 2016; Drori et al., 2018; Drori et al., 2019; Manos & Tsytrinbaum, 2014; Wry & Zhao, 2018; Zhao & Wry, 2016). However, this strand of the literature is still scant, and moderating mechanisms such as internationalization have yet to be investigated empirically. By taking dual perspectives, I demonstrate how societally ingrained logics interact with internationalization to affect outreach to women.

2.2 Gender discrimination and Microfinance Outreach to Women

Across the globe, gender discrimination, driven by restrictive societal norms and discrimination against women, contributes to the low rate of women's participation in traditional banking systems (Drori et al., 2019; Kabeer, 2005). Societal norms that prioritize male interests over those of females reduce the physical mobility of women as well as militate against women's financial freedom (Kabeer, 2001). In restrictive cultures, most women even lack access to information about financial products and services. In effect, discrimination against women results in financial exclusion of women, which subsequently leads to female poverty (Garikipati et al., 2017). Accordingly, it is logical for MFIs to operate in contexts where gender discrimination, and for that matter female poverty, is commonplace. Indeed, a recent study shows that MFIs are likely to target women in contexts where women are likely to face discrimination in accessing banking services (Drori et al., 2019).

Yet, restrictive societal norms can frustrate the efforts of MFIs to reach women (Zhao & Wry, 2016). Societal norms are shared by societal members and thus largely influence people's daily lives and interactions (House, Javidan, Hanges, & Dorfman, 2002). For conventional firms, acting in alignment with societal norms is a pragmatic and beneficial way to earn legitimacy (Suchman, 1995). The opposite is true for microfinance and other pro-social organizations whose operations redress social ills created by societal norms. When MFIs target women in unfriendly gender environments, their actions may be perceived as inappropriate by people who share in the prevailing institutionalized societal norms. In discriminatory cultures, women are seen as inferior to men and women's roles are limited to childbearing and performing household chores such as cooking, cleaning, and laundry (Kabeer, 2005). Therefore, providing financial services to women would be resisted as it would be perceived as a contradiction to established social conventions. For example, studies have shown that empowering women through microfinance can generate new forms of male dominance as well as increased violence against women (Rahman, 1999; Schuler et al., 1998).

Additionally, women may self-exclude themselves from microfinance since they are likely to share in and internalize the existing cultural norms of their societies. Consequently, they may develop low self-esteem and fail to recognize themselves as economic actors, and

thereby willfully exclude themselves not only from market-based activities (Mair, Marti, & Ventresca, 2012) but also from microfinance services (D'Espallier et al., 2013b). After all, women may not be the direct users of loans they receive since studies have reported that more than half of loans to women end up in the hands of their husbands and male relatives (Balasubramanian, 2013; Garikipati, 2008; Goetz & Gupta, 1996; Pitt, Khandker, & Cartwright, 2006; Rahman, 1996). Balasubramanian (2013) argues that women's lack of control over loans and incomes from their enterprising ventures is the consequence of their weak bargaining position in the household.

Furthermore, while having females in leadership positions and as credit officers increases outreach to women (Labie, Meon, Mersland, & Szafarz, 2010; Mori et al., 2015; Périlleux & Szafarz, 2015; Strøm et al., 2014), MFIs may fail to attract female professionals in countries where gender stereotypes are strong (Zhao & Wry, 2016). Thus, all else equal, in patriarchal cultures, men are likely to dominate microfinance boards, management teams, and staff, an occurrence that may diminish outreach to women.

My final argument relates to the cost of serving women. D'Espallier et al. (2013b) report that serving women is costly due to the small loan amounts they require and the lending method (i.e., group lending) through which they are served. However, there are other reasons why it may be more expensive to serve women in male-dominated societies. First, women may require additional costly services that are tailored to their specific needs, such as nutrition, health, education, door-to-door services, business development services, and gender-awareness training of staff (Goldmark, 2006; Lensink, Mersland, Vu, & Zamore, 2018). These may be needed to help the businesses of women and to boost their self-worth, because many women in discriminatory environments lack basic skills, training, and education (Kabeer, 2005; Lensink et al., 2018). Second, crossing cultural barriers to reach marginalized women can result in further costs due to relationship problems (e.g., mistrust between male loan officers and female clients) as well as coordination and communication challenges (Wry & Zhao, 2018). In effect, these costs not only threaten the sustainability of MFIs, but also, given that local funding support for female targeting is low, deter MFIs from serving women in unfriendly gender contexts. Based on these arguments, I predict that:

> ***Hypothesis 1****: There is a negative relationship between gender discrimination and microfinance outreach to women.*

2.3 Internationalization of Microfinance Institutions and Outreach to Women

The microfinance industry is heavily influenced by foreign actors such as international fund providers (commercial and non-commercial) and international networks (e.g., Opportunity International and Women's World Banking) (Brière & Szafarz, 2015; Cobb et al., 2016; Golesorkhi et al., 2019a; Golesorkhi et al., 2019b; Dorfleitner, Röhe, & Renier, 2017). Also, many international players (both individuals and development agencies) set up MFIs in developing countries with the object of promoting financial inclusion (Golesorkhi et al., 2019a; Golesorkhi et al., 2019b; Mersland et al., 2011). International players are instrumental in providing MFIs with financial and technical solutions and are an important source of knowledge transfers (Golesorkhi et al., 2019b; Mersland et al., 2011; Mersland, Nyarko & Sirisena, 2019). The robust growth observed in the industry in the past decade is attributable to the influx of foreign funds (Reille, Forster, & Rozas, 2011; Soursourian, Dashi, & Dokle, 2015).

Evidence suggests that internationalization enhances the social performance of MFIs and particularly outreach to women. Mersland et al. (2011) found that three sources of international influence—namely, international network membership, international initiation, and access to international subsidized debt—are associated with higher outreach to women. Similarly, Dorfleitner et al. (2017) and Mersland and Urgeghe (2013) document a positive relationship between access to foreign funding and the proportion of women served by MFIs. According to the latter study, international subsidized debt providers follow a positive screening approach that prioritizes financially weak MFIs that are disposed to targeting women. Mori et al. (2015) report a positive effect of international directorship on outreach to women. These findings seem to suggest that international players seem to be concerned about fighting gender discrimination and female poverty by empowering disadvantaged women.

Internationally oriented MFIs are able to exhibit high social outreach performance possibly because of their access to cheaper resources. According to Mersland et al. (2011), international initiators have access to cheaper funding—grants, donations, and concessionary loans—that is meant to advance the social mission of the MFIs they set up. In fact, evidence shows that subsidized MFIs reach more women and perform socially better than their unsubsidized counterparts (D'Espallier et al., 2013a). Also, international networks, most of

whom are also founders of MFIs, enhance outreach to women through effective policing of management as well as the transfer of knowledge and international best practices (Golesorkhi et al., 2019a; Golesorkhi et al., 2019b; Mersland et al., 2011). Such policies may include the adoption of positive organizational ethical codes that internally institutionalize (within MFIs) ethical treatment of female clients (Chakrabarty & Bass, 2014).

As established in the previous section, women-focused MFIs in discriminatory cultures are less likely to obtain local support including funding. At the same time, serving women in such cultures is costly, thereby posing sustainability challenges to MFIs. On this basis, I conjecture that foreign connections and assistance—financial and technical—is crucial to support high female outreach in discriminatory cultures (Zhao & Wry, 2016). In this regard, Sanyal (2009) provides evidence of how international agencies support women-focused microfinance programs in patriarchal societies. Moreover, because fighting female poverty and gender discrimination are high on the agenda of international players, they are more likely to establish women-focused MFIs in discriminatory cultures than in gender-friendly cultures and to channel resources toward women's financial inclusion in these cultures. This argument is in line with many studies in the international development literature that link bilateral aid to enhancements in gender parity and women's empowerment (e.g., Asongu, 2016; Elgström, 2000; Grown, Addison, & Tarp, 2016; Pickbourn & Ndikumana, 2016). The argument is that driving down inequality between men and women accelerates economic development, which in turn drives inequality down in a virtuous cycle (Duflo, 2012). Besides, international founders are less likely than locals to share in societal norms that discriminate against women (De Beule, Klein, & Verwaal, 2019). Tukamushaba, Orobia, & George (2011) theorize that individuals and organizations that engage in international social entrepreneurship initiate or support social initiatives beyond their national borders out of a sense of social responsibility and empathy with less privileged persons beyond the borders of their native countries. According to these authors, such a feeling is characterized by "identifying with another person and feeling and understanding what that person is experiencing, for instance, identifying with the orphans or rural poor" (p. 290). I conjecture that international founders in the microfinance sector have pro-social motivations that include empowering impoverished and disadvantaged women. Therefore, it is expected that internationally founded MFIs reach more women in cultures where women face much

discrimination than in cultures where gender discrimination is low. In light of the above arguments, I predict that:

> ***Hypothesis 2:*** *There is a positive relationship between an international founder and microfinance outreach to women.*
>
> ***Hypothesis 3:*** *An international founder moderates the relationship between gender discrimination and microfinance outreach to women.*

3. Method and Data

3.1. Method

Dependent Variable

The dependent variable is the percentage of female clients, computed as the total number of women served by an MFI out of the total number of clients served. Previous studies have mainly employed this proxy to gauge the female outreach performance of MFIs (Mersland et al., 2019b; Périlleux & Szafarz, 2015; Hermes et al., 2011; D'Espallier et al., 2013b).

Independent Variables

This study includes two independent variables. The first, the Social Institutions and Gender Index (SIGI), is obtained from the database of the development center of the Organization for Economic Co-operation and Development (OECD) (https://www.genderindex.org). This index captures four types of gender discrimination arising from discriminatory social institutions and norms, including discrimination in the family, restricted physical integrity, restricted access to productive and financial resources, and restricted civil liberties. A strength of the SIGI is its focus on the root causes of gender discrimination by systematically integrating indicators for societal norms, traditions, and family customs that discriminate against women (Branisa, Klasen, Ziegler, Drechsler, & Jütting, 2014; Jütting, Morrisson, Dayton-Johnson, & Drechsler, 2008). As such, SIGI is employed as a standard proxy for gender discrimination in the literature (Branisa et al., 2013; Jütting et al., 2008; Klasen & Schüler, 2011; Potrafke & Ursprung, 2012; Sekkat, Szafarz, & Tojerow, 2018). Values for

SIGI range from "0" to "1," with higher values signifying higher gender discrimination and vice versa.

The second independent variable is international founder (Golesorkhi et al., 2019a; Golesorkhi et al., 2019b; Mersland et al., 2011). This is a binary variable that takes the value of one if the MFI was founded by foreigners, and zero otherwise. Like other social enterprises, MFIs are usually founded by a socially motivated individual entrepreneur (e.g., Nobel laureate Muhammad Yunus of the Bangladeshi Grameen Bank) or by an existing pro-social organization (e.g., Women's World Banking), which can be local or international (Randøy, Strøm, & Mersland, 2015). Because founders are present at the formation stage of organizations, the international founder variable is exogenous, making it statistically suitable for drawing causal inferences. Imprinting effects links internationally founded MFIs to other sources of internationalization such as international network membership (Mersland & Urgeghe, 2013).

Control Variables

Consistent with the literature, I include in the research model control variables for MFI-specific and contextual factors that might influence MFIs' outreach to women. The MFI-specific control variables include, age, size, regulation status, business model (main lending method), sustainability, loan size, and ownership type (whether an MFI is a non-profit organization or otherwise). The measurement of sustainability follows Zhao and Wry's (2016) approach and this is a confirmatory factor analysis of three financial indicators: operational self-sufficiency (extent to which operating revenues cover costs), return on assets (net income as a percentage of average assets), and write-off ratio (proportion of loan portfolio deemed irrecoverable and written off). Older, smaller, and more sustainable MFIs are more likely to target women (Zhao & Wry, 2016). Individual lending methods reach fewer women than group-based methods (Cull et al., 2007). Women are often targeted with smaller loan amounts (D'Espallier et al., 2013b). NGOs and unregulated MFIs are more likely to target women than their shareholder-owned and regulated counterparts (Frank, 2008; Roberts, 2013).

Outreach to women is also influenced by the macroeconomic condition of the countries in which MFIs operate. For instance, a given country's wealth can influence the general

demand for microfinance services in that country and indeed, countries in which MFIs operate are in diverse macroeconomic situations (Ahlin, Lin, & Maio, 2011). To account for diverse macroeconomic conditions, I use contextual control variables. Specifically, following Zhao and Wry (2016), I use five macroeconomic control variables. The first is gross domestic product (GDP) per capita (adjusted for purchasing power parity), which controls for wealth at the country level. The second is economic freedom index, which controls for the degree of economic liberalization in the countries in which MFIs operate. The third macroeconomic variable, official development assistance (ODA) (expressed as a percentage of gross national income), controls for the amount of aid received by developing countries from developed partners that is earmarked for fighting female poverty (Asongu, 2016; Elgström, 2000; Grown et al., 2016). The fourth and the fifth macroeconomic variables are political instability and democracy. Regional dummies are included as additional controls to account for possible effects that stem from the heterogeneous geographical provenance of MFIs.

Empirical Strategy

The regression models use generalized least squares (GLS) to analyze the female outreach performance of MFIs per year. A Breusch and Pagan Lagrangian multiplier test favored random effects over pooled ordinary least squares (OLS) ($\chi 2 = 481.00$, $p < 0.000$). The random effects regression is the main method used as it enables one to estimate the coefficients of time-invariant regressors such as the international founder and business model variables. Time dummies are included in the models to address unobserved temporal effects. Serial correlations and heteroscedasticity are tested and subsequently addressed with robust standard errors clustered at the MFI level.

I conclude this section with a brief discussion on endogeneity. It is possible that MFIs' outreach to women, their internationalization, and the measure of gender discrimination are simultaneously determined. Yet, such endogeneity concerns arising from reverse causality are minimized by the fact that the two main explanatory variables are exogenous. The first is gender discrimination (measured by SIGI). It is exogenous by virtue of the fact that the cultural values on which it is based—societal norms, traditions, and familial laws that discriminate against women—are enduring and remain stable over time (Johnson, 2004; Licht et al., 2007). The second exogenous variable is international founder. Since founders

are present from the inception of the organization, this variable is constant over time and predates all performance metrics—social or financial—as well as any other organization outcomes. These mitigating factors notwithstanding, I conduct supplementary analyses to address possible endogeneity concerns (see Section 4.1).

3.2. Data

For this study, all data on MFIs is hand-collected from the rating reports of five leading microfinance rating agencies: MicroRate, Microfinanza, Planet Rating, M-CRIL, and CRISIL. The sample consist of 213 MFIs that operate in 65 countries worldwide. Rating agencies rely on historical information and hence, in addition to data from the rating year, there are additional firm-year observations per MFI for periods prior to the rating year. The unbalanced panel data consists of observations over an eight-year period from 2008 to 2015, with the majority of the data relating to the first half of this period. Many MFIs underwent multiple ratings during this period.

