



UNIVERSITETET I AGDER

# **SHOULD MICROFINANCE INSTITUTIONS HIRE STAFF FROM THE SAME SOCIOECONOMIC STATUS AS THEIR CLIENTS?**

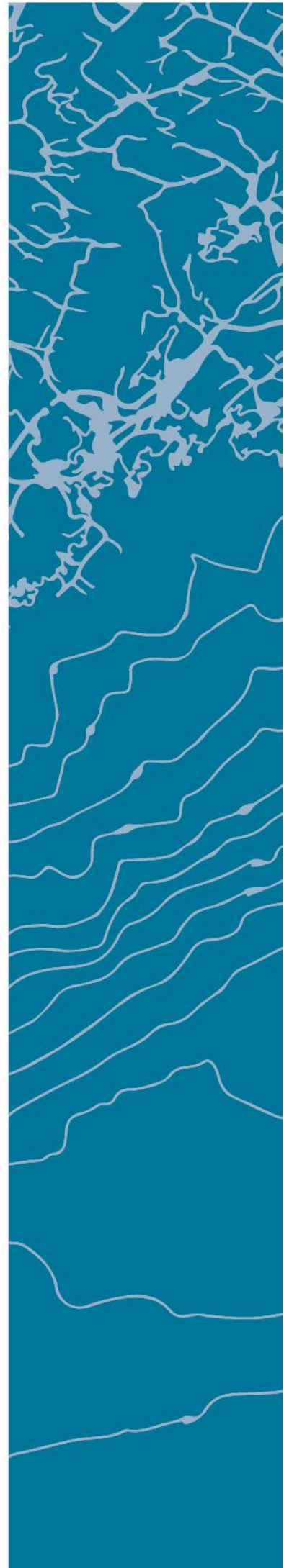
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**University of Agder, [2017]**

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UNIVERSITY OF AGDER

# SHOULD MICROFINANCE INSTITUTIONS HIRE STAFF FROM THE SAME SOCIOECONOMIC STATUS AS THEIR CLIENTS?

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*This master's thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.*

University of Agder, 2017  
School of Business and Law

## **DECLARATION**

I declare that this master's thesis is an original work written by me and to the best of my knowledge does not include work previously published except for acknowledged references made.

## **ACKNOWLEDGEMENTS**

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## **LIST OF ABBREVIATIONS**

MFI (s)	Microfinance Institution(s)
SES	Socio-economic status
CGAP	The Consultative Group to Assist the Poor
GDP	Gross Domestic Product
GNI	Gross National Income
PPP	Purchasing Power Parity
STATA	Statistics and Data
UN	United Nations
UNDP	United Nations Development Program
IMF	International Monetary Fund
HDI	Human Development Index
HH	High Socioeconomic Staff-client match
LL	Low socioeconomic status Staff-Client match
HSLL	Socioeconomic Mismatch: High status staff -Low status clients
LSHL	Socioeconomic Mismatch: Low status staff- High status clients

## ABSTRACT

Firms require staff to perform their operations. As such, the staff are considered an important resource in the achievement of any firm's objectives. This is particularly the case with firms whose activities require staff to establish relationships with their clients. Such firms face even greater pressure in ensuring that objectives are achieved owing to behavioural differences of individual staff across social dimensions such as gender, ethnicity, socioeconomic status and age. Following this, some human resource studies advocate for the matching of staff with potential clients to produce positive performance outcomes.

This study extends the above reasoning to more socially oriented firms, particularly microfinance institutions, characterised by staff-client interpersonal relationships. Employing aspects of social similarity between staff and clients, this study establishes whether staff-client matches exist in microfinance institutions and how they influence microfinance performance.

Basing on socioeconomic status as a dimension for social similarity, results indicate the existence of staff-client socioeconomic matches, with 70% of them due to similarities and 30% due to socioeconomic mismatches. Further results show that upward socioeconomic similarity (or the lack thereof) between microfinance staff and clients has different psychological meaning than at the downward level. Thus, staff-client matches of similar low socioeconomic status lead to positive microfinance performance in terms of productivity and client growth rate. On the other hand, matches involving staff of high socioeconomic status and clients of similar high status result in poor performance. Furthermore, mismatches involving low status staff and high status clients show negative performance whereas those of high status staff and low status clients show positive performance. The implication being that some socioeconomic matches (mismatches) are good for performance whereas others are not.

Following this, the study findings have managerial and policy implications for the microfinance industry particularly in terms of microfinance staff selection and market allocation. Furthermore, the study contributes to the scant literature on microfinance staff and their influence on performance of microfinance institutions.

**Key words;** Socioeconomic status; Similarity; Matches; Microfinance Performance; Microfinance Staff

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## **CHAPTER ONE: INTRODUCTION**

“Who should firms hire to serve their customers?” Should they hire staff from the same social strata or could it be beneficial to have staff of higher or lower social strata than their clients?

From various human resource literature, it has been established that staff are one of the most important resources of any firm. According to Boudreau & Ramstad (2007), they contribute to a firm’s success and attainment of competitive advantage. They are considered as the link between the firm and its clients and one may even view them as ambassadors of a firm. In light of this, careful consideration should be taken in selecting clients to serve a firm for instance in terms of work experience, academic achievement and personal qualities to mention a few.

Besides that, other social factors could be considered in selecting the right type of staff. Cox & Blake (1991), propose the ability to match staff and clients based on social dimensions as important in human resource management strategy. The explanation for this could lie in the tendency for individuals to prefer others with whom they share social similarities (Byrne, 1969; Smith, 1998). Thus, it is an important aspect to consider especially in situations characterised by interpersonal relationships. Additionally, studies have shown that matching encourages trust and more open communication (Rai, Maruping & Venkatesh, 2009; Smith, 1998) as such, positive firm performance may be influenced.

Following this, various studies in the sales and marketing field have shown evidence of this attraction to similar others between sales personnel and prospective clients. Dwyer, Orlando & Shepherd (1998), hypothesize that sales personnel sell mainly to prospective customers of the same gender or age. Earlier studies, found a higher likelihood of customer satisfaction where the staff share similarities with clients (Wiener & Mowen, 1985). Moreover, related studies find that such matches between staff and clients are characterised by increased staff productivity (Avery, McKay, Tonidandel & Morris, 2012).

Extending this reasoning to the microfinance industry, it can be expected that microfinance staff match themselves to the clients based on social aspects. The likelihood of this was further emphasised by Labie, Méon, Mersland & Szafarz (2015) who suggested that social networks could explain the behaviour of microfinance staff.

According to microfinance literature, it has been established that staff are an important link between the microfinance institution (MFI) and its clients and therefore play a crucial role in the attainment of microfinance objectives (Siwale & Ritchie, 2012; Dixon, Ritchie & Siwale,

2007; Fisher & Sriram, 2002). However, despite this crucial role that MFI staff are purported to play, they may exhibit behaviour that is contrary to microfinance objectives of extending financial services to those in need. This behaviour may be manifested in the form of discrimination against certain groups of the targeted clients such as women, the disabled, the less poor to mention a few (Labie et al., 2015; Labie, Méon, Szafarz & Mersland, 2009; Cramm & Finkenflügel, 2008). Consequently, showing favour to other groups of microfinance clients (D'espallier, Guerin & Mersland, 2013; Agier & Szafarz, 2013). Such behaviour by microfinance staff may have performance implications for microfinance institutions.

Owing to the increased development of the Microfinance industry globally (ResponsAbility, 2016), there is a growing need to understand the factors that influence the performance of microfinance institutions. A step in this direction involves understanding microfinance staff, their behaviour with clients and thus influence on performance. Therefore, by exploring the aspect of social structure, this thesis seeks to answer the following research questions;

1. *Do Microfinance staff match themselves to clients according to socioeconomic status?*
2. *What type of socioeconomic matching influence good or bad MFI performance?*

To answer the research questions, basis is made on the Embeddedness theory by Granovetter which explains the behaviour of individuals in terms of social relations (Granovetter, 1985). Unlike common economic reasoning for behaviour, the theory suggests that the behaviour or actions of individuals are rather interdependent on others as opposed to independent. Hence, implying that social influences play a role in explaining behaviour.

To better understand how this theory may be manifested, the similarity-attractiveness paradigm is used. The paradigm states that individuals are attracted to others with whom they share similarities across a social dimension (Smith, 1998). Additionally, it can be viewed as pointing to the common adage “Birds of a feather flock together” which simply means that people tend to categorise themselves based on similarity. Thus, propositions are made on the basis that MFI staff tend to prefer clients that are similar to them.

Furthermore, the tendency for MFI staff to easily associate with clients of similar social strata can be considered a basis for better performance of microfinance institutions. The possible rationality for this better performance could lie in the supposed ease in communication that

makes retrieval of information easier (Fisman, Paravisini & Vig, 2011). Communication is made easier because the staff can easily understand the clients and their needs thus facilitating their performance. Evidence of this was found in the banking industry which is a closely related industry to microfinance. It was found that there were better loan repayments when banking officers were matched with similar clients (Fisman et al., 2011). Likewise, sales personnel are found to be more effective in making sales when they have identified similarities with potential customers (Reinhard, Messner & Sporer, 2006).

To obtain a clear understanding of how these matches between staff and clients might influence performance in the microfinance industry, socioeconomic status was considered as the social dimension for similarity in this research study. MFI Data was obtained from 316 MFIs across 72 countries with average salary per staff and average loan size per client as proxies of socioeconomic status for the period 1999-2014 where the average salary represents the income level of staff and average loan size is an indicator of the client poverty level (Cull, Demirguz-Kunt & Morduch, 2007). High average salary indicates a high socioeconomic status whereas low average salary indicates a low socioeconomic status. The same applies to the average loan size. Similar matches therefore included staff and clients of the same socioeconomic status and dissimilar matches (mismatches) included staff and clients of different statuses.

Results of the univariate analysis reveal that microfinance institutions match their staff and clients based on socioeconomic status. 70% of the matches are staff-client matches of similar socioeconomic status whereas the remaining 30% are staff-client socioeconomic mismatches. Having established that microfinance institutions match their staff and clients, further analyses were performed to establish the influence of the socioeconomic matches on microfinance performance in terms of productivity and client growth rate. Analysis of the results was performed based on a multivariate regression model inclusive of microfinance specific and regional control variables.

Results of the multivariate analysis show that staff-client matches influence microfinance performance. It is established that some matches are good whereas others are not good. Similar matches between low socioeconomic status staff and low status clients reveal good performance whereas dissimilar matches between the low socioeconomic status staff and high status clients produce negative performance. Contrary to expectations, similar matches between high socioeconomic status staff and low status clients reveal unfavourable microfinance

performance whereas mismatches of high socioeconomic status staff and low status clients produce positive performance. These divergent findings are presumed to be associated with the differences in behaviour between individuals of high socioeconomic status and those of low status. Furthermore, it is stated that high socioeconomic status staff tend to exhibit paternalistic tendencies and may easily relate to lower status staff hence the unexpected positive performance. Moreover, the lower socioeconomic status staff prefer similar lower socioeconomic status clients and thrive in such situations.

Based on the findings, the study contributes to literature on microfinance staff owing to the critical role that the staff play. Additionally, it is important to the management of microfinance institutions particularly when hiring staff and allocating them to particular markets.

The rest of this research study proceeds as follows; Chapter two presents the relevance of the research study. Chapter three lays out the core theory of the research as well as empirical evidence from previous studies and hypotheses to be tested. In chapter four, a description of the data is presented. Next, chapter five presents the methodology used in the study followed by chapter six which presents the results of the analysis. Chapter seven discusses the findings of the study. Chapter eight provides the conclusion, implications, limitations as well as recommendations for future research.



## **CHAPTER TWO: RELEVANCE OF THE STUDY**

### **2.0 Introduction**

In this chapter, the background to the microfinance industry is presented as well as a more detailed description of the major actors in microfinance.

### **2.1 Background to the Microfinance Industry**

The concept of Microfinance is believed to have started in the 1970s in Bangladesh in a bid to alleviate poverty (Robinson, 2001). However, significant recognition of it was made in 2005 following its declaration as the UN year of Microcredit as well as award of the Nobel Peace Prize to pioneer of microfinance Mohammed Yunus and the Grameen Bank in 2006 (Lapie & Mersland, 2011; Galema, Lensink & Mersland, 2012). This drew the attention of various stakeholders (Lapie&Mersland,2011) such as policy makers, donors, scholars, entrepreneurs and funders to participate in the microfinance related activities in a bid to contribute to the global development. To date, various research studies have been undertaken to create more understanding as to the rationalities behind this rapidly growing global industry as such, the motivation of this research study has its roots in the microfinance field and can be considered as further contribution to the already existing literature.

Microfinance was formulated with the aim of extending formal financial services to individuals and small enterprises with low income (Mersland & Strøm, 2012). Low income individuals are generally considered risky in terms of repayment of loans due to the lack of collateral. This discouraged traditionally existing financial institutions like commercial banks from serving such clients thus creating a financial gap in the poorer population that today has been filled by microfinance institutions (MFIs). Moreover, in a bid to distinguish microfinance from everyday banking, it can be viewed as tool for development (Ledgerwood,1998) through poverty alleviation. Per the Consultative Group to Assist the Poorest (an apex association of international donors), microfinance has been considered a powerful poverty alleviation tool as it provides the poor with access to income hence creating a sense of financial security especially in unforeseen circumstances (CGAP, 2004, p.1).

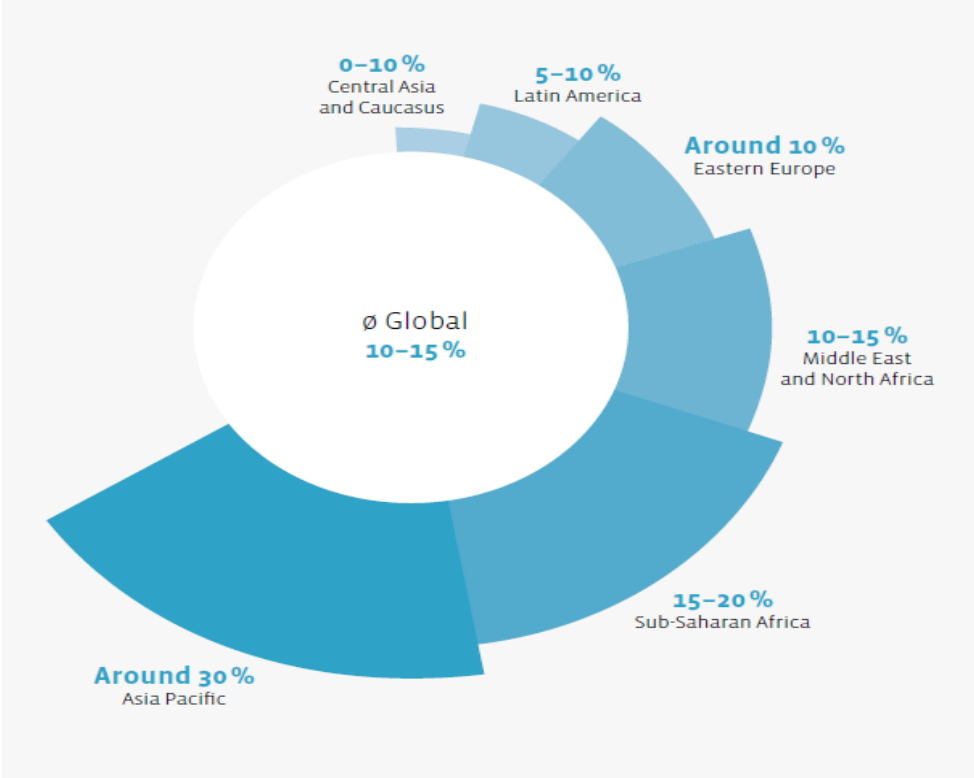
Following this, microfinance institutions are generally considered as having a dual objective that is; financial and socially related objectives (Armendariz & Morduch, 2010).

The main aim of their activities is therefore to ensure that they reduce poverty through providing financial services to the under privileged as well as ensuring that they remain financially sustainable at the same time. The achievement of social objectives can be measured in terms of the number of clients that are served (breadth of outreach) as well as the depth of outreach which is the clients' economic status at the time of receiving the financial services such that an MFI is achieving its social mission when it scores highly on these measures (Schreiner, 2002). On the other hand, financial sustainability is concerned with the MFIs ability to generate profits through its activities mainly achieved through interest rates on loans received by clients. Ultimately, the focus of microfinance is to benefit its targeted clients. To supplement on that, microfinance institutions can be categorised across different forms such as Non- Governmental Organisations (NGOs), Cooperatives, Banks and Non-Banking Financial Institutions (NBFIs). However, they may be broadly categorised as socially oriented or financially oriented. Per Galema et al. (2012), banks and NBFIs are seen to more financially oriented, on the other hand, the objectives of cooperatives and NGOs may not be clearly distinguishable. According to Hartarska (2005), NGOs are more concerned with social objectives while in pursuit of financial sustainability whereas Ledgerwood (2013) states that cooperatives have their main aim in ensuring maximum returns on loans whilst in pursuit of social objectives. Nonetheless, the focus of these microfinance institutions is to serve their targeted clients.

