

Governance and Financial Performance of MFIs: An Empirical Check in the Beninese Context

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SUMMARY

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Considering the renewed emphasis laid on the governance issues these last ten years particularly in Beninese Microfinance Institutions (the MFIs), the objective of this research paper is to verify the existence of an empirical relation between the mechanisms of governance (both internal and external) and the financial performance of said MFIs based on a sample of 30 Beninese MFIs monitored over the course of 5 years, that is 150 observations. It ensues from the econometric analysis that, on one hand, the external mechanisms of governance play an important role in the financial performance of the Beninese MFIs while on the other hand, the internal mechanisms of governance only have little impact on the financial performance. Thus, the absence of significant effect of the internal mechanisms of governance requires to wonder about the determiners of the efficiency of boards of directors in MFIs.

KEYWORDS: *governance-performance-MFI-BENIN*

Introduction

The 2009's microcredit summit report shows that the objectives set in 1997 during the first microcredit summit were reached, although with two years of delay. In 2007, more than 100 million poor families reached the credit, among which approximately 83,4 % are women.

Also, according to Daley-Harris¹ (2009) the Microfinance Institutions saw their main performance indicators improved, such as the size their portfolio, the quality of their portfolio, the profitability and the sustainability. However, the success of microfinance is not exclusively tied to the national and international politics organized in favor of the microfinance. Indeed, according to the financial literature on the corporate governance led by Porta and Al. (2002), the good performance of organizations would result from

the quality of their governance mechanisms and the smooth running of these governing bodies. The efficiency of the mechanisms of governance can, therefore, be considered as a lever of social and financial value creation in the MFIs.

Nevertheless, very few researches (Hartarska (in 2005, in 2009) and Mersland and Strøm (2009)), at best of our knowledge investigated the link between the governance and the performance of MFIs. Hartarska (2005, 2009) and Mersland and Strøm (2009) wondering about the role played by the quality of governance on the social and financial performance of the MFI respectively in the central and eastern European countries and on the international sample of private MFI companies, conclude that the governance is a key factor of success of microfinance. Yet, little attention is granted to the analysis of the effects of

the governance's quality on the performance of MFIs in sub-Saharan Africa (Tchuigoua, in 2010). Hence, the need to investigate this link in the African context known for the passivity of strategic decision-making authorities in the organization. This is because, a company's sustainability depends on factors that are both external and internal to its environment. Therefore, the performance of the MFIs rests on factors inherent to the intrinsic qualities of the projects they finance and/or to the solvency of the borrower itself. Among these factors, we quote the governance at the top of the MFIs. Then, an excessive bad financial performance would result from ineffective governance mechanisms or from a bad control of the decision-making process in place (Boussaada in 2012).

Indeed, these mechanisms have the main purpose to align the behavior of the leader on the investors interests (Charreaux and Desbrières, 1998). Thus, it regards the forces which influence the use of the resources under the control of the company's management (Jensen and Ruback, 1983). They reward and penalize the leaders (Fama and Jensen, 1983), restrict their scope and influence their decisions (Charreaux, 1997).

The academic literature (Jensen, 1993) teaches us that the main governance mechanisms are linked to the capital market, the legal and statutory systems, production factors as well as products market and with the internal control system of the company. If the more or less effective functioning of these various mechanisms under a systematic logic determines the quality of the corporate governance, the question that arises is the following one: does the quality of the governance contribute to the improvement of the financial performance of MFIs in Benin?

This work aims at analyzing the existing relations between the governance and the performance of MFIs. Thus, it has the ambition to try to answer the questions which are one of the main concerns

MFIs leaders and the researchers face nowadays. It raises the additional questions below:

- Does the composition of the board of directors influence the financial performance of MFIs?
- Does the quality of the board of directors' functioning have an impact on the financial performance of MFIs?
- Do the external mechanisms of governance have an impact on the financial performance of MFIs?

The objective of this research is to allow MFIs to identify the levers of governance on which they can lean to improve their financial performance to guarantee their sustainability. Although our paper is interested in the Beninese MFIs, it allows to explore the specificities African MFIs. To bring our research to a successful conclusion, we opt for modeling data observed during a period of 5 years i.e. 150 observations, from our 30 Beninese MFIs panel. For that purpose, we pose a regression model with the financial performance of the MFIs as endogenous variable and the sub-dimensions of variables held to appreciate the quality of the governance as exogenous variables. Our results show that some mechanisms of governance, such as: the plurality of the management and Chairman functions, the supervision of the MFIs by the authorities, their rating by rating agencies and female presence in the Board have an influence on MFIs' financial performance in Benin. Whereas there is a category of the mechanisms of governance, such as: the proportion of external administrators, the size of the Board, the frequency of Board meetings, the existence of specialized committees and the regular audit of the accounts which don't have significant effects on the financial performances.

The article is structured in three sections. The first section discloses the key findings on the literature vis-à-vis governance and regarding the relation between it and the performance in MFIs.

The second section presents our methodology and exposes the data as well as the variables we used. Finally, the third section presents the empirical results and the discussions which arise from it.

I- Governance and Performance of MFIs: literature review

In this section, we briefly review the literature concerning the relationship between the quality of the governance and the financial performance of MFIs. This literature review will allow to highlight the assumptions upon which we shall base ourselves to solve the problem here.

In the continuation of the corporate governance theory (Charreaux, 1997), the means of control which the shareholders have to check the drift of the leaders are grouped in mechanisms of governance.

We shall be interested in both parameters of governance: the internal mechanisms (structure and functioning of the board of directors) and external mechanisms such as supervision and the international assessment.

1.1- Board of directors and financial performance of MFIs

The board of directors "intervenes as a hierarchical structure which, besides its arbitrator's role in the division of the pension, has to boost teamwork (...). It intervenes not only to protect value-creating relationships but also to protect and increase the productive character of contract bounds, (and) contributes to the innovation process.", (Charreaux, on 2000). In this sub-section we are firstly going to discuss the impact the structure of the board can have on financial performance before seeing how the board's functioning impact the performance.

1.1.1- The structure of the board of directors and financial performance in MFIs

- Segregation of Managing director and President of the Board duties

According to the agency theory, when the functions of ownership and management are

segregated in a company, a separation of control rights and the rights of direction at every level of the company must be completed for it to be efficient (Fama and Jensen, 1983 a). As for Jensen (1993), the role of the president of the Board is to organize board meetings and to lead the manager's support, evaluation and surveillance processes. A leader who undertake this function cannot effectively dedicate his attention to these missions and unless a separation of functions is set, it becomes difficult for the Board to succeed. Some empirical studies strengthened this position. By examining companies during the period 1978-1983, Rechner and Dalton (1991) find that, the companies in which the managers do not play the role of president of the board are more successful than those where a single person undertake these two roles. Conversely, the proponents of the stewardship theory suggest that the leader is a good steward of the company, that he manages with diligence for the owners and stakeholders. The performance of a company where the manager is promoted to president of the board is stronger, compared with that of a company where the manager does not reach this function. The performance is then associated with the qualities and with the experience of the leader. The plurality of offices seems to be in this case, a reward for the manager who showed an excellent track record. Along the same lines, a survey on Chinese companies brought Tian and Lau (2002) to the conclusion that the accrual of the board's functions has a positive influence on the profitability. In the complex, dynamic environments and the scarcity of resources, the accumulation of the positions of manager and president of the Board by a single person can establish a way of improvement of the company's performance (Kang and Zardkoohi, 2005).

In the same line, by analysis of banks between 1987 and 1990, Pi and Timme (1993) find that companies in which the roles of director and president of the board are segregated have low

operational costs and strong profitability compared with those where they are not. Besides, during a study led on the Chinese companies operating in Malaysia, Lay (2007) finds no link between dual positions and several variables of the performance. Based on the literature, the link between dual positions and the performance of the company is disputed. However, in the microfinance industry, Mersland and Strøm (2009) find a negative and significant relation between dual positions in an MFI and the financial performance. Considering this last result, we make the hypothesis below:

H1: dual positions of manager and president of the board has a negative impact on the financial performance of the MFI.

➤ Decision-making autonomy of the Board

The willingness of the board of directors to effectively control the firm and to reduce the agency conflicts strongly subordinated in the literature to the degree of independence of its members. For example, the works of Pathan and al (2009) and Chile, Lefort and Urzua (2008) find out that an increase of the proportion of independent directors in the Board affects positively the value of the company.

On the other hand, some authors assert that the relation between the proportion of independent directors in the board and the performance of the company is rather negative. From a study carried out on two matched samples of companies, Kesner (1986) discovers that the companies with more independent directors in their board showed lower performances than those in which the affiliated administrators dominate the Board. Yermack (1996) finds a negative relation between the proportion of external administrators and Tobin's Q. Apart from the previous two results, other researchers find no link between the independence of a board and the company's performance.

Bhagat and Black (1999,2001) showed that low performances track record leads companies to increase the number of independent directors in

the board. However, there is no obvious fact which this strategy improves or damages the future performances of the company. The analysis of the link between the independence of the board and the performance of the company ends in very controversial results in the literature. However, in the specific case of MFIs, Hartaska (2005) establishes a positive relation between the proportion of independent directors and the performance measured by the financial performance. With reference to the conclusion of Hartaska (2005) which targets exclusively the microfinance, we made the following hypothesis:

H2: the presence in strong proportion of external administrators improves the financial performance of MFIs.

➤ Female presence in the board and financial performance of MFIs

The presence of the women in the board was investigated as one of the determiners of the its independence and the efficiency (Ruigrock and al, 2006). The presence of the women in the board can has two benefits. In the first place, due to their little integration into "men's" networks, women favor the board's independence towards the management. Secondly, women seem to have a better understanding of the consumers' behavior and needs, and the necessity of meeting those needs. In the same vein, Robinson and Descant (1997) state that the gender diversity of the board can enable creativity, innovation and effective problem-solving. A study on American companies, Crankcase and al (2003) finds out that women's proportion in the board has a positive effect on the performance of the company. Francoeur and al (2008) find in a similar way that, for the companies which evolve in complex environments, income (thus profitability) is positively connected with the proportion of the women in the board. During a study on family owned companies in Cameroon, Feudjo (2006) finds that the number of woman in a board has a

positive and significant effect on the profitability of the company.

Outside these results, other researches establish a negative link between women's proportion in the board and the performance of the company. Van der Zahn (2004) suggests that the effect of such proportion on the company's performance varies based on these women's profiles. So, the appointment of a woman as an internal administrator influence negatively the performance of the intellectual capital of the company, while her appointment as an external administrator has a positive outcome. However, Rose (2007) arrives at a similar conclusion. Indeed, women tend to serve in successful companies, but there is no significant link between the appointment of a woman into the board and the variation of the company's income. In the financial industry, Dittautta and Bose (2006), from an analysis of banks in Bangladeshi, find a positive connection between female presence in the board and the financial performance. From his investigation on MFIs, Hartaska (2005) finds a positive link between women's proportion in the board and both the financial and social performance. We, hence, form the following hypothesis:

H3: female presence in an MFI's board has a positive impact on its financial performances.

- Size of the board of directors and MFIs financial performance

According to Jensen (1993), the size of the board of directors (board) plays an important role in the efficiency of the governance system in an organization.

Indeed, large-sized boards leave room for stowaway behaviors that some administrators might have. They then are not very involved into control activities because of their incompetence and of their lack the procedures know-how. Moreover, the coordination problem within large-sized boards, in other words within the governance of the board of directors arises.

Focusing on finding a solution to coordination and governance issues in the board can take it away from its main missions.

However, Andres and Vallelado (2008)'s researches show that the relationship between the size of the board of directors and the performance of banks is not linear. The curve describing said-relationship takes the shape of an inverted U. The number of 19 administrators is identified as the threshold from which the board of directors is not effective anymore as a governance's mechanism. Besides, the most viable MFIs are the ones which have a small-sized board (Hartarska (2005)). Similarly, Mersland and Strøm (2009) find a substantial relationship between the size of the board of directors and the financial performance microfinance institutions. It is therefore clear that:

H4: the size of an MFI's board has an impact on its financial performance.

1.1.2- Functioning of the Governing Body and the financial performance

Assessment criteria of the board's functioning include: the frequency of the meetings, the duration of the meetings, the rate of presence in the meetings, the existence of special board committees, etc. We'll highlight the relationships between each of these variables and the financial performance of MFIs.

- Frequency of board meetings and financial performance of the MFI

The frequency of the board meetings is often measured by the number of times that the administrators meet in one year (Vafea, 1999). Very often, they routine meetings. The board tends to become inactive, and it is only when there is a problem that the board meeting scan help discipline the management. An intense board activity is generally an answer to a problem or to a low performance. Thus, the regular board meetings are not always compulsory. In the same vein, during an investigation on American companies, Vafeas (1999) shows that the yearly frequency of the board's meeting has a negative

impact on the value of the company. Besides, from a study carried out rather on commercial banks, Pablo de Andrès and Velledo (2008) come to opposite conclusions. The frequency of the meetings of the Board affects positively Tobin's q. Therefore, an increase of the frequency of the board meetings can be a strategic decision to improve the value of the company. However, in the microfinance industry, to our knowledge, the link between the frequency of the board's meetings and the financial performance is yet to be investigated. Nevertheless, as MFIs seem to be similar to banks, we form, on the basis of Andrès and Valledo (op quoted)'s conclusions the following hypothesis:

H5: the frequency of the board's meetings in an MFI has an impact on their financial performance.

➤ Existence of board committees and the financial performance of MFIs

John and Senbet (1998) underline that the efficiency of a board of directors can also be impacted by its internal administrative structure. Klein (1995) considers that the design of special committees within the board of directors such as those directed aimed at controlling the management could improve its efficiency (the audit, compensation and appointment committees...). According to Klein (1995), these specialized committees should consist of board members that are inclined to pursue the objectives set. The results of this study show that these committees include a majority of independent directors.

H6: the existence of specialized committees impacts positively the performance of MFIs

1.2.- External governance mechanisms and financial performance

1.2.1- Supervision and financial performance

Regulations and supervision within the financial industry are true mechanisms of governance (Sinha, 2006, Webb, 2008, Besanko and Kanatas, 1996). Indeed, regulations and supervision are

designed to protect the integrity and the efficiency of the currency market and the other capital markets. They seem to limit the discretionary attitude of the managers, and by reinforcing the respect for the rights of the shareholders, they can have a positive impact on the wealth creation in the company (Jiraporn and Davidson, 2007) and the performance of banks (Barth and al, 1997).

However, in microfinance, only the works of Hartaska (2005) and Mersland and Strom (2007) examined the link between supervision and the performance of institutions. Hartaska (2005) highlights a negative link between the activities' supervision and the financial performance of MFIs (op cit). According to A Mersland and Strom (2007), there is a positive link between supervision and the financial performance of MFIs.

In conclusion the impact of supervision on MFIs' performance remains reserved. In spite of this ambiguity, we form the hypothesis that

H7: the more the activities of an MFI are overseen, the more successful it is, financially.

1.2.2- Availability of audit reports and financial performance

For Adams and Ferreira (2005), when the board is too independent and exercises a pressing control over the management, the managers tend to hide some information. An external audit is necessary so that this hidden information can be revealed (Savall, 1987), and for the board to carry out its missions with efficiency. Also, in a concentrated ownership context, the market's mechanisms are not very active, and the external audit can play an important role in the control of managers (Prowse, 1995). This is the case in banks where, due to an opacity of management systems, market's mechanisms were unproductive, and in which external audit could be a substitute to ensure an effective control of managers. For example, audit can help make an idea on the quality of the management as well as on that of the company. It allows the company to improve its performance

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by adding a new momentum, through new investments made by reassured shareholders. Khrishnan (2003) highlighted the relationship between the future profitability of firms and the quality of the audit. He reveals that the companies audited by a big 4 auditing firm saw their future profitability increased, in comparison with those audited by other audit firms. Demski and al. (2006) Studied the relationship between the audit and the performance metrics used by managers. They concluded that a very precise quality audit decreases the informative contribution of the performance metrics.

On the basis of analyses performed on the microfinance industry, Hartaska (2005) states a positive and significant relationship between audit and the economic profitability of institutions. Therefore, we form the following hypothesis:

H8: the regular audit of an MFI's accounts has a positive impact on its financial performance.

1.2.3-Participation in an international evaluation and financial performance

Rating helps give to a company, a score which reflects its performance in regard to some aspects of the management. Rating agencies assess the trustworthiness of companies and supply information to the investors. These institutions play a controlling role over the company's management (Basket, 1999). They can influence the behaviors in the companies, because those well rated have an easy access and at lesser costs to financing (Kerwer, on 2001).

Besides, the researches on rating agencies in microfinance were able to approach the question of the relationship between the notation and the performance of those institutions. However, during a study led on 145 MFIs worldwide, (Gutierrez-Niéto and Serrano-Cinca 2007) find positive relationships between both the financial and economic profit abilities and the score of these institutions. So, the most profitable institutions are the ones with the best scores. These two authors find a similar connection

between the productivity of MFIs and their rating score. In his study, Hartaska (2005) finds that rating has a positive out-turn on the number of borrowers of the institution. If rating has a positive effect on the number of borrowers, it can contribute to improving the financial performance of the institution. We, therefore, can form the following hypothesis:

H9: the notation of the activities of an MFI improves its financial performance.

II- Research Methodology

This section is about how the study was led. We describe here, the econometric model we used, the sample and the source of the data we used.

2.1. Datum

The microfinance industry of Benin counts approximately 206 institutions (CSMFI¹, 2010). However, our study is on 30 MFIs chosen by convenience (convenience sample) among the 206 institutions in Benin, which is approximately 15 % of the population, for a five (05) years period, thus a panel of hundred fifty (150) observations. Afterward, it was necessary to settle on the nature of the panel, balanced or unbalanced. We chose to use a balanced sample, thus to hold only the MFIs which have all the data on the whole considered period. The choice of a balanced panel results from the necessity of testing the model over several years by using the largest number of econometric tools. For that purpose, the sample was chosen based on:

- The availability of the data required for testing our hypotheses, at least over a period of five business years.
- The up-to-datedness of the financial data.

The data used were extracted from CSMFI's data base which supplies the detailed annual reports and the directories of financial institutions

¹Cellule de Surveillance des Structures Financières Décentralisées (CSSFD)

2.2. Building up the variables and empirical model

In this sub-section, we introduce the set of variables of our model as well as the sources of the data we used to compute the coefficients in the model. The choice of indicators results from the theoretical, empirical literature and from the availability of data.

➤ Dependent variables (explained):

The financial performance is our dependent variable. However, within the framework of our communication, the financial performance is measured by the Data Envelopment Analysis (DEA) method through computation of efficiency

scores for the MFIs. This is because the literature (Singh and al: 2000, Nieto and al: 2004, Léon: 2001, Ferro Lurri and al., 2006) shows that the Data Envelopment Analysis method was generally used in the banking sector in the WAMU zone, in western Africa, in Asia, in Japan (Igue: 2006, Iimi 2002), and by extension in the microfinance industry and the cooperative banks to measure efficiency. The behavior score of efficiency

➤ (Explanatory) independent variables

The variables of governance (explanatory variables in the model) are measured by binary variables. The table below summarizes the operationalization of the variables.

Table N°1: Operationalization of variables

Variables	Indicators	Modality
Dual position of board presidency and Managing director (CUMU)	The managing director is not the president of the board	1 if the MD is not the President and 0 if not
Decision-making autonomy (AD)	Proportion of external administrators	1 if proportion > the average of the sample and 0 if not
Female presence in Board (PFCA)	The women are present in the Board	1 if yes 0 if not
Size of the Board (TCA)	Staff of the Board	1 if the staff of the Board > the average staff of the sample and 0 should the opposite occur
Frequency of board meetings (FRCA)	The number of times when the Board gathered in the year	1 if the annual number of meeting > average number of meeting of the sample 0 if not
Existence of board committees (ECS)	MFI has a board committee	1 if existence of board committee 0 if not
Supervision (SP)	MFI was under supervision	1 if yes 0 if not
International evaluation (EI)	MFI was the object of international evaluation	1 if yes 0 if not
Audit (RA)	MFI was audited	1 if yes 0 if not

Source: ourselves

In our empirical test, we use, just as the majority of the works in the literature (Boussaada,2012), a standard model which uses the following specification:

$$Y_{i,t} = \alpha + bx_{i,t} + \epsilon_{i,t}$$

With Y being the dependent variable, α the constant of the estimation, X the independent variables, b

coefficients of contribution of X to the explanation of Y, $\epsilon_{i,t}$ the disturbance and (i,t) indicating respectively the IMF and the time factor. Consequently, the system of estimated equations is as follow:

$$PFit = \alpha_i + a_i (CUMUL)_i t + b_i (AD)_i t + c_i (PFCA)_i t + d_i (TCA)_i t + e_i (FRCA)_i t + f_i (ECS)_i t + g_i (SP)_i t + h_i (RA)_i t + i_i (EI)_i t + \text{residues}$$



To bring to a successful conclusion this econometric modelling, we are going to carry out some tests, among which the specification tests, validation tests and hypothesis tests.

3.1- Diagnosis test of the data

Table n°2: test results of data diagnosis

Tests	Results
F-test (Test of presence of individual effects)	F test that all $u_i=0$: $F(29, 114) = 4.59$ $Prob> F = 0.0000$
Durbin–Wu–Hausman test (Choice of a homogeneous or random model)	$\chi^2(6) = (b-B)'[S^{(-1)}](b-B)$, $S = (S_{fe} - S_{re}) = 4.88$ $Prob>\chi^2 = 0.5595$

Source: ourselves

F-test reveals a null probability, what leads us to reject the null hypothesis and to conclude that our model includes individual effects. The model with individual effects assumes that the estimated model differs for individuals only by the value of the constant (Bourbonnais, 2009). Once we detect the presence of individual effects, the problem of specification of its effects raises: are they fixed (the individual effect is constant in time) or random (the constant term is a random variable)?

Table n°3: results of the linear regression

R-sq: within = 0.0835			RObs per group: min = 5			
between = 0.3318			avg = 5.0			
overall = 0.2383			max = 5			
Variables	Coef.	Std. Err.	Z	P> z	[95% Conf. Interval]	
SP	15.31454	6.097144	2.51	0.012	3.364361	27.26473
EI	+33.32165	12.11642	+2.75	0.006	-57.06939	-9.573908
CUMUL	+27.08731	7.2375	-3.74	0.000	--41.27255	-12.90207
PFCA	-.0578031	4.857425	-0.01	0.018	-9.545486	9.49527
_cons	112.6273	13.47671	8.36	0.000	86.21344	139.0412
			Wald $\chi^2(3) = 23.92$			
			Prob> $\chi^2 = 0.0000$			

Source: ourselves

It emerges from the regression, that there are only four variables which have a significant effect on the financial performance. They are: supervision (SP), international evaluation (EI), the dual

III- Research result

The results we present are mainly about the diagnosis tests of the data and the estimation of the definitive model.

To discriminate between these two models, we conduct a Hausman specification test. We notice that the p-value is greater than the 5% threshold, which involves that the model with random effects is preferable to the model of fixed effects.

3.2- Linear regression of the panel datum

The appropriate econometric model is therefore a random model, as justified by the previous tests. We present only the variables for which the statistical significance is lower than 5 %.

position (CUMUL) and female presence in the Board (PFCA).

The p-value (Prob > $\chi^2 = 0.0000$) lower than 5 % shows that these four variables are mutually



significant in the influence of the endogenous variable. They also contribute to explain, at some 33,18 % (R^2 between), the variations of the financial performance while the random constant contributes as for her to explain the variations of the financial performance at 8,35 % (R^2 between). With the R^2 (between), we notice that the quality of the governance of MFIs, (through variables

supervision, international evaluation, the duality, and female presence in the Board) influences their financial performance.

The econometric model being projected, we turn next to the presentation of the tests of the model validation before proceeding to the interpretation and the discussion of these results.

3.3- Tests of validation of the model

Table n°4: test Results of validation of the model

Tests	Results
Test of normality of the errors	Pr (Skewness) = 0.544 Pr (Kurtosis) = 0.411 Adj chi2 (2) 1.08 Prob > chi2 = 0.5823
Test of heteroscedasticity	Residues being normal, the hypothesis of homoscedasticity is required, and this spares us from the test of heteroscedasticity.

Source: ourselves

The p-value is equal to 58,23 %. It is superior to 5 %, thus the hypothesis of the normality of the errors is accepted. According to Young (2007), the normality of the errors makes it possible for us to take into account the following principles: the existence of a white noise, a homoscedasticity and an absence of correlation. As the residues are normal, the hypothesis of homoscedasticity is required and spare us from the test of heteroscedasticity.

Based on the validated econometric model, only the explanatory variable EI and the SP influence significantly and in the forecasted direction (by the hypotheses) the financial performance of MFIs. As for variables CUMUL and PFCA, they influence significantly the financial performance of MFIs but not in the direction anticipated by the hypotheses.

From the results of this model, we deduct that regulation has a very significant influence on the financial performance of the MFI. The supervision is beneficial for African MFIs. What seems to show that the costs led by the regulation are more than compensated with the profits which result

from it. The intervention of organs in charge of the regulations improves the financial performance of MFIs. This result is against those of Hartarska and Nadolnyak (2007), Mersland and Strøm (2008) and Hartarska (2009) which find no significant influence of the supervision on the performance. They do not either allow to confirm those of Hartarska (2005) and Cull and al. (2009) which show that the costs led by the regulation influence negatively the value creation. On the other hand, it accredits the idea according to which, the design of a specific regulatory framework in the microfinance industry in sub-Saharan Africa would favor the hatching of the long-lasting MFIs (Peck and Rosenberg, 2000; Satta, 2004).

As for rating, we notice that a MFI which was rated already at least once is more successful than the one who has never being rated. This result confirms the conclusions of Hartaska (op cit). In her study, she does not find a direct relationship between rating of the activity and the company's financial performance, but a positive link between rating and the number of borrowers of him of the

MFI. Indeed, a MFI which requests an appraisal of its activity by a rating agency, do it generally, in order to benefit from investments within the sector.

As regards the board's management structure of a MFI, we understand that the institutions in which the managing director is at the same time the president of the board, are more successful than those who have a bilateral structure of the leadership in the board. In the microfinance industry, this result is different from that found by Mersland and Strom (op cit). It is rather similar to the conclusions of Kang and Zardkoohi (2005). As the microfinance industry in Benin is very dynamic and complex, the director who is at the same time the president of the board promotes good financial results. In most of the MFIs, the directors who are also presidents of the board are generally majority shareholders.

The female presence in the board of the MFIs we work on, influences negatively their financial performance metrics. This result is against that of Feudjo (2006) who studied the family owned companies in Cameroon. He found that the number of female administrators in a Board of one of these companies improved its profitability. Besides, this result confirms that found by Hartaska (op cit) in the European MFIs. For this author, the proportion of the women in the board of a MFI encourages small-sized loans which have a more a social purpose. The slope of the female administrators towards the social missions of MFIs has for consequence to favor a reduction in the volume of distributed credits and in the amount of the revenues. Besides, the offer of small-sized loans can increase the expenses of the institution. This results in an underperformance even if revenues increase.

Conclusion

The objective of this research was to confirm empirically the existence of a relationship between the internal and external mechanisms of

governance and the financial performance of Beninese MFIs. We focused on the context of Beninese MFIs, considering the renewed interest in governances issues these last ten years.

By means of an econometric analysis based on data from a balanced panel rolled (on the basis of a sample of 30 MFIs observed over 5 years i.e. 150 observations), the model with random effect was estimated. The search concludes: only the descriptive variables EI and SP influence significantly and in the forecasted direction (hypotheses) the financial performance of the MFIs. As for variables CUMUL and PFCA, they influence significantly the financial performance of the MFI but not in the projected direction.

Therefore, from our results, the external mechanisms of governance play an important role in the financial performance of Beninese MFIs unlike the internal mechanisms of governance which have little effect on its financial performance. Thus, the absence of efficiency of the internal mechanisms of governance requires to wonder about the determiners of the efficiency of boards of directors in the MFI. As observed by De Briey (2003), the smooth running of the governing bodies in an MFI require a continuous effort of the elected representatives. In MFIs, the elected representatives do not always have the adequate educational level, nor the necessary implication to apprehend the wider picture of the stakes in the institution. Their low level of competence makes their control capacity decline. Hence, the absence of efficiency of these governing bodies can give be explained by the cognitive deficits of the administrators.

On the managerial plan, it seems important to select well the administrators and to invest in their training to reduce the cognitive impairment.

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