Negotiating Financial Systems and Poverty Alleviation Logics in Microfinance: Macro and Micro Level Dynamics

A thesis submitted in partial fulfilment of the requirements for the degree of Doctor of Philosophy

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Abstract

Microfinance has been recognized as one of the most potent poverty alleviation tools of contemporary times. However, behind this facade of seemingly universal acclaim is a continual and increasingly visible clash between those who consider microfinance to be a commercial activity, and the opposing camp that insists that the original developmental spirit of microfinance be privileged. This thesis studies the interplay between the commercialization camp and its opponents. It seeks to find out how and why two opposing worldviews on microfinance persisted over a period of time. How are key players in microfinance promoting those worldviews? And how are those opposing worldviews played out within organizations?

The thesis uses the theoretical lens of institutional logics and institutional entrepreneurship. The thesis highlights structural constraints to the reconciliation of logics of commercialization and poverty alleviation, and the emergence of a single dominant logic. First, the thesis shows that microfinance is embedded in a broader development field because of the former’s original intent as a poverty alleviation tool. This historically determined developmental identity of microfinance reacts negatively to any attempts to make commercialization the dominant imperative. Second, microfinance has to adopt multiple developmental goals due to its identity as a development tool. But the achievement of development goals is difficult to track due to missing universally recognized performance indicators. Both camps cannot prove the developmental efficacy of their organizing models.

The second part of the thesis looks at the behaviour of two key players, Muhammad Yunus of Grameen Bank, Bangladesh, and the Consultative Group for Assisting the Poor (CGAP), aligned with the poverty alleviation and commercialization stances, respectively. The thesis identifies unique features of institutional change strategies of an individual pioneer (Muhammad Yunus) who introduces a novel organizational form (Grameen Bank). The thesis expands the scope of the notion of ‘social position’ of institutional entrepreneurs by highlighting the unique legitimating agency of Yunus as an entrepreneurial pioneer. Hence the thesis shows that Yunus was radical in his ideas, vocal in promoting his prescriptions and broader in the scope of his convening activities. CGAP, as an organization representing the interests of the powerful resource providers in microfinance, was measured in terms of its ‘technical’ conceptualization, focussed on convening a small set of powerful actors to achieve its objectives.

The third element of this thesis is the interplay between the poverty alleviation and commercialization imperatives within the microfinance programme of a commercial bank. Through analysis of both publicly available and confidential archival material, the thesis looks at how the microfinance programme went through a cycle of emergence, growth and then ultimate decline. The official reasons for the decline echo the reasons identified in both the academic and the practitioner literature. However, analysis of interviews of key bank personnel in microfinance shows that altruistic and commercial imperatives were reconciled or contested for reasons beyond the ‘technical’ aspects of microfinance. Personal relations were governed on the basis of the culture of the region which favours personal relationships based on caste and ethnicity (as well as religion) over official relationships, and the culture of exchanging personal favours as part of business/official dealings. Hence, this case study showed that logics or worldviews may be opposed or reconciled within organizations for structural reasons. But the structures which could possibly come into play would predominantly be the broader cultures in which individuals engaged in microfinance are embedded.
Statement of Originality

This is to certify that to the best of my knowledge, the content of this thesis is my own work. This thesis has not been submitted for any degree or other purposes.

I certify that the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged.

Amer Saleem Khan
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<tbody>
<tr>
<td>ADBP</td>
<td>Agricultural Development Bank of Pakistan</td>
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<tr>
<td>ADP</td>
<td>Area Development Programme</td>
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<tr>
<td>AKRSP</td>
<td>Aga Khan Rural Support Programme</td>
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<tr>
<td>BDF</td>
<td>Bilateral Development Finance</td>
</tr>
<tr>
<td>BDO</td>
<td>Bilateral Development Organization</td>
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<tr>
<td>BOK</td>
<td>The Bank of Khyber</td>
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<tr>
<td>BRI</td>
<td>Bank Rakayat Indonesia</td>
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<tr>
<td>CGAP</td>
<td>Consultative Group for Assisting the Poor</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian Agency for International Development</td>
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<tr>
<td>CRS</td>
<td>Catholic Relief Services</td>
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<tr>
<td>CSF</td>
<td>Civil Society Funding</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>FMFB</td>
<td>First Microfinance Bank</td>
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<tr>
<td>FWBL</td>
<td>First Women’s Bank Limited</td>
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<tr>
<td>FS</td>
<td>Financial Systems</td>
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<tr>
<td>GCL</td>
<td>Grameen Creative Labs</td>
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<tr>
<td>GF</td>
<td>Grameen Foundation</td>
</tr>
<tr>
<td>GTZ</td>
<td>Gesellschaft für Technische Zusammenarbeit</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
</tr>
<tr>
<td>KiW</td>
<td>Kreditanstalt für Wiederaufbau</td>
</tr>
<tr>
<td>MBB</td>
<td>Micro Banking Bulletin</td>
</tr>
<tr>
<td>MDO</td>
<td>Multilateral Development Organization</td>
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<tr>
<td>MFB</td>
<td>Microfinance Bank</td>
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<tr>
<td>MFO</td>
<td>Microfinance Organization</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MIX</td>
<td>Microfinance Information Exchange</td>
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<td>MIV</td>
<td>Microfinance Investment Vehicle</td>
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<tr>
<td>NCB</td>
<td>Nationalized Commercial Banks</td>
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<tr>
<td>NGO</td>
<td>Non-Government Organization</td>
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<tr>
<td>NORAD</td>
<td>Norwegian Agency for Development</td>
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<tr>
<td>NRSP</td>
<td>National Rural Support Programme</td>
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<td>OPP</td>
<td>Orangi Pilot Project</td>
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<td>PA</td>
<td>Poverty Alleviation</td>
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<td>PMN</td>
<td>Pakistan Microfinance Network</td>
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<td>PMU</td>
<td>Project Management Unit</td>
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<td>PPAF</td>
<td>Pakistan Poverty Alleviation Fund</td>
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<td>RHA</td>
<td>Regional Health Authority</td>
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<td>RSP</td>
<td>Rural Support Programme</td>
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<tr>
<td>SBFC</td>
<td>Small Business Finance Corporation</td>
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<tr>
<td>SDC</td>
<td>Swiss Agency for Development Cooperation</td>
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<tr>
<td>SDI</td>
<td>Subsidy Dependence Index</td>
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<tr>
<td>SEEP</td>
<td>Small Enterprise Education and Promotion Network</td>
</tr>
<tr>
<td>SIDA</td>
<td>Swedish International Development Agency</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UPAAP</td>
<td>Urban Poverty Alleviation Project</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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Chapter 1: Introduction

Between the 1950s and the 1970s, Development Finance Institutions (DFIs), established by developing country governments and funded by the likes of the World Bank, had been trying to provide financial services for industrial growth in developing countries. During the 1970s, the DFI model evolved into specialized financial entities providing small loans to poor farmers in rural areas. However, by the late 1970s, this development finance model was subjected to criticism by development policy makers due to problems in those DFIs, including, high default rates, and operational inefficiencies resulting reportedly from political misuse of many of the DFIs operating at that time. In this way, small scale financial services, particularly loans, mostly remained beyond the reach of the average poor person in a developing country. During this time, Muhammad Yunus, a professor of economics at Chittagong University, Bangladesh, realized poor people’s lack of access to finance and experimented with provision of small loans to a group of women. This successful experiment ultimately grew into Grameen Bank, Bangladesh, a novel organizational model in development finance which successfully dispelled the myth of that time that the poor were not bankable. The global development finance community realized the potential of the Grameen model, and replicated it all around the world as a potent poverty alleviation tool.

Muhammad Yunus and Grameen Bank were given the Nobel Peace Prize in 2006 for their efforts for socio-economic development at the grassroots level in developing countries, especially through the vehicle of microfinance. A decade previously, in 1997, over 2900 delegates from 137 countries congregated in Washington and pledged to take microfinance to 175 million poor people in developing countries. But milestone events like these which portray microfinance’s reported success as a means for poverty alleviation do not represent the full story of microfinance.
Within the timeframe of the above events, efforts were in place to highlight a different ‘microfinance revolution’ (Robinson, 2001), the one being realized by ‘healthy financial institutions for the poor’ (Rhyne & Otero, 1994). This alternative agenda was about celebrating the rise of for-profit and commercially oriented organizations, most prominently among them, BancoSol, Bolivia and Bank Rakayat Indonesia. Grameen Bank received scant mention in this discourse.

The commercialization stance, that microfinance can be a profitable activity along the lines of commercial banks, stems from the claimed ‘win-win’ potential of microfinance organizations that can not only ‘sell’ financial services to the poor but also bring about socio-economic development among those poor (Morduch, 1999). This pro-commercialization stance has been termed the Financial Systems approach, a term coined by the international funding organizations, most prominently the World Bank. However, this powerful profitability imperative has its detractors in the form of another set of influential players, led by the legendary Grameen Bank founder Dr. Yunus. The stance of this anti-commercialization camp can be called the Poverty Alleviation approach. One significant outcome of this contest is that local scandals or crises related to microfinance explode onto the global scene, and generate controversies both at the practitioner and societal level. Compartamos, a Mexican Microfinance Organization, reportedly charged interest rates on its loans at rates above 100%, in a bid to elevate its profitability for the impending Initial Public Offering in 2007. In the aftermath of the IPO, raging debates erupted between the Poverty Alleviation and Financial System camps, with Muhammad Yunus labelling Compartamos, a ‘loan shark’. A similar scenario happened when an Indian microfinance organization, SKS-Microfinance, launched its IPO in 2008. At a national level, another crisis erupted in 2010 when, in the Indian state of Andhra Pradesh, microfinance borrowers reportedly committed suicides because they could not pay back their loans and they were harassed by the providers,
including SKS-Microfinance, that gave them loans. This clash between the two opposing approaches is at the heart of my thesis.

I use qualitative methods in my research. I use archival data to explore historically evolving empirical phenomena. I use the extant archival material available on microfinance, including key policy documents, books, and official project documents of international funding organizations such as the World Bank. Microfinance is arguably one of the few organizational arenas where there is an abundance of official discourse on ideas and practices in that arena. I also conduct a ‘micro’ case study of a commercial bank that introduced microfinance as a product line, and, most significantly, failed in its efforts to make microfinance a successful part of its operations. I interview almost all key employees of the bank involved in the microfinance operations of the bank. I also analyze confidential archival material of the bank, related to microfinance operations. From a broad perspective, I conduct both a macro and a micro level investigation of microfinance. I fill a gap in research in the institutional theory research, as recent literature has made calls for such type of investigations.

In the first part of my thesis, I trace the rise of the two dominant approaches in the global microfinance arena. I use the theoretical framework of Institutional Theory, and its sub-domain of Institutional Logics. I look at the microfinance sector through the prism of ‘fields’ – a unit of analysis which conceptualizes organizational arenas as platforms of social interactions among a variety of actors who share ‘common meaning systems’ and goals. Institutional logics are the organizing principles which shape organizational behaviour in a field. Financial System and Poverty Alleviation logics are the two master templates of organization in the microfinance field. In the first part of my thesis I explore several key questions. How do a set of institutional logics rise in an organization field? What are the triggering mechanisms for the rise of the Financial System logic in the microfinance field?
In the second part of my thesis, I look at the specific behaviour of organizations which tried to promote the Financial Systems and Poverty Alleviation logics in the global microfinance field. For this investigation, I use the theoretical sub-domain of Institutional Entrepreneurship within Institutional Theory. Building on the current literature on institutional entrepreneurship, I explore the various strategies used by a set of institutional entrepreneurs to promote and implement the competing logics in the global microfinance field. I also try to assess the success or otherwise of those actors in implementation of their agendas in the field.

Finally, in the third part of my thesis, I go inside a commercial bank to trace the evolution of its microfinance programme. I investigate the factors that were instrumental in sustaining microfinance within the bank for a considerable period. I also try to unearth factors that led to the demise of microfinance in the bank. Again, I use the theoretical framework of Institutional Logics for this investigation. In addition, I contribute to the literature on the ‘micro-processes’ of the interplay of institutional logics – an area comparatively less explored in the institutional theory literature.
Chapter 2: Method

2.1 Introduction

Method follows research questions. My research questions involve the empirical setting of microfinance. My focus is on the organizations that played an instrumental role in the shaping of the microfinance arena. By focusing on the organizations alone, and not considering the ultimate target beneficiaries of microfinance, the borrowers, a crucial aspect of the social reality of microfinance is being neglected. However, the organizational reality of microfinance has been fashioned predominantly by power structures, such as the global resource providers including the international funding organizations. Microfinance borrowers, often making silent appearances in publications promoting microfinance as a panacea for poverty alleviation, have seldom been heard as an assertive and articulate voice in the global discourse on microfinance.

Further, there has been little attention directed towards the behaviour of microfinance clients (except, famously, by Rutherford (2001), and change in microfinance policies and practices based on borrower behaviour. When attention was directed towards borrowers, it was mostly from the perspective of the sustainability of the MFOs. The small scale development finance experts affiliated with the so called Ohio School, in their early critiques of the contemporary development finance policy, did appear to be highlighting borrower delinquency in the development finance projects of their time. But this highlighting of borrowers was more to draw attention towards their favourite theme: the need for organizations providing small scale finance to attain financial self-sufficiency and borrower delinquency coming in the way of this objective (Adams, Graham, & Pischke, 1984). In recent times, the increasingly popular research method of ‘randomized control trials’ in experimental economics have been used to study borrower behaviour (e.g., Karlan (2008)).
However, these studies do not take into account the important organizational reality of the clash between poverty alleviation and commercialization paradigms, as important contextual aspects affecting borrower behaviour. Further, the most significant microfinance operational guidelines for the global funders of microfinance, formulated and implemented through consensus by all those organizations, have only covered “Understanding the needs of poor clients” in two pages, out of a total of fifty six pages (Consultative Group for Assisting the Poor, 2006: 7). Therefore, the dynamics of the clash between the commercialization and poverty alleviation paradigms of microfinance are pervasive in the social reality of microfinance, and this phenomenon needs to be unpacked through scholarly studies. These studies can then be used to create the contextual background for studies on borrower behaviour.

I have divided my thesis into three parts. In the first part, I investigate the evolution of microfinance from the late 1970s to the present times. This is a ‘macro’ level historical analysis of organizational arenas. I study the clash between adherents of two worldviews on microfinance: those who call for the commercialization of microfinance, and the opposing group which invokes the developmental potential of microfinance as a tool to alleviation poverty. My first set of research questions are: How has this clash of two views played out in the microfinance arena, and why has this clash not been reconciled?

In the second part of my thesis, I analyze the behaviour of a pioneering individual in microfinance, Muhammad Yunus, the founder of Grameen Bank, and a standard setting think tank founded by influential resource providers in microfinance, the Consultative Group for Assisting the Poor (CGAP). Yunus favours the poverty alleviation approach; CGAP favours the commercialization approach. In other words, I am investigating the way that the most prominent proponents of the poverty alleviation and commercialization worldviews in microfinance have promoted their respective worldviews.
In the third part of my thesis, I look inside an organization to find out how individuals in that organization have tried to contest and reconcile the poverty alleviation and commercialization stances on microfinance.

In this thesis, I use a qualitative narrative approach to answer my research questions. My investigations involve analysis of complex multifaceted processes in the microfinance arena where direct causality is difficult to establish. I am looking at historically determined and contextually situated phenomena. The richness of this social reality can be effectively brought out through a qualitative narrative approach (Tsoukas & Hatch, 2001). I look at microfinance from multiple levels, including the ‘macro’ level as an industry or a ‘field’, at the level of individuals and organizations operating at the macro level, and at the ‘micro’ level, involving events and processes within a microfinance organization. A qualitative narrative approach suits such multi-level study of organizational phenomena, bringing out the multifaceted nature of reality in an organizational arena like microfinance which is characterized by contestation of worldviews (Purdy & Gray, 2009).

I have worked in microfinance for over seven years. This familiarity with the social reality of microfinance facilitates greater depth of analysis of the processes involved in microfinance. Authors on qualitative research method have favourably considered familiarity of the researcher with the research context (e.g. Yin, 1994). Below, I explain my research method for each of the three parts of my thesis.

2.2 The ‘Macro’ dynamics of microfinance

In the first part of my thesis, comprising Chapters 3 to 6, I trace the rise of the social reality of microfinance. I identify a set of individuals and organizations, and the ideas espoused by those actors in shaping the socially constructed notion of microfinance. This is a historical narrative which seeks to identify the nature of the ongoing clash between the
commercialization and poverty alleviation worldviews in microfinance, and the most plausible causes of such clash. I have used the analytical device of ‘ideal types’ in the institutional theory domain of ‘institutional logics’ (Thornton & Ocasio, 2008) to identify the most important aspects of the two worldviews. I create two ideal types, one for poverty alleviation, called the Poverty Alleviation (PA) logic, and the other the Financial Systems (FS) logic. Using the ideal types of PA and FS logics, I identify individuals, organizations and events that favoured either the poverty alleviation or the commercialization stance, hence shaping the rise of microfinance as a contested social reality. In this scenario, due to the complexity of the causal relationships, involving multiple individuals, organizations, and events, a historical narrative approach has been considered to be the most suitable means to throw light on the key aspects of phenomena identified (Leblebici, Salancik, Copay, & King, 1991).

The primary source of data for this historical analysis is the extant archival material on microfinance, and the material generated from within the broader area of development finance. Archival material included over 6000 pages of practitioner-generated official documents, writings in the popular media, books, and official project documents of resource providers including the World Bank, the Asian Development Bank (ADB), the International Fund for Agricultural Development (IFAD) and the United States Agency for International Development (USAID).

Answers to research questions were explored through an iterative process simultaneously involving data collection and analysis (Glaser & Strauss, 1967; Regin, 1994). In my analysis of the organizational arena of microfinance, I was dealing with ‘process data’, involving multiple events unfolding over time through activities of multiple actors (Langley, 1999). This necessitated a process-based research method which involves formulation of narratives bringing out complex causal chains related to events over a period of time (Van de
Van & Huber, 1990) – it is best suited for analyzing complex multilevel (individual, organizational, societal) phenomena such as microfinance. This process-based investigation involved studying sequences of events that had significance with respect to the worldviews of poverty alleviation and commercialization.