However, there is growing criticism of microfinance as a tool for poverty alleviation with the most pronounced being with the high level of interest rates charged on loans as well as abusive loan recovery practices (Serrano-Cinca & Guti´errez-Nieto, 2014). In addition, some MFIs tend to focus on serving the less poor clients a trend that has been attributed to the increased commercialization of MFIs in a bid to increase their profits (Armend´ariz & Szafarz, 2011). Nevertheless, the microfinance industry has continued to grow over the past couple of years with about three thousand microfinance institutions being reported in existence as at the year 2013 (Microcredit Summit Campaign report, 2015). Furthermore, trends in the microfinance industry indicate continual growth in the MFI industry with the highest projected growth of 30% in the Asian and Pacific region and the lowest of about 10% for Eastern Europe in the year 2016. The other regions include Central Asia and Caucasus at 0-10%, Latin America at 5-10%, Middle East and North Africa at 10-15% and Sub-Saharan Africa came in second with a projected growth of 15-20% for the year 2016 (see figure 1.1).

Considering that most of these MFIs are in emerging and developing economies, growth in the microfinance industry may continue to be expected for the year 2017 due to projections of increased GDP from these economies (IMF, 2017).

**Figure 1.1: Growth trends across global microfinance markets 2016**



**Source:** Microfinance Market Outlook (2016) by ResponsAbility.

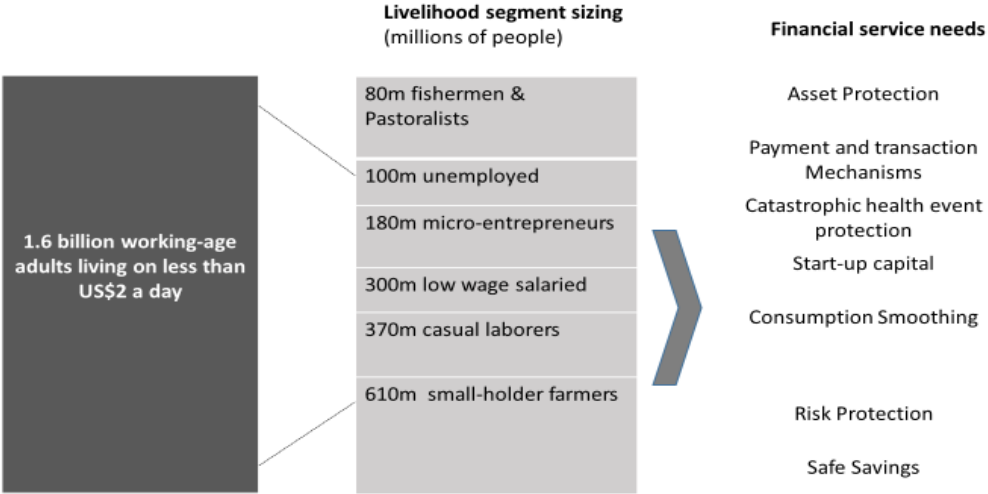
**2.2 Microfinance Clients**

In a bid to extend financial services to many individuals without access to them as well as to the poor in society, the microfinance industry has a diverse clientele consisting of urban and rural dwellers, traders, the disabled, farmers to mention a few. Prior studies have shown that of these diverse clients; some are salaried workers whereas a greater majority of them earn their income from farming or are casual labourers (Christen, 2011). Further studies show that of the different microfinance clients, some have lower income levels as compared to others (Beisland & Mersland, 2014a). Drawing from this, one may view MFI clients as consisting of the poor and lesser poor. Such differences between the MFI clients can also be seen based on the amount of loan borrowed from the MFI where some obtain high loan sizes and others low loan sizes (Cull et al., 2007). Clients that receive higher loan sizes may be considered wealthier in comparison to those that receive small loan sizes. Therefore, one can consider clients that

receive large loans to be of a high socioeconomic status while those with small loan sizes of a low socioeconomic status.

In addition, Christen (2011) points out that the existence of a diverse client base may influence the type of products and services that the MFIs offer to the clients. Faz & Breloff (2012) as cited by Ledgerwood, Earne & Nelson (2013), suggested that salaried workers and entrepreneurs tended to prefer savings and credit options whereas the seasonal workers would prefer insurance, savings and small loans in case of emergency. Understanding MFI client needs thus becomes of utmost importance in the design of credit products. It is therefore considering this that MFIs tend to have a wide range of varying products to satisfy the vast needs of their different clients. As illustrated in Figure 1.2, it is possible to observe the various livelihood segments of individuals and their differing financial needs. It is observed that although all these various livelihoods have the same pressure in terms of financing, their needs vary according to their livelihoods. The financial needs vary from asset protection for fisherman and pastoralists to small holder farmers who desire safe savings and protection from risk. Hence, further emphasizing the need for credit products to satisfy the potential clients of MFIs.

**Figure 1.2: Financial service needs for different livelihood segments**



**Source:** Wyman (2007) as cited by Ledgerwood, Earne & Nelson (2013)

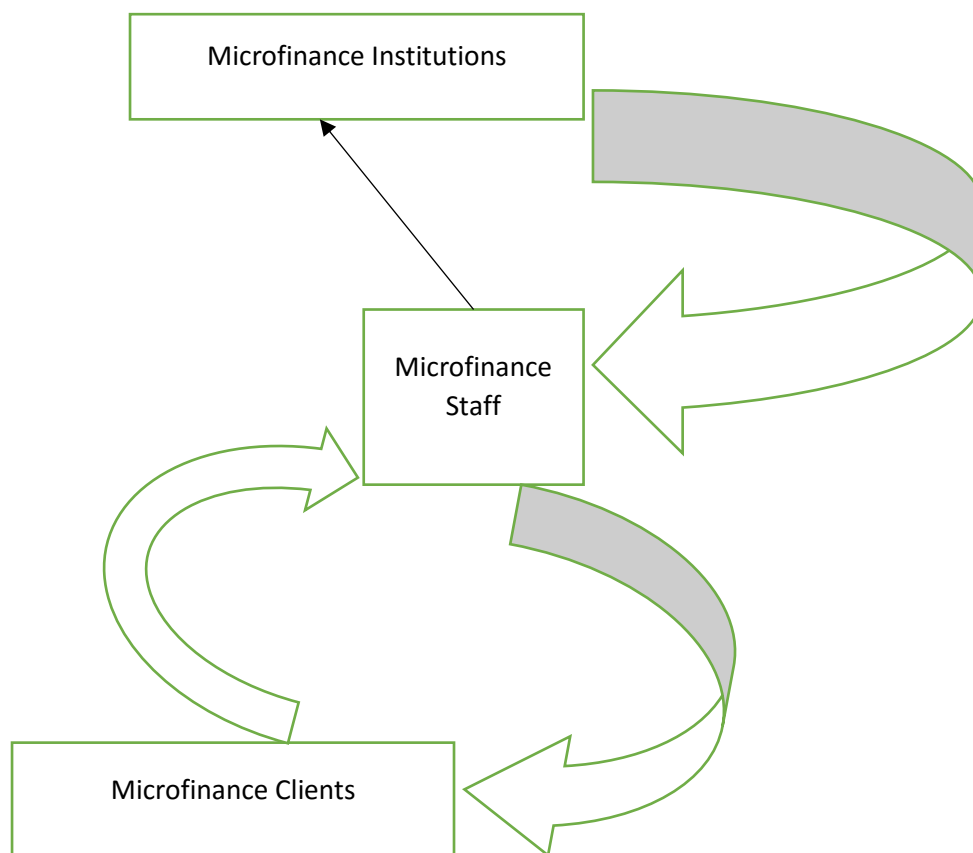
Furthermore, like the Grameen Bank- considered the pioneer in microfinance activities, some MFIs have their focus on female clients. The tendency to target women clients has been viewed as one of the major contributors to the success of microfinance specifically in terms of repayment where female clients are seen to have higher repayment rates than their male counterparts (D'Espallier, Guérin & Mersland, 2011). By the end of 2007, it was reported that 70% of microfinance clients globally were women (Daley-Harris, 2009). In addition to that, female clients also consist of the largest percentage of the poorest MFI clients with a reported 83% at the end of 2013 (Microcredit Summit Campaign report, 2015). Therefore, women can be viewed as consisting a large percentage of MFI clients a clear illustration of the extent of outreach among the female clients of MFIs.

### **2.3 The Role of Microfinance Staff**

As any other firm, microfinance institutions require staff to perform activities that facilitate the achievement of both their financial and social objectives. The staff of microfinance institutions are considered to consist of credit officers, branch managers, cashiers and information clerks with about 60% of the total staff being credit officers (Lapie et al., 2015). Moreover, it was stated that the ratio of credit officers to total staff in a microfinance institution can be between 70%-80% (Microrate, 2014). Therefore, microfinance institutions can be considered a type of business where majority of the staff are frontline staff and have direct contact with the clients. Several titles have been used to refer to these staff such as microcredit officers (Lapie et al., 2015), loan officers (Dixon et al., 2007), field staff or field workers (Ahmad, 2000). However, for purposes of this study, I adopt the title microfinance staff (MFI staff) unless otherwise used in reference to other authors' work. Furthermore, the existence of a large number of frontline staff provides justification for generalization to the term microfinance staff in this study.

Basically, microfinance clients are purported to enter relationships with the microfinance institution, following this, microfinance staff play a mediating role between the microfinance institution and the clients (Siwale & Ritchie, 2012).

**Figure 1.3: Microfinance staff-client Interface**



Adapted from Siwale & Ritchie (2012)

**Note:** Arrows as a representation of the scale/density of communication

Figure 1.3 illustrates the mediating role that the microfinance staff play in the relationship between clients and the microfinance institutions. Management of the microfinance institutions is responsible for their activities. They assign the staff to their roles and inform them of the desired expectations. The staff then through their activities interact with potential clients to get a better understanding of their needs as well as other relevant information. Following this, information about the clients for instance in terms of creditworthiness is reverted to the MFI management responsible for the approval of issue of credit.

Microfinance staff are considered to carry out multiple roles to facilitate achievement of the financial and social objectives of microfinance institutions. Fisher & Sriram (2002) specifically point out three roles of fieldworkers such as; encouraging clients' participation in microfinance,

provision of high quality services to clients and ensuring the repayment of loans. To supplement on that, other authors have viewed them to possess the role of “facilitators or catalysts (O’Reilly,2004) and even personal advisors. They therefore have the most direct contact with clients and have even been likened to foot soldiers (Siwale & Ritchie, 2012).

The staff establish relationships with clients in order to ensure they obtain clear understanding of their needs and how to best serve them. This may involve gaining knowledge on the purpose for which the clients require the loan and their capability to repay it. An important part of the information obtained from clients may be private in nature with regards to their health expenses, future business plans and any other kind of information that one might find difficult disclosing to a stranger. Thus, interpersonal ties between the MFI staff and client are of great importance to facilitate this information gathering process. It is therefore important for MFI staff and their clients to establish a common ground on which they can both comfortably communicate for their respective benefit. According to Crosby, Evans & Cowles (1990), a good relationship between dyadic<sup>1</sup> roles such as MFI staff and their clients can be characterised by trust and satisfaction. An extension of this to the microfinance industry may help explain how MFI staff are able to carry out their client related activities.

Basing on this, one may be able to envision the influence that the staff have on an MFIs social and financial performance. MFI staff are considered to have great influence over a microfinance institution’s performance in terms of repayment performance, client outreach, client empowerment as well as other organisational dynamics to the degree that they provide such a linkage (Dixon et al.,2007). Since MFI staff are intermediaries between the poor clients and the microfinance institutions, they can thus be considered to play a significant role in achievement of microfinance goals.

## **2.4 Staff Behaviour and its Influence on Microfinance Performance**

Activities of microfinance staff are more often outside the office and in the field (McKim & Hughart,2005), considering this, many MFIs are faced with the challenge of ensuring efficient monitoring of the staff’s activities. Difficulty in monitoring staff implies that staff are liable to perform activities that may not be in favour with the goals of the institution. In a bid to resolve this, incentives can be given to MFI staff as a means to motivate them and positively influence

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<sup>1</sup> The term dyadic is used to describe an interaction between a pair of individuals. For instance, between staff and clients in this study.

their behaviour (Holtmann & Grammling, 2005). According to McKim & Huggart (2005), staff incentives consist of both financial and non-financial rewards. They are inclined to increase an individual's income and standard of living and can be considered an element of MFI staff salary. Therefore, staff that receive higher salaries can thus be viewed as belonging to a high socioeconomic class as compared to those with lower salaries.

Nevertheless, MFI staff have been viewed to exhibit some contradictory behaviour while performing their client related activities. For instance, some MFI staff tend to exhibit bias against certain groups of the MFI target clients. Studies have shown a tendency for MFI staff to be biased against female clients despite their reported better repayment rates than their male counterparts (D'Espallier et al., 2011). Also, such biases have been reported against the disabled clients where MFI staff tend to be less willing to issue credit facilities to the disabled as opposed to the able bodied (Cramm & Finkenflügel, 2008). On the other hand, other studies show a tendency to bias in favour of a certain group of clients that is; Agier & Szarfz (2013) identified tendency for female MFI staff to prefer female clients over the male counterparts. Labie et al. (2015) also point out the tendency for certain MFIs to favour urban dwellers and traders who are usually the less poor clients of the MFI.

However, whether the above behaviours have their origin in inefficient motivation of the staff or whether other factors are at play in explaining such behaviour is still a rather widely unexplored issue. Nevertheless, some researchers have suggested social influences as a possible explanation for staff behavioural tendencies. According to Labie et al. (2015), certain clients may appeal more to a staff member if the client belongs to the same social network with which the staff member belongs. This seems to suggest that social aspects characterising both the MFI staff and the clients govern their interactions. Considering socioeconomic status as an illustration of social network, one may assume that a staff member of a high socioeconomic status will prefer clients of the same high socioeconomic status and vice versa.

Furthermore, specifically how such behaviour influences performance of the MFI also remains questionable. However, studies from the banking industry show social similarities between the staff and client may influence performance. Fisman et al. (2011) found evidence that bank officers tended to favour clients belonging to the same religion, caste or ethnic group. Furthermore, they discovered that these social similarities between the officer and client tended to improve the bank's loan outcomes for instance on repayment. The implication here being



that staff and clients belonging to different social networks may positively influence performance and assumed poor performance from social dissimilarities.

Owing to the important role that MFI staff play through their interaction with clients Important MFI policy and management related questions can be raised such as; Do social similarities between staff and clients influence the type of the of clients they are willing to serve? Do these similarities affect the performance of the MFI? Moreover, to the best of my knowledge, microfinance literature on staff has focussed mainly on the role of MFI staff (Siwale & Ritchie, 2012; Dixon et al.,2007; Ahmad,2000) and aspects of discrimination that is bias against certain groups of individuals (Beisland & Mersland, 2016; Labie et al., 2015; Beisland & Mersland, 2014b; Agier & Szafarz, 2013; Labie et al., 2009; Cramm & Finkenflügel ,2008). Therefore, there is a large gap that needs to be explored with regards to how social similarities between MFI staff and clients may influence the performance of microfinance institutions.

Considering this, this research study tries to close the gap in microfinance literature by examining the existence of staff-client socioeconomic matches in MFIs and the possible influence they might have on the performance of a microfinance institution.

The study tests the impact of staff-client socioeconomic similarity matches in shaping the behaviour of MFI staff and consequentially the performance of the MFI. It should be noted that various social dimensions could affect the performance of MFIs, however, focus is made on socioeconomic status due to the availability of data for both clients and staff on this dimension nevertheless, reference is also made to other dimensions with regards to this study.

## **2.5 Chapter Summary**

In this chapter, an overview of the microfinance industry is presented including a brief history, current trends and criticisms. Also, a discussion on the type of clients that microfinance institutions commonly served is made.

Furthermore, the critical role played by MFI staff in achieving microfinance objectives is discussed as well as the behavioural tendencies that MFI staff exhibit in carrying out their activities are discussed. Following this, a gap in research is identified regarding possible explanation of the varying staff behaviour and how it might influence MFI performance. With social influences as a possible explanation, this research study attempts to close this gap by focussing on socioeconomic matches between staff and client play and how such matches may affect the performance of a microfinance institution.