Rating data has several merits. It undergoes auditing and verification during the rating process and, as a result, such data is trustworthy and of high quality compared to other public sources of microfinance data that are usually voluntarily self-reported by MFIs (Hudon & Traca, 2011). Additionally, rating data is arguably the most representative of the microfinance industry as it embodies both small and large institutions globally (D'Espallier et al., 2013b). Most MFIs that undergo rating are usually international since rating reports have high appeal to international fund providers. Thus, rating data supplies variables that are instrumental for capturing the internationalization of MFIs. Additionally, using information from institutions that have undergone institutional and social ratings yields a homogeneous sample of transparent double bottom line MFIs. A possible weakness of the dataset is the low representation of member-based cooperatives, though these are by definition national as they are member-based.

The country-level data is obtained from the following sources: SIGI is obtained from the OECD database (https://www.genderindex.org), gross domestic product (GDP) per capita and the ratio of official development assistance (ODA) to gross national income (GNI) are obtained from the World Bank Database (https://data.worldbank.org/), the economic freedom index is obtained from the Heritage Foundation (https://www.heritage.org/index/), data on democracy is obtained from Polity IV Project's Political Regime Characteristics and

Transitions dataset (http://www.systemicpeace.org/inscrdata.html), and data on political instability is obtained from the State Failure Problem dataset of the Political Instability Task Force (http://www.systemicpeace.org/inscrdata.html).

Summary Statistics

Table 1 defines the variables and presents the summary statistics. Women constitute 55.4% of the total clients served by the average MFI. This shows that women are favorite clients of many MFIs. On the other hand, the minimum value of 6% shows that some MFIs serve very few women. The mean value for SIGI is 0.192, indicating that most MFIs operate in gender-unfriendly countries. Internationally founded MFIs constitute 30% of the total sample of institutions in the dataset. Such a high percentage attests to the high essential participation of international players in the microfinance industry.

Similar to recently studied MFIs (Liñares-Zegarra & Wilson, 2018), the typical MFI in the dataset has been operating for about 14 years and controls US$ 29.9 million worth of assets (logarithm of total assets is 16.154). Regarding the business model, 73.6% of the MFIs use individual lending as their main lending method, though most of them do so in parallel with solidarity group lending or village banking. All the same, this finding confirms recent trends in lending methods where MFIs are shifting from group-based to individual lending (Kodongo & Kendi, 2013).

In the sample, 55.7% of the MFIs are subject to local banking regulations in the countries in which they operate. 31.2% of the MFIs in the dataset are NGOs. The mean logarithm of GDP per capita is 8.570, equivalent to US$ 7,457.8. The typical country in the dataset has an economic freedom score of 0.583 and receives ODA that is approximately 4.3% of its GNI. The mean values of political instability and democracy are 0.966 and 3.844, respectively. Like other datasets, the Latin America and Caribbean region hosts the highest fraction of MFIs (44.1%) while the Middle East and North Africa region hosts the lowest (4.8%). The remainder is distributed as follows: Sub-Saharan Africa (26.7%), Europe and Central Asia (15%), and Southeast Asia and the Pacific (9.4%).

In Table 2, the highest correlation is between the international founder variable and the interaction between SIGI and the international founder variable (0.732). Though somewhat high, it is still below the upper bound of 0.9 and hence should not affect the estimations

(Hair, Black, Babin, & Anderson, 2010; Kenedy, 2008)[16]. To guarantee that multicollinearity is not a serious concern, I compute the variance inflation factor (VIF) for each variable. As shown in Table 2, the highest VIF is 4.16, which is below the cutoff point of 10 (Hair et al., 2010). The mean VIF (untabulated) is 2.04.

[16] To confirm that the high correlation poses no problem to the estimations, I include the independent variables incrementally in the regressions. The results remain robust.

Table 1: Definition of variables and summary statistics

Variable	Definition	Obs.	Mean	Std. Dev.	Min.	Max.
Dependent variable						
Female client (%)	Percentage of female clients served by MFI	641	0.554	0.203	0.060	1
Independent variables						
SIGI	Social Institutions and Gender Index	641	0.192	0.146	0.002	0.6011
Int. founder	1 if MFI was founded by an international organization or an international private individual and 0 otherwise	641	0.300	0.458	0	1
Control variables						
Age	Number of years the institution has been in microfinance business	641	14.415	8.901	0	52
Size	Logarithm of total assets	641	16.154	1.509	10.728	19.869
Total assets (‘$’ mil)	Total assets controlled by MFI	641	29.900	53.300	0.0456	426.000
Regulation	1 if MFI is subject to local banking regulations and 0 otherwise	641	0.557	0.497	0	1
Business model	1 if MFI mainly uses individual lending method and 0 otherwise	641	0.736	0.441	0	1
Sustainability	Measure of the financial sustainability of MFIs	641	-0.027	0.172	-1.670	0.506
ALS/GNI per cap	Average loan outstanding scaled by GNI per capita	641	0.322	0.646	0.011	11.852
NGO	1 if MFI is a Non-Governmental Organization and 0 otherwise	641	0.312	0.464	0	1
(ln)GDP per capita	Logarithm of Gross Domestic Income per capita	641	8.570	0.917	6.422	10.501
GDP per capita (‘$’)	GDP per capita of the country in which MFI operates	641	7457.800	5544.220	615.278	36347.340
Economic freedom	The heritage index of the country in which MFI operates	641	0.583	0.064	0.414	0.722
ODA	Official Development Assistance received as a percentage of GNI	641	0.043	0.057	-0.002	0.463
Political instability	A measure of the degree of political instability of the country in which MFI operates	641	0.966	0.746	0.000	3.326
Democracy	A measure of democracy of the country in which MFI operates	641	3.844	10.261	-88	10
SSA	1 if MFI is in Sub-Saharan Africa and 0 otherwise	641	0.267	0.443	0	1
LAC	1 if MFI is in Latin America and Caribbean and 0 otherwise	641	0.441	0.497	0	1
ECA	1 if MFI is in Europe and Central Asia and 0 otherwise	641	0.150	0.357	0	1
MENA	1 if MFI is in Middle East and North Africa and 0 otherwise	641	0.048	0.215	0	1
SEAP	1 if MFI is in Southeast Asia and the Pacific and 0 otherwise	641	0.094	0.292	0	1

Table 2: Correlation matrix

	No.	VIF	1	2	3	4	5	6	7	8	9
SIGI	1	1.78	1.000								
Int. founder	2	3.390	-0.171	1.000							
SIGI × Int. founder	3	3.070	0.184	0.732	1.000						
Age	4	1.35	-0.122	-0.173	-0.130	1.000					
Size	5	1.64	-0.163	0.050	-0.051	0.348	1.000				
Regulation	6	1.70	0.159	0.103	0.143	-0.048	0.216	1.000			
Business model	7	1.50	0.050	-0.250	-0.254	0.091	0.200	0.172	1.000		
Sustainability	8	1.26	0.065	-0.217	-0.168	0.151	0.212	0.025	0.229	1.000	
ALS/GNI per cap	9	2.10	0.299	-0.218	-0.092	0.032	0.130	0.390	0.354	0.107	1.000
NGO	10	1.80	-0.129	-0.051	-0.034	0.156	-0.091	-0.511	-0.308	-0.001	-0.391
(ln)GDP per capita	11	2.29	-0.275	-0.093	-0.249	0.071	0.162	-0.135	0.176	0.076	-0.327
Economic freedom	12	1.30	-0.168	-0.003	-0.054	-0.047	0.110	-0.009	0.121	0.019	-0.129
ODA	13	2.14	0.331	0.094	0.192	-0.221	-0.282	0.228	-0.061	-0.182	0.366
Political instability	14	1.50	0.221	0.024	0.043	-0.121	-0.027	0.005	-0.131	0.013	-0.071
Democracy	15	1.23	-0.133	-0.099	-0.160	0.131	0.050	-0.119	0.036	-0.046	-0.082
SEAP	16	1.96	-0.188	0.117	-0.010	0.059	-0.022	-0.102	-0.124	0.035	-0.202
LAC	17	4.16	-0.270	-0.321	-0.356	0.317	0.237	-0.301	0.147	0.094	-0.147
ECA	18	2.28	-0.035	0.251	0.122	-0.195	0.023	0.278	0.211	0.106	0.131
MENA	19	1.68	-0.014	-0.084	-0.080	-0.013	0.094	0.040	-0.113	0.070	-0.127

	No.	10	11	12	13	14	15	16	17	18	19
NGO	10	1.000									
(ln)GDP per capita	11	0.077	1.000								
Economic freedom	12	-0.103	0.205	1.000							
ODA	13	-0.209	-0.559	-0.227	1.000						
Political instability	14	-0.115	-0.213	0.135	0.203	1.000					
Democracy	15	0.080	0.161	0.135	-0.199	-0.085	1.000				
SEAP	16	0.026	-0.028	0.015	-0.128	0.284	0.042	1.000			
LAC	17	0.256	0.352	0.059	-0.448	-0.302	0.296	-0.286	1.000		
ECA	18	-0.283	0.292	0.218	0.000	-0.120	-0.223	-0.135	-0.373	1.000	
MENA	19	0.225	0.021	-0.053	-0.036	0.010	-0.160	-0.072	-0.200	-0.095	1.000

4. Empirical findings

The results of the empirical investigation are displayed in Table 3. In models 1 to 4, the percentage of female clients is regressed on the independent variables only, without any control variables. The remaining models, 5 to 8, include all control variables.

Hypothesis 1 predicted that outreach to women is lower in countries with high gender discrimination than in countries with low gender discrimination. This hypothesis is supported by the results shown in Table 3 as SIGI is significantly negative in all models, with or without control variables ($p<0.01$). Thus, high gender discrimination significantly reduces the share of women served by MFIs. This finding concurs with Zhao and Wry (2016) who report that patriarchy manifests in family, religion, and state to reduce outreach to women by MFIs. It is also in line with the position of several scholars who argue that gender discrimination precludes women from market-based activities and could frustrate exchanges between MFIs and women (e.g., Chakrabarty & Bass, 2014; Kabeer, 2005; Mair et al., 2012; Rahman, 1999; Schuler et al., 1998).

Relating this finding to Drori et al. (2019) reveals a notable twist: though MFIs are likely to focus on women in discriminatory contexts, the extent of their outreach could nevertheless be restricted by societal norms. Drori et al. (2019) found that the gender-targeting strategy of MFIs is context-dependent and that MFIs declare it their mission to target financially excluded women in contexts where women face discrimination in accessing banking services. Thus, according to their findings, MFIs adapt their targeting strategy to the needs of the local environment. Yet the findings of the present study show that gender discrimination restricts MFIs' actual outreach to women. Overall, the findings complement Drori et al. (2019) and enlighten our understanding of the complexity of fighting poverty. It also reopens the debate on whether microfinance is a quick remedy for gender discrimination (Garikipati, 2008; Hunt & Kasynathan, 2001).

Hypothesis 2 predicted that internationally founded MFIs exhibit higher female outreach performance than their locally founded counterparts. In Table 3, the coefficient of the international founder variable is significantly positive in all models where it is present ($p<0.01$). Thus, MFIs that are founded by international actors have more women among their clients than their locally founded counterparts. This result supports the second hypothesis and confirms many previous studies that report a positive association between other aspects

of internationalization and outreach to women (Dorfleitner et al., 2017; Mersland et al., 2011; Mersland & Urgeghe, 2013; Mori et al., 2015). It appears that international founders have a strong preference for female clients. It nevertheless remains an open question whether this extensive outreach to women is motivated by international founders' inclination to achieve the developmental goal of fighting female poverty or by women's high repayment rate.

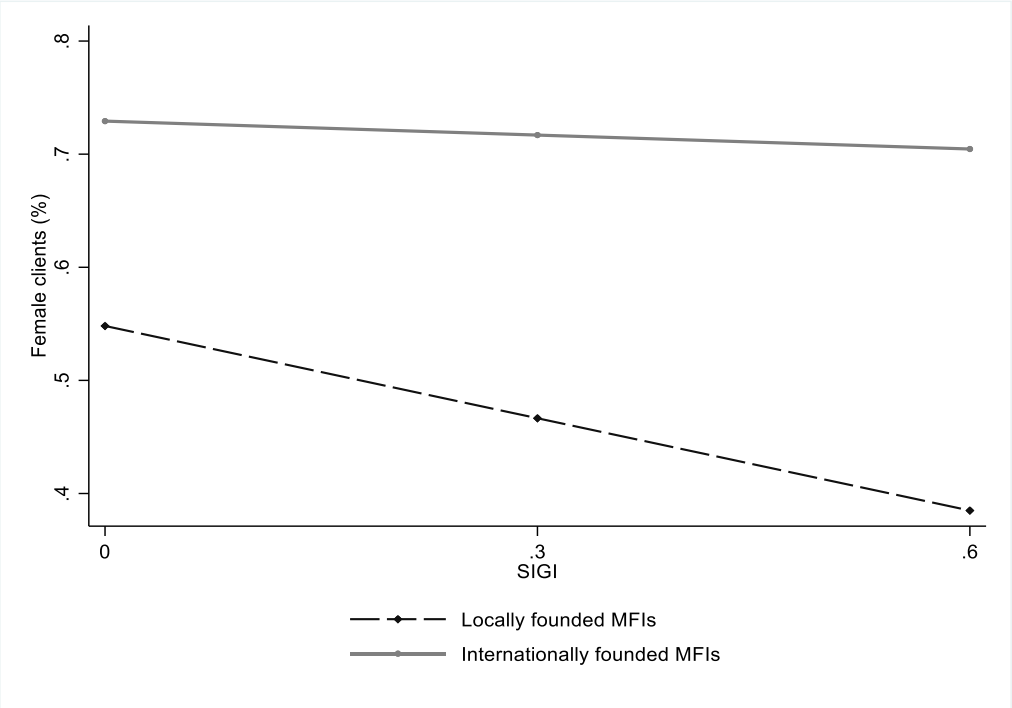
Hypothesis 3 predicted that an international founder moderates the relationship between gender discrimination and microfinance outreach to women. To test this hypothesis, an interaction between the international founder and gender discrimination variables was included in models 4 and 8. It was found that the coefficient of the interaction term in both models is positive and significant. Thus, the test confirmed the hypothesis that an international founder combines with gender discrimination to increase the proportion of women served by MFIs. Stated differently, internationally founded MFIs reach more women than locally founded MFIs do in contexts where women face much discrimination. These results are consistent with Sanyal (2009), who document internationally supported pro-women microfinance projects in male-dominated societies, and with Zhao and Wry (2016), who stress the need for MFIs to attract foreign support when serving women in patriarchal countries. More generally, the findings also corroborate De Beule et al. (2019), who show that international social enterprises outperform their local counterparts when local institutions are unsupportive. The reasons for this, according to the authors, are that international social enterprises leverage their internal capabilities, are less reliant on host countries, and are less sensitive to local institutional pressures.

