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THE EFFECTS OF LEADERSHIP CHARACTERISTICS ON MICROFINANCE INSTITUTIONS' SOCIAL PERFORMANCE IN KENYA

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Abstract: *With the growing competition of globalization, strategic decision makers have been faced with the competing interests of external and internal stakeholders such as greater diversity in corporate governance, undertaking more investments in corporate social responsibility and maximizing financial performance. As a result, strategic decision makers today must not only increase their financial performance, but also satisfy the increasing expectations of customers, suppliers and society as a whole. The objective of this study was to examine the effects of the leadership characteristics on the social performance among Kenyan MFIs. It focused on the CEO duality, gender of the CEO, CEO qualifications and experience. This study adopted positivist approach, deductive approach and explanatory research design. Population of the study consisted of all the MFIs registered by the AMFI as at 31st March 2012. Data was analyzed using quantitative and qualitative methods. Qualitative data was analyzed to yield descriptive, the Independent samples test and the logistic regression. The major findings of the study are: that a significant positive CEO non duality, CEO experience and overall leadership characteristics. The relationship of an MFIs social performance and the gender of the CEO and their education qualification ws found to be insignificant. Overall, the results show that MFIs in Kenya can improve their Social performance by improving on their leadership characteristics.*

Key words*:* Social Performance Management, Leadership characteristics, CEO duality, Mission Drift

1.0 Introduction

With the increasing commercialisation approach of MFIs and professionalization of the sector, the focus on social performance which sets apart MFIs from other financial institition is being lost or sometimes taken for granted resulting into a "mission drift" among many MFIs.The governance of an MFI plays a major role in ensuring that the institution keeps to it's mission (Ayuso & Argandona, 2007; CERISE, 2005; Guarneri et al, 2011). Good leadership is expected to underpin effective and efficient social performance within firms. Good governance refers to a system of people, values, criteria, processes and procedures that ensure that an organisation is managed properly. In addition an organisation is guided towards its mission and vision while ensuring mechanisms are in place and put into practice in order to strike a balance between management and control and meeting the needs of stakeholders. It requires better organisation plans, goals, and strategies that better and fulfils an organisation's processes more efficiently, consequently making it stronger and more competitive (BBVA Microfinance Foundation, 2011a; Desender, 2009;Gatamah, 2005).

This study will examine the factors that influence social performance among Kenyan MFIs. It will focus on the leadership characteristics namely; CEO duality, gender, qualifications and experience.

Statement of the Problem

While the MFI sector has been growing rapidly and outreach to date is impressive, the industry has faced major crises in various parts of the world. The crises experienced in the MFI sector in Nigeria in 2005, Nicaragua in 2008, India in 2010, Pakistan in 2010, Kolar, 2009 and in Bosnia and Herzegovina in 2009, all leading to massive loan default by clients and closure of MFIs has all been blamed on commercialisation of the MFIs (Brook, Lloyd, & Syms, 2011; Tambiah & Geake, 2011).

Many scholars have expressed concern that the commercialization of microfinance is leading to a mission drift evidenced by the over-preoccupation with profitability at the expense of poverty reduction and other development goals. The blame has been laid on the the MFIs' leadership characteristics (CGAP, 2005; Ayuso & Argandona, 2007; Cull, Demirguc-Kunt, & Morduch, 2007;Beltratti, 2005). Prior studies on governance and social performance have focused on a narrow set of board characteristics and one or two aspects of social performance.

There have been calls for more comprehensive theoretical and empirical investigations into the factors that determine an MFI's social performance (Manderlier, Bacq, Giacomin, & Janssen, 2009;Ioannou & Serafeim, 2010,Hartarska, 2005; Mersland & Strom, 2007).My study differentiates itself by endeavoring to investigate, analyze ,document and give recommendations on a the effect of board characteristics on the social performance among Kenyan MFIs.

