THE BEST OF BOTH WORLDS IN HYBRID ORGANIZATIONS: AN INTERNATIONALIZED BOARD AND AN INSIDER CEO

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Abstract

In this study we argue that the performance of hybrid organizations, pursuing both social and financial goals, can be augmented by combining the superior organization specific knowledge of an inside recruited CEO with the resource access that typically comes with international board members. Our argument rest on the observation that hybrid organizations such as microfinance institutional (MFIs) in low income countries need to be close to their clients and simultaneously be linked to larger resource providers. We test our hypotheses on a global dataset of 655 MFIs observed in 77 countries from 1998 and 2015. Our results show that the effect of international board membership on financial performance improves when an MFI has an insider than an outsider CEO. However, we do not find a similar support for the effect on social performance. The public policy implication of our study is that hybrid organizations can potentially benefit from a corporate governance structure that include an insider CEO with international board representation.

Keywords: international board, insider CEO, hybrid organization, microfinance, performance

JEL Classification Code: G39 L31

1. Introduction

Past research has shown that international board members bring performance enhancing corporate governance practices in for-profit organizations (Ruigrok, Peck, and Tacheva, 2007), primarily for firms from non-Anglo-American markets (Oxelheim and Randøy, 2003). However, in a hybrid organization setting, in organizations that pursue both social and financial returns, Mersland, Randøy and Strøm (2011) highlight that international board members are associated with higher social performance, but lower financial performance which reflect the high cost associated with having a foreign influence. International board members in for-profit firms have different social background and exposed to spatial distance barriers (Masulis et al., 2012). This is similar the case in hybrid organizations (Jacobs et al., 2007). Therefore, they often have limited local market information and organization specific knowledge (Masulis et al., 2012), which limit their ability to impact an organization. This knowledge gap is a critical issue in a hybrid organization where tapping into the local networks and culture is important (Dacin, Dacin and Tracey, 2011). Such foreignness barriers experienced by international board members is unfortunate because of the positive benefits that international board members could bring to the organization.

Empirical studies highlight the advantages of hiring an insider CEO in complex organization like hybrid organization (e.g., Mersland, Pascal and Beisland, 2018;Santora and Sarros, 2001). This is particularly because an insider CEO has deep rooted organization specific knowledge, networks, and better understanding about the organization's local context (Lorsch and MacIver, 1989; Shen and Cannella, 2002; Chung et al., 1987). Such advantages from an insider CEO can simultaneously be relevant to complement the knowledge gap experienced by international board membership. Hence, these suggest a synergy between an international board member and an insider CEO, beyond their direct effect in which thus far have been the focus of studies (cf. Mersland et al., 2011; Mersland et al., 2018).

It is well known in the literature that the synergy between board and CEO is utmost important to assure good performance of organizations. However, most literatures on the joint effect of board and CEO focused on outsider board and powerful CEO, to capture the ability of outsider board in reducing the agency cost of CEO power (See, for example, Combs et al., 2007; Duru, Iyengar and Zampelli, 2016). In this line of board and CEO interconnection, an international board and an insider CEO synergy should also matter. This is mainly because the later complement the limited local knowledge of the former, while the former provide new insight that can broaden the strategic capability of the later.

Hence, in theory interconnecting an international board member with an insider CEO should be positive for a complex organization like hybrid organization. Thus, in this paper we test this theory using a global microfinance industry as an empirical context. The industry is a reliable ground for test for several reasons. Microfinance is a typical hybrid model that combine the social logic and the banking logic at the core (Battilana and Dorado, 2010). Moreover, corporate governance is an important concern in the microfinance industry (Lascelles, Mendelson and Rozas, 2012; Labie and Mersland, 2009). International board memberships have also been spreading in the industry to enhance the corporate governance practices (Mersland et al., 2011). In addition, the importance of an insider CEO succession is well recognized in the industry (Mersland et al., 2018). Mainly because of an insider CEO's organization specific skills and familiarity that are especially necessary for managing such a complex organization with dual goals (Battilana and Dorado, 2010; Mersland et al., 2018). The considerable growth of the microfinance industry reaching globally 130 million low income population at the end of 2017 with yearly growth of 5.6% in the same year, also makes the industry a vital case for this study (Microfinance Barometer, 2018). Moreover, it is possible to access high quality, detailed, and scrutinized data about the global microfinance industry from third party rating agencies (Beisland, Mersland and Randøy, 2014).

The results of the study indicate that the effect of an international board membership on performance of a hybrid organization improves when a hybrid organization has an insider CEO than an outsider CEO. The evidence is particularly indicated on a financial performance of a hybrid organization. We also cross checked the finding through examining the moderating effect of CEO tenure in the international board and performance relationship. This is mainly because an insider CEO have similar characteristics with a CEO that has moderately high level of tenure (Tomas and Simerly, 1994). The robustness checks analogously indicate that when a CEO have moderately high level of tenure, particularly up to 8 years of tenure, the effects of an international board membership on performance improves.

The finding extends the international business and corporate governance literatures that mainly investigate the role of international board members in for profit firms setting (Hooghiemstra et al., 2019; Oxelheim and Randøy, 2003; Ruigrok et al., 2007), with few exceptions in hybrid organizations setting (e.g. Mori et al., 2015, Mersland et al., 2011). Accordingly, the study with an empirical enquiry manifest the strategic role of an international board membership in a hybrid organization through its joint effect with an insider CEO. In doing so, the study highlights the role of an international board membership and an insider CEO beyond their unilateral effects in which thus far have been the focus of previous studies (e.g. see, Mersland et al., 2011; Mersland et al., 2018).

The study can also provide evidence-based practical advice for hybrid organizations, because hybrid organizations are widening their international focus by having international board members. Thus, the findings imply that a hybrid organization that has an international board member, should establish a plan that promote an internal CEO succession. In that way, such organizations can compensate the community level information gap experienced by an international board member and improves the effectiveness of an international board member on performances of the organization.

The remainder of this paper is organized as follows. Section 2 reviews the theoretical and empirical literatures and formulate our hypotheses. Section 3 provide information on the data, the empirical context and the methodology. Section 4 presents the results and section 5 discuss the implication of the results. Finally, section 6 concludes the paper.

2. Literature Review

Existing literatures recognize the impact of international board on performance in large for-profit firms (Oxelheim and Randøy, 2003; Ruigrok, Peck, and Tacheva, 2007), and in hybrid organizations context (Mori et al., 2015; Mersland et al., 2011). The explanation of the impact is mainly rooted in resource dependency and agency theory.

Resource dependency theory asserts that organization relays on its external environment; thus, the effectiveness of the organization is dependent upon on its ability of securing resources from outside the organization (Pfeffer and Salancik, 1978). In relation to this, board members are regarded as means of acquiring important external resources (Pfeffer, 1972). Boards play an important role in enhancing the organization legitimacy and improving access to new insight and information in the form of advice and council (Pfeffer and Salancik, 1978). Such a resource provision role of a board is similarly vital in hybrid organizations context, as such organizations are considerably dependent on the external environment for resources(e.g. for funds, expertise) (Low, 2006). Also, because the organizations need to understand and manage the tension in the dual goals that arise from the external environment (Ebrahim et al., 2014).

Agency theory focusses on the board members' role in incentivizing and monitoring a CEO to act in accordance with the goals of the organization (Fama and Jensen, 1983). Accordingly, when agency problem arises, board members ensure the fulfillment of their organization mission by putting monitoring and incentive scheme in place. Agency problem arises when a CEO fail to adhere the organization mission. In hybrid organizations, the potential tension between the financial and social goals, can give a CEO more discretion to attribute a poor performance in one goal by refereeing to the other goal (Galema, Lensink and Mersland, 2012). To this end, in such organizations' settings, the information asymmetry challenge is even vital and requires board members monitoring and incentive alignment roles notably (Bacq, Janssen and Kickul, 2012).

Accordingly, the two theories indicate the board members role in resource provision, incentive alignment and monitoring Thus, the international board members impact on performance cannot be disentangle from these three important roles of a board. International board members often have outsider stance; therefore, can objectively monitor the manger action (Ramaswamy and Li, 2007). Beyond the monitoring role, international board members can also bring valuable resources to the organization that would otherwise may not be possible (Ruigrok et al., 2007). This is because national background can be a source of novel information, competence and connections of an individual (Estélyi and Nisar, 2016).

These international board members roles are similarly important in hybrid organizations. Hybrid organization that have international boards are mostly located in emerging markets and their international boards are often from advanced countries (Mersland et al., 2011). Given the quality of institutions in most advanced countries, the experiences of the international board members are rooted in better corporate government practices (Miletkov, Poulsen and Wintoki, 2017). Hence, such board members are an important means of transferring better cross boarder governance practices to the hybrid organization on whose boards they sit. In addition, the international board members often have extensive network with socially motivated investors and network associations (Mori et al., 2015). Hence, such board members can also enhance the legitimacy of hybrid organization and thereby vehicle new expertise, funding, and managerial codes of ethics from their extensive networks.

