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ORIGINAL PAPER

Success Factors of Microfinance Institutions: State of the Art and Research Agenda

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Abstract Microfinance institutions (MFIs) operate in increasingly commercialized environments. To be successful in competitive markets, good management is crucial. Drawing from research on organizational success as a theoretical background, the authors systemize which management-relevant success factors for MFIs have been analyzed previously in the microfinance literature, then highlight promising research avenues for assessing MFIs from a management perspective. This approach lays the groundwork for reliable success factor research in microfinance settings.

Résumé Les institutions de microfinance (IMF) opèrent dans un environnement de plus en plus commercial. Afin de réussir dans un marché concurrentiel, la gestion des organisations est essentielle. Basé sur des connaissances théoriques concernant le succès des organisations, cet article systématise les connaissances académiques concernant les facteurs de réussite des IMF et développe un programme de recherche instructif concernant ces facteurs. Ainsi, cet article serve de base à la recherche en les facteurs de réussite des IMF.

Zusammenfassung Mikrofinanzinstitute sind einem steigenden Kommerzialisierungs- und Wettbewerbsdruck ausgesetzt. Um in diesem Marktumfeld erfolgreich zu sein,

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müssen sie gute Management-Praktiken etablieren. Dieser Artikel systematisiert auf Basis der Erfolgsfaktorenforschung das Wissen zu Erfolgsfaktoren von Mikrofinanzinstituten und identifiziert Forschungslücken. Zudem stellt er eine Forschungsagenda für weitere Managementforschung – insbesondere zu Erfolgsfaktoren von Mikrofinanzinstituten – auf. Dadurch legt er eine wesentliche Grundlage für eine verlässliche Erfolgsfaktorenforschung im Mikrofinanzbereich.

Resumen Las instituciones de microfinanzas (MFI, del inglés microfinance institutions) operan en entornos cada vez más comercializados. Para tener éxito en mercados competitivos, una buena gestión es crucial. Basándonos en la investigación sobre el éxito organizativo como trasfondo teórico, los autores sistematizan qué factores de éxito relevantes para la gestión de las MFI han sido analizados previamente en el material publicado sobre microfinanzas. Ademas destacan vías de investigación prometedoras para evaluar las MFI desde una perspectiva de gestión. Este enfoque pone los cimientos para una investigación fiable de los factores de éxito en escenarios de microfinanzas.

Keywords Microfinance institutions · Success factor research · Management · Review article · Research agenda

Introduction

Microfinance—defined as the provision of financial services to low-income people who traditionally have been excluded from financial systems (Hermes et al. 2011; Périlleux et al. 2012)—has changed substantially since its inception in 1976 (Armendáriz and Morduch 2007; Augsburg and Fouillet 2010). Until the late 1980s, the notion was particularly promoted by nonprofit, nongovernmental, microfinance institutions (MFIs) that took as their primary objectives the reduction of poverty and inequality (Armendáriz and Labie 2011; Augsburg and Fouillet 2010; Dichter 1996). They also required substantial subsidies to accomplish their social goals (Cull et al. 2009; Hudon and Traca 2011). Since the early 1990s, though, the microfinance movement has become more commercialized, such that some MFIs have decreased their dependence on subsidies and started to manage operations on a business basis as part of the regulated financial system (Christen and Drake 2002; Périlleux et al. 2012). For example, some nongovernmental organizations (NGOs) transformed into regulated commercial financial institutions (Armendáriz and Labie 2011; Chahine and Tannir 2010). Motivated by the success of the microfinance model, commercial banks also adopted profit-oriented microfinance activities (Assefa et al. 2013; Augsburg and Fouillet 2010). The modern microfinance market, thus, represents an important competitive industry featuring both nonprofit and for-profit MFIs (Ledgerwood 2013; Périlleux et al. 2012; Servin et al. 2012).

The changing nature of the microfinance market also has transformed understanding of what constitutes organizational success for MFIs. In addition to social objectives, such as poverty reduction, empowerment, and financial inclusion of the poor (social performance) (Ledgerwood 2013; Vik 2010), MFIs need to achieve good financial ratios (financial performance) to survive in increasingly competitive markets (Gutiérrez-Nieto et al. 2009). Thus, many MFIs follow a double-bottom line approach, though with some differences in their relative focus. Nonprofit MFIs tend to put more weight on their social performance, whereas for-profit MFIs mainly concentrate on the achievement of clearly stated financial goals (Galema et al. 2012; Mersland and Strøm 2009; Servin et al. 2012). In addition, the competitive context has led to an emphasis on efficiency as a dimension of organizational success for both MFI types (Hamed 2007; Hermes et al. 2011).

To assure such organizational success, MFI management is critical (Hudon 2009). The microfinance literature addresses several management-relevant topics, including group lending (Harper 1998; Hermes et al. 2005), drivers of transaction costs (Shankar 2007), market orientation (Woller 2002), funder loyalty (Gutiérrez-Nieto and Serrano-Cinca 2010), and funders' perceptions of project effectiveness (Ly and Mason 2012). However, knowledge about the determinants of MFI success, i.e., success factors, remains relatively scarce (Mersland et al. 2011). This article responds to calls for success factor research in microfinance settings (Khavul 2010; Mersland et al. 2011) by drawing on the management literature pertaining to organizational success. We elaborate on success factors that have been examined previously in the microfinance literature, then analyze the state of the field in terms of its theoretical foundations and empirical methods applied. In addition, we propose research avenues to pave the way for more management-based investigations in microfinance.

