ACHIEVING FINANCIAL PERFORMANCE AND SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS: RISK OF MISSION DRIFT

Mohd Sobri Minai, Universiti Utara Malaysia
Yusnidah binti Ibrahim, Universiti Utara Malaysia
Hisham Bin Mohammad, Universiti Utara Malaysia
Sharifah Norzehan Syed Yusuf, Universiti Teknologi MARA

ABSTRACT

Microfinance Institutions (MFIs) play an important role in alleviating poverty. Importantly, the key measure of success for any MFI is financial self-reliance. Therefore, improving profitability may secure the financial sustainability of MFIs, but it raises concerns about shifting their mission to help the poorest. This phenomenon is generally referred to as mission drift in the microfinance literature. This review study critically examines the major concerns based on a literature review and deliberates on how MFIs can retain their social mission while making good profits. Moreover, it also discusses the role of institutional investors in preventing mission drift. This study will benefit the MFIs, investors, borrowers, NGOs and governments.

Key Words: Microfinance, Microfinance Institution (MFI), Financial Performance, Social Performance, Risk, Mission Drift, Microcredit, Poverty

INTRODUCTION

The prime objective of microfinance was originally to provide small-scale loans to women in rural communities and educate them on how to succeed in business or other fields of endeavour. These initiatives of microfinance can reduce poverty, promote well-being and contribute to development. It is often considered as one of the most widely used development tools in many societies (Ayele, 2015; Quayes & Khalily, 2014). Muhammad Yunus devised the concept known as *microcredit* which at the beginning provided small loans to the rural poor. Later microcredit schemes extended their financial services and became more innovative in product development due to market demands (Chan & Lin, 2015; Cull, Demirgüç-Kunt & Morduch, 2011) and eventually became recognised as microfinance. This evolution in the microfinance industry set out to achieve poverty reduction (Chowdhury, 2009; Copestake, 2007).

In Bangladesh in during the 1970s, Muhammad Yunus, the father of modern microfinance, implemented his idea of micro-lending to the poor who were unserved by commercial banks because of their level of poverty. The poor commonly - considered as a proper clients for microfinance - were involved in profit-making ventures and repaying their interest-laden loans (Morduch, 2000). Poverty and vulnerability can encourage the poor to be more entrepreneurial and lead them to change their destiny. However, they need good laws being enforced to protect private property, but will also give them the incentives to generate wealth (Ding, Sun & Au, 2014; Peng, Sun, Pinkham & Chen, 2009).

Microfinance is a loan that is collateral-free and given to the poorest populations in rural areas. Traditional banks have ignored these populations due to their lack of collateral and the legal mechanisms which make borrowers' loan repayments extremely difficult, if not impossible. This borrowing option isolates the poor from the traditional credit system, leading to the perpetuation of poverty and economic inequality. Collateral-free micro-credit loan services,

therefore, were received enthusiastically (Beck, Demirgüç-Kunt & Levine, 2007; Kamaluddin et al., 2015). Moreover, the innovative approach of micro-lending to generating the social bottom line (out of the reach of the poor) and clients' involvement in profit-generating micro-enterprises ensured comparatively very high loan repayments (Armendáriz & Morduch, 2010). According to the World Bank's most recent estimate, nearly half of the world's adults (about 2.5 billion) have no bank account; which accounts for 60% of people in the developing economies and 11% in developed countries (Wright, 2015). Poor people often live in remote rural areas that are usually not covered by traditional banking services. The study found most people do not have bank accounts, do not have much to save or any ability to proceed to get finance for education, nutrition and healthcare (Wright, 2015; Alam et al., 2011). Small enterprises with access to credit go through difficult times in trying to create business and employment opportunities. Despite these issues, the traditional banking system requires collateral for lending money. Microfinance is, therefore, a breakthrough in the capitalist financial market and one that intends to help the poor. Further developments in the microfinance industry have attempted to make the industry profitable and credible.

The Wall Street Journal has been reporting issues on changes in and commercialization of the microfinance industry since 2009. Microfinance is a profitable industry for institutional investors (Gokhale, 2009b). Mr. Arnab Mukherji, a researcher at the Indian Institute of Management in Bangalore, reported that the Indian microfinance industry has changed from a social agency to a lending agency that intends to maximise its profits (Gokhale, 2009b). Many Indian MFIs which were founded as non-profit organisations registered as pro-profit according to the Reserve Bank of India (India's Central Bank) in order to have wider access to funds. However, their rivals (traditional moneylenders) have also thrived (Gokhale, 2009a). In 2008, the microfinance industry attracted $14.8 billion in foreign capital which was 24% greater than the previous year, making many MFIs free themselves of dependence on donors' funding (Evans, 2010). Despite this, some believe that those MFIs are in danger as they act as predatory moneylenders, expressing the fear of forgetting their original mission and instead chasing profits for institutional investors (Evans, 2010; Alam & Molla, 2013).

Currently, academic researchers, policy-makers and regulators have given much emphasis to assessing both financial and social performance, as well as analysing the performance of MFIs. Much of modern microfinance research now takes into account the financial and social performance simultaneously. Several studies have been conducted on the performance of MFIs in the last decade, but mixed results have been identified (Molla et al., 2008; Molla & Alam, 2011; Alam & Molla, 2012; D'Espallier, Hudon & Szafarz, 2013; Quayes, 2015; Strøm, D'Espallier & Mersland, 2014; Alam et al., 2015). In addition, scholars who have used global datasets or different regional datasets to measure MFIs' performance have also employed macroeconomic factors, but the numbers are few (Ahlin et al., 2011; Kar, 2011; Kar & Swain, 2014). Therefore, questions arise and although many empirical studies have been conducted, there is as yet no convincing conclusion.