First, events with broader significance, visibly shaping the social reality of microfinance, were identified. I discovered the clash between the PA and FS logics in the practitioner discourse in microfinance. For example, in late 1990s and early 2000s, practitioners and scholars interested in microfinance mention the ‘microfinance schism’ (Morduch, 2000). Hence, I conducted detailed reviews of renowned and widely disseminated texts related to microfinance at this stage, which shaped the dominant policy frameworks of the time, and reflect the state of the collective organizational reality of microfinance. This analysis of archival material led me to determining the nature of the clash between the PA and FS logics. I also used my experience as a microfinance practitioner to identify key elements of practices in microfinance which correspond to the PA and FS logics, and sources for archival material on those practices.

Literature in the institutional domain, dealing with the rise of what is termed as ‘organizational fields’ (DiMaggio, 1991), was reviewed to bring out the key factors and processes which come into play during evolution of organizational arenas. Hence microfinance was labelled as an organizational field. Literature on organizational fields with a clashing of worldviews or logics was carefully studied. Data collection, data analysis and review of relevant theoretical literature were simultaneously conducted to throw light on various aspects of the evolution of microfinance, and the extent of the compatibility of the findings with the literature. The ideal types of poverty alleviation and commercialization were used to classify the nature of events.
Second, organizational practices related to the powerful funding organizations were analyzed through reviewing official documents of those funding organizations. Microfinance funding structures of those funding organizations were chosen for analysis because these structures represent an important instance of organizational practices in the microfinance arena. Four international funders were chosen for this analysis because of their dominant role as funders in microfinance: the World Bank, the Asian Development Bank, the African Development Bank, and the International Fund for Agricultural Development. These funders were chosen because they are among the top ten resource providers in the global microfinance arena (Consultative Group for Assisting the Poor, 2010; El-Zoghby, Gahwiler, & Lauer, 2011). The clash between the commercialization and poverty alleviation worldviews has also been found to be most starkly visible in the workings of these organizations (e.g. Consultative Group for Assisting the Poor, 2004). The country context of Pakistan was chosen for analysis. Pakistan was chosen because it is among the top ten countries in the world that initiated comprehensive, funder driven, policy reforms in its microfinance arena (The Economist Intelligence Unit, 2010).

2.3 Studying the behaviour of change agents in microfinance

In the second part of my thesis, comprising Chapters 7 to 10, I look at the behaviour of two prominent actors in microfinance that tried to promote their favoured stance on how microfinance needs to be organized: Muhammad Yunus, the pioneer founder of Grameen Bank, and CGAP, the standard setting organization founded by influential funders in microfinance. Muhammad Yunus favours the poverty alleviation worldview. CGAP prefers microfinance to be a commercial activity. My methods for this part of the thesis were also compatible with the research questions pursued. How has Yunus and CGAP promoted and implemented their preferred stance in microfinance? What are the key differences between
their respective strategies of promoting their microfinance worldviews or logics? These questions require a process-based research strategy, as process research involves questions regarding what happened, who did what, and how (Van de Van & Huber, 1990). Further, I have answered these process questions by using a comparative case study approach to analyze the similarities and differences between the strategies of Yunus and CGAP (Eisenhardt, 1989).

Data for this analysis included over 4000 pages of archival material available on the activities and events related to Yunus and CGAP. Fortunately, both have generated a significant amount of public documents, providing a rich account of their stances and activities. As a pioneer in microfinance, Yunus, and his Grameen Bank have been subjects of extensive media reporting by leading global media houses, and of practitioner-related studies created by leading organizations such as the World Bank. CGAP, as a think tank and creator of practice standards in microfinance, has engaged in systematic documentation and dissemination of its conceptual frameworks and policy in the public domain. This treasure trove of archival material, mostly publicly available online, has facilitated in-depth and fine-grained analysis of the activities and events related to the two actors.

Data analysis involved investigating the ‘temporal ordering’ (Langley, 1999) of events related with change activities initiated by the two actors. The role and activities of the two actors in those events were analyzed by categorizing those activities under broad process constructs. This categorization was done by creating table grids and visual maps, following a protocol of qualitative data analysis called ‘temporal bracketing strategy’ (Langley, 1999; Smith, 2002) utilized in analyzing rich process data. The chronological patterning of key activities engaged by the two actors was brought out, and analyzed in the context of events at the broader level in microfinance, as explicated in the chapters on the ‘macro’ analysis of microfinance.
Visual mapping strategies for depicting processes involving grids and maps help in bringing out theoretical aspects of the phenomena under study (Miles & Hubberman, 1994). Hence I compared the process constructs or labels created in this way with similar constructs developed in the relevant literature in the institutional theory domain (Lawrence & Suddaby, 2006). The process constructs facilitated cross case study comparison as well. The processes involved in the behaviour of the two actors as change agents were put side by side to bring out similarities and differences.

2.4 A Look inside organizations engaged in microfinance

In the third part of my thesis, comprising Chapters 11 to 15, I conducted an in-depth qualitative case study (Eisenhardt, 1989; Yin, 1994) of a single organization which initiated a microfinance programme. I am interested in finding out how the contrasting views of poverty alleviation and commercialization play out inside an organization. I am interested in how phenomena that emerge at the macro level, such as the clash between the proponents of the commercialization and poverty alleviation stance, are reflected in relationships at the individual level within organizations. An in-depth qualitative case study of a single organization facilitates this investigation. I chose a commercial bank’s microfinance initiative as my case study organization because such a microfinance programme is an example of a ‘polar type’ (Eisenhardt, 1989), an extreme example of a situation under investigation in a research project. The commercial bank under study was an extreme situation, a comparatively less studied phenomenon in microfinance as it showed a failed attempt at introducing microfinance in a commercial financial organization (Velenzuela, 2002). In this investigation my questions were: how do the individuals representing opposing views of poverty alleviation and commercialization, working together within organizations, ‘get things done’ while holding opposing stances on the nature, purpose and organizing principles of
microfinance? Further, how did the microfinance programme first achieve significant growth and then decline?

To answer those questions, I conducted 18 in-depth interviews of 15 key individuals in the microfinance programme of my case study organization, a commercial bank in Pakistan, which introduced microfinance as a product line. The interviews ran from half an hour to one hour each. Initially face to face interviews were planned but, due to the dubious security situation in Pakistan, a field trip could not be arranged. Instead, phone-based interviews were arranged. The phone interviews were conducted and recorded through the internet telephony software SKYPE. Due to the interviews being phone-based, I had to keep the interview duration comparatively shorter and insisted on multiple interviews in case a single interview session could not provide answers to my queries. In one case, an interviewee, apart from a phone interview, also replied to my queries through email. Due to fact that I have worked in microfinance for over eight years in Pakistan, and the resultant prior professional interaction with the microfinance staff at the bank, the interview respondents were comfortable talking to me via phone or replying to my queries through email. Table 1 lists brief profiles of the persons interviewed.
Table 1 Individuals interviewed at the case study commercial bank

<table>
<thead>
<tr>
<th>Codename of Person interviewed</th>
<th>Position in the microfinance programme of the case study bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Founding senior executive</td>
<td>A close confidante of the pro-microfinance Managing Director. Executive in-charge of microfinance operations, he played an instrumental role in establishing the microfinance programme. A development banker with experience in rural finance.</td>
</tr>
<tr>
<td>2 Founding manager</td>
<td>As a consultant representing the company hired to assess viability of microfinance in the bank, he was hired as the first operational head of microfinance. A management consultant with background in reviewing development project funded by donors such as the World Bank.</td>
</tr>
<tr>
<td>3 Commercial banker</td>
<td>A commercial bank branch officer who also served microfinance clients in the branch. A commercial banker with no microfinance or related experience.</td>
</tr>
<tr>
<td>4 Senior manager 1</td>
<td>One of the first field managers hired by the microfinance programme. A mechanical engineer with extensive small enterprise development experience with projects funded by international donors in Pakistan.</td>
</tr>
<tr>
<td>5 Senior manager 2</td>
<td>A commercial bank manager transferred to microfinance as operational head. Remained operational head during the days when microfinance was in decline.</td>
</tr>
<tr>
<td>6 Senior manager 3</td>
<td>A commercial bank manager transferred to microfinance as operational head.</td>
</tr>
<tr>
<td>7 Field manager 1</td>
<td>A mechanical engineer with extensive small enterprise development experience with projects funded by international donors in Pakistan.</td>
</tr>
<tr>
<td>8 Field manager 2</td>
<td>He was responsible for a major donor funded microfinance project, entrusted to the bank, in a backward region. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
<tr>
<td>9 Field manager 3</td>
<td>One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
<tr>
<td>10 Field manager 4</td>
<td>One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
<tr>
<td>11 Field manager 5</td>
<td>One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
<tr>
<td>12 Field manager 6</td>
<td>A field manager who was transferred to commercial banking as a branch manager. A rarity in microfinance. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
<tr>
<td>13 Field officer 1</td>
<td>A commercial banker transferred to microfinance at the time of rapid growth. He later opted out of microfinance and returned to his commercial banking position.</td>
</tr>
<tr>
<td>14 Field officer 2</td>
<td>A relatively young and inexperienced field officer.</td>
</tr>
<tr>
<td>15 Manager MIS</td>
<td>A head office based microfinance officer. An experienced development practitioner with stints at various development projects funded by donors.</td>
</tr>
</tbody>
</table>

Persons interviewed represented almost 70% of the staff of the microfinance operations. The interview respondents were chosen on the basis of theoretical sampling (Strauss & Corbin, 1998), and were identified on the basis of their role in the development and sustenance of the microfinance programme. Key senior officials who were present during the founding of the microfinance programme, and who took an active part in defending the microfinance programme against those opposed to microfinance in the bank, were specifically included in the sample. Microfinance staff mostly working at the field level in
branches was included in the sample as those staff members played a crucial role in running the microfinance programme despite all the odds that the programme faced. Efforts were made to include commercial banking staff, particularly at the branch level but, due to the sensitive nature of microfinance in the bank, commercial banking staff most relevant to microfinance was unwilling to be interviewed. One microfinance staffer who initially agreed to be interviewed backed out of his commitment at the time of the interview.

An open-ended guided protocol was used in the interviews following elements of Grounded Theory (Strauss & Corbin, 1998). Essentially, the questions depended on the position of the interviewee, whether the interviewee was a senior founding executive, a field manager, or a field officer. Questions also depended on the specific experience of the interviewee. Variations of the following basic set of questions were asked from the interviewees.

1. What kind of hurdles did you face in working as a microfinance officer in the bank?

2. What steps did you take to make microfinance acceptable to the commercial banking sections in the bank? Did those steps work? Why or why not?

3. In your opinion, how did microfinance operations survive for all those years if the commercial banking personnel were against microfinance?

4. What do you think are the factors which have led to the decline of microfinance in the bank?

I also reviewed both confidential and publicly available official documents of the commercial bank, to find out how the poverty alleviation and the commercialization stances played out in the official discourse. First, I traced the evolution of the microfinance programme through engaging in the process of ‘temporal bracketing’ (Smith, 2002) whereby the life history of the microfinance programme was divided into meaningful phases. This was done by analyzing the documentary data on bank’s microfinance programme. The events in each phase were linked with the broader aspects of microfinance, particularly related to the
clash between the poverty alleviation and commercialization views. My key objective was to bring out key factors, officially stated, that played a part in the rise and ultimate decline of microfinance in the bank. Triangulation of information is a crucial aspect of qualitative research (Jick, 1979). Information provided in interviews was further triangulated with the official documents analyzed, publicly available and classified, to get a more comprehensive picture of happenings in the microfinance operations of the bank.
Chapter 3: Clashing institutional logics and field stability

3.1 Introduction

Microfinance is characterized by a clash between those who advocate commercialization (Matthäus-Maier & Pischke, 2009; Otero & Rhyne, 1994) and those who envision microfinance to be a distinct ‘social business’ (Yunus & Weber, 2008) serving the poorest of the poor, with no profit-seeking intentions (Yunus, 2011). In order to study the nature of this clash over the organizing principles of microfinance, I use two theoretical constructs from institutional theory: organizational fields and institutional logics. In the ensuing chapters of Part A, I will try to identify key factors which explain the persistent clash between the proponents of commercialization and of poverty alleviation. In this chapter, I present a literature review of empirical studies which theorize about scenarios where there is a clash, similar to microfinance, between different organizing world views and practices. I conclude by identifying factors which explain the reasons for such a persistent clash.

3.2 Institutions and embedded agency

Institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life (Scott, 2001:33).

Institutions are the social superstructures, the social environment, and the ‘belief systems’ within which individuals and organizations are embedded (Meyer & Rowan, 1977). Early institutional theory emphasized the role of the social environment as the most important shaper of behaviour. It was asserted that institutions were diffused through societies through
coercive, mimetic and normative mechanisms, resulting in the essential similarity of behaviour and organizational structures across organizational populations; in other words, institutions explained structural isomorphism at the macro level (DiMaggio & Powell, 1983). Isomorphism is also necessitated due to concerns for legitimacy (Meyer & Rowan, 1977), to increase chances of survival as legitimacy also facilitates access to resources (Pfeffer & Salancik, 1978).

However, early formulations of institutional theory confronted a theoretical paradox: if individuals and organizations are embedded in their institutional environment, and they conform to the behaviour dictated by that environment, how can those individuals and organizations effect change in behaviour? The notion of ‘embedded agency’ was then theorized to reconcile this paradox. Embedded agency implies that individuals and organizations engage in strategic action to pursue their interests, but such action is enabled and constrained by the institutions within which those individuals and organizations are embedded (Seo & Creed, 2002). Actors, in pursuing their strategic ends, respond in different ways to their institutional environment, including behaviours ranging from acquiescence to manipulation (Oliver, 1991). Hence, the role of institutional entrepreneurs was theorized – those who act to create and change institutional structures, through ‘institutional work’ (Suddaby & Lawrence, 2006).

3.3 The Institutional logics approach: Reconciling agency and structure

The theoretical framework that presents a conceptualization of social life as interplay of both structure and agency is the institutional logics approach. An Institutional logic constitutes “...a set of material practices and symbolic constructions – which constitutes its organizing principles and which is available to organizations and individuals to elaborate” (Friedland & Alford, 1991:248). The notion of institutional logics identifies the co-existence
of broader, often contradictory, institutional structures at the societal level which act upon fields and provide cognitive models to actors (Alford & Friedland, 1985).

Another theoretical construct, which holds significance for the institutional logics approach is the notion of a ‘field’.

The notion of field connotes the existence of a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside of the field (Scott, 1994: 2007-8).

Institutional logics point out the central logics governing different institutional orders which provide organizing principles, motives, and personal identity to organizational actors in a field (Battilana, 2006; Greenwood & Suddaby, 2006). The conceptualization of a field is different from, say, an industry. The concept of field goes beyond the material relationships implicit in industry. Fields have common cultural and cognitive schema, hence “…in the aggregate, constitute a recognized area of institutional life...” (DiMaggio & Powell, 1991:64).

Institutional logics shape individual and organizational action through four key mechanisms (Thornton & Ocasio, 2008). First, these logics shape identities of actors in a field; they throw light on the questions: who am I? which group of other actors in a field do I belong to? Actors identify themselves with an institutionalized collective profession, industry, or any other collection of field participants (Thornton & Ocasio, 2008). Second, institutional logics condition the mechanisms of power and status within organizational fields (e.g. Thornton & Ocasio, 1999). Third, institutional logics also define social classifications and categories employed in a field (DiMaggio, 1997). For example, Mohr and Duquenne (1997) investigated the change in institutional logics and the corresponding change in classification of the poor in poverty alleviation work (destitute, fallen, deserving, etc.) in late
19th century New York and the categorization of altruistic organizational practices (giving money, giving food, giving paid work, etc.). Finally, institutional logics affect the allocation of attention to alternative schemas for perceiving, interpreting, evaluating and responding to situations in the environment; institutional logics focus attention of decision makers to issues and solutions that are consistent with prevailing logics (Ocasio, 1995; Thornton & Ocasio, 1999).

The institutional logics approach provides a plausible framework to understand institutional change in organizational fields (Thornton & Ocasio, 2008). How can institutional change happen when actions, intentions, and rationality are conditioned by the very institutions that change agents are trying to alter? (Holm, 1995) Institutional entrepreneurs, through a variety of strategies, theorized as ‘institutional work’ (Suddaby & Lawrence, 2006), utilize their resources and try to bring change (DiMaggio, 1988). ‘Structural overlap’ – situations when individuals and structures from different and divergent institutional change are forced to come together – is one vehicle that facilitates institutional change (Thornton, 2004; Thornton & Ocasio, 2008). For example, a series of mergers and acquisitions during the late 19th and early 20th centuries triggered interaction of local contexts and globalized uniform practices, due to global mobility of careers in the financial sector, and spearheaded institutional change at a globally emerging commercial bank, Lloyds Bank (Stovel & Savage, 2005). Structural overlap happened when as far back as the late 1940s, auditing firms started to expand product range, bring divergent ideas and practices of accounting and management consultancy to create a hybrid logic (Thornton, Jones, & Kury, 2005). Another important but less theorized aspect of institutional change in fields is ‘event sequencing’: the temporal unfolding of unique events that transform meanings and structures in a field (Sewell, 1996). This accumulation of events can be a path dependent process in which shifts in meanings move in lock-step with shifts of resources, hence eroding dominant
logics and bringing institutional change. For example Thornton (2004) traces the change in logic in the higher education industry in USA between 1958 and 1990, and identifies key causally linked events that interacted to bring about a shift in prevailing logics.

3.4 The evolution of multi-logic fields towards stable states

How do emerging fields with multiple logics stabilize? This question is pertinent because seminal literature on institutional logics portrays fields to be battlegrounds where logics of inter-institutional systems at societal level vie for control (Friedland & Alford, 1991). This question has been of continual interest to institutional scholars (Wooten & Hoffman, 2008). By stabilization it is implied that actors in those fields converge on a common set of institutional logics; hence a set of ideas and practices ultimately achieve a taken-for-granted institutionalized state (Purdy & Gray, 2009; Reay & Hinings, 2009). Fields emerge and stabilize through the process of ‘structuration’ (DiMaggio & Powell, 1991; Giddens, 1979). Structuration has been theorized to comprise four parts: “...an increase in the extent of interaction among organizations in the field; the emergence of sharply defined inter-organizational structures of domination and patterns of coalition; an increase in the information load with which organizations in a field must contend; and the development of a mutual awareness among participants in a set of organizations that they are involved in a common enterprise” (DiMaggio & Powell, 1991:65). Field structuration is also reflected in discursive convergence of actors to a common taken-for-granted set of organizing principles, as reflected in the production, distribution and consumptions of key ‘texts’, which prescribe ideas and actions in the field (Philips, Lawrence, & Hardy, 2004).