This review offers insights for both academics and practitioners. In particular, our contribution provides a comprehensive basis for examining MFIs from a management perspective, thus, establishing a foundation for further elaboration on management-relevant knowledge about MFIs. It also enables scholars to test the validity of prominent management theories in a new context, which should contribute to theory development and refinement (Leavitt et al. 2010; Whetten 1989). Furthermore, for MFI managers, this study acknowledges their need to address efficiency, financial, and social performance ratios simultaneously. By reviewing existing success factors and proposing a research agenda to elaborate on these methods, we provide some initial deeper insights into how MFI managers can accomplish MFI success in more competitive microfinance markets.

Success Factor Research

Basic Principles

The question of why some businesses perform better than others is the core of strategic management research (Grunert and Hildebrandt 2004). Scholars attempt to identify managerially relevant factors that can influence organizational success (Baruch and Ramalho 2006; Hildebrandt 1988). These so-called success factors include "long-range planning variables [that] have a strategic and competitive dimension, and … may include factors both internal and external to the business"

(Hildebrandt 1988, p. 92). When properly managed, they can enhance organizational success (Leidecker and Bruno 1984).

To identify success factors empirically, management scholars model organizational success as a dependent variable (Cameron 2005; Simpson et al. 2012). Using quantitative or qualitative approaches, they deduce success factors on the basis of scientific theories or expert knowledge, or else they inductively generalize findings of case studies to a larger population of organizations. Qualitative- and quantitative-exploratory studies aim to detect possible success factors out of a larger candidate pool. Quantitative-confirmatory analyses instead check the validity of theoretically derived hypotheses about the relationship between management-relevant factors and organizational success. Furthermore, researchers distinguish between internal success factors that managers can influence directly, such as marketing and organizational culture, and moderating environmental factors that managers must monitor to design appropriate business strategies (Grunert and Ellegaard 1993; Sousa de Vasconcellos e Sá and Hambrick 2006).

Theoretical Conceptualizations of Organizational Success

Success factor studies provide various conceptualizations of organizational success, depending on their theoretical approaches (Robbins 1987), as summarized by Helmig et al. (2013). For example, a goal-attainment perspective indicates that organizations exist to accomplish predefined goals (Etzioni 1964), so organizational success reflects the degree of target achievement (Price 1972). To evaluate whether an organization is successful, its goals need to be operationalized before it is possible to judge the extent to which they have been accomplished. The methods applied to achieve these objectives are not evaluated (Miles 1980; Robbins 1987).

With a systems approach, organizations appear embedded in a systems framework, in which they acquire inputs, engage in transformation processes, and produce outputs. Thus, the ability to acquire resources (inputs), maintain stability in their processes and structures, and manage organization–environment relationships is just as important as goal achievement. The measures used to accomplish organizational goals accordingly are highly relevant in this perspective (Miles 1980; Robbins 1987). This approach appears manifest in several organizational theories. First, focusing on the input side, the resource dependence model (Pfeffer and Salancik 1978; Yuchtman and Seashore 1967) defines success in terms of organizations' ability to acquire and maintain resources critical for their survival. Only if they manage to obtain the necessary inputs to support the production of outputs can they stay in the market over time. Second, the internal congruence model (Nadler and Tushman 1980) considers transformation processes within organizations. Equating organizational success with efficiency, it indicates that the internal functioning of an organization must be organized in a way that prevents wasting resources when producing outputs. Third, contingency theory presumes that organizational adaptation to the technological environment equates with organizational success (Lawrence and Lorsch 1967). Similarly, the strategic constituency model defines success in terms of the degree to which an organization meets stakeholder demands (Cameron 1980).

These different conceptualizations illustrate that success factors appear in every part of the business process. Management-relevant factors that enhance resource acquisition, efficiency, adaptation to the environment (means objectives), and target achievement (ends objectives) all constitute success factors, because they affect distinct dimensions of the success construct. As Helmig et al. (2013) argue, elaborating on success factors requires the consideration of all four dimensions, because only by assessing the success construct comprehensively can we identify reliable determinants of organizational success with respect to different parts of the business process. Figure 1 illustrates a typical research design for success factor studies in strategic management research, with both internal and environmental causes for at least one of the success dimensions.

Microfinance

In microfinance settings, success factor research rarely applies as a theoretical background for identifying determinants of MFI success. Knowledge about the success factors for MFIs, thus, is scarce (Mersland et al. 2011). However, the microfinance literature addresses management-relevant themes, discussed in relation to MFI success. Because these investigations follow the theoretical reasoning of success factor research, at least implicitly, we regard them as constitutive of the stream of success factor research in microfinance.