## CHAPTER THREE: LITERATURE REVIEW

### 3.0 Introduction

As far back as times of famous neoclassical economist Adam Smith to date, scholars from various disciplines have attempted to obtain an understanding of how individuals behave and what influences their behaviour. Drawing from this, rationalizing the behaviour of microfinance staff and its impact on performance may lie in the basic understanding of how human beings work.

Staff of a firm differ from each other in various aspects and have even been referred to as a “non-homogenous good” (Solow, 1980, p.4). Additionally, studies on microfinance institutions have indicated that microfinance staff tend to have varying characteristics (Beisland & Mersland, 2014b). Considering this, it was found that the staff have varying views and attitudes on the treatment of microfinance clients implying that some are more likely to discriminate as opposed to others. However, Beisland & Mersland (2014b) state that attitudes exhibited by microfinance staff may not necessarily relate to malicious acts against the potential clients but rather unconscious behaviour towards them. This may have implications for the performance of the microfinance institution particularly if it obscures the number of clients that the staff serve and in turn the client growth rate.

Owing to the interactive nature of the MFI staff-client relationship, the staff are privy to information about prospective microfinance clients. Following this, staff may be susceptible to influence by social constructs. Based on Labie et al. (2015), it could be expected that MFI staff may relate more easily to clients with whom they share social similarities and thus impact performance. This suggests that microfinance staff may match themselves to clients based on social attributes. Since the most important information that staff obtain from their interactions with prospective clients relates to their financial situation, it can be assumed that influence on microfinance performance could arise from the socioeconomic similarities that the MFI staff and clients possess, hence MFI staff may match themselves to clients according to socioeconomic status.

From this, it may be reasonable to obtain an understanding of sociological explanations governing the behaviour of individuals. Therefore, to answer the research questions, the following sub-sections provide the core theory, literature and findings from prior studies. In addition to that, the hypotheses to be tested are developed and the research model illustrated.

### **3.1 Granovetter's Embeddedness Theory**

Granovetter (1985) coined the concept of Embeddedness on the basis that certain behaviour may not only be explained by economic rationalities. According to this theory, the actions of individuals are not only motivated by rational or purely economic actions but also social influences play a role. A social influence can be defined as “an external force that like the deists’ God sets things in motion and has no further effects- a force that insinuates itself into the minds and bodies of individuals altering their way of making decisions” (Granovetter, 1985, p.486). It is concerned with the extent to which certain actions find their roots in structures of social relations in society and thus certain behaviour of individuals could be better understood when analysed through social aspects. Granovetter (1985) further distinguishes an embedded individual from an atomized one based on influence of his actions to a certain extent by the actions as well as expected behaviour of other actors. Granovetter (1985) goes on to indicate the role of interpersonal relations and structures in regards to trust among economic actors particularly among individuals of similar social networks. Thus, the behaviour of individuals can in addition be explained by different relational role matches that interact with one another such as husbands and wives, workers and supervisors, criminal and law enforcers, lenders and borrowers, sellers and buyers or for the purpose of this study, MFI staff and clients.

The Embeddedness theory therefore proposes that social structures in society influence behaviour of individuals for instance between relational roles. The behaviour of MFI staff may therefore be explained basing on this considering the interpersonal relationship necessary between staff and clients in performing MFI activities. It may thus be useful in explaining why certain staff prefer some clients over others or rather why they are biased against certain clients of a microfinance institution and how this influences MFI performance.

Furthermore, this aspect of social influences could be a likely explanation for why MFI staff behave contrary to expectations despite the intention to motivate them through salaries. That is, whereas some staff are motivated by the mission of the MFI, others may view the MFI as any other business enterprise and are likely to be motivated by the expectation of monetary compensation for their performance (Lapie et al., 2009; Besley & Ghatak, 2005).

From the times of neo-classical economists such as Adam Smith and Alfred Marshall, the actions and behaviour of individuals have been rationalized on the assumption that individuals pursue rational and self-interested behaviour. Smith (1976) in his study on efficiency wages viewed wages as an encouragement of industry where an increase in wages leads to an increase

in the labourers' productivity. In simple terms, the higher the wage paid to a staff member, the better the firm's performance in terms of productivity. However, this may not always be the case in real life due to social aspects as suggested by the embeddedness theory.

Ultimately, MFI staff are human beings whose behaviour may not completely be economically rationalized. Therefore, basing on the embeddedness theory, one can predict that social structures play a role in influencing the behaviour of MFI staff as such this research study is focussed on social influences.

### **3.2 Similarity Attraction Paradigm**

To explain whether microfinance staff match themselves to clients based on socioeconomic status and therein determine the influence on microfinance performance, an additional theory is used. That is, the similarity-attraction paradigm.

Similarities among individuals in society can be used to illustrate how social influences are a possible explanation of the behaviour of individuals. Smith (1998) defines similarity as the extent to which members of a group or dyad exhibit alikeness in terms of personal or other social characteristics. Studies have shown that individuals tend to be attracted to those that are similar to them (Lydon, Jamieson & Zanna, 1988; Byrne, 1961; Festinger, 1954).

Therefore, a similarity-attraction can be said to occur when individuals in society seek association with groups or individuals with whom they share similarities. Individuals are considered as tending to favour others with whom they share certain similarities.

Since activities of MFI staff in the field cannot easily be monitored, MFI staff are likely to be selective of their prospective clients. Basing on this similarity attraction paradigm, one may predict that the staff will select clients that are socially similar to them.

Studies have found that similarities tend to influence trust, communication, satisfaction and thus the performance of a firm (Rai et al., 2009; Smith, 1998; Byrne, 1969). This preference for similar others may have important influence on the relationship that a firm's staff have with their clients based on similarity across various social dimensions such as gender, religion, race, socioeconomic status and ethnicity.

#### **3.2.1 Socioeconomic Status Similarity**

Socioeconomic status (SES) is commonly used to study economic and social differences in relation to other individuals in society based on income, occupation and education (Adler &

Snibbe,2003). As in other studies, socioeconomic status can be referred to as social class (Kraus, Piff & Keltner, 2011; Piff, Kraus, Côté, Cheng & Keltner, 2010). Following this, the terms socioeconomic status and social class are used interchangeably in this study.

In an experimental study, Byrne, Clore, Worchel (1966) stated that individuals of similar socioeconomic status had a higher likelihood of being attracted to each other than dissimilar ones that is; that the members of high social<sup>2</sup> status were attracted to those of high status and low socioeconomic status to those of low socioeconomic status. Thus, individuals tend to match themselves to others of similar socioeconomic status.

Individuals are thus considered to be of high socioeconomic status when they score highly on any or all socioeconomic indicators such as income, occupation and education and to be of low socioeconomic status when they do not. Festinger (1954), stated that the members of different groups sought to maintain the differences between the groups to which they belonged. That is, members of high socioeconomic status ensure they are clearly distinguished from the lower status and those of low status seek to maintain the differences with the members of the high class. Thus, in doing so, they ensure association with similar others in socioeconomic status.

In the microfinance industry, social influences on the behaviour of MFI staff could be based on the existence of similarities between staff and clients (Labie et al., 2015). Suggestions are made that a staff member might prefer a particular client or group due to the existence of similarities between them. Drawing from this, one can expect staff to match themselves to clients that share socioeconomic similarities with them. For purposes of this study, focus is given to the income aspect of socioeconomic status due to availability of data on this dimension.

Therefore, MFI staff are considered of high socioeconomic status when they have high salaries and of low socioeconomic status when they have low salaries. On the other hand, basing on prior research, average loan size is used as an indicator of the extent to which poor clients of the MFI are reached (Cull et al., 2007; Schreiner, 2002). As the size of the loan increases, the number of wealthier clients that the MFI serves is assumed to be increasing thus MFI clients are of high socioeconomic status when they receive high loan sizes and low socioeconomic status with low loan sizes. Basing on these explanations, MFI staff and clients could be similar when they belong to the same socioeconomic class.

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<sup>2</sup> Here onwards the terms socioeconomic status and social status are used interchangeably in this study.

In this study, an abstraction is made from different fields in a bid to obtain an understanding of how similarities between dyadic roles like staff-client of MFIs have influence on performance. This basically means that in this study on how socioeconomic staff-client socioeconomic similarity matches influence performance, predictions are made from various fields some of which may not directly be related to microfinance. Nevertheless, such predictions constitute a basis for answering the research questions of this study.

### **3.3 Empirical Findings from Previous Studies on Social Similarities and Influence on Performance**

Basing on the aspect of social influences as a possible explanation for behaviour of individuals, studies have been carried out on how social similarities influence performance. In particular, social similarities can be used to explain individual behaviour, applicability of which can be made to the microfinance industry. Situations in which similarities between people have taken dominance over dissimilarities are illustrated. The aspect of similarities between individuals find its roots in the similarity attractiveness paradigm.

In studies on social categorization and intergroup relations, it was found that individuals tended to show more concern for others in their group than those outside it (Dovidio, Gaertner, Validzic, Matoka, Johnson & Frazier, 1997; Levine, Cassidy, Brazier & Reicher, 2002; Baron & Szymanska, 2011). When noticeably different groups exist, people tend to perceive members of their in-group as having a similarity to them and those of the outgroup as being dissimilar (Wilder, 1986). The fact that individuals belong to the same group can thus be viewed to create a sense of belonging which in turn encourages cooperation among group members (Hornstein, 1976). Similar studies related to provision of help find that an individual's intention to help another increases when the helper and the beneficiary (recipient of the help) belong to the same group as opposed to when they are both from different groups (Stürmer, Snyder, Kropp & Siem, 2006). Similarity can therefore be viewed to encourage a certain level of attraction between individuals (Byrne, 1961) hence, individuals are more likely to be comfortable and prefer fellow group members.

Drawing from this similarity paradigm, studies by Loweinstein & Small (2007) found that donors preferred those individuals who had a match or similarity with them. Similar studies on prosocial lending revealed that lenders preferred to give loans to borrowers who were similar to them (Galak, Small & Stephen, 2011). The studies revealed that there was a strong preference

for lender-borrower gender match among both the male and female lenders. In addition to that, they also established the existence of a strong preference for occupation similarity among lenders. That is, that lenders preferred to give loans to borrowers with similar professions to them or those that they could easily relate to. Hence the likelihood to lend increased with decrease in social distance between the lender and borrower.

Therefore, from the microfinance perspective, it can be predicted that staff of a particular socioeconomic class will be attracted to clients of the same socioeconomic class and thus will be likely to give loans to clients that are similar to them as opposed to those that are different. The staff may find it easier to understand clients of the same socioeconomic class and may be more helpful in terms of serviceability and relaying of information necessary in the credit transactions. Thus, are likely to better manage the clients in their portfolio. For instance, a situation where a client of low socioeconomic status is considering obtaining a loan, one could assume that a staff of a similar low socioeconomic status would be more understanding of their plight than a staff member of a higher socioeconomic class and may be more willing to lend to them than a staff of high socioeconomic class. Also, the staff may find it less burdensome to follow up on such clients hence better loan repayments could be expected.

Similarity matches have been viewed to facilitate trust, more open communication as well as greater investment (Rai et al., 2009; Smith, 1998) in interpersonal relationships such as the above mentioned among others. Considering this, it has been suggested that similarity matches between staff and clients may be a suitable management strategy in terms of offering competitive advantage for a firm in its market (Morrison, 1992; Cox & Blake, 1991). Evidence of such findings can be seen in various fields whose activities are facilitated by the nature of the relationship between the staff and clients such as marketing and sales. According to Wiener & Mowen (1985), sales staff are more likely to succeed in achieving a customer's commitment to the firm, when there are perceived similarities between them and the customers. Other studies have shown that similarities within interpersonal relationships tend to increase satisfaction in the relationship (Tan, 1985).

In comparison to the microfinance industry, the interpersonal nature of the relationship between the staff and clients bears resemblance to such a setting. Therefore, one may assume that socioeconomic status similarities between MFI staff and clients tend to encourage more open communication and trust hence favouring the sharing of information as well as MFI client satisfaction. In MFIs, clients are considered the most important reason for their existence that

is; they exist to extend credit to the target poor clients in society. Considering this, the ability to satisfy clients suggests a good performance for the MFI in terms of achievement of their goals. Thus, similarity matches can be considered as having a positive influence on the performance of the MFIs. Support for this is further evidenced in sales studies by Crosby et al. (1990) who found that status similarities between sales personnel and their clients had an impact on the effectiveness of sales.

Per banking literature on social proximity, Fisman et al. (2011) found evidence of in-group preference among religion and caste at an Indian bank leading to efficient transactions. Rationalization for this was attributed to the perceived reduction in costs of collecting and communicating the information since members of the same group could easily relate to each other. Their study revealed the existence of preferential treatment of borrowers belonging to the same caste as the officer. In addition, a positive performance was reflected such that there was an increase in the total lending of a bank branch when the branch officer belonged to the same caste as the clients. Also, the default rates were observed to decrease when the officer and borrower belonged to the same social group.

In simple terms, the similarities between the banking officer and the borrower influenced good performance in terms of the number of loans given out. One can also predict the likelihood of a positive performance in the microfinance industry in terms of risk reduction due to loan repayment as well as increasing staff productivity where similarities exist. Thus, such behaviour can be attributed to MFI staff such that their preference to serve socioeconomically similar clients influences positive performance in terms of the number of clients served per staff and the client growth rate.

### **3.4 Hypothesis**

Based on the above empirical evidence on similarities and matching, the following hypothesis can be drawn with regards to the influence of socioeconomic matches on the performance of microfinance institutions;

*Hypothesis 1(a): In MFIs, similar staff-client socioeconomic status matches lead to good performance.*

*Hypothesis 1(b): In MFIs, staff-client socioeconomic status mismatches lead to poor performance.*



A summary of the proposed hypothesis is presented (table 3.1) and further discussion is made in the next chapters.

**Table 3.1: Summary of Hypotheses**

	HIGH AVERAGE SALARY/STAFF	LOW AVERAGE SALARY/STAFF
HIGH AVERAGE LOAN SIZE/CLIENT	<b>GOOD MATCH</b> (1)	<b>BAD MATCH</b> (2)
LOW AVERAGE LOAN SIZE/CLIENT	<b>BAD MATCH</b> (3)	<b>GOOD MATCH</b> (4)

Quadrants (1) and (4) indicate good microfinance performance associated with similar staff-client socioeconomic matches in terms of average salary and average loan size per staff and client respectively. They are considered to be good matches due to the positive influence that they are proposed to have on MFI performance. This is attributed to the benefits that similar matches are purported to facilitate such as effective communication and trust between the staff and client. The staff may find it easier to relay any further information as well as creating a comfortable environment for the client to be open about their situation. This interpersonal relationship between staff and clients can thus be good ground to ensure MFI performance as it makes activities such as client follow-up less burdensome.

On the other hand, quadrants (2) and (3) indicate bad matches associated with staff-client socioeconomic mismatches which are assumed to negatively influence the performance of MFIs. The mismatches represent situations where microfinance activities involve interactions between staff and clients of different socioeconomic matches. They are assumed to be bad matches based on the likelihood that they may hinder effective communication and establishment of good MFI staff-client relationships. Consequently, less than good MFI performance.

**3.5 Chapter Summary**

In this chapter, the core theory which is the Embeddedness theory was presented and supplementary explanation on how it may function illustrated with the similarity-attractiveness

paradigm. In addition, findings from previous studies on similarities was presented as well as the development of the hypothesis for the study.

## CHAPTER FOUR: DATA

### 4.0 Introduction

This chapter presents the description of the data used in the study as well as the characteristics that it embodies.

### 4.1 Data Description

The data used in a research study can be of two types; primary or secondary data. According to Sekaran & Bougie (2013), primary data is that which is obtained first hand by the researcher whereas secondary data is obtained from already existing sources.

The research study uses data from a secondary dataset extracted from compilations of risk assessment reports of 5 rating agencies namely; Microfinanza, Microrate, Planet Rating, Crisil and M-Cril. These rating agencies are internationally recognised and approved by the Consultative Group to Assist the Poor(CGAP). The fact that the data is reported by a third party independent of the microfinance institutions plays a role in justifying the credibility of its source. The rating reports consist of information about the MFIs governance, management as well as financial and social operations.

This dataset has also been used in other influential microfinance studies for instance Mersland & Strøm (2014) use it to determine microfinance performance, Beisland, Mersland & Randøy (2014) in studies on microfinance regulation whereas D’Espallier et al. (2011) use it to study repayment of loans by women in microfinance.