FINANCIAL PERFORMANCE OF MFIS

In the early 2000s, the issue of financial viability was the focus of research for academic scholars and policy-makers (Robinson, 2001; Tucker, 2001). Studies since then have found changing policies and strategies with different issues now under consideration. However, the utmost importance of financial viability of MFIs for their long-term existence is still agreed upon (Cull, Demirgüç-Kunt & Morduch, 2009; Gutiérrez-Nieto, Serrano-Cinca & Mar Molinero, 2007; Hermes et al., 2011). Several issues have been identified on how to improve efficiency and financial viability, such as commercialisation or transformation of MFIs, competition between them, economic liberalisation, government policies, and most importantly, rapid technological advances in recent times (Rhyne & Otero, 2006).

More than US$1 billion per year has been received by MFIs as donations from both the public and private sectors in the last 20 years (CGAP, 2005). However, about 5% of global MFIs have are working efficiently without external subsidies, while the rest of them greatly rely on them (UNCDF, 2005). Subsidies exist in different forms as follows: (i) direct (*i.e.,* cash, donations); and (ii) indirect (*i.e.,* asset, soft-skill, training, technology). Armendáriz & Morduch (2010) argued that such forms also include tax holidays, loan guarantees, soft equity, or public goods, yet this information might not be made available to researchers. In one previous study by Morduch (1999), he identified a huge adjustment difference between the direct and indirect subsidies of Grameen Bank for 1985-1996, which were reported as amounting to US$144 million, instead of only US$1.5 million.

MFIs' comprehensive donor dependence has raised several arguments about their sustainability and efficiency. Hollis & Sweetman (1998) stated that the financial sustainability of MFIs is a very important matter that needs to be emphasised. Financial sustainability of MFIs is defined as the ability to cover all costs with their generated revenues and can finance future growth (Ayayi & Sene, 2010). Lack of these capabilities explain why MFIs are strongly dependent on external subsidies, and generally less sustainable and efficient (Rhyne, 1998). Several studies have shown there are significant relationships between financial self-sufficiency and operating efficiency. Although the prime problem is that subsidies undermine both efficiency and scale within the microfinance institution, and pervert the market by supporting more inefficient practices and policies (Hudon & Traca, 2011), analyses have found that smart subsidies enhance microfinance institutions' efficiency their infrastructure (Armendáriz & Morduch, 2010; Cull, Demirgüç-Kunt & Morduch, 2006; Hudon, 2006). MFIs constitute a special form of financial service provider, but this does not mean that operational efficiency and sustainability are not important to them as with a traditional bank.

Research by Agbodjan (2002) on the results of prudential regulations showed that the non-observance of some "prudential ratios" by MFIs did not adversely affect their financial and organisational performance. Moreover, given the very strong correlation between the sustainability and profitability of these institutions, the recommended strategy should be the removal of framing the lending rates so that these neighbourhood credit institutions are more profitable (Agbodjan, 2002). In addition, the cost efficiency of MFIs is affected by average loan size, proportion of net assets, financial sufficiency, financial leverage, business experience, and proportion of farm loans (Gregoire & Ramírez Tuya, 2006). Kinde (2012) showed that the financial sustainability of Ethiopian MFIs has been influenced by the breadth and depth of outreach, dependency ratio, and cost per borrower. He also concluded that the microfinance capital structure and staff productivity have insignificant effects on the financial sustainability of MFIs in Ethiopia (Kinde, 2012). Thapa (2007) revealed that MFIs are considered to be financially self-contained if their operating incomes can sustain all loan losses, administrative and finance costs, after synthesising inflation rates and subsidies from donors and treating all funding as if it had a commercial cost.

The financial self-sufficiency of MFIs depends on the performance of the return on assets and return on equity (Tucker & Miles, 2004). The authors concluded that providing financial service to the poor is an expensive proposition, which can deter numerous MFIs from reaching self-sufficiency and may require them to ask for more subsidies. The cost argument has an important flaw: client retention, which is a critical aspect of financial sustainability and a key measure of social influence, is significantly higher in rural areas (Epstein & Yuthas, 2013). The study suggested that by operating in these markets, MFIs may be able to improve both social impact and financial performance. However, Epstein & Yuthas (2011a) reported that MFIs can significantly improve their financial sustainability and social influence by increasing the focus on trust.

Profit margin, Operational Self-Sufficiency (OSS), ROA, and gross loan portfolio-to-total asset ratio considerably affect the other components by establishing the financial sustainability dimension (Anduanbessa, 2009). Borrowers' outreach is growing as evidenced by

the opening of branches throughout Tanzania. Nevertheless, lending activities are still concentrated in city areas (Chijoriga, 2000). As well, operational performance demonstrates smaller loan repayment rates. Conversely, capital structure reveals a high dependence on donor or government subsidy. Financial sustainability increases through external governance practices in MFIs (Bassem, 2009). Other factors such as regulation and individual lending methodology, can also lead to sustainability. Furthermore, interest rates, administrative efficiency, loan officer productivity, and staff salaries are significant determinants of Financial Self-Sufficiency (FSS), but staff productivity measures and institutional scale are unrelated to FSS (Woller & Schreiner, 2002). The study found a statistically significant and positive relationship between FSS and depth of outreach. However, according to Cull & Morduch (2007) earning profits is possible while serving the poor, but a trade-off emerges between profitability and serving the core poor. They concluded that raising fees to extremely high levels does not ensure higher profitability, and the benefits of cost-cutting decline when serving better-off customers.