Studies in this research stream model MFI success as a dependent variable and elaborate on management-relevant factors crucial for it. As in success factor research in general, MFI success may be conceptualized differently, depending on the theoretical approaches. From a goal-attainment perspective, accomplishing clearly stated objectives indicates MFI success (output dimension). Nonprofit MFIs in particular likely succeed to the extent that they achieve their social goals, whereas the success of for-profit MFIs mainly entails the achievement of good financial ratios. Thus, financial and social performances are two dimensions of MFI success, and a goal-attainment approach requires them to be measurable. Because of their multifaceted natures (Mersland and Strøm 2008; Tchakoute-Tchuigoua 2010), analyses of the financial and social performance of MFIs feature various perspectives. According to Ledgerwood (1999), financial performance consists of *profitability* (e.g., return to assets, return on equity, profit) and *portfolio quality* (e.g., repayment rates, portfolio at risk, loan loss ratio), which demonstrate whether financial institutions deploy good business strategies and are worthy of investments. *Productivity* (e.g., number of active borrowers/savers per credit/savings officer, portfolio/deposits outstanding per credit/savings officer) refers to MFI competitiveness. *Financial viability* (e.g., operational or financial self-sufficiency, subsidy dependence) offers an indicator of MFIs' ability to cover their costs with earned revenues. Finally, *leverage* (e.g., debt-to-equity ratio) compares the extent to which an organization borrows money from capital markets against the equity it possesses. This indicator describes the degree of its inclusion into the regular financial system.

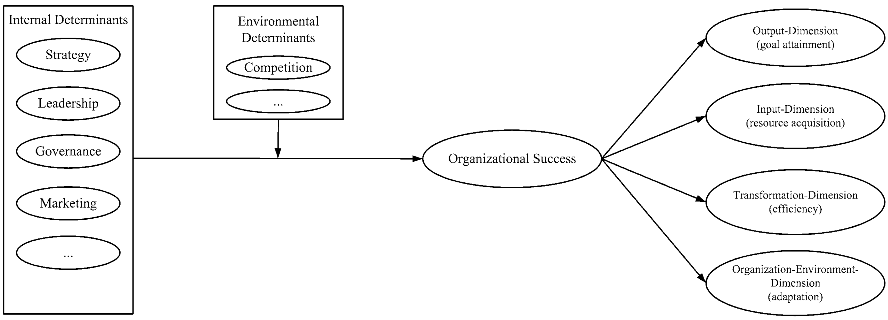

Fig. 1 Research design of success factor studies

To measure the social performance of MFIs, scholars typically rely on frameworks developed by Navajas et al. (2000) and Schreiner (2002), who consider six relevant dimensions. *Breadth of outreach* captures the number of clients reached by a MFI. *Depth of outreach* refers to the value that a society associates with the net gain that results from the provision of credit to certain borrowers. In terms of development strategies, the poorest are typically valued more by society than less needy people, for humanitarian reasons (Rhyne 1998). Because relatively wealthier people usually receive larger loans, average loan size often proxies for this dimension (Cull et al. 2009). *Scope of outreach* is the number of financial services offered by MFIs. *Length of outreach* is the time frame during which they provide financial services to the poor. The *cost to clients* dimension captures the interest borrowers pay for a loan, as well as the transaction costs (e.g., expenses for transportation, documents) they face to get a loan. Finally, *worth to clients* is their willingness to pay for microfinance services.

These two conceptualizations illustrate the distinct aspects that appear relevant for evaluating MFI success. It is useful to keep these different conceptualizations and their respective indicators in mind, because microfinance studies often focus on a particular aspect of either dimension, without explicitly stating that they are analyzing MFI success. Thus, the application of these frameworks can help identify studies that implicitly elaborate on this topic, such as by analyzing drivers of repayment rates or factors that increase the number of clients the MFIs address.

Beyond these two success dimensions, resource dependence and system resource theory highlight guaranteed resource acquisition as an input dimension for MFI success. Studies on access to capital markets, raising of capital, fundraising, subsidies, staff recruitment, and infrastructure development, thus, offer elaborations on the input dimension of MFI success. Only when MFIs acquire sufficient resources for their business to run can they survive in the market, which is a prerequisite for the accomplishment of end goals.

In addition, the internal congruence model indicates that efficiency must be considered a dimension of MFI success. Operating in increasingly competitive markets, MFIs must avoid wasting resources. Their business processes, describing the transformation of inputs into outputs, thus, must be organized efficiently.

Finally, from a contingency theory and strategic constituency model perspective, MFI success is reflected in effective adaptations to the organizational environment. Because microfinance is context specific (Yaron 1994), investigations of replications of MFI programs in different parts of the world may be subsumed under the organization–environment dimension of MFI success, because they analyze whether these programs manage to adapt to new social and cultural contexts. Studies on stakeholder satisfaction similarly address this success dimension. The more satisfied stakeholders are, the better MFIs meet stakeholder demands, and thus, the better they adapt to their organizational environment.

A conceptualization of MFI success based on both goal-attainment and systems approaches offers a more comprehensive understanding of the success construct in microfinance contexts. If studies analyze determinants of at least one dimension of MFI success, they can be subsumed under the research stream of success factor research in microfinance. Thus, we consider all studies of MFIs whose research design corresponds to that in Fig. 1 success factor studies, included as sources to answer our research questions.

