

# On The Two-Way Relationship between Corporate Reputation and Financial Performance in Microfinance: A Stakeholder Approach

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Received: June 26, 2017

Accepted: September 6, 2017

Online Published: October 18, 2017

doi:10.5539/ijbm.v12n11p149

URL: <https://doi.org/10.5539/ijbm.v12n11p149>

## Abstract

This conceptual paper is grounded on three main observations. First, the lack of a theoretical framework on which a consistent model of the two-way relationship between corporate reputation and financial performance can be developed. Second, the lack of microfinance literature on the role played by corporate reputation as a social construct, and an intangible asset, in the strategic management of MFIs. Third, the impact of ethical issues and competitive challenges amplified by the commercialization of microfinance, and their threats to safeguarding the double-bottom (or triple-bottom) line of microfinance. Theoretical findings suggest that the Wu-Stuart Framework can be used as a benchmark to justify an embedded theory of firm underlying the circular link hypothesis into an institutional environment. Thus, the EP-SP-FP model highlights that MFI's corporate reputation could act both as a moderating effect on the dynamic of MFI's financial performance, and a mediating or balancing effect on the trade-off between social, environmental, and financial performance of MFI.

**Keywords:** corporate reputation, stakeholder approach, sustained financial performance, triple-bottom line

## 1. Introduction

The commercialization of microfinance in the late 1990s transformed the industry gradually, from a monopolistic structure led by nonprofit organizations (NGOs) to a competitive market system, dominated today, for more than 50%, by regulated MFIs and commercial banks. According to the 2016 Microfinance Barometer, on the one hand, these new leaders were approximately 50% financed by customers' deposits and, overall, posted strong financial results for the 2014 fiscal year. On the other hand, the global industry has revealed interesting growth prospects for 2015 (Convergences, 2016).

Despite these growing phenomena and performance records, commercial and ethical challenges faced by MFIs are undermining the "win-win" proposition of microfinance (Armendariz & Morduch, 2010). Indeed, the industry is exposed to a high risk of mission drift (Cull, Demirgüç-Kunt, & Morduch, 2009 and Hoque, Muhammad, & Rashid, 2011), to adverse effects of competition on both outreach and sustainability of MFIs (Assefa, Hermes, & Meesters, 2013) and saturation issues in particular markets of countries such as Kenya, Nicaragua, Peru, Ecuador, etc. (Navajas, Conning, & Gonzalez-Vega, 2003, Bédécarrats, Bastiaensen, & Doligez, 2012, and Odhiambo, 2014).

From an ethical view, the effect of commercialization on the over-indebtedness of the poor and its detrimental economic and social consequences on their lives, threaten the "raison d'être" of microfinance (see Guérin, Morvant-Roux, & Servet, 2012 and Guérin, Morvant-Roux, & Villarreal, 2014). The massive capital flows at the bottom of the pyramid, the indirect effect of Indian MFIs' scandalous practices on tragic suicides reported in Andhra Pradesh (Hossain, 2013), the 'usurious' interests charged to the poor by Compartamos Banco (see Hudon, 2011 and Hudon & Sanderbg, 2013); added to non-conclusive findings on the impact of microfinance on poverty alleviation (Van Rooyen et al., 2012 and Barnejee, Karlan, & Zinman, 2015), depict an ignominious image of the sector.

Among reasons why microfinance does not do well by doing better, rightly or wrongly its commercialization has been accused (Hoque et al., 2011, Kent & Dacin, 2013 and Hossain, 2013). This is despite the fact that the international awareness, expressed in the 2008 Poncatico Declaration, followed by client protection principles in

2009 and 2011 and the G20's High-level 8 principles for digital financial inclusion in July 2016, has highlighted its care to preventing over-indebtedness and promoting transparency in customer service (Poncatico Conference Center, 2008; Ledgerwood, Earne, & Nelson, 2013 and Global Partnership for Financial Inclusion[GPMI], 2016).

The current state of the microfinance industry, in my point of view, calls for a "new" philosophy, resources and management practices that can act as bridges and stabilizers between its inherent tensions of logic (commercial versus social). In other words, an intangible and strategic resource that will allow MFIs to do well by doing better. Thus, adopting '....a conscious, company-wide, strategic focus on building and maintaining a positive corporate reputation among key stakeholders', known as the *Reputation orientation*, may be the best solution (Goldring, 2015, p. 794).

Battilana & Dorado (2010) sought to know under which conditions new hybrid organizations (social enterprises) can be sustainable in the context of tensions between its logic. Findings from BancoSol and Caja Los Andes cases highlighted the crucial role that could be played by common organizational identity in the trade-off between social and commercial goals in microfinance. Authors discovered that hiring and socialization strategies of those two firms were relevant in the process of building their respective organization identities, and had an impact on the staffs' esteem and motivation vis-à-vis their MFIs. These findings open the door to effects of corporate reputation on staff assessment of corporate identity in microfinance.

Nonetheless, the reputation of an MFI as perceived by its staff only, is not enough for to ensure its sustainability. Perceptions and judgments (corporate image) by external stakeholders (clients, donors, investors, regulators, etc.) are also required. Indeed, their disagreement about practices and actions of the MFI can be damageable for its reputational risk and to some extent of the whole microfinance industry, as the 2008-2009 repayment crisis showed.