The organisation known as Consultative Group to Assist the Poor (CGAP) in 2003 devised guidelines for MFIs on the financial terms' definitions, ratios and adjustments. Other rating agencies, multinational banks, donors, NGOs, private voluntary organisations, etc., agreed that guideline is generally divided in four categories of financial ratios: (i) profitability/sustainability, (ii) liability/asset management, (iii) portfolio quality and (iv) productivity/efficiency.

SOCIAL PERFORMANCE OF MFIS

MFIs still extensively depend on various local and international donors. As a result, the great debate on microfinance sustainability is yet to be resolved (Morduch, 1999). From a different perspective, there is a call to commercialise microfinance programs so that access can be made to available large assets and to finance their operational expenses. In this way a greater number of poor people will be well served (Ghosh & Van Tassel, 2008; Morduch, 2000). Once MFIs are able to make profits from their own operations, they can start borrowing from the commercial sector and reduce donor dependence. Pursuing profitability will increase their outreach to the poorest clients (Kar, 2013). The controversy arises here about who to serve (target group), and the level of poor people to serve (poverty level). Navajas et al., (2000) argued that MFIs' lending credit should be directed to the poorest households since they are close to or below the poverty line; in reality, most of them are the richest among the poor. Few of those who live below the subsistence frontier are employed, and fewer still are involved in setting up micro-ventures. The very poor can realise the benefit of microfinance due to its consumption smoothness (Morduch, 1998; Zeller & Johannsen, 2006). Several studies confirmed that competition in the microfinance industry affects the outreach of MFIs in different regions (Hartarska & Nadolnyak, 2007; Olivares-Polanco, 2005).

From the sustainability perspective, profitability of MFIs is very closely linked to reaching the social bottom line, as it will continue to help institutions serve more clients (Yunus, 2007). Conversely, profit-seeking MFIs can seriously compromise their outreach programs due to the operational cost of serving poorer populations (Cull, Demirgüç-Kunt & Morduch, 2007; Mersland & Strøm, 2010). A study conducted a few years proposed a comprehensive model that includes financial sustainability and outreach as endogenous variables. The results found that financial sustainability does not badly affect the depth or breadth of outreach (Nurmakhanova et al., 2015). Another study by Meyer (2015), analysed the interaction between social and financial returns in MFIs. A multivariate regression model was employed, using 1,508 observations on MFIs for the years 2004 to 2010. Strong evidence emerged that MFIs can achieve higher portfolio yields from more social outreach (Meyer, 2015). Quayes (2015) conducted a panel investigation on possible trade-offs between outreach and profitability using 764 MFIs from 87 countries. The empirical results of this study revealed that the financial performance of MFIs can be boosted by reaching out to the poor (Quayes, 2015). Both these studies confirm that

MFIs can function better financially if their social outreach programs are better targeted, but some market oriented strategies need to be applied. A study on Savings and Credit Cooperative Societies (SACCOs) in Tanzania revealed that both product development and market development make a significant contribution to outreach performance (Jeje, 2014). However, sometimes this relationship between outreach and profitability can one that simply does not work. Indeed a study discovered that financial performance and outreach in Ethiopian MFIs were not linked. It was concluded that there were negative trade-offs between financial performance and outreach in Ethiopian MFIs (Gashayie, 2014).

Governance and board composition are new concerns regarding MFIs' performance. In some regions such as Central and Eastern Europe and newly independent nations, external governance mechanisms played only a minimal role in MFIs (Hartarska, 2005). However, sustainability and outreach also have trade-off based on stakeholder representation on the board, so independent boards with limited employee participation are advised (Hartarska, 2005). A recent study identified board composition and outreach to the poor of MFIs appear to be related. If the MFI has an independent higher share, foreign, and/or women on the board, then the outreach of that institution will improve (Mori, Golesorkhi, Randøy & Hermes, 2015). Several studies have been conducted on the possibility of integrating the measurement of social performance with microfinance business practices or performance assessments (Ahmed, Bhuiyan, Ibrahim, Said & Salleh, 2016; Hashemi, 2007). On this theme, various frameworks have been proposed by scholars to measure the social performance of MFIs (Schreiner, 2002; Zeller, Lapenu & Greeley, 2003). For example, Schreiner (2002) proposed an outreach framework comprising six aspects of social benefits of microfinance programs for poor clients: (i) cost of outreach to clients, (ii) worth of outreach to clients, (iii) depth of outreach, (iv) breath of outreach, (v) length of outreach, and (vi) scope of outreach. The costs of outreach to clients define the transaction and price costs charged to the clients of microfinance programs. However, the worth of outreach to clients entails the willingness of microfinance clients to pay the loans back. Conversely, the depth of outreach represents the added value of active microfinance clients to society. Welfare theory claims that depth is the weight of a client in the social welfare function, so weight depends on what society prefers (Schreiner, 2002).

The most popular proxy for depth of outreach is average loan size. Smaller average loan size states that microfinance given to the poorer clients, shows greater outreach depth. Alternatively, indirect proxies of depth of outreach could be: (i) location, with rural areas preferred to urban areas; (ii) gender, with outreach to women preferred; (iii) ethnicity, where minorities are preferred; (iv) education, where less education is preferred; (v) access to public services, in which lack of access is preferred; and (vi) housing; with small and vulnerable households preferred. Conversely, breath of outreach is measured by the number of clients served by the MFIs or active number of borrowers. The future timeframe or duration of supplied microfinance services refers to the length of outreach. Lastly, the number of microcredit products or services provided to clients will represent the scope of outreach of MFIs.