Although international boards have the above-mentioned benefits, the effective fulfillment of their roles are limited by factors related to their foreignness. International board membership is associated with higher operational cost to the organization due to the boards' high travel expenses and costly culture (Mersland and Strøm, 2009a). Such a distance governance also hampers international board members active participation in the board meetings (Masulis et al., 2012; Jacobs et al., 2007). This further weaken international board members' ability of securing up to date information about the organization and the management (Masulis et al., 2012). As an outsider board, international board members have also less access to relevant organization specific information (Rashid et al., 2010). Moreover, located in a distance location, international board members have limited access to local networks, and insufficient knowledge about the regulatory procedures of the country in which the organization is located (Masulis et al., 2012). The high cultural, linguistic and geographic barriers involved in international board membership also limit the boards' knowledge of the organization's local market and socio-economic settings (Lewis., 2017; Hooghiemstra et al., 2019).

Knowledge about the organizations and the socio-economic context of the its market is particularly important when leading a hybrid organization. In such organization, supervisory board need to oversee the attainment of both financial and social objectives and safeguard the interest of multiple interest groups such as, donors, investors, and potential beneficiaries of the social mission (Ebrahim et al., 2014). These complex board roles require thorough knowledge about the local social context of the organization. Particularly because social goals are context contingents and also representing the interest of clients requires understanding the socio-economic context of the organizations' market (Doherty et al., 2014; Dacin et al., 2011). Therefore, with the aforementioned knowledge gap, international board members are limited from providing effective service.

These imply that the implication of an international board member on performance may not be a straightforward direct effect. Boards closely work with a CEO. Thus, in a board-CEO interaction, information flow is not only in a forward direction but also in a back-ward direction; thereby, increases the board's understanding about the issues surrounding the organization (Allemand et al., 2013). Hence, a CEO that have comprehensive understanding about the organization he is leading, can ease the effective execution of boards function.

Insider CEO is one of such a CEO type that have superior knowledge about the organization (Kotter, 1982). Existing literatures highlight that an insider CEO has skills that are rooted in the organizations (Harris and Helfat, 1997); well familiarized with the organization's prior strategic decisions and cost effective options (Zhang and Rajagopalan 2010; Thomas and Simerly, 1994); This is similar the case in hybrid organizations setting. Insider CEO get acquitted with the internal and external networks of the organization, and also deeply understand the dual goal upheld by the organization (Mersland et al., 2019).

It is well known in the literature that such characteristics of insider CEO is advantageous in a more complex organization like hybrid organizations (Mersland et al., 2018). This is mainly because understanding the multifaceted nature of the organization's objective and developing intrinsic commitment towards it requires inside experience (Mersland et al., 2018; Battilana and Dorado, 2010). With a worldwide growth of hybrid organization, these benefit of insider CEO can even be more crucial[1].

Hence, the stated advantages of an insider CEO can particularly be important in complementing the international board obstacles. The synergy can be observed from the perspectives of the three important board roles : resource provision, incentive alignment and monitoring.

2.1 Resource provision

In line with Prefer and Salancik (1978), an international board member provide access to expertise, and funding from a crucial source outside the organization and also bring novel insight to the organization through advising and counseling the CEO. These resources are an important source of competence in hybrid organizations, as such organizations often reach out to external stakeholders for resources (Low, 2006). Moreover, most of the international board members of hybrid organizations are from advance countries, have links with donors and network associations and have experience in different countries (Mori et al, 2015; Mersland et al, 2015). Given all this, hybrid organizations that connect with the international board members are often in emerging market where such resources are less accessible. Thus, international board members are even a vital source of performance augmenting resource for such organizations.

However, the effective transmissions of such resources are limited by the knowledge gap of international board members about the organization and the local context of the organization (Miletkov et al., 2017). As aforementioned such knowledge gap is a critical challenge in hybrid organizations, since the intervention of such organizations are mainly embedded in the local social infrastructure and networks (Doherty et al., 2014; Dacin et al., 2011).

In such a circumstance, the superior organization specific knowledge, the internal and external networks of an insider CEO are crucial resources that can complement the knowledge gap of international board members. Moreover, an insider CEO due to his inside experience in the

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[1] For example, as of 2016, in Ethiopia alone there are roughly more than 50,000 hybrid organizations and more than 75% are started since 2010 (https://britishcouncil.org). The estimated number of hybrid organizations in Malaysia alone is more than 20,000 in 2015 (https://britishcouncil.org).

organization, can better evaluate the cost effectiveness of a strategic decision (Shen and Cannella, 2002; Shepherd and DeTienne, 2005). Therefore, an insider CEO can mitigate an international board costly culture (Mersland et al., 2011; Mersland and Strøm, 2009a), that perhaps emanate from an international board insufficient knowledge about the organization and the local settings.

On the other hand, an insider CEO is not without any limitations. Insider CEO lacks external insight; hence, have limited resource base (Menon and Pfeffer, 2003; Wiersema, 1992). In such a circumstance there is a possibility that an international board member can in turn alleviate the problems related to an insider CEO. International board members can be a source of external insight and connections (Datta, Musteen, and Herrmann, 2009). Hence, such board members can broaden the limited external knowledge of an insider CEO and thereby provide a better prospect to organizational performance.

2.2 Incentive alignment.

The connections and background of international board members are also an important source of incentive system to enhance the organization commitment towards its dual goals. International board members of hybrid organizations are connected with socially motivated investors and network associations (Mori et al., 2015). Thus, a hybrid organization can benefit from the managerial guidelines and incentive system of such network associations by the virtue of having an international board member (Mersland et al., 2019).

However, the effectiveness of an international board member in promoting the dual goal of the organization is restricted by the board member's limited local market information (Masulis et al., 2012). The role of an international board member particularly in motivating the CEO towards the social goal requires an understanding of the socio-economic settings of the market (Ebrahim et al., 2014). Nevertheless, when a CEO internalize the hybrid organization mission, which is mostly the case with an insider CEO (Mersland et al., 2018), an international board member can easily promote the attainment of the dual goal of the organization.

This is highly likely because an insider CEO are promoted from within the organization; hence, develop enthusiasm towards the organization mission (Santora and Sarros, 2001). Thus, such a CEO show a motivated agent characteristic which are important in such a complex mission-oriented organization (Mersland et al. 2019; Besley and Ghatak, 2005).). Besides, due to his internal functional experience, insider CEO have skills acclimated towards the organization's dual goals (Battilana and Dorado, 2010; Mersland et al., 2018). As a result, an international board member that face information barriers, but have a desire to promote the dual goals of the organization, can easily do so, by motivating an insider CEO that can easily commit towards the organization mission.

2.3 Monitoring

International board member has outsider stance; therefore, can also play a crucial role in monitoring the manger action (Ramaswamy and Li, 2007). Oftentimes, international board members in hybrid organizations have connections with various donors and network associations that are particularly interested in the dual goals of the organization (Mori et al. 2015). Such connections are also a source of better managerial guidelines that are used to control the CEO to act in accordance with the goals set by the organization (Mersland et al., 2019).

The international board member better monitoring system is particularly relevant in alleviating the potential entrenchment of an insider CEO. Insider CEO is well rooted in the organization, as a result can develop a rigged view of the environment (Shen and Cannella, 2002; Giambatista, Rowe, and Riaz, 2005). Therefore, the monitoring system brought to the organization can mitigate any potential restricted view of an insider CEO and the associated commitments to the status quo (Boyd, Haynes and Zona, 2011; Ramaswamy and Li, 2001).

On the other hand, the agency problem is less severe in the organization managed by an insider CEO, because the board can easily distinguish the characteristic of an insider CEO (Zajac, 1990). Such a characteristics are particularly relevant for an international board member. This is because, as a result of spatial distance barriers, international board members often do not have adequate time to frequently interact and gather information about the CEO (Masulis, Wangb, and Xie, 2012; Jacobs et al., 2007). Hence, such board members can gain more from having a CEO whose characteristics is internally recognized and easily distinguished. Therefore, with a lesser agency cost, it is possible to achieve better performance.

The advantages and disadvantages of an international board member and an insider CEO that are discussed so far are summarized in Table 1. The summary gives an understanding on the synergy between an international board member and an insider CEO.