Corporate reputation emerged as an assessment of overall firm's actions by all its stakeholders because of the value and actions generated by its identity (goals and missions) and safeguarded by its corporate image (communications and practices) (Barnett, Jemier, & Lafferty, 2006). Neville, Bell, & Mengüç (2005) developed a framework for studying the role of reputation on performance, and recently Pradhan (2016) tested it in India. Based on the stakeholder theory, their model assumes the industry as an environment where stakeholders allocate their resources to social enterprises according to the assessment of their reputation level. Therefore, corporate reputation appears to be an intangible, economic and informational asset that binds corporate social performance to financial performance.

Unfortunately, it remains, in microfinance literature, a significant lack of the meaning and measurement of corporate reputation, its impact on the dynamic of MFI's financial performance, its role in safeguarding the microfinance double-bottom line, the process of its sustained building and management, etc.

Furthermore, in the strategic management literature, the understanding of the link between corporate reputation and firm's performance, remains one of critical inquiries in the Resource-Based View (RBV) approach (Wernerfelt, 1984; Barney, 1991; Fombrun, 2006 and Walker, 2010). Indeed, the systematic literature review on corporate reputation done by Walker (2010), and completed recently by Geller (2014), reinforced the fact that a good reputation confers to a firm a sustained (long-term) performance.

On the relationship between financial performance and corporate reputation, Sabate & Puente (2003a, p.175) pointed out two headaches: "...the lack of theoretical framework and the inappropriateness of the methodological tools employed" in the explanation of the two-way relationship. According to them, those two puzzles can be seen as a problem of inconsistency. Indeed, the lag with which corporate reputation affects value and vice versa, the multiplicity of financial performance measures, the use of multi-sector samples and the variety of reputation constructs, could make empirical findings uncertain since there is no support of a firm theory, and the problem of endogeneity keeps unresolved.

In the banking industry, the relevance of trust and reputation was recognized late (Dell'Atti & Trotta, 2016). Existing studies on the link reputation-performance in banking literature do not take into account the issue of double causality. Indeed, Sabate and Puente (2003b) in Spain, Deephouse and Carter (2005) in the United States of America (USA), Chahal & Kar (2014) in India, Gorondutse, Ahmad, & Nasidi (2014) in Nigeria, and Ruiz, Gracia, & Revilla (2016) in Spain and the United Kingdom (UK), found the relevance of bank reputation in the process of building reliability, trust, and value creation between banks and their stakeholders. Most of them evidenced a one-way positive effect of reputation on banks' profitability or on retention and loyalty of customers.

However, in the case of the USA, a positive effect of financial performance on bank reputation was discovered.

Unlike previous findings, a qualitative research conducted on customers of Australian banks explored a plausible negative effect of financial performance on bank reputation (Jain et al., 2014).

Thus, the lack of theoretical framework raised by Sabate & Puente (2003a), and the abovementioned commercial and ethical challenges faced by the microfinance sector coupled with the significant lack of microfinance literature on the topic, mainly motivate this paper's quest. Since it is assumed that microfinance differs from the classical banking system by its *triple-bottom line* or *double-bottom line*, then factors which influence stakeholders' decision-making in allocating their resources to an MFI have to be studied carefully. In this perspective, corporate reputation could act as a dynamic incentive to best practices and as a guarantee of sustained competitive advantage within the industry.

Therefore, this research revolves around two central questions: Is the hypothesis on the two-way or circular relationship between corporate reputation and financial performance, relevant in the microfinance industry? If so, is there any theoretical framework that can provide ideas to understand this puzzle, and to highlight the role played by the MFI's corporate reputation in the trade-off between social, environment and financial performance?

In answering these questions, this research assumes that corporate reputation, as an intangible, strategic, economic and non-mimic asset, is both a result of past actions and strategies taken by MFIs. Thus it could act as an important ingredient in their dynamic incentive and commitment to best practices and safeguarding of their prior and future financial performance. Logically, by applying to the microfinance sector, the CSP-FP model (Neville et al., 2005), it is proposed an EP-SP-FP model. The latter seems to fit with the triple bottom line logic and satisfies to the benchmark of the Wu-Stuart integrative framework (Stuart, 2011; Wu, 2013).

Consequently, it appears on one side that a real perception of MFI's reputation by customers, competitors, employees, investors, competitors, and community-based organization could play a direct role, with a positive effect, on current and future financial performance. On the other side, the moderating and mediating effect of corporate reputation suggests that for being sustainable, MFI's actions and strategies have to be perceived as socially performant and legitimately responsible according to environmental issues and good governance.

The first section stresses definitions and measurements of corporate reputation, bank reputation, reputational risk and financial performance, and reviews different theories on the link between corporate reputation and firm's performance. The second section proposes the theoretical framework and the EP-SP-FP model. The third section develops several hypotheses generated by the conceptual model. The fourth section explains limitations of this model and calls for future research.

## 2. Literature Review

### 2.1 Corporate Reputation

The idea of corporate reputation is neither organizational identity nor corporate image but their combination with a middle or long-term manifestation of a firm's sustainability. The table 1 summarizes key distinctive elements between them.

It presents organizational identity as referring to what the firm is, as perceived by internal stakeholders, and corporate image as alluding to impressions by external stakeholder on how the firm wants to be seen. Therefore, corporate reputation is a consequence of internal and external assessment of social and economic actions of a company by its stakeholders. The organizational identity and corporate image can remain static, but the reputation is dynamic with the change of the environment (Barnett et al., 2006). Thus, the corporate image is obtained quickly while corporate reputation needs a long-term perspective to be built (Roberts & Dowling, 2002).