After considering various studies, CGAP, the Ford Foundation, and Argidius Foundation united to establish the Social Performance Task Force (SPTF) in 2005 with the aim of standardising the social performance measurement of MFIs. The SPTF staff made up the world's top 350 microfinance leaders and a social performance standard report was devised and distributed in 2009. According to SPTF report (2009), social performance is the successful transformation of a MFI's social promise into action in line with social values, and in which services are viable for the poor. The good quality and usefulness of services enhances the household economy and socio-economic circumstances of borrowers, the social obligations to its clients, employees, and the wider society. The achievement of social promise and poverty alleviation of MFIs has been noted in the Social Performance Task Force (SPTF, 2009) report. However, Zeller, et al., (2003) argued that social performance and social impact measurements are not the same. Social performance measurement should concentrate on reaching out and measuring microfinance programs, whereas social impact measurement should focus on

outreach to poor people, welfare development and enhancement of quality of life of poorer clients (Zeller et al., 2003).

MISSION DRIFT: A SLOW POISON

Mission drift has been defined as “a phenomenon whereby an MFI increases its average loan size by reaching out wealthier clients; neither for progressive lending nor for cross subsidization reasons” (Armendáriz & Szafarz, 2011). On the other hand, MFIs may reach out to clients who want more credit for doing better or fulfilling demands. Moreover, Armendariz & Szafarz (2011) assert that outreach to the wealthier of the poor and avoiding the lowest strata is more profitable for MFIs, but when the institution realises this, mission drift may occur. This can only happen if the institution’s poverty alleviation objective is not aligned with its profit motive. A decade-old study found that mission drift occurs when the MFI presents “a shift in the composition of new clients, or a reorientation from poorer to wealthier clients among existing clients” (Cull et al., 2007). Similarly, Mersland & Strøm (2010) claimed that “if mission drift occurs, the MFI’s outreach to poor customers, its depth of outreach, is weakened”. The more the outreach depth is achieved with small loans, the more women will be served. Moreover, switching lending methods, especially from a group based on individual lending could also be a signal that the MFI is experiencing mission drift.

Commercialisation and transformation of the microfinance industry occurs when the emphasis is on earning profits. Some microfinance institutions rediscover their operating efficiency through earning profits while some choose to serve better-off clients with bigger loans to manage their costs (Cull et al., 2007; Guntz, 2011; Hermes et al., 2011). The concern about mission drift emerged in the early 1990s when one NGO in Bolivia named PRODEM changed into a shareholder-owned organisation BancoSol, and this a major example of this kind (Rosenberg, 2014). Thus the tension of a possible trade-off between serving the poor and seeking financial viability was evident (Kar, 2012). In another case, a MFI named Banco Compartamos of Mexico released its shares in a secondary offering IPO in April 2007, the first time ever in the history of microfinance (Rosenberg, 2007). This case revealed only a handful of people profited enormously and it reignited not only the controversy around mission drift, but some ethical practices as well (Ashta & Bush, 2009; Ashta & Hudon, 2012). Some studies indicated the excess interest rates imposed on poor people by the institution attracted wealthy investors (Ashta & Hudon, 2009). Muhammad Yunus criticised the initiative and claimed it should not be compared to the microcredit program he initiated, as this initiative simply generated fears about the rebirth of the ‘loan shark’ (Economist, 2008; Malkin, 2008).

Making microfinance institutions profitable loses sight of poverty reduction goals (Yunus, 2010). Conversely, Akula argued that the commercial capital market is the only way to generate required finance so that the poor can use it. However, allowing private capital into microfinance ventures and turning them into for-profit causes, makes it very difficult to realise both goals (Akula, 2012). Deviation from the original mission of MFIs may also be attributed to uncertainties about external donations (Armendáriz & Szafarz, 2011), lack of good management practices (Augsburg & Fouillet, 2010), tension of institutional sustainability (Ayele, 2015), etc. Achieving dual objectives is may be possible through a well-planned strategy for social performance, shrewd combinations of synergies and trade-offs. However, recent developments in the microfinance industry have focused on transformation, commercialisation and profit orientation, which means that poverty eradication has been traded off by MFIs. Mindful of this, studies proved that profit-oriented microfinance institutions can lend to poor clients based on joint liability contract, while wealthier clients can borrow on a individual liability contract basis (Caserta & Reito, 2013). Therefore, profit-oriented MFIs may target both poor and wealthier borrowers by changing the lending model.

Chahine & Tannir (2010) examined the financial and social performance of transformed MFIs or TMFIs which previously were NGOs. Their study revealed that financial independence and breadth of outreach has improved when NGOs became TMFIs. However, depth of outreach has been compromised due to this transformation when TMFIs became more closely aligned with banks (Chahine & Tannir, 2010). The study suggested that financial self-sufficiency might improve through NGOs becoming MFIs, but a mission drift may occur. Cull et al., (2007) argued that microfinance institutions aim to eradicate poverty through providing profit-oriented banking services to low income-earning countries. However, several MFIs have managed to introduce high loan repayment rates but make very low profits. Cull et al., (2007) revealed profitability patterns, cost reduction and loan repayment of selected MFIs; and evidence that MFIs might be earning profits while reaching out to poor. However, a trade-off may occur between sustainability and outreach to the poorest clients (Cull et al., 2007).