Literature Analysis

Methodology

For the literature analysis, we relied on the procedure suggested by Denyer and Tranfield (2009), as frequently applied by other scholars (e.g., Helmig et al. 2013; Wang and Chugh 2013). First, we defined a basic question as an inclusion criterion, in an attempt to present the state of the art of success factor research in microfinance: Which management-relevant factors already have been analyzed with respect to MFI success? Second, we reviewed the relevant literature, including academic journals in the fields of business administration and (development) economics. To verify the relevance of the business administration journals, we checked for their appearance in the JOURQUAL2 rating published by the German Academic Association for Business Research (Schrader and Hennig-Thurau 2009). Similarly, we used the Handelsblatt rating and Tinberger list for economics journals. We presented the list of identified journals to microfinance experts to confirm that they were relevant for inclusion in our analysis. Next, we used two keywords to search these journals: microfinance (institutions) and microcredit. An abstract screening yielded 322 potentially relevant articles for our analysis. We conducted an unstructured search of book sections and academic articles cited in these articles; we also scanned the EBSCO, Google Scholar, and Proquest databases for pertinent studies using the same keywords. Thus, we identified a total sample of 400 articles.

Third, we established the criteria for inclusion. In line with our research framework, only articles that treated MFI success as a dependent variable appeared in our study. We considered this criterion fulfilled if one of the dimensions of MFI success was modeled as a dependent variable in the study under investigation. In addition, we only included articles published after 1990, to ensure a focus on MFIs and their success factors in a commercialized environment. We identified 90 articles[1] belonging to success factor research in microfinance.

Fourth, for the analysis of the selected studies, we sought a high-quality examination and therefore assessed their full texts. We began by investigating whether the research design was quantitative or qualitative, exploratory or confirmatory. In addition, we noted the theoretical foundations of the articles. The main part of the analysis consisted of structuring knowledge on the success factors of MFIs according to the theoretical reasoning provided by success factor research and examining which dimensions of MFI success were addressed in these studies. In addition, we grouped the success factors as either internal or environmental determinants of MFI success.

Finally, we gathered the results to be reported and applied. Our analysis revealed six major elements describing the state of the art of success factor research in the microfinance literature, as we discuss next.

Findings

Success Factor Studies in Microfinance are Exploratory and Descriptive

The studies in our sample are rather exploratory ($n = 52$) and descriptive ($n = 10$). There are 33 quantitative-exploratory and 19 qualitative-exploratory investigations, and in this latter case, the most commonly applied method is a (comparative) case study. The same method marks most descriptive articles that we examined, which also tend to elaborate on best practices for MFIs. Quantitative-exploratory and quantitative-confirmatory studies ($n = 28$) deploy both longitudinal and cross-sectional research designs. The data tend to be archival, stemming from project databases, business reports, and data collection organizations such as microfinance rating agencies and the Microfinance Information Exchange (MIX), an American NGO that collects and publishes financial and social performance data about approximately 2,000 MFIs worldwide. Survey designs are rare. Most quantitative examinations use regression analyses to identify success factors. To confirm causal relationships among the variables of interest, they use statistical techniques, such as instrumental variable panel regressions and quasi-experimental research designs.

Trend Toward Quantitative Analyses

Quantitative analyses of the success factors of MFIs have gained importance in recent years. In particular, the frequency of quantitative-exploratory research has increased since the early 2000s. Most quantitative-confirmatory analyses have been published since 2005, with 19 (67.9 %) released in the most recent 5 years. A reason might be the greater availability of public databases, such as MIX, and reports on MFIs offered by rating agencies. Although these analyses provide interesting insights on generalizable results related to success factors across MFIs, the data aggregation prevents any in-depth knowledge of MFI management

[1] The full list of articles is available on request.

processes. Thus, MFIs as organizations remain black boxes whose functioning is not well understood.

Success Factor Research in Microfinance is Problem Driven Rather Than Applying Explicit Theory Based in Management Research

We rarely find an explicit theoretical background, based in management research ($n = 18$). Most studies derive their research questions and hypotheses from plausibility assumptions or findings previously published in the microfinance literature. The neglect of management-based theoretical foundations and our realization that the validity of prominent management theories has not been tested in a microfinance context, illustrate that MFI success is a problem-driven construct.

Great Variety in the Conceptualization and Operationalization of MFI Success

All four dimensions of MFI success have been analyzed in the microfinance literature, including 52 studies identifying determinants of social performance and 59 focusing on financial performance factors, which reflect the output dimension of MFI success. The input dimension is less prevalent ($n = 2$), as is the organization–environment dimension, such that only two studies examine MFI adaptation to its context as a dependent variable. In contrast, 15 articles address the transformation dimension, analyzing MFI efficiency as the dependent variable.

As expected, quite a lot of studies ($n = 37$) adopt the double-bottom line approach. Modeling financial and social performance as dependent variables at the same time, these analyses acknowledge that the accomplishment of financial and social objectives is equally important in the current microfinance industry, in line with the literature that asserts organizational success is a multidimensional construct (Cameron 1981; Herman and Renz 1999; Sowa et al. 2004). Other scholars apply the same reasoning and investigate different combinations of the four success dimensions in our research framework. Social performance rarely is addressed exclusively in these articles ($n = 10$), whereas twice as many articles in our sample examine only the financial performance of MFIs ($n = 20$).