Objectives of the Study

The overall objective of this study is to establish and document the effect of leadership characteristics on the social performance of Microfinance Institutions in Kenya by seeking to:

1. Establish whether CEO duality influences an MFIs' social performance.
2. Evaluate the gender of the CEO affects the social performance of an MFI.
3. Examine whether the CEO qualifications an MFI's social performance.
4. Investigate the effect CEO experience on the social performance of an MFI.

2.0 Literature Review

The literature reviewed included theoretical and empirical literature. The study is founded on the stewardship theory with a brief comparison with the agency theory. Past studies on the CEO's effect on performance were also reviewed.

2.1 Stewardship Theory

The stewardship theory holds that the CEO essentially wants to do a good job, to be a good steward of the corporate assets, that they have an inherent motivation, working diligently to achieve good corporate performance, with interests similar to those of the stakeholders (Brennan, 2010; Donaldson & Davis, 1991;Aras & Crowther, 2007). Thus stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates their effective action (Donaldson & Davis, 1991).The board on the other hand contributes to the stewardship of the of the organization while giving unencumbered authority and responsibility to the management (Brennan N. M., 2010).

Stewardship theory implies a more collaborative approach between management and boards. Under this approach, empowering managers (stewards) of the firm to exercise unencumbered authority and responsibility enhances board management ties and decision making (Bennan, 2006). According to stewardship theory, executives responsibility may neutralize self interest behaviors derived from CEO duality, and they are even much more devoted to advance corporate performance (Wu, Lin, Lin, & Lai, 2009).Proponents of the theory agree that CEO duality, and less involvement of independent directors brings in positive effects for an entity's social performance. While the agency theory treats managers as opportunistic people motivated by self-interest and calls for the clear separation of the roles of the board and management, the stewardship theory views the management as stewards whose motives are largely aligned with the objectives of their principals and calls for development of an effective cooperation working relationship between the managers and the board.

2.2 Leadership Characteristics

The lack of visionary leadership has been cited as the biggest challenge for the promotion of social performance management and is therefore key for this study (AMFI, 2012). The leadership characteristics discussed hereunder are; CEO duality, CEO gender, their levels of qualifications and work experience.

2.2.1 CEO Duality

CEO duality concept is used to describe a scenario where the role of the CEO and chairman are performed by one person. When the CEO and chairman functions are performed by the same person there is CEO-Chairman duality. There should be clear separation of the role of the board chair and the CEO to allow the board to make independent, responsible decisions, particularly on issues such as management performance and compensation (Cherono, 2008; Jacobs, Mbeba, & Harrington, 2007).When the CEO doubles up as the Chairman , it will be difficult to distinguish between the management and board's power thus negatively affecting the institution's governance (BBV Microfinance Foundation, 2011b).The CMA (2002) stipulates that there should be a clear separation of the role and responsibilities of the chairman and CEO to ensure a balance of power and authority and provide for checks and balances such that no one individual has unfettered powers of decision making.

From the agency theory perspective, CEO duality impairs the effectiveness of monitoring activities and thus may weaken the performance of an MFI. On the other hand, the stewardship theory claims that the CEO duality creates a clear leadership role for the firm and therefore it may lead to better performance (Aras & Crowther, 2007).