Table 3: SIGI and percentage of female clients: moderating effect of international founder

	Dependent variable: Percentage of female clients							
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SIGI	-0.215***		-0.210***	-0.272***	-0.294***		-0.273***	-0.308***
	(0.050)		(0.049)	(0.059)	(0.064)		(0.062)	(0.068)
Int. initiator		0.232***	0.218***	0.181***		0.229***	0.206***	0.180***
		(0.028)	(0.028)	(0.030)		(0.025)	(0.026)	(0.027)
Int. initiator × SIGI				0.231***				0.172**
				(0.086)				(0.085)
Age					-0.001	0.001	0.000	0.000
					(0.001)	(0.001)	(0.001)	(0.001)
Size					0.000	-0.007	-0.007	-0.008
					(0.005)	(0.006)	(0.005)	(0.005)
Regulation					-0.021	-0.031**	-0.022	-0.018
					(0.015)	(0.013)	(0.015)	(0.015)
Business model					-0.073**	-0.056**	-0.054**	-0.056**
					(0.033)	(0.025)	(0.026)	(0.026)
Sustainability					0.002	0.019	0.011	0.010
					(0.016)	(0.017)	(0.016)	(0.017)
ALS/GNI per cap					-0.027***	-0.021**	-0.019**	-0.019**
					(0.009)	(0.009)	(0.008)	(0.008)
NGO					0.034**	0.029**	0.033**	0.034**
					(0.016)	(0.013)	(0.014)	(0.014)
(ln)GDP per capita					-0.020	0.000	-0.004	-0.002
					(0.020)	(0.021)	(0.019)	(0.019)
Economic freedom					0.028	0.118	0.045	0.030
					(0.147)	(0.169)	(0.144)	(0.139)
ODA					-0.009	0.029	-0.037	-0.031
					(0.165)	(0.170)	(0.153)	(0.154)
Political instability					-0.032**	-0.025*	-0.017	-0.013
					(0.015)	(0.013)	(0.013)	(0.013)
Democracy					-0.000	0.000	-0.000	-0.000
					(0.000)	(0.000)	(0.000)	(0.000)
Constant	0.610***	0.492***	0.535***	0.548***	0.947***	0.662***	0.769***	0.778***
	(0.016)	(0.014)	(0.015)	(0.016)	(0.177)	(0.194)	(0.179)	(0.179)
Time dummies	No	No	No	No	Yes	Yes	Yes	Yes
Regional dummies	No	No	No	No	Yes	Yes	Yes	Yes
Model statistics								
Observations	641	641	641	641	641	641	641	641
# of MFIs	213	213	213	213	213	213	213	213
R^2 Overall	0.164	0.268	0.344	0.386	0.465	0.524	0.601	0.624
R^2 Between	0.216	0.273	0.353	0.390	0.490	0.536	0.607	0.627
Wald χ^2 statistic	18.17	68.62	89.04	96.41	160.2	311.7	338.2	347.5
Prob > χ^2	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Table 3 shows the regression results for the relationship between outreach to women by MFIs (measured by percentage of female clients) and gender discrimination (measured by SIGI). The table also shows the moderating effect of internationalization (measured by international founder). Models 1 to 4 include no controls while models 5 to 8 include all controls. Refer to Table 1 for definition of variables. Robust standard errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

Figure1: The moderating effect of international founder on the relationship between outreach to women and gender discrimination



This significant interaction is plotted in Figure 1. In the figure, two observations are apparent. First, internationally founded MFIs reach out to more women than their local counterparts do regardless of the level of gender discrimination in the culture. Second, while the relationship between gender discrimination and outreach to women is negative for both internationally and locally founded MFIs, the slope is steeper for the latter than for the former. Thus, internationalization lessens the negative influence of gender discrimination on microfinance outreach to women.

Some of the control variables show results that are worth mentioning. As expected, MFIs that use individual lending as their main lending method reach fewer women compared to those that use group-based lending methods (Cull et al., 2007; D'Espallier et al., 2013b). It appears that group-based lending models—village banking and solidarity group lending—are compatible with the female outreach strategy of MFIs. It is easier to organize women into groups than men and moreover most women rely on the social collateral associated with group-based lending methods since they often lack physical collateral (Armendáriz & Morduch, 2010). The coefficient of average loan size is significantly negative in all models, suggesting that women receive smaller loan amounts than men do

(Agier & Szafarz, 2013a; Agier & Szafarz, 2013b; D'Espallier et al., 2013b). Consistent with Frank (2008), the results show that MFIs that are organized as NGOs serve more women. Given the commercialization trend observed during the past decade (D'Espallier, Goedecke, Hudon, & Mersland, 2017), a natural question is whether targeting women is evolving into a specialized niche for NGO MFIs.

4.1. Further analyses and robustness checks

In addition to the models discussed above, I conducted several supplementary analyses to assess the robustness of the findings.

Alternative estimation methods: The random effects GLS regression assumes that the unobserved time-invariant MFI characteristics are uncorrelated with the regressors. This assumption could be problematic if any of the regressors is endogenous. I addressed this endogeneity concern in two ways. First, I included a lagged dependent variable as an explanatory variable in the model. This procedure controls for the effects of all time-invariant heterogeneity across MFIs. The results reported in column (1) of Table 4 match those reported in Table 3. Second, I estimated Hausman–Taylor regressions. The Hausman–Taylor method is an instrumental variable estimator that uses the exogenous regressors in the model as instruments for the endogenous ones and allows for the coefficient of time-invariant regressors to be estimated. The results are robust to this alternative specification (see column (2) of Table 4). I also implemented a dynamic panel data model, namely, a system-generalized method of moments (GMM), to deal with other potential sources of endogeneity such as simultaneity and dynamic endogeneity (Ullah, Akhtar, & Zaefarian, 2018). The results, reported in column (3) of Table 4, remain unchanged. Also, a cross-sectional estimation technique (pooled OLS) produced the same results as those reported in Table 3 (see column (4) of Table 4). Finally, in an unreported analysis, I used Mahalanobis' distance matching technique to select MFIs that have international founders and a control group of MFIs that have local founders. Of the resulting sample of 124 MFIs, 63 had international founders and 61 had local founders. Regression results on this reduced sample confirm those reported in Table 3.

Alternative dependent variable: Instead of the proportion of female clients, another proxy for microfinance outreach to women is the number of female clients served (Zhao & Wry,

2016). I investigated whether the results hold when this dependent variable is used. The findings are similar to those reported in Table 3, with the coefficients of SIGI, Int. founder, and Int. founder × SIGI being statistically significant with the expected signs (see column (6) of Table 4).

Additional control variables: To reduce the risk of omitted variable bias, I added additional control variables. First, in line with the argument that mission determines outcome (Mersland et al., 2019b), I controlled for whether an MFI pursues a women's empowerment mission. This is a variable that takes the value of "1" if an MFI's mission statement has an explicit focus on women and "0" otherwise. In the dataset, mission statements are available for only socially rated MFIs and hence this analysis covers a reduced sample of 143 MFIs. Second, I controlled for female leadership and board gender diversity (see, Gregorič, Oxelheim, Randøy, & Thomsen, 2013; Gregorič, Oxelheim, Randøy, & Thomsen, 2017). MFIs that have women at the helm of management are likely to target women (Périlleux & Szafarz, 2015). In line with this argument, I checked whether the results are robust to the addition of two female leadership variables: female board chairperson (binary) and proportion of female directors. The results (unreported) remain unchanged after adding these controls. Third, I included origin and founder fixed effects to account for other possible effects, e.g., colonial history and bilateral relations between the home countries of the international founders and the countries where they invest (Neumayer & Spess, 2005; Weiler, Klöck, & Dornan, 2018). The results are robust to the addition of these fixed effects (see column (5) of Table 4).

Separate analyses for non-profit and for-profit MFIs: Although the reported results support the hypothesis that an international founder moderates the relationship between gender discrimination and microfinance outreach to women, I ran additional analyses to probe the sensitivity of the findings to the commercial orientation of the institutions. Studies have shown that non-profit MFIs serve more women than their for-profit counterparts do (Roberts, 2013; Zhao & Wry, 2016). Against this backdrop, one would expect the findings to be more pronounced in non-profit MFIs than in for-profit MFIs. To test this, I split the sample into non-profit and for-profit MFIs and re-ran the models on each subsample. As expected, the interaction between gender discrimination and international founder has a significant and positive association with the percentage of women served by non-profit MFIs. For for-profit MFIs the coefficient is positive but insignificant.

Using non-female social performance measures as dependent variables: In untabulated analyses, I investigated whether the results on female outreach performance are merely accidental, by substituting the dependent variable, percentage of female clients, with two non-female social performance proxies often used in microfinance research: average loan size (scaled by GNI per capita) and percentage of rural clients. Average loan size measures the poverty level of an MFI's clientele, also called depth of outreach, and is therefore a typical proxy for poverty alleviation (Cull et al., 2007; Mersland et al., 2019b). Percentage of rural clients measures the degree of rurality of an MFI's clientele and is a standard proxy for rural outreach performance (Mersland et al., 2019b). In both cases, SIGI, Int. Founder, and Int. founder × SIGI are insignificant. This confirms that the findings reported in Table 3 are specific to the female outreach strategy of MFIs.

Table 4: SIGI and microfinance outreach to women: moderating effect of international founder

VARIABLES	**Percentage of female clients**					**Number of female clients**
	(1)	(2)	(3)	(4)	(5)	(6)
SIGI	-0.047**	-0.194***	-0.242***	-0.642***	-0.318***	-1.452***
	(0.020)	(0.030)	(0.089)	(0.037)	(0.068)	(0.322)
Int. initiator	-0.005	0.448***	0.089	0.061***	0.101***	0.283**
	(0.006)	(0.101)	(0.097)	(0.019)	(0.039)	(0.130)
Int. initiator × SIGI	0.060**	0.120**	0.267**	0.704***	0.183**	1.037***
	(0.028)	(0.059)	(0.117)	(0.102)	(0.086)	(0.334)
Age	-0.000	-0.003*	0.002	0.001*	0.001	0.007
	(0.000)	(0.002)	(0.002)	(0.001)	(0.001)	(0.006)
Size	-0.001	0.002	-0.027*	-0.014***	-0.007	0.783***
	(0.001)	(0.005)	(0.014)	(0.004)	(0.005)	(0.081)
Regulation	-0.001	-0.031**	-0.021	0.016	-0.015	0.198**
	(0.003)	(0.014)	(0.031)	(0.011)	(0.015)	(0.085)
Business model	-0.005	-0.034**	-0.005	-0.054***	-0.054**	-0.205**
	(0.004)	(0.017)	(0.043)	(0.014)	(0.027)	(0.089)
Sustainability	0.000	0.012	0.028	-0.031	0.007	0.252*
	(0.010)	(0.014)	(0.043)	(0.035)	(0.017)	(0.138)
ALS/GNI per cap	-0.003	-0.009	-0.011	-0.035***	-0.018**	-0.747***
	(0.002)	(0.006)	(0.011)	(0.007)	(0.008)	(0.097)
NGO	0.002	-0.001	0.066	0.061***	0.032**	0.148*
	(0.004)	(0.018)	(0.078)	(0.012)	(0.014)	(0.081)
(ln)GDP per capita	0.001	0.049	-0.008	-0.026**	-0.003	-0.822***
	(0.003)	(0.032)	(0.017)	(0.012)	(0.018)	(0.118)
Economic freedom	-0.016	0.064	0.036	-0.197**	-0.003	0.474
	(0.030)	(0.087)	(0.116)	(0.081)	(0.137)	(0.518)
ODA	-0.001	0.055	-0.120	-0.420***	-0.035	-0.679
	(0.048)	(0.130)	(0.149)	(0.146)	(0.158)	(1.060)

Political instability	0.001	-0.011	0.004	0.001	-0.015	0.058
	(0.002)	(0.020)	(0.011)	(0.007)	(0.012)	(0.069)
Democracy	-0.000	-0.000	-0.000	-0.001**	-0.000	-0.007
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.005)
Female clients (%) $_{t-1}$	0.937***		0.543***			
	(0.018)		(0.084)			
Constant	0.071*	0.065	0.711**	1.178***	0.809***	1.303
	(0.041)	(0.276)	(0.285)	(0.129)	(0.176)	(1.503)
Time dummies	Yes	No	Yes	Yes	Yes	Yes
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes
Origin dummies	No	No	No	No	Yes	No
Founder dummies	No	No	No	No	Yes	No
Model statistics						
Observations	540	641	542	641	641	621
# of MFIs	207	213	208	213	213	212
R^2 Overall	0.976			0.693	0.672	0.840
R^2 Between	0.989				0.688	0.851
Wald χ^2 / F statistic	40322	135.4	910.5	54.80	18984	961.1
Prob > χ^2 / F	0.000	0.000	0.000	0.000	0.000	0.000
Method	RE	HT	GMM	OLS	RE	RE

This table shows the regression results for the relationship between gender discrimination and outreach to women by MFIs. Percentage of female clients is the dependent variable for models 1 to 5 while number of female clients is the dependent variable in model 6. Refer to Table 1 for definition of variables. Robust standard errors are in parentheses. GMM statistics: Arellano-Bond AR(1) = -2.73 (p=0.006), Arellano-Bond AR(2)= 0.539 (p= 0.590), Hansen test = 87.15 (p = 0.835). *, ** and *** denote statistical significance at 10%, 5% and 1% respectively.

5. Conclusion

In this article, I investigate the relationship between gender discrimination and microfinance outreach to women. Then, I test whether an international founder moderates this relationship. Based on arguments from existing studies, I hypothesized that, all else equal, gender discrimination reduces microfinance outreach to women and that this relationship is moderated by the origin of the founder (international versus local). A random effects generalized least squares regression was employed to analyze data on 213 MFIs from 65 countries.

Confirming the hypotheses, the findings show a significant negative relationship between gender discrimination and female outreach performance of MFIs, suggesting that MFIs serve fewer female clients in contexts where women face much discrimination. Thus, societal norms that promote male dominance militate against the redress efforts of MFIs to provide women with microfinance services. Consistent with the existing body of research, the findings also show that internationally founded MFIs reach more women than their locally

founded counterparts do. Finally, the findings also show that the international founder and gender discrimination variables interact to increase the share of women served by MFIs. In other words, MFIs that are set up by international actors support women's financial inclusion, especially in contexts where women are confronted with barriers to accessing banking services.

This study contributes to the literature by highlighting how the interplay between societal norms and internationalization affects the women-targeting strategy of MFIs. It improves our understanding of cultural influences on financial exclusion of women and how such influences can be mitigated by internationalization. The findings of the study also highlight the critical role of international actors in driving the focus on women in microfinance.