To overcome the problem of non-consensual definition, Walker (2010) found that an overall meaning of corporate reputation has to satisfy four conditions. It should a) be based on perception, b) take into account the overall stakeholder evaluation, c) have a corresponding character in its assessment, d) be positive or negative and e) the stable and enduring nature in the evaluation of corporate reputation (Walker, 2010).

Table 1. Distinction between corporate reputation, organizational identity and corporate image

Criteria	Organizational identity	Corporate image	Corporate reputation
<i>Stakeholders: Internal or external</i>	Internal	External	Internal and external
<i>Perceptions: actual or</i>	Actual	Desired	Actual

<i>desired</i>			
<i>Emanation from inside or outside the firm</i>	Inside	Inside	Inside and outside
<i>Positive or negative perception of the firm</i>	Positive or negative	Positive	Positive or negative
<i>Relevant question</i>	Who/What do we believe we are? (Whetten (1997:27)	What/who do we want others to think we are?(Whetten (1997:27)	What are we seen to be? (Balmer and Greyser, 2006)
<i>Evolution: static or dynamic</i>	Static (Barnett, 2006)	Perception about of a firm at a certain point in time (static and short-term)	Perception about an organization over time (dynamic and long-term)

Source: Adapted from Walker (2010, p. 387) and Geller (2014, p. 14).

Barnett et al. (2006) found another type of clustering which is closer to the previous. For those authors, corporate reputation can be defined using the criteria of awareness, assessment and asset. According to the first criteria, corporate reputation refers, on one side, to the representation of stakeholders “emotions or knowledge since these represent an awareness of the firm” (Barnett et al., 2006, p. 32). On the other side, it alludes to the idea of the perceptual and collective representations by all stakeholders (Barnett et al., 2006).

The assessment cluster differs from the awareness by the important idea of the judgment. The evaluation criteria assumes that corporate reputation refers to how do stakeholders judge, assess, estimate or gauge the status of the firm, and to how are their beliefs and opinion about actions of the business. It also refers to how stakeholders hold in high esteem the company or its attractiveness. However, the asset cluster appears in Barnett et al (2006)’s classification as a consequence than a definition of corporate reputation per se.

Unlike Barnett et al. (2006), Geller (2014) called for the matching of all facets (assessment-based and asset-based) of the reputation conceptualization to reach an accurate and useful meaning by relying on the ‘integrative view’ as proposed earlier by Fombrun (2006). According to this view, “corporate reputation is a collective representation of a company's past actions and future prospects that describe how key resource providers interpret a company's initiatives and assess its ability to deliver valued outcomes” (Fombrun, 2006, p. 293).

Moreover, the measurement of corporate reputation also raises a controversial and unfinished debate (Geller, 2014). Fombrun, (2007) found a proliferation of corporate reputation ratings around the world. On 183 lists found, 61 were related to overall corporate reputation, 73 on the quality of workplace, 15 on corporate citizenship and 11 on financial performance. Majority of them were empirical scales without theoretical foundation (Fombrun, 2007) and the famous used for more than 42% in the literature was Fortune’s American Most Admired Companies (FAMAC) (Walker 2010).

Much critics against methodologies and meaning of FAMAC were made by Bromley, (2002) and Fombrun et al., (2000 cited by Clardy 2012 and Walker, (2010). Clardy (2012, p. 300) nuanced the polemic by arguing that the essential key elements are the fact that methodologies seem reporting beliefs and attitude from evaluators (Clardy, 2002). Fombrun proposed to overcome the deficiency of FAMAC. First, he developed the *Reputation Quotient* (RQ) and later performed it into the *RepTrack Scale* (Fombrun, Ponzi, & Newbury, 2015).The latter was confirmed to be a multi-stakeholder and multidimensional scale.

## 2.2 Bank Reputation and Reputational Risk

In the banking sector, the real interest to reputation started late, after the 2008 financial crisis (Trotta & Cavallaro, 2012). As a quick reaction to the reputational crisis in the global financial industry, the Basel II accorded relevance to the bank reputational risk as a special topic issue in critical risk management (Bank for International Settlements[BIS], 2009).

Regarding MFIs, for the first time, in September 2016, the Basel committee recognized the critical relevance of contagion and reputational risks in microfinance industry and the necessity for supervisors to establish adequate process and policies with the aim to facilitate each institution in addressing such risks (BIS, 2016)

Dell’Attii & Trotta (2016) did a short literature survey and found different reasons of the relevance of bank reputation. Among them, there are, on one side, the intangible nature of financial services, the importance of trust in the banking industry, and the exposition of systemic events. On the other, its usefulness in crisis management and its effectiveness as an enforcement mechanism in the financial market, and its role in decision-making appear to consolidate its importance.

Concerning its meaning, bank reputation is a blended perception of different bank components such as financial performance, client trust, service quality, corporate social responsibility, governance practices, corporate ethics, and corporate disclosure practices with regulatory authorities, and compliance (Stansfield, 2006).

Stansfield (2006) argued that Bank reputation implies offensive side in the typical situation of banking activities, and plays the role of a defensive asset when a crisis happens. Therefore, '...Reputational risk is defined as the potential that adverse publicity regarding a bank's business practices and associations, whether accurate or not, will lead to loss of confidence in the integrity of the institution' (BIS, 2001, p. 4).

Nonetheless, there is no clear-cut articulation of the nature of stakeholders who are supposed to assess in the previous definition. The 2009's definition of Basel Committee on banking regulation clarifies it by considering the reputational risk of a bank as a negative perception from its stakeholders on its activities with damageable implications on its asset and funding sources (see BIS, 2009, p. 19).