Manderlier et al (2009) using data from 59 MFIs from five Asian countries studied whether powerful CEOs, proxied by CEO/Chair duality influence the performance variability of the MFIs. They found that the CEO power only has an effect on MFI performance variability when there are no stakeholder electives on the board, while there is no effect of CEO power on performance variability when there are stakeholder electives on the board. Similar results were obtained by Galema et al.(2009) .The results also indicated that an MFI with a powerful CEO is not only one with the worst performance; it is also one with the best performance. They concluded that for MFIs searching to maximize financial results powerful CEOs can help achieve this goal as long as they are controlled by stakeholder electives or other independent directors. The results indicate that MFIs with CEO duality have higher performance variability if CEOs have sufficient discretion. CEO duality has also been found to be negatively and significantly related to firm performance (Wu et al, 2009;Zheka, 2006; Bermig, 2010;Kaymak & Bektas, 2008), inferring that , under the condition that the CEO serves as chairman , the board would most likely fail to be an objective supervisor, correspondingly , putting firms at a disadvantage. On the contrary, other studies (Kula, 2005; Krivogorsky, 2006) are in favour of CEO duality, suggesting that it may improve corporate performance. However, Weir and Liang (2007) and Tanrioven, Kucukkaplan, and Basci (2006) find no relationship between CEO duality and company performance. All these studies focus on the general MFI performance. This study will focus on the effect of the CEO duality on social performance without predicting the nature of the relationship as previous studies have yielded mixed results.

2.2.2 Gender of the CEO

Most of the MFIs serve female clients and thus having a female CEO may mean they are served better as she may understand challenges facing women. Some MFIs use gender as selection criteria for their CEO if the institutions mission deems it necessary for example, if the institution is dedicated to women empowerment (Tembo, Determinants of social perfomance of Microfiance Institutions in Kenya., 2011).

Though the governance guiding principles are silent on the gender of the CEO there has been a worldwide movement to empower women and the Kenyan constitution has provisions that are geared at ensuring women hold position of leadership. In other countries like Norway and Spain, the government has already enacted a law requiring all listed companies to fill 40% of their board seats with female directors. They are however silent on the gender of the CEO.

The stakeholder theory advocates for recruitment of a female CEO as they spend more time on monitoring activities. This would also serve to ensure that the interest of the female clients who make up the majority of the MFIs clients are well taken care of.

Studies conducted on the effect of as female CEO on performance have focused on different aspect of performance. Galema et al.(2009) ,Mersland and Strom (2007)and Bermig (2010) found that having a female CEO increases financial performance. Manderlier et al (2009) while studying the impact of powerful CEO on MFI performance found that CEOs gender has no effect on social performance. Bermig's (2010) study on the effect of female directors on earning management found that they are associated with less earning managegment. Hartarska (2005) and Webb (2004) found that boards with higher proportion of women on the board reach more and poorer borrowers .This implies that female board members contribute to good governance as they are better monitors. This study will explore whether a female CEOs is associated with better social performance of an MFI in support of the proponents of the argument that women understand the needs on their fellow women who form the majority of their clients.

2.2.3 CEO Qualifications & Experience

CEOs are often referred to as executives of the highest levels, entrusted with the responsibility of to provide leadership and strategic direction for the firm (Monem, 2008). In executing their role, CEOs contribute innate talent, entrepreneurial skills, and education in specific fields to the MFI. The individual as the operational leader for the institution and the representative of the entire staff to the board plays a key role in the long -term success of the institution and in the realization of the MFIs mission (Jacobs, Mbeba, & Harrington, 2007; BBV Microfinance Foundation, 2011b).Proponents of the resource dependence theory argue that the qualifications and experience of the CEO is a resource that results into a better performing MFI. However, the argument would only hold if the CEOs are committed to the mission of the institution and apply themselves fully to its mission achievement as suggested by the stewardship theory. The resource dependence theory thus seems to negate the argument of the agency theory (Beltratti, 2005; Dulewiez & Herbert, 2004).

The usefulness of CEO expertise in effective MFIs governance has been mostly studied in the context of how financial expertise affects financial reporting quality (Campion, Linder, & Knotts, 2008).However the ability of financial experts to oversee the effectiveness of social performance is questionable because their professional expertise is more suitable for monitoring financial performance .On the other hand CEOs with better understanding of the social performance management are arguably more adept in enhancing the MFI social performance. Heenetigala, (2011) provides strong support for this view by showing CEOs with legal background are more prevalent in firms where costs of environmental regulations are higher. On the basis of these arguments, it's expected that CEOs with higher exposure on social performance will more carefully monitor social performance management issues, leading to better social performance. Though it would be expected that CEOs that hold directorship in other firms may perform better due to their exposure and experience, Villiers, Naiker, and Staden (2009) found that this did not hold and argue that it may be due to their efforts being distributed thinly between running their firms and monitoring the firm in which they hold directorship positions.