A limitation of this study is the lack of data on the underlying mechanisms through which societal norms limit women's access to microfinance services. For example, I lack data on the loan application processes of MFIs. Consequently, it is unclear from the findings whether the negative effect of gender discrimination on outreach to women is the result of discriminatory lending practices by MFIs or the result of women's own self-exclusion from microfinance services. Using data from a Brazilian MFI, Agier and Szafarz (2013a) report that loan denials are not gender-biased. Nevertheless, a direct focus on the mechanisms underlying loan denials from a cross-cultural perspective could be a fruitful avenue for future research. Specifically, qualitative insights would be useful in exposing these mechanisms in ways that enhance our understanding on how discriminatory societal norms affect microfinance outreach to women.

Indeed, the empirical findings show that internationally founded MFIs reach more women than do locally founded ones, especially in contexts where women face much discrimination in accessing financial services. While this is an indication of high social outreach performance, it should not be necessarily interpreted that loans to women constitute a significant proportion of the total value of MFIs' gross loan portfolio (Crabb & Keller, 2006). This is because women take smaller loans (in dollar value) than men. Thus, the proportion of the dollar value of gross loan portfolio attributable to female clients may be less than that attributable to men even if women constitute the majority of an MFI's clientele.

More generally, a related question is whether the high outreach to women means that international founders drive MFIs to excessively focus on women and whether this is good

for the female clients themselves. It appears that women are good for the microfinance model but the question of whether microfinance is good for women is still controversial as the literature is divided on the effect of microfinance on women's empowerment (e.g., Banerjee et al., 2015a; Banerjee et al., 2015b; Garikipati, 2008; Kabeer, 2001). Several scholars have reported that in patriarchal societies, women are compelled to transfer loans to their husbands who eventually become the users of the money (Garikipati, 2008; Goetz & Gupta, 1996; Pitt et al., 2006; Rahman, 1996). Moreover, women often bear the burden of repaying the loans from their personal resources when husbands fail to honor loan obligations, a situation that may leave women worse off than before (Balasubramanian, 2013).

From an internationalization perspective, future studies could further investigate the influence of microfinance on women's welfare. Further research is also needed to establish whether internationally founded MFIs' extensive outreach to women comes at the expense of financial sustainability and whether there are moderating institutional factors. This is because significant costs associated with the process of empowering women with microfinance services can influence the ability of these organizations to achieve their bottom lines (D'Espallier et al., 2013).

Why do internationally founded MFIs seek to reach more women in settings where women face discrimination. One reason is obvious: to fight discriminatory societal norms through women's empowerment. Whether the provision of microfinance services alters the direction of societal norms is an open question. Studies have shown that lending is unlikely to liberate women in terms of affecting their position in the household (Garikipati, 2008; Hunt & Kasynathan, 2001). Thus, women may still suffer discrimination even after being economically empowered. For example, husbands can appropriate loans to women (Goetz & Gupta, 1996; Pitt et al., 2006; Rahman, 1996) or coerce women to take microfinance loans on their behalf (Hunt & Kasynathan, 2001). It is thus legitimate to ask whether international bodies really impact societal norms. To answer this, future microfinance studies need to take a more fine-tuned approach to the obvious complexity of societal norms by studying how international agencies address women's rights and gender relations in areas such as decision making and control over loan use, business-related decisions, marriage, divorce, and bargaining in the household (Balasubramanian, 2013; Hunt & Kasynathan, 2001).

If international organizations do impact local societal norms, then a related question is whether this can be viewed as a new form of foreign imperialism. Future studies can tackle

this subject by exploiting the parallels between international assistance (financial and non-financial) to MFIs (Mersland et al., 2019a) and foreign aid to developing countries (Bodenheimer, 1971; Hayter, I971). This line of research would provide further insights into how internationalization interacts with gender norms to empower women.

Finally, future research needs to address how international founders adapt to local systems in order to reach women, including the process of overcoming local barriers. From a theoretical standpoint, one would expect higher social outreach to come with some level of local embeddedness (Dacin, Dacin, & Tracey, 2011). For example, how do international founders deal with local regulations and possible liabilities of foreignness? Qualitative studies are also needed on the process of acquiring and leveraging knowledge and experience (e.g., value co-creation with clients), adoption of positive organizational ethics, and engagements with key stakeholders such as civil society organizations and trade and labor unions.

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CHAPTER 4:
A Hybrid Approach to International Market Selection: The Case of Impact Investing Organizations[17]

Abstract

Social enterprises are hybrid organizations that concurrently pursue social and economic goals and hence are mid-way between conventional capitalistic firms and non-profit organizations. Many social enterprises are becoming international; delivering services across borders. With the objective of understanding the internationalization of these unconventional organizations, this paper examines their international market selection decision based on host countries' macroeconomic conditions. Generally, we hypothesize that the international market selection decision of social enterprises is tied to their hybridity, an overarching characteristic that sets them apart from other types of organizations. We build an original dataset with information on 41 European and North American impact investing organizations and 153 developing countries. Largely, our findings support the hypothesis, suggesting that social enterprises operate in foreign countries that offer a desirable balance between their social and financial goals. However, they avoid contexts with high country risk, factors that could cause a shortfall in expected returns.

Key words: Cross-Border Investments, Internationalization, Social Enterprises, International Market Selection, Macroeconomic Factors, Hybrid Organizations

JEL classifications: F23, G21, L31

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1. Introduction

'The business of doing good,' or what Miller, Grimes, McMullen, and Vogus (2012, p. 616) term "venturing for others with heart and head," has become popular. Across the globe, social enterprises are gaining momentum. In the Netherlands, for example, the social enterprise sector grew by more than 70% during the period 2010 to 2015 (Keizer, Stikkers, Heijmans, Carsouw, & Aanholt, 2016). Faced with demographic changes and financial crises, governments and the general public have high hopes in social enterprises because these firms promise to address social problems without the need for long-term public (or private) subsidies (Zahra, Gedajlovic, Neubaum, & Shulman, 2009). According to Doherty, Haugh, and Lyon (2014), social enterprises are organizations that strive to achieve desirable social goals, e.g., reducing unemployment, hunger and poverty eradication, while maintaining their financial sustainability. Thus, by pursuing social and financial goals at the same time, social enterprises are hybrid organizations that couple dual institutional logics—social and economic (Battilana & Dorado, 2010).

Three characteristics distinguish social enterprises from pure philanthropic organizations and capitalistic firms. The first is their hybridity which stem from the simultaneous pursuit of social and financial objectives (Battilana & Dorado, 2010). This is perhaps the most overarching and distinct feature of social enterprises as both social and economic value creation is core to them (Peredo & McLean, 2006). Hybridity is also the main source of tension in social enterprises since social and financial logics often conflict (Wry & Zhao, 2018). Second, social enterprises must be financially self-sustainable, implying that they must be able to generate income to cover their costs without donor support (Mair & Marti, 2006; Townsend & Hart, 2008). Social enterprises do so by operating with conventional business models in the delivery of their products and services at the marketplace. Due to their mission orientation and the low economic status of their clients (less privileged people), social enterprises may not charge competitive prices for their products and services. Yet, prices must be high enough to break even at least. This explains why achieving financial sustainability is tricky for most social enterprises (Doherty et al., 2014). Third, social enterprises fill institutional voids that are unattended by governments and the market (Zahra et al., 2009). Thus, social enterprises supply products and services that are unavailable in conventional sectors due to resource constraints faced by governments and other private

actors. Such voids are usually costly and unprofitable to fill, a reason for their neglect by the market.

In addition to the global popularity of social enterprises, we have in recent years observed a significant increase in cross-border operations by these hybrid firms (Porter & Kramer, 2011). These cross-border activities can be global or regional (McKague, Menke, Arasaratnam, 2014; Wang, Alon, & Kimble, 2015). In some instances, pro-social organizations incorporated in western countries expand their developmental interventions into developing countries either directly or through support-based partnerships with local organizations (Golesorkhi, Mersland, Piekkari, Pishchulov, & Randøy, 2019; Golesorkhi, Mersland, Randøy, & Shenkar, 2019). In most cases, such collaborations involve the transfer of personnel, knowledge and international best practices.

Despite the burgeoning literature, the internationalization of social enterprises has received only a paucity of scholarly attention (Pless, 2012; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008) and until now, no study has, to the best of our knowledge, investigated the international market selection decisions of social enterprises. We aim to contribute to the literature by explaining the international market decision of social enterprises based on the macroeconomic conditions of host countries. The study also contributes to our understanding of hybrid firms, an understanding which has been a standing call in many previous studies (e.g. See, Battilana et al., 2015; Doherty et al., 2014; Pache & Santos, 2013; Smith et al., 2013). We set out to address the following research question: Into which macroeconomic environment do social enterprises go when investing abroad? We argue that host country macroeconomic conditions have a direct bearing on the ability of hybrid firms to balance the trade-off between their social and financial goals (Ault & Spicer, 2014; Hermes, Lensink, & Meesters, 2011; Smith, Gonin, & Besharov, 2013). For hybrid organizations, the core need to make a social impact distinguishes their internationalization process from those of mainstream firms. Therefore, conventional theories on internationalization may not be sufficient to understand the cross-border operations of social enterprises (Peredo & McLean, 2006).

To answer the research question, we use an original dataset comprising of data from 41 impact investing organizations that originate from Europe and North America. Generally, impact investing organizations invest with a dual motive: generating social impact and earning financial returns (Ashta, 2012). By aiming to concurrently achieve both objectives,

impact investing firms are faced with trade-offs because these polar goals can conflict (Glac, 2009). For their desired social goal, the impact investing organizations in our dataset contribute to fighting global poverty by providing finance as well as a wide range of non-financial assistance to local microfinance institutions (MFIs) in developing countries. MFIs are specialized organizations that are known for alleviating poverty through the provision of banking services to marginalized and disadvantaged persons with income generating activities (Armendáriz & Morduch, 2010). Previous studies have shown that many MFIs rely on their partners in the global North—mostly impact investing organizations—for financing and technical solutions (Mersland, Randøy, & Strøm, 2011; Mersland & Urgeghe, 2013). At the same time, being double bottom line organizations, the impact investors in our dataset equally aim at earning financial returns on their investments in the MFIs. In addition to the data on the impact investing organizations, we also gather macroeconomic data on 153 developing countries.

Based on existing literature on hybrid organizations, we generally hypothesize that social enterprises, in our case impact investing organizations, are likely to internationalize into countries where they have the opportunity to balance the competing demands of their dual institutional logics. Thus, social enterprises will target countries that are less developed, institutionally weak, and risky, but not countries where these macroeconomic indicators are at the worst levels. Largely, our empirical investigation supports this hypothesis.

In sum, it appears that when going abroad, the average impact investing organization makes an optimum choice by selecting countries that offer a desirable balance in the trade-off between social and economic opportunities. We claim that impact investing organizations adopt this strategy to balance their often conflicting social and financial institutional logics.

The paper proceeds as follows. Section 2 presents the conceptual and theoretical framework. Section 3 outlines the methodological approach and the data while Section 4 presents and discusses the empirical findings. Section 5 presents our conclusions.

2. Conceptual Framework: The International Market Selection of Social Enterprises

We rely on existing literature on hybrid organizations to build a conceptual framework for our empirical work. We acknowledge that hybrid organizations are not restricted to only organizations that blend social and market logics (Pache & Santos, 2013). Nevertheless,

existing works have mainly focused on social enterprises. Therefore, we primarily rely on the social enterprise literature to develop our conceptual model and to formulate the research hypotheses. More so, our sample organizations, impact investing organizations, combine same institutional logics—social and business—as other social enterprises do.

2.1. Social Enterprises

Social enterprises are hybrid firms that fill institutional voids, left unattended by governments and the market, with business-based models (Pache & Santos, 2013; Stevens, Moray, & Bruneel, 2015). Therefore, in regions and societies where government and market failures are commonplace, social enterprises represent important rays of hope (Doherty et al., 2014). A unique characteristic of social enterprises is their hybridity that stems from their subscription to dual institutional logics: social welfare and financial sustainability (Battilana & Dorado, 2010; Battilana & Lee, 2014; Doherty et al., 2014; Pache & Santos, 2013). Being hybrids, social enterprises are neither typical for-profit firms nor typical non-profit firms, but share characteristics of both types of firms (Peredo & McLean, 2006). Social enterprises are often subject to tension in maintaining their hybridity (Battilana, Sengul, Pache, & Model, 2015; Smith et al., 2013). This tension is a direct consequence of balancing the conflicting demands of the dual institutional logics of social welfare and economic viability (Battilana & Lee, 2014; Doherty et al., 2014). Often, failure to strike a desirable balance between them results in a trade-off, a situation where social enterprises sacrifice the prescriptions and outcomes of one logic in favor of those of the other (Hermes et al., 2011; Jay, 2013; Smith et al., 2013; Wry & Zhao, 2018). Nevertheless, social enterprises endeavour to achieve a satisfactory balance between the two logics since the definition of success encompasses excellence in both logics (Mair & Marti, 2006; Townsend & Hart, 2008). Stated differently, a social enterprise is said to be successful if it attains the feat of creating social value while at the same time being financially self-sustainable (Battilana & Dorado, 2010).

On the international scene, social enterprises are confronted with this social-economic tension and need to strike a desirable balance. We demonstrate this using the three host-country macroenvironmental factors—level of development, institutional strength, and country risk—discussed in the next section. We argue that the international market selection decision of social enterprises is largely shaped by their hybridity rather than the prescriptions of conventional approaches.

2.2. International Market Selection and Host-Country Macroenvironmental Climate

International market selection is one of the most salient as well as complex decisions an organization has to make during its expansion across borders (Clark, Li, & Shepherd, 2018; Papadopoulos, Martín Martín, & Gaston-Breton, 2011). For social enterprises, this decision is highly bounded rational and complex due to inherent operating challenges in developing economies (Papadopoulos & Martín, 2011). Despite the seeming complexity, cross-border activities characterize many hybrid organizations (Zahra et al., 2009).

The international market selection of an organization is mainly influenced by factors at two levels: target country-level factors and firm-level factors (Kim & Aguilera, 2016). Target country-level factors include market potential, competition, economic factors, political factors, and social factors, while firm-level factors include resources (human, financial, etc.), competencies (technical, managerial, etc.), and organizational goals (Brewer, 2001; Kim & Aguilera, 2016). The present study sheds light on how social enterprises select international markets based on the host-country's macroeconomic conditions—level of development, institutional strength, and country risk (Bailey, 2017).

Level of development of host country

Market potential is a key determinant of international market selection by traditional firms (Brouthers, Mukhopadhyay, Wilkinson, & Brouthers, 2009; Brouthers & Nakos, 2005). Naturally, greater market potential is associated with higher profits, both in present and future terms (Head & Mayer, 2004). To excel, social enterprises require markets with good potential. Although market potential is necessary to guarantee the long-term profitability and growth of social enterprises, it is greater in more developed countries (Hanson, 2005). At the same time, social enterprises have a mandate to tackle diverse societal challenges, such as unemployment, financial and social exclusion, and hunger (Pache & Santos, 2013; Stevens et al., 2015; Townsend & Hart, 2008). These societal challenges and institutional voids are prevalent in most developing countries. As a result, developing countries provide attractive settings and opportunities for social enterprises to create deep social impact (Edwards & Hulme, 1996b). In sum, developed countries offer promising climate to create economic value but less opportunities for creating social value (Edwards & Hulme, 1996b). The reverse is true for poor countries (Edwards & Hulme, 1996a). This is a clear manifestation of the trade-off thesis (Austin, Stevenson, & Wei-Skillern, 2006; Doherty et al., 2014). Faced with such conflicting demands, social enterprises resort to an optimal choice that balances their

social and economic objectives (Mair, Mayer, & Lutz, 2015). Pache and Santos (2013) term this response "selective coupling." Against this backdrop, we formulate our first hypothesis as follows.