Furthermore, to control for any macroeconomic specific influences, the World Bank data base<sup>3</sup> was used for country specific variables such as GDP per capita, inflation rate and GNI per capita as well as the United Nations Development database (UNDP) data base<sup>4</sup> to obtain Human Development Indices (HDI) to control for any macroeconomic specific influences.

### 4.2 Characteristics of the Dataset

Owing to the nature of this research study, both client and staff data were important but not easy to come by. This was due to the existence of missing values such that in instances where staff-client matches could not be obtained for the MFI, the data on that MFI for that period was

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<sup>3</sup> <http://data.worldbank.org/data-catalog/world-development-indicators>

<sup>4</sup> <http://hdr.undp.org/en/data>

not included. Thus, the final dataset consists of a panel sample of 316 MFIs from 72 countries for the period 1999-2014.

A summary of the regions, number of countries and the number of MFIs represented is illustrated in Table 4.1. The table is a representation of 5 regions in the world in which microfinance activities are carried out that is; Sub-Saharan Africa, Europe and Central Asia, South East Asia and the Pacific, Latin America and the Caribbean and the Middle East and North Africa. The dataset thus has a large percentage of countries represented coming from the Sub-Saharan African region and the lowest from South East Asia and the Pacific. At country level, Ecuador has the highest number of MFIs represented in the sample with 17 MFIs and is then followed by Peru and Mexico both with 14 MFIs each.

Nevertheless, a good proportion of the global regions is represented in the dataset.

**Table 4.1: Summary of Regions, Countries and the Number of MFIs.**

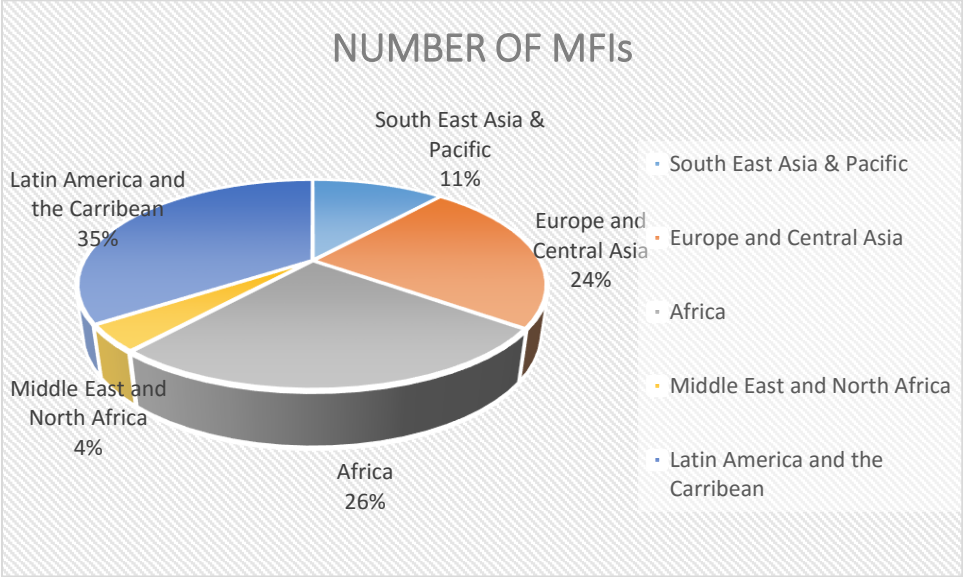
<b>REGION</b>	<b>COUNTRY</b>	<b>NO OF MFIs</b>	<b>REGION</b>	<b>COUNTRY</b>	<b>NO. OF MFIs</b>
<b>Europe &amp; Central Asia</b>	Bosnia		<b>SUB-SAHARAN AFRICA</b>	Benin	4
	Hezergovnia	12		Senegal	7
	Armenia	4		Cameroon	3
	Georgia	5		Morocco	5
	Albania	3		Togo	3
	Kosovo	4		Burkina Faso	2
	Russian Federation	13		Comoros	1
	Kyrgyzstan	6		Kenya	8
	Moldova	2		Chad	1
	Montenegro	1		Rwanda	4
Tajikistan	7	Zambia	2		
Kazakhstan	2	Nigeria	2		
Croatia	1	Ethiopia	6		
Azerbaijan	7	Mozambique	1		
Afghanistan	1				

	Bulgaria	2		Burundi	4
	Romania	3		Gambia	1
	Serbia	1		Ghana	5
	Turkey	1		Guinea	1
<b>LATIN AMERICA AND THE CARIBBEAN</b>	Bolivia	11		Madagascar	1
	Nicaragua	7		Malawi	1
	Haiti	2		Mali	2
	El Salvador	6		Niger	4
	Ecuador	17		South Africa	1
	Honduras	7		Tanzania	5
	Mexico	14		Uganda	7
	Chile	2		Zambia	2
	Brazil	11	<b>SOUTH EAST ASIA AND THE PACIFIC</b>	Cambodia	11
	Colombia	8		Philippines	9
Dominican Republic	2	India		2	
Costa Rica	1	China		5	
Peru	14	Mongolia		3	
Guatemala	7	Nepal		1	
Jordan	3	Indonesia		2	
Lebanon	2	Sri Lanka		1	
<b>MIDDLE EAST AND NORTH AFRICA</b>	Egypt	5	Vietnam	2	
	Palestine	2			
	Tunisia	1			

In addition to that, a distribution of the number of MFIs per region (see Figure 4.1) indicates Latin America and the Caribbean as having the largest number of MFIs in the sample at 35% followed by Africa 26%, Europe and Central Asia at 11% and the middle East and North Africa

at 4%. Therefore, we can conclude that the Latin America and the Caribbean region is the most represented in the data set used for the research study.

**Figure 4.1: Distribution of MFIs in the Sample according to Region**



### 4.3 Chapter Summary

In this chapter, the nature of the data used in the study is explained, the characteristics of the data including the most represented regions and countries have also been identified. The data used for study is of a panel nature showing staff-client socioeconomic status for 316 MFIs across 5 regions of the world. The next chapter shows the research methods applied on the data.

## CHAPTER FIVE: METHODOLOGY

### 5.0 Introduction

In this chapter, the research methodology is presented showing the procedures and methods employed in analysing the data. The methods used in this chapter show the plan for the measurement and analysis of the information (Zikmund, Babin, Carr & Griffin, 2013). These methods have further been referred to as the blue print for analysis of data based on the research questions of the study (Sekaran & Bougie, 2013).

### 5.1 Operationalization and Measurement of Research Concepts

According to Sekaran & Bougie (2013, p.200), operationalization involves identifying the behavioural dimensions or properties denoted by a concept and then translating them into observable elements in order to develop an index of measurement of the concept. In simple terms, it is concerned with transforming a seemingly immeasurable concept into a measurable one basing on the characteristics that it embodies.

#### 5.1.1 Independent Variables

In this study, the independent variable also known as the explanatory variable is a dummy variable for staff-client socioeconomic match. The income aspect of socioeconomic status is studied and is inclusive of proxies of income for both the staff and clients that is; average salary per staff and average loan size per client.

In a bid to control for external impact of economically related differences among MFIs, the GNI per capita is incorporated and used to scale the respective staff and client income.

#### Salary per Staff

According to Adler & Snibbe (2003), socioeconomic status can be measured based on ones income. Thus, the MFI staff's socioeconomic status may be measured using the average annual salary per staff. In this study, salary per staff is proxied by the MFI's personnel cost per staff. It is derived as a ratio of total personnel costs to total number of staff. That is,

$$\text{Personnel Cost per Staff} = \text{Personnel Cost} / \text{Total number of Staff}$$

From the staff's perspective, it is viewed as income received thus rendering it a suitable proxy for salary per staff.

### **Average Loan Size per client**

Following previous studies, the average loan size is used as a proxy for client poverty level (Cull et al.,2007) on the assumption that small loan sizes are received by the very poor clients whereas large loan sizes are received by the wealthier clients.

Therefore, the average loan size is considered a measure of the socioeconomic status of the client such that clients of a high socioeconomic status are purported as having larger loan size and those of a low socioeconomic status as receiving small loan sizes.

#### **5.1.2 Interaction term Approach to operationalization.**

Cohen, Cohen, West & Aiken (2013, p.255) define interactions as “an interplay among predictors that produce an effect on the outcome that is different from the sum of the effects of the individual predictors”. Riordan (2000) points out the interaction approach as one of the ways to test for effects of similarity.

Therefore, in relation to previous studies on similarity (Riordan, Griffith & Weatherly,2003; Riordan & Shore ,1997; Flynn & Shore,1994), the socioeconomic match between a staff member and the client can be operationalized using the interaction term approach. Table 2.1 in chapter 2 is an illustration of how the interactions are predicted to occur.

Hence in this study, the interaction term average salary  $\times$  Average loan size is used to measure the similarity between the staff and client’s socioeconomic status with the expectation that a similar match will influence the performance positively and vice versa. Therefore, with reference to the interaction approach, a similar match may appear as High Average Salary  $\times$  High average loan size or Low average salary  $\times$  Low average loan size whereas a dissimilar match appears as High Average Salary  $\times$  Low Average Loan size or Low average Salary  $\times$  High Average Loan size (as in table 3.1). Following this, a dummy variable for each type of staff-client socioeconomic match is created.

#### **5.1.3 Dependent Variables**

The performance of microfinance institutions varies across dimensions such as outreach (measured in terms of depth and breadth), portfolio quality (loan repayment), financial sustainability and efficiency (Rosenberg, 2009). Moreover, it is not limited to the



aforementioned and consists of various indicators for measurement. As such, microfinance performance can be considered as being multidimensional.

Drawing from this, the dependent variable in this study is the performance of the Microfinance Institutions based on two measures; staff productivity and client growth rate.

### **Staff Productivity**

With regards to an MFIs performance, productivity refers to the total number of credit clients per staff member. In other words, it is the average number of clients that each staff of the MFI serves annually. It is thus denoted by;

Total number of credit clients

Total number of staff in the MFI

It is used as a measure of performance with the view that the higher the productivity, the better the performance of the MFI in terms of serving its target clients. Considering performance, staff productivity can be considered to offer an institution-wide perspective (Microrate,2014). Thus, basing on the hypothesis, a high productivity can be expected where the staff and clients are similar as staff prefer to serve clients with whom they are similar and a low productivity for a dissimilar match (see table 5.1 ).

Staff productivity is used in microfinance studies such as Microrate (2014) and MIX (2001), therefore confirming its relevance as a measure of performance of microfinance institutions.

### **Client growth rate**

The client growth rate is a measure of the proportional increase in the number of clients annually per MFI. According to Schreiner (2002), breadth of outreach is a social measure concerned with the number of clients an MFI serves. Basing on this, the client growth rate can be used to determine the extent to which an MFI achieves its social objectives of extending MFI activities to as many clients as possible. Thus, where there are similar staff-client socioeconomic matches, an increase in client growth rate is predicted while a decline is predicted for mismatches (table 5.1).

The next table shows the explanations for the performance variables used in the research study as well as assumed outcome based on the hypothesis.

**Table 5.1: Explanations for dependent variables and Hypothesis of the study**

<b>Dependent Variables</b>	<b>Explanation/Measurement</b>	<b>Hypotheses</b>
Productivity	Number of clients per staff	+ Higher productivity for client-staff socioeconomic match
Client growth rate	Annual percentage increase in the number of clients of an MFI	+ Higher client growth rate for client-staff socioeconomic match

#### **5.1.4 Microfinance Control Variables**

As other microfinance studies, control variables are incorporated in the research analysis in a bid to reduce the contamination effect of other independent variables that may influence performance of the MFIs (Hartarska, 2005).

Controls are made for MFI specific variables such as ownership, MFI size, age of the MFI, market of operation and credit methodology.

Also, procedures that involve applying logarithmic transformations to the data are used for any control variables that are skewed (Emerson & Stoto, 1983).

#### **MFI size**

The size of the microfinance institution is considered in a bid to control for economies of scale, that is, the benefits that an MFI might receive from undertaking operations on a large scale. Other studies that have incorporated this control variable include It is purported that there is a positive relation between the efficiency of an MFI and size (Hartarska, 2013). In this study, therefore, the size of the MFI is measured as the natural logarithm of total assets. This transformation is performed in a bid to reduce influence associated with the lack of normality across the dataset.

#### **MFI Age**

Following Hartarska (2005), MFI age is employed as a control variable in this study. In simple terms, the age of an MFI refers to the period between the start of MFI activities to date. It can also be viewed as the amount of experience that the MFI has with regards to the social and

financial activities. Basing on the premise that performance improves with time due to learning, older MFIs are expected to perform better than other younger ones. Hence rendering it necessary to control for potential variation in performance that might arise from age of the MFI.

### **Ownership**

The concept of ownership finds its origin in corporate governance literature. With regards to microfinance institutions, various studies have found that the type of ownership may account for the variations in performance across MFIs (Williams & Nguyen, 2005).

Consistent with previous studies (Mersland & Strøm, 2008), banks and non-bank financial institutions are denoted as shareholder MFIs whereas the other ownership types (cooperatives, NGOs among others) are categorised as non-shareholder MFIs.

Thus, in this study, ownership of the MFIs is categorised basing on whether they are shareholder or non-shareholder MFIs.

### **Urban/Rural Market**

Basing on income, individuals living in rural areas tend to have lower income levels than those living in urban areas (Mersland & Strøm, 2014). Where MFIs serve predominantly urban markets, one may assume that the clients being served are wealthier in comparison to those in rural areas. Thus, rendering it a necessary control based on the nature of this study.

### **Credit methodology**

This is mainly concerned with the way loans are distributed to microfinance clients. Studies show that credit methodology plays a role in influencing the performance of MFIs. For instance, it was found that individual loans tended to improve the financial performance of MFIs to a certain extent (Cull et al., 2007). Contrary to that, other scholars find that group lending improves performance with regards to the client repayment rate (Armendariz de Aghion & Morduch, 2005). Thus, in this study, credit methodology is categorised under two types individual lending and group lending for which dummies are created. Following a study by Hartarska (2013), credit methodology is controlled for due to the fact that the type of credit methodology employed can influence the performance of an MFI.

### 5.1.5 Macroeconomic Related Control Variables.

Macroeconomic related variables are also incorporated in the study to control for economic differences across the different countries of the microfinance institutions. That is; GDP per capita adjusted for PPP, inflation rate and Human Development Index.

In addition, controls for the different global regions of the MFIs are also incorporated. The different regions include; Latin America and the Caribbean(LAC), Sub-Saharan Africa (SSA), Middle East and North Africa (MENA), Europe and Central Asia (ECA), South East Asia and the Pacific (SEAP).

**Table 5.2: Explanation of the Independent Variables**

<b>Independent Variables</b>	<b>Explanation</b>
Average Salary per staff	Measure of socioeconomic status for staff
Average Loan size per client	Measure of socioeconomic status for client
Socioeconomic match	Interaction term of average salary per staff and average loan size per client (Salary X Average loan size)
<b>MFI Control Variables</b>	
MFI Ownership	A dummy variable with value (1) for shareholder MFI and value (0) for non-shareholder MFI
MFI Size	Natural Logarithm of the MFI's total assets
MFI Age	Number of years of experience as an MFI
Urban/Rural Market	A dummy variable with a value of (1) if the MFI has a rural focus and value of (0) if it has an urban focus
Credit Methodology	A dummy variable with a value of (1) for individual lending and value of (0) for group lending
<b>Macroeconomic Specific Variables</b>	

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GDP per capita	Gross Domestic Product per capita adjusted for Purchasing Power Parity
GNI per capita	Gross National Income per capita
Human Development Index(HDI)	Measure of well-being in a country
Inflation	Annual Percentage of Inflation measured by the consumer price index
Latin America and the Caribbean(LAC)	Dummy variable of (1) for countries in LAC and (0) otherwise
Sub-Saharan Africa (SSA)	Dummy variable of (1) for countries in SSA and (0) otherwise
Europe and Central Asia (ECA)	Dummy variable of (1) for countries in ECA and (0) otherwise
South East Asia and the Pacific(SEAP)	Dummy variable of (1) for countries in SEAP and (0) otherwise

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## 5.2 Data Analysis and Techniques

For purposes of answering the research questions, tests are undertaken to confirm or falsify the hypotheses. To acquaint oneself with the data, descriptive statistics are carried out to understand the characteristics of the data used for the research study. Furthermore, univariate analyses are performed to establish whether staff-client matching occurs in microfinance institutions.

Following this, a multivariate analysis is performed to determine how the different socioeconomic matches influence the performance of MFIs on a global level having scaled the respective staff- client incomes by GNI per capita. Basing on a related study by Byrne et al. (1966), the high -low distinction is obtained by using the median values of the proxies for salary and average loan sizes respectively as a benchmark.