The highest academic achievement, professional experience of the CEO, and membership to other boards will be employed as indicators to measure the qualifications and experience of the CEOs (Galema, Lensink, & Mersland, 2009). Because of the conflicting evidence and views, the researcher will not specify an expected sign for the relationship between CEO qualifications and experience and social performance.

2.3 Social Performance

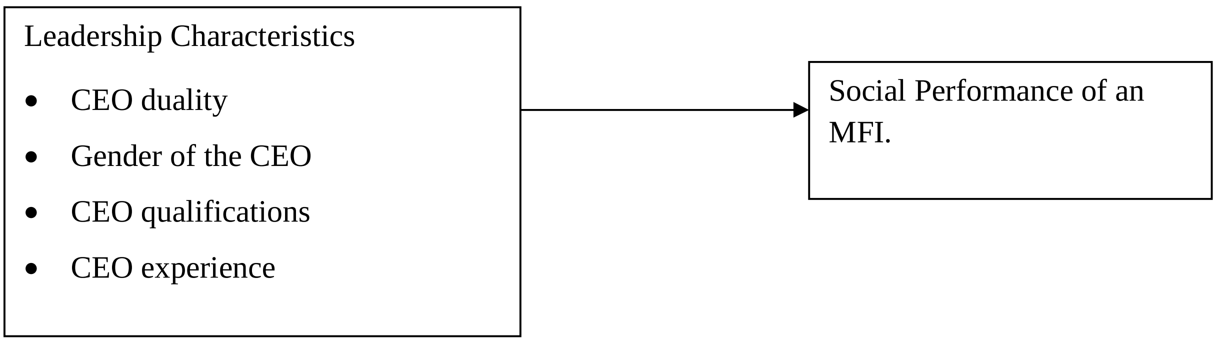
The microfinance sector has largely grown over the years riding on its dual mission, of meeting the social and financial objectives. Social performance for an MFI involves achieving their social mission, it also involves an MFI's continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of their clients, the workforce and their families as well as the local community and society at large. Social performance management is the process of aligning an MFI's strategic planning and operational systems to an understanding of client vulnerability and poverty (Campion, Linder, & Knotts, 2008; Heenetigala, 2011;Rhyne, 2012).

The stakeholder theory explains how while the social contract theory, the slack resources, and legitimacy theory explain why social performance is important for entities like MFIs. The stakeholder theory advocates for meeting of all the stakeholders' diverse and often divergent expectations in the MFI activities thus recommends the inclusion of the various stakeholders' representatives in the governance on the institution (CERISE, 2005; Heenetigala, 2011). An MFI's social viability can only be achieved when different stakeholders bridge different interest and reach a compromise. The slack resources theory links the firm financial performance to its social performance arguing that as a result of improved financial performance; firms get a greater freedom to invest in social responsibility. The social contract theory and the legitimacy theory impose the social responsibility consideration in an MFIs operation as a means justifying its existence while the slack resources theory advocates for investment in the social performance.

To evaluate social performance it is necessary to determine the constituents of good social performance using performance indicators which are measurable, relevant and important. Prior studies on social performance have mainly focused on the relationship between the financial and social performance of MFIs (Sahin, Basfirinci, & Ozsalih, 2011; Olayinka, 2010).Various studies on social performance have used different measures. Manderlier et al (2009) in their study on the impact of corpoate governance mechanism on social performance use the number of active borrowers and the average loan size as a measure for social performance.Galema, Lensink, and Mersland (2009) use the average loan size.Arun and Annim (2010) use outreach to represent social performance while Ruben and Schers (2007) analyse the breadth and depth of outreach.Sahin et al (2011) use a corporate social responsibility index reported by firms in measuring their social performance which is made up of a number of social indicators. The social performance index appears to be more objective .The current study will use the CERISE Social Performance Indicators tool which give a firm's social perormance index using four dimensions, targeting and outreach ,appropriateness of products and services, benefits to clients and social responsibility.This measure is more comprehensive as it includes all other separate measures used in prior studies in generating the score.