> **Hypothesis 1**: In selecting international markets, social enterprises target less developed countries but not the least developed ones.

Strength of institutional environment

Institutions explain economic growth and the general business environment in a given country, and it has been argued that institutions define the "rules of the game" (North, 1990, p. 3). The purpose of institutions is to protect property rights, enforce contracts between individuals and firms, and provide physical and regulatory infrastructure (Bailey, 2017; North, 1990). Stronger institutions facilitate business transactions and increase the quality of life of individuals by reducing transaction costs (Chen, Saarenketo, & Puumalainen, 2018; North, 1990; Roy & Oliver, 2009). Therefore, countries with stronger institutions seem to provide conducive environments for economic exchange (North, 1990; Verbeke & Kano, 2013). This explains why profit-maximizing firms prefer countries with stronger institutions (Chen et al., 2018; Dau, 2013; Murtha & Lenway, 1994).

By contrast, countries with weaker institutions are often prone to developmental challenges. In such countries, the by-products of weak institutions, such as corruption, create inequality, deprivation, poverty, poor health care, and various societal ills, are prevalent (Aidt, Dutta, & Sena, 2008). Because of their social objects, social enterprises regard such developmental challenges stemming from weak institutions as opportunities and the associated countries as natural markets to enter (Koch, Dreher, Nunnenkamp, & Thiele, 2009). On the other hand, these same institutional weaknesses could potentially prevent social enterprises from becoming financially viable, thus posing a threat to their sustainability (Fowler, 1996). Thus, we posit that social enterprises target countries that are positioned somewhere in between, i.e., countries that offer social enterprises the opportunities to earn sufficient profits to pursue social goals. This leads to our second hypothesis.

> **Hypothesis 2**: In selecting international markets, social enterprises target countries with weak institutions but not those with the weakest institutions.

Country risk

Country risk refers to all factors in a host country that could cause a shortfall in the expected returns from a foreign investment (Meldrum, 2000). This risk is outside the purview of investors and is usually the consequence of imbalances in socio-economic, political, geographic and structural factors between countries (Cosset & Roy, 1991; Meldrum, 2000). Because of country risk, cross border transactions carry incremental risks that are absent in domestic transactions (Meldrum, 2000).

In the mainstream management literature, it is theorized that the extent of risk in a target country negatively impacts market selection strategies (Andersen & Buvik, 2002; Brouthers & Nakos, 2005). This is primarily due to the volatile relationship between profitability and risk. Scholars have identified several sources of country risk; e.g., political, social, economic, operational, and transfer and exchange rate risk (Cosset & Roy, 1991; Meldrum, 2000; Root, 1987; Schneider & Frey, 1985). Yet, as far as social enterprises are concerned, the impact of country risk is probably different due to their hybridity. In high-risk countries, vulnerable people and communities are prevalent, thus providing greater opportunity for social enterprises to fulfill their social utility functions (Porter & Kramer, 2011; Teasdale, 2010). At the same time, however, social enterprises need to achieve some level of economic breakthrough in order to advance their social welfare mission. For this reason, high-risk environments may be shaky grounds for social enterprises. Therefore, a country risk level that is unfavourable to the realization of one objective may be favorable to the realization of the other objective, and vice versa (Austin et al., 2006). To balance this trade-off, the optimal choice for social enterprises may be to opt for countries where risk is neither too high nor too low. This brings us to our third hypothesis.

> **Hypothesis 3**: In selecting international markets, social enterprises target countries with high country risk but not those that are most risky.

3. Data and Methodology

3.1. Context

The present study focuses on European and North American impact investing organizations that operate in developing countries.[18] These organizations are incorporated as non-governmental (NGOs), get their income from the services they render rather than from donations, and mainly work in developing countries to promote financial and social inclusion through partnership with local MFIs (Salamon & Anheier, 1992). The microfinance industry offers a natural context for this study since most industry players satisfy the principal criterion for defining a social enterprise, namely, the coupling of social and business logics (Battilana & Dorado, 2010; Peredo & McLean, 2006). Moreover, the microfinance industry is globally known and acknowledged for its commitment to developmental issues. For instance, the United Nations declared 2005 as the year of microcredit and the 2006 Nobel Peace Prize was awarded to microfinance pioneer Mohammad Yunus who founded the Grameen Bank in Bangladesh (one of the first MFIs). Finally, microfinance is a very internationalized industry where international lenders, donors, investors, and technical assistance providers offer their services (Mersland et al., 2011; Mersland & Urgeghe, 2013). Principally, the increasing internationalization of microfinance is largely driven by an infusion of international funds (Mersland & Urgeghe, 2013). The microfinance industry is thus a suitable testing ground for analyzing patterns of international market selection by social enterprises.

3.2. Sample and data sources

The dataset was created by us with data from multiple sources. Our sample of social enterprises consists of impact investing organizations listed in the 2013 directory of the European Microfinance Platform (e-MFP). These impact investing organizations, also called microfinance investment vehicles (Mersland & Urgeghe, 2013), channel funds from suppliers (donors and other fund providers) to country-based MFIs, with the aim of achieving mutually beneficial goals (Mersland & Urgeghe, 2013). The relationship between providers of funds in the global north and recipients of credit from MFIs is illustrated in Figure 1.

[18] The sample of developing countries in the dataset are those classified by the World Bank as upper middle-income, lower middle-income and low-income countries. High-income countries are excluded since they fall outside the mandate of our sample firms.

Besides financial resources, microfinance investment vehicles, especially those incorporated as non-governmental organizations, often provide other non-financial support to their partner MFIs (Mersland et al., 2011). Figure 2 illustrates the financial and non-financial assistance offered by impact investing organizations to their local partners, the country-based MFIs.

Figure 1: Flow of Funds

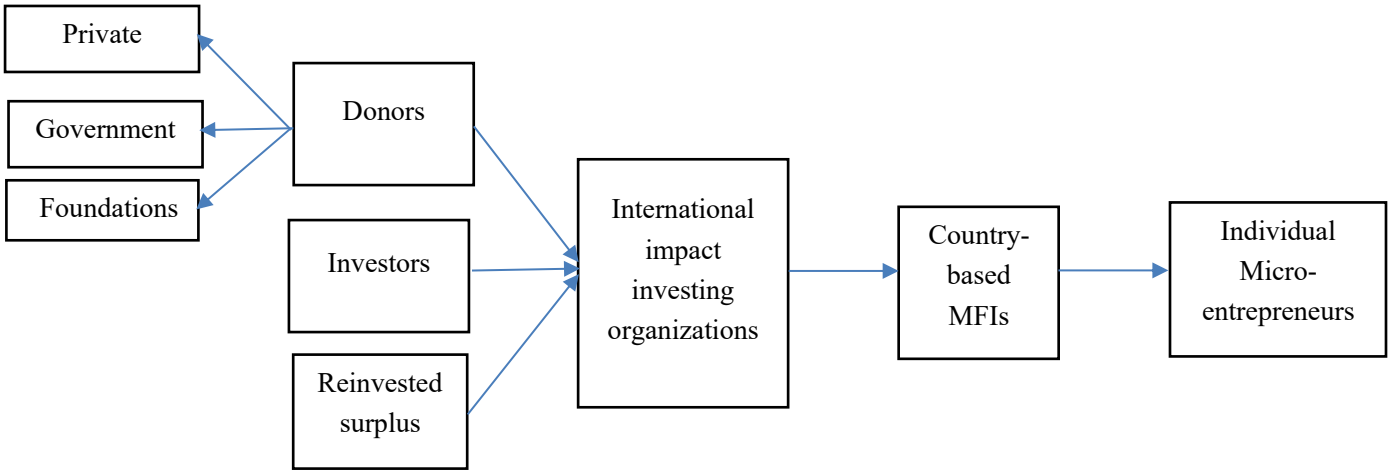


Figure 1 illustrates how funds flow from suppliers in developed countries to microentrepreneurs in developing countries.
Source: Adapted from European Microfinance Platform (2013).

Figure 2: Support activities provided International impact investing organizations to country-based

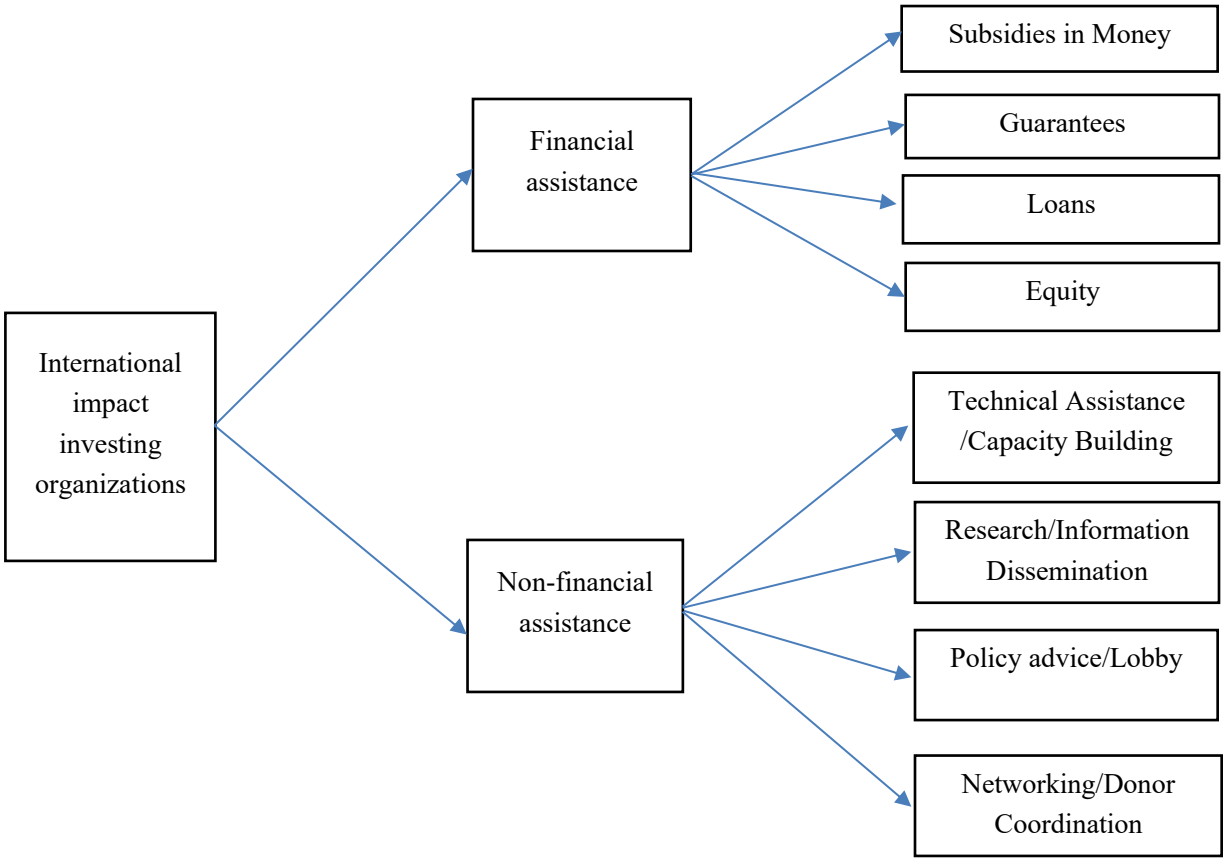


Figure 2 illustrates the financial and non-financial assistance that are offered by International impact investing organizations to locally MFIs in developing countries.
Source: Adapted from European Microfinance Platform (2013).

The European Microfinance Platform (e-MFP) has 114 members: 104 are organizations, out of which 64 are non-governmental impact investing organizations that provided information for the 2013 directory. However, not all the 64 organizations serve the purposes of this study and therefore we implement a selection procedure that results in a fine-grained sample of 41 impact investing organizations that provide funding and/or technical assistance to MFIs. The filtering of the organizations was done based on two criteria: international presence and type of intervention. Regarding the international presence criterion, only organizations that listed activities in at least one foreign country were selected, leading to the exclusion of 2 organizations that operate solely in their country of origin. For the type of intervention criterion, 4 universities, the United Nations, and 6 oversight organizations were excluded to further align the data with our research interest in double bottom line impact investing

organizations. The e-MFP directory's information was verified from the websites of the respective organizations. In cases of discrepancies and missing information, the organizations were contacted by e-mail for clarifications. After all these, data relating to the operating locations of 11 organization were still missing. After excluding these 11 organizations, the final sample consists of 41 impact investing organizations[19] offering financial and/or non-financial assistance to MFIs in at least one foreign country[20]. Country-level macroeconomic data were collected from public sources mentioned in the subsections below.

3.3. Dependent Variable

The dependent variable is a binary variable that indicates whether a given organization operates in a given country: the impact investing organization takes a value of 1 if it operates in the country and 0 otherwise (Coeurderoy & Murray, 2008; Koch et al., 2009).

3.4. Independent Variables

For the independent variables, three commonly used macroeconomic factors that explain the internationalization of firms are employed: level of development, institutional strength, and country risk.

Level of development – The Human Development Index (HDI), developed by the United Nations Development Programme, is employed as a proxy for a country's level of development. According to the United Nations Development Programme, HDI is a compound index that measures a country's standing in three basic aspects of human development, namely, long and healthy life, schooling, and decent standard of living. Several internationalization studies have approximated the overall level of development of countries based on the HDI (Dow, 2000; Globerman & Shapiro, 2003). To avoid biases resulting from specific year effects, we use the average HDI for the following years: 2000, 2004, 2008, and 2012.

[19] The 41 organizations in the sample are headquartered in the following 17 European and North American countries: Italy, Luxembourg, Germany, Spain, Belgium, Ireland, Netherlands, Sweden, Monaco, France, Norway, Switzerland, Denmark, United Kingdom, Liechtenstein, Canada and United States of America.

[20] List of all 41 impact investing organizations, their years of establishment, countries of origin, type of intervention, and current international markets are available upon request.

Institutional strength – This is proxied by the rule of law score, as published by the World Bank (Du, Lu, & Tao, 2008; Globerman & Shapiro, 2003). The rule of law "captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann, Kraay, & Mastruzzi, 2011, p. 4). Rule of law scores range from -2.5 to +2.5, representing lower to higher perceptions, respectively. As with the HDI, the average rule of law score for the years 2000, 2004, 2008, and 2012 is used.