Regulated microfinance institutions can expand their financial activities and allow borrowers to deposit, though maintaining regulations which are a costly part of institutions' operations. Cull et al., (2011) used 245 institutions' datasets and investigated the implications for financial performance and social outreach to female borrowers. They found that profit-focused MFIs continue their profits by reducing female and other reachable but expensive clients to avoid high supervision cost. The study further discovered that less focus on profit will strengthen MFIs' social outreach. Based on much field work, Epstein & Yuthas (2011b) examined sources, consequences and remedies of drift and diffusion in microfinance institutions' mission. It emerged that various approaches to poverty reduction, employment inequality and contradictory stakeholders' interests caused mission diffusion. MFIs commercialise their services to achieve a better rating and profit scale and subsequently mission drift arises (Epstein & Yuthas, 2011b). It was recommended to implement effective good governance and performance management practices, and be more specific about the mission to regain clarity of purpose.

Gutiérrez & Goitisolo (2011) stated that MFIs are a unique type of financial service provider where the industry's double bottom line is for institutions to perform well financially and socially. Using a wide-ranging database, their study explored the link between the financial and social aims of MFIs. Microfinance programs are special due to their extensive social value and function as a key development tool. The results indicated a large variation among the entities; however, a negative link was identified among issues of profitability, size and social reach of microfinance institutions (Gutiérrez & Goitisolo, 2011). Hermes et al., (2011) examined the trade-off between efficiency and poverty outreach of microfinance institutions and they were convinced that outreach was inimical to efficiency. Using various control variables, their analysis presented robustly significant findings that institutions which have a lower average loan balance and/or higher number of female clients are not efficient enough (Hermes et al., 2011). Hishigsuren (2007) argued that microfinance programs with a mission of poverty reduction may drift due to scaling up the pressure. The findings confirmed that mission drift occurs due to the scaling up process, not due to the board's or management's decisions. Im & Sun (2015) illustrated that when institutions with dual objectives pursue a commercial logic, it can secure more profits at the detriment of enhanced social outreach. Their study employed a multilevel mixed model and 1,129 microfinance institutions in 98 nations, and it claimed an inverted U-shaped relationship existed between earning profits and social outreach in the distribution curve of profitability. This relationship was also affected by the nature of the institutions and regulations (Im & Sun, 2015). Kar (2012) investigated the trade-off between profitability and depth of outreach in MFIs using 4-6 years observations of 409 MFIs in 71 nations. A significant positive relationship was found between MFI size and average loan size, and results for the outreach indicated a similar percentage of women borrowers. However, the profitability and outreach trade-off concerns seemed invalid when the scaled-up indicators of MFI age and MFI size were excluded. This suggested there was evidence of a distinguishable trade-off between MFIs' dual objectives (Kar, 2012).

More recent studies have detected a complex scenario. Mia & Lee (20017) claimed that using commercial funds in microfinance operations is likely to lead to mission drift. The authors argued that patronising commercial interests harms outreach programs to the poorest clients. In contrast, Huq, et al., (2017) claimed there was a neutral trade-off in achieving the double bottom line. These authors asserted that a larger and riskier portfolio limits MFIs' ability to reach the poorest segments of the population. Contrary to this, Lopatta, et al., (2017) found that the concern of mission drift is especially pronounced in non-profit-oriented MFIs, which is surprising and requires further research.

CONCLUSION AND THE WAY FORWARD

This study has found that institutional investors are increasingly interested in microfinance institutions, due to their dual objectives of making a profit but also creating social change. It is a unique opportunity for them too to obtain dual returns from a single investment; profitability and impact. Arguably, investors' interest in dual return greatly influences the institutions' objectives. However, academics and policy-makers argue that mission drift as a growing problem in the microfinance industry, but the solutions are as yet unknown. Double bottom line objectives are an attractive win-win proposition for microfinance institutions and their investors, but they have been questioned by some scholars. Some believe that the social mission of poverty alleviation has been overshadowed by the profit motive. Consequently, microfinance institutions tend to deliver larger loans to the wealthier clients rather than the really destitute, which was their original mission. Although it is not something that MFIs' management ideally wishes for, there is a greater reliance on private sector investment, so pressure rises to prioritise the interests of investors. Studies found a negative relationship between profit motive and outreach to the poor, but it remains unclear if institutional investors have any role in the mission drift of MFIs.

Commercialisation in the microfinance industry means the emphasis is on profit maximisation. There are certain matters that institutional investors may have to consider before investing their money in microfinance programs. Regulation is one of them and some studies indicated that appropriate regulatory and supervisory frameworks for MFIs are very important as those used by traditional banks. However, it is also difficult to apply the same regulations for all countries. For instance, the regulatory legislation in Bangladesh enables taking deposits from borrowers, but no such laws exist in India. For this reason, SKS Microfinance has called for the commercial capital market to make inclusive access to funds possible.

Institutional motives also constitute an issue that institutional investors should consider. This study found that MFIs should either focus on social welfare or making profits. Previous studies concluded that typically NGOs perform better when they aim to improve a society, while bank and non-bank financial institutions simply performed better financially. This finding might put institutional investors in a dilemma. However, if profit orientation takes place in different types of institutions, then mission drift will inevitably occur. On the other hand, MFIs that are affiliated with a wider network tend to be more transparent and ethical in their operations, so they will attract more investors in their outreach programs. However, this theme is virtually missing in all previous studies on the subject.