The complexity associated with the conceptualization of the success construct is not reflected only in the various dimensions deployed for this purpose; even the operationalizations of the dimensions differ. Studies addressing the financial performance of MFIs use various financial ratios, such as portfolio quality expressed as the repayment rate ($n = 27$), financial viability analyzed as operational and financial self-sufficiency ($n = 23$), and profitability ($n = 19$). The combinations of these dimensions also differ. To capture the social performance of MFIs, scholars typically use the breadth ($n = 26$) and depth ($n = 24$) dimensions of outreach; the other dimensions are rarely examined. We also note some disagreement with respect to the best indicators to use to assess the dimensions. For example, the real gross loan portfolio yield has been used to capture both the cost dimension of social performance (Cull et al. 2007) and the revenue aspect of profitability (Kamukama et al. 2010; Mersland and Strøm 2009). Ahlin et al. (2010) also use the number of borrowers, typically an indicator of breadth, to capture financial performance.

Valuable Knowledge About Determinants of MFI Success

Our analysis shows that the academic literature has been elaborating on a significant number of variables that, when properly managed, can have positive influences on at least one of the dimensions of MFI success. Most of these success factors are internal to the MFI. Categorizing them according to typical management functions, thus, reveals several interesting insights.

First, management planning and forecasting are rarely analyzed explicitly when detecting success factors. Only Elaydi and Harrison (2010) examine the relationship between strategic motivation and MFI success, though some other studies might be subsumed under strategy research in microfinance. Chahine and Tannir (2010) and Cull and Spreng (2011) demonstrate that organizational change, in terms of the transformation of a nongovernmental MFI into a regulated financial institution, and privatization have significant influences on MFIs' financial and social performance. Buechler (1993) argues that MFI integration into the formal financial sector increases loan coverage and savings mobilization. Other studies present financial ratios, such as financial sustainability (Mosley and Hulme 1998), portfolio quality (Ayayi and Sene 2010), subsidies (D'Espallier et al. 2013; Hudon 2009), capital structure (Bogan 2012; Kyereboah-Coleman 2007; Mersland and Urgeghe 2013), and cost-covering interest rates (Chirwa et al. 1999), as determinants of MFI success. Because investigations of mission drift (Hishigsuren 2007; Mersland and Strøm 2010; Olivares-Polanco 2005) assess the relationship between commercialization and MFI social performance, they are pertinent for strategy research too. These varied articles illustrate the importance of long-term strategic decisions for MFIs.

Second, several analyses treat organizational characteristics as potential success factors. Legal forms (Gutiérrez-Nieto et al. 2009; Mersland and Strøm 2008; Servin et al. 2012; Tchakoute-Tchuigoua 2010), organizational structures such as infrastructure (e.g., Chirwa et al. 1999; Churchill 1997), appropriate designs for the lending process (e.g., Caudill 2012; Cull et al. 2007), organizational learning (Caudill et al. 2009), and intellectual capital (Kamukama et al. 2010) all can be considered relevant in this regard. The roles of partnerships and networks are not widely examined as determinants of MFI success though. Only Caudill et al. (2009) indicate the importance of networks in this context.

Third, studies referring to human resources are scarce ($n = 10$). Nevertheless, some scholars address this topic in the context of success factor research. Bhatt and Thorat (2001), Hartungi (2007), and Churchill (1997) find that well-trained, dedicated staff and a good incentive system contribute to MFI success. Hamed (2007) and Chaves and Gonzalez-Vega (1996) reveal that staff costs influence financial performance. Similarly, Hartarska (2005) illustrates that adequate compensation of managers is crucial for social performance. Finally, Buechler (1993), Copestake (2007), and Seibel and Torres (1999) outline the need for careful staff recruitment and training to reach the poor; Chirwa et al. (1999) elucidate the importance of qualified personnel. The recruitment process neither has been analyzed nor has personnel layoffs.

Fourth, leadership is explicitly addressed in seven studies. Chan (2010) demonstrates that leadership experience and expertise are critical for MFI success, and Seibel and Torres (1999) and Churchill (1997) identify the commitment of leaders as important. Investigations of the role of top management also can be subsumed within this function, so for example, Hartarska (2005) notes the positive relationship between management experience and MFIs' financial and social performance. Hudon (2009) also finds that top management can improve MFI financial self-sufficiency, while Hulme (1993) indicates that the degree of autonomy guaranteed by top management is important for MFI success. Similarly, CEO power might influence MFI success (Galema et al. 2012).

Fifth, articles addressing governance issues reflect the management function of control ($n = 5$). Several studies elaborate on the relationship of different board characteristics with MFI success. For example, Hartarska (2005) and Kyereboah-Coleman and Osei (2008) find that board independence exerts a positive influence on financial and social performance. Hartarska and Mersland (2009) show that board size, up to nine members, increases MFI efficiency, then decreases thereafter. Mersland and Strøm (2009) highlight that local (cf. international) directors have positive influences on financial performance. According to Mersland et al. (2011), the degree of internationalization improves social performance, measured as the depth of the outreach dimension.