Country risk – This is the risk emanating from socio-political, economic and structural factors in a host country that adversely affects the expected returns or the value of a cross-border investment (Meldrum, 2000). The Euler Hermes Risk Index (EHRI) (Euler Hermes, 2014) is the proxy for country risk (Moser, Nestmann, & Wedow, 2008). The EHRI combines five dimensions in determining country risk, including macroeconomic status of the economy, structural soundness of the business environment, political environment, financial flows and cyclical risk indications (Euler Hermes, 2014). The index has values that range from 1 to 4, where higher values represent higher country risks and vice versa. For this indicator, only data relating to the year 2014 are available.

3.5. Control Variables

We control for the effects of nine factors: organizational experience, organizational size, distance between home and host countries, type of intervention, bilateral relations between home and host country, bilateral trade, size of host country, religion and host country's natural resource endowment.

Experience – This is regarded as one of the most important factors in internationalization literature (Davidson, 1980; Kim & Aguilera, 2015). Experienced firms have a better understanding of, and ability to predict, market conditions, thereby reducing their risk and uncertainty (Davidson, 1980). Experience is operationalized by two variables. The first is the age of the organization and the second is international experience which is measured by the total number of countries in which a given organization operates (Dowell & Killaly, 2009; Lu, Liu, Wright, & Filatotchev, 2014; Mersland et al., 2011).

Firm size – A firm's size, reflected in the amount of resources it controls, plays an important role in formulating its international marketing strategy (Dass, 2000). From a resource-based

theory perspective, large firms are able to harness and deploy the required resources that guarantee their internationalization success in a more effective and efficient way than small firms do (Canabal & White, 2008;). In this study, size is measured by the total number of employees in the organization (Dang, Li, & Yang, 2018).

Type of intervention – Studies in the internationalization literature have shown that specific firm characteristics—such as product and service offerings, technology, and management attributes—influence the internationalization decisions and processes of firms (e.g., Li, 2018; Ramón-Llorens, García-Meca, & Duréndez, 2017). Thus, two additional binary variables are included to control for the effects of type of intervention: the provision of financial assistance and non-financial assistance.

Geographical distance – Long distance discourages trade between two countries (Dow, 2000; Malhotra, Sivakumar, & Zhu, 2009). Intuitively, firms more easily extend their operations to neighboring countries than to distant ones (Dow, 2000). Moreover, using data on international alliances in the microfinance industry, Golesorkhi et al., 2019b) report a clear negative relationship between geographical distance between international partners and the MFI's performance. Geographical distance is operationalized by the direct distance between the capital of the home country and the capital of the host country. Distance data were obtained from two websites that provide distance data between countries: Date and Time (2014) and Geo Bytes (2006).

Bilateral relations – The flow of investment and social services (such as aid) from developed to developing countries is much influenced by bilateral relations and political arrangements—for example, bilateral investment treaties (Neumayer & Spess, 2005). Accordingly, two controls are included to account for the effects of bilateral relationships between the home and host countries. These include; colonial ties and voting patterns at the United Nations (Neumayer & Spess, 2005; Weiler, Klöck, & Dornan, 2018).

Bilateral trade – Charity flows may follow patterns of existing economic ties between countries (Berthélemy & Tichit, 2004; Younas, 2008; Maizels & Nissanke, 1984; Nowak-Lehmann, Martínez-Zarzoso, Klasen, & Herzer, 2009). We account for this in our estimations by controlling for bilateral trade between home and host countries. We use the volume of annual exports from home to host countries as a meaningful proxy (Berthélemy

& Tichit, 2004; Metzger, Nunnenkamp, & Mahmoud, 2010). This data is obtained from the database of the International Trade Centre (http://www.intracen.org/).

Host country size – The proxy for this control is the total population of the respective countries, contained in the Central Intelligence Agency's World Fact Book (2014). Scholars have argued that populous countries attract more foreign investments thanks to their greater market potential (Nielsen, Asmussen, & Weatherall, 2017).

Religion – Many organizations involved in microfinance are motivated by Christian faith (Mersland, D'Espallier & Supphellen, 2013). Hence, following Alesina, and Dollar (2000) and Clist (2011), we control for the effects of religion in our models. Religion data is obtained from the Central Intelligence Agency's World Fact Book.

Natural resource endowment – Social interventions and aid to developing countries may be driven by the selfish interests of donors rather than the needs of recipient countries. These interests may include the quest to gain access and to exploit resources in recipient countries or what Naim (2007) calls 'rogue aid'. To control for this possible effect, we include a binary variable that indicates whether a host country is an oil and gas exporter (Alesina & Dollar, 2000; Clist, 2011). Oil and gas data is obtained from the Central Intelligence Agency's World Fact Book. The definitions and summary statistics of all variables are reported in Table 1.

3.6. Econometric Models

First, we conduct a two-sample t-test to compare macroeconomic conditions in countries where impact investing organizations operate and countries where they have no operations. We perform this test on four samples (full sample, upper middle-income countries, lower middle-income countries, and low-income countries) to assess if there are univariate differences. The reason why we also run the test on the sub-samples is to better identify the hybridity proposed in the hypotheses. Then, we proceed to a multivariate setting where we specify a probit regression model as follows:

$$Pr(Operate) = \beta_0 + \beta_1 Development + \beta_2 Institution + \beta_3 Country\ risk + \beta_4 Age + \beta_5 Int.experience + \beta_6 Firm\ size + \beta_7 Fin.assistance + \beta_8 Nonfin.assistance + \beta_9 Distance + \beta_{10} Colony + \beta_{11} UN\ voting + \beta_{12} Export\ from\ home + \beta_{13} Country\ size + \beta_{14} Christianity + \beta_{15} Oil/Gas\ exporter + \varepsilon$$

To capture the non-linear relationship implied by the hypotheses, we test and run the model on the full sample and three sub-samples. The sub-samples are based on the World Bank's income classification of countries. The first sample, upper middle-income (UMI), are countries with gross national income (GNI) between $4,086 and $12,615. The second sample consist of lower middle-income (LMI) countries with GNI values ranging from $1,036 to $4,085 and the third sample consist of low-income (LI) countries with GNI values lesser than $1,035. Descriptive statistics of each sample are reported in Table 3.

4. Empirical Findings and Discussion

4.1. Descriptive Statistics

Table 1 presents the descriptive statistics of the variables. The average impact investing organization in the dataset operates in 14.8% of the total sample of countries, corresponding to an approximate number of 23 countries per impact investing organization. The mean level of country development corresponds to an HDI score of 0.580. The mean institutional strength, measured by the World Bank's Rule of Law index, is negative (-0.432). Thus, most of the countries in the dataset are characterized by weaker institutions. Similarly, the average country risk of 3.159 is high as it gets closer to the maximum possible value of 4. On average, an impact investing organization in the dataset is 28 years old and has about 42 employees. The share of impact investing organizations that offer financial and non-financial services are 73.2% and 95.1% respectively with most organizations combining both interventions. The average distance between the home and host countries is 7042 km. 5.8% of the total sample of developing countries were previous colonies of the countries from which the impact investing organizations originate. Regarding voting patterns at the United Nations, averagely, the countries of origin of the impact investing organizations and the 153 developing countries vote in the same direction in 58.2% of cases. The average annual

volume of exports from home to host countries is valued at approximately US$ 761.4 million. The mean value of country size, measured by total population, is 37.5 million. Christianity is the main religion in 60.9% of the host countries. For natural resources, 27.2% of the host countries are exporters of oil and/or gas.

In Table 2, the correlations between the independent variables are presented. Multicollinearity is a common problem in studies that use macroeconomic data (e.g., Metzger, Nunnenkamp, & Mahmoud, 2010). Multicollinearity is detected when the variance inflation factor of a variable is greater than 5 or when the correlation between two explanatory variables exceeds 0.9 (Hair, Black, Babin, & Anderson, 2010). Nonetheless, the numbers in Table 2 dispel any concerns of multicollinearity. The correlation coefficients and the variance inflation factor values reported in the table are lower than the aforesaid upper bounds. The highest correlation coefficient is 0.500 (the correlation between development and institution) and the highest variance inflation factor is 2.09.

Table 1: Definition of variables and descriptive statistics

Variable	Definition	Obs	Mean	Std. Dev.	Min	Max
Dependent variable						
Operate	"1" if the impact investing organization operates in a given country, "0" otherwise	6,273	0.148	0.355	0	1
Independent variables						
Development	Country's Human Development Index score	5,453	0.580	0.152	0.270	0.880
Institution	Country's score on the World Bank's measure of rule of law	6,027	-0.432	0.749	-2.450	1.720
Country risk	Country's score on the Euler Hermes Risk Index	5,658	3.159	1.105	1.000	4.000
Control variables						
Age	Age of organization	6,273	28.196	20.124	1.000	72.000
Int. experience	Number of developing countries in which organization operates	6,273	22.682	18.871	2	99
Org. size	Number of Employees	6,120	41.644	136.995	1	874
Fin. Assistance	"1" if the impact investing organization offers financial assistance and "0" otherwise	6,273	0.732	0.443	0	1
Nonfin assistance	"1" if the impact investing organization offers non-financial assistance and "0" otherwise	6,273	0.951	0.215	0	1
Distance	Geographical distance (in km) between the home and host countries	6,273	7042.382	3885.378	157	49446
(ln)Distance	Logarithm of geographical distance between the home and host countries	6,273	8.670	0.690	5.056	10.809
Colony	"1" if host country was a colony of home country and "0" otherwise	6,273	0.058	0.234	0	1
UN voting	Percentage of agreement between home and host country during voting at the United Nations	5,735	0.582	0.147	0.014	1
Export from home	Volume of export from home to host country (in US$ million)	6,035	761.387	4750.376	0	240000.000
(ln)Export from home	Logarithm of volume of export from home to host country	6,035	10.619	3.253	0	19.297
Country Size	Total population of country (in millions)	6,273	37.50	150.000	0.00986	1350.00
(ln)Country Size	Logarithm of total population of country	6,273	15.244	2.429	9.196	21.024
Christianity	"1" if Christianity is the main religion in the host country and "0" otherwise	6,144	0.609	0.488	0	1
Oil/Gas exporter	"1" if the host country is an oil and/or gas exporter "0" otherwise	6,191	0.272	0.445	0	1

Table 2: Correlations and Variance Inflation factor

	No.	1	2	3	4	5	6	7	8	9	10	VIF
Development	1	1.000										1.68
Institution	2	0.500	1.000									2.09
Country risk	3	-0.324	-0.444	1.000								1.59
Age	4	0.003	0.003	-0.001	1.000							1.18
Int. experience	5	-0.023	-0.031	0.011	0.056	1.000						1.04
Org. size	6	0.000	0.002	0.002	0.267	-0.007	1.000					1.08
Fin. Assistance	7	0.003	0.003	0.000	0.097	-0.150	0.067	1.000				1.13
Nonfin. assistance	8	-0.002	-0.002	0.002	0.176	0.103	0.048	-0.100	1.000			1.14
Distance	9	-0.199	-0.093	-0.039	0.028	0.000	-0.018	-0.018	0.025	1.000		1.38
Colony	10	-0.080	-0.009	-0.006	-0.081	-0.057	-0.019	0.086	0.041	0.045	1.000	1.05
UN voting	11	0.330	0.289	-0.150	0.097	0.031	0.016	-0.095	0.054	-0.389	-0.140	1.52
(ln)Export from home	12	0.182	0.068	-0.217	0.157	-0.012	0.025	0.189	0.209	-0.235	0.017	1.57
(ln)Country Size	13	-0.280	-0.420	-0.086	-0.003	0.029	-0.003	-0.001	0.001	0.000	0.023	1.91
Christianity	14	0.085	0.138	-0.213	0.001	-0.017	-0.001	0.003	-0.002	0.193	0.028	1.26
Oil/Gas exporter	15	0.118	-0.183	-0.043	-0.001	0.004	-0.002	-0.001	0.000	0.008	0.008	1.17

	No.	11	12	13	14	15
UN voting	11	1.000				
(ln)Export from home	12	0.151	1.000			
(ln)Country Size	13	-0.032	0.353	1.000		
Christianity	14	0.142	-0.079	-0.241	1.000	
Oil/Gas exporter	15	-0.130	0.128	0.180	-0.095	1.000

Table 3 gives a brief description of the characteristics of the developing countries in the dataset. A total of 153 developing countries are represented in the dataset. These are countries categorized as upper middle income, lower middle income, or low income by the World Bank[21]. Of the 153 countries, 132 host impact investing organizations. The World Bank's classification of the 132 countries are as follows: 45 are upper middle income, 44 are lower middle income, 34 are lower income, and 9 are unclassified. Naturally, the more developed countries according to the World Bank classification are characterized by higher HDI, better institutions and lower country risk.

The one-way ANOVA results reported in the table reveal that the differences observed between the macroeconomic conditions of the respective income categories are statistically significant ($p < 0.01$). Thus, we show that as one moves from upper middle-income through lower middle-income to low-income countries, the macroeconomic indicators significantly deteriorate, and the countries become more problematic environments for businesses. We rely on this received knowledge to capture the non-linear relationship implied by the hypotheses and to show the international market selection decisions of impact investing organizations and more generally, that of double bottom line firms. We achieve this by performing the analysis on the total sample and the three sub-samples of countries as outlined in the methods session.

Table 3: Comparison of macroeconomic conditions of countries in the respective income categories using One-Way Analysis of Variance

	Full sample N=153	**UMI N=50**	**LMI N=46**	**LI N=34**	**F-statistics**
Development	0.580	0.700	0.558	0.398	4912.77**
Institution	-0.432	-0.200	-0.541	-0.939	787.68***
Country risk	3.159	2.766	3.326	3.758	451.56***

The table shows the characteristics of the sampled countries. There is a total of 153 developing countries in the dataset, classified by the World Bank into upper middle-income (UMI), lower middle-income (LMI), and lower-income (LI) categories.

[21] Of the 153 countries, 50 are upper middle-income, 46 are lower middle-income and 34 are low-income A total of 23 countries are not classified by the World Bank into any of the income brackets. Impact investing organizations are present in 9 of these unclassified countries

4.2. Results

In the following, we present the main findings of the study. First, we present initial evidence by means of a t-test whereby we compare the microeconomic factors of countries where the impact investing organizations in our sample are present with those of countries where they are absent. Next, we present the probit regression results.

Mean comparison t-tests and graphical illustration

Table 4 presents the mean comparison t-test results. In panel A of Table 4, the test is performed on the full sample of developing countries in the dataset. In panels B and C, the comparison is performed on the sample consisting only of countries in the upper middle-income and lower middle-income categories, respectively. Panel D shows the results of the comparison among countries in the low-income bracket.