Table 1: Advantages and disadvantages for an international board member and an insider CEO of hybrid organizations

	International board		**Insider CEO**	
	Advantages	**Disadvantages**	**Advantages**	**Disadvantages**
Resource provision	New/external knowledge and skills (Datta et al., 2009; Estélyi and Nisar, 2016)	Limited organization specific knowledge (Rashid et al., 2010).	Deep organization specific knowledge (Zhang and Rajagopalan, 2004, 2010; Harris and Helfat, 1997).	Lack external insight and perspective (Datta and Guthrie, 1994; Carlson, 1961)
	Better corporate governance practices (Oxelheim and Randøy, 2003)	Costly culture (Mersland et al., 2011; Mersland and Strøm, 2009a).	Prior experience and knowledge on cost effective strategic options of the organization (Thomas and Simerly, 1994; Zhang and Rajagopalan, 2010).	
		Limited local networks; less access to up to date information about the local market and the regulatory procedures (Masulis et al., 2012; Hooghiemstra et al., 2019)	Well acquainted with the organizations' staff capability, local networks, product lines, the market and regularity procedures (Chung et al., 1987; Kotter 1982).	
Incentive alignment	Links with external partners and investors that are particularly motivated in the dual goals of the organization (Mori et al., 2015)	Limited knowledge about the socio-economic context of the organization's market (Miletkov, Poulsen and Wintoki, 2017; Lewis, 2004)	Internalize the hybrid organization mission well, develop higher enthusiasm and commit to the goals (Battilana and Dorado, 2010; Mersland et al., 2018; Santora and Sarros, 2001).	
Monitoring	Outsider stance to objectively monitor the CEO (Ramaswamy and Li, 2001; Ruigrok et al., 2007)	Less frequently available for board meetings, and for collecting information about the management (Hahn and Lasfe et al., 2016; Jacobs et al., 2007)	Characteristics that are recognized internally and easily distinguished by board members (i.e. less sever agency problem) (Zajac, 1990).	Entrenched and commit to the status quo (Shen and Cannella, 2002; Mobbs and Raheja, 2012;)

2.4 Hypotheses development

Financial performance

Insider CEO has in-depth knowledge about the organization, wider range of information and networks about internal and external actors related to the organization (Chung et al., 1987). This is particularly the case in a hybrid organization, because an insider CEO from his past internal experience, can get better understanding of running the multifaceted mission of such an organization and its market context (Mersland et al., 2018), and wider understanding on cost effective strategic options (Thomas and Simerly, 1994).

Therefore, an international board member in a hybrid organization with an insider CEO, can get better information about the organization and its context that are relevant to execute his responsibility. This can also mitigate any costly culture of international boards that comes from lack of contextual knowledge. Thus, an insider CEO can compensate for parts of the disadvantage encountered by an international board member and thereby improves an international board member financial performance.

On the other hand, an insider CEO can also garner greater novel knowledge, expertise and resources, from an international board (Datta et al., 2009). Hence, an international board member can bridge an insider CEO external knowledge gap. In addition, because of his superior organization specific information, an insider CEO can convert the new external insight gained from an international board into feasible and effective strategic options. Therefore, there is a crucial synergy between an international board and an insider CEO that can improve the performance of hybrid organizations. Thus, we propose the following hypothesis:

Hypothesis 1: International board and an insider CEO have positive joint effect on financial performance in a hybrid organization.

Social performance

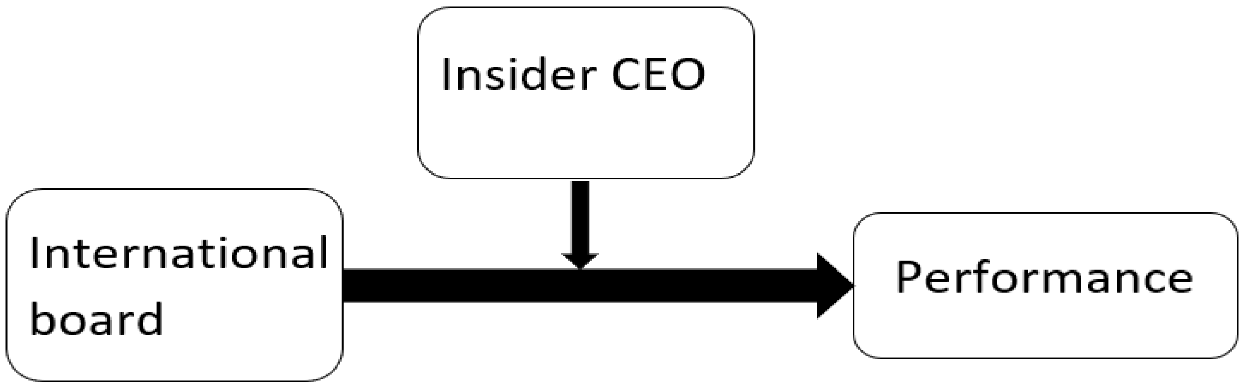
Moreover, the contextual knowledge of an insider CEO does also play an important role in enhancing an international board effectiveness in the social performance of a hybrid organization. Enhancing social performance requires harnessing community level information and networks (Hart and Sharma, 2004; Dacin et al., 2011). Hence, an insider CEO's superior knowledge about the local context of the organization and his links with internal and external actors, mitigate an international board limitation on local community level information and networks. Therefore, an insider CEO can also enhance the contribution of an international board member in the social performance of a hybrid organization.

Insider CEO beyond complementing the knowledge gap of an international board about the organization context, he has a motivation that are rooted in hybrid mission. Mainly because internal promotion is one of the crucial socialization processes in hybrid organization used to reinforce the dual goals and values in the staff (Battilana and Dorado, 2010). Hence, internally recruited CEO internalize the hybrid organization mission quite well and as a result develop intrinsic motivation of doing good (Mersland, Beisland, and Pascal, 2018).

The intrinsic motivation of an insider CEO is relevant for an organization with an international board member. Mainly because an international board member has a potential to transfer skills and experience necessary for deepening the social performance of the organization. Such a board member is likely to have extensive networks that includes partners and investors that are explicitly motivated in the organization social performance (Mori et al., 2015). These potentials of an international board member can effectively enhance social performance when a CEO is a motivated agent. Particularly because, a motivated CEO can easily commit to the social goals with an intrinsic motivation (Besley and Ghatak, 2005). Therefore, an insider CEO can easily translate the resource from an international board member into better social performance.

Hypothesis 2: International board and an insider CEO have positive joint effect on social performance in a hybrid organization.

Fig 1. Summary of the hypothesis on the joint effect of international and insider CEO



3. Data and method

Context

We use the global microfinance industry as an empirical context of this study for several reasons. First, the industry prominently provides financial services to those excluded from the traditional banking services. For this reason, the microfinance intervention is a typical hybrid model that combine the social and the financial goals as the core mission (Battilana and Dorado, 2010). Second, corporate governance is one of the weakest areas of the industry that requires in-depth study (Lascelles, Mendelson and Rozas, 2012; Labie and Mersland, 2009). The global microfinance industry is also reaching more than 130 million low income population by the end of 2017 (Microfinance barometer 2018), showing the considerable risk associated with weak corporate governance practices (Galema et al., 2012). Third, an international board involvement is an important international aspect of the industry (Mersland, Randøy and Strøm, 2011). Such board diversity brings external expertise and resources that are not available nationally (Jacobs, Mbeba and Harrington, 2007). However, simultaneously the effectiveness of international board members in the industry is hampered by the limited contextual knowledge and large amount of resources needed to make them actively participate in the board meetings (CMEF, 2005; Jacobs et al. 2007). Forth, an insider CEO succession in the microfinance industry is solidly present and can possibly complement the international board knowledge gap about the organization local context (Mersland, Beisland, and Pascal, 2018). Fifth, it is possible to access high quality and detailed data that are hand-collected by third party rating agency (Beisland, Mersland and Randøy, 2014). Therefore, we use the global microfinance industry as an empirical context of this study.

Data

We use a secondary data extracted from five rating agencies specialized in Microfinance: Microrate, Microfinanza, Planet Rating, Crisil, and M-Cril. The sample contain 655 MFIs from 77 countries between 1998-2015 period. The rating fund data contains information on the MFI characteristics, such as board composition, size, CEO attributes and other relevant information for this study. To make the necessary comparison possible, the data entry is annualized and dollarized using official exchange rate at the entry. Previous publications that used the earlier version of the datasets includes Mersland et al. (2018); and Pascal, Beisland, and Mersland (2018) among others.

The data analysis is mainly undertaken with seemingly unrelated regression (SUR). When separate dependent variables are not independent from each other, SUR model provides more efficient estimation than separate least square estimations (OLS) (Zellner, 1962). In hybrid organization, performance is measured by financial and social measures that are likely to be interdependent. Thus, we use SUR model that enables the joint estimation of social and financial performance and account for the correlation of error terms across equations (Greene, 2012; Zellner, 1962). We also perform Breusch-Pagan test to check for the correlation of errors across equations. The general form of our model is thus as follows:

Microfinance Performance = f(International board + Insider CEO + International board*Insider CEO + control variables) + ε.