2.4 The Conceptual Framework

The conceptual framework hereunder illustrates the perceived link between the independent (leadership characteristics) and dependent variable (social performance) .Evidence from empirical research suggests that there are several leadership characteristics that influence the social performance of MFIs. The variables considered to affect social performance in this study comprise of CEO duality, CEO gender, CEO qualifications and CEO experience. Similar conceptual framework models have been widely used to study effect of governance mechanisms on the performance of firms (Manderlier et al, 2009; Villiers, Naiker, & Staden, 2009; Ioannou & Serafeim, 2010; Sahin, Basfirinci, & Ozsalih, 2011; Heenetigala, 2011). The common governance mechanism that have been used as independent variables in this studies are board size, proportion of independent and dependent directors, existance of committees ,board composition, board tenure , CEO duality , female CEO , board memebrs education , CEO education , internal controls, legal ownership, political and legal enviroment.The independent variables have been the firms, financial performance , social performance, enviromental performance and corporate governance score. Ioannou and Serafeim (2010) uses indecies to measure the social performance, governance , and enviromental performance scores while Heenetigala (2011) uses the corporate social responsibility index to measure the social performance score hence justifying the use of such an index in this study.



Independent variables *Dependent variables*

Figure 1: The Conceptual Framework

3. Methodology

This study used a survey research design. Since the study was on the effect of board characteristics on social performance of MFIs in Kenya, the sampling frame was obtained from AMFI. Institutions belonging to the banking industry, insurance Industry, Development organizations and Deposit taking Institutions were excluded form the study from the population. This is due to the special regulatory environment that they operate making them more efficient (Ali & Wise, 2009). A sample consisting of members of AMFI was considered a good representation of the industry since AMFI is the umbrella body of all the MFIs in Kenya duly registered (AMFI, 2012a). A sample of 39 MFIs registered by June 2012 was used.

Information about the board characteristics was collected for the MFIs chief Executive officer using a self administered questionnaire. The Social performance score was obtained using a CERISE tool based interview schedule. The interview schedule was administered to each of the MFIs operations managers as they were best suited to handle the SPM issues as they work closely with the filed staff.

3.1 Dependent and Independent variables

The Dependent variable of the study was the social performance score represented by SPM score which was a percentage based on the CERISE tool. The independent variables were CEO duality, gender of the CEO,CEO qualifications, and CEO experience.

3.2 Statistical Analysis

For the purpose of empirical analysis, this study used descriptive statistics, the independent sample t-test and the logistic linear regression as the underlying statistical tests. The regression analysis was performed on the dependent variable SPM to test its relationship between the independent variables. The regression model utilized to tests the relationship as follows.

$$\mathbf{P\ (Y=1)} = \frac{\mathbf{1}}{\mathbf{1 + e^{(\beta 0 + \beta 1\ X1 + \varepsilon)}}}$$

Where:

P(Y= 1) is the probability that an MFI's has a high social performance Score

β_0 is the intercept coefficients

β_1 the coefficient the e independent variables

X_1 leadership characteristics (statistically weighted)

ε Error term

4. Data Analysis and Presentation of results

The objective of the study was achieved by an analysis of the descriptive statistics for the CEO duality, gender of the CEO, and the CEO's qualifications and experiences. The significance of the effect of each indicator on SPI was established by comparing the mean values of the independent variables for MFIs with a high SPI score and those with a low SPI score. The independent samples t –test was used to compare the means. The tests were carried out for each of indicators used to measure leadership characteristics and for the composite variable. The details of the results are discussed below.