To supplement this, analyses are carried out to determine whether influence of socioeconomic matches varies significantly at different quartile levels that is; whether there is a significant difference at the top 25% SES match and the bottom 25% SES match.

**Note:** Analyses are performed based on matches for each respective quadrant as indicated in Table 3.1 (chapter 3).

### **5.3 Panel Data Models**

Baltagi (2008), refers to panel data as “the pooling of observations on a cross-section of households, countries, firms, etc. over several time periods” (p.16). Therefore, the nature of the data set is a panel form implying that in this research study the observations of each MFI vary across different time periods. It can also be referred to as longitudinal data and can be balanced or unbalanced. A balanced panel data refers to one with all its observations for a given time period across all entities whereas an unbalanced panel dataset may have missing data for certain entities for one or more time periods (Stock & Watson, 2003). Following this, the panel data used in this study is an unbalanced one.

Panel data analysis of the relationship between the independent and dependent variables can be carried out using two main techniques; Fixed effects techniques and Random Effects techniques.

#### **5.3.1 Fixed Effects Model**

Fixed Effects techniques assume that each entity (MFI for this study) has individual characteristics that have a likelihood to influence the independent variables or dependent variables. Such individual characteristics can be referred to as time invariant characteristics and may include gender, culture, religion, ethnicity to mention a few. However, the fixed effects model controls for such time-invariant characteristics as it assumes that there shouldn't be correlation between each entity and the others based on these characteristics (Hsiao,2003).

Considering this, the technique omits the time invariant variables in analysis in a bid to reduce bias created by their existence (Torres-Reyna,2007). Therefore, such a technique is deemed unsuitable for this research study due to the existence of certain control variables such as ownership, market and credit methodology that are assumed constant as represented with dummies.

### 5.3.2 Random Effects

Random Effects Model assumes that the time invariant characteristics of an entity are random and may have influence on the dependent variable thus includes such variables in the analysis. The inclusion of such characteristics in analysis is an advantage the random effects model is purported to have over the fixed effects model (Torres-Reyna, 2007).

Considering this, I employ the random effects model for panel data analysis owing to the existence of constant time invariant characteristics across the different microfinance institutions used in the study.

Nevertheless, per Wooldridge (2010), notice should be made of certain assumptions that need to be satisfied to ensure effectiveness in the implementation of the Random Effects Model in analysis:

- Absence of a perfect linear relationship among the independent variables (No multicollinearity)
- Constant variances in the error terms (No Heteroskedasticity)
- No correlation between the error terms and the independent variables across the different time periods (autocorrelation)
- Linear relationship between the dependent and independent variables (Linearity)
- Normal distribution of the variables

Tests of whether the assumptions for random effects are satisfied are performed later in section 5.5 to determine its suitability for the analyses.

According to Torres-Reyna (2007), the random effects model employed in a research study may be represented as;

$$Y_{it} = \alpha_i + \beta_i X_{it} + \mu_i + \varepsilon_{it}$$

Where;

$Y_{it}$  denotes the dependent variable

$\alpha_i$  denotes the intercept for each entity  $i$

$X_{it}$  denotes the independent variable for each entity  $i$  at a time  $t$

$\beta_i$  denotes the coefficient of each independent variable

$\mu_i$  denotes the between entity error

$\varepsilon_{it}$  denotes the within entity error

## 5.4 Regression Models

Presentation of the regression models to be used in the test for the hypothesis are made in this subsection.

Having established the random effects model as a more suitable model for this study, the influence of socioeconomic matches on performance of an MFI is analysed. The staff and clients are matched according to their socioeconomic status. Thus, the following multivariate regression models are analysed for each respective dependent variable:

i. 
$$\mathbf{Productivity}_{it} = \beta_1 Match_{it} + \beta_2 Age_{it} + \beta_3 size + \beta_4 Ownership_{it} + \beta_5 Creditmethodology_{it} + \beta_6 mkt_{it} + \beta_7 GDP_{it} + \beta_7 HDI_{it} + \beta_8 Inflation_{it} + \beta_9 MENA + \beta_{10} SSA_{it} + \beta_{11} LAC + \beta_{12} SEAP + \mu_i + \varepsilon_{it}$$

ii. 
$$\mathbf{CLgrowthrate}_{it} = \beta_1 Match_{it} + \beta_2 Age_{it} + \beta_3 size + \beta_4 Ownership_{it} + \beta_5 Creditmethodology_{it} + \beta_6 mkt_{it} + \beta_7 GDP_{it} + \beta_7 HDI_{it} + \beta_8 Inflation_{it} + \beta_9 MENA + \beta_{10} SSA_{it} + \beta_{11} LAC + \beta_{12} SEAP + \mu_i + \varepsilon_{it}$$

Where; *Match* = *HH* & *LL* for high and low similar socioeconomic status matches respectively or *Match* = *HSSL* for dissimilar match (mismatch) between high status staff & low status client or *Match* = *LSHL* for dissimilar match (mismatch) between Low status staff & high status client, *Age* = age of MFI, *Ownership* = ownership type, *creditmethodology* = credit methodology, *mkt* = urban/rural mkt, *GDP* = GDP per capita, *HDI* = Human Development Index, *Inflation* = inflation rate, *MENA* = Middle East and North Africa, *SSA* = Sub Saharan Africa, *LAC* = Latin America & the Caribbean, *SEAP* = South East Asia & the Pacific.

**Note:** Dummy variable for Europe and Central Asia (ECA) is not included to avoid falling prey to the dummy trap.



## **5.5 Test of Assumptions**

In this sub-section, tests are made for the assumptions that satisfy the use of the random effects model. Such as, tests for multicollinearity, heteroskedasticity, autocorrelation and normality.

### **5.5.1 Multicollinearity**

Prior to proceeding to the regression analyses, a test of multicollinearity among the independent variables of the study is performed to establish their suitability. Multicollinearity is a phenomenon used to describe a situation where there is a high correlation between two or more independent variables in a regression model (Sekaran & Bougie,2013). It leads to the unreliability of regression coefficients as they are difficult to estimate hence the need to ensure its absence.

A correlation matrix can be used to test for multicollinearity. Using an indicator of 0.9 to determine the presence of multicollinearity (Hair et al., 2010), table 5.4 shows the correlation matrix. Results show the absence of multicollinearity in the data used for the study thus the suitability of the independent variables in regression analyses. It's observed that the highest correlation of 0.7829 is between GDP per capita and HDI. On the other hand, the lowest correlation of 0.0022 between the high-low staff client match (HSSL) and control variable for age of the MFI.

In addition to that, other common measures to test for multicollinearity are the variance inflation factor(vif) and tolerance value (inverse of vif). Per Sekaran & Bougie (2013), a cut off value of 10 for variance inflation factor and thus 0.10 for tolerance value is employed (table 5.5). Results using the variance inflation factor also indicate the absence of multicollinearity .The highest vif is observed from the control variable HDI at 5.67 closely followed by the dummy variable for Sub-Saharan Africa at 3.90 and GDP at 3.56 following these, the remaining variables have vif values below 3.0.

**Table 5.4: Correlation Matrix**

	HH	LL	LSHL	HSSL	Age	inflat~n	SSA
HH	1.0000						
LL	-0.5417	1.0000					
LSHL	-0.3135	-0.3015	1.0000				
HSSL	-0.3135	-0.3015	-0.1745	1.0000			
Age	-0.0500	-0.0096	0.0825	-0.0022	1.0000		
inflation	0.0075	-0.0308	0.0128	0.0186	-0.0247	1.0000	
SSA	0.1590	-0.2030	-0.1224	0.1786	0.0553	0.0932	1.0000
SECA	-0.1350	0.1467	-0.0067	-0.0067	-0.0221	-0.0582	-0.1994
LAC	-0.0623	0.1056	-0.0353	-0.0215	0.0330	-0.0949	-0.3562
MENA	-0.1063	0.2037	-0.0641	-0.0641	-0.0179	-0.0473	-0.1333
HDI	-0.2853	0.3108	0.1474	-0.1795	-0.0616	-0.1014	-0.7575
GDP	-0.3571	0.3763	0.1669	-0.1871	-0.0408	-0.0966	-0.5452
size	0.3577	-0.1968	-0.1482	-0.0720	-0.0606	-0.0786	-0.1086
ownership	0.1445	-0.0558	-0.0545	-0.0661	-0.0153	0.0568	0.1412
creditmeth~y	0.2839	-0.2189	0.2276	-0.3187	0.0450	-0.0503	-0.2527
mkt	-0.0319	-0.0168	0.0714	-0.0058	0.1438	-0.0880	0.0267
	SECA	LAC	MENA	HDI	GDP	size	owners~p
SECA	1.0000						
LAC	-0.2325	1.0000					
MENA	-0.0870	-0.1554	1.0000				
HDI	-0.0279	0.2031	0.1391	1.0000			
GDP	-0.1108	0.2637	0.1568	0.7829	1.0000		
size	0.0723	-0.0030	0.1494	0.0958	0.0961	1.0000	
ownership	0.0106	-0.0836	-0.0449	-0.1496	-0.1442	0.2214	1.0000
creditmeth~y	-0.0838	0.0298	0.1114	0.2101	0.1825	0.2099	0.1003
mkt	0.0367	-0.0289	-0.0159	-0.0622	-0.0048	-0.0386	-0.0766
	credit~y	mkt					
creditmeth~y	1.0000						
mkt	-0.0343	1.0000					

**Table 5.5: Variance Inflation Factor Results**

Variable	VIF	1/VIF
HDI	5.67	0.176406
SSA	3.90	0.256333
GDP	3.56	0.281189
LL	2.77	0.360599
LSHL	1.74	0.576272
LAC	1.71	0.584291
SECA	1.69	0.591914
HSSL	1.55	0.645452
size	1.51	0.660587
creditmeth~y	1.47	0.682302
MENA	1.32	0.758586
ownership	1.15	0.873170
inflation	1.05	0.949663
mkt	1.05	0.951860
Age	1.05	0.953771
Mean VIF	2.08	

### 5.5.2 Test for Heteroskedasticity

Heteroskedasticity refers to the situation in which the residuals of a regression equation are not constant (Cohen et al.,2013). In simple terms, this means that the error terms vary basing on the value of the independent variables. The authors further state that the presence of heteroskedasticity leads to inaccurate standard errors in a regression model even though the coefficients remain unbiased. Thus, the need to test and correct for it if present.

To test for this, the Breusch -Pagan test for heteroscedasticity is performed in STATA using the *hettest* command. The null hypothesis for the Breusch-Pagan test assumes constant variance. Results for the analysis are presented in table 5.6 below.

**Table 5.6: Results for Breusch-Pagan test for Heteroskedasticity**

<b>Independent Variable</b>	<b>Dependent variables</b>	<b>X<sup>2</sup> Statistic</b>	<b>P-value</b>
<b>HH</b>	Productivity	46.84	<b>0.0000</b>
	Client growth rate	1092.33	<b>0.0000</b>
<b>LL</b>	Productivity	23.94	<b>0.0000</b>
	Client growth rate	1277.25	<b>0.0000</b>
<b>HSLL</b>	Productivity	66.22	<b>0.0000</b>
	Client growth rate	989.08	<b>0.0000</b>
<b>LSHL</b>	Productivity	25.68	<b>0.0000</b>
	Client growth rate	999.95	<b>0.0000</b>

Basing on Breusch-Pagan test, p-values >0.05 imply that we confirm the null hypothesis of constant variance. Models with p-value<0.05 (in bold), reject the null hypothesis hence are subject to heteroskedasticity. Thus, variables for this study indicate the presence of heteroskedasticity. Accordingly, robust standard errors are used when running the regressions in a bid to correct for the biases that arise due to heteroskedasticity (Baltagi, 2008).

### 5.5.3 Test for Autocorrelation

Autocorrelation refers to a situation where the error terms in a regression over time exhibit dependency or are highly correlated. It occurs when data is collected from a single item or

individual or the same sample over time (Cohen et al., 2013). This situation leads to biases in the standard errors hence affecting the efficiency of analysis (Baltagi, 2008).

Autocorrelation is thus tested for based on the Wooldridge test for autocorrelation in STATA with a null hypothesis that there is no first-order autocorrelation. The p-value in bold illustrates the models with autocorrelation thus results indicate the presence of autocorrelation across models with productivity as the dependent variable whereas models inclusive of client growth rate show absence of autocorrelation. Table 5.7 illustrates results for the autocorrelation.

According to Baltagi (2008), autocorrelation is thus corrected for using robust standard errors in the regression.

**Table 5.7: Results from Wooldridge test for autocorrelation**

<b>Independent Variable</b>	<b>Dependent variables</b>	<b>F-statistic</b>	<b>P-value</b>
<b>HH</b>	Productivity	19.237	<b>0.0000</b>
	Client growth rate	3.888	0.0504
<b>LL</b>	Productivity	19.131	<b>0.0000</b>
	Client growth rate	3.883	0.0506
<b>HSL</b>	Productivity	19.237	<b>0.0000</b>
	Client growth rate	3.891	0.0503
<b>LSHL</b>	Productivity	19.177	<b>0.0000</b>
	Client growth rate	3.884	0.0506

#### **5.5.4 Test for Normality**

To test for normality of the different variables used, a graphical method is used. This is employed by entering the *dotplot* command in STATA. Basing on Emerson & Stoto (1983), logarithmic transformations are performed for variables that do not pass the test of normality except for MFI size for which the natural logarithm was obtained as suggested by Hartarska (2005). In appendix I transformations of the variables are shown. Following these transformations, all the variables used in the analysis pass the test for normality.

## **5.6 Chapter Summary**

In summary, the chapter presented detailed information concerning the variables as well as their operationalisations. In addition to that, statistical analyses to be performed are outlined, tests for suitability for random effect as well as multivariate regression models based on random effects presented.

## CHAPTER SIX: PRESENTATION OF FINDINGS

### 6.0 Introduction

This chapter is concerned with the presentation of the findings from the statistical analysis of the data. Firstly, a presentation of the descriptive statistics is made as a basis for understanding the characteristics of the data used for the analysis. Having described the data, results of the univariate analysis for the matches and multivariate regression analysis are presented.

### 6.1 Descriptive Statistics for key variables of the study

Table 6.1 illustrates a summary of statistics used in the study. It presents the number of observations, mean, standard deviations as well as minimum and maximum values for each variable. The largest number of observations among the variables as being 1346 observations and the lowest as 905 observations. The table provides a detailed description of all other variables used in the study.

**Table 6.1: Descriptive Statistics for the study**

Variable	Obs	Mean	Std. Dev.	Min	Max
HH	1,346	0.3603	0.4802	0	1
LL	1,346	0.3425	0.4747	0	1
HSSL	1,346	0.1486	0.3558	0	1
LSHL	1,346	0.1486	0.3558	0	1
Productivity	1,344	122.9041	96.2528	1	1893
CLgrowthrate	905	36.28172	143.5888	-2224.62	1555.5
Age	1,334	2.16891	0.8412	0	7.6058
size	1,346	15.21153	1.3809	10.6605	19.1559
ownership	1,346	0.0334	0.1798	0	1
creditmeth~y	1,346	0.5542	0.4972	0	1
mkt	1,346	0.1449	0.3521	0	1
MENA	1,346	0.0550	0.2280	0	1
LAC	1,346	0.2935	0.4555	0	1
SECA	1,346	0.1152	0.3193	0	1
SSA	1,346	0.2340	0.4235	0	1
ECA	1,346	0.2459	0.4308	0	1
HDI	1326	0.1650	0.1231	0.2660	0.8000
Inflation	1,227	1.6745	0.9088	-3.2068	4.5653

*Where Obs = number of observations, Std. Dev. =Standard deviation, Min =Minimum value, Max = Maximum value, HH & LL for high and low similar socioeconomic status*

matches respectively , *HSSL* for dissimilar match (mismatch) between high social status staff & low social status client, *LSHL* for dissimilar match (mismatch) between Low social status staff & high status client, *Age*=age of MFI, *Ownership* = ownership type, *creditmethodology*=credit methodology, *mkt*= urban/rural mkt, *GDP*= GDP per capita, *HDI* = Human Development Index, *Inflation* = inflation rate, *MENA*=Middle East and North Africa, *SSA* = Sub Saharan Africa, *LAC*= Latin America & the Caribbean, *SEAP*= South East Asia & the Pacific.