In the framework developed by Scandizzo (2011), reputational risk of banks could be internal or external. The external reputations risk is one caused by projects or activities financed by bank themselves. Contrariwise, internal reputation risk is related to the gap between the performance of the bank and the expectations of each of its stakeholders (regulators, investors, retailers, clients, shareholders, employees, etc.) (Scandizzo, 2011).

About the measurement of bank reputation, Trotta & Cavallaro (2012) distinguished two group of methods to approximate the complexity of Bank Reputation: qualitative and quantitative. The qualitative methods rely on the minimization of causes of reputational risk while quantitative models measure the risk and effects of reputational losses of the firm (Trotta & Cavallaro, 2012). Thus the "Five Rs model" as an outcome of qualitative method, proposes Responsibility, Results, Regulatory compliance, Role and Relationship as dimensions of bank reputation. According to them, it allows viewing Bank Reputation as indicators of legitimacy which aggregates assessment of the bank performance related to expectations and norms in an institutional field (Trotta & Cavallaro, 2012).

However, the quantitative methods use accounting, marketing and intellectual capital approach (Trotta & Cavallaro, 2012). From the accounting view, Trotta, Iannuzzi, & Pacelli (2016) suggested that differential deposits, the market price of the bank's shares, leverage, value at risk and cost of funding can be used as good proxies to assess bank reputation.

Existing empirical works evidenced that Bank Reputation can be measured by informative transparency in Spain (Sabate & Puente, 2003b). However, in microfinance by customer orientation, emotional appeal, financial performance, closeness in service delivery to clients and regulation (Lusambo 2012 and Chahal & Kar, 2014).

### *2.3 MFI's Financial Performance: Definition and Measurement*

Financial performance is an important issue in the management of MFIs' sustainability and self-sufficient for long-term perspective (Daher and Saout, 2013).

Performance refers to 'value judgments, carried out during the evaluation of commercial activities, product portfolio, and recovery of enterprises, strategic alliances, mergers or acquisitions of companies' (see Guni, 2016, p. 311). It depends on the stakeholders' perception. A shareholder assesses the firm performance through the profitability of the investment, the employees through the company's stability, the creditors the solvency, and the suppliers through the business continuity (Guni, 2016).

Along the same line, Simionescu (2016) mentioned the fact that performance is a potentiality of the firm to optimize the couple "value-cost" at an unstable level and to make its competitive within a strategic segment. Contrariwise, Roberts and Dowling (2002) limited financial performance to the concept of profitability.

In microfinance, financial performance is concerned with profitability, productivity and efficiency of an MFI (Balkenhol and Hudon, 2012, Serrano-Cinca et al., 2012 and Ledgerwood, O'Keeffe, & Arevalo, 2013). "Efficiency is a matter of transforming inputs such as staff, funds, and equipment into loans, deposits, other financial and non-financial services at least costs" (Balkenhol & Hudon, 2012, p. 385). Profitability is referred to the comparison between earning profit and source of funds, and the level of portfolio yield (Cull et al., 2009 and Ledgerwood et al., 2013) while Productivity is seen as a part of efficiency (Balkenhol and Hudon, 2012).

About, the measurement of financial performance, Rowe and Morrow Jr. (1999) suggested that financial performance can be measured from accounting data (mostly used), from a market perspective and subjective opinions of firm's stakeholders. The accounting-based financial performance measures are used to assess the short-term performance, and reflect historical information and retrospective in temporal scope. However, the market-based financial performance measures are understood theoretically, to represent the financial

performance than the precedent standard accurately.

Researchers in microfinance (see Mersland and Strøm, 2009, Cull, et al., 2009, Asseffa et al., 2013, etc.) measured financial performance in the accounting-based approach. However, due only to 13 MFIs listed on the Stock Exchange (Monroy and Huerga, 2013), the market-based is not largely used. The subjective approach was employed by Lusambo (2012) and Chahal & Kar (2014).

#### 2.4 Corporate Reputation and Financial Performance

Walker (2010) inventoried eleven theories employed by scholars to study the relationship between reputation and firm performance. Nevertheless, among them, only institutional theory, Signaling theory, and RBV are the most quoted and used.

Firstly, the institutional approach allows understanding the pre-action of corporate reputation during which firms gain legitimacy and support from its institutional environment. Secondly, the signaling theory sheds light on the action stage of corporate reputation. Indeed, by drawing and implementing their strategic choices, firms produce signals which can be assessed by stakeholders as impressions of the business action. Last, RBV theory explains the post action stage of corporate reputation where reputation acts as a valuable and non-imitable asset of a company. Consequently, it leads to sustained competitive advantage and therefore to financial performance (Walker, 2010 and Geller 2014).

Following the three theories, Walker (2010) tried to unify them in the figure 1. The latter highlights two things. First, a link between corporate reputation building and sustained competitive advantage as clearly explained previously. Second, the call made by Walker (2010) to develop a theory which explains the post action to pre-action process, in other words, the link performance-reputation (Walker, 2010, p. 377).

In the same line, Neville et al. (2005), Bergh et al. (2010), Prieto, Phipps, & Addae (2014) and Geller (2014) demonstrated the relevance of other theoretical referents such as Transactional Cost Economics (TCE), stakeholder theory and, social impact theory.