Beyond internal success factors, environmental variables are critical for MFI success. Some scholars consider the economic context, in terms of competition, economic growth, financial sector development, and macro-economic stability (e.g., Ahlin et al. 2010; Assefa et al. 2013; Hermes and Meesters 2011; Olsen 2010; Vanroose and D'Espallier 2013). Similarly, the existence of credit bureaus (Luoto et al. 2007), MFI ratings (Hartarska and Nadolnyak 2008), independent banking authorities (Hartarska and Mersland 2009), and infrastructure development by governments (Kabir and Tufte 2001) are likely important in this regard. Institutional structures, such as social capital (Berhane et al. 2009), trust (Bastelaer and Leathers 2006), social customs (Arsyad 2006), and regulation (Mahajan and Ramola 1996; Olsen 2010), matter as well. Finally, the role of donors has been examined in this context (Barboza and Trejos 2009; Serra et al. 2007). All of these studies assume a direct relationship between environmental variables and MFI success. Their moderating roles have been assessed in only one article (Boehe and Cruz 2013).

Studies Rarely Distinguish Between Nonprofit and For-profit MFIs

The studies in our sample rarely differentiate between for-profit and nonprofit MFIs. Only 10 acknowledge the importance of such a distinction. Yet most articles ($n = 43$) report the legal form of the MFIs examined in (comparative) case studies, and they control for different legal status and ownership types when conducting statistical analyses. Legal form, thus, serves as a proxy for nonprofit versus for-profit orientations. Another 37 studies mention neither this orientation nor the legal status of MFIs when elaborating on their success factors. This gap is problematic though; for various types of MFIs, the functional logics could be different.

Our literature analysis, thus, illustrates the existence of relatively extensive academic research into the potential success factors of MFIs. Even when the studies in our sample do not explicitly apply the original notion of success factor research, our four-dimensional understanding of the success construct, based on goal-attainment and systems approaches, suggests that the articles at least implicitly elaborate on these determinants. Our analysis further shows that the research field remains in a nascent stage. Examinations of success factors appear mostly problem-driven, lacking any solid theoretical grounds. Furthermore, research gaps clearly remain to be investigated in the future. With this background, we develop some avenues for research.

Toward a New Research Agenda

The various conceptualizations of MFI success show that there is no consensus about how to capture this construct. Some scholars only consider social performance relevant; others solely analyze financial performance. Still other arguments suggest that MFI efficiency, or the transformation part of the systems approach, is the most appropriate dimension for capturing MFI success. Yet the organization–environment relationship is rarely addressed. The challenge of devising a good conceptualization is further complicated by the various operationalizations available. Even the financial and social performance ratios used in efficiency estimations vary. Social performance ratios are sometimes considered indicators of financial performance, and vice versa. Thus extant results are not comparable, and generalizable knowledge about reliable determinants of MFI success is scarce.

We call for more research into the conceptualization and operationalization of MFI success. The literature on MFI ratings offers a useful starting point (Beisland and Mersland 2012; Gutiérrez-Nieto and Serrano-Cinca 2007). In addition, management scholars should adapt academic knowledge on organizational effectiveness to the case of MFIs. In particular, they could use insights from nonprofit management research, which has long-investigated success of nonprofit organizations (Lecy et al. 2011). These organizations, just like MFIs, are mission driven but also operate in increasingly commercialized markets (Helmig et al. 2012; Tuckman 1998), so this research stream likely offers valuable knowledge for appropriate conceptualizations and operationalizations of MFI success. Therefore, we propose:

Research Proposition 1: Develop a Theory-Based Conceptualization and Operationalization for the Construct of MFI Success

Most studies in our sample are exploratory and descriptive, and the dominance of such problem-driven exploratory research has resulted in a fragmented research field. Although the determinants of MFI success can be subsumed under the different management functions, they are not explicitly integrated into the academic discipline of (strategic) management. Rather, they seem to have been detected according to plausibility assumptions and data availability. The increasing quantitative analyses of success factors point in the same direction, leading to the coexistence of multiple potential determinants of MFI success, but insufficient cumulative knowledge generation.

In this case, we propose going one step back to open the black box of MFIs. Before elaborating on their success factors, we need to comprehend the functioning of MFIs from a management perspective. Value configuration analysis may be a valuable tool here; it provides "an approach to the analysis of firm level competitive advantage based on a theory of three value creation … logics" (Stabell and Fjeldstad 1998, p. 414–415). According to the value chain, value gets created through the transformation of inputs into outputs. In value shops, value creation follows the logic of problem-solving: It is created when customer problems are fixed. The provision of networking services is a basis for value creation in value networks. MFIs appear to follow different value creation logics simultaneously. Research should elaborate on the role of these logics in MFIs and develop a value configuration framework to capture their functioning. Thus, as our second research proposition, we offer:

Research Proposition 2: Analyze the Value Configuration of MFIs

Once the value configuration of MFIs is well understood, management-relevant variables critical to MFI success can be theoretically deduced and empirically tested. Our literature analysis reveals that valuable knowledge about the potential determinants of MFIs in different parts of the value creation process exists. However, the lack of theoretical foundations in most studies, combined with their mostly descriptive and exploratory character, contributes to our lack of reliable knowledge about the causal factors for MFI success. Similarly, among the quantitative articles that we analyzed, only a minority are real causal inference studies. Therefore, we call for more explicative analyses that are based on the findings about MFI success factors that we presented previously.

