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PERFORMANCE FEEDBACK AND RISK TAKING OF MICROFINANCE INSTITUTIONS: THE MODERATING EFFECTS OF INSTITUTIONAL FACTORS (SUMMARY)

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SUMMARY

PERFORMANCE FEEDBACK AND RISK TAKING OF MICROFINANCE INSTITUTIONS: THE MODERATING EFFECTS OF INSTITUTIONAL FACTORS

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Principal Topic

Prior research on performance feedback has focused on the direct impact of performance feedback on risk taking (Lim & McCann, 2013) and paid little attention to the role of contextual factors. In particular, there are few empirical studies that examine how performance feedback and institutions interplay in risk taking of organizations. This study aims to fill this gap by investigating the role of organization-level institutional logics and state-level institutions in a microfinance industry. Institutions arise as a result of human beings' continuous efforts to deal with uncertain environments (North, 1990; Scott, 1995). Thus, individual and organizational actors are affected by institutions, and different institutions can be a source of heterogeneity of organizational behavior (Peng, 2003). This suggests that the impact of performance feedback on risk taking can be affected by institutional factors. And, microfinance industry provides a good setting to investigate this issue.

Method

For our empirical analyses, we used a data set of 2,802 organization-year observations from 806 MFIs across 90 countries between 2003 and 2010. Data about MFIs were collected from the Microfinance Information Exchange, Inc. (MIX). We also collected data for state-level variables from Worldwide Governance Indicators and the World Bank. We test our hypotheses using multilevel mixed models. To proxy MFIs' risk taking, we used insolvency risk following previous studies (Laeven & Levine, 2009). Also, we measured performance aspirations and performance discrepancies of MFIs using return of assets (ROA) (Greve 2003).

Results and Implications

Empirical results show that MFIs increase risk taking when performance negatively deviates from the historical aspiration level. We also find that social-welfare logic and governance quality strengthen the impact of negative attainment discrepancy on risk taking. However, MFIs do not increase risk taking when their performance is worse than other MFIs even with a higher level of social-welfare logic and governance quality. The findings suggest that institutions play important roles in a specific decision-making context such as responding to performance below the historical aspiration level. This study also suggests that different types of aspirations have different effects on organizational risk taking (Kim, Finkelstein, & Haleblian, 2014).

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