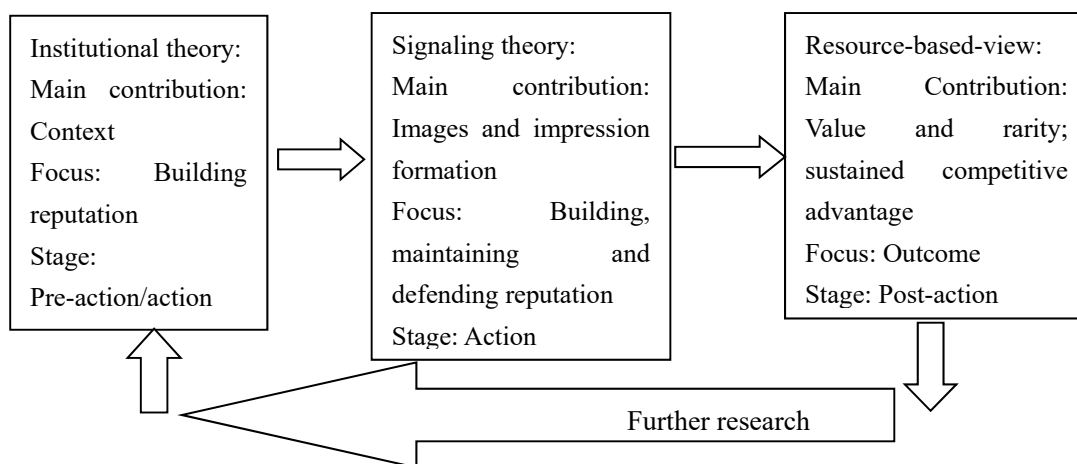


Figure 1. Pre-action to Post action of corporate reputation (Walker, 2010, p. 376)

According to TCE, corporate reputation is assumed as an important discriminating factor that can decrease the transaction costs in searching and selection of firm's potential partners (D. Bergh, Ketchen, Broyn, & J. Bergh, 2010) through its adverse effect on the opportunist behavior of firms (Bergh et al., 2010 and Geller, 2014).

Stakeholder theory goes beyond, and explains the role played by stakeholder's allocation resources to a firm, and therefore their expectations from it. An overall evaluation of corporate reputations by stakeholders affects the financial performance since its resource provided to the enterprise is a culmination of aggregate consideration about actions of a company (Neville et al., 2005). Nonetheless, Stakeholder perception of corporate reputation is different from a stakeholder group to another (Helm, 2007).

Social impact theory lies at the heart of an enterprise policy and embodies the organization's mission, vision, and values (Prieto et al., 2014). This theory argues that a firm has to articulate its intentions to stakeholders and the intended social impact of its actions if it wants to improve its corporate reputation and de facto its performance (Prieto et al., 2014).

### 3. Framework and EP-SP-FP Model in the Microfinance Industry

#### 3.1 Toward a Theoretical Framework

Bergh et al. (2010), Walker (2010) and Geller (2014) indicated the lack of a framework which could mix previous theories to make more clear a general and well-acceptable definition, measurement and consequences of corporate reputation. Also, many studies minimized the contribution of stakeholder theory to the study of the link between corporate reputation and financial performance (Walker, 2010). Unlike to RBV for example, in the stakeholder approach, shareholders' wealth maximization is not the only goal of the firm but one among others (Freeman & McVea, 2006).

However, stakeholder approach has some main features (see Freeman & McVea, 2006) which can confer a broader view of strategic management issues than RBV. Wu (2013) developed a theoretical framework based on stakeholder perspective, in which RBV appears as a particular case (value creation) within the holistic explanation of sustained competitive advantage. Other approaches are the Relational view (RV) and the Activity-Position view (APV).

Before proposing the theoretical framework, it is noteworthy that Choi & Wang (2009) already found some empirical supports. Their findings show that non-financial stakeholder relationship with the firm has a high and positive effect on firms faced by financial performance challenge rather than on the sustained and superior financial outcome of consolidating business. In the microfinance area, Mori & Mersland (2014) found that a presence of stakeholders on the board of an MFI has a better effect on MFI social and financial performance.

At the theoretical level of microfinance, Stuart (2011) suggested the public value Framework for analyzing strategic issues faced by MFIs' managers. According to him, an MFI is for public value creation. The latter is not only the value to its customers and donors but indirectly to all its stakeholders. Simply put, this can happen when by providing formal financial services to the poor, and as outcomes, an MFI produces a social return to the donors and a safety utility (legal and legitimate operations) to the regulators and the society at large. Thus, the competitive advantage framework underlined by public value creation puts an MFI in a triangle of committed interrelationships between its internal and external environment, and its authorizing environment to be sure of its reputation's gain to deliver savings to its customers.

Stuart's strategic triangle is helpful for two reasons. First, it underlines the role of the authorizing impact on the regulation of both internal and external environment of MFIs. Second, by putting the critical role played by stakeholders' considerations within the microfinance industry, it offers the opportunity to be perceived in our modeling as a part of the stakeholder framework developed by Wu (2013). Thus, operational capacity can be integrated within the RBV approach, authorizing environment within all the three approaches and the creation of public value requirement as a consensus at the microfinance market level, between diverse and conflictual MFI stakeholder's interests. The following figure 2 shows how those two approaches can be put together.