In his classic paper, DiMaggio (1991) has provided an account of the structuration of art museums in USA during the period 1920-40, when two competing logics on organizing art museums gave way to a single dominant logic. In this account, the new organizational
form of art museums took shape through the work of a central agency, the Carnegie
Foundation, further aided by standard setting efforts of professional organizations
representing the museum professionals of that time. The most noteworthy aspects of this
structuration process included: the field level discord regarding the preferable form and
function of the Art Museum as an organizational form; the efforts at coalition building by
founding elites and the resultant conflict with other actors with divergent interests. This also
resulted in a paradoxical situation of high profile field level conflicts contrasting with lack of
such conflicts within organizations. In this case, professional organizations, from without,
seem to have played a dominant role in diffusing the new organizational form of art museums
and hence field structuration. Most significantly, at the field level, actors engaged in
divergent discourses on art museums, which reflected a clashing of logics regarding the shape
of the art museum field at that time. But within organizations, and at individual level,
particularly during resource mobilization from diverse resource providers, even the most
unyielding ideologues championing a particular logic acted pragmatically. DiMaggio
attributes this duality of idealistic rhetoric and pragmatic action to “...organizational routine,
and oriented to the solution of concrete problems defined by organizational superiors or
posed by the resource environment” (1991:286).

A noteworthy aspect of DiMaggio’s account of the early twentieth century art
museum field was the societal dynamics during that time. DiMaggio identified greater
involvement of the public in the field of the art museum through professional training at
relevant academic disciplines in US universities. The rise of consumerism and literacy in the
society – riding on the wave of mass industrialization and expansion of public education –
进一步 stoked interest in art museums, and created greater public acceptance of art museums.
The logic which ultimately achieved a dominant status, called the ‘data model’, was in
consonance with the social trends of its time which called for art museums to be open to
greater public participation. In other words, changes at the societal level facilitated the rise of a dominant field level logic. This change was given a further boost by professions associated with the academic and professional domains related to art museums, and to art in general. A set of central powerful actors, acting as resource providers, such as the Carnegie, and conveners, such as the American Association of Museums, also played a crucial role in creating convergent discursive and material dynamics in the field.

Thornton and Ocasio (1999) provide an account of the rise of the ‘market’ logic, and the decline of ‘editorial’ logics in the higher education publishing industry in the USA, during the 1970s. Societal level and broader economic changes triggered this change in logics, as broader social trends valorized market imperatives, symbolised by the icon of Wall Street. Greater enrolments in higher education, increased demand for textbooks, and the need for publishing houses to expand further provided the material impetus for the expansion of publishing houses. The resultant need for increased resource mobilization required expansion of publishing houses beyond their traditional operations as a profession of enthusiasts and the literary minded. Large conglomerates also jumped into book publishing, and acquired small niche publishing houses. This resulted in the parent conglomerates putting pressure on the acquired entities to demonstrate commercial performance. The rise of global investment banking further fuelled mergers and acquisitions in the publishing arena, increasing investor stakes and pressures to earn profits. Hence, the structuration of the field under the new market logic entailed creation of hierarchical relationships between large corporations and publishing houses, as well as with investment banks. It also entailed increased self-awareness about the publishing arena among the publishing entities through key discursive moments, such as creation of influential texts, such as the newsletter targeted to top publishing executives, *BP Report on the Business of Book Publishing* in 1977. It included new linguistic framing of the publishing field in terms of investment banking jargon: ‘acquiring company’,
‘target company’ and ‘deal price’. Thus social-level economic changes (i.e. change in demand conditions) included the entry of actors from another field (i.e. investment banks, and large corporations), and the role of emerging professions (e.g. investment bankers specializing in the publishing industry).

Rao, Monin and Durand (2003) trace key moments in the structuration of the French gastronomic field and present an account of the rise of an institutional logic, the *nouvelle cuisine*, and the fall of the incumbent logic of Classic cuisine, in the 1970s. He particularly notes the discursive elements of this structuration of the French cuisine by highlighting the role of gastronomic journalists and chefs in creating texts which codified the French Classic gastronomic logic, in the 19th century. Classic cuisine emerged with the work of a renowned 19th century French chef Escoffier, and the discursive moment which marks this rise is his classic treatise *Larousse Gastronomique*. Classic cuisine prescribed rigid ways of preparing and presenting food in restaurants. It prescribed a role and identity of the chef, as a person working behind the scenes and following strict codified rules of the Classic cuisine – a role that was further institutionalized through the curricula of French cooking training schools. The *nouvelle cuisine* movement was triggered by exogenous societal shocks: broader societal changes during the late 1960s captured in the ‘master logics’ operating at the societal level; the reaction of French society against rigid social norms in general, and against the stultified environment in literature, cinema and art. It was triggered by high profile institutional entrepreneurs. A set of leading French chefs revolted, dissatisfied with their identity as chefs in the Classic tradition of the French culinary system, desiring greater autonomy and creativity in designing culinary experiences. The new logic became institutionalized in the field and replaced the old Classic cuisine logic because of broader societal changes antithetical to the norms in the culinary and art fields at that time. Those societal changes triggered a reaction from leading French chefs who acted as initiators of change; those
pioneering chefs were followed by other influential ‘defectors’. Hence institutional contradictions triggered institutional entrepreneurial responses from key field actors (Seo & Creed, 2002). Discussion of the new logic by culinary journalists in leading publications further enhanced the legitimacy of the new logic which was already being accepted due to broader societal level favourable changes. Once the French culinary profession took up the new logics, field structuration under the new logics started moving towards stability.

Reay and Hinings (2005) investigate change in logics, from ‘medical professionalism’ to ‘business-like health care’, in the healthcare field of Alberta, Canada. The trigger for this change was government policy and related legislation to make health care more ‘efficient’. Change in institutional logics was thus brought about endogenously by a powerful player. The provincial government’s reform programme at the political level paralleled the ascendant new ‘public management approach’ at the international level. In this scenario, physicians representing the old logic of ‘medical professionalism’ were pitted against hospital management following the logic of ‘business-like health care. Four mechanisms were used through which physicians maintained their divergent views on healthcare, and at the same time worked within the parameters defined by the new logics: first, medical decisions, the domain of the physicians, were kept separate from organizational decisions; second, informal interaction between physicians and the healthcare managers eliciting technical opinion from physicians in activities requiring technical medical knowledge; thirdly, collaboration against sporadic clashes with the common enemy – the regional government; finally, collaborating in experimental and innovative projects concerning healthcare provision (Reay & Hinings, 2009).

Finally, an account of the structuration of the waste recycling industry in the USA, by Lounsbury, Ventresca, and Hirsch (2003), provides another case study showing change in institutional logics in a field. Social movement of environmental activities spawned the field
of waste recycling. However, as the need for recycling expanded due to greater social awareness and related government legislation, for-profit recycling conglomerates emerged. With the rise of for-profit entities, a recycling business model also emerged which burned waste rather than recycled it, so as to generate energy; but this burning process was environmentally less sound. In this scenario, a set of environmental activists, who were also able to create leverage with for-profit conglomerates, brought about change in the field so that the older logic, calling for burning of waste to create energy, was replaced by the logic which called for the avoidance of burning and emphasized recycling only. This change, as with the scenarios depicted in the previously cited literature, paralleled supportive social level changes. According to the authors of the study, the change in the field from burning of waste to recycling happened after broader social realization of negative effects of burning of waste, and calls for recycling as the preferred method of managing household waste. Once demands for change emerged from the society, for-profit waste recyclers also changed their practices and increased their recycling operations, as compared to their waste incineration line of business. Significantly, the earlier idealistic environmental activist movements which triggered the rise of the recycling created the systems which were successfully used by for-profit recyclers. For example, the general public was made aware of the need for recycling and was socialized to prepare recyclable household stuff for recycling (e.g. by cleaning and stacking them for collection), a situation which facilitated kerb-side recyclable waste collection by for-profit recyclers.

3.5 The evolution of multi-logic fields towards unstable states

After presenting the most significant case studies of fields where fields with clashing logics stabilize, I now turn to the literature, comparatively scarce, on empirical situations where fields fail to attain stable structuration.
Purdy and Gray (2009) examine the structuration of the field of Alternate Dispute Resolution (ADR) in the USA, where a new organizational form, State offices of ADR, emerged. The authors report continual field instability where ‘judicial’ logic, rooted in the broader logics of bureaucracy and the rule of law, and ‘social services’ logic, embedded in the broader democratic logic privileging human welfare through community based decision making processes, vied for domination. The field had different institutional entrepreneurs who had differing perspectives on the purpose of ADR mechanisms. The field was divided into different organizational structures administratively rooted in the judicial system, government, and universities. These organizational structures were supported by differing institutional entrepreneurs who disagreed on the purpose of ADR mechanisms. This diversity of structures and divergence of goals resulted in ADR organizations adopting different practices. There was also a geographically specific element: each State demanded its ADR to perform according to its own specific requirements.

Further, and significant for this thesis, the ADR organizations also had problems in measuring their ‘effectiveness’. ADR organizations that followed the judicial logic tried to measure their performance through elaborate statistics showing the number of cases settled, and cost savings due to the use of out of court mediation services under ADR systems. However, those ADR organizations that worked on public policy disputes at State level, rather than ordinary public disputes, faced problems in quantification of performance because cost-benefit studies were difficult to conduct due to methodological and practical issues. Hence, multiple goals, multiple resource pools, multiple professional organizations unable to create standardized technical practices and performance measures resulted in the field in a constant state of flux. Lastly, powerful vested interests aligned with existing institutions, such as attorneys, also created hurdles in the way of diffusion of ADR mechanisms.
Battilana and Dorado (2010) provide a comparative case study of two Bolivian MFOs which try to adapt to the conflicting logics of banking (FS) and development (PA). The authors do not explicate a detailed process of field structuration of microfinance in the region; but they do hint at the rise of a hybrid ‘commercial microfinance logic’. The name that they give to this hybrid logic (i.e. commercial microfinance logic) highlights the dominant commercial element of this hybrid logic. Both the case study organizations were seen to be adapting to this hybrid logic through their hiring and socialization policies. Interestingly, one of the case study organizations, BancoSol, was initially shown by authors to be failing to adapt to the hybrid logics because its staff, adhering to different logics, failed to reconcile their differences. However, the turmoil within the MFO due to clashing logics subsided only when a manager with ‘private banking’ background was hired; commercial logic seemingly triumphed in this MFO. In the global context, this seemingly hybrid Latin American commercial structuration is not ‘settled’, as shown by the controversies surrounding the Initial Public Offering (IPO) of a Mexican MFO, Compartamos, which was accused of charging exorbitant interest rates to ramp up profitability before going public (Warmington, 2007).

Pache and Santos (2011) present structuration of the French ‘social integration field’ comprising organizations, both commercial and non-profit, which employ long term unemployed people to produce goods and services that can be sold commercially. This field continued to be in a state of conflict between commercial and social welfare logics. The social welfare logics dictated that those organizations remain non-profit, engage volunteers, interact with local organizations working in the social welfare domain, and maintain focus on the welfare of the hired people. On the other hand, commercial logics called for profit-oriented companies wanting to behave like any other corporate entity trying to expand markets and earn profits. The social integration field thus incorporated two broader societal
logics of the state (the welfare logic) and the market (the commercial logic), each exerting its influence through key institutional referents such as funders, shareholders and professional organizations. Further, although logics clashed at the level of practice, they were reconciled with respect to goals. The authors identify the central role of the state as the main enforcer of the overarching goal, provision of employment to the long term unemployed, as source of legitimacy of the field.

From the account of the French social integration field it appears that social integration enterprises, whether non-profit or commercial, have always been historically embedded in the social welfare logic. The state as enforcer of a common goal thus maintains the essentially altruistic nature of the field. A population of non-profits in the field became commercialized, sometime in partnership with the corporate field, to become sustainable. The entry, in the 2000s, of entrepreneurs, business graduates, and other people from the corporate field resulted in a growing subset of organizations taking up commercial logics. However, the field failed to come up with a centrally prescribed organizing template; the state enforced goals but could not devise consensus-based organizing templates. Professional organizations that could reconcile differences or create a common set of practices failed to emerge. The pro-welfare organizations had internal constituencies, including professional social workers, public or charitable funding organizations imposing welfare logic. Commercial organizations have their own pecuniary imperative dictated by shareholders, commercially oriented managers and capital providers.

In a similar situation, Gestel and Hillebrand (2011) report on another field that experienced chronic conflict of logics and incomplete structuration – the field of the Dutch Public Employment Services (PES) engaged in helping the unemployed find jobs and enhance job skills. The main actors in the field are the government (via various political Parties which came to power during the period), employer associations and unions. The field
faced three logics: the bureaucratic logic with its emphasis on the state’s role to help citizens find employment and upgrade skills; corporatist logic calling for a cooperative ‘network’ arrangement where all stakeholders jointly solve the problem of unemployment; and the market logic calling competitive forces from the private sector to establish and manage job search and skill enhancement services. Four factors contributed to field structuration marked by unstable interaction of operant logics. Power shifts, partly in the form of changes in the Parties coming to government brought different coercive pressures to impose different set of logics so that a single logic could not gain its foothold. Over 22 years spanning the period 1980-2002 different combinations and permutations of governments came to power and tried to impose their then favourite logic. Dissatisfaction with the prevalent systems of employment services provision in the wake of broader social and economic issues, mainly, persistent unemployment, also triggered questioning of prevailing arrangements in the field. On the one hand, social issues, mainly high unemployment, kept pressurising all actors to search for ways to reform the system, hence not allowing long periods of inertia in the field. By comparison, before 1981, due to relative economic stability and lower unemployment, the pressure on employment services was less. Further, there were no ‘ready to wear’ organizational templates to solve the problem of employment services provision at a larger scale.

Two noteworthy mechanisms acted as hurdles to stable structuration of the field and convergence of the field towards a single dominant logic. The first mechanism, labelled ‘negative choice’ by the authors, depicts actors in the field agreeing to the implementation of a logic which appeared to be a ‘lesser evil’ among all the logics operant in the field. For example, the authors quote an instance where employers’ associations reluctantly agreed to government policy favouring corporatist logic because the alternative could have resulted in a policy favouring the state logic; for the employers’ associations a corporatist policy
framework was more suitable to their interests than a policy involving state logic where the influence of the private sector was generally sidelined. But the problem with this corporatist mechanism was that such compromises turned out to be short-lived as they were based on pragmatic expediency and not on a genuine belief in the efficacy of the logic implemented – due to the negative choice policy. Subsequently, there was half-hearted attempt at making the agreed-upon policy work. Any jolt to the field, say due to a change in the government, or economic problems, unravelled the uneasy consensus. The other mechanism, labelled by the authors ‘deliberate ambiguity’, is where actors agreed on broad contours of organizational aspects of the field but refrained from specifying details of the agreed set of ideas and practices envisaged in the agreed-upon plan of action for the field. Once the settlement is converted from broad discursive agreement to material practice, unresolved issues originating in the divergent positions held by actors started cropping up, unravelling the superficial consensus achieved earlier. The key factors in unstable field structuration were the broader conflicts on employment policies, and the lack of ready to wear templates for organizing employment service organizations.

3.6 Conclusion

In Part A of my thesis, I investigate microfinance as a field marked by a perennial clash of logics. I present the historical evolution of the field tracing the interaction of the competing logics operant in the field, and the most plausible reasons for the perpetuation of the clash of those logics. Accordingly, I have structured my literature review in this chapter around theoretical and empirical work associated with fields having multiple, clashing logics. Using the theoretical framework of institutional logics, I identify a set of factors which perpetuate instability in fields with clashing logics. Those factors include: multiple goals, multiple resources available to field actors to sustain multiple logics, and a lack of agreement among field actors on field level organizational structures and practices.
The literature reviewed above identifies issues *within* the fields which are instrumental in maintaining field contestation or field stability. Aspects of broader fields in which the fields under investigation are embedded are not identified as sources of a chronic clash of logics. Those broader fields are important because they provide the ‘master logics’ which constitute field level logics (Rao et al., 2003). In the literature reviewed, broader social trends are important but not identified as important sources of clash of logics. Hence, in trying to identify factors in microfinance which explain field level contestation in that field, I also investigate the question: what is the role of those broader fields in determining field stability? It could be possible that broader fields themselves may not have ready to wear organizing templates which the subordinate field may adopt. Further, subordinate fields may have deeper inextricable roots in the broader fields so that the logics adopted by the subordinate field from the broader field could not be replaced or compromised by the new opposing logics. I test these conjectures in the field of microfinance in the ensuing chapters of Part A. In the next chapter, I define and explain the nature of the two contesting logics operant in microfinance, the poverty alleviation and commercialization logics.
Chapter 4: Institutional logics in microfinance – the ideal types of Financial Systems (FS) and Poverty Alleviation (PA)

4.1 Institutional logics and ideal types

Institutional logics are “… the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to social reality” (Thornton & Ocasio, 1999:804). As outlined in Chapter 3, actors in an organizational field model their thought and behaviour on the basis of idealized templates, that is, institutional logics, which provide the rationale for organizational actions and shape organizational structures. In the microfinance field, the tussle between the pro-market paradigm favouring commercialized microfinance organizations and the welfarist paradigm which calls for a poverty alleviation focus can be interpreted as a clash of institutional logics.

To analyze the essence of the clashing logics operant in the microfinance field, and conduct a comparative analysis of the differences and similarities between those two logics, I use the theoretical apparatus of ‘ideal types’, originating in the work of classic social theorists to facilitate comparisons of social structures (Weber, Roth, & Wittich, 1978), later taken up by institutional theorists to analyze the interplay of competing institutional logics in organizational fields (e.g. DiMaggio, 1991; Thornton & Ocasio, 1999). An ideal type is like a description, based on a set of predefined attributes, of the ideal characteristics of a fashion model. This ideal description of a model could be used to find out to what extent a set of fashion models follow particular aesthetic criteria, that is, a particular logic. Hence, an ideal
type can be used to find out to what extent a particular logic is operant with an organizational field.