Measures of dependent and independent variables

Dependent variable

We measure performance in terms of financial and social aspects. We measure financial performance using ROA which indicates the profitability of the MFIs. ROA is the bottom-line microfinance performance measurement that is used in most MFI literatures (see, for example, Golesorkhi, et al., 2019; Mersland and Strøm 2009a). We also use the ratio of operating cost to portfolio which indicate the cost effectiveness of MFIs, as an additional financial performance measure. This is because the market in which the MFIs operate is less competitive (McIntosh and Wydick, 2005). In such a scenario, unlike in a perfectly competitive market, MFIs can charge higher interest rate whenever they incur higher cost and still make a profit similar to other MFIs with a lower cost. Since the profitability measure can be manipulated by MFIs in this way, we also include the cost aspect to comprehensively measure the financial performance of MFIs.

We measure social performance with average loan size per gross national income (ALS_GNI), which is the best possible proxy for depth of outreach by MFIs (Cull et al., 2007; Hermes, Lensink, Meesters, 2011). The main argument for this is poorer clients cannot afford larger loan; therefore, an MFI reach the poorer strata of the population by supplying smaller size loans (MicroRate, 2014). Moreover, the social goal also has breadth of outreach aspect which is typically measured by the number of credit clients served by an MFI (Schreiner, 2002). Therefore, we have also used the number of credit clients served as an additional social performance measure. The two depth and breadth of outreach indicators are the most common social performance measures in microfinance research (Quayes, 2012)

The list and definition of dependents, independents and control variables that are used in the analysis are presented in table 2.

Table 2. Definition and measurements of variables included in the study

Variables	Variables Definition
Dependent variables	
Financial Performance	
ROA	Net operating income over average annual assets.
operating expense ratio	Operating expenses over annual average loan portfolio
Social Performance	
Average loan/GNI	Average outstanding loan per credit client scaled by gross national income (GNI)
Ln_credit client	The natural logarithms of the number credit clients.
Independent variables	
International board* insider CEO (IntBoard_InsiderCEO)	The interaction between having an international board and insider CEO.
MFI level control variables	
International board	1 if an MFI has an international board, 0 otherwise
Insider CEO	1 if a CEO is internally recruited/promoted, 0 otherwise
CEO Tenure	The number of years in the CEO position
CEO tenure Square	The square of CEO tenure
International board* CEO tenure (IntBoard_CEOtenure)	The interaction between international board and CEO tenure
International board* CEO tenure Square (IntBoard_CEOtenure Square) [2]	The interaction between international board and CEO tenure Square
Board size	The natural logarithms the total number of board members in an MFI
MFI size	The natural logarithms of total assets
Shareholder	1 if an MFI is a shareholder organization, 0 if non-profit[3].
Regulations	1 MFI is being regulated by banking authorities in the country, 0 otherwise
MFI tenure	Years of experience as an MFI
Country & region level control variables	
HDI	A composite country index covering life expectancy, education, and income (GDP per capita
East_Asia_Pacific	1 if the MFI is in East Asia and the Pacific, 0 otherwise
Europe_Central_Asia	1 if the MFI is in Eastern Europe and Central Asia, 0 otherwise
Latin_America_Caribbean	1 if the MFI is in Latin America and the Caribbean, 0 otherwise
Middle_East_North_Africa	1 if the MFI is in the Middle East and North Africa, 0 otherwise
South_Asia	1 if the MFI is in South Asia, 0 otherwise
Sub-Sharan African (the reference category)	1 if the MFI is in Sub-Sharan African, 0 otherwise

[2] We use CEO tenure and the interaction between CEO tenure and international board in robustness check.
[3] We have grouped NGOs and cooperatives under nonprofits and banks and non-bank financial institutions under shareholder organization.

The main variable of interest in this study is the interaction between international board and insider CEO. It measures how well an international board perform when an MFI has an insider CEO than an outsider CEO. International board is a dummy variable that takes a value 1 if an MFI has at least one international board and 0 otherwise. Similar to studies on CEO origin (see, for example, Mersland et al. 2018), we also measure insider CEO as a dummy variable that takes a value 1 when a CEO is internally hired from within the organization and 0 otherwise.

In line with previous literatures, we controlled for MFI specific, country level and region level factors in the regression (Mersland, Beisland and Pascal, 2018; Mersland, Randøy and Strøm, 2011). Governance literatures indicate that board size affect the effectiveness of board and organization performance (Eisenberg, Sundgren and Wells 1998; Galema et al., 2012); therefore, we control for board size. The size of an organization also affects organization performance. Hartarska, Shen and Mersland (2013) indicates the scale advantage in microfinance. Thus, we control for MFI size using the natural logarithm of total asset. We log transformed the total asset variable because of the positive skewness of its distribution (Kirkwood and Sterne, 2010). We also controlled for the MFIs' number of years of operation to account for the learning effect that comes overtime (Galema et al., 2012). There is also a variation on portfolio at risk among MFIs (Krauss and Walter, 2009); thus, we also controlled for an MFI share of portfolio at risk. MFIs also have various ownership types that includes banks and non-bank financial institutions, non-governmental organizations (NGOs), cooperatives. Following Randøy, Strøm and Mersland (2015), we grouped NGO and cooperatives under non-profits, and banks and non-bank financial institutions under shareholder organizations and control for an effect that emanate from the ownership type of an MFI. Moreover, we captured for a variation among MFIs on regulatory status; because regulations can affect boards structure (Mori et al., 2013) and performance of MFIs (Cull, Demirgüç-Kunt and Morduch, 2009). We also control for HDI which a composite measure of life expectancy, education, and income in order is to capture for country level development effect (Golesorkhi et al., 2019). Regional dummies are also included in the regression, in order capture the region-specific variation across MFI (Golesorkhi et al., 2019).

To account for the correlation of errors in social and financial performance regression, we use seemingly unrelated regression(SUR). The SUR model with the same sets of explanatory variables in both financial and social performance regression, is the same as running each regression separately and do not provide efficiency gain (Zellner, 1962). Therefore, based on previous MFI literatures e.g. Ahlin, Lin and Maio, (2011), we identify an additional sets of control variables that that affect more financial than social performance. Similarly, we also add a control variable that affect more social than financial performance.

The microfinance industry is highly labor intensive; thus, the operating expense ratio is highly correlated with staff salary (MicroRate, 2014). Therefore, we controlled for average salary in the financial performance regression. The increase in domestic credit to private sector, brings competition in the microfinance sector (Ahlin et al., 2011). Thus, private sector credit drives down the cost and profit margin of MFIs (Ahlin et al., 2011). Therefore, in the financial performance regression, we control the ratio of the amount of private credit to GDP in the country. On the other hand, in the social performance regression, we control for the ratio of manufacturing value added to GDP in a country. Stronger manufacturing sector in the country provide higher wage employment possibility (Ahlin et al., 2011). This further substitute the demand for microfinance services for self-employment in small enterprises (Ahlin et al., 2011). Therefore, we control for the ratio of manufacturing value added in the regressions of average loan size and number of credit clients reached.

In table 3 we present the correlation matrix and the variance inflation factors of the variables that are included in the regressions. Although most of the correlation of variables are statistically significant, none of the values are greater than 0.8. According to Kennedy(2008) to rule out the simultaneous inclusion of variables due to multicollinearity, the pairwise correlation between variables has to be in excess of 0.8. However, none of the pairwise correlation is above 0.8. Similarly, the test of multicollinearity with variance correlation factors are also in line with Hair et al. (2010) that none of the factors are above 10. Hence, there is less concern for multicollinearity. Nonetheless, in order to account for any bias in inference due to multicollinearity, we also report the regression results stepwise. Accordingly, we include the MFI specific control variables and macro-economic control variables step by step.