Figure 2 brings up five contributions. First "the SHV incorporates and complements the three other views (RBV, RV, and APV) on competitive advantage in a holistic approach that encompasses all internal and external attributes of an (MFI)." Second "the stakeholder view is concerned with all relevant stakeholders and provides a multiple-level analysis, including the society level which is not covered by the three other views" (Wu, 2013, p. 24). Third, owing, particularly, to savings mobilization by MFIs, they have to take into an account, the authorizing environment or regulation in the explanation of the creation and safeguard of public value (Consultative Group to Assist the Poor [CGAP], 2005 and Muganga, 2010). Fourth, "the value of symbolic and idiosyncratic resources is relevant to the arguments that engaging stakeholders could help (MFIs) generate competitive capabilities through trust, innovation, and reputation (Wu, 2013: 24)". Fifth, this integrative framework plays the role of benchmark for any analysis model developed with the aim of understanding the process of competitive advantage building from a stakeholder view.

Thus, the adapted Wu-Stuart's framework to microfinance designs MFI's corporate reputation as a signal or guarantee and intangible asset which incite an MFI to produce actions expected as beneficial to all stakeholders and no imitable by its competitors at one side. On the other hand, as compensation, stakeholders allocate their resources to the competitive MFI in the way to build with it, a sustained public (environmental, social and financial performance for the MFI) value in a regulated environment.

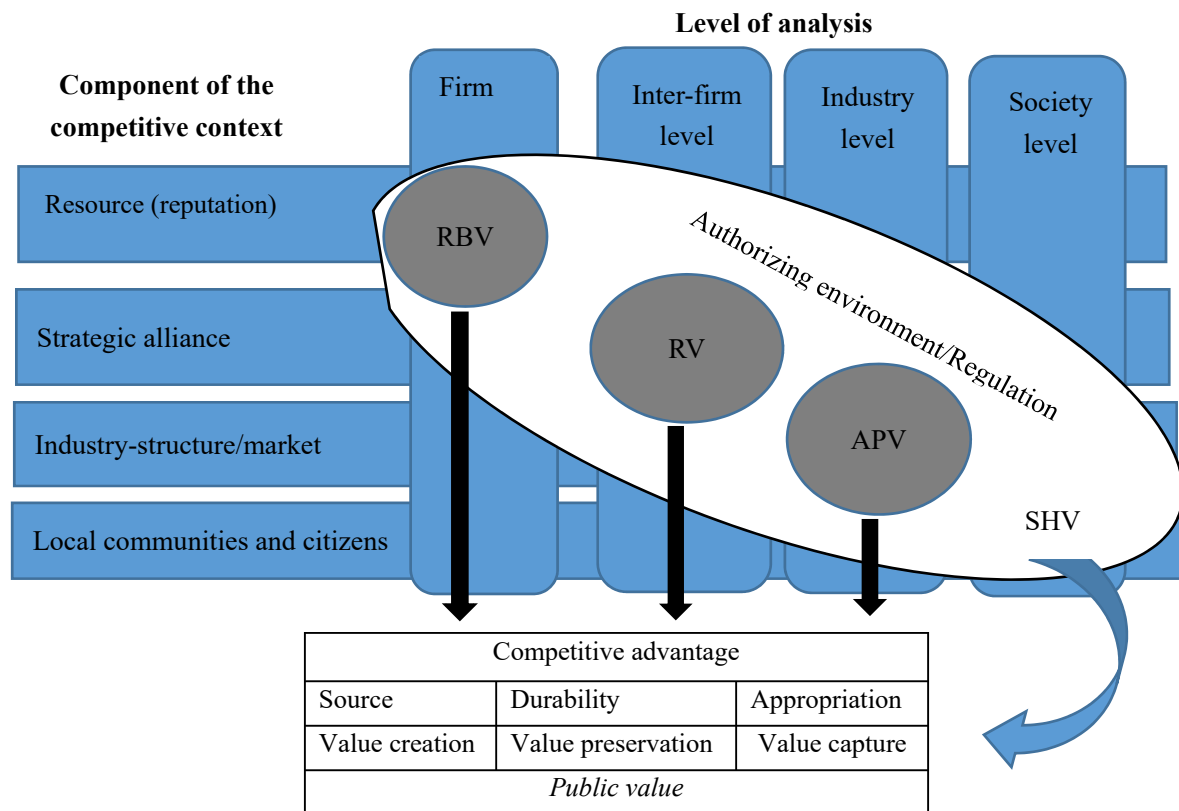


Figure 2. Wu-Stuart's adapted integrative framework in microfinance (from Stuart, 2011, p. 260 and Wu, 2013, p. 23)

Notes: RBV: Resource Based View, RV: Relational View, APV: Activity-Position View and SHV: Stakeholder View

### 3.2 EP-SP-FP Model

By applying lessons from the Wu-Stuart integrative framework, this research extends the Corporate Social Performance-Financial Performance Model (CSP-FP model) developed by Neville et al., (2005) into an Environmental Performance-Social Performance-Financial Performance model (EP-SP-FP) to analyze the two-way relationship hypothesis between corporate reputation and financial performance of MFIs.