DiMaggio (1991) analyses the clash of logics in the early 20th century US art museum field by identifying the ideal types of the Gitman and Data model. Thornton and Ocasio (1999) identify ideal types for the editorial and market logics operant in the US higher education publishing field. Ideal types formulated in this literature were validated by studying archival material on the field, and from interviews with key field informants. Chapter 3 provides examples of other situations where researchers have tried to formulate ideal types of clashing logics operant in a field. More recently, Battilana and Dorado (2010), presenting a comparative case study of two Latin American MFOs that adopted a commercial approach to microfinance, formulate banking, development and commercial microfinance logics as ideal types. In this case, the ideal types were constructed from key field level texts on microfinance generated by influential actors. However their analytical focus was on ‘hybridization’ of logics with more emphasis on the workings of commercial logics, rather than explicating the salient features of the clashing logics in microfinance. In this chapter, I attempt bring out key characteristics of the two clashing logics in microfinance by formulating their ideal types.

4.2 ‘Master’ logics of societal inter-institutional systems

The foundational literature on institutional logics locates behaviour in a field context which itself is constituted by the interplay of master logics of broader society. Friedland and Alford (1991) identify the capitalist market, bureaucratic state, democracy, family, and Christian religion as institutional sectors at the broader societal level which have their own distinct logics. Similarly, Thornton (2004) has claimed that six key societal sectors provide master logics to a field: markets, corporations, professions, states, families, and religions. Rao, Monin and Durand (2003) is a stark example of the workings of societal logics at field
level. They identify the French revolution as a source of master logics for the Classic cuisine movement. The Classic cuisine movement was then overtaken by the *nouvelle cuisine* movement which corresponded with the rise of another set of master logics in various sectors of French social life at the time the *nouvelle cuisine* was ascendant. This new societal logic included strong negative reactions to strict regimentation and authority, and came to sharp relief in the literary movements of *le nouveau roman, la nouvelle critique, le nouveau theatre, and le nouveau vogue* ‘antischools’ (Beauge’, 1999, quoted in Rao et al., 2003)

In my formulation of the ideal types of the logics of microfinance, I identify the master societal sector logics which shape the logics operant in the field. I also show how those master logics provide different levels of ‘archetypal coherence’ to the logics prevalent in the microfinance field and provide prescriptions for behaviour to actors in that field. An archetype is “...a set of structures and systems that reflects a single interpretive scheme” (Greenwood & Hinings, 1993:1052). Their ‘interpretive scheme’ corresponds to ‘a logic’ employed here. For example, the capitalist logic invokes the archetype of a profit-seeking entity, owned by shareholders and run by professional managers. This corporate archetype has well defined and highly institutionalized elements. I identify below archetypes envisioned by the logics in operation in microfinance, and analyze the coherence of those archetypes.

In Table 2 I show the clashing ideal types in microfinance. I identify the two ideal types of the Financial Systems (FS) approach and the Poverty Alleviation (PA) approach in terms of their key defining characteristics. Based on those characteristics, I bring out the main commonalities and differences of those logics. The origins and evolution of the two logics in microfinance are presented in chapter 5.
### Table 2 Ideal types of institutional logics in microfinance

<table>
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<tr>
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<tbody>
<tr>
<td>Economic System</td>
<td>Free market capitalism characterised by ‘liberalised’ financial markets with MF as a well-integrated component</td>
<td>Social enterprise</td>
</tr>
<tr>
<td>Source of Identity</td>
<td>MF as a regulated financial business indistinguishable from any other financial intermediary</td>
<td>MF as a social enterprise merging self-sufficiency and altruism</td>
</tr>
<tr>
<td>Source of legitimacy</td>
<td>‘financial sustainability’/profitability</td>
<td>Ability to reduce poverty and reach out to the poorest</td>
</tr>
<tr>
<td>Source of authority</td>
<td>Corporate hierarchy/government regulation</td>
<td>The ability to reach grassroots poor</td>
</tr>
<tr>
<td>Basis of mission</td>
<td>Increase/maintain financial sustainability</td>
<td>Poverty alleviation</td>
</tr>
<tr>
<td>Basis of attention</td>
<td>Multidimensional nature of financial services demanded by all segments of population not just the poor measure and benchmark (mainly financial) performance</td>
<td>Credit as a potent poverty alleviating tool measure impact on poverty</td>
</tr>
<tr>
<td>Basis of strategy</td>
<td>Profitable outreach to the target market</td>
<td>Identifying and alleviating poverty alleviation and increasing incomes of the poor</td>
</tr>
<tr>
<td>Governance mechanism</td>
<td>Mimicking financial entities, mainly, commercial banks</td>
<td>Leadership characterised by socially responsible entrepreneurship</td>
</tr>
<tr>
<td>Institutional entrepreneurs</td>
<td>ACCION, Compartamos, Mexico; BancoSol, Bolivia; SKS Microfinance, India</td>
<td>Grameen Bank, Bangladesh BRAC, Bangladesh</td>
</tr>
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**Note:** Ideal type template adapted from Thornton & Ocasio (2008)

### 4.3 The Financial Systems (FS) approach

Although the microfinance field is nested in the broader field of ‘development finance’, the master logics of the FS approach invokes the ideas and practices of the for-profit financial field. Hence, we see references to ‘inclusive financial markets’ in the pro-FS discourse on microfinance – that is, including all segments of the population through profitable financial entities (Ledgerwood et al., 2006). The inclusiveness argument shifts attention from poverty alleviation and makes the case for ‘finance for all’ (Demirguc-Kunt, 2008), albeit including reaching out to the poor. The finance-for-all emphasis of FS logic takes away the exclusive spotlight from financial outreach to the poor, and considers access to all segments of the population. But, in calling for reaching out to the poor as part of the finance-for-all mantra, it stops short of recommending the ‘directing’ of financial services to the poor. The proponents of the PA logic, in contrast, call for deliberate, altruistically
motivated efforts to reach out to the poor, rather than expecting the financial markets to ‘downscale’ their services to the poor through purely profit oriented financial services.

The envisioning of microfinance as part of financial markets echoes the neoliberal discourse which took shape in the 1980s. It is no coincidence that the rise of neoliberalism and more sophisticated formulations of the FS approach in microfinance, during the early 1990s, run a parallel ascendant course in the broader development finance field and the microfinance field. The global zeitgeist of neoliberalism also created a favourable environment for idealizing private enterprise as the preferred organizational form par excellence. The diffusion of neoliberal ideas in development finance became subsumed within the ‘Washington Consensus’, a term coined by the economist John Williamson of the Peterson Institute of International Economics (Williamson, 1990). Key features of the Consensus include privatization of government-owned enterprises and liberalization of interest rates, among other prescriptions (Gore, 2000).

The development of the broader financial market, claim the FS proponents, will automatically improve welfare for the poor by generating jobs, expanding overall business opportunities and ultimately promote economic growth. The rationale for financial services to the poor comes from the supposed creation of economic ‘opportunity’ through access to finance. For the proponents of the FS logic, access to finance works in a more indirect way in improving the condition of the poor. On the other hand, the PA proponents associate direct social benefits, such as women’s empowerment, with access to finance (Daley-Haris, 2002). As a World Bank policy document asserts: “building inclusive financial systems focuses on equalizing opportunities” (Dimirguc-Kunt, Beck, & Honohan, 2006:2). The FS approach emphasizes ‘trickle down’ of benefits from expanded financial services access across the economy – poverty alleviation happens not so much through the direct provision of financial services to the poor but more through the indirect channels of job creation and higher
economic growth. In this situation if MFOs, according to the FS approach, do target the poor, this should be done through a commercially viable means of financial service delivery mechanisms.

Keeping in view the inclusiveness argument, the FS proponents, the World Bank chiefly among them, advocate the development of overall financial markets and improving the broader ‘market infrastructure’ rather than deliberate efforts for the creation of MFOs by governments with a poverty alleviation agenda. The implication of the hands-off approach is that the market will take care of itself by attracting private investment in microfinance once the right infrastructure is in place, making the provision of microfinance itself more efficient and more effective.

The organizational implications of the inclusiveness argument for the institutional logics of microfinance include the desire to ‘mainstream’ microfinance as a component of financial markets in poor countries. There is no need to keep microfinance as a separate altruistically-driven sub-sector. The fact that an MFO is getting its loans back, getting the poor to deposit their savings with the MFO, and that the MFO is earning a profit while performing the financial intermediation role is sufficient for contributing to poverty alleviation – a ‘win-win’ situation whereby profit seeking financial service provision to the poor ensures organizational sustainability as well as welfare for the poor (Morduch, 1999). According to the FS approach, microfinance is financial intermediation, albeit targeting a specific market segment – the previously ‘unbanked’ poor.

The FS approach, in line with its master institutional logics of financial markets and the neoliberal paradigm, also draws from frameworks of neoclassical economics. Prices, in this case interest rates on loans and deposits, need to be ‘market determined’ – the most important tenet of the neoclassical approach to economics. The neoliberal slogan corresponding to this focus on unrestrained market based price determination is 'getting the
prices right' (Chomsky, 1999). One of the first set of systematic FS prescriptions, coming from a pro-FS change agent trying to diffuse the pro-FS logic, involved calling MFOs to “...[charge] an effective real rate of interest high enough to cover all their costs” (Consultative Group for Assisting the Poor, 1995:2). One of the earliest pro-FS texts criticized the opposing poverty-focussed development finance because the latter was “undermining rural development with cheap credit” (Adams, Graham, & Pischke, 1984: italics mine). The FS proponents called for policies to promote positive real interest rates, both on deposits and loans. Accordingly, subsidies and concessionary capital to MFOs is considered to be ‘distorting’ the price structure of the financial markets.

Most crucially, MFOs need to be commercially self sustaining because that would attract private capital into the microfinance market in the form of equity and debt. Increased private capital will help MFOs expand outreach and release them from dependence on presumably limited donor funding. A commercially sustainable and regulated MFO, the FS proponents contend, will also be able to attract savings deposits and hence ensure its long term sustainability by maintaining a diverse set of funding sources. Hence commercial sustainability is also linked with organizational survival.

The FS approach implies that MFOs need to be structured as commercial banks. Two sets of prescriptions reflect the idealization of commercial banks as a dominant organization form for MFOs. First, the prescribed MFO performance measurement criteria should follow commercial bank conventions (e.g. Consultative Group for Assisting the Poor, 2006). Second, popular MFOs’ ‘capacity building’ initiatives should follow organizational development templates borrowed from commercial bank training curricula (e.g. Consultative Group for Assisting the Poor, 2009e). When MFOs are envisioned to be like commercial banks, MFO products need to be more than just small loans. Hence, FS proponents have replaced the original term ‘microcredit’ associated with the field, to ‘microfinance’,
highlighting the finance aspect and calling for MFOs to provide savings, remittances, and other financial services as well (Rhyne & Otero, 1992; Robinson, 2001). A corollary to this emphasis on a broader range of financial services and not just credit is the call to ensure that microfinance operations of MFOs are not mixed with other development interventions. Financial entities proper do not mix altruistically motivated activities, such as the provision of health, education and other welfare services to the poor, free of cost, with financial products, which are (presumably) not free. The mixing of non-financial altruistic services, according to the FS proponents, results in diluting efforts of MFOs to become profitable (hence sustainable) entities.

Two sets of key texts best reflect the FS approach visualization of microfinance as a commercial bank: the popular World Bank publication *Microfinance Handbook – an institutional and financial perspective* (Ledgerwood, 1998), and the contents of the training programmes instituted by the World Bank sponsored organization CGAP. The *Handbook*, part of a larger World Bank project – Sustainable Banking with the Poor, represents a major effort by the World Bank to inculcate the FS approach in microfinance. The very name of the project reflects the FS systems perspective where development finance is more about sustainable banking rather than poverty alleviation. The *Handbook* prescribes ‘attributes of a good institution’ and recommends that MFOs offer both deposits and payments services apart from loans. The *Handbook* also identifies key metrics for performance measurement which include elements covering the financial ‘stability’ of an MFO rather than its poverty impact. The *Handbook* prescribes performance indicators such as portfolio quality, financial spread, profitability ratios and capital adequacy – clearly reflecting a commercial bank financial intermediation model. The *Handbook* also recommends changing the ‘institutional structure’ of financial NGOs from non-profit informal financial organizations to formal financial entities. The *Handbook* recommends that NGOs “…must change into professional
institutions and then, if desired, expand and ultimately transform their institutional structure” (Ledgerwood, 1998:104).

CGAP’s approach to prescribing ‘best practices’ for the MFOs included a widely used training programme for the capacity building of the microfinance field in developing countries (e.g. Consultative Group for Assisting the Poor, 2009d). The CGAP Disclosure Guidelines for Financial Reporting by Microfinance Institutions (Rosenberg, Mwangi, Christen, & Nasr, 2003), while prescribing a specific formula for productivity and performance indicators, takes the position that a particular ratio is “…standard for the commercial banking industry” (2003:16) or that “…the same principles would apply to a commercial bank…” (Rosenberg et al., 2003:12). CGAP’s training courses developed under the Africa Initiative during the later 1990s were later expanded and replicated under the 'skills for microfinance managers' initiative in other microfinance organizations around the world.

If MFOs are envisioned to be part of the mainstream financial system, indistinguishable from any other for-profit financial entity, subsidies become superfluous as sources of capital for the organizations. The role of altruistically motivated ‘public’ funders, such as the international multilateral and bilateral funding organizations, as well as governments, becomes redundant. The financially sustainable MFOs will, as per the FS approach, automatically attract private capital based on their profitability metrics. At a broader level, in the FS paradigm, there is no scope for financial services as a public good. It is a private good to be freely exchanged at a right 'equilibrium' price in markets which are not ‘repressed’ or distorted in any way by governments. Government’s role is, according to the FS approach, solely to develop ‘market infrastructure’ to facilitate the development of private financial markets which include microfinance.
Subsidies have two implications according to the FS approach. The efficiency implication emphasizes the organizational disincentives whereby resources are not accessed at ‘true costs’, hence misused through higher operational costs. Subsidized interest rates result in lower savings and misdirected, politically motivated lending (Adams, Graham, & Pichke, 1984; Robinson, 2001). There is an additional ‘scarcity argument’ – non-market funding sources are and will remain limited as compared to the supposedly boundless springs of capital available from the broader financial markets. MFOs should therefore not depend on subsidies as the market for microfinance is so large that it is only private capital which can satisfy the resource needs to cater to that potential market.

Some MFOs, mostly in Latin America, have been promoted as exemplars of commercially successful microfinance. The most prominent among them are: BancoSol, Bolivia, Compartamos, Mexico, and Bank Rakayat, Indonesia (BRI) (Otero & Rhyne, 1994; Robinson, 2001; Robinson, 2002). BancoSol and Compartamos successfully both became a private commercial entity from a non-profit – an evolutionary path prescribed for all non-profits by the international funders of microfinance. BRI represents an example of an organization which successfully turned itself around from a loss-making entity to a profitable entity, mostly funding its operations through customer deposits; again deposit based funding is an ideal outcome for an MFO as per the FS stance.

4.4 The Poverty Alleviation (PA) approach

The PA approach connects directly to the master logics of the development field in which microfinance was originally nested. As outlined in chapters 5 and 6, the raison d’être of the development finance organizations – the World Bank, and the United Nations constellation of development organizations as well as a host of other entities – is to support the poor in developing countries to get out of poverty. Microfinance emerged in the late
1970s because of the concern of the pioneers, such as Muhammad Yunus, to help the poor become sustainably self-employed in tiny enterprises. As shown in Chapter 5, the microfinance movement was then taken up by the development field and implemented as a policy tool to alleviate poverty throughout the world. Hence, the master of logics of the development field, with a few important modifications, constitutes the PA approach to microfinance. However, as shown below, the PA logic is not as coherent as the FS logic. This lack of logic coherence is linked to the ‘unsettled’ elements in the master logic of the broader development field.

The PA approach establishes a direct link between poverty alleviation and small-scale retail finance, particularly credit. Unlike the FS approach, PA proponents do not couch microfinance in terms of ‘financial products’ being ‘sold’ to a special ‘target market’ of the poor. Small-scale finance has a deeper social significance beyond the market paradigm. For PA proponents, small-scale finance represents, for example, empowerment for the masses, especially women; loans reflect ‘social power’ (Yunus 1998). Small loans are seen as a symbol of power, in terms of the ability of financial resources in facilitating the poor to access other resources: for example, capital for their small enterprises and education for the children (Yunus, 2004). The FS approach takes a broader view of finance and uses the rhetoric of ‘financial depth’ (Dimirguc-Kunt et al., 2006), implying the expansion of access to finance to all segments of a population not just the poor.

PA proponents typically invoke the organizational archetype of a ‘social business’ as an exemplar for microfinance (Yunus & Weber, 2007). Muhammad Yunus, in his Nobel Prize speech, states:

We are no longer a footnote in the financial system of the world. So those who doubted us, I hope that they will now be with us ... The era of showing profits is over. The focus on the poorest is back ... We will measure our success not on the rate of
return on investment but by the number of people coming out of poverty (Roy, 2010: 90)

MFOs need to be private and entrepreneurial but that does not mean that MFOs need to have the overarching goal of profit maximization. An ideal MFO, according to the PA approach, is one that reaches the poorest of the poor segments of a society while at the same time achieving financial self sufficiency. This implies that the PA approach promotes the development of social enterprises as an ideal organizational form in the microfinance field – organizations which do not belong to a purely commercial pedigree but are ‘business-like’ in their actions with a moral conscience.

The FS approach calls for following the rules of formal finance; MFOs need to mimic an ideal commercial bank. The PA approach calls for breaking rules and promoting social entrepreneurship. The PA approach wants “…to go beyond the mantra of inclusive financial services” and emphasizes that microfinance succeeded due to the efforts of ‘early rule breakers’ (Daley-Harris, 2009:6). But this rule breaking has a problem. The organizational template envisioned for microfinance by the FS proponents has well-established contours borrowed from the broader master logic of the financial markets. Transplanting the institutional elements of the financial markets into microfinance was relatively easy. This was facilitated by the fact that microfinance has essential characteristics, even if incomplete, of a financial intermediary. Therefore, we see prescriptions from the field of finance applied to microfinance with great ease by the pro-FS proponents (e.g. Consultative Group for Assisting the Poor, 2009a; Consultative Group for Assisting the Poor, 2009b, c, d).