In panel A, the results show that impact investing organizations generally operate in countries that are significantly less developed and institutionally weaker than the countries where they do not operate. The opposite, however, holds true for the country risk indicator. This finding also holds true in panel B where we consider only upper middle-income countries. In panel C, the mean value of development of countries where impact investing organizations are present is higher than that of countries where they are absent but the difference in means is too small to be statistically significant. Further, the institutions in the countries where impact investing organizations are present are weaker than the institutions in the countries where they are absent, but similar to development, the difference is not statistically significant. The results also show that impact investing organizations invest in lower middle-income countries where country risk is significantly lower. In panel D, the results show that countries in which impact investing organizations operate have stronger institutions but have similar level of development as countries where they are absent. Again, the risk in the countries where impact investing organizations operate is significantly lower.

Table 4: T-test comparison of macroeconomic of countries where impact investing organizations operate and countries where they do not operate

Variables	Operate = 1	Operate = 0	t-value
Panel A: Full sample of developing countries			
Development	0.536	0.589	9.729***
Institution	-0.637	-0.395	9.066***
Country risk	3.081	3.175	2.354**
Panel B: Upper middle-income countries			
Development	0.687	0.702	2.853***
Institution	-0.384	-0.175	4.693***
Country risk	2.317	2.830	6.383***
Panel C: Lower middle-income countries			
Development	0.561	0.557	-0.494
Institution	-0.579	-0.533	1.518
Country risk	3.029	3.388	6.199***
Panel D: Low-income countries			
Development	0.402	0.396	-1.314
Institution	-0.809	-0.982	-6.934***
Country risk	3.583	3.818	7.795***

In this table, we employ two sample t-tests to compare the microeconomic factors of countries where impact investing organizations operate and countries where they do not operate. *, **, and *** show statistical significance at 0.1, 0.05, and 0.01, respectively.

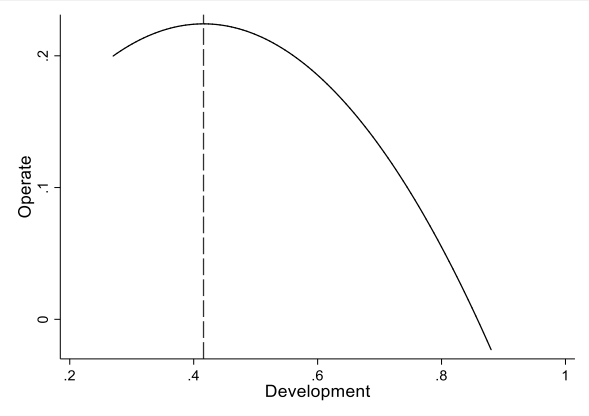
In line with the hybridity hypothesis, it appears that impact investing organizations internationalize into developing countries that are poor and institutionally weak but keep away from the poorest countries and those with the weakest institutions. The results also suggest that impact investing organizations always avoid high-risk countries. We posit that impact investing organizations approach their international market selection decisions in this way in order to simultaneously "do social good" and be financially self-sustainable.

Is there a tipping or turning point in economic conditions where impact investing organizations are most likely to invest? To answer this, we fit a quadratic plot to each of the macroeconomic conditions and the operating tendencies of impact investing organizations. Graphs A, B, and C of Figure 4 show the quadratic plots for level of development, institutional strength, and country risk, respectively.

Figure 3 shows clearly the tipping point of each of the macroeconomic factors. In graph A, the tipping point corresponds to an HDI score of 0.436; in graph B, the tipping point corresponds to a rule of law index of -0.929; and in graph C, the tipping point maps to a Euler Hermes risk index of 2.206. Thus, above or below these points, the probability of investment diminishes.

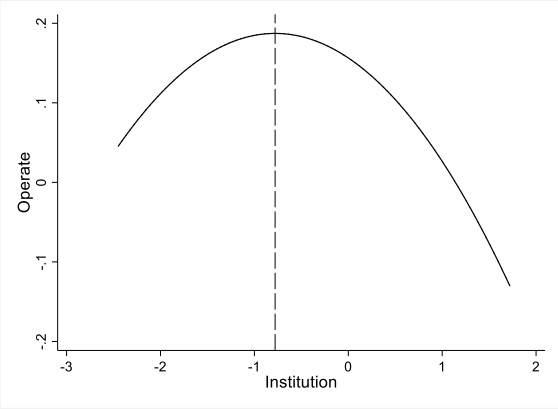
Figure 3: Quadratic plot of macroeconomic conditions and operating tendencies

Graph A: Level of development



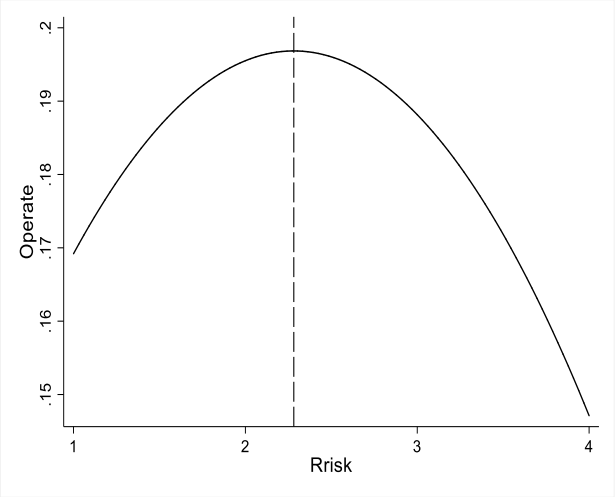
Turning point: Development (HDI) value of 0.416

Graph B: Strength of institutions



Turning point: Institution (Rule of law) value of -0.779

Graph C: Country risk



Turning point: Country risk (Euler Hermes Risk Index) value of 2.281.

Figure 3 illustrates quadratic plots for each of the macroeconomic factors. Graphs A, B, and C are the plots for level of development, institutional strength, and country risk, respectively.

Multiple regressions

We run a probit regression first on the full sample consisting of all developing countries in the dataset (1); second, on the sample of upper middle-income countries (2); third, on the sample of lower middle-income countries (3); and finally on the sample of low-income countries (4).

Table 5 shows the probit regression results of the macroeconomic determinants of the international market selection decisions of impact investing organizations. The results displayed in the table confirm the univariate differences observed in Table 4 and largely support the formulated hypotheses. Social enterprises internationalize into poor and institutionally weak countries but avoid the most problematic countries[22]. At the same time social enterprises always avoid risky countries. This later finding is counter to our hypothesis.

In the full sample of developing countries (1), the coefficient of development is negative and significant ($p < 0.01$). Thus, impact investing organizations are more likely to target and operate in developing countries that are characterized by low levels of development. In the sample consisting of upper middle-income countries (2), the coefficient of development changes to positive but insignificant. It appears that level of development is not a priority for impact investing organizations in upper middle-income countries. In the sample of lower middle-income countries (3), the development variable has a positive significant coefficient ($p < 0.05$). In this income category of countries, impact investing organizations prefer to operate in countries with good development. Similarly, in the sample consisting of low-income countries (4), the coefficient of development is positive and significant ($p < 0.05$).

[22] In an unreported analysis for robustness checks, we employ alternative proxies for each of the macroeconomic factors. Specifically, development is proxied with the gross domestic product per capita retrieved from the World Bank database, institutional strength is proxied with Transparency International's corruption perception index (CPI), and country risk is proxied with the country risk classification published by the Organization for Economic Cooperation and Development (OECD). Overall, the results are analogous to those reported in the text and hence support the hybridity hypothesis.

Table 5: International market selection and host-country macroeconomic condition

SAMPLE	UMI, LMI & LI	UMI	LMI	LI
	Dependent variable: Operate; 1=Yes, 0=No			
VARIABLES	(1)	(2)	(3)	(4)
Development	-1.235***	1.049	1.207**	1.432**
	(0.207)	(0.739)	(0.485)	(0.572)
Institution	-0.111*	-1.050***	0.067	0.444***
	(0.060)	(0.265)	(0.105)	(0.131)
Country risk	-0.117***	-0.416***	-0.119**	-0.536***
	(0.031)	(0.112)	(0.046)	(0.121)
Age	0.002	0.008**	0.006**	-0.004
	(0.002)	(0.004)	(0.003)	(0.003)
Int. experience	0.026***	0.032***	0.029***	0.029***
	(0.002)	(0.004)	(0.003)	(0.003)
Org. size	0.000	0.000	0.000	-0.001
	(0.000)	(0.001)	(0.000)	(0.000)
Fin. Assistance	-0.023	-0.052	-0.271**	0.238*
	(0.080)	(0.178)	(0.136)	(0.140)
Nonfin. assistance	0.015	-0.292	-0.116	-0.054
	(0.199)	(0.421)	(0.388)	(0.315)
Distance	0.091*	0.125	0.075	-0.206
	(0.052)	(0.105)	(0.089)	(0.177)
Colony	0.453***	0.502**	0.321*	0.723***
	(0.102)	(0.252)	(0.174)	(0.174)
UN voting	-0.406	-1.519*	-0.905**	-0.907
	(0.279)	(0.880)	(0.429)	(0.650)
(ln)Export from home	-0.007	0.006	0.038*	-0.018
	(0.012)	(0.029)	(0.022)	(0.022)
Country size	0.244***	0.245***	0.160***	0.254***
	(0.020)	(0.065)	(0.033)	(0.049)
Christianity	0.184***	-0.094	0.136	0.085
	(0.056)	(0.163)	(0.110)	(0.095)
Oil/Gas exporter	-0.245***	-0.330*	-0.076	-0.772***
	(0.059)	(0.186)	(0.097)	(0.249)
Constant	-5.194***	-6.272***	-5.119***	-1.353
	(0.641)	(1.664)	(1.070)	(1.654)
Origin dummies	Yes	Yes	Yes	Yes
Observations	4,736	1,635	1,517	1,265
Pseudo R^2	0.223	0.348	0.207	0.246
LR χ^2	958.4	340.9	306.9	361.7
Prob> χ^2	0.000	0.000	0.000	0.000

This table shows the probit regression results of the macroeconomic determinants of the international market selection decisions of impact investing organizations. UMI = upper middle income, LMI = lower middle income, and LI = low income. Observations = product of total number of impact investing organizations and number of countries in the sample. Standard errors are in parentheses. *, **, and *** show statistical significance at 0.1, 0.05, and 0.01, respectively.

Overall, the regressions show that impact investing organizations internationalize into less developed countries but not the least developed countries. This confirms our first hypothesis. Social enterprises prefer to invest in countries where they can create some social value (Edwards & Hulme, 1996b) without hurting their economic viability (Hanson, 2005).

The second macroeconomic factor, institution, is significantly and negatively related to impact investing organizations' decision to operate in the full sample of developing countries ($p < 0.05$). Therefore, in general terms, social enterprises are drawn to countries with weak institutional environments (Aidt et al., 2008). The same results are obtained, and conclusions drawn, after running the model on the sample of upper middle-income countries. In the remaining samples—lower middle-income and lower-income countries—the sign of the coefficient changes to positive. Thus, in these income categories, impact investing organizations avoid countries with the weakest institutions. However, the observed positive relationship is only significant in the sample of low-income countries ($p < 0.01$). Thus, in the quest to maintain their economic viability, social enterprises avoid low-income countries with the weakest institutions (Dau, 2013; Murtha & Lenway, 1994). Again, this result supports the trade-off hypothesis (Hermes et al., 2011; Jay, 2013; Smith et al., 2013; Wry & Zhao, 2018) and confirm our second hypothesis that social enterprises balance their conflicting objectives by generally entering countries with weak institutions but avoiding those countries with the weakest institutions (Mair & Marti, 2006; Pache & Santos, 2013; Townsend & Hart, 2008).

The coefficient of the third macroeconomic variable, country risk, is significantly negative in all estimations. This is interesting because it shows that the organizations in our sample always consider country risk as something negative when entering an international market. In essence, the impact investing organizations in our sample behave as conventional firms do when it comes to a host country's risk (Andersen & Buvik, 2002; Brouthers & Nakos, 2005; Rothaermel et al., 2006). What kind of country risk could these organizations be avoiding? Indeed, most country risk measures are composite indices of multiple risk components. In a further analysis (unreported), we examine the effects of six (6) components of country risk which we obtained from the database of the Economists Intelligence Unit (http://country.eiu.com/AllCountries.aspx). These include financial risk (e.g. devaluation risk, marketable debt), foreign trade payments risk (e.g. discriminatory tariffs, trade embargo risk), infrastructure risk (e.g. port facilities, transportation and communication network), macroeconomic risk (e.g. exchange rate volatility, recession risk), political stability risk (e.g. social unrest, orderly transfers) and

security risk (e.g. armed conflict, violent crime). Results of this supplementary analysis closely match the main results. It appears that the impact investing organizations in our dataset avoid country risk, regardless of the source. However, we conjecture that this is probably because these organizations are involved in financial intermediation. All the same, the third hypothesis is only partly supported by this result.

Some of the control variables yield interesting, significant results. For example, the size of the host country seems to matter when impact investing organizations go global. Populous countries are preferred, as the country size variable is significant in all estimations. This corroborates many other extant studies on mainstream firms (Brouthers et al., 2009; Brouthers & Nakos, 2005). The international experience variable is significantly positive in all regressions, suggesting that the decision to operate in a given county is influenced by the past internationalization experience of the organizations (Davidson, 1980; Kim & Aguilera, 2015). The coefficient of age is mostly positive but significant in models (2) and (3). Intuitively, experienced organizations are more knowledgeable than inexperienced ones. Hence the findings on international experience and age concurs with existing studies that theorize the internationalization process as a function of organizations' knowledge and their internationalization experience (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). The results also show that impact investing organizations are influenced by bilateral relations between countries when selecting their foreign markets (Neumayer & Spess, 2005; Weiler et al., 2018). This is evidenced by the high significance of Colony in all estimations. Surprisingly, the effect of UN voting is contrary to our expectation as it is negative in all regressions, though significant only in (2) and (3). Perhaps, impact investing organizations' decision to invest in a country is influenced by the need in the host country as well other forms of bilateral relations (e.g., colonial ties) rather than mere commonalities during UN voting.

The finding on geographical distance is particularly interesting. Impact investing organizations do not seem to bother about distance when deciding where to invest. This is contrary to the preference of mainstream firms, which tend to opt for shorter distances when going international (Dow, 2000; Malhotra et al., 2009). A possible explanation for this is that countries classified as developing are far away from Europe and North America; thus, whether a social enterprise enters Uganda or Bolivia does not matter. In any case, it is far away from home (Golesorkhi et al., 2019b). The effect of religion is significantly positive in model (1), suggesting that the organizations in our sample generally invest in countries where Christianity is the main religion. This finding is expected because Christianity is the major religion in most European and Northern

American countries, where the impact investing organizations originate. However, the effect of religions vanishes in the models estimated on the sub-samples. Lastly, oil/gas exporter is significantly negative in all regressions, except in (3). This result is unsurprising since oil exporting countries may be well resourced to combat social challenges than others.