This adaptation of CPS-FP model fits with concerns of corporate reputation in microfinance for three reasons. First since, authors showed that corporate reputation is a subjective and multi-stakeholder construct (Clardy, 2002; Walker, 2010; Geller, 2014 and Fombrun et al., 2015), then the model can fit with the stakeholder framework. Second, Neville et al. (2005) developed their model in a perspective of the relationship between social and financial performance. This trade-off is one of unique core elements of Microfinance Institution vis-à-vis of Banks (Mersland and Strøm, 2010 and Kar, 2013). Third, their model makes easier to integrate some features from Roberts & Dowling (2002), Sabate & Puente (2003) and Chahal & Kar, (2014). Figure 3 provides the EP-SP-FP model:

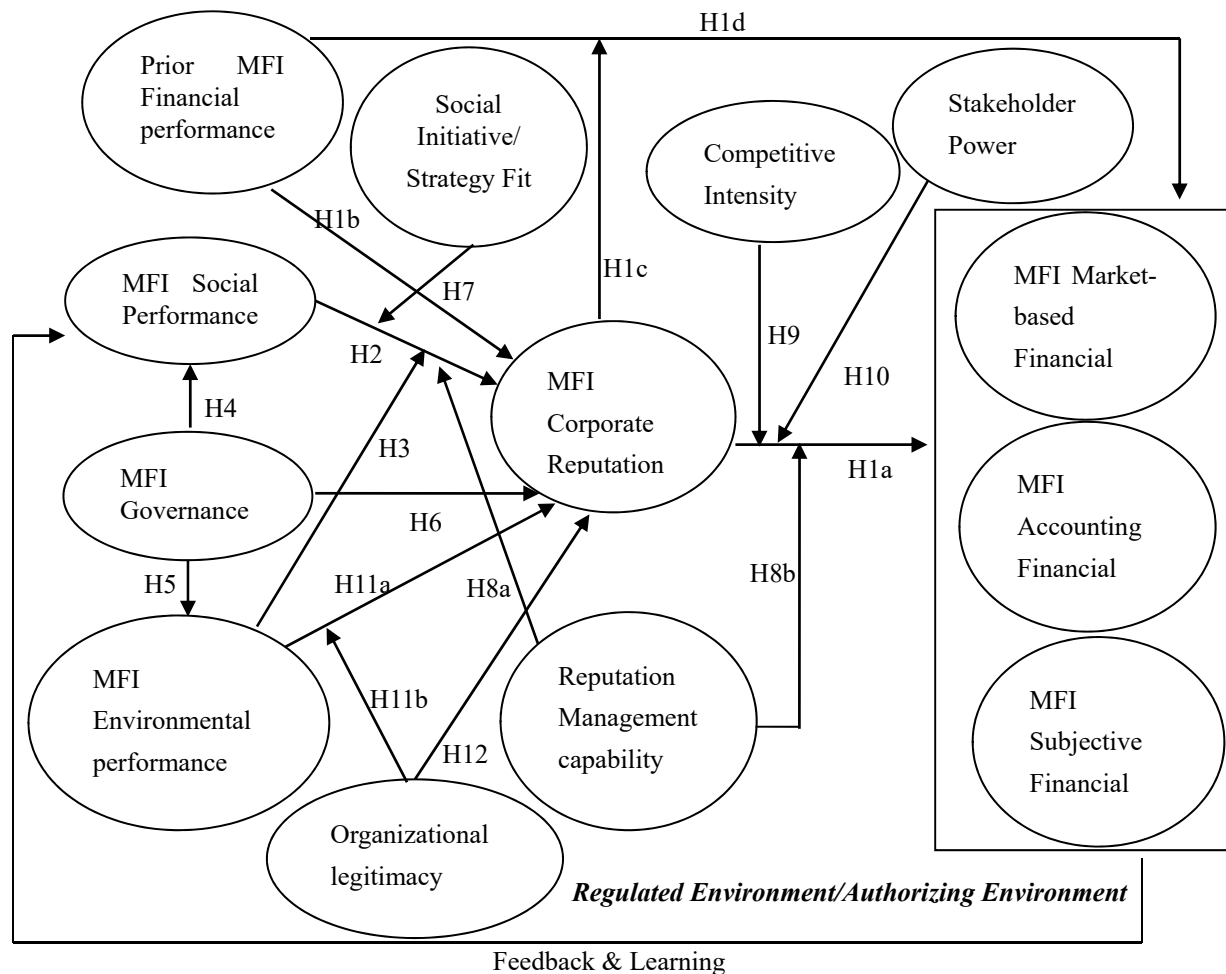


Figure 3. EP-SP-FP model (adapted from Neville et al, 2005 p.1190)

#### 4. Results: Development of Hypotheses

##### 4.1 Two-way relationship between Corporate Reputation and Financial Performance in Microfinance Industry

Based on works of Roberts & Dowling (2002), Kanto (2014) assumed in a proposed SEM of Indonesia banking sector three assumptions. First, a positive effect of prior financial performance on current corporate reputation. Second, of the present corporate reputation on current financial performance. Third, a mediating effect of corporate reputation on the relationship between prior financial performance and current financial performance. In the same line, but with a different SEM, Chahal and Kar (2014) found a positive empirical link between corporate reputation and subjective financial performance.

In other industries, Sabate and Puente, (2003a) and, recently, Geller (2014) reported the same positive relationship between corporate reputation and market or accounting financial performance and at some instant a reverse causality. Besides, Eberl and Schwaiger (2005) realized that affective and cognitive dimensions of corporate reputation influence the future financial performance. Geller (2014) highlighted from his literature review that corporate reputation also increases the market value of the firm. Choi and Wang (2009) found that a good relationship with stakeholders is more helpful for a company with poor performance than with the best one in comparison to technological knowledge. Nevertheless, Neville et al. (2005) pointed out the fact that corporate reputation has a positive effect on financial performance, even if stakeholders have enough autonomy to sanction by their resources allocation, actions of the firm.

In microfinance, Mersland and Strøm (2012) showed that by targeting women, for example, MFIs could expect to increase their financial performance by raising grants or external funds from social investors.