How about institutionalized practice templates for the PA archetype of social business? In fact there are none. Even when specific pro-PA proponents, including the most renowned ones like the pioneer Muhammad Yunus, suggest organizational templates and
practices, they do not achieve the institutionalized taken-for-grantedness as we can see in the practices of commercial finance (Gonzalez, 2010).

The PA approach has no clear pronouncements on subsidy provision to MFOs. The FS camp clearly forbids subsidies. The PA approach emphasizes the welfare ‘externalities’ of finance so that finance is considered more of a public good. Microfinance is not simply about monetary exchange. It has socially beneficial effects for families, communities and the whole society. Therefore there is a justification for microfinance to be subsidized, as a purely market-based non-subsidized provision of microfinance is considered to be inadequate in terms of outreach towards the poorest segments of the society. Commercialization is frowned upon by PA ‘purists’, as seen in Yunus’ reaction to the rise of the commercial MFOs, Compartamos, Mexico and SKS Microfinance, India (India Knowledge@ Wharton, 2010; Warmington, 2007). Commercialization is considered to be a potential source of ‘mission drift’ – reflected in the tendency of commercialized MFOs to pursue profits at the cost of reaching out to the poorest (Woller, 2002).

On the other hand, the PA approach – termed ‘microfinance plus’, assumes broader social development goals and links them with microfinance. The PA approach calls for women’s ‘empowerment’ and income enhancement. Accordingly, the PA approach promotes MFOs as ‘platforms’ for delivering a mix of financial services and non-financial support to the poorest; furthermore, ‘profitable’ products could subsidize non-profitable but welfare enhancing services (Counts, 2008).

The poverty impact of microfinance also needs to be measured because the justification of microfinance is not just in terms of organizational survival but, most importantly, the welfare of the targeted poor. This vision contrasts with the FS approach which privileges the goal of organizational survival more than that of poverty impact (Dimirguc-Kunt et al., 2006). The differing emphasis in terms of poverty alleviation vs.
organizational sustainability also translates into difference of emphasis on measuring organizational performance. The FS logic of organizational performance is straightforward. It measures performance in terms of profitability of MFOs.

The PA approach emphasizes the need to measure ‘social impact’, the most important performance benchmark for MFOs. Just like the PA logic, the FS logic also considers broader benefits of microfinance. But those benefits are linked to the purely economic aspects of the lives of the poor. According to the FS argument, the poor need financial resources for consumption smoothing, that is, to tide themselves over periods when household income becomes dangerously low. Further, households need financial services, including insurance, to cover health crises in the family. The PA logic, accepting the economic benefits of microfinance, considers microfinance to bring direct benefits to the poor; the very fact that the poor, particularly women, have access to financial resources implies women’s empowerment in the society. However, the PA logic also highlights the entrepreneurial potential of the poor by linking microfinance, particularly small loans, with small enterprise development. It is pertinent that microfinance originated as a development policy to promote enterprise development. Even the early texts formulating the FS logic frameworks (Otero & Rhyne, 1994), and those taking into account microfinance initiatives of multilateral development funding entities (The World Bank, 1999), put microfinance as ‘microenterprise finance’. This framing of microfinance within the broader framework of ‘microenterprise development’ reflects the embedding of microfinance in the broader development field where microfinance, or small scale retain development finance, has traditionally been considered a part of development policies focussed on enterprise development.

But the call of the PA logic to ‘dilute’ financial performance with altruistically motivated social impact is fraught with problems. The performance measurement of MFOs under the FS logic is all about profitability; the instruments for measurement of profitability
are clearly established: accounting profits, cash-flows, return on equity, and so on. What about instruments for measuring social performance? There are no ready-made institutionalized templates for social impact measurement, available in the Master logics of the broader development field, which could be borrowed and transplanted into microfinance (Karlan & Goldberg, 2007; Schreiner & Yaron, 2001).

4.5 Conclusion

The FS logic incorporates microfinance into the broader field of the financial markets. It highlights the potential of MFOs as financial intermediaries. This portrayal of microfinance as finance conforms to the broader societal level dynamics where the ascendance of neoliberalism in the policy discourses can be seen. As the FS logic draws its cognitive resources from the highly institutionalized finance field, the prescriptions of the FS logic have also taken on a more coherent shape. The PA logic, rooted in the broader development field, invokes altruistic aspirations of that field and of society at large, to support the have-nots in poor countries through financial services, particularly small loans. The PA logic is coherent in its broad formulations which identify means-ends relationships between finance, particularly small loans and development. But when it comes to specific prescriptions, particularly related to organizational performance, and the exact contours of the organizational template of an MFO, the PA logic is less coherent. The master logics of the PA approach, originating in the altruistic imperatives of the development field, have not provided microfinance a set of coherently institutionalized templates.
Chapter 5: The historical evolution of the microfinance field – Persistent contest between the Poverty Alleviation (PA) and Financial Systems (FS) logics

5.1 Origins of microfinance

Microfinance is associated with global efforts for socio-economic development. It was conceptualized and created as a means towards ends which come under the grand societal level endeavour of ‘poverty alleviation' (Hulme & Mosley, 1996). The discourse and practices of microfinance are embedded in the broader field which has been engaged, since World War II, in promoting socio-economic development in poor countries. Early in the war, Winston Churchill and Franklin Roosevelt signed the Atlantic Charter in 1941, promising to give “…assurance that all men in all the lands might live out their lives in freedom from fear and want” (Neumann, 1950 quoted in Arndt, 1987:44). In the wake of such epoch-making declarations, in 1944, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank) were created following the Bretton Woods conference (Kapur, Lewis, & Web.R, 1997; Staples, 2006). The World Bank has emerged as one of the top five global sources of finance for microfinance (Consultative Group for Assisting the Poor, 2009), and one of the most influential source of policy frameworks in the area of development finance, and a promoter of the FS logic (Dalgic, 2007).
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Significance</th>
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<tr>
<td>1976</td>
<td>Muhammad Yunus lends, out of his own pocket, US $ 27 to a group of women in Chittagong, Bangladesh sowing the seeds of Grameen Bank</td>
<td>Founding of Grameen marks the rise of the MF field; Grameen envisioned solely for poverty alleviation.</td>
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<td>1980-1989</td>
<td>Grameen Trust, a sister concern of Grameen Bank, helps establish MFO around the world fashioned on Grameen, under the ‘Grameen Replication Programme’</td>
<td>The microfinance field takes gradual shape, as more MFOs, mostly non-profit MFOs are founded around the world, funded by international funders enamoured by the new MF based development model.</td>
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<td>1992</td>
<td>PRODEM, a Bolivian NGO converts to a commercial financial MFO, creating the first for-profit entity specialising in microfinance</td>
<td>Pro-FS MF supporters such as USAID and ACCION support non-profit MFOs in their conversion to for-profit entities.</td>
</tr>
<tr>
<td>1995</td>
<td>The World Bank, along with other international funders establishes the Consultative Group for Assisting the Poor (CGAP) – a collaborative effort of funders to promote the creation of ‘best practices’</td>
<td>International funders identify a need to promote a ‘standard’ model of microfinance around the world; CGAP later on champions the FS approach and promotes commercialization.</td>
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<td>1997</td>
<td>The Microcredit Credit Summit convenes over 2000 key individuals, including global heads of state, development finance practitioners, and heads of global development organizations, pledging to take microfinance to 100 million poor people by 2015.</td>
<td>The Summit represents the most influential PA camp, promoting the Grameen model of MF, and acts as a counterpoint to the FS approach.</td>
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<tr>
<td>2005</td>
<td>UN celebrates the International Year of Microcredit</td>
<td>MF finally gets recognition as the most potent poverty alleviation tool.</td>
</tr>
<tr>
<td>2006</td>
<td>Muhammad Yunus and Grameen Bank win the Nobel Peace Prize for their work in alleviating global poverty</td>
<td>The appeal of MF as a poverty alleviation tool goes beyond development policy and achieves wider societal recognition.</td>
</tr>
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<td>2007</td>
<td>Compartamos, a Mexican MFO launches its IPO, amid allegations that it charged exorbitantly high interest rates to boost its profits; receives scathing criticism from Yunus and other who favour non-commercialized microfinance</td>
<td>A major triumph for the pro-FS camp, but an embarrassment for MF at the societal level; shows the surfacing of the deep rooted ‘schism’ between the FS and PA approach.</td>
</tr>
<tr>
<td>2010</td>
<td>SKS Microfinance, India, an MFO established by a student of Yunus, Vikram Akhula, launches its IPO; allegations of wrongdoing echoing the Compartamos event reverberate this event. Critics accuse Vikram and other non-profit supporters of SKS Microfinance of earning a windfall in the wake of the IPO.</td>
<td>The clash of the FS and PA approaches play out again at the field and societal level. Fundamental controversy on the extent of mixing for-profit and altruistic objectives in MF continues to simmer.</td>
</tr>
<tr>
<td>2010</td>
<td>The Indian state of Andhra Pradesh also saw increasing incidences of suicides, particularly among microfinance borrowers, and SKS clients. SKS and others were accused of using highhandedness in loan recovery processes</td>
<td>This brings the turmoil in MF to a new level as the concerned parties are no more MFOs; the essential identify of MF as poverty alleviation tool is questioned at the societal level.</td>
</tr>
<tr>
<td>2011</td>
<td>Yunus is forced to resign, by the Bangladeshi government, from his position as Chairman Grameen Bank.</td>
<td>An event symptomatic of the political fallout of the Andhra Pradesh crisis as MF is no more seen as a poverty alleviation tool and a catchy political slogan.</td>
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There are two aspects of the World Bank as a development finance organization which have shaped the institutional logics in microfinance. First, the World Bank can be considered as an exemplar of a financial intermediary infusing altruistic motives with commercial imperatives. Second, it fashioned the organizational ecology of development finance in the post World War II period, which to this date remains the template for altruistic provision of financial services in poor countries. The organizational structure populated by this ecology is called Development Finance Institutions (DFIs) – government-owned financial intermediaries almost entirely funded through concessional loans from the World Bank (Roberts, 1971). Those DFIs provided financial services to large-scale industry and to small-scale agriculture in poor countries as a means for promoting industrialization, employment creation and socio-economic development (Pischke, 1993). This strategy was in line with the ‘big push’ financing policy promoted by development policy makers and economists to promote rapid industrialization in poor countries (Patrick, 1966).

Another historically significant policy statement, with organizational implications, was made by US President Harry Truman proclaiming the start of a “...a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas” (Arndt, 1987:63). This statement sowed the seeds for the creation of the United States Agency for International Development (USAID) – the US international development finance agency which was to become a ubiquitous feature on the global development landscape and a dominant voice in the propagation of new development ideas that reflected American global interests. USAID has since been one of the most influential proponents of the FS logic in the microfinance field (Roy, 2010).

During the decades spanning the post World War II period up to the late 1970s, the PA logic reigned supreme, with no significant calls for commercialization of development
Development policy went through its faddish cycles, mostly articulated by actors with one foot in academia and the other in development policy making. First it was the call for mass industrialization, then it was food security, finally it was the basic needs approach in the 1970s (Arndt, 1987; Dichter & Harper, 2007; Gonzalez-Vega, 1994; Maizels & Nissanke, 1984). Over those decades, the DFIs, funded by the likes of the World Bank, were the main channels for providing retail development finance, first for mass industrialization and then for rural development under the Integrated Rural Development Programmes (IRDPs) (e.g. International fund for Agricultural Development, 1979; The World Bank, 1973, 1974). Under IRDPs governments in poor countries set up temporary organizations which provided a mix of social services, such as agricultural extension, health, education, and rural infrastructure. Small loans were added on as an ‘input’. Microfinance programmes, especially the earlier versions, adopted this structure. That is, the poor were provided not just financial services but also other complementary services.

5.2 Turmoil in the development finance field in the 1970s

During the 1970s, particularly during its latter half, an important paradigm shift was happening in the policy-making corridors of global development organizations. Policy makers found the post-World War II development policy of capital formation and export promotion under the ‘big push’ failing to deliver on its promises by the 1970s (Bourne & Graham, 1984). The development policy mandarins hit upon the notion of ‘informal activities’: employment in jobs or self-employment in economic activities, mostly small-scale enterprises, below the official radar. This belated realization of a social reality became widespread through discursive means: the ‘informal sector’ was recognized as a permanent feature of a developing economy, which needed support for its ‘graduation’ into the formal sector through employment opportunities in government-registered organizations, and
through self-employment in enterprises which are recognized by government. The discursive emergence of the informal sector as a legitimate economic entity was facilitated by a widely distributed text in 1971, *Third World Employment: Problems and Strategy* (Hart, 1971). The focus on the informal sector gained official policy attention through a policy document titled *World Employment Programme* (WEP), first formulated in 1967 in a conference in Ottawa (Bangasser, 2000). Finally, global efforts for small enterprise development under the new development paradigm, aimed at grassroots development in poor countries, took another step when the Donor Committee for Enterprise Development was established as an organizational platform for international development funding organizations engaged in small enterprise development in poor countries (The Donor Committee for Enterprise Development, 2011).

The ascendance of the discourse highlighting the importance of the informal sector, particularly small enterprises, is also exemplified by another influential text by the British economist E. F. Schumacher, *Small is Beautiful*. The book highlighted the importance of incremental small scale technological changes, particularly in poor countries as a means to socio-economic development (Schumarcher, 1973). Microfinance was noted by its proponents to be a potent tool for employment generation, particularly at the level of the informal sector – a point highlighted by the founding pioneers of the field (Yunus, 2005).

However, as early as the mid 1970s, retail development finance through DFIs, particularly the small-scale retail development finance paradigm, under which small loans were provided to poor farmers in IRDPs, came in for criticism. Those small scale lending projects were faced by high loan default rates and widespread political misuse by political interests in the poor countries (Adams, Graham, & Pischke, 1984). Academics at Ohio State University’s Applied Agricultural Economics department, who also moonlighted as development consultants in projects funded by the likes of the World Bank, began a systematic critique of development finance paradigms of the time (Gonzalez-Vega, 1994). It
appears that they found a sympathetic ear at the influential international funders which fund global development finance, and who employed those economists as consultants.

The increasing dissatisfaction with the prevailing paradigm of development finance took a marked discursive transformation in the form of a set of key texts originating both in the academic and practitioner discourse. The first such text was Dale Adams' paper in the *American Journal of Agricultural Economics*, titled ‘Agricultural Credit in Latin America: A Critical Review of External Funding Policy’ (Adams, 1971). This paper mentions the author’s experience in a project funded by the United States Agency for International Development (USAID), as the main data source. Based on his experience as a consultant with USAID, and seemingly influenced by other leading ‘pro-financial liberalization’ economists (chiefly Ronald McKinnon), Adams highlighted the shortcomings of the rural finance initiatives carried out in Latin America and called for reconsideration of the prevailing assumption of credit shortages as a factor in rural development; most importantly, he called for interest rate deregulation as a policy tool for savings mobilization. Although the Adams article became a rallying cry for the likeminded academics and practitioners, it was the book *Undermining Rural Development with Cheap Credit* (Adams et al., 1984), that brought out the Ohio School argument with the full force of empirical evidence and the collective clout of the contributors. In his introduction, Adams provides the crux of the FS argument which has reverberated in the FS discourse to date:

> It is much more appropriate to view credit as a product of financial intermediation. Acceptance of this view results in fewer attempts to measure the impact of loans on borrowers and more attention to the behaviour of savers and financial intermediaries and to the overall performance of the financial systems. It directs more attention toward measurement of the costs of using and providing financial services and
highlights the effects of policies and of technological change on financial markets (Adams, 1981:4)

Many of the Ohio School individuals also became established consultants on the payroll of USAID and played a role in the design and management of development projects in the developing world. The arguments of the Adams book resonate in all influential donor pronouncements favouring the pro-market approach. Dale Adams and his Ohio associates advocated interest rate liberalization as a panacea for solving the problems of the poor country financial markets, especially in the rural areas. That is the lesson they took from the empirical ‘fact’ during the late 1970s and early 1980s from the dismal state of financial institutions in the rural areas of the developing counties. The ideas championed by Adams et. al. were not new. The development finance field was more receptive to those ideas because of the crisis-like situation in the field as evidenced by the rising failure of development finance projects during that time and calls for a policy shift. The Ohio economists became influential personalities in the corridors of power at development funding organizations. They were frequently engaged by international funding organizations to give shape to a new paradigm on development finance and come up with a systematic critique of the practices in vogue at that time (Bateman, 2010; Gonzalez-Vega, 1994).

5.3 Entrepreneurial ‘microcredit’ initiatives in late 1970s and early 1980s

Amidst the paradigmatic upheaval in the development finance field, a set of apparently unconnected initiatives arose, in the late 1970s and early 1980s, which tried to experiment with providing small loans for small entrepreneurs in poor countries. Those initiatives included ACCION in Latin America, and Grameen, ASA and BRAC in Bangladesh (Bornstein, 2005; Otero & Rhyne, 1994; Smillie, 2009). It was Grameen which
achieved global renown as a model MFO, representing an idea and an organizational model that was replicated around the world. The rise of Grameen Bank marks the beginning of the microfinance field (Counts, 2008). Of all the other experiments being carried out, why is the establishment of Grameen considered the defining moment in the evolution of the microfinance field? Veterans of the microfinance field link the prominence of Grameen to the fact that in Grameen there was something for proponents of both the PA and FS logics (Bateman, 2010; Dichter & Harper, 2007; Roy, 2010). For the PA proponents, there was the element of women’s empowerment as Grameen exclusively focussed on women. For the FS proponents, an entrepreneurial organization run like a private financial intermediary was the biggest demonstration of the role of private initiative, especially in the messy area of rural finance. The failed rural finance model followed up to the 1970s had at that time received much criticism from FS proponents, most prominently the Ohio economists. There were two more elements appreciated by both the FS and PA proponents: first, Grameen’s focus on supporting tiny enterprise run by the poor resonated with the increasingly popular development policy of that time, focussing on small enterprise development; second, high repayment rates achieved by Grameen showed that the poor can be engaged in a financial relationship, particularly in a borrower-lender relationship. The other experiments in Bangladesh, although working on small scale loans for the poor, mixed their financial intermediation component in a multitude of other development interventions; hence they were not modelled as specialized financial intermediaries. But Grameen was a bank and it showed that the poor could be bankable; this banking identity was an enticing dimension, even for PA proponents.
5.4 Key events during the 1980s and 1990s: The recognition of poverty alleviation potential of microfinance and the rise of pro-commercialization policies

The period spanning the 1980s was marked by a stage in the development of the microfinance field when the pioneer organization, Grameen Bank, was quietly trying to establish its legitimacy (Yunus, 1994). During this period, Grameen and its funders engaged in extensive interactions with the broader development field to establish its legitimacy as a successful organizational template for small-scale retail development finance. These interactions included ‘programme evaluations’ to assess the developmental impact of small-scale credit provided by Grameen to the poor, and to document the internal organizational processes that made Grameen a success; such evaluations have been widely distributed in the development field (e.g. Fuglesang & Chandler, 1986; Hossain, 1988).