Table 3. Correlations matrix and collinearity statistics values of the variables

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1	ROA	1																						
2	Operating expense ratio	**-0.243**	1																					
3	Average loan/GNI	-0.00539	**-0.103**	1																				
4	LN credit client	**0.141**	**-0.0358**	**-0.208**	1																			
5	International board	-0.00738	**0.0934**	**0.0664**	**0.144**	1																		
6	Insider CEO	**0.0862**	-0.0387	0.0131	0.0374	-0.0609	1																	
7	CEO Tenure	**0.153**	**-0.132**	-0.0165	**0.140**	**-0.272**	**0.234**	1																
8	LN board size	-0.0515	0.0535	-0.00815	**0.192**	**-0.0916**	-0.00329	-0.0172	1															
9	MFI size	**0.203**	**-0.329**	**0.0419**	**0.660**	**0.160**	0.0359	**0.154**	**0.0977**	1														
10	MFI tenure	**0.109**	**-0.184**	-0.0222	**0.275**	**-0.219**	**-0.0876**	**0.311**	**0.0961**	**0.374**	1													
11	Par30	**-0.248**	0.0237	0.0253	**-0.182**	**-0.119**	**-0.0864**	-0.0437	0.0256	**-0.100**	**0.0814**	1												
12	Regulated	-0.0161	**-0.165**	**0.0753**	**0.103**	**0.157**	**0.0758**	**-0.0822**	**-0.0688**	**0.249**	0.0195	0.0166	1											
13	Shareholder	**-0.0440**	0.00205	**0.0492**	**0.0460**	**0.361**	0.0437	**-0.197**	**-0.187**	**0.147**	**-0.224**	-0.0313	**0.453**	1										
14	Average Salary	0.0254	**-0.0727**	**0.0770**	0.00678	0.0131	0.0144	0.0457	-0.0107	**0.339**	**0.0923**	**0.0382**	**-0.0422**	**0.0706**	1									
15	Political stability	**0.115**	**-0.171**	-0.0251	0.0205	**-0.198**	**-0.0608**	**0.127**	-0.0177	**0.132**	**0.200**	**-0.0422**	**-0.0557**	**-0.196**	**0.143**	1								
16	Private credit	**0.0440**	**-0.114**	0.0225	**-0.0408**	**-0.106**	-0.0239	**0.152**	-0.00310	**0.0482**	**0.187**	**-0.0460**	-0.00714	**-0.132**	**0.0699**	**0.676**	1							
17	Manufacturing	-0.0183	**0.114**	0.0183	**-0.0571**	**0.125**	**-0.0665**	**-0.0967**	-0.0552	**-0.0475**	**-0.147**	0.000304	**-0.0519**	**0.0643**	**-0.135**	**-0.215**	**-0.0722**	1						
18	HDI	**0.170**	**-0.101**	**-0.0573**	**-0.0951**	**-0.0939**	**0.0552**	0.0406	**-0.128**	**0.144**	**0.0356**	**-0.111**	**-0.235**	**-0.0723**	**0.308**	**0.222**	**0.0533**	**-0.0811**	1					
19	East_Asia_Pacific	**0.0624**	-0.00152	0.0203	**0.104**	**0.129**	**0.0676**	**0.0804**	0.0366	**-0.0371**	**0.0430**	**-0.0779**	**0.0382**	**0.0817**	**-0.236**	**-0.117**	**-0.226**	**-0.108**	-0.0156	1				
20	Europe_Central_Asia	**0.0481**	**-0.127**	**0.0965**	**-0.236**	**0.276**	**0.0571**	**-0.125**	**-0.257**	-0.0311	**-0.239**	**-0.131**	**0.0824**	**0.123**	**0.0553**	**-0.116**	**-0.0252**	**0.176**	**0.291**	**-0.130**	1			
21	Latin_America_Caribbean	**0.0784**	**-0.0458**	**-0.0721**	0.0212	**-0.326**	-0.0301	**0.138**	-0.00385	**0.168**	**0.235**	**0.0754**	**-0.227**	**-0.178**	**0.290**	**0.434**	**0.158**	**-0.154**	**0.528**	**-0.292**	**-0.387**	1		
22	Middle_East_North_Africa	**0.0405**	-0.0184	-0.0334	**0.152**	-0.0471	-0.0271	**-0.0744**	**0.178**	**0.0668**	**-0.0617**	**-0.0544**	**-0.0515**	**-0.0783**	**-0.0477**	-0.0358	0.00603	**0.0587**	**0.0435**	**-0.0694**	**-0.0923**	**-0.206**	1	
23	South_Asia	-0.0196	0.0117	0.0110	0.0106	0.0443	**-0.0674**	-0.0357	0.00874	0.0342	**-0.0559**	-0.0348	0.0119	**0.0638**	-0.0278	**-0.109**	**-0.0445**	-0.00617	**-0.101**	-0.0156	-0.0208	**-0.0464**	-0.0111	1
	VIF					1.55	1.55	1.95	1.22	1.33	1.79	1.34	1.85	2.08	1.62	3.95	3.53	1.93	4.45	3.64	7.61	8.19	1.65	1.15

Note: the bold numbers indicate the statistically significance of the correlation

4. Empirical results

4.1 Descriptive statistics

Table 4 presents the descriptive statistics of the variables used in the study. The average ROA of microfinance in the sample is 1.8% showing MFIs in average make very small profit (Hermes and Lensink, 2011). On average operating expense is 26% of the loan portfolio in the sample. This value is very high than in regular banks, showing the high cost of delivering small loan services (Mersland and Strøm, 2010). The average loan per gross national income of MFIs in the sample is 29%. The ratio is less than 100% indicating the focus of Microfinance towards the lower income market (MicroRate, 2014). The average number of credit clients reached by MFIs in the sample is 22,204 (unreported)[4].

As for the independent variables, MFIs with international board members are 35% of the sample, showing the presence of international boards in the sector. MFIs with insider CEO accounts for 66% of the sample, indicating strong insider CEO succession in the sector. Among the MFIs that have international boards, MFIs' with an insider CEO accounts for 62% and MFIs with outside CEO accounts for 38 % respectively[5]. MFIs with an international board and insider CEO accounts for 20% of the sample

The average tenure of CEO's of MFIs in the sample is 6 years. The average tenure of CEOs in the sample MFI with an international board is 4 years, and that of MFIs with a local board is 8 years[6].

Concerning the MFI level controls, the descriptive statistics further shows that the average board size of the MFIs in the sample is 7. The average total asset of the MFIs is US$20 million. The average number of years of tenure of MFIs in the sample is 11 years. Shareholder ownership type accounts for 39% of the sample, whereas the non-profit type MFIs account for 61% of the sample. Thirty eight percent of MFIs are regulated and the remaining 62% are unregulated MFIs. The average salary of MFIs in the same is US$ 7,933 per annual.

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[4] Following Kirkwood and Sterne (2010), depending on the distribution of the variables, we undertake appropriate transformation of each variables. Accordingly, since variables such as: total number of credit clients, total number of credit clients per staff, board size, and total assets variables are positively skewed, we report the natural log transformation of each of the variables. Further investigation after log transformation also showed lognormal distribution, which justify the use of natural log transformation for each of the variables.

[5] Unreported cross tabulation result. The cross-tabulation result is available up on request.

[6] Separate mean summary for each sample. The unreported summary of each samples is available upon request.

As for the country and region level control, the average political stability index of countries where MFIs operate is 0.09. In average, domestic credit to private sector accounts for 42 % of GDP in countries where MFIs operate. The value indicates the average financial development of countries where MFIs operate (Ahlin et al., 2011). In countries where MFIs operate, the ratio of manufacturing value added to GDP is 9.7 in average. The average human development index of countries where MFIs operate is 64%. The region distribution also shows that most MFIs operate in Latin America and Caribbean region accounting for 46% of the sample.

Table 4. Descriptive statistics

Variable	(1) Obs.	(2) Mean	(3) Std. Dev.	(4) Min	(5) Max
ROA	3,491	0.018	0.106	-0.632	0.56
Operating expense ratio	3,274	0.264	0.155	0.047	0.81
Average loan/GNI	2,952	0.292	1.053	0.01	16.89
Ln credit client	3,458	8.801	1.646	1.946	13.86
International board	1,113	0.345	0.476	0.000	1.00
Insider CEO	1,941	0.660	0.474	0.000	1.00
IntBoard_InsiderCEO	697	0.204	0.403	0.000	1.00
CEO tenure	1,996	5.554	5.285	0.000	34.00
CEO tenure Square	1,996	58.762	108.30	0.000	1156.00
IntBoard_CEOtenure	670	1.4301	3.106	0	17
IntBoard_CEOtenure Square	670	11.675	37.310	0	289
Ln_board_size	1,194	1.843	0.408	0.000	3.689
MFI size (Ln_Assets)	3,625	15.363	1.657	9.12	20.92
MFI tenure	3,646	11.102	7.898	0.00	79.00
Par30	3,323	0.061	0.084	0.00	0.689
Regulated	3,585	0.380	0.485	0.00	1.000
Shareholder	3,597	0.385	0.487	0.00	1.000
Average Salary	3,018	7933	6728	35	101602
Political stability	3,024	0.090	0.979	-2.71	1.55
Private credit	2,954	42.04	30.87	0.45	98.94
Manufacturing	3,189	9.687	6.998	0.23	50.64
HDI	3,494	0.642	0.144	0.23	0.874
East_Asia_Pacific	3,223	0.0894	0.285	0	1
Europe_Central_Asia	3,223	0.148	0.355	0	1
Latin_America_Caribbean	3,223	0.464	0.499	0	1
Middle_East_North_Africa	3,223	0.0469	0.211	0	1
South_Asia	3,223	0.00248	0.0498	0	1
Sub_Saharan_Africa	3,223	0.249	0.433	0	1

4.2 Multiple regression result.

Table 5 and 6 present the multiple regression results. Table 5 presents the joint effect of international board and insider CEO with no MFI specific, country level and region level control variables. Table 6 columns 1-4 contain MFI specific control, and columns 5-8 contain MFI specific, country level and region level control variables.