4.1 CEO duality

The study sought to find out whether there was a clear separation of the roles of the CEO and the board chairman.CEO duality exists where the Chairman of the MFI double up as the CEO. The study found that 96% of the MFIs had their chairman as non executive directors. This means that majority of the MFIs did not have CEO duality hence had the chairman of the board and the CEO with separate and distinct roles.

The study largely corroborated what is reported in the previous studies (Manderlier, et al 2009; Galema,et al 2009; Zheka,2006) that most of the MFIs have separated the roles of the CEO and the board chairman. This implies that majority of the MFIs did not have CEO duality and hence comply with the various corporate governance guidelines. Best practices recommend that the chairman should be non executive hence separating their role from that of the CEO (CMA, 2002; BBVA Microfinance Foundation, 2011a).

The board of directors is set up to monitor managers on the behalf of the stakeholders. The effect of the separation of the role of the chairman and the CEO is likely result in the board effectively exercising their supervisory role. This would result in the establishment of unity of command at the head of the MFI would thus allowing the firm to send a reassuring message to stakeholders.

The results in table 1 present the comparison of the difference in means for MFIs without CEO duality for MFIs with high SPI scores and those with low SPI scores .The results revealed that the two were different and that the difference was significant ($t=-2.069$, $p < 0.05$).This means that on average MFIs with a high SPI score have of separation of leadership roles between the Chairman and the CEO. This implies that as an organization separates the role of the CEO and the board chair, the social performance score is higher. This can be attributed to the agency theorists perspective CEO duality impairs the effectiveness of monitoring activities thus weakening the performance of an MFI (Sahin, Basfirinci, & Ozsalih, 2011; Desender, 2009).

Scholars, Wu et al, 2009; Bermig, 2010; and Kaymak & Bektas, 2008 found similar results in their study on the effect of CEO duality on the general performance of the MFIs. Further confirming that under the conditions that the chairman also serves as the CEO, the board would most likely fail to be objective thus putting the MFI at a disadvantage (Kula, 2005).

This could be as a result of the CEO who is also the chairman exerting undue influence on the board thus compromising their oversight and governance roles. On the other hand, the separation of the CEO and chairman's role could mean that the board is able to independently offer their supervisory role while furthering the interest of the stakeholders. This may be the reason for better social performance among MFIs that have defined clear roles for the CEO and the Chairman of the board.

4.2 Gender of the CEO

This research focused on how the gender of the CEO affected the SPI score of an MFI. The study results indicated that majority (86 %) of the CEOs were men while the remaining 14% were women .The results further reveal that a majority of MFIs that were focused on promoting the welfare of female clients were still male headed.

The results of the study lender support to earlier findings by Bermig (2010) and Brennan N. M., (2010) who found that majority of the MFIs were male headed even though most were began to support the plight of poor women. The two authors argue that most the poor women lack the collateral to enable them borrows from formal financial institutions thus they end up as MFI clients. They argue that women CEOs would better understand the needs of their fellow women and thus should be CEOs of the MFIs as advocated by the stakeholders' theory.

The results may be attributed to the patriarchal nature of the Kenyan society. The results are however contrary to the expectation from theoretical literature reviewed. The literature stipulates that since most MFIs clients are women, female CEOs would dominate the sector as they are considered to better understand the problems their fellow women face (Manderlier, et al, 2009;Webb, 2005; Bermig, 2010).

An independent samples t-test on the gender of the CEO for MFIs with a high SPI score and those with a low SPI score showed that although their means are different, the difference is not significant ($t = -1.520$, $p > 0.05$) as shown in table 1.This means gender of the CEO has no significant influence on the social performance of an MFI. It does not therefore matter whether the MFIs is female or male headed in as far as social performance is concerned.