In the broader field of development finance, the ‘free market’ paradigm, calling for the withdrawal of the state from retail financial intermediation, particularly in the organizational realm of the DFIs, was in the ascendant. The discourses constituting development finance at that time reflected this phenomenon. Development policy documents, particularly emerging from the globally influential development funding organizations, started calling for developing country governments to adopt free market reforms, including financial market liberalization (Colclough & Manor, 1993).

Hence during the 1980s and early 1990s, two parallel processes were evolving in the emerging field of microfinance: the rise of the free market development paradigm calling for financial market liberalization in developing countries, and a parallel emergence of a new set of organizations, mostly non-profit NGOs inspired especially by the successful experiences of Grameen Bank, which tried to take financial services, mostly small loans, to the poor. There seems to be a paradox in this parallel evolution of the microfinance field. Powerful
actors in the field, particularly the global development funding providers, were implicitly calling for disconnecting small-scale finance from developmental goals (Roy, 2010). Finance was finance, nothing else. As with the Ohio economists, the FS proponents of the 1990s did not want to include seemingly vague developmental goals attached to small-scale finance because they claimed that it was difficult to measure the development impact of small loans; by contrast, organizational performance could be measured through the readily available metrics of profitability. If the poor repay their loans, putting their deposits with MFOs, that was considered ample proof of impact. Douglas Adams thus stated:

Measurement of the impact of a loan requires the collection of costly information on all changes in all these sources and uses of liquidity that are contemporary with loan receipt and then a comparison of the ‘with’ and ‘without’ loan situations. Because ‘without’ loan situations can be specified only through assumption and conjecture, loan impact can never be determined with certainty. It is much more appropriate to view credit as a product of financial intermediation. Acceptance of this view results in fewer attempts to measure the impact of loans on borrowers and more attention to the behaviour of savers and financial intermediaries, and to the overall performance of the financial systems (Adams et al., 1984:4).

Overall performance means measuring the profitability of MFOs, the ultimate goal of the microfinance field as per the FS approach. The ascendant FS camp during the 1990s did assign the goal of profit maximization to the microfinance field. In an oft-cited FS oriented publication, announcing the emergence of *The New World of Microenterprise Finance* (Otero & Rhyne, 1994), the authors state the goals of microfinance; poverty alleviation as a goal for microfinance is nowhere mentioned, explicitly or implicitly in those goals:
Mobilizing a society’s resources and allocating them to efficient uses (intermediation)...Helping the economy manage risk by diversifying it...Facilitating transactions – providing ‘axle grease’ to the economy..Goals for finance programmes should be specified in terms of improving the ability of financial systems to perform three functions... (Otero & Rhyne, 1994:107)

How do we know that these goals are being met? The authors echo the Ohio School stance:

The evaluation framework has two levels, that of the client and that of the institutions...In keeping with emphasis on building healthy financial institutions, the new view would consider market discipline to be one of the most reliable and relevant indicators of performance. Each of the two evaluations level is associated with a strong commercial test...At the level of the institution, the strong commercial test is financial self-sufficiency... (Otero & Rhyne, 1994:108)

The rising FS oriented discourse put on the pedestal a new set of ‘success stories’ of MFOs which followed the profit maximization imperative. The new MFO superheros included Bank Rakayat of Indonesia (BRI), and a government-owned profitable rural MFO, BancoSol of Bolivia, the first non-profit MFO to convert to a commercial financial entity (Otero & Rhyne, 1994). There was no mention of Grameen Bank as the harbinger of the microfinance field. For the FS camp, the pro-commercial MFOs such as BancoSol of Bolivia and BRI of Indonesia represented the ‘new world’ of microfinance.

But the pro-commercial MFOs were the exceptions rather than the norm. Statistics on the population of MFOs and their characteristics for the 1980s and most of the 1990s are unavailable but scattered references in field-related literature identifies a trend whereby MFOs, mostly non-profit NGOs, were springing up around the world, particularly during the
1990s, more or less inspired by the Grameen experience (Ditchter, 1999; Dixon, Ritchie, & Siwale, 2005; Shams, 2005). During the late 1990s, the field takes notice of itself through the Microcredit Summit Campaign. The Summit Campaign asks MFOs from around the world to report, on almost yearly basis, their presence and the number of poor they were serving. Figure 1 records the yearly trend in the number of MFOs that reported their microfinance programmes and publicized, in the spirit of the PA approach, their outreach to the poorest of the poor. On the other hand, Microfinance Information Exchange (MIX), an online benchmarking platform of MFOs and other microfinance players, established by the pro-FS World Bank supported ‘standard setter’, CGAP, also started reporting data in the late 1990s on MFOs which voluntarily submitted their financial information to the MIX. Figures 1 and 2 show the trend of MFOs reporting to the Microcredit Summit Campaign and MIX. Despite the pro-FS leaning of MIX, and the expectation that predominantly commercially-oriented MFOs will announce their presence in the MIX database, non-profits have been in majority in the MIX database over the years.

Paradoxically, development funders were supporting non-profit MFOs despite the uncanny resemblance of the organizational structures of those NGOs to the earlier discredited
DFIs and IRDPs (e.g. The World Bank, 1999; Webster, 1991). In this context, the new (from 1995) World Bank president James Wolfensohn, a protégé of sometime World Bank president Robert McNamara (who also re-directed the World Bank during the 1970s towards policy frameworks with emphasis on social welfare), brought back the grassroots poverty alleviation agenda to the World Bank (Wolfensohn, 2000). The Ohio School leading lights considered the rise of non-profit MFOs as a repeat of the 1970s experience (Adams & Pichke, 1991). It is pertinent that the term ‘microcredit’ emerged to signify the rapidly emerging field pioneered by Grameen. This term has strong PA connotations: it signifies the role of ‘credit’, that is, small loans as a potential tool in the hands of small-scale subsistence entrepreneurs in boosting livelihoods of those poor. The slogan ‘credit as a human right’ emerged from this focus on small loans, popularized by the pioneer Dr Yunus of Grameen Bank (Yunus, 1990). As the texts emanating from Grameen show, small loans were more than just a financial service. It signified power in the hands of the poor, and a means for social advancement (Yunus, 1998).

![Figure 2 MFOs reporting to the Microfinance Information Exchange (MIX)](image-url)

Source: The Microfinance Information Exchange (MIX)

www.mixmarket.org
The most significant PA oriented moment in the evolution of the microfinance field was the convening of the Microcredit Summit (MCS) in 1997. A global survey of microfinance practitioners and attendees of MCS showed that MCS was the single most important event which turned microfinance from a policy tool to a social movement as well as the promoter of the poverty alleviating aspect of microfinance (Davis and Khosla, 2006). Although there is archival material available on the themes and proceedings of the Summits, there is no data available on the composition and profile of participants. This event has been held every year since then. MCS, in its first meeting, established a goal of reaching 175 million poor families by 2015. The first MCS gathering brought together more than 2,900 policy makers and leaders from 137 countries (Daley-Harris, 1997). MCS materialized through the efforts of Muhammad Yunus and a group of influential individuals, inspired by Grameen and active in the development field (Daley-Haris, 2002; Yunus & Jolis, 1998). MCS represents the most important platform for the PA approach in microfinance, as it explicitly advocates microfinance as a means for poverty alleviation, rather than as a part of ‘financial systems’; in fact, MCS has been accused by some to have sidelined commercialization views during its conference proceedings (Davis & Khosla, 2006). The text produced by MCS is the State of the Microcredit Summit Campaign Report (e.g. Reed, 2011). However, a closer look at the texts produced by MCS shows that financial sustainability, the ability to cover operational and financial costs, has since the start been considered a core aim of MFOs, calling for maintaining a focus on the poorest of the poor while attaining or maintaining financial self-sufficiency. Moreover a set of MFOs, mostly Grameen Bank replications, and not covered by the FS camp, have been put forward as success stories (Gibbons & Meehan, 2000). The MCS envisions the following as worthy goals of the field, but in this case there is less emphasis on microfinance as a part of financial systems:
Reaching the poorest...Reaching and empowering women...Building financially self-sufficient institutions...Ensuring a positive measurable impact on the lives of clients and their families” (Microcredit Summit Campaign, 2000).

During the 1990s, Muhammad Yunus and other PA proponents produced texts to take the message of microfinance to the broader practitioner audience. Those texts achieved wide distribution. Those texts most prominently included Yunus’ autobiography (Yunus & Jolis, 1998), and a journalistic account (The World Bank, 1998), which catapulted Grameen and Yunus to celebrity status. The PA oriented discourse presenting Grameen as an organizational exemplar was promoted by Grameen, its sister organizations and supporters, through extensive production of texts, as well as an ‘international visitors programme’ organized by Grameen Trust (a sister Grameen organization). The texts included pamphlets written by Yunus himself on practices initiated at Grameen (Yunus, 1994), in depth ethnographic studies of Grameen (e.g. Dowla & Barua, 2006; Fuglesang & Chandler, 1986) and its replication around the developing world (e.g. Hossain & Diaz, 1997). A regular publication from Grameen Trust, Grameen Dialogue, is also noteworthy, which propagated the message of Yunus among practitioners (Shams, 2005, 2007).

Parallel to the PA oriented discourse of Grameen and its proponents, the FS camp was even more prolific in its documentary output supporting the FS oriented discourse in microfinance. Some noteworthy texts aligned with and promoting the FS logics in microfinance were produced with the support of the World Bank. The first such text, The new world of microenterprise finance: Building healthy financial institutions for the poor, emphasizes ‘sustainable’ MFOs that are more profit-oriented, hence more successful in their operations (Otero & Rhyne, 1994). The next important text, The microfinance revolution: Sustainable finance for the poor, claims the rise of the Indonesian BRI as the real revolution in microfinance rather than Grameen (Robinson, 2001).
The international development funders aligned with the FS logic re-formulated the microfinance policy discourse but also provided material support to pro-commercial non-profit MFOs to become for-profit financial intermediaries. Latin American countries, with their relatively advanced financial markets and general economic infrastructure, were particularly targeted. In 1992, a Bolivian NGO, PRODEM, spun off its microfinance operations to create a commercial entity called BancoSol. This was the first ‘transformation’ of a non-profit MFO into a commercial entity; USAID and ACCION, a Latin American private microfinance funder, two arch supporters of the FS logic, were behind this commercialization (Drake & Rhyne, 2002). The CEO of ACCION stated: “ACCION created the commercial microfinance model, and the commercial model is the one that works” (Bruck, 2006). But one thing needs to be kept in mind – commercialization of BancoSol was initiated and supported by the established actors of the broader development field, and not by actors from the financial sector. Another much touted example of successful commercialization is the Indonesian MFO Bank Rakayat Indonesia (BRI) – a government-owned rural financial entity which has successfully and profitably mobilized deposits and provided loans to the poor (Robinson, 2002). Again, commercialization was not driven by players from the commercial financial markets. USAID played the most instrumental part in this regard (Marquez & Seward, 2002). Even after commercialization, main stakeholders continue to be key actors from the development field. This trend can also be seen at the field level in other commercialization experiences (Matthäus-Maier & Pischke, 2009).

By the mid 1990s, the ecology of influential development funding organizations had already formulated policy frameworks broadly in line with the FS paradigm in microfinance. Early on, the World Bank, in its aptly titled Financial Systems and Development (The World Bank, 1989), articulated its FS oriented policy vision on development finance. The most powerful club of such funders, the Donor Committee for Enterprise Development, a policy
coordination platform for global funders which supported microfinance initiatives around the world, came out in 1995 with its key prescriptive guidelines providing a set of criteria to assess MFOs: *Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries* (The Committee of Donor Agencies for Small Enterprise Development, 1995). These guidelines borrowed its contents from commercial organizational templates, envisioning the funded intermediaries to be structured on the lines of a commercial bank.

In the 1990s, particularly in the latter half, the World Bank sprang into action to promote the FS approach, and spearheaded a project titled *Sustainable Banking with the Poor*. The name of this project itself evokes financial market symbolism by invoking ‘sustainable banking’. This project was a discursive move by the World Bank to highlight the commercial sustainability potential of microfinance, and it formulated texts prescribing the realization of this commercial imperative. The aim of the project was to learn lessons from the rapidly expanding organizational ecology of MFOs, and to fashion a set of guidelines to further expand the outreach of microfinance, albeit, in a commercially viable way. In 1992, the World Bank issued Operational Directive no 8.30 (1992), later further clarified and made part of operational policy in 1998, according to which financial sustainability of intermediaries needed to be given top priority when assessing those intermediaries for financial assistance through bank projects (The World Bank, 1999). Out of the Sustainable Banking for the Poor project came an influential FS oriented prescriptive text: *Microfinance handbook: An institutional and financial perspective*. Apart from this book, a number of case studies of MFOs from around the world essentially analyzed those organizations from a commercial sustainability point of view, and tried to probe organizational aspects of those MFOs, such as weak financial management systems, inadequate pricing mechanisms, and portfolio management processes (The World Bank, 1998).
Field evolution is characterized by an increasing information load faced by actors in a newly emerging field. The above-mentioned texts produced by key actors in the field – biographies of pioneer individuals, histories of key regional MFOs, and conceptual frameworks – created awareness about the field among other actors. Texts of a more prescriptive nature were also produced under the category of ‘microfinance training and capacity building’, particularly between the mid 1980s and late 1990s, to shape practices in the field. The earliest most significant field-wide learning initiative is the Small Enterprise Education and Promotion (SEEP) Network (www.seepnetwork.org), a collaborative network of major North American international NGOs working in poor countries in the area of small enterprise development and (through its Financial Services Community of Practice) microfinance. Over the years, it has been funded by major international microfinance funders, most notably (the FS oriented) USAID, to produce widely circulated and influential prescriptive texts. SEEP generated texts, linking up with the commercialization discourse, including *Framework for Reporting, Analysis, Monitoring, and Evaluation* (FRAME) (SEEP Network, 2005) and *MFI Reporting Standards Initiative* (SEEP Network, 2010). The SEEP Network website mentions a detailed consultative process, involving over 100 organizations including the most influential players in the microfinance field, through which the aforementioned practice guidelines were formulated and implemented. The fact that SEEP Network texts are commissioned through projects funded by influential funding organizations ensures wider circulation of these documents (United States Agency for International Development, 2005). Apart from these documents, SEEP Network has created over 100 texts providing guidance on various aspects of microfinance, as listed on its website.

Another source of educational texts, even more influential than SEEP Network, is a network of organizations, spearheaded by the World Bank, the Consultative Group for Assisting the Poor (CGAP) (www.cgap.org). It was established in 1997 to promote
knowledge development and organizational standards in microfinance; it is the most organized platform of international funders promoting the FS logic in microfinance (the activities of CGAP as an ‘institutional entrepreneur’ in the microfinance field are set out in detail in Chapter 8). Since 1997, CGAP has produced a wide range of publications (occasional papers, guidelines, technical guides, training modules etc.), which have been widely circulated across the world in the global microfinance field (The World Bank, 2008). Under its Microfinance for Managers programme, since 1997, CGAP has created a comprehensive set of training modules which have been used by CGAP certified trainers around the world; 12,000 practitioners trained in 48 countries, in 12 languages between 1998-2007, through 160 education programmes offering trainings developed by CGAP globally (The World Bank, 2008).

5.5 Microfinance during the 2000s: Societal recognition and high profile commercialization

The euphoria for microfinance, both within the field and at the societal level, reached a crescendo when the General Assembly of the United Nations declared 2005 as the International Year of Microcredit aimed at refreshing the resolve of the global community to use small scale financial services as a tool for socio-economic development. High level participants in various international gatherings, in the wake of the 2005 declaration, resolved to use microfinance as a poverty alleviation tool. The 2005 UN World Summit in New York stated in its Outcome Document: “… we recognize the need for access to financial services, in particular for the poor, including through microfinance and microcredit” (United Nations, 2005: 4). The last positive moment of evolution of the microfinance field was the Nobel Prize win of the microfinance pioneer and his Grameen Bank in 2006. These are both significant milestones in ‘field evolution’: increasing interaction and mutual awareness of actors in the
field, and the realization of a ‘common enterprise’ of microfinance that converges field actors into a common bond.