5. Conclusions

In this article, the international market selection of social enterprises is examined based on the macroeconomic conditions of the host countries. By investigating this relationship, our aim is to shed light on the location preferences of social enterprises, in terms of macroeconomic conditions in the host country, when they go international and whether this is tied to their hybridity. This phenomenon is explored using data from 41 impact investing organizations that on average operate in 23 developing counties.

The empirical results reveal that impact investing organizations that expand their activities across borders target less developed and institutionally weak countries. However, they do not target the least developed countries and those with the weakest institutions. We argue that this is because social enterprises must balance their social and financial logics (Mair & Marti, 2006; Mair et al., 2015; Pache & Santos, 2013). Thus, social enterprises fulfill their social obligation by targeting poorly developed countries with weak institutions, but at the same time they ensure their financial sustainability by not entering the most problematic countries. The study further shows that impact investing organizations avoid high-risk countries, a finding that may be related to the type of services, namely, financial intermediation, that they provide. Overall, the optimal choice for social enterprises seems to be to internationalize into countries that offer a desirable balance between social and economic opportunities.

We highlight two practical implications of our findings. First, managers of MFIs in developing countries that wish to attract foreign investors (that originate from the global north) should understand and be aware of their own macroeconomic context. This may be an important step to develop the right strategy to mitigate macro-environmental risk. For example, MFIs that operate in weaker economies could attract foreign investors through their commitment to financial sustainability, by showing good social outcomes or by promising higher returns (Cobb, Wry, & Zhao, 2016). Second, foreign investors should endeavour to look beyond factors at the macro level by considering firm level risks whenever possible. By doing so, foreign investors can assess whether conditions at the firm level compensates for those at the macro-level.

Our study contributes to the nascent literature on the internationalization of social enterprises and more generally to the literature on hybrid organizations. The study identifies the host-country macroeconomic factors that social enterprises consider important in their international market selection decisions. In particular, our study sheds light on the hybridity approach that social enterprises adopt in selecting their international markets. Our study provides empirical evidence that social enterprises target foreign markets that enable them to balance their dual institutional logics and thus preserve their hybridity. Based on these findings future studies are encouraged to be mindful of the hybridity of social enterprises when theorizing the internationalization of these firms. Moreover, the hybrid approach to internationalization needs further investigation. Do social enterprises cross-subsidize between countries with good macroeconomic outlook and those with inferior macroeconomic conditions? Do social enterprises initially enter strong economies before weaker ones or vice versa? These possible nuances could be fruitful avenues for future research.

Evidence on the specific organizational characteristics of social enterprises that motivate their internationalization could shed further light on the discussion (Brewer, 2001; Nielsen et al., 2017). An example is the role of knowledge (Johanson & Vahlne, 1977). Even though we infer the effect of knowledge through our measures of experience, this approach does not exhaustively capture the role of knowledge (e.g. in mitigating risk) during the internationalization process of social enterprises. Finally, in this paper, we use data from only organizations involved in financial intermediation. Financial institutions that provide credit facilities are concerned about the repayment capacities of their investees. Consequently, such institutions may avoid organizations which operate in countries that have high chances of default. This might be related to why the impact investing organizations in our dataset strongly avoid risky countries regardless of income category. Additionally, the universe of social enterprises is complex and diverse, involving a wide range of players with heterogenous social interventions (Defourny & Nyssens, 2010; Young & Lecy, 2014). Consequently, future studies on other types of social enterprises, i.e., those not involved in financial intermediation, and their internationalization strategies are needed.

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General Conclusion

1. Background

Across the globe, social enterprises are gaining grounds and their significance span both academic and practitioner domains. For example, in the Netherlands the social sector grew by over 70% between 2010 and 2015 (Keizer et al., 2016). By blending the efficiency and innovation of commercial ventures and the passion and social commitment of the third sector, social enterprises present the possibilities of tackling several societal and ecological problems—e.g., extreme poverty, hunger, poor healthcare, unemployment, pollution—that confront humanity and the planet in a sustainable way (Battilana & Lee, 2014; Doherty et al., 2014; Seelos & Mair, 2005; Smith et al., 2013). The global relevance of social enterprises is attested by their lasting solutions to social and environmental problems that have been high on the agenda of major national and supranational bodies, e.g., the United Nations, World Bank and the European Commission. These issues form the core of the sustainable development goals (SDG) promulgations.[23] Seelos and Mair (2005) link the social purpose of social enterprises to the realization of these sustainable development goals.

Social enterprises tackle societal challenges with conventional business models, hence their hybrid nature. They seek to create both social and economic value. As community-embedded organizations, most social enterprises operate locally, addressing social problems within their national borders (Defourny & Nyssens, 2010; Mair & Marti, 2006). Recently, however, more and more social enterprises engage in operations beyond their national borders (Xing, et al., 2018; Zahra et al., 2008; Zahra et al., 2009). While some social enterprises attract commercial funds, both locally and internationally, most of them cannot survive without subsidization (Cull et al., 2018).

Even though social enterprises have existed for long, their nature and operations are still poorly understood (Seelos & Mair, 2005). More particularly, the social mission, which is one aspect of their hybridity, is less understood. The definition of what can be considered social often involves normative classifications of value generating activities (Santos, 2012). This dissertation contributes to the literature by shedding light on social enterprises' hybridity and how it impacts strategic decisions from three interrelated perspectives: performance assessment (chapters 1 and 3), subsidization (chapter 2) and

[23] These are universal goals adopted by member states of the United Nations to protect the planet, end poverty and promote peace. Further information can be obtained from the website of the United Nations Development Programme: https://www.undp.org/content/undp/en/home/sustainable-development-goals.html

internationalization (chapters 3 and 4). The four studies build on data from the microfinance industry. Below, we summarise the findings and offer suggestions for future research.

2. Key findings and directions for future research

The results of the first paper show strong coherence between social missions and social performances, suggesting that MFOs fulfil faithfully the mission(s) they state in their mission statements. The results also show that MFOs are unconcerned about other missions. Therefore, assessing social enterprises based on their own stated mission(s) seems to be more adequate than using a unified industry-based mission. We argue that this approach is fairer as it considers the diversity among the organizations as well as their strategic preferences (Smith et al., 2013).

Our findings are in line with the recommendation of Varendh-Mansson, Wry, & Szafarz (2020) to theorize organizations' raison d'être before theorizing about their outcomes. Yet the question on the boundaries of what qualifies as "social" and what does not remain open for future research (Santos, 2012; Seelos & Mair, 2005). To understand the hybridity of social enterprises, there is the need for a better understanding of 'social', an understanding that overcomes normative connotations (Santos, 2012). Future studies could connect the current discourse to the trade-offs debate by digging deeper into possible compromises between logics that might surface because of mission–performance misalignments. Each social mission has unique resource constraints and perhaps some missions are challenging to accomplish (i.e. resource-demanding) than others. Thus, the intensity of the social-financial trade-off may well contingent on the specific social mission an organization pursues and the peculiar values it wishes to uphold. Further studies in this direction may provide new insights that would deepen our understanding of social enterprise's hybridity and add nuances to the conceptualization of trade-offs between social and financial goals.

In the paper, we theorize social mission and associated outcomes as attributes of organizational actions that can be studied in isolation from stakeholder judgements and perceptions (Grimes, Williams, & Zhao, 2020). Yet, from the standpoint of organizational legitimacy, the link between mission and outcomes can equally be theorized as a social construct that is influenced by stakeholders' perception and judgement (Bart & Baetz 1998; Grimes et al., 2019; Grimes et al., 2020). Afterall, organizations craft their mission statements to signal their values and to establish their legitimacy (Moss, Short, Payne, & Lumpkin, 2011). Future studies could extend the body of knowledge by introducing

stakeholder perspectives—perceptions, judgements and divergent interests—in our mission – performance framework. Additional work could focus on contextualizing organizational mission and outcomes in social enterprises with respect to unique institutional factors in social enterprises' operating contexts, e.g., norms and traditions, macroeconomic factors (Ahlin, Lin, & Maio, 2011; Wry & Zhao, 2018).

The second study shows that subsidies taking the form of concessionary loans are positively associated with indicators of good governance while these indicators seem to have no significant effect on donations, suggesting that donors are unconcerned about governance. More generally, there is sufficient room to investigate the financing of social enterprises and particularly how managers use the various financing instruments: commercial vs. non-commercial and internal vs. external. These financing instruments are associated with different logics based on which holders connect with social enterprises (Smith et al., 2013). The decision to use and when to use any of these instruments can be investigated in more detail. The pecking order theory can be a useful theoretical basis. Particularly, this theory can be extended to cover donations and other subsidized funding sources (Bowman, 2002).

Further studies could investigate the dimensions of governance that encompass normative prescriptions (Larcker et al., 2007), such as executive compensation (Balsam & Harris, 2013). Apart from being a potential predictor of subsidies (Balsam & Harris, 2018), executive compensation provides an avenue to explore how social enterprises deal with tensions between their social and financial objectives. For example, how do social enterprises set managers' salaries in a way that attracts talented candidates and at the same time send positive signals to pro-social investors and the public? On the one hand, social enterprises compete with other organizations for executive talent and must offer competitive compensation packages. On the other hand, higher salaries can trigger public outrage and negative judgements from stakeholders who often perceive executives of pro-social organizations as motivated agents who are less sensitive to extrinsic rewards (Handy & Katz, 1998).

While we document the effect corporate governance on the subsidization of social enterprises, we do not investigate whether corporate governance improves the organizations' actual social and financial outcomes. Though extant studies have contributed to aspects of this discourse (e.g., Dato et al., 2018; Hartarska, 2005; Hartarska, & Mersland, 2012), additional studies may be needed to examine the role of governance on mission fulfilment of social enterprises, including how corporate

governance amplifies or lessens the trade-offs between social and financial outcomes. This is particularly needful since increased subsidization is just one specific benefit of good corporate governance. Because corporate governance decisions are strategic in nature and involve rigorous cost-benefit analysis (Harris et al., 2015), it would be insightful for future works to probe how corporate governance impacts other organizations processes and outcomes in social enterprises. Finally, future research could provide qualitative evidence on how corporate governance decisions are made in social enterprises by exploring the salient drivers and particularly how such decisions are shaped by the complex blend of institutional logics, pressure to balance double bottom lines, and the need to address incoherent demands and expectations of their multiple stakeholders (Varendh-Mansson et al., 2020; Mersland et al., 2019; Smith et al., 2013).

The findings of the third study support the hypotheses that: (1) societal norms that prioritize males over females create barriers for MFOs to reach women and (2) international founder moderates the relationship between gender discrimination and microfinance outreach to women. These findings suggest that the social mission of social enterprises is contextually contingent on local culture and that social outreach is enhanced by the interplay between local and international players. Specifically, the findings show that internationalization is instrumental in driving outreach to women in patriarchal societies. These findings concur with those of De Beule, Klein, & Verwaal (2019), showing that international actors leverage their expertise and resources to out-perform their local counterparts when local institutions are unsupportive. However, the microfinance literature suggests that serving women is costly and in discriminatory cultures, such costs can be higher (for example, see D'Espallier, Guérin, & Mersland, 2013; Wry & Zhao, 2018). It is unclear from the findings whether internationally founded MFOs extensively focus on women at the expense of financial sustainability. Extending the current research, further studies can examine how internationalization influences the trade-off between social and financial goals as well as how this phenomenon may vary from one social context to another. An investigation into other macro-level contingencies such as state fragility (Ault & Spicer, 2014) could also animate the discourse and provide new clues that helps us to understand the women targeting strategy of MFOs.

The process of female exclusion from microfinance services in patriarchal societies should also be addressed in future works. The question on whether MFOs turn women away or women self-exclude themselves can usefully inform stakeholders about the relevant incentive schemes to build in order to trigger female participation. One way to tackle this question is through the analysis of the loan application processes of MFOs

using qualitative research techniques. Another promising area for further research is how international founders get locally embedded to establish their legitimacy and empower women in patriarchal societies. Since being pro-social organizations confer legitimacy on social enterprises (Dacin et al., 2011; Doherty et al., 2014), identifying the key stakeholders and the needed experience is crucial (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Ultimately, the questions are: what are the (dis)advantages of being foreign and how to work on them to further the agenda of women's empowerment in patriarchal societies (Zaheer, 1995).

The findings in our last chapter show that international market selection of social enterprises is related to their hybrid nature. Specifically, social enterprises expand into foreign countries where they have the opportunity to create both social and economic value. Further work could investigate whether social enterprises cross-subsidize between countries. It could be that operating in countries with profitable business helps to further social programs in problematic countries. Alternatively, social enterprises may first expand into "good" countries before venturing in other ones. Related questions include how this process differ between incremental and rapid approaches to internationalization (Xing, et al., 2018; Wanng et al., 2015) and whether there are institutional contingencies (e.g., societal norms). Field research coupled with macroeconomic data could bring fruitful insights on these issues. Though the findings suggest social enterprises internationalize into countries where they have the opportunity to achieve both social and financial objectives, we are unable to assess whether these organizations actually achieve these goals in their foreign markets or whether they are faced with trade-offs in those markets. As data become available, future research can investigate whether country level factors that influence the international market selection of social enterprises also affect the realization of their bottom lines.

3. Final remarks

Overall, this dissertation contributes to understanding social enterprises, especially their hybridity which stem from the concurrent pursuit of social and financial objectives. It offers nuanced perspectives to the conceptualization of the social "lever" of the hybridity of these organizations by highlighting underlying diversity and the influence of contextual factors such as societal norms. We have also engaged with the discourse on how hybridity influences strategic decisions such as targeting and foreign location choices.

We have documented our contributions to the literature from the three perspectives: performance assessment, subsidization and internationalization. On performance assessment, we have demonstrated the usefulness of mission statement as information transmitting devices to capture heterogeneities among social enterprises and how this can be leveraged in assessing social performance in a way that overcomes the bias of assuming a singular mission. This approach breaks away from normative connotations of what is considered as "social" and embraces the variety that is often driven by the deliberate strategy of the organizations and institutional factors in the local context. On subsidization, we have demonstrated that donors and soft loan providers accord varied attention to governance signals from social enterprises. Thus, it appears that different subsidy instruments are driven by different factors and the implication is for organizations to be aware of their own needs and send the right signals to attract the right kind of subsidies. Finally, on internationalization, we have shown that the foreign market selection decisions of social enterprises—i.e. where they go when they invest abroad—as well their targeting strategy is influenced by the need to balance their hybridity. Thus, hybridity is not only a characteristic of social enterprises but also a driver of strategy.

Covering the three perspectives, we have suggested several avenues for future research that we hope would help in pushing the body of knowledge in the field forward. In this regard, we have directed future studies to investigate other mechanisms such as stakeholder perception and judgements, institutional factors and macroeconomic factors that work hand-in-hand with factors at the organizational level to influence the mission, outcomes, strategy, general operations and trade-offs in social enterprises. We hope our contributions would spur further research that will bring new insights and advance the frontier of knowledge in the field, especially in enhancing our knowledge about the social mission, trade-offs and hybridity of social enterprises.

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