The dependent variables are not independent from each other. Therefore, we jointly estimate the performance measures using seemingly unrelated regression (SUR) model that account for the correlation of errors in each regression. Table 5 and 6 show that the correlation between performance measures are not very high; however, the Breusch–Pagan test of independence reject the hypothesis that the dependent variables are not correlated (P<0.05). Hence, the test result and the correlation table under table 5 and 6 support the use of SUR regression.

Table 5. The Joint Effect of International board and Insider CEO on Performance: Seemingly Unrelated Regression(SUR).

	(1)	(2)	(3)	(4)
	Financial Performance		**Social Performance**	
VARIABLES	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
International board	-0.00480	0.0811***	0.0593	0.375*
	(0.00938)	(0.0200)	(0.0377)	(0.200)
Insider CEO	0.00324	0.0247*	-0.00763	-0.163
	(0.00700)	(0.0149)	(0.0281)	(0.149)
IntBoard_InsiderCEO	0.0254**	-0.101***	0.00336	0.419
	(0.0121)	(0.0257)	(0.0486)	(0.257)
Constant	0.0402***	0.227***	0.183***	9.006***
	(0.00578)	(0.0123)	(0.0232)	(0.123)
Observations	565	565	565	565
R-squared	0.019	0.032	0.012	0.047

	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
ROA	1			
Operating expense ratio	-0.1098	1		
Average loan /GNI	-0.0508	-0.2834	1	
Ln credit clients	0.1083	0.0393	-0.3242	1

Breusch–Pagan test of independence: chi2 (6) = 120.519 , p-value = 0.0000

Note: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

No MFI specific, country and region level controls

Table 6. The Joint Effect of International Board and Insider CEO on Performance: Seemingly Unrelated Regression(SUR).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Financial Performance		**Social Performance**		**Financial Performance**		**Social Performance**	
VARIABLES	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
International board	-0.0154	0.100***	-0.00922	0.193	-0.0500***	0.111***	0.00772	0.141
	(0.0105)	(0.0226)	(0.0443)	(0.156)	(0.0134)	(0.0271)	(0.0684)	(0.173)
Insider CEO	0.000927	0.0257	-0.0404	0.00288	0.00432	-0.000588	-0.0826*	0.377***
	(0.00790)	(0.0170)	(0.0333)	(0.117)	(0.00933)	(0.0188)	(0.0485)	(0.122)
IntBoard_InsiderCEO	0.0225*	-0.0996***	0.0609	0.0686	0.0485***	-0.0719**	0.0278	-0.219
	(0.0133)	(0.0286)	(0.0561)	(0.197)	(0.0158)	(0.0319)	(0.0803)	(0.203)
Ln_board_size	-0.0131*	0.0392**	-0.0491	0.405***	-0.000644	-0.00400	-0.0345	-0.0595
	(0.00772)	(0.0166)	(0.0326)	(0.115)	(0.00959)	(0.0194)	(0.0486)	(0.123)
Ln_Assets	0.00237	-0.0276***	-0.00152	0.678***	0.00479	-0.0254***	-0.0223	0.731***
	(0.00253)	(0.00544)	(0.0105)	(0.0369)	(0.00300)	(0.00604)	(0.0149)	(0.0376)
MFI tenure	-0.000360	-0.00222**	-0.000609	0.00498	-3.61e-05	-0.000818	-0.000461	-0.00173
	(0.000481)	(0.00104)	(0.00203)	(0.00714)	(0.000550)	(0.00111)	(0.00277)	(0.00700)
Par30	-0.247***	-0.0139	0.183	-2.406***	-0.294***	0.0880	0.138	-2.937***
	(0.0486)	(0.105)	(0.205)	(0.720)	(0.0862)	(0.174)	(0.438)	(1.107)
Regulated	-0.0146**	-0.0467***	0.204***	-0.348***	0.000272	-0.0371**	0.178***	-0.222**
	(0.00731)	(0.0157)	(0.0308)	(0.108)	(0.00887)	(0.0179)	(0.0447)	(0.113)
Shareholder	0.00925	0.000955	-0.0478	0.218**	-0.00133	-0.00151	-0.0351	-0.0895
	(0.00748)	(0.0161)	(0.0316)	(0.111)	(0.00878)	(0.0177)	(0.0450)	(0.114)
Average salary	-4.18e-07	1.64e-06			-2.12e-06***	4.29e-07		
	(5.18e-07)	(1.03e-06)			(7.32e-07)	(1.39e-06)		
Political stability					0.0113	-0.0297**	0.0906***	-0.216***
					(0.00749)	(0.0146)	(0.0272)	(0.0685)
HDI					0.0182	0.0693	-1.181***	0.406
					(0.0559)	(0.112)	(0.277)	(0.698)
Private credit					-0.000219	0.000121		
					(0.000182)	(0.000345)		
Manufacturing							-0.00365	0.00717
							(0.00235)	(0.00569)
Region dummies					YES	YES	YES	YES
Constant	0.0529	0.613***	0.270	-2.262***	0.00824	0.626***	1.225***	-1.693**
	(0.0395)	(0.0851)	(0.167)	(0.585)	(0.0577)	(0.116)	(0.282)	(0.713)
Observations	417	417	417	417	238	238	238	238
R-squared	0.094	0.150	0.119	0.536	0.230	0.290	0.332	0.721

	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
ROA	1				1			
Operating expense ratio	-0.1282	1			-0.0963	1		
Average loan /GNI	-0.0361	-0.2788	1		0.0096	-0.1922	1	
Ln credit clients	0.0335	0.3596	-0.4971	1	0.0093	0.357	-0.5505	1

Breusch–Pagan test of independence: chi2 (6) = 197.240, p-value = 0.0000

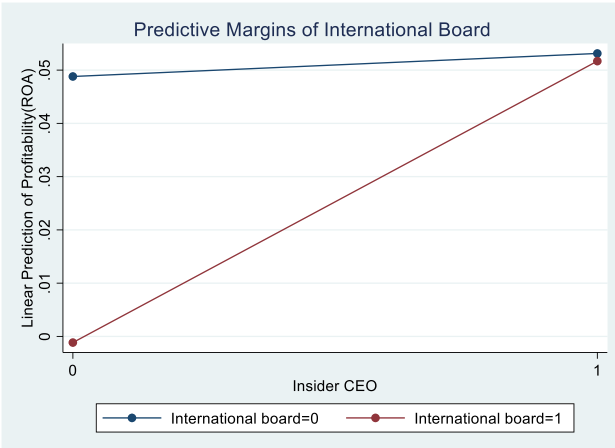
Breusch–Pagan test of independence: chi2 (6) = 113.479, p-value = 0.0000

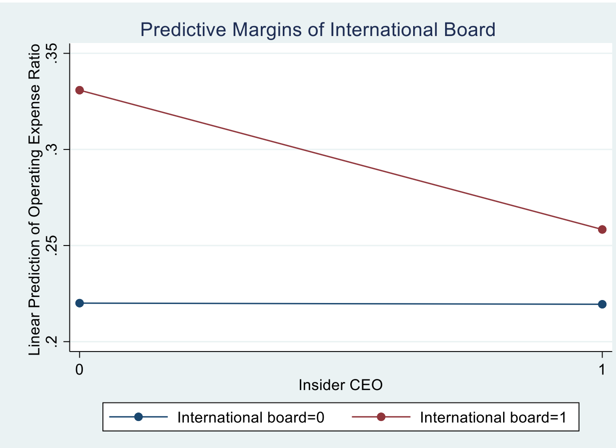
Note: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1; Columns 1-4 include MFI specific controls; columns 5-8 include MFI specific, country and region level controls

The result on financial performance indicates support for the hypothesis in all the three regressions for financial performance (in table 5, coulmn1&2, table 6, column 1&2 and column 5&6). The magnitude and the significance of the joint effect of international board and insider CEO on financial performance is largely consistence with and without MFI, country and region level control variables. We can interpret the magnitude of the effect by taking the full model in table 5 column 5&6 as an example. MFI with an international board as compared to an MFI with a local board significantly ($p < 0.01$) improves its profitability by 4.9 percentage points by having insider CEO than outsider CEO (Table 6 column 5). Similarly, an MFI with an international board as compared to an MFI with a local board significantly ($p < 0.05$) reduces its operating expense ratio by 7.2 percentage points by having insider CEO (Table 6 column 6). The improvement in profitability is commensurate with the reduction in operating expense as lower operating expense can result in higher profit margin in an MFI (Mersland and Strøm, 2010). Taken together, the evidence supports the hypothesis in terms of financial performance. Hence, an international board and an insider CEO have positive joint effect on financial performance of an organization.