In parallel with the recognition of microfinance as a poverty alleviation tool, implicitly enhancing the PA identity of microfinance, the commercialization of microfinance also achieved considerable momentum. Structures from the mainstream financial field were borrowed and implemented in the microfinance field. Specialized investment funds, labeled Microfinance Investment Funds (MIVs) and registered in global financial hubs such as Switzerland, emerged to invest in microfinance entities with strong commercial potential. However most of those investment funds were backed by international funders from the broader development field, rather than by commercial interests from the finance field (Matthäus-Maier & Pischke, 2007, 2009). MFOs entered capital markets. Compartamos of Mexico launched its landmark Initial Public Offering (IPO) in 2007 (Rosenberg, 2007), the first financial market arrangement of its kind in the microfinance field. Close on its heels, another private Indian MFO, SKS-Microfinance, successfully launched its IPO. Finally, microfinance was being ‘mainstreamed’ into the financial system. In the broader development field linked with microfinance, all international funders of microfinance seem to have converged on a set of FS oriented microfinance policies which were being implemented, at least in part (see Chapter 4), in the developing world (e.g. AFD-Proparco, 2007; African Development Bank, 2006; Asian Development Bank, 2000; International fund for Agricultural Development, 2009; World Bank, 2009). Prescriptions aligned with the FS logic have been systematically developed and diffused throughout the microfinance field by a set of powerful change agents aligned with leading international funders in microfinance (e.g. Consultative Group for Assisting the Poor, 2006; Ledgerwood, 1998; Otero & Rhyne, 1994; SEEP Network, 2005).
5.6 Microfinance seen to be ‘losing its fairy dust’

The commercialization wave in the field also had a somewhat scandalous side. On the one hand, the Compartamos IPO was praised because finally an MFO was tapping into the financial markets and becoming a part of those markets; on the other hand, the means utilized by Compartamos to become attractive to the private investors appeared dubious to the microfinance field. It was alleged, based on publicly available financial information on Compartamos, that it was charging 100% interest rate to its clients; a rate naturally considered unacceptable by the PA proponents (Business Week, 2007; Daley-Harris, 2009; World Bank, 2007), but also even to the FS proponents (Rosenberg, 2007). The financial policies of Compartamos, it was alleged, gave the impression that to be commercially viable and attractive to private investors, it had to charge ‘usurious’ interest rates. Sam-Daley Harris, a close friend of Yunus, and the main organizer of Microcredit Summit, the most influential platform for the PA proponents, remarked in a newspaper article:

Microfinance started in the 1970s with a focus on using this breakthrough to help end poverty. Now it is in great danger of being how well the investors and the microfinance institutions are doing and not about ending poverty (Business Week, 2007)

Interestingly, the founder entrepreneurs of Compartamos defended Compartamos by taking the position that:

Pure financial intermediation is about allocating money saved by others to those deemed creditworthy and who can profitably invest it. This is what we do, and why microfinance is finance. (Danel & Labarthe, 2008:3)

A more recent IPO of an Indian MFO, SKS-Microfinance, in July 2010, further stoked the fires of controversy in the microfinance field. SKS was accused of paying hefty
salaries to its executives (Kazmin, 2011), and it appeared to have made a handsome profit for its founder, Vikram Akula, and his non-profit entities which controlled SKS Microfinance. Previously, Akula had gone through a training programme at Grameen, and had had a close relationship with the microfinance pioneer Muhammad Yunus (Bellman, 2010; Strom & Bajaj, 2010). The SKS IPO was not only a source of controversy in the microfinance field (e.g. Consultative Group for Assisting the Poor, 2010b), but it also generated debate in the popular media as well (e.g. Bellman, 2010; Strom & Bajaj, 2010). Although the key issue identified in this IPO was the opaque nature of rewards reaped by the founder and his non-profit controlling entity, as well as the high profile executive perks of the MFO staff, the debates surrounding it would regularly revisit fundamental questions related to the essential purpose of microfinance. Yunus, the microfinance pioneer, reacted to the SKS IPO:

Vikram is a very capable young man, but he took a wrong turn when he decided to use microcredit for making money...Microcredit should not be presented as a money-making opportunity. It is an opportunity to make an impact on poor people’s lives. An IPO gives a wrong message. (Bellman, 2010)

Vikram Akula, the founder of SKS responded:

The only place you can get the amount of money that is needed to help the poor is in the capital markets. (Bellman, 2010) ...We believe that commercial microfinance is an important tool to accelerate financial inclusion. (Bond, 2010)

After the SKS issue, a bigger crisis hit the microfinance field, which went beyond the goings-on inside the microfinance field and directly affected the ultimate beneficiaries of microfinance, the poor customers of MFOs. A rising trend of suicides among borrowers of MFOs, including, most significantly, SKS Microfinance, was noted in the Indian state of Andhra Pradesh; this event was reported widely in the international press (Bellman & Chang,
The crisis shook the foundations of microfinance and seriously damaged the legitimacy of microfinance in general, so that key FS proponents of microfinance came out with their own explanations of the crisis and tried to delink commercialization of microfinance from this crisis (Rhyne, 2010). CGAP put the blame on the inordinately rapid expansion of microfinance by government-sponsored programmes; however, it also indirectly blamed SKS microfinance and its ilk by stating:

> In India, investors’ emphasis on growth and the higher valuations generated from high growth rates have created strong incentives for fast expansion. These incentives are transmitted from the top managers of MFIs down through middle management to the frontline loan officers. These cascading incentives can drive behaviour that distorts basic good banking principles and can lead to vulnerabilities that need to be addressed...although no clear link between those suicides and borrowing from MFOs was established, but the Indian government reacted in a dramatic way... (Consultative Group for Assisting the Poor, 2010a:5)

Undercurrents of criticism and debates surrounding the various ideas and practices of microfinance have been going on for a long time, realizing the ‘schisms’ in the field (Hulme & Mosley, 1996; Kabeer, 2001; Mayoux, 2001; Morduch, 2000; Roy, 2010; Weber, 2002). However, the more recent attacks on the fundamental propositions and claims of microfinance have come from veterans of the field who, instead of querying what works in microfinance, have gone on to ask more sinister questions, as embodied in the titles What’s wrong with microfinance? (Dichter & Harper, 2007) and Why doesn’t microfinance work? (Bateman, 2010). Equally significant, some of the actors, academics and practitioners, have also questioned the ability of microfinance to serve the key constituency it had envisioned to serve at the time of its origination: the poor women entrepreneurs (Fernando, 2006).
women to a new kind of ‘social discipline’, the borrower-lender relationship, which further entrenches their subservient position in the society (Rankin & Shakya, 2008; Wright, 2006). Going beyond the gender dimensions of microfinance, in terms of the effect of microfinance on households and businesses, a recent set of highly publicized studies conducted by renowned academics has shown no significant beneficial impact of microfinance (Roodman, 2009). As shown through some of the citations from the popular global press above, events such as the Andhra Pradesh crisis further pushed the controversies surrounding microfinance into the public domain.

Another recent unsettling event faced by the microfinance community involved the removal of Muhammad Yunus, the microfinance pioneer, from Grameen Bank, in March 2011. He was removed ostensibly due to his age; Bangladeshi law does not allow a bank managing director to stay in office beyond the age of 60 (Burke, 2011). However, popular international media has cited two events as possible triggers of attacks from powerful ruling politicians on Yunus: the emergence of irregularities in the financial dealings of Grameen with Norwegian government-owned donor agencies, confirmed by the government of Norway but citing no misappropriation of those funds, and Yunus’ political ambitions and tussle with the key figures in the ruling political party (Burke, 2011).

Did the seemingly ascendant FS camp respond to the crisis in confidence in microfinance, the popular perception of complicity of commercialization policies in this crisis, and the resultant threat to the commercialization drive? In the wake of the Compartamos IPO, a microfinance leader’s retreat was organized by the biggest FS proponents in the microfinance field, CGAP, Deutsche Bank, and the Boulder Institute of Micofinance, under the ‘Campaign for Client Protection’. Of interest, Grameen Foundation, a Grameen Bank-inspired organization in the US working on promoting microfinance globally, was also coopted in this initiative as a partner. This gathering produced a joint statement
called the ‘Pocantico Declaration’ which expressed “…the need for a code of conduct which should govern how providers treat their clients, and that microfinance providers should be accountable for operating according to this code” (Microfinance Leader's Retreat, 2008:2).

The declaration:

...showed concern for extraordinary profits in advance of adequate competition may compromise client benefit and public support of microfinance. While acknowledging the role profits play in promoting scale, sustainability and competition, we also recognize that we hold diverse views about the appropriate levels and usage of profit.

The declaration called for work on areas closer to PA concerns such as social impact measurement, pricing transparency, and financial literacy in the microfinance field. The pricing transparency initiative took off in July 2008 whereby an online platform was established [www.mftransparency.org], which collects and presents pricing data on MFOs from around the world. A set of Client Protection Principles was also launched by CGAP, calling for avoidance of client over–indebtedness and appropriate collection practices (recall issues related to microfinance clients in Andhra Pradesh, and practices of SKS-Microfinance) (Forster, Lahaye, & McKee, 2009).

However, microfinance has ‘lost its fairy dust’, as Microfinance Banana Skins 2011, a survey of 533 microfinance stakeholders from 86 countries, announced on its cover page (Lascelles & Mendelson, 2011). The ranking of sources of risk identified in this survey has ‘Reputation’ listed as second, up from the 17th position in 2009. The preface of the survey states:

...a lot of people...who are in or close to microfinance...are now worried that microfinance has taken a wrong turn, it has drifted away from its original mission, that it has been co-opted (even corrupted), by the pursuit of size and profitability, that
it has become a political plaything ...this is new...it leave microfinance and individual [MFOs] at a 'tipping point'...concerns about reputation, competitiveness, governance, management competence, and politicization abound, and there is a high degree of cynicism about what motivates at least a sizeable chunk of the industry (2011:1)

5.7 Conclusion

This chapter provides an account of the key events in the evolution of the microfinance field. Microfinance originated as a potential solution to the problem of inadequate access to finance for the poor. It has always been inextricably rooted in the broader development field as a potent tool to facilitate socio-economic development. Efforts, since the late 1990s, have been made to ‘commercialize’ the field, following the Financial Systems (FS) logic. However, steps to commercialize the field have been met with strong resistance from those who privilege the altruistic objectives of microfinance from within the Poverty Alleviation (PA) logic. As shown in Chapter 4, the competing camps of the FS and PA logics have held differing views on the ‘promise’ of microfinance in bringing about socio-economic change in poor countries. Intermittent scandals in the field have also further fuelled the fires of controversy as those scandals brought out less favourable aspects of the reality of microfinance, such as usurious interest rates, over-indebtedness of the poor, highhandedness of MFOs in loan recovery, and windfall profits for seemingly altruistic stakeholders in microfinance.

Why has the microfinance field failed to solve its problems? Why has it not been able to stabilize around a set of broadly accepted ideals and practices? Chapter 6 tries to provide answers to these questions? In Chapter 3 I review literature providing empirical scenarios marked by continual clash of logics. In that review, I identify a set of factors which perpetuate instability in fields with clashing logics. Those factors include: multiple goals,
multiple resources available to field actors to sustain multiple logics, and a lack of agreement among field actors on field level organizational structures and practices. Further, in Chapter 3, I also identify the possible role of broader societal logics as a source of field instability. In Chapter 6, I investigate whether such factors, including broader societal logics, have also played a role in the continual instability of the microfinance field.
Chapter 6: Reasons for instability in the microfinance field

6.1 Introduction

The microfinance field is characterized by a clash between the PA and FS logics. The proponents of the PA logics, privileging the ‘welfarist’ nature of the field, require MFOs to be focussed on poverty alleviation rather than profit maximization. On the other hand, the FS proponents, envisioning MFOs as financial intermediaries akin to the financial entities of the field of finance, require MFOs to focus on their financial sustainability. This clash between the FS and PA logics has not subsided over the decades since the inception of the field, despite the rapid growth of the field during that time. What are the factors which perpetuate the instability of the microfinance field so that field actors are not able to arrive on a common set of ideas and practices? In this chapter, I identify the factors which hinder field convergence and stability. I conclude by linking my findings with the literature on unsettled and plural fields.

6.2 Lack of unified goals

What should be the goal of an MFO? Should it be to focus on poverty alleviation? Is commercial profitability the ultimate goal of an MFO? Or should an MFO merge those two goals and try to achieve the ‘win-win’ of poverty alleviation as well as organizational sustainability, much highlighted by the microfinance enthusiasts? The microfinance field has not arrived at a consensus on these questions. Across the board agreement to either focus on the altruistic objective or commercialization would have steered the field towards a single
dominant logic. In the ensuing paragraphs, I show how divergent goals have led to field instability.

Microfinance originated as a tool for poverty alleviation to provide financial services, mostly loans, to poor entrepreneurs. The microfinance field is inextricably embedded in the broader development field which has worked, since World War II, to alleviate poverty and bring socio-economic development in poor countries. Accordingly, PA proponents privilege developmental objectives of microfinance, highlighting the essential identity of microfinance as a poverty alleviation tool. Alex Counts, the CEO of Grameen Foundation, a US based NGO – inspired by Grameen Bank and started with a seed grant provided by Muhammad Yunus himself – states:

We must remember that the purpose of microcredit is to eliminate poverty in the shortest possible time frame. High profits earned by microfinance institutions should be celebrated only if the borrowers are earning even greater profits and coming out of poverty rapidly. Otherwise, these lending institutions aspire to earn a small profit to demonstrate their efficiency, and return anything beyond that to clients in the form of lower interest rates, rebates, or options to buy shares in the [MFOs] themselves... (Counts, 2008: viii).

On the other hand, the FS proponents typically call for MFOs to be commercial financial entities that need to be essentially viewed as constituents of broader financial intermediation mechanisms. Poverty alleviation did not feature prominently in the classic formulation the FS approach:

...financial institutions contribute to economic growth by performing three crucial functions...Mobilizing a society's resources and allocating them to efficient uses (intermediation)...Helping the economy manage risk by diversifying it... Facilitating
transactions-providing "axle grease" to the economy... Financial services do not create economic opportunities directly. Rather, they help people and enterprises position themselves to take advantage of opportunities. In general, goals for finance programs should be specified in terms of improving the ability of financial systems to perform these three functions or extending them to new areas or client groups (Otero & Rhyne, 1994:107).

But Yunus has a different vision for microfinance. Yunus has stated:

...the microcredit movement, which is built around, and for, and with money, ironically, is at its heart, at its deepest root not about money at all. It is about helping each person to achieve his or her fullest potential. It is not about cash capital, it is about human capital. Money is merely a tool that unlocks human dreams and helps even the poorest and most unfortunate people on this planet achieve dignity, respect, and meaning in their live (Reed, 2011:1)

To reconcile the two goals, the FS camp has tried to accommodate the PA logic to create a hybrid logic, to make it acceptable to all in the field. But this strategy has not resulted in a broad consensus over the goals and practices in the field, as the issue of ‘mission drift’ has not been sorted out definitively by field actors (India Knowledge@ Wharton, 2010). According to PA proponents, explicit introduction of commercial goals, even in consonance with the PA oriented goals, will most likely make MFOs lose sight of the original poverty alleviation intent of microfinance. In 2002, a leading global microfinance funding organization, Women’s World Banking (WWB), tracked 25 MFOs based around the world, for a period of five years, and found evidence of mission drift in the form of larger average loan size of micro-loans given out by those MFOs, and reduced share of women in the total clientele of those MFOs (Women's World Banking,
2008). The issue of mission drift came into the limelight recently in the case of the Mexican MFO, Compartamos, which converted from a non-profit entity to a commercial MFO, and then launched a high profile but controversial IPO in 2007. Compartamos was accused of charging exorbitant interest rates from its poor customers. The PA camp led by Muhammad Yunus condemned Compartamos and others like it in an opinion piece written in the *New York Times*:

In 1983, I founded Grameen Bank to provide small loans that people, especially poor women, could use to bring themselves out of poverty. At that time, I never imagined that one day microcredit would give rise to its own breed of loan sharks...Troubles with microcredit began around 2005, when many lenders started looking for ways to make a profit on the loans by shifting from their status as nonprofit organizations to commercial enterprises. In 2007, Compartamos, a Mexican bank, became Latin America’s first microcredit bank to go public. And this past August, SKS Microfinance, the largest bank of its kind in India, raised $358 million in an initial public offering.... Commercialization has been a terrible wrong turn for microfinance, and it indicates a worrying “mission drift” in the motivation of those lending to the poor. Poverty should be eradicated, not seen as a money-making opportunity.

The field could not reconcile the fact that an MFO espousing social objectives could charge high interest rates which reduced welfare for its poor clients; and that international funders which provided highly concessionary funding to Compartamos, gained a windfall despite the original altruistic intent of their support to the MFO (Rosenberg, 2007).

The controversy regarding goals in microfinance is also related with the nature of those goals. Financial goals for MFOs are straightforward: profitability and portfolio quality. But social goals are hard to pin down. Social goals are numerous and those diverse goals are
not necessarily espoused in totality by all MFOs and other actors. One of the founders of Compartamos posted on the CGAP Microfinance blog:

We can all easily understand financial goals, but when it comes to social goals there are thousands of definitions of what we mean by social, anywhere from financial inclusion to poverty eradication (Danel, 2011)

The international funders in microfinance hold a dominant position in the field. However, even funders reflect diversity and divergence of goals. The International Labour Organization (ILO), historically focussed on issues related with worker’s rights, and the theme of ‘decent work’, interprets the social goals of microfinance in terms of the employment opportunities created by microfinance (Balkenhol & International Labour Organization, 2007). The International Fund for Agricultural Development (IFAD), due to its focus on rural development in poor countries, emphasizes the need for microfinance to reach out to the poorest of the poor farmers in rural areas of poor countries (International fund for Agricultural Development, 2009). The Canadian Agency for International Development (CIDA) supports financial cooperatives in poor countries utilising the organizational models of the Canadian cooperative movement, and engaging Canadian financial cooperatives to replicate the Canadian cooperative structures to the poor countries (Consultative Group for Assisting the Poor, 2004).

The diversity of objectives assigned to microfinance by the resource providers may not have been a divisive element in the field, had there been no contradiction between those objectives. But there are structural issues, contradictions and mutual exclusivity, often explicit, related to those goals. For example, IFAD’s emphasis on rural development implies that microfinance services need to extend deep into rural areas so that economic activities of the underprivileged in those areas could be supported (Consultative Group for Assisting the
Poor, 2005). The classic ‘market failure’ argument fits the rural situation, as the private sector is loath to go into the rural areas to provide financial services (Adams, Graham, & Pischke, 1984). In this situation, government-sponsored MFOs and other development finance organizations are considered by policy makers to be the only option to cater to the rural poor (e.g. International fund for Agricultural Development, 1979, 2007). IFAD has tried its best to implement FS oriented policy frameworks in its microfinance projects, but those policy frameworks do not appear to have worked ‘on the ground’, despite IFAD explicitly trying to espouse elements of the FS framework (Latortue & El-Zoghby, 2009).

Case study literature has also identified conflicting goals as a source of field contestation. Purdy and Gray (2009) have highlighted the uneasy coexistence of conflicting goals in the US Alternate Dispute Resolution field. Gestel and Hillebrand (2011) unearth goal conflicts among the different logics competing with each other in the Dutch public employment services field. Should employment services be provided by profit-motivated employment service companies or non-profit entities? This contestation on organizational goals is not very different from goal contestation in microfinance.