Thus, it is assumed that:

H1a: The higher an MFI's perceived reputation among stakeholders is, the better its current and future financial

performance are.

H1b: The better its prior financial performance is, the higher an MFI's perceived reputation among stakeholder is, and therefore the better the dynamic (H1d) between previous and current or future financial performance (moderating effect H1c) is.

Asseffa et al. (2013) found that increasing of competition hurts MFI financial results. However, Ruiz et al., (2016) found a positive effect in the UK and Spain banking industries: a well-reputed bank built its sustained external advantage on the market by increasing the loyalty of customers. Mersland and Strøm, (2009) had also found the positive effect of competition as an exogenous variable in MFI's governance-MFI social and financial performance model. It is thus posited herein:

H8b: H1a will strengthen as reputation management capabilities of an MFI increases

H9: H1a will strengthen as competition increases and will be more distinctive in a saturation case

H10: H1a will enhance as MFI's stakeholders' power increase.

#### 4.2 MFI Social and Environmental Performances and Corporate Reputation

Microfinance is a particular industry within which social performance assessment had been carefully observed (Urgeghe, 2010). Urgeghe, (2010) noted that MFI's reputation had been damaged with financial crises, and its image vis-à-vis of social investors too, according to its ability to achieve the social mission. Since the social performance of an MFI is understood as the relationship with its clients and other stakeholders, it could impact on how they perceive and judge social engagement of an MFI. In other industries, it was found that a) a social responsiveness of stakeholder increased corporate reputation and b) a strong record of environmental performance may enhance or damage reputation depending on whether the firm's activities fit with environmental concerns in the eyes of stakeholders (Brammer & Pavelin, 2006). Thus, it is postulated that:

H2 & H1a: The higher a perceived social performance among MFI's stakeholder is, the better its corporate reputation is and, therefore, the better its current and future financial performance (Mediating effect or balanced effect of corporate reputation) are.

H3& H7: H2 will be strengthened if the MFI is engaged in green microfinance and has a socially responsible strategy which fit with expectations of stakeholder

H8a: H2 will be reinforced if the MFI has a culture of corporate reputation management

'Green matters' have become more evident in microfinance management and MFIs tend to perform better in environmental policy (Allet & Hudon, 2015). Allet (2014) discovered at one side that if legitimization (stakeholder pressure) is a dominant driver, then MFIs become more defensive and elaborates superficial strategies to appear green. At the other hand, if social responsibility is a dominant driver than MFIs become more proactive and innovative; and designs financial and non-financial services to promote 'green practices.' The latter argument corroborates the result "b)" found above by Brammer & Pavelin (2006). It is postulated that:

H11a: The higher perceived environmental performance by stakeholders is, the better a corporate reputation for an MFI with green microfinance orientation is.

H11b: H11a will become weak if an MFI is superficial "green-oriented."

H12: The higher the embedded legitimacy of an MFI is, the better its corporate reputation is.

Governance of MFIs plays an important role to achieve performance in the microfinance industry. Labie and Mersland (2012) brought up governance issues in MFI's industry and mentioned how paying attention to stakeholder expectations may give a broader vision of what can be the most relevant governance mechanisms. Mersland and Strøm (2009) found empirical impacts of traditional and internal governance mechanisms on both financial performance and outreach.

Walls, Berrone, & Phan (2012) using a fact-based research, concluded that there is a positive relationship between board independence, environmental committee, CEO salary and environmental performance. However, shareholder activism and shareholder concentration were weakly and negatively associated with environmental strengths. It is therefore hypothesized that:

H6: The better a perceived governance of MFI by its stakeholders is, the higher its corporate reputation is.

H4: H2 will be strengthened if governance mechanisms work in the way of MFI's social mission achievement.

H5: H11a will perform if the board is independent and others stakeholders expect shareholders work efficiently.

## 5. Conclusions and Limits

This paper is grounded in three important observations. First, the lack of a theoretic framework within which a consistent model on two-way relationship between corporate reputation and financial performance can be developed. Second, the lack of literature in the microfinance field on the role of reputation as a social construct and an intangible asset, in strategic management of MFIs. Third, the impact of ethical issues and competitive challenges stressed by commercialization on the safeguard of the double or triple-bottom line.

Theoretically speaking, the EP-SP-FP model satisfies to the logic of Wu's integrative framework with stakeholder perspective, and therefore, providing a firm theory explanation to the two-way hypothesis in the microfinance industry. Besides, it shows the mediating and moderating roles played by corporate reputation in the building process of sustainability of MFIs.

This research identified two limitations. First, the integrative framework does not provide a clear link between signaling, transactional cost economics theory, and stakeholder view; therefore, Walker (2010)'s call for a general theory of corporate reputation remains unaddressed. Second, the EP-SP-FP model shows the way but does not indicate how to avoid endogeneity for practical purposes. Thus, it creates a high need for a Structural Equation Modeling (SEM) to assess those theoretical findings. However, the first empirical work done by Pradhan (2016) validated (with a goodness of fit index of more than 0.95) several assumptions of the CSP-FP model (Neville et al., 2005) in Indian goods and services sector without, unfortunately, any particular industry focus.

## Acknowledgements

The author is grateful to comments, critics and remarks from Javier Sierra (University of Salamanca), Malcolm Harper (Cranfield University) and Matthew Anderson (Portsmouth University) during the parallel session of the 5th European Research Conference on Microfinance, held in Portsmouth, England. He also thanks, Roy Mersland (University of Adger) for his comments on the measurement of Bank Reputation.

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