ACKNOWLEDGEMENT

We acknowledge the support of the Malaysian Ministry of Higher Education for conducting this research, with funds provided by the FRGS project grant (UUM Kod S/O: 13592).

REFERENCES

Agbodjan, J.P. (2002). Prudential regulation in decentralised financial system. *Prudential Regulation in Decentralized Financial Systems*, *30*, 63–71.

Ahlin, C., Lin, J., & Maio, M. (2011). Where does microfinance flourish? Microfinance institution performance in macroeconomic context. *Journal of Development Economics*, *95*, 105–120.

Ahmed, I., Bhuiyan, A.B., Ibrahim, Y., & Said, J. (2016). Profitability and accountability of South Asian Microfinance Institutions (MFIs). *Journal of Scientific Research and Development*, *3*(3), 11–21.

Ahmed, I., Bhuiyan, A.B., Ibrahim, Y., Said, J., & Salleh, M.F.M. (2016). Social accountability of microfinance institutions in South Asian region. *International Journal of Economics and Financial Issues*, *6*(3), 824-829.

Akula, V. (2012). The best of 2012: Making the most of missteps: At Harvard social enterprise conference. SKS's Akula opens up on failure, Cambridge, MA.

Alam, M.M., & Molla, R.I. (2012). The limitations of microcredit for promoting microenterprises in Bangladesh. *Economic Annals*, *57*(192), 41-53.

Alam, M.M., & Molla, R.I. (2013). *Productivity and efficiency challenges of microcredit program in Bangladesh*. Centre for Research and Publication at International Islamic University Chittagong (IIUC): Chittagong, Bangladesh.

Alam, M.M., Hossain, M.M., & Zaman, F. (2011). Non-institutional factors affecting microentrepreneurship development in Bangladesh. *International Review of Business Research Papers*, *7*(6), 240-247.

Alam, M.M., Said, J., & Hassan, S. (2015). Performance of Islamic microcredit in perspective of *Maqasid Al-Shariah*: Case study on Amanah Ikhtiar Malaysia. *Humanomics, 31*(4), 374–384.

Anduanbessa, T. (2009). Statistical analysis of the performance of microfinance institutions: The Ethiopian case. *Savings and Development*, *33*, 183–198.

Armendáriz, B., & Labie, M. (2011). *The Handbook of Microfinance*. Singapore: World Scientific.

Armendáriz, B., & Morduch, J. (2010). *The Economics of Microfinance*, (*2nd edition*). Cambridge, Mass.: MIT Press.

Armendáriz, B., & Szafarz, A. (2011). On mission drift in microfinance institutions. *The Handbook of Microfinance*, 341–366.

Armendáriz, B., D'Espallier, B., Hudon, M., & Szafarz, A. (2011). *Subsidy uncertainty and microfinance mission drift*. CEB Working Paper 11, Université Libre de Bruxelles.

Ashta, A., & Bush, M. (2009). Ethical issues of NGO principals in sustainability outreach and impact of microfinace: Lessons in governance from the Banco Compartamos' IPO. *Management Online Review*, 1–18.

Ashta, A., & Hudon, M. (2009). To whom should we be fair? *Ethical issues in balancing stakeholder interests from Banco Compartamos case study*. CEB Working Paper No. 09/036.

Ashta, A., & Hudon, M. (2012). The compartamos microfinance IPO: Mission conflicts in hybrid institutions with diverse shareholding. *Strategic Change*, *21*, 331–341.

Augsburg, B., & Fouillet, C. (2010). Profit empowerment: The microfinance institution's mission drift. *Perspectives on Global Development and Technology*, *9*.

Ayayi, A.G., & Sene, M. (2010). What drives microfinance institution's financial sustainability. *The Journal of Developing Areas*, *44*, 303–324.

Ayele, G.T. (2015). Microfinance institutions in Ethiopia, Kenya and Uganda: Loan outreach to the poor and the quest for financial viability. *African Development Review*, *27*, 117–129.

Bassem, B.S. (2009). Governance and performance of microfinance institutions in Mediterranean countries. *Journal of Business Economics and Management*, *10*, 31–43.

Beck, T., Demirgüç-Kunt, A., & Levine, R. (2007). Finance, inequality and the poor. *Journal of Economic Growth*, *12*, 27–49.

Caserta, M., & Reito, F. (2013). Outreach and mission drift in microfinance: An interpretation of the new trend. *Economics Bulletin*, *33*, 167–178.

CGAP. (2003). *Microfinance Consensus Guidelines*. Washington: CGAP/The World Bank Group.

CGAP. (2005). *Mapping of Funding Flows*. Washington, DC: CGAP.

Chahine, S., & Tannir, L. (2010). On the social and financial effects of the transformation of microfinance NGOs. *Voluntas*, *21*, 440–461.

Chijoriga, M.M. (2000). The performance and sustainability of micro financing institutions in Tanzania. *Journal Fur Entwicklungspolitik*, *16*, 275–301.

Chowdhury, A. (2009). *Microfinance as a poverty reduction tool-a critical assessment*. Working Paper 89, Department of Economic and Social Affair, United Nations.

Copestake, J. (2007). Mainstreaming microfinance: Social performance management or mission drift? *World Development*, *35*, 1721–1738.

Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2007). Financial performance and outreach: A global analysis of leading microbanks. *The Economic Journal*, *117*, F107–F133.

Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2009). Microfinance meets the market. *The Journal of Economic Perspectives*, *23*, 167–192.

Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2011). Does regulatory supervision curtail microfinance profitability and outreach? *World Development*, *39*, 949–965.

Ding, Z., Sun, S.L., & Au, K. (2014). Angel investors' selection criteria: A comparative institutional perspective. *Asia Pacific Journal of Management*, *31*, 705–731.

Epstein, M.J., & Yuthas, K. (2011a). Protecting and regaining clarity of mission in the microfinance industry. *Sustainability Accounting, Management and Policy Journal*, *2*, 322–330.

Epstein, M.J., & Yuthas, K. (2011b). The critical role of trust in microfinance success: Identifying problems and solutions. *Journal of Developmental Entrepreneurship*, *16*, 477–497.

Epstein, M.J., & Yuthas, K. (2013). Rural microfinance and client retention: Evidence from Malawi. *Journal of Developmental Entrepreneurship*, *18*.

Evans, J. (2010). Microfinance's midlife crisis. *The Wall Street Journal*.

Gashayie, A. (2014). Relationship of financial sustainability and outreach in Ethiopian microfinance institutions: Empirical evidence. *Research Journal of Finance and Accounting*, *5*, 207–211.

Ghosh, S., & Van Tassel, E. (2008). *A model of mission drift in microfinance institutions*. Department of Economics, Florida Atlantic University, December.

Gokhale, K. (2009a). A global surge in tiny loans spurs credit bubble in a slum. *The Wall Street Journal*.

Gokhale, K. (2009b). As microfinance grows in India, so do its rivals. *The Wall Street Journal*.

Gregoire, J.R., & Ramírez Tuya, O. (2006). Cost efficiency of microfinance institutions in Peru: A stochastic frontier approach. *Latin American Business Review*, *7*, 41–70.

Guntz, S. (2011). Sustainability and profitability of microfinance institutions. *CAIFD-Center for Applied International Finance and Development, Research Paper 4*.

Gutiérrez, J., & Goitisolo, B. (2011). Profitability and social performance of microfinance institutions: Empirical evidence of relations between different types of variables. *Revista de Economía Mundial*, *27*, 189–214.

Gutiérrez-Nieto, B., Serrano-Cinca, C., & Mar Molinero, C. (2007). Microfinance institutions and efficiency. *Omega*, *35*, 131–142.

Hartarska, V. (2005). Governance and performance of microfinance institutions in Central and Eastern Europe and the Newly Independent States. *World Development*, *33*, 1627–1643.

Hartarska, V., & Nadolnyak, D. (2007). Do regulated microfinance institutions achieve better sustainability and outreach? Cross-country evidence. *Applied Economics*, *39*, 1207–1222.

Hashemi, S.M. (2007). *Beyond good intentions: Measuring the social performance of microfinance institutions*. CGAP.

Hermes, N., Lensink, R., & Meesters, A. (2011). Outreach and efficiency of microfinance institutions. *World Development*, *39*, 938–948.

Hishigsuren, G. (2007). Evaluating mission drift in microfinance lessons for programs with social mission. *Evaluation Review*, *31*, 203–260.

Hollis, A., & Sweetman, A. (1998). Microcredit: What can we learn from the past? *World Development*, *26*, 1875–1891.

Hudon, M. (2006). *Financial performance, management and ratings of the microfinance institutions: Do subsidies matter?* Working Paper, Solvay Business School, University of Brussels.

Hudon, M., & Traca, D. (2011). On the efficiency effects of subsidies in microfinance: An empirical inquiry. *World Development*, *39*, 966–973.

Huq, B.I.A., Azad, M.A.K., Masum, A.K.M., Wanke, P., & Rahman, M.A. (2017). Examining the trade-off between social outreach and financial efficiency: Evidence from micro-finance institutions in South Asia. *Global Business Review*, *18*, 617–628.

Im, J., & Sun, S.L. (2015). Profits and outreach to the poor: The institutional logics of microfinance institutions. *Asia Pacific Journal of Management*, *32*, 95–117.

Jeje, K. (2014). Intensive growth strategies and outreach performance of Tanzania-based savings and credit cooperative societies. *International Journal of Business and Management*, *10*, 124-135.

Kamaluddin, A., Hadi, N.A., Alam, M.M., & Adil, M.A.M. (2015). Social collateral model for Islamic microfinance. *Journal of Developing Areas, 49*(5), 353-363.

Kar, A.K. (2011). Microfinance Institutions: A cross-country empirical investigation of outreach and sustainability. *Journal of Small Business & Entrepreneurship*, *24*, 427–446.

Kar, A.K. (2013). Double bottom lines in microfinance: Are they mutually exclusive? *Journal of Small Business & Entrepreneurship*, *26*, 87–107.

Kar, A.K., & Swain, R.B. (2014). Interest rates and financial performance of microfinance institutions: Recent global evidence. *European Journal of Development Research*, *26*, 87–106.

Kinde, B.A. (2012). Financial sustainability of Microfinance Institutions (MFIs) in Ethiopia. *European Journal of Business and Management*, *4*, 1–10.

Lopatta, K., Tchikov, M., Jaeschke, R., & Lodhia, S. (2017). Sustainable development and microfinance: The effect of outreach and profitability on microfinance institutions' development mission. *Sustainable Development*, *25*, 386–399.

Malkin, E. (2008). *Microfinance's success sets off a debate in Mexico*. *The New York Times*.

Mersland, R., & Strøm, R.Ø. (2010). Microfinance mission drift? *World Development*, *38*, 28–36.

Meyer, J. (2015). *Social versus financial return in microfinance*. Working Paper, Center for Microfinance, Zurich, Switzerland.

Mia, M.A., & Lee, H.A. (2017). Mission drift and ethical crisis in microfinance institutions: What matters? *Journal of Cleaner Production*, *164*, 102–114.

Molla, R.I., Alam, M.M., & Wahid, A.N.M. (2008). Questioning Bangladesh's microcredit. *Challenge: The magazine of economic affairs*, *51*(6), 113-121.

Molla, R.I., & Alam, M.M. (2011). Microcredit - A more credible social than economic program in Bangladesh. *Economics Bulletin*, *31*(2), 1095-1104.

Morduch, J. (1998). *Does microfinance really help the poor? New evidence from flagship programs in Bangladesh*. Research Program in Development Studies, Woodrow School of Public and International Affairs.

Morduch, J. (1999). The role of subsidies in microfinance: Evidence from the Grameen Bank. *Journal of Development Economics*, *60*, 229–248.

Morduch, J. (2000). The microfinance schism. *World Development*, *28*, 617–629.

Morduch, J. (2005). Smart subsidy for sustainable microfinance. *Finance for the Poor*, *6*, 1–13.

Morduch, J., & Haley, B. (2002). *Analysis of the effects of microfinance on poverty reduction*. NYU Wagner Working Paper, New Yew University.

Mori, N., Golesorkhi, S., Randøy, T., & Hermes, N. (2015). Board composition and outreach performance of microfinance institutions: Evidence from East Africa. *Strategic Change*, *24*, 99–113.

Navajas, S., Schreiner, M., Meyer, R.L., Gonzalez-Vega, C., & Rodriguez-Meza, J. (2000). Microcredit and the poorest of the poor: Theory and evidence from Bolivia. *World Development*, *28*, 333–346.

Nurmakhanova, M., Kretzschmar, G., & Fedhila, H. (2015). Trade-off between financial sustainability and outreach of microfinance institutions. *Eurasian Economic Review*, *5*, 1–20.

Olivares-Polanco, F. (2005). Commercializing microfinance and deepening outreach? Empirical evidence from Latin America. *Journal of Microfinance/ESR Review*, *7*, 47–69.

Peng, M.W., Sun, S.L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *The Academy of Management Perspectives*, *23*, 63–81.

Quayes, S. (2012). Depth of outreach and financial sustainability of microfinance institutions. *Applied Economics*, *44*, 3421–3433.

Quayes, S. (2015). Outreach and performance of microfinance institutions: A panel analysis. *Applied Economics*, *47*, 1909–1925.

Quayes, S., & Khalily, B. (2014). Efficiency of microfinance institutions in Bangladesh. *Economics Bulletin*, *34*, 1512–1521.

Rhyne, E. (1998). The yin and yan of micro-finance: Reaching the poor and sustainability. *Micro Banking Bulletin*, *2(1)*, 6-8.

Rhyne, E., & Otero, M. (2006). *Microfinance through the next decade: Visioning the who, what, where, when and how*. ACCION International.

Robinson, M. (2001). *The microfinance revolution: Sustainable banking for the poor*. Washington, DC: The World Bank.

Rosenberg, R. (2007). CGAP reflections on the Compartamos initial public offering. *CGAP Focus Note*, *42*.

Rosenberg, R. (2014). *BancoSol: Moving microfinance into the mainline financial system*.

Schreiner, M. (2002). *Aspects of outreach: A framework for the discussion of the social benefits of microfinance*. Center for Social Development, Washington University in St. Louis Campus, St. Louis, USA (Online).

SPTF. (2009). *Social Performance Standards Report*.

Strøm, R.Ø., D'Espallier, B., & Mersland, R. (2014). Female leadership, performance, and governance in microfinance institutions. *Journal of Banking & Finance*, *42*, 60–75.

Thapa, G. (2007). Sustainability and governance of microfinance institutions: Recent experiences and some lessons for Southeast Asia. *Asian Journal of Agriculture and Development*, *4*, 17–37.

The Economist. (2008). Poor people, rich returns: Is it acceptable to profit from the poor? *The Economist*.

Tucker, M. (2001). Financial performance of selected microfinance institutions: Benchmarking progress to sustainability. *Journal of Microfinance/ESR Review*, *3*, 107–123.

Tucker, M., & Miles, G. (2004). Financial performance of microfinance institutions: A comparison to performance of regional commercial banks by geographic regions. *Journal of Microfinance/ESR Review*, *6*, 41–54.

UNCDF. (2005). *Blue Book*. Geneva: UNCF Press.

Woller, G., & Schreiner, M. (2002). *Poverty lending, financial self-sufficiency, and the six aspects of outreach*. Discussion Paper, Ohio.

Wright, T. (2015). Asia steps up efforts to reach the "unbanked." *The Wall Street Journal*.

Yunus, M. (2010). *Clinton Global Initiative*. New York.

Yunus, Md. (2007). *Creating a world without poverty: Social business and the future of capitalism*. New York: Public Affairs.

Zeller, M., & Johannsen, J. (2006). *Is there a difference in poverty outreach by type of microfinance institution? The case of Peru and Bangladesh*. Presented at the Global Conference on Access to Finance: Building Inclusive Financial Systems. The World Bank and Brookings Institutions, Washington DC.

Zeller, M., Lapenu, C., & Greeley, M. (2003). *Measuring social performance of microfinance institutions: A proposal*. Social Performance Indicators Initiative (SPI)-Final Report, Argidius Foundation and CGAP.