The insignificance of the relationship implies that the gender of the CEO does not affect an MFI's level of social performance. These results were contrary to the expectation discussed in the literature review where it was argued that female CEOs would have the interest of their clients in mind as majority of them are women (Manderlier et al, 2009). The findings contradict the stakeholder thoery which advocates for recruitment of female CEOs as they spend more time on monitring activities (Galema, Lensink, & Mersland, 2009).They results however confirm the findings by Manderlier et al (2009) who while studying the effect of CEO on peromance found that geneder did not have an influence.

The results imply that the gender of the CEO does not matter as far as the monitoring of the SPI indicators is concerned. This could be due to the fact CEOs are committed to the achievement of the mission of their MFIs irrespective of their gender. This may have been further enhanced by the inclusion in their performance evaluation of some or all the social performance indicators. This would mean that they have to perform well in the social performance indicators as a basis of their continued employment and in determining their levels of remuneration.

4.3 CEO qualification

Descriptive statistics revealed that that the majority 60% of the CEOs had a Masters degree, 29% had first degree, 7% had diplomas while 4% had doctorate degrees as the highest academic achievement. The results indicate that most of the CEOs (93%) had at a University degree as highest education qualifications. Only 2 of the 38 CEOs (4%) had their highest academic qualification being diplomas.

The results contradict earlier findings by Mori and Olomi ,(2012) who conclude that since MFIs serve the lower end of the market , they are run by less qaulified staff.The finding are however not surprising and could be explained by the a rapid expansion in University education in Kenya. This has resulted in a rise in the working class adults going back to school due to availability of various flexible programmes that address their needs.

The resource dependence theory views the CEO qualification as a resource that should have a positive contribution to overall performance of an MFI. Education plays a key role in management skills transfer and in understanding and promoting society change (Brennan N. M., 2010).

A comparison of the means of MFIs with a low SPI score and those with a high SPI score based on the qualifications of their CEOs. The two means are different, but the difference is not significant (t=-0.401, p > 0.05) as shown in table 1.This means that although on average, MFIs with better SPI scores have more educated CEOs, their qualification did not significantly effect on the score. This further implies that an MFI led by a not so highly qualified CEO may perform just as good as on led by a highly qualified CEO.The results contradict the expectations based on the resource dependence theory where qualifications of the CEO are viewed as a resource that would be applied to improve the performance of an MFI (Dulewiez & Herbert, 2004; Beltratti, 2005).

The results further contradict the findings of studies on the influence of CEOs education on firm performance (Zheka, 2006; Bennan, 2006; Pascal & Mersland, 2012). Better education compared based on the level of highest academic achievement attained by the CEOs. They found that there was no difference in firm performance between those firm managed by CEO with MBA and those firm managed by CEOs without a graduate degree. Furthermore, they found that there was no difference in performance of firm between those managed by CEOs from the prestigious school and those from less prestigious school.

Drawing from resource based theory and the findings of this study, the CEO could be viewed as is unique, resourceful personnel having managerial characteristics and social performance experience. The interactions of these managerial characteristics with strategic decision making processes enable the MFIs they manage to have better SPI scores which is key in their strategic direction.

4.4 CEO work experience

The study included the identification of the working experience of the CEO who was part of the study. Majority of the CEOs 50% had between 6-10 years of work experience, while 22% and 21% had between 11-15 years and between 16-20 years respectively. Proponents of the resource dependence theory argue that the qualifications and experience of a CEO would be a resource form which should be reflected in and MFI’s better overall performance.

A Comparison of the mean difference in the average number of years of the CEO experience for MFIs with high SPI scores and those Low SPI scores revealed that the two were different and that the difference was significant (t=-7.059, $p < 0.05$) as shown in table 1.This means that MFIs with a high SPI score have on average more experience CEOs compared to firms with a low SPI scores. This further implies that as the average number of years of the CEO experience increases, so does its SPI score. This implies that as the number of years of CEO experience increases, the level of social performance increases. These results are consistent studies by Krishnan (2005), Pascal & Mersland, (2012) and Bennan, (2006) who find significant positive relationship between the usefulness of the CEOs experince and financial reporting qaulity. The findings support the resource dependence theory which views the CEO’s expereince as a resource that results into a better performing MFI (Beltratti, 2005).