However, in terms of social performance the hypothesis is not supported. The joint effect of an international board and an insider CEO on average loan size is not statistically significant in both table 5 and 6. Similarly the joint effect of an international board and an insider CEO on number of credit clients reached is not statistically significant in both table 5 and 6. Overall, the hypothesis is not supported in terms of social performance. Hence the effect of international board on social performance is unrelated to the origin of MFIs CEO.

The interaction plots also provide consistent evidence for the significant joint effects in financial performance. The profitability of an international board (the red line) as compared to a local board (the blue line), improves with insider CEO (towards the right) than without (towards the left). Similarly, the operational expense ratio of an international board (red line) reduces more with insider CEO than outsider CEO. Simultaneously, we do not see much difference in the performance measures when a local board (blue line) work with either insider or outsider CEO. Taken together, the graphical illustration clearly visualizes the significance joint effect of international board and insider CEO on financial performance of an MFI as indicated in the regression results.





In order to account for reverse causality, we also run the regression by lagging all the explanatory variable by 1 year. International board membership can possible be not randomly distributed across MFIs and perhaps be determined by performance. This is a common challenge in corporate governance research (Hermalin and Weisbach, 2003). We can mitigate parts of the reverse causality problem by lagging all the independent variables by one year. We report the full model of the regression with lagged explanatory variables. The result without any control and with only MFI specific controls are largely similar to the full model. For Brevity, in table 7, the effect of MFI level and country level controls are not shown.

The results in the table 7, are very similar to the main regression finding in table 6. The joint effect of an international board and an insider CEO is positive and significant on profitability. Also, it is negative and significant (P< 0.01) on operational cost. However, we again do not see significant (P< 0.01) joint effect on social performance. Overall the table consistently indicates that the effect of an international board as compared to a local board on financial performance of MFIs improves when an MFI has an insider CEO than an outsider CEO.

Table 7. The Joint Effect of International Board and Insider CEO on Performance: Seemingly Unrelated Regression(SUR). One-year lag independent variables

	(1)	(2)	(3)	(4)
VARIABLES	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
International board	-0.0355**	0.114***	0.0520	-0.198
	(0.0147)	(0.0363)	(0.0684)	(0.227)
Insider CEO	-0.00531	0.00462	-0.0474	0.280*
	(0.0108)	(0.0268)	(0.0512)	(0.170)
IntBoard_InsiderCEO	0.0665***	-0.0779*	0.0172	-0.0423
	(0.0170)	(0.0421)	(0.0796)	(0.264)
MFI specific controls	YES	YES	YES	YES
Country level controls	YES	YES	YES	YES
Region dummies	YES	YES	YES	YES
Constant	0.0329	0.824***	0.902***	-0.275
	(0.0632)	(0.155)	(0.281)	(0.935)
Observations	121	121	121	121
R-squared	0.226	0.378	0.301	0.744
	ROA	Operating expense ratio	Average loan /GNI	Ln credit clients
ROA	1			
Operating expense ratio	-0.0606	1		
Average loan /GNI	-0.1318	-0.2074	1	
Ln credit clients	0.197	0.4203	-0.5571	1
Breusch-Pagan test of independence: chi2(6) =	71.370, p-value = 0.0000			

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

The control variables also have interesting implications (in table 5 & table 6). The mere effect of an international board membership taking all other things constant including the interaction with an insider CEO, decreases financial performance but does not have consistent significant effect on social performance. This relate to the constraints that an international board member faces: such as spatial distance barriers, limited local knowledge and networks that hamper an international board effectiveness (Jacobs et al., 2007; Masulis et al., 2012). In table 5, when all control variables are taken into account, an insider CEO significantly improves social performance. This is in line with the view that insider CEO internalize the hybrid organization mission, have firm specific knowledge and networks that enhance organization's performance (Mersland et al., 2018). We find significantly negative effect of board size on profitability, which is in line with the view that large boards are less effective (Eisenberg et al., 1999). Large organization size reduces costs, increases breadth of outreach and staff productivity, in line with the scale economics finding in the microfinance industry (Hartarska et al., 2013). Longer MFI tenure also reduces operational costs, consistent to the learning effect over time. Portfolio at risk is negatively associated with profitability and number of credit clients reached, which is hardly surprising as risk naturally drive down performance. Regulated MFIs have significantly lower profitability, and lower cost than non-regulated MFIs. Simultaneously, regulated MFIs as compared to non-regulated MFIs have significantly lower social performance. The lower cost of regulated MFIs can relate to the efficiency gain from regulation. The simultaneous decrease in profitability of regulated MFIs could be because of the effect of regulation on pricing policy of MFIs to protect borrowers (Hardy, Holden and Prokopenko, 2003). Similarly, the reduction in social performance is in line with Cull et al. (2009), that regulated MFIs internalize the cost related to regulatory compliance by curtailing outreach particularly to the costly segment of the population.

Moreover, macro-economic variables indicate an important implication on performance. MFIs that operate in politically stable places have significantly lower cost but lower social performance. The lower cost of operation in the politically stable places are related to the relative ease of doing business in politically stable countries. On the other hand, the higher average loan size and the smaller number of credit clients reached in politically stable places are in line with Ahlin et al. (2011) that there are more alternative opportunities in relatively stable places that limit the demand for micro loans. MFIs operating in relatively developed countries target lower income clients as indicated by smaller loan size. This reflect that with better development of the country, it is possible to downscale to reach the poorer clients.

4.3. Robustness test

We check the robustness of the result by investigating the moderating effect of CEO tenure on international board and performance relationship. Insider CEO share many similar characteristics with a CEO that have longer tenure (Tomas and Simerly, 1994). With longer tenure in the organization, a CEO can gain organization specific human and social capital (Simsek, 2007). Moreover, with longevity of tenure a CEO can also understand multiple interest group and the hybrid mission of the organization well (Santora and Sarros, 2001). Thus, the effect of international board on the performance of hybrid organization can analogously be moderated by the longevity of CEO tenure in an organization. This is particularly because of the complexity of supervisory board members' role that that requires thorough understanding about the organization's context and the potential role of longer tenured CEO to compensate for the knowledge gap.

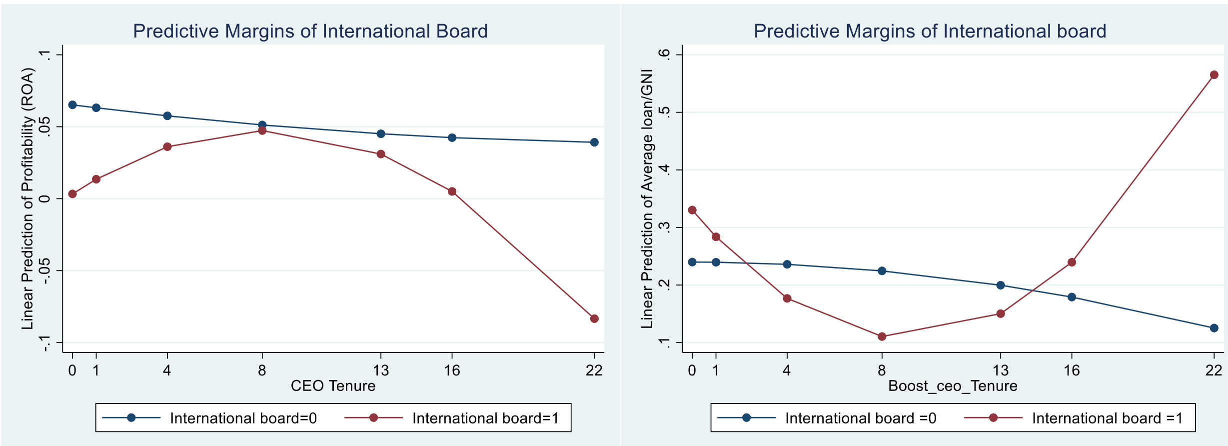
However, the gain in learning decreases as the CEO already attain sufficiently large level of tenure in the organization (Richard, Wu and Chadwick, 2009). Moreover, a CEO with a longer tenure more than a sufficient level is highly likely have limited perspective and more entrenchment (Miller and Shamsie, 2001). Hence, after certain level of tenure the advantage of learning can be offset by the disadvantage of CEO's entrenchment (Simsek, 2007; Hambrick and Fukutomi, 1991). Although an international board with an outsider stance objectively monitor the rigidity of a CEO that comes with tenure, this can be possible up to certain level. Organization literatures highlight that CEO with longer tenure in the organization can possible gain power to influence board decision through withholding important information (Hill and Phan, 1991).