Such causal inference studies can build on knowledge about management-relevant variables presented in our literature analysis. For example, human resource management scholars could use case study results about the role of incentive systems and staff qualification to elaborate on the causal relationship between these variables and MFI success. Cross-sectional studies applying structural equation modeling, with a panel of MFI employees, might be fruitful for this purpose. With such techniques, researchers could assess the causal role of leadership for MFI success too, perhaps using the theory of transformational leadership (Avolio and Bass 1993). Similarly, support activities of firm infrastructure and technology development are popular topics in the microfinance literature. Studies of planning, organizational characteristics, governance, branchless banking (Opoku and Foy 2008), and management information systems (Ferrand and Havers 1999) may be subsumed within these categories. Despite a relative wealth of knowledge on these topics in the microfinance literature, the dominance of descriptive and exploratory research designs has left plenty of room for identifying causal MFI success factors. Scholars should conduct more longitudinal studies of the effects of introducing new technologies in microfinance. In addition, the relationship between different strategic orientations of MFIs, based on the typology developed by Miles and Snow (1978), and MFI success could be examined.

Beyond using knowledge about possible success factors, researchers might transfer findings from (nonprofit) management research to design causal inference studies and thus identify determinants of MFI success. For example, research on volunteers and their contributions to MFI success could be of interest. Kaleem and Ahmed (2010) argue that the integration of volunteers is important for MFIs operating in Islamic settings, a notion that could be tested in an empirical study. In terms of recruiting processes, it would be interesting to discover which kinds of personnel MFIs need to accomplish their objectives. Battilana and Dorado (2010) analyze the role of hiring and socialization processes within MFIs and offer a good starting point in this regard. Similarly, it is worthwhile to investigate how MFIs might attract qualified staff to ensure mission accomplishment, particularly when wages for workers in MFIs that address the poorest of the poor are quite low (Hamed 2007). The nonprofit management literature contains a variety of insights on the determinants of fundraising success. Such findings might inform efforts to detect management-relevant factors that lead to resource acquisition and maintenance in MFIs. To the best of our knowledge, such an effort has been applied only implicitly, in a study of drivers of funder loyalty (Gutiérrez-Nieto and Serrano-Cinca 2010). In summary, our third research proposition recommends:

Research Proposition 3: Conduct Thoroughly Elaborated Causal Inference Studies

The application of the value shop logic to MFIs also reveals interesting avenues for research. The notion of value creation as a solution to customers' problems illustrates that all MFI activities should target the ultimate objective of poverty reduction. Therefore, the impact of marketing strategies and customer orientation on MFI success requires further assessments. Despite the existence of some work in this regard (Antoinette et al.2012; Dunn 2002; Megicks et al. 2005; Woller 2002), empirical findings on marketing-related factors that affect MFI success remain scarce. We call for more research on the relationship between marketing and the different dimensions of the MFI success construct.

In addition, the value shop logic identifies organizational reputation as a driver of value creation. A good reputation equates with organizational success (Stabell and Fjeldstad 1998). Because no studies analyze MFI reputation, we call for more research that examines its impact on the different dimensions of MFI success. Similarly, its determinants need to be identified. Modeling the reputation construct in terms of stakeholder satisfaction may help close the research gap associated with the organization–environment dimension of MFI success.

The consideration of MFIs as value networks in turn demands more research on the influence of partnerships on MFI success. According to this logic, value creation corresponds to the provision of network services. Banks can yield these services only if they link to different pools of funds, providing them with the resources necessary for their operations (Stabell and Fjeldstad 1998). The same logic can be applied to MFIs: Continual service delivery demands that they have stable partnerships with donating organizations. Collaboration research offers some interesting insights on the differences among public–for-profit, public–nonprofit, and for-profit–nonprofit partnerships (Andrews and Entwistle 2010; Seitanidi and Crane 2008). Because all these collaboration forms appear in the microfinance market, it would be worthwhile to integrate such knowledge into the microfinance literature, then elaborate on the relationship between partnership type and MFI success.

Research Proposition 4: Examine the Causal Relationship Between the Particularities of Distinct Value Configuration Logics and MFI Success

The studies in our sample assume a direct relationship between environmental variables and MFI success. However, as success factor research reveals, organizational context typically has a moderating impact. Therefore, we need more research that follows the research framework that we presented previously, particularly to detect boundary conditions on the causal relationship of the success factors of MFIs.

Research Proposition 5: Integrate the Moderating Effect of Environmental Variables in Success Factor Studies in Microfinance

Finally, we note that the distinction between nonprofit and for-profit MFIs is rarely applied in the studies we find; when it is, the studies often use legal form as a proxy. However, depending on the ownership structure of MFIs, nonprofit and for-profit orientation is not necessarily in line with the legal form. If a shareholder-owned MFI belongs to a nonprofit organization, the legal form does not necessarily imply a profit orientation. Similarly, non-banking financial institutions might be both for-profit and nonprofit oriented. The functioning of for-profit and nonprofit organizations is inherently different (Beisland and Mersland 2013), so it is important to consider explicitly whether MFIs are particularly for-profit or nonprofit oriented because that indicates on which aspects of the double-bottom line they focus. Thus, our last research proposition is as follows:

Research Proposition 6: Acknowledge the Importance of the Distinction Between Nonprofit and For-profit MFIs

Table 1 summarizes these potential research avenues, substantiated with concrete, exemplary research questions.