## 6.2: Univariate Analysis

To supplement the above descriptive statistics, a univariate analysis is performed to determine the representation of matches across the different performance measures. In addition, the analysis is performed to determine the percentage of similar and dissimilar matches (mismatches) in the dataset hence answering the first research question. This analysis is performed based on the performance dimensions for the study as illustrated in Table 6.2 and includes the number of observations, means and standard deviations across the different matches.

**Table 6.2: Statistics of the MFI Staff-Client Matches**

Summary for Productivity

<b>Match</b>	<b>Mean</b>	<b>Std Dev</b>	<b>Freq</b>	<b>Percentage</b>
<b>HH</b>	4.5793	0.7180	<b>485</b>	<b>70%</b>
<b>LL</b>	4.7492	0.5655	<b>460</b>	
<b>HSSL</b>	5.1674	0.5322	199	30%
<b>LSHL</b>	3.8252	0.7165	200	

Summary for Client Growth rate

<b>Match</b>	<b>Mean</b>	<b>Std Dev</b>	<b>Freq</b>	<b>Percentage</b>
<b>HH</b>	36.9082	118.6321	<b>327</b>	<b>70%</b>
<b>LL</b>	40.8877	192.3031	<b>330</b>	
<b>HSSL</b>	47.8952	112.5164	134	
<b>LSHL</b>	10.3692	29.51540	114	30%

From the univariate analysis, 70% of the observations reveal the existence of matches between staff and clients (that is high-high and low-low staff client matches) and 30% of the results reveal mismatches. Therefore, this shows that microfinance staff match themselves to clients of similar socioeconomic status answering the first research question.

On additional inspection, it is observed that generally, the means of the matches exceed those of the mismatches under both performance measures of productivity and client growth rate. These results tend to suggest that similar matches between staff and clients could better influence performance than the mismatches. However, the results do not indicate whether the influence has statistical significance.

Moreover, when each type of match is observed specifically, it is identified that mismatches between high socioeconomic status staff and low status clients (HSL) have the highest means at 5.1674 and 47.8952 for productivity and client growth rate respectively.

From the univariate analysis, results are unclear as to the exact influence the existence of matches and mismatches have on the performance of microfinance institutions. Therefore, to attain a clearer understanding of this, multivariate analyses are performed controlling for other effects that may impact performance.

### **6.3 Results of the Multivariate Regression Analysis**

This section seeks to identify what type of staff-client socioeconomic match is best for microfinance institution performance. Multivariate regression analyses are performed for both staff productivity and client growth rate and results are presented.

#### **6.3.1 Results at High Socioeconomic Status Staff-Client Match**

Results in table 6.3 show that at the high socioeconomic staff-client similar match (HH) there is a negative significant relationship with productivity. The results inform us that in a more realistic multivariate setting, social aspects in the environment can play a role in influencing the number of credit clients served per staff. The results indicate a negative performance associated with a high socioeconomic match contrary to our assumptions of positive performance nevertheless, the presence of a high significance at 1% emphasises the extent of the influence. Thus, results indicate that matching MFI staff and clients at similar high socioeconomic status has a negative influence on staff productivity of an MFI.



**Table 6.3: Results for High Socioeconomic Staff Client Match**

	Productivity	CLgrowthrate
HH	-0.138 (2.60)***	-47.883 (2.96)***
size	0.138 (4.83)***	32.629 (4.34)***
ownership	-0.201 (1.21)	46.280 (0.76)
Creditmethodology	-0.545 (6.95)***	-10.302 (1.12)
mkt	0.178 (1.77)	1.445 (0.16)
Age	0.066 (1.41)	-2.713 (0.48)
Inflation	0.012 (0.68)	5.075 (0.94)
GDP	-0.000 (1.68)	0.000 (0.33)
HDI	0.465 (1.17)	-181.401 (2.57)**
MENA	0.166 (0.92)	5.711 (0.31)
LAC	0.233 (2.43)**	-5.220 (0.72)
SECA	0.019 (0.15)	-9.501 (0.54)
SSA	0.302 (1.99)**	24.220 (1.15)
_cons	2.316 (5.59)***	-340.686 (3.03)***
$R^2$	0.2808	0.1125
$F/WaldX^2$ statistic	135.82***	65.90***
$N$	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

Considering the client growth rate, a negative significant relationship between the high socioeconomic status match and client growth rate is observed. These results are also contrary to hypothesis 1(a) which assumes positive performance of MFIs when the staff and client of the same socioeconomic status are matched. Thus, the results suggest that a high socioeconomic status match leads to a decrease in the rate at which the MFI receives new clients.

The existence of such significant negative results across the two performance dimensions of the study seem to emphasise the influence of staff-client high social status matches. Even though earlier analysis confirm that staff of a particular socioeconomic status tend to associate

with those of similar status, findings at this match suggest that the outcome of this association is not good for matches involving high social status MFI staff. In summary, when staff of a high socioeconomic status are matched with similar high social status clients, the productivity and client growth rate tends to decline indicating poor performance of a microfinance institution.

### 6.3.2 Results at Low socioeconomic status Staff-Client Match

Table 6.4 presents results of the regression analysis for the relationship between staff-client low socioeconomic match (LL) and the respective performance measures used in this study.

**Table 6.4: Results for Low socioeconomic status staff-client match**

	Productivity	CLgrowthrate
LL	0.148 (2.48)**	43.957 (2.56)**
size	0.135 (4.65)***	31.032 (4.30)***
ownership	-0.201 (1.09)	38.455 (0.61)
Creditmethodology	-0.542 (7.08)***	-12.339 (1.23)
mkt	0.183 (1.73)	2.313 (0.27)
Age	0.066 (1.43)	-2.145 (0.37)
Inflation	0.012 (0.67)	5.731 (1.04)
GDP	-0.000 (1.77)	0.001 (0.42)
HDI	0.466 (1.19)	-182.317 (2.52)**
MENA	0.131 (0.75)	-0.458 (0.02)
LAC	0.217 (2.31)**	-7.822 (0.99)
SECA	0.004 (0.03)	-9.891 (0.58)
SSA	0.292 (1.94)	25.219 (1.21)
_cons	2.286 (5.42)***	-349.436 (3.05)***
$R^2$	0.2894	0.1118
$F/Wald$	209.74***	66.36 ***
$X^2$ statistic		
$N$	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

From table 6.4, matching staff and clients of the same low socioeconomic status reveals a positive significant relationship with staff productivity at 5% significance level. These results agree with findings of the univariate analysis performed in section 6.2 implying that such positive findings hold regardless of inclusion of control effects. Furthermore, these results confirm hypothesis 1(a) which assumes similar matches lead to positive performance. Therefore, a low socioeconomic status match between staff and clients leads to a positive influence in performance of the MFI in terms of more credit clients served per staff.

On the other hand, the client growth rate is also observed to have a positive significant relationship with the low socioeconomic status match. This suggests that when MFI staff of low socioeconomic status are placed in a market characterised by potential low social status clients, they are able to win over new clients to the microfinance institution. Consequently, increasing the rate at which new clients join the microfinance institution.

One can therefore denote that when MFI staff and clients of similar low socioeconomic status are matched together, the performance of an MFI is better confirming hypothesis 1(a). Rationalization for this could lie in the ease with which the low status MFI staff can relate to the plight of the potential clients. Moreover, being ambassadors for the MFI institutions then becomes an easier job for the staff to perform as convincing the potential clients becomes easier. The ability to do this may come from unconscious behaviour of the staff such as being welcoming and encouraging towards the clients. Hence, serving as a motivation for more clients to join the MFI and increasing the number of clients served by the staff.

### **6.3.3 Results at Socioeconomic Mismatch: High SES Staff-Low SES clients**

The next table 6.5 presented shows how a mismatch consisting of high socioeconomic status staff and low socioeconomic status clients (HSLL), influences the productivity and client growth rate of an MFI.

**Table 6.5: Results for High -Low Staff Client Socioeconomic Match**

	Productivity	CLgrowthrate
HSLL	0.197 (3.40)***	2.208 (0.17)
Size	0.123 (4.28)***	26.462 (4.28)***
ownership	-0.225 (1.42)	49.708 (0.79)
Creditmethodology	-0.538 (7.01)***	-21.448 (1.71)*
Mkt	0.168 (1.77)	0.840 (0.09)
Age	0.063 (1.37)	-2.429 (0.40)
Inflation	0.013 (0.69)	5.929 (1.04)
GDP	-0.000 (1.25)	0.002 (1.44)
HDI	0.554 (1.43)	-125.047 (1.84)*
MENA	0.236 (1.31)	30.891 (2.27)**
LAC	0.232 (2.42)**	-1.040 (0.15)
SECA	0.066 (0.53)	9.365 (0.59)
SSA	0.303 (2.01)**	37.896 (1.52)
_cons	2.373 (5.78)***	-312.846 (2.93)***
$R^2$	0.2940	0.0984
<i>F/WaldX<sup>2</sup> statistic</i>	156.92***	77.66***
<i>N</i>	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

From the results, a positive significant relationship is observed between the high-low socioeconomic staff-client mismatch and productivity. The results suggest that this kind of mismatch leads to more clients served per MFI staff hence rejecting hypothesis 1(b) which suggests a negative performance associated with socioeconomic staff-client mismatches. Although, there is less preference for MFI staff-client socioeconomic mismatches, the existence of a significant positive influence is thought-provoking in terms of rationalization for this contrary behaviour. It can be denoted that high status serve more clients when they are matched

with those of a lower social status. Moreover, it also seems to suggest that high social status staff could be more engaging and motivated towards serving clients with less who are in greater need in comparison to themselves.

Contrary to this, results from table 6.5 reveal that the high-low socioeconomic mismatch has no significant influence on the client growth rate of an MFI. However, the existence of a positive coefficient indicates a positive relationship between the client growth rate and this type of mismatch suggests a potentially good performance. It can therefore be denoted that socioeconomic mismatches involving staff of a high social status and clients of lower status lead to favourable performance of MFIs.

#### **6.3.4 Results at Socioeconomic mismatch: Low SES Staff-High SES Clients**

From table 6.6 when there is a mismatch between MFI staff of a low socioeconomic status and clients of a higher status (LSHL), a negative significant relationship with productivity is observed. The existence of this significant relationship signifies the extent to which this type of mismatch affects the productivity of an MFI. Basically, it implies that the productivity of low socioeconomic staff is more easily negatively influenced when there is a mismatch with wealthier clients. Hence, a decline in performance leading to acceptance of the research hypothesis 1(b).

As a further matter, results generally show a lack of significant influence on client growth rate at the low-high status mismatch of staff and clients respectively. Nevertheless, client growth rate has a negative coefficient implying a potentially negative influence on performance.

Generally, the negative influence of this type of staff-client socioeconomic mismatch on performance could be explained by the assumed drawbacks associated with dissimilarities as opposed to individual social similarities such as the likelihood of ineffective communication and difficulty building trust. These tend to hinder the development of strong interpersonal relationships and thus could provide basis for the poor performance associated with this socioeconomic mismatch. Additionally, as is human tendency, MFI staff of lower social status may view the wealthier potential clients as being able to better solve their financial needs, consequently failing to give them sufficient attention.

**Table 6.6: Results for Low-High Staff Client Socioeconomic Match**

	Productivity	CLgrowthrate
LSHL	-0.195 (4.14)***	-4.545 (0.76)
size	0.117 (4.09)***	26.314 (4.27)***
ownership	-0.227 (1.26)	49.215 (0.79)
creditmethodology	0.539 (7.27)***	-21.11 (1.74)
mkt	0.175 (1.70)*	1.029 (0.11)
Age	0.063 (1.39)	-2.348 (0.39)
Inflation	0.012 (0.66)	5.989 (1.05)
GDP	-0.000 (1.35)	0.002 (1.48)
HDI	0.565 (1.47)	-125.099 (1.83)
MENA	0.194 (1.13)	30.146 (2.26)**
LAC	0.212 (2.25)**	-1.451 (0.20)
SECA	0.050 (0.42)	9.201 (0.58)
SSA	0.291 (1.95)*	37.767 (1.53)
cons	2.541 (6.10)***	-309.977 (2.85)***
$R^2$	0.3056	0.0984
$F/WaldX^2$ statistic	156.39***	70.39***
$N$	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

Therefore, it is established that lower status staff do not perform as well when matched with clients of dissimilar high social status. These results could have great implications for the allocation of lower social status MFI staff to potential markets.

### 6.3.5 Summary of Multivariate Results.

This subsection, provides a brief account of the above-mentioned results on the influence of the different socioeconomic matches and mismatches on the performance of an MFI. Table 6.7 provides a summary of the findings from the multivariate regression analysis.

**Table 6.7: Summary of Multivariate Results**

INDEPENDENT VARIABLES	DEPENDENT VARIABLES	
	Productivity	Client Growth rate
<b>HH</b>	Negative significant <b>Falsifies hypothesis</b>	Negative significant <b>Falsifies hypothesis</b>
<b>LL</b>	Positive significant <b>Confirms Hypothesis</b>	Positive significant <b>Confirms Hypothesis</b>
<b>HSL</b>	Positive significant <b>Falsifies Hypothesis</b>	Positive not significant
<b>LSH</b>	Negative significant <b>Confirms Hypothesis</b>	Negative not significant

In all, the results of the multivariate regression analyses tell us that matching of staff and clients across socio-economic status influences performance. It is observed that the productivity is influenced across the various matches unlike the client growth rate which exhibits a lack of significance at the dissimilar matches, nevertheless, the existence of a relationship is noted.

Additionally, the results show falsification of the hypothesis when the MFI staff are of a high socioeconomic status as opposed to when they are of low socioeconomic status where there is confirmation of the hypothesis.

**6.4 Results for Socioeconomic Matches at the Top and Bottom 25% quartile**

To determine how strong the influence is for matches at the extremes of the different socioeconomic status, analyses are performed at the top and bottom quartile matches. Quartiles are obtained by dividing the data into four equal parts where each part consists a quarter of the data. They consist of three points that is; the top 25% quartile (upper quartile), the median and the bottom 25% quartile (lower quartile). The median is the mid-point of the data, the upper quartile consists of the highest 25% of the data and the lower quartile consists of the lowest 25% of the data.

A summary of the results shows a significant negative influence on productivity and client growth rate at the top 25% quartile similarity match (**Table 6.8**). suggesting a positive

performance. In addition, the  $X^2$  is relatively high across the various models under this upper quartile socioeconomic match (see Appendix I for detailed results of the analysis).

On the other hand, results of the bottom 25% quartile show a positive significant relationship with productivity and client growth rate confirming the assumption of good performance at low socioeconomic status similarity match (Appendix II).

**Table 6.8: Summary of Results for at the Upper and Lower Quartile Socioeconomic Matches**

INDEPENDENT VARIABLES	DEPENDENT VARIABLES	
	Productivity	Client Growth rate
Upper quartile match	Negative significant <b>Falsifies hypothesis</b>	Negative significant <b>Falsifies hypothesis</b>
Lower quartile match	Positive significant <b>Confirms Hypothesis</b>	Positive significant <b>Confirms Hypothesis</b>

The results of regression analyses for matches at the upper and lower quartiles appear to be consistent with those obtained at the higher and lower socioeconomic status matches in subsection 6.3. Therefore, further emphasizing the influence that the different socioeconomic staff-client matches have on MFI performance in terms of productivity and the client growth rate.

However, it should be noted that the results of how the mismatches for staff-clients at the lower socioeconomic status quartile and at the upper status quartile influence performance are not included to avoid collinearity.

**6.5: Chapter Summary**

In this chapter, presentations of the results were made. Firstly, univariate analyses reveal that to a great extent, MFIs tend to match their staff and clients according to similar socioeconomic status.

Secondly, staff-client matches involving staff of low socioeconomic status confirm the hypothesis with better performance at the similarity matches (low social status staff and low status clients) and poorer performance at the mismatches (low social status staff and high status clients).



On the contrary, staff-client matches involving high status staff falsify the hypothesis with a good performance revealed for mismatches (high social status staff and low status clients) and a poor performance for similar matches (high social status staff and high status clients).

Furthermore, analysis of the quartiles reveal equally interesting results as they provide similar results as the aforementioned, that the upper similar quartile match suggests poor performance and the lower quartile matches suggest better performance of the microfinance institution in terms of productivity and client growth rate. In the next section, discussion and possible explanation for the results is done.

# **CHAPTER SEVEN: DISCUSSION OF RESULTS**

## **7.0 Introduction**

This chapter provides a discussion of the results presented in the previous chapter. In addition, possible explanations for the findings are presented. Discussion of results is based on abstractions from different fields other than microfinance but still hold relevant for the microfinance industry.