Pache and Santos (2010) argue that conflicting institutional demands related to organizational goals are the most significant source of conflict and instability in ‘fragmented’ fields, like microfinance with multiple resource pools and with pluralistic logics. According to Pache and Santos, “…goals are expressions of the core system of values and references of organizational constituencies and are, as such, not easily challenged or negotiable”. In microfinance, poverty alleviation goals represent core values which defined the field at the time of the field’s emergence. The FS proponents could not suppress the altruistic intent of the field; instead, the FS camp tried to re-frame altruistic goals as the FS mantra of ‘access for all’ (Helms, 2006) instead of the PA slogan of ‘credit as human right’ (Yunus, 1990). There is one key element of the microfinance field that differentiates it from the other
contested fields identified in the relevant literature (reviewed in chapter 3). The microfinance field has failed to agree on the goals that the field actors should pursue, in terms of commercialization and poverty alleviation, but the meanings and interpretation of those goals is also contested. The conflict is between logics and also within a logic. The problematic logic is the PA logic. For example, what should be the goal of an MFO when it is focused on poverty alleviation? Should it cater to the urban poor or the rural poor, in order to fulfill that poverty alleviation goal? Should it focus on women only? How about catering only to the self-employed poor entrepreneurs? These and a plethora of other questions have been debated for decades without a clear answer. This is understandable, given the multidimensional nature of the developmental issues faced by poor countries, and the continuous ‘sense-making’ of the field to first understand the issues and then formulate plans of action (Rihani, 2002).

6.3 **Multiple resource structures sustaining different logics**

6.3.1 **Multilateral Development Organizations (MDOs) (Predominant Orientation: PA)**

Table 5 provides the organizational taxonomy of key resource providers in microfinance. My focus in this analysis of funding structures is on formal, explicit funding processes and how those processes were problematic in supporting either a commercial or PA stance on microfinance. Implicit donor motives in these funding structures have not been considered. On the one extreme are the MDOs which espouse the PA logic. MDOs are global organizations which mostly emerged in the wake of World War II, to fulfill the societal need felt at that time to support socio-economic development in Europe, and subsequently in developing countries (Staples, 2006). The key institutionalized elements of the microfinance funding structures of MDOs include: funding for microfinance has to go through the governments where those microfinance projects are located; governments themselves act as implementation agencies; and MDOs are capitalized by member countries sourced from the taxpayer’s money of the member countries. Microfinance funding is often part of larger
funding flows into recipient poor countries with the aim of such funding to support poor country governments in achieving broader development targets. Hence all these important elements of MDO projects promote the PA logic.

**Figure 3 Value of assets of MFOs reporting to the Microfinance Information Exchange (MIX)**

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<tbody>
<tr>
<td>Value of assets of for-profit MFOs (US $)</td>
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<tr>
<td>Value of assets of non-profit assets (US $)</td>
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</table>

Source: The Microfinance Information Exchange (MIX) www.mixmarket.org

**Table 4 Top five funders worldwide**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Percentage share of each funder in total funder commitments for microfinance as on December 31, 2007</td>
<td></td>
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<tr>
<td>**Percentage share of each funder in total funder commitments for microfinance as on December 31, 2008</td>
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<tr>
<td>***Percentage share of each funder in total funder commitments for microfinance as on December 31, 2009</td>
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<table>
<thead>
<tr>
<th>Rank</th>
<th>Funder (MDO)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ADB (MDO)*</td>
<td>&gt;10</td>
<td>13</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>KfW (BDF)</td>
<td>6-10</td>
<td>ADB (MDO)</td>
<td>World Bank (MDO)</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>World Bank (MDO)</td>
<td>6-10</td>
<td>World Bank (MDO)</td>
<td>EBRD (MDO)</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>IFAD (MDO)</td>
<td>6-10</td>
<td>EBRD (MDO)</td>
<td>6</td>
<td>ADB (MDO)</td>
</tr>
<tr>
<td>5</td>
<td>IFC (MDO)</td>
<td>6-10</td>
<td>IFC (MDO)</td>
<td>5</td>
<td>IFC (MDO)</td>
</tr>
<tr>
<td>Out of total funding committed</td>
<td>approx 50</td>
<td>46</td>
<td>36</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Out of all MDOs, the World Bank (WB) is a unique organization. It is essentially a PA oriented organization due to its overarching goal: to alleviate poverty and promote economic development in its member developing countries (World Bank, 2011). It is not a private entity but owned by 187 countries of the world so that the decision making
stakeholders are the governments of those countries. WB is not a single entity but comprises three interlinked organizations: International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and International Development Association (IDA). This organizational mix shows a unique merger of both PA and FS logics. IBRD and IFC operate as financial entities more in the tradition of investment banks, accessing resources from the global financial markets and in turn investing that money in ventures which promise an agreed return. IFC only invests in profit oriented entities. On the other hand, IDA provides resources, mostly grant funding, to the poorest of the poor countries on highly concessionary terms. In this way, the WB, with its overarching objective of poverty alleviation clearly falls under the PA category but the means to achieve this objective include quasi-commercial FS oriented structures as well. This multiplicity of organizational structures and related organizational goals within the broader poverty alleviation framework has been a source of policy confusion and conflict in the WB right from the beginning (Kapur, Lewis, and Web, 1997).

Four out of top five funders in the microfinance field, between 2007 and 2009, have come from the MDO population (Table 4). MDOs have mostly put their money in the microfinance field through the debt instrument (Table 6). This is so because MDOs mostly provide long term concessionary loans to governments, which are then channelled to MFOs, mostly through larger, multi-sector development projects (e.g. African Development Bank, 2009; World Bank, 2009).
Table 5 An organisational taxonomy of resource providers in the microfinance field

<table>
<thead>
<tr>
<th>Key stakeholders/resource providers</th>
<th>Funding organisations</th>
<th>Typical Examples</th>
<th>Pre-dominant Organizational Logic</th>
<th>Common Types of Retail MFOs Funded*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialised country governments, poor country governments mostly nominally represented.</td>
<td>Multilateral Development Organisations (MDOs): Multi-stakeholder organisations, mostly established in the Post World War II period for promoting/funding socio-economic development in poor countries. Funding channelled mostly through poor country governments. May also include ‘bank-like’ structures.</td>
<td>The World Bank</td>
<td>PA</td>
<td>-Development Projects with a microfinance component</td>
</tr>
<tr>
<td></td>
<td></td>
<td>International Finance Corporation (IFC – a World Bank Affiliate)</td>
<td>FS</td>
<td>- NGO – MFOs (smaller/less profit focussed)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>United Nations Development Programme (UNDP)</td>
<td>PA</td>
<td>- Public Sector Banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Asian Development Bank (ADB)</td>
<td>PA</td>
<td></td>
</tr>
<tr>
<td>Industrialised country governments</td>
<td>Bilateral Development Organisations (BDOs): Established by individual industrialised countries, mostly in the post World War II period, for promoting/funding socio-economic development in poor countries.</td>
<td>Department for International Development (DFID - UK)</td>
<td>PA</td>
<td>- NGO-MFOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>United States Agency for International Development (USAID)</td>
<td>FS</td>
<td>- MFBs</td>
</tr>
<tr>
<td>Industrialised country governments (may include some private sector support)</td>
<td>Bilateral Development Finance (BDFs) Entities: ‘Quasi-commercial’ organisations, often sister concerns of BDOs, and providing traditional financial services such as loans and equity, as well as advisory services to MFOs.</td>
<td>KFW (Germany)</td>
<td>FS</td>
<td>- NGO-MFOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Netherlands Development Finance Bank (FMO)</td>
<td>FS</td>
<td>- MFBs</td>
</tr>
<tr>
<td>Industrialised country governments</td>
<td>Civil Society Funding Initiatives (CSF): a) Non-profit/Philanthropic entities based in the industrialised countries, either specialising in microfinance or engaged in multiple developmental activities in poor countries.</td>
<td>Catholic Relief Services (CRS)</td>
<td>PA</td>
<td>- NGO-MFOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ACCION (specialist)</td>
<td>FS</td>
<td>- NGO-MFO transformations - MFBs</td>
</tr>
<tr>
<td>Leading global corporations</td>
<td>b) Commercial financial entities with a social mission, providing traditional financial services such as loans and equity, as well as advisory services to MFOs in poor countries.</td>
<td>ShoreBank International</td>
<td>FS/PA</td>
<td>- Comparatively mature MFOs: NGO-MFO transformations/ MFBs</td>
</tr>
<tr>
<td></td>
<td>c) Philanthropic entities established by global corporations as part of CSR initiative</td>
<td>ProCredit</td>
<td>FS</td>
<td>- MFBs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ford Foundation</td>
<td>FS/PA</td>
<td>- NGO-MFOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Citi Foundation/ Bill and Melinda Gates Foundation</td>
<td>PA</td>
<td>- MFBs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ACCION Gateway Fund</td>
<td>FS/PA</td>
<td>- NGO-MFO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microvest</td>
<td>FS</td>
<td>- Comparatively mature MFOs: MFBs, - NGO transformation to MFBs</td>
</tr>
<tr>
<td>BDFs/CSFs/ Commercial banks/Other commercial financial entities</td>
<td>Microfinance Investment Vehicles (MIV): Independent legal entities in the style of mutual funds, where investors – organisations and individuals – pool their money for onward investment in MFOs or other MIVs. The investment instruments include debt and equity.</td>
<td>ACCION Gateway Fund</td>
<td>FS/PA</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microvest</td>
<td>FS</td>
<td></td>
</tr>
</tbody>
</table>

* NGO-MFO: Non-Government Organisations doing microfinance; Public Sector Banks: for-profit regulated financial entities with a developmental mandate owned by governments. Transformations: comparison from non-profit to MFBs
6.3.2 Bilateral Development Organizations (BDO) (Predominant Orientation: PA)

BDOs share many similarities with the MDOs. BDOs are organizations established by governments of developed countries, from public taxpayers’ money, to facilitate ‘bilateral’ cooperation with developing countries for socio-economic development and poverty alleviation in those developing countries. Just like the MDOs, BDOs also engage in developmental endeavours in poor countries through development projects. However, there is one crucial difference; BDOs do not have to channel their funding through governments in developing countries where those projects are being implemented. This gives them flexibility in designing their project structures.

As shown in Table 5, BDOs have provided the bulk of their funding for microfinance in the form of grants for what is termed as ‘capacity building’, implying such support as training of staff, product development, Management Information Systems (MIS) development and other activities so that MFOs “…can grow and increase the quality and scope of services offered” (El-Zoghby, Gahwiler, & Lauer, 2011:3). BDOs do not appear on the list of top five funders providing financial resources to the global microfinance field. This

\[
\begin{array}{|c|c|c|c|c|c|c|c|c|}
\hline
\text{Instrument} & \text{Total*} & \%\text{**} & \text{MDO} & \% & \text{BDO} & \% & \text{BDF} & \% & \text{CSF} & \% & \text{MIV} & \% \\
\hline
\text{Debt} & 10,606 & 50 & 3,674 & 88 & 173 & 11 & 5,302 & 60 & 230 & 21 & 1,228 & 22 \\
\text{Equity} & 6,383 & 30 & 13 & 0 & 13 & 1 & 1,836 & 21 & 154 & 14 & 4,367 & 78 \\
\text{Grant} & 2,676 & 13 & 474 & 11 & 1,370 & 86 & 164 & 2 & 667 & 60 & 0 & 0 \\
\text{Guarantee Other} & 907 & 4 & 0 & 0 & 29 & 2 & 814 & 9 & 65 & 6 & 0 & 0 \\
\text{Other} & 741 & 3 & 5 & 0 & 0 & 0 & 736 & 8 & 0.3 & 0.03 & 0 & 0 \\
\hline
\text{Total} & 21,313 & 100 & 4,166 & 100 & 1,585 & 100 & 8,852 & 100 & 1,116 & 100 & 5,595 & 100 \\
\hline
\end{array}
\]

Source: CGAP Funder Survey 2010

* Funding figures (in US$) show ‘commitments’, i.e., all funding for microfinance set aside by funders as on December 31, 2009.

**All percentages represent share of funding through an instrument out of total funding committed by a funder.
is understandable, given that BDOs do not comprise large organizational structures on the lines of MDOs. BDOs are small operations at individual country level, often administratively based in the diplomatic missions of countries associated with those BDOs.

6.3.3 Bilateral Development Finance (BDF) Entities (Predominant Logic: FS)

BDFs are a complex bunch. They are ‘bank-like’ financial entities in terms of their organizational structure. BDFs are FS oriented because they invest in MFOs which are regulated commercial financial entities through financial instruments such as debt and equity. They also espouse social objectives, mostly aligned with the FS stance on those objectives: the emphasis is on transforming non-profit MFOs into commercial entities with the goal of expanding the outreach of those MFOs through access to commercial capital (Matthäus-Maier & Pischke, 2009). They are sponsored and owned by developed country governments with the aim of providing financial capital to private commercial entities in developing countries’, but they also tap capital markets to access capital (Matthäus-Maier & Pischke, 2007; Reille, Forster, & Rozas, 2010).

The rationale for establishing BDFs is the classic ‘market failure’ argument forwarded in the 1960s and 1970s (Patrick, 1966; Vaish, 1993): due to higher perception of risks and weak market structures, private capital is shy to invest in poor countries; therefore, there is a need to ‘make markets’ in poor countries by demonstrating the viability of the markets through targeted investments. Further, BDFs work in close tandem with the BDOs. BDOs provide capacity building grant funding to MFOs, and BDFs from the country of origin of those BDOs, for example, may provide loan capital to those MFOs.

At the global level, one BDF, the German KfW, has consistently taken a place in the top five funders; in 2008 and 2009, it assumed the top position in that list. BDFs collectively have the largest share, at 42%, in total funding for microfinance in 2009. As shown in Table
2, the bulk of BDF funding, 60% of total funding by BDFs for microfinance, has taken the
form of debt instruments. This is understandable, given that they are, for all practical
purposes, banks, which mostly access capital from the financial markets proper and invest
that capital through traditional investment instruments in commercial ventures, albeit those
ventures are based in developing countries.

6.3.4 Civil Society Funding Initiatives (CSF) (Predominant Stance: PA/FS)

CSFs are a diverse mix of funders, espousing the FS and PA logics in a variety of
shades. CSFs come in three varieties. First, non-profit/philanthropic entities based in the
industrialized countries, either specializing in microfinance or engaged in multiple
developmental activities in poor countries. The NGO Catholic Relief Services (CRS) is an
example of an entity that works in a broad range of developmental areas, but also has a
microfinance focus as well (e.g. Mukanusi, Mayson, Caso, & Rowe, 2009). Supporting the
FS cause, ACCION is a renowned example of an international NGO specializing in
supporting the commercialization of microfinance around the world (Rhyne, 2009). The Ford
Foundation, a major US non-profit, supported the initial start-up and growth phase of
Grameen Bank (Bornstein, 2005).

A second category of CSFs include commercial financial entities which are distinctly
FS oriented. They are structured on the lines of the BDFs, but privately owned, with a social
mission, and provide traditional financial services such as loans and equity, as well as
advisory services to MFOs in poor countries. The German holding company ProCredit is the
best example of a specialized CSF. It is structurally like a BDF, as it is essentially a bank, but
privately-owned and linked to the capital markets for its capital resources as well (e.g.
Pichke, 2007). Third, there are philanthropic entities established by global corporations as
part of their Corporate Social Responsibility initiatives. The most prominent example is the
Bill and Melinda Gates Foundation, established by the renowned computer industry
entrepreneur and his wife. Banking on its expertise in the technology field, this foundation funds technology initiatives to, for example, promote mobile banking in poor countries; no clear stance in terms of FS or PA logics can be seen both in its stated policy and its funding behaviour (Bill and Melinda Gates Foundation, 2009).

CSFs do not feature in the top five microfinance funders in the world. CSFs mostly fund grants for microfinance (Table 5). In terms of share in funding for specific regions, CSF funding has the smallest share, as compared to others (Table 7).

6.3.5 Microfinance Investment Vehicles (MIVs) (Predominant Stance: FS)

MIVs are investment funds structurally equivalent to the for-profit investment funds of the traditional finance field. MIVs can be purely profit oriented, socially responsible investments mixing profit with altruistic goals, or non-profit oriented. Their sponsors and investors may include a mix of high net-worth investors, and others, including the above outlined microfinance funders, most notably the CSFs. Funding from CSF is directed at mature commercially oriented MFOs based in markets with comparatively developed infrastructure (Matthäus-Maier & Pischke, 2007).

6.4 Multiple geographical contexts sustaining different logics

Different national and regional contexts, within the global microfinance field, determine the PA or FS orientation of MFOs in those geographical contexts. Commercially oriented funders such as MIV and BDF have funded MFOs predominantly in comparatively well off regions with a relatively developed economic infrastructure. Poorer regions with relatively less developed infrastructure have MDOs and BDOs as main funders. The quantitative data on funders in Tables 3 and 4 provide evidence for this scenario. Commercial investors in microfinance are more focussed on Latin American and Caribbean countries and Eastern Europe and Central Asia – regions with the most developed financial and economic
infrastructure, and only moderate levels of ‘financial inclusion’, that is, the percentage of population not catered to by the financial markets of that region (Consultative Group for Assisting the Poor & The World Bank, 2010). Another database of MFOs, not reflected in the tables, show ten countries, all from Latin American countries and Eastern Europe and Central Asian regions except one (Cambodia) receiving over 60% of all private (commercially oriented) investments in microfinance in 2009. These countries, with their average per capita Gross Domestic Product of US $6,562, can be classified as middle income countries (Reille et al., 2010). The top commercially oriented investors in microfinance have put most of their money in a small set of large and commercially successful MFOs in comparatively developed markets. Over 40% of funding by BDFs was concentrated in 15 most globally most profitable MFOs (Reille et al., 2010). Hence the FS logic is sustained in commercially oriented MFOs, and their resource pools, in relatively developed regional ecologies. As shown in Table 7, in Latin American countries, BDFs and MIVs provided 42% and 43% of total funding committed to the region, respectively, during 2009. BDFs and MIVs have invested 68% and 71% of their microfinance funding in Eastern Europe and Central Asia and Latin America and Caribbean countries respectively.

South Asia and Sub Saharan Africa are low income regions with relatively higher incidence of poverty and low levels of financial inclusion (Consultative Group for Assisting the Poor & The World Bank, 2010). Table 7 shows that MDOs have invested over 70% of their microfinance funding in South Asia and Sub Saharan Africa. BDOs have invested around 