Thus, instead of positive moderating effect, longevity of CEO tenure can have curvilinear moderating effect on the international board - performance relationship. This means that similar to the case of insider CEO, longevity of CEO tenure improves the effect of international board on organization performance; however, up to certain threshold CEO tenure level. Therefore, we also examine the moderating effect of CEO tenure on international board – performance relationship, to crosscheck the robustness of the moderating effect of insider CEO.

The regression results provide partial support of the joint effect on financial performance as measured by profitability and partial support of the joint effect on social performance as measured by average loan size.[7] We plot the interaction effects to clearly visualize the joint effect between board and CEO. The interaction plots indicate that the effect of an international board on profitability (ROA) increases with the increase in a CEO tenure until 8 years of CEO tenure and then declines (red curve). Similarly, the effect of an international board on social performance improves (as shown by a decrease in average loan size) as a CEO tenure increases until 8 years of CEO tenure and then worsens (red curve). Simultaneously, the local board members effect either on profitability or average loan size does not vary much as a CEO tenure changes. Overall the

[7] For Brevity, we presented the interaction plots alone. The unreported regression results are available up on request.

graphical illustration provides evidence that is largely analogous to the moderating effect of insider CEO. CEO with moderately high level of tenure also improves the effect of international board on performance. The results are indicated on profitability and average loan size measures.



5. Discussion

The results highlight a crucial interaction between international board membership and an insider CEO that contribute to the search for performance enhancing corporate governance mechanism in a hybrid organization.

The support for the hypothesis in terms of financial performance shows that the effect of an international board on financial performance improves when a hybrid organization has an insider CEO than an outsider CEO. International board members bring new insight, alternative strategic approach from their cross-national background (Oxelheim and Randøy, 2003; Datta et al., 2009). This is similarly argued in hybrid organization literatures (Mori et al., 2015; Mersland et al., 2011) However, most international board members govern hybrid organizations directly from overseas countries. Oftentimes, these board members are from high income countries and oversee hybrid organizations located in low income countries. Hence, international board membership is associated with costly culture (Mersland et al., 2011; Mersland and Strøm, 2009a). This is mainly because of such board members insufficient knowledge about the organization and the local context. Such a knowledge gap is created due to spatial distance barriers, linguistic differences and socio-economic differences (Masulis et al.,2012; Hooghiemstra et al.,2019). The knowledge gap further hampers the effectiveness of international board members. This is particularly the case for international board members in hybrid organizations, as such organizations run context contingent intervention that requires enough understanding about the local context (Holt and Littlewood, 2015).

However, when a hybrid organization have an insider CEO, it is possible to complement the knowledge gap of international board members and improve their cost effectiveness. This is the case, because an insider CEO has deep rooted organization specific knowledge and wider functional experience in the organization (Westphal and Zajac, 1995; Chung et al., 1987). These attributes can further enhance the insider CEO's capability of evaluating cost effective strategic options (Thomas and Simerly, 1994). Thus, an insider CEO is able to mitigate costly decision by an international board emanated from lack of contextual knowledge. On the other hand, broader external perspective and connections gained from an international board member are vital resources for an insider CEO. Such resources can broaden the narrow external insight of an insider CEO. Also, the resources can effectively be used by an insider CEO in combination with the CEO's deep organization specific knowledge and thereby bring higher organizational performance.

The robustness check conducted with a CEO tenure also provides analogous results. Similar to an insider CEO, a CEO with moderately high level of tenure, get adequate time to understand the organization, the different strategic options and the market (Gupta, 1986; Thomas and Simerly, 1997). The organization and the local contextual knowledge of tenured CEO, then complement the knowledge gap of an international board member. Moreover, with the inside knowledge gained from experience, tenured CEO is also able to process any new strategic insights gained from an international board member into feasible and cost-effective decisions. Besides, in a hybrid organization setting, tenured CEO is known to be more motivated and mission oriented (Pascal Beisland and Mersland, 2018). Together with the acquired knowledge, the intrinsic commitment of tenured CEO towards the social goal is crucial in enhancing the effectiveness of an international board on social performance. This is mainly because international board members have links with international investors and networks that are often interested in the social performance of hybrid organizations (Mori et al., 2015). However, such boards lack sufficient knowledge to promote social performance. Moderately tenured CEO on the other hand are better informed about the organization and intrinsically commit to the social goal of the organization. Therefore, such a CEO can complement the knowledge gap of international board members and also translate the influence of international board members into higher organizational performance.

The result of a CEO tenure, beyond providing complementary finding with an insider CEO, it suggests that the moderating potential of a CEO tenure is limited up to 8 years. This is consistent with organizational literatures that a CEO become more entrenched and an additional learning declines after certain threshold level of CEO tenure (Miller and Shamsie 2001; Hill and Phan 1991). In parallel to this, a tenured CEO contributes to the effectiveness of international board on performance up to the threshold tenure level.

6. Conclusion

The study highlights a crucial synergy between international board and insider CEO that augment hybrid organization performance.

Similar to for-profit firm settings, the international board members in hybrid organizations brining performance enhancing information, connections and competence (Mori et al., 2015) However, due to their distance governance, they have limited knowledge about the organization and the local context of the organization (Masulis et al.,2012). We argue that such local level information gap of international board members can be complemented by the superior organization specific knowledge of an insider CEO. Thus, this can give performance enhancing joint effect.

We test our hypothesis by using a global microfinance industry multiyear data set. Our finding shows that when a hybrid organization has an insider CEO than outsider CEO, the effect of international board particularly on financial performance improves. Insider CEOs have inside experience and knowledge of the organization which help them to precisely assess new opportunities and optimize resource allocation (Mersland et al., 2018; Richard et al., 2009). Thus, they can utilize the resources from an international board in a cost-effective way. In a Board-CEO relation information flows backward and forward direction (Allemand et al., 2013); therefore, insider CEO can also facilitate cost effective decision by an international board member by making the board more informed about the organization context.

CEO with moderately high level of tenure shares similar characteristics with an insider CEO (Tomas and Simerly, 1994). Accordingly, our robustness check, that takes moderately high level of CEO tenure as a proxy of insider CEO provides analogous result. Similar to insider CEO, tenured CEO through experience learn more about the organization's strategic options, clients and markets (Richard et al., 2009; Kor, 2003). Such a CEO can also get adequate time to internalize the the hybrid organization mission and gain enough insight on the socio-economic context surrounding the organization (Santora and Sarros, 2001). Hence, analogous to insider CEO, moderately tenured CEO, can also make the board more informed, can effectively process new insight from an international board and intrinsically commit to the goals of the organization. Therefore, analogous to insider CEO, tenured CEO moderate the international board performance relationship.

The study extends previous international business and corporate governance researches that investigate the role of international board members mainly in for-profit firms' settings (Hooghiemstra et al., 2019; Oxelheim and Randøy, 2003; Ruigrok et al., 2007), with only few exceptions in hybrid organizations' settings (e.g. Mori et al, 2015, Mersland et al., 2011). In doing so, the study uncovers the potential role of an international board membership beyond its unilateral effects, in which thus far has been the focus of studies in hybrid organization settings (Mersland et al., 2011). Specifically, the findings with an empirical enquiry manifest the strategic role of an international board membership in a hybrid organization though the joint effect with an insider CEO. Accordingly, the results highlight a crucial interdependency between the two board and CEO characteristics. In addition, the findings provide more veracity of the synergy through a moderately tenured CEO that is known to share similar characteristics with an insider CEO. This also extends Mersland and Strøm (2009b) that highlight the potential complementarity and substitution of boards and CEO characteristics in hybrid organization. To this end, the study responds to the authors call for more research on performance enhancing synergy between the two governing bodies.

The results can also provide evidence-based advice for hybrid organizations, because such organizations are widening their international focus by having international board members. Thus, apart from international board members' roles in resource provision and independent monitoring, it is important to recognize their community level information gap that can hamper their effective functioning. Particularly in hybrid organizations settings, because the intervention of such organizations is contingent on local information and networks. However, by having insider CEO than outsider CEO, hybrid organizations can improve the effective of their international board members'. Therefore, hybrid organizations that have international board members, should establish a plan that promote internal CEO succession.

The robustness check also suggests that it is possible to enhance the effectiveness of international board when a CEO learn sufficiently about the organization through experience in the position. However, the benefit from learning in average is limited to 8 years of tenure. Hence, the study suggests a closer look at high CEO power that is detrimental to the joint effect at higher level of CEO tenure.

We suggest future research should investigate the international board and insider CEO interconnection in the context of hybrid organization in other industry, for example in health sector or education sector. We also suggest more research on the interconnection between other boards and CEO attributes as well as other governance mechanisms that have potential complementarity and substitution. This can further address the search for performance enhancing methods of corporate governance mechanisms in hybrid organizations, though an enquiry that account for the joint contributions of such mechanisms.

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