## **7.1 Staff-Client Socioeconomic Matches in Microfinance**

To answer the first research question, results indicate that microfinance staff match themselves to the clients. The highest percentage, that is 70% of matches being between staff and clients of similar socioeconomic status while 30% is between staff-client socioeconomic mismatches. The matching of a firm's staff and clients has been advocated for by some scholars from the personnel field (Morrison,1992; Cox& Blake,1991) in a bid for firms to achieve competitive advantage in the markets that they operate. From a microfinance perspective, this matching can be viewed to ease the relationship between microfinance staff and clients with varying financial needs (Christen,2011). Furthermore, the existence of high similar matches as opposed to the mismatches can be viewed to illustrate the assertion based on the similarity-attractiveness paradigm. That is, individuals tend to associate easily with those they share similarities.

Evidence of this has also been found in other fields characterised by dyadic roles. In the sales field, Dwyer et al. (1998) found that sales personnel tend to match themselves to potential clients with whom they share similarities. Also, studies in the banking industry find that banking officers tend to prefer association with customers of similar social background (Fisman et al.,2011). As such, from results showing the existence of such matches in the microfinance industry, it can be asserted that MFI staff match themselves to clients of similar socioeconomic status.

## **7.2 Influence of Staff-Client Socioeconomic Matches on Microfinance Performance**

Acknowledging that microfinance staff match themselves to clients is not merely enough. Thus, understanding how the various staff-client matches impact performance becomes of great importance in this study on microfinance institutions. Herein lies the second research question. Following this, regression analyses are performed considering the different similarities and dissimilarities to establish the outcome.

### **7.2.1 Staff-Client Matches Involving Low Socioeconomic Status Staff**

Results show support for hypothesis 1(a) and (b) when considering matches and mismatches involving MFI staff of low socioeconomic status. Moreover, unexpected results are found for matches and mismatches involving high socioeconomic status MFI staff.

Firstly, results at the low socioeconomic status similar staff-client matches (LL) reveal increase in productivity and the client growth rate. This outcome confirms the hypothesis of good performance when MFI staff are matched with clients of similar socioeconomic status. Therefore, it can be said that MFI staff of low socioeconomic status tend to be attracted to similar low status clients and establish strong interpersonal relationships with them reflected through the performance. These results are supported by evidence found in fields other than microfinance that are likewise characterised by this kind of relationship. For instance, studies in the sales field suggested that the performance of sales staff in terms of effectiveness increases when social similarities exist between the two interacting parties (Crosby et al.,1990).

In addition, evidence of findings associated with similarity matches exist in the field of prosocial lending where it was found that lenders give loans to similar borrowers (Galak et al.,2011). The act of lending is viewed as a positive outcome of matching similar individuals. A closely related industry to microfinance that is, the banking industry also provides evidence of good performance when similar individuals are matched. Fisman et al. (2011) found that branches where banking officers were matched to similar clients exhibited better performance in contrast to those that did not match. This positive performance is purported to result from increased trust and better communication between individuals when they share similarities across certain social dimensions (Fisman et al.,2011; Rai et al., 2009; Smith, 1998). Thus, such psychological implications associated with similarities could be used to rationalize the existence of favourable MFI performance.

Therefore, findings of this research study at similar low social status match between staff and clients appear to agree with our stated hypothesis 1(a) of good performance and can be related to evidence from other fields.

Secondly, where low socioeconomic status staff are matched with high status clients(LSHL), results show a negative significant influence on performance of a microfinance institution. This finding seems to agree with stated hypothesis 1(b) which suggests a negative performance when matches between the staff and client are dissimilar. The justification for this could be a

perceived lack of trust and difficulty in communication when individuals of different socioeconomic status are required to associate with each other contrary to the similarity matches.

Evidence of this was found in studies by Evans (1963) who examined the aspect of staff-client similarity with regards to salesmen of life insurance. He found that dissimilar staff-client pairs performed lower when compared to the similar ones. Furthermore, he implied that there was a less likelihood for a sale when the sales staff and clients were different in terms of factors such as social status as opposed to when they were alike. Empirical support for the less than favourable performance of microfinance institutions found in this research study is therefore evidenced in the Evans (1963) study. To supplement on that, Churchill, Collins & Strang (1975) found that there were less favourable performance outcomes when dissimilarities existed between the sales staff and the clients. It was suggested that these dissimilar associations hindered less effective interactions between the two parties further hampering good outcomes. Besides that, comparable evidence was also found in a banking situation where bank branches characterised by staff-client matches outperformed those with mismatches (Fisman et al.,2011).

The findings of this research study with empirical evidence from closely related fields, further emphasise the assumptions of good microfinance performance when there are socioeconomic staff-client matches and poor performance when there are mismatches in MFIs with low social status staff. Except for a study that seems to suggest that social similarities could affect microfinance performance (Lapie et al.,2015), to the best of my knowledge, there is hardly any empirical evidence in the microfinance industry with regards to this matching aspect. Nevertheless, results of this study appear to have managerial implications with regards to staff-client matching at the low socioeconomic status for microfinance institutions due to the positive outcome they give when there are similarities.

### **7.2.2 Staff-Client Matches Involving High Status Staff**

Matches or mismatches involving microfinance staff of high social status give unexpected results when considering their influence on performance of microfinance institutions.

Despite the existence of matches between high socioeconomic status staff and high status microfinance clients (HH), unexpected results are obtained that indicate a decline in productivity and client growth rate implying a less than good microfinance performance. These results disagree with the presumption of better performance associated with similarities. Thus,

findings are contrary to hypothesis 1(a). Moreover, mismatches between high social status staff and low status clients (HSLL) indicate better performance, contrary to assumptions of negative performance in hypothesis 1(b). Such findings are not without precedence.

Firstly, Dwyer & Shepherd (1998), found a tendency for staff to perform better when associated with dissimilar clients as opposed to similar matches in the sales field. Moreover, it is in considering findings such as these that some scholars have provided less support for similarity matching of staff and clients. For instance, Brief & Hayes (1997) as cited by Dwyer & Shepherd (1998) suggested that the matching of staff and clients based on similarity could be a form of discrimination that prevents certain client groups from being served. Drawing from this, it is a likely explanation for why similar high socioeconomic matches between MFI staff and clients yield a negative performance in terms of the number of clients served per staff. It is possible that when high social status MFI staff are matched to equally wealthy clients, they limit the number of clients served if majority of potential clients are less wealthy hence negatively affecting the MFI performance.

Secondly, the divergent findings in this study concerning high social status staff emphasise the likelihood of differences in behavioural tendencies between high socioeconomic status staff and low socioeconomic status staff. That is, upward socioeconomic similarity matches (or mismatches) have a different psychological meaning than downward socioeconomic matches. Support for this reasoning has been found in certain studies. For instance, Kraus, Mendoza-Denton, Rheinschmidt & Keltner (2012) in a study on social classes, hypothesise that higher status individuals differ from low status ones across various psychological dimensions. The authors confer that lower status individuals define themselves in terms of their social connections whereas the upper status individuals consider themselves to be unique and separate from others. Thus, upper status individuals tend to behave contrary to lower social status individuals when matched with similar others. Following this, rationalization for the divergent results of the research study can be attained particularly for poor performance when there are matches between high socioeconomic status staff and clients of the same high social status. It is probable that the high socioeconomic status staff may not offer sufficient guidance to similar others for instance in terms of overcoming their reluctance to participate in microfinance activities through offering encouragement. They may view the financial needs of the higher socioeconomic status clients as less dire than those of lower socioeconomic status.

Consequently, the favourable performance outcomes from mismatches of high social status MFI staff and low status clients could be considered an illustration of paternalistic character. The high socioeconomic status staff may be viewed as being more helpful and understanding of the plight of the low status clients suggesting a tendency to be more motivated by the mission of the MFI (Ghatak & Besley,2005) in terms of serving the least fortunate clients. Therefore, despite the tendency for high status staff to match themselves to similar high status clients, the performance outcome is found to be better when they are matched with dissimilar low status clients as opposed to those from the same high socioeconomic status.

This study seems to suggest that different socioeconomic matches may have differing outcomes when considering how social similarities (or the lack thereof) in interpersonal relationships influence performance as opposed to other social dimensions. Furthermore, the above discussion holds for results under staff-client matches at the upper and lower quartiles of socioeconomic status.

### **7.3 Chapter Summary**

In sum, microfinance institutions seem to be characterised by staff-client matches based on socioeconomic status. In addition, microfinance performance differs across the various matches owing to the differences in staff behaviour at their respective socioeconomic classes. Good microfinance performance is exhibited between lower status staff-client matches and high status-low status staff client matches. On the other hand, poor performance is exhibited between the high social status staff-client matches and low status-high status staff-client matches. Notice is made of the fact these findings are consistent with those of the upper and lower quartile matches. From the discussion, the different findings have empirical and theoretical support.

## **CHAPTER EIGHT: CONCLUSIONS, IMPLICATIONS, LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

### **8.0 Introduction**

The microfinance industry has been acknowledged as significant in poverty alleviation globally. Considering this, understanding what drives the performance of microfinance institutions has become of utmost importance in the world today. Studies have shown that microfinance staff play a critical role in mediating the relationship between the clients and the microfinance institutions as such, influence microfinance performance. In this study, an examination of how socioeconomic status matches between MFI staff and their clients influence MFI performance was carried out.

The main objective of this research study was to answer two research questions. Firstly, it was concerned with establishing whether microfinance institutions match their staff and clients based on socioeconomic status. Following this, the second research question sought to establish the impact of these matches on microfinance performance. Moreover, the hypothesis for the study is based on the similarity-attractiveness paradigm implying that microfinance staff are attracted to clients of same socioeconomic status. Thus, a better performance was expected where there were similar staff-client socioeconomic matches as opposed to mismatches. Specifically, microfinance performance was measured in terms of the staff productivity and the client growth rate. Univariate analysis and multivariate regression analysis was used in the analysis of the data. Findings of the study contribute to filling the gap in literature on microfinance staff and their influence on microfinance performance.

In this chapter, the summary of findings, conclusion, implications, limitations and recommendations for future research in the Microfinance Industry are presented.

### **8.1 Summary of Findings and Conclusion**

Firstly, the characteristics of the data indicate that microfinance institutions exhibit matching between the staff and clients with a 70% indicating similarity matches and 30% indicating dissimilar matches.

Secondly, to determine the impact of these different matches on performance, significant mixed results are presented. Some results support the general assumption that similarity produces good performance and dissimilarity negatively influences performance and others are not in support. That is, low socioeconomic status individuals tend to exhibit support for the hypothesis whereas

the high social status staff do not. Low status staff when matched with low status clients impact performance positively and when there is a mismatch with high status clients have a negative influence on performance. On the other hand, matches between high socioeconomic status staff and similarly high status clients reveal negative performance as opposed to when there are mismatches of high social status staff and low status clients where a positive performance is found.

To conclude, the research study finds that socioeconomic matches exist between the microfinance staff and clients and that upper socioeconomic similarity has a different psychological meaning than at the downward level implying that some matches are good for performance whereas others are not.

## **8.2 Implications**

Considering that some management practices advocate for similarity matching of staff and clients in a bid to facilitate the positive performance of a firm, results of this study show that this may not always be the case. Of interest, are the matches involving MFI staff of high socioeconomic status whose results are contrary to expectations. Findings show that their behaviour seems to differ from that of low socioeconomic staff when presented in situations of similarity and dissimilarity with clients.

This study on socioeconomic matching of staff and clients has important implications for the management of microfinance institutions as it brings to light the likely influence of similarities or dissimilarities between staff and clients. During the hiring process of potential microfinance staff, managers should pay considerable attention to the social aspects that the staff possess. Furthermore, managerial consideration should be made concerning the allocation of staff to certain territories or markets to ensure that the most favourable match is made between the staff and potential clients. This would help ensure microfinance objectives are met while taking into consideration possible social influences on the microfinance staff. That is, it would be easier to predict possible behaviour and attitude of staff in a bid to ensure good MFI performance.

To supplement on that, the study may have managerial implications in terms of remuneration to microfinance staff. Depending on the influence the different matches may have on microfinance performance, careful examination of salaries paid to MFI staff should be made as it determines the socioeconomic status of the staff.



Finally, this study has implications for other stakeholders of the microfinance industry such as researchers and policy makers as it emphasises the role and behaviour that microfinance staff have in influencing the performance of microfinance institutions as determined by social constructs.

### **8.3 Limitations of the Research Study**

Like various research studies, this research study exhibited certain limitations.

The main limitation arose from the difficulty in acquiring staff-client matching data. As such, the socioeconomic dimension was measured in terms of income only. This may be viewed as limiting the extent of robustness in studying the influence of the socioeconomic matches. In addition to that, the research didn't involve the direct collection of dyadic data but rather obtaining information on staff-client matches based on observations across various time periods per MFI.

Furthermore, the research analysis involved socioeconomic categories as opposed to continuous data. Some may consider these as obscuring certain relationships that could exist.

Thus, caution could be exercised in extending the results of this study to other studies due to the above-mentioned limitations.

### **8.4 Recommendations for future research**

Firstly, a major recommendation involves solving the limitations associated with this study particularly in terms of the dyadic nature of the data. This may be performed through the collection of primary qualitative dyadic data on MFI staff and clients to obtain a clearer perspective of the staff behaviour.

Furthermore, future studies could consider more elements of socioeconomic status in addition to income such as education of the staff and client. Also, other social characteristics such as gender, age and education that may differentiate MFI staff from their clients can also be studied to obtain a general understanding of the effect of staff-client social matches on microfinance performance.

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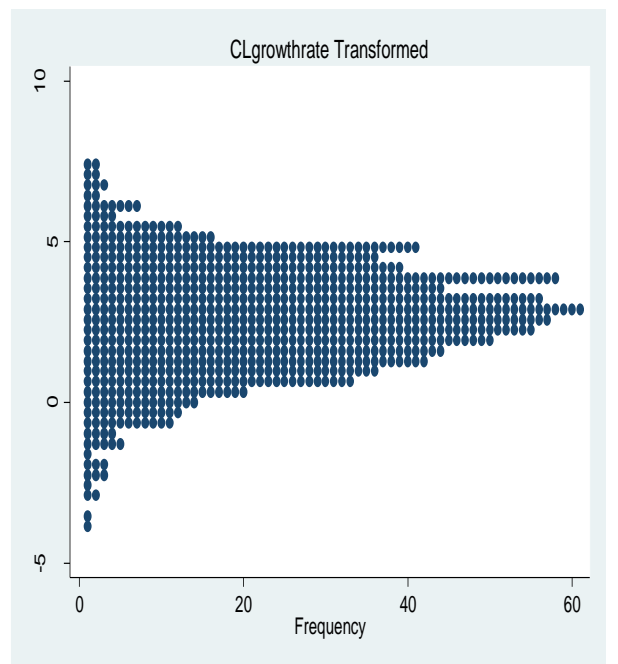
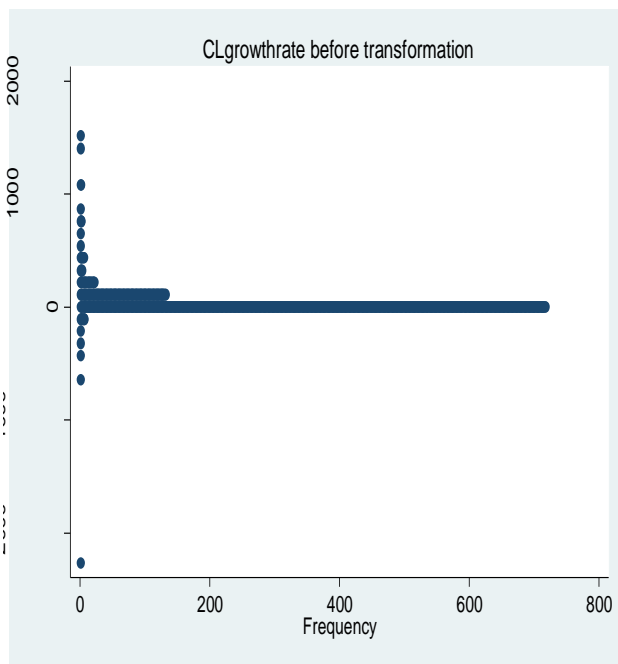
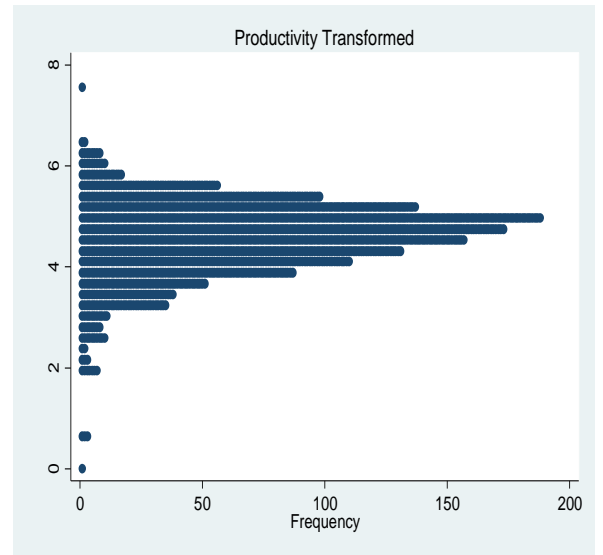
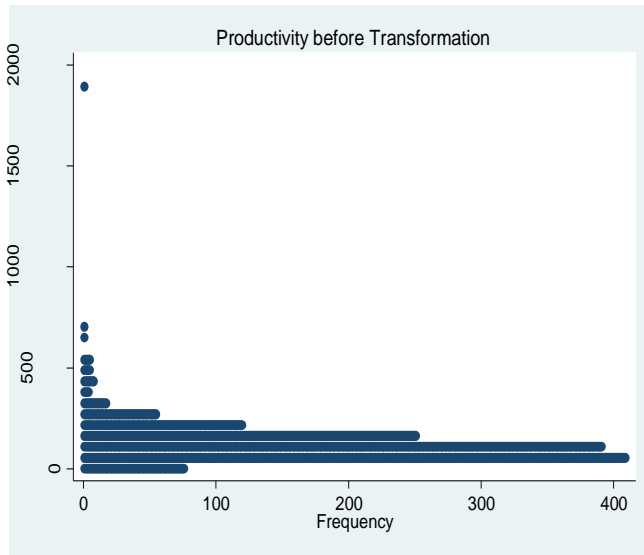
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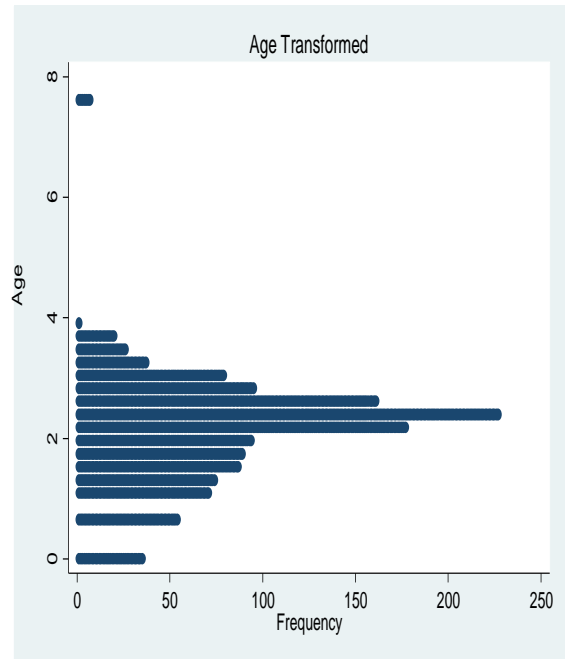
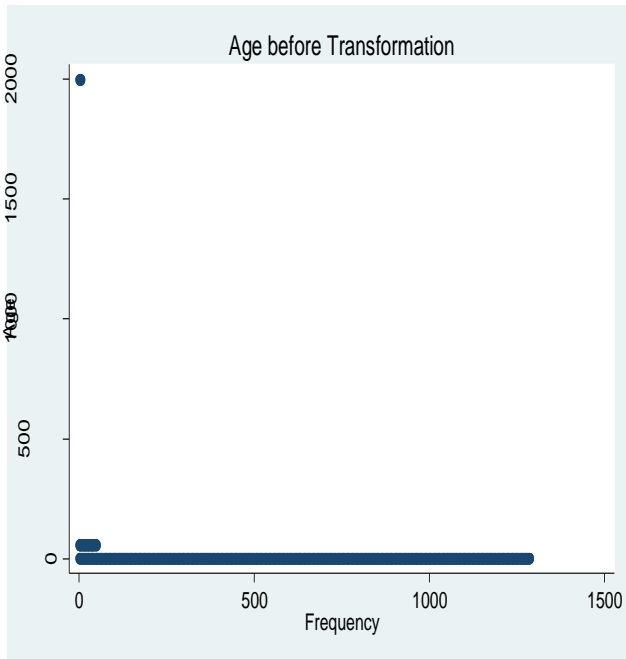
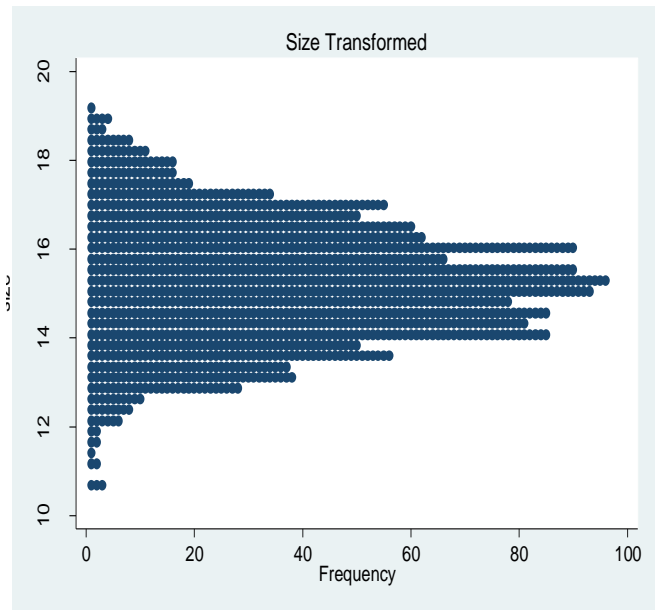
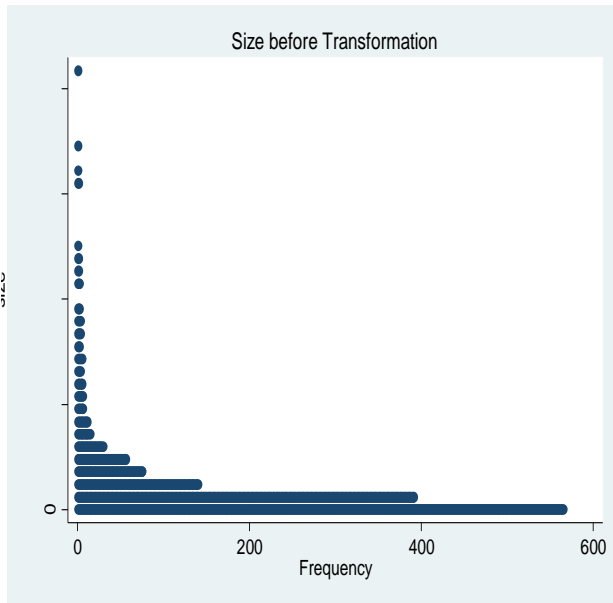
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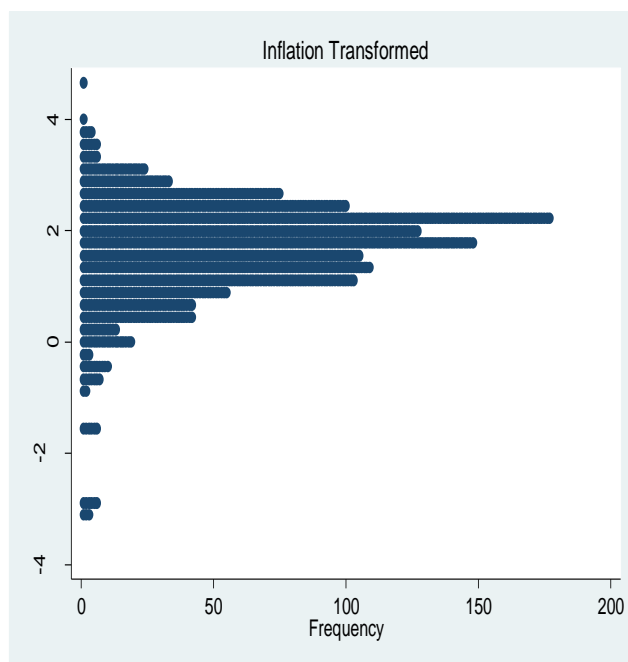
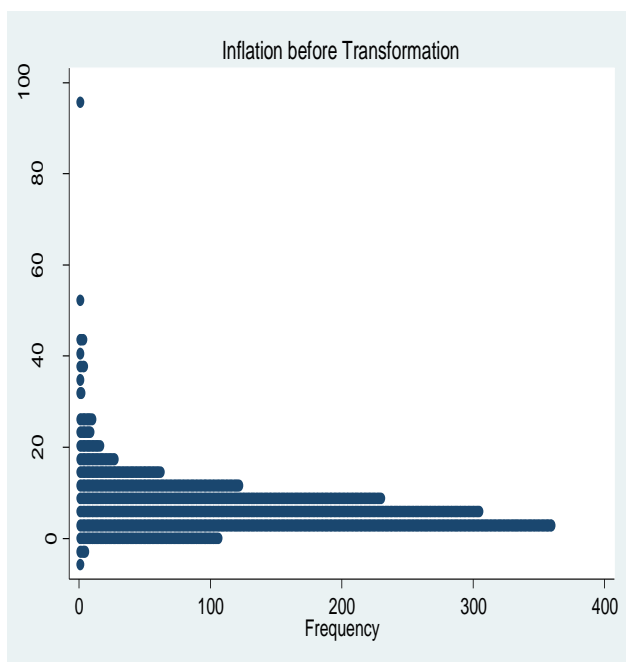
# APPENDICES

## APPENDIX I: Transformation of Variables of the Study









## Appendix II: Results for Socioeconomic Matches at the Top 25% Quartile

	Productivity	CLgrowthrate
Upper quartile match	-0.335	-34.838
size	(3.66)*** 0.142	(1.88)* 28.750
ownership	(4.69)*** -0.148	(6.66)*** 57.264
creditmethodology	(0.97) -0.544	(1.86) -18.256
mkt	(7.58)*** 0.173	(1.68) -0.528
Age	(1.62) 0.060	(0.04) -3.091
Inflation	(1.27) 0.012	(0.47) 5.004
GDP	(0.67) -0.000	(0.85) 0.002
HDI	(1.37) -0.025	(1.03) -160.487
MENA	(0.05) 0.176	(1.63) 25.945
LAC	(0.95) 0.230	(1.06) -0.676
SECA	(2.37)** -0.004	(0.05) 5.335

	(0.03)	(0.29)
SSA	0.269	37.331
	(1.73)	(1.63)
_cons	2.548	-318.585
	(5.99)***	(3.79)***
$R^2$	0.2952	0.1023
<i>F/Wald <math>X^2</math> statistic</i>	134.25***	91.28***
<i>N</i>	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

### APPENDIX III: Results for Socioeconomic Matches at the lower 25% quartile

	Productivity	CLgrowthrate
Lower quartile match	0.094	51.810
	(1.82)*	(3.38)***
size	0.128	28.353
	(4.32)***	(6.81)***
ownership	-0.198	47.623
	(1.13)	(1.57)
creditmethodology	-0.559	-16.279
	(7.21)***	(1.51)
mkt	0.181	-2.009
	(1.67)	(0.15)
Age	0.064	-1.817
	(1.39)	(0.28)
Inflation	0.012	5.154
	(0.69)	(0.88)
GDP	-0.000	0.001
	(1.60)	(0.58)
HDI	0.574	-130.388
	(1.46)	(1.35)
MENA	0.186	6.478
	(1.02)	(0.26)
LAC	0.233	-4.961
	(2.40)**	(0.38)
SECA	0.026	-11.307
	(0.20)	(0.58)
SSA	0.303	34.151
	(1.96)*	(1.50)
_cons	2.360	-335.420
	(5.55)***	(4.00)***
$R^2$	0.2698	0.1110
<i>F/Wald <math>X^2</math> statistic</i>	120.99***	100***
<i>N</i>	1,210	815

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

## **APPENDIX IV: REFLECTIVE NOTE**

### **1.0 Introduction**

In this section, a summary of the findings is presented. In addition, presentation is made on aspects of internationalization, innovation and responsibility based on my thesis.

### **2.0 Summary of Findings**

The purpose of this study is to determine whether socioeconomic staff-client matches exist in microfinance institutions and how these matches influence microfinance performance. In this thesis, the income aspect of the socioeconomic status is investigated. With salary per staff and average loan size per client as proxies for socioeconomic status, univariate and multivariate analyses are performed to answer the research questions.

Firstly, results of the univariate analysis indicate that microfinance institutions have socioeconomic staff-client matches. Following this, the multivariate analyses show that the matches influence microfinance performance. However, it is established that the upper and lower status staff tend to behave differently such that lower status staff appear to agree with hypothesis of positive performance when matched with similar clients while the outcome is contrary when considering high social status staff. On the other hand, when low social staff are matched with dissimilar clients (i.e high status) a negative performance is obtained whereas a positive performance is found when there is a mismatch between high social status MFI staff and clients of lower social status.

Results of the study are relevant to the microfinance industry as they have managerial and policy implications.

### **3.0 Internationalization**

Having established the fact that microfinance is a rapidly growing industry, it has been affected by quite a few international trends over the years since its birth in the 1970s. For purposes of my study, I shall focus on the aspect of the increased drive to commercialization that is ongoing across various microfinance institutions in the world and how it can be linked to this research study.

In simple terms, commercialization involves the shift of microfinance institutions from being completely non-profit oriented to being concerned with achievement of profits to remain

sustainable and may also involve the shift from non-shareholder ownership to shareholder ownership.

A vast number of MFIs have adopted this concept in a bid to benefit from the purported outcomes associated with commercialization. However, there have been some conflicting views on the aim of commercialization with some considering it a means of driving MFIs away from their mission of poverty alleviation in a bid to remain profitable.

In relation to this research study, commercialization may be considered to increase pressures on microfinance staff in a bid to ensure financial sustainability. Having established the major role that staff play in achieving MFI objectives, this growing trend may force MFI staff to seek out clients of a high socioeconomic status and leave out the poorer clients when extending credit services. In acting like this, the staff can be viewed as hampering the depth of outreach in terms of the extent to which the poor clients are reached. Commercialization may therefore be viewed as an influence on MFI staff behaviour hence affecting the achievement of microfinance objective of extending financial services to the less fortunate.

Following this, microfinance institutions in adopting such global trends as commercialization should exercise caution and consider the possible influence this could have on the behaviour of staff, hence the performance.

#### **4.0 Innovation**

Considering the nature of microfinance activities, a high level of interaction between MFI staff and their clients is of utmost importance in achieving MFI objectives. This is mainly due to the need to obtain an understanding of the clients' credit worthiness as well as the needs and any additional information pertaining to the various clients. Furthermore, microfinance serves a variety of clients ranging from the rural poor to the urban poor hence establishing a relationship is utmost importance. Moreover, it has been found that MFI staff tend to behave in ways that may hinder the achievement of some of these objectives.

Extending this to this research paper, it has been established that social aspects could play a role in influencing the performance of a microfinance institution in achieving its objective. Specifically, the study considers how socioeconomic staff-client matching influences MFI performance from a staff perspective.

As part of innovation in microfinance, staff-client matching could be considered a concept to adopt as part of an MFI's human resource strategy to enhance the performance of MFI staff.

Adopting this concept could involve considering various characteristics of staff in the selection process in a bid to match them with the various categories of clients that an MFI has. Such characteristics may be based on various social dimensions such as gender, religion, ethnicity to ensure that a suitable relationship can easily be developed between the staff and clients based on such similarities.

This strategy of staff-client matching has precedence in other fields such as the sales field and has been documented in some organisational literature as a potentially suitable tool. Nevertheless, to the best of my knowledge, it is yet to be significantly incorporated in the microfinance industry and could be influential in enhancing MFI performance.

## **5.0 Responsibility**

Even though matching staff and clients has been advocated for as a means of influencing the performance of a microfinance institution, it may be viewed as a subtle form of discrimination. This is because in encouraging staff to associate with clients with whom they share similarities, it precludes the staff from association with dissimilar ones. In doing so, the MFI may limit the extent of its outreach and prevent certain minority groups like the disabled and other minority ethnic groups for which representation on the staff may not easily be achievable.

This has ethical implications in the sense that it could be viewed as a violation of human rights based on equality. This concept may appear as favouring majority groups over the minority hence according unequal treatment to the individuals in society. However, this weakness could be easily mitigated by ensuring a balance is maintained with regards to representation of MFI potential clients on the staff.

Nevertheless, it should be noted that there is no waterproof strategy and there is a need for regular monitoring and evaluation of incorporated strategies by the management of the microfinance institutions.