Summary and Conclusion

The identification of success factors is central to the business administration discipline. Even the microfinance literature contains many studies that, at least implicitly, detect the determinants of MFI success. But as our analysis has shown, success factor research remains in a nascent stage in the field of microfinance. The

Table 1 Proposed research questions

Research Proposition 1: Develop a theory-based conceptualization and operationalization for the construct of MFI success

a. How can MFI success be conceptualized theoretically, such as by drawing on research related to organizational effectiveness?

b. How can the different dimensions of MFI success be operationalized?

c. Is there a difference with respect to understanding MFI success depending on the type of MFI (for-profit vs. nonprofit)?

d. What explanatory power do (nonprofit) management theories related to the determinants of nonprofit organizational success have in the context of microfinance?

e. Can nonprofit management research help conceptualize the construct of MFI success?

Research Proposition 2: Analyze the value configuration of MFIs

a. What is the appropriate value configuration logic to describe the functioning of MFIs from a management perspective? Is there one value configuration logic, or do the logics differ depending on the stages of the value creation process?

b. Which parts of the value creation process follow the logic of value chains, shops, and networks?

c. Which management-relevant variables of interest can be deduced from value configuration analyses as hypothetical success factors of MFIs?

Research Proposition 3: Conduct thoroughly elaborated causal inference studies

a. What is the effect of different incentive systems on MFI success?

b. What influence does staff qualification have on MFI success?

c. Is there a causal relationship between leadership commitment and MFI success?

d. Does transformational leadership positively affect MFI success?

e. Which personnel characteristics of MFI staff contribute to MFI success?

f. What are the determinants of fundraising success of MFIs?

g. What is the effect of new technology on MFI success?

h. Does strategic orientation causally influence MFI success?

Research Proposition 4: Examine the causal relationship between the particularities of the distinct value configuration logics and MFI success

a. Is marketing a success factor of MFIs? What role does relationship marketing play in this context?

b. What is the relationship between MFI success and MFI reputation? Is MFI reputation a success factor? What are the determinants of good MFI reputation?

c. Which partnership types have positive impacts on MFI success?

Research Proposition 5: Integrate the moderating effect of environmental variables in success factor studies in microfinance

a. What are the boundary conditions for the success factors of MFIs?

b. What role do rating agencies, credit bureaus, and public authorities play with respect to the relationship between MFI management and MFI success?

c. Are success factors of MFIs contingent on contextual factors, such as competition, market structure, and so on?

Research Proposition 6: Acknowledge the importance of the distinction between nonprofit and for-profit MFIs

a. What is the value configuration logic of nonprofit MFIs? How does it differ from the value configuration logic of for-profit MFIs?

b. How does strategic planning differ between for-profit and nonprofit MFIs? Is there a difference in their success factors?

Table 1 continued

c. How does human resource management differ between for-profit and nonprofit MFIs? Is there a difference in their success factors?
d. How does leadership differ between for-profit and nonprofit MFIs? Is there a difference in their success factors?
e. How do governance challenges, such as principal-agent-problems, differ between for-profit and nonprofit MFIs? Is there a difference in their success factors?
f. How does competition moderate the relationship between different success factors and MFI success in for-profit and nonprofit MFIs?
g. How does regulation moderate the relationship between different success factors and MFI success in for-profit and nonprofit MFIs?
h. Is transformation from a nonprofit to a for-profit MFI a success factor?

growing number of investigations and recent trends toward more quantitative analyses suggests the growing importance of this research stream for scholars investigating MFIs. This article has summarized the state of the art of success factor research in microfinance and thus highlighted the lack of a common understanding of what constitutes MFI success. In addition, most research designs applied to identify the success factors of MFIs do not allow for causal interpretations. However, the knowledge contained within these mainly exploratory studies can be used to develop explicative research questions, reflecting prominent management theories. In turn, scholars can better detect the management-relevant factors causal for MFI success, as we detail and recommend in our proposed research agenda.

As with all the literature reviews, our analysis is subject to some limitations. First, there may be a bias toward articles published in academic journals. Book sections or chapters relevant for our study were included only if they appeared in the bibliographies of the articles assessed or in the databases we searched. However, we are confident that we have generated a convincing sample with our thorough search procedure. Second, selections of articles and categorizations of their content are always prone to subjective evaluation. Using clear inclusion criteria and theoretical frameworks as a conceptual background, we tried to minimize this potential bias.

Despite of these limitations, our literature analysis and research agenda can contribute to success factor research in microfinance. If the functioning of MFIs is better understood, the construct of MFI success is appropriately operationalized, and research designs are constructed to answer explicative questions, we can detect management-relevant factors that encourage MFI success. This development will help MFI managers steer their organizations through turbulent, competitive microfinance markets, as well as enable them to accomplish their social mission and remain financially sustainable at the same time.

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