The results imply that a CEO’s professional background and work experience improve the MFI social performance score. This could be due to the improved managerial skills acquired with more years of experience in the industry. The results could also be attributed to their thorough understanding of the MFI business and the target market which leads to better performance both on the social and financial fronts.

4.5 Leadership characteristics

An overall leadership characteristics composite score was obtained by weighting each of the indicators discussed above (CEO duality, gender of the CEO, CEO qualifications and experience). The score was subjected to an independent sample t-test and a plot of the means graphically displayed. The results from the t-test as reported in Table 1, show that means of the composite leadership characteristics score of MFIs with a high SPI score differ from that of those with a low SPI score. The results further revealed that board characteristics and an MFIs SPI score are positively related in a statistically significant way.

From the logistic regression analysis on Table 2, the leadership characteristics is a strong predictor of an MFIs SPI score with an odd ratio of 1.808. This indicated that MFIs who had a high leadership characteristic score were over 1.808 times more likely to report a high SPI score than those who had a low leadership characteristic score controlling for all other factors in the model.

The argument from the resource based theory is that the CEO’s education qualification, professional qualification and experience enable them to deploy their knowhow and improve the social performance of the MFI (Pascal & Mersland, 2012; Mersland & Strom, 2007).The results confirm findings from earlier studies which identify the CEO characteristics as positively to an MFIs performance (Ali & Wise, 2009; Heentigala, 2011; Ioannou & Serafeim, 2010).The results imply that as the overall the leadership characteristics score improves, there is an improvement of the SPI score.

The leadership characteristics profile the quality of the CEO which can be associated with good social performance of an MFI. The results could be explained as resulting for a better understanding of the MFIs strategic choices that positively influences its social performance. The positive significant relationship between leadership characteristics and the Social performance of an MFI is vital because it implies that if the leadership is improved, MFIs will be able to meet their social mission.

5. Conclusion

The aim of this study was to examine the effect of leadership characteristics on an MFIs social performance score. In achieving this aim, the study obtained data on variables which were believed to have relationship with SPM from theoretical and empirical literature review. These variables included CEO duality, gender of the CEO, CEO qualifications, and CEO experience. On the basis of these variables, the research questions were formulated.

Results from the study indicate that there is strong positive association between board size and SPM .This is consistent with the finding of (Tembo, Determinants of Social Perfomance of Microfinance Institutions in Kenya., 2011).The study reveals a positive association between CEO non duality, CEO experience and the overall leadership characteristics with an MFIs' social performance. The effect of the gender of the CEO and their education experience has no significant relationship with an MFIs social performance. The results indicate that MFIs that have separated the role of the CEO and the board chair, and have more experienced CEOs have better social performance scores.

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Therefore this study recommends that CEO duality should be discouraged among the MFIs while recruitment of experienced CEOs should be encouraged .This study may be improved by including additional leadership variables that may affect the social performance of an MFIs.

Table 1. Independent sample t-test for leadership characteristics

	Low SPI score	**High SPI score**		
Variable	**Mean**	**Mean**	**t-statistic**	**Sig.**
CEO duality	1.91	2.00	-2.069	0.044
Gender of CEO	1.09	1.19	-1.520	0.131
CEO qualifications	2.57	2.63	-0.401	0.689
CEO experience	4.30	9.67	-7.059	0.000
Leadership Charact’s	5.46	7.38	-5.778	0.000

Table 2: Variables in the Equation

	B	**S.E.**	**Wald**	**df**	**Sig.**	**Exp(B)**
LEAD CHR	0.592	0.155	14.55	1	0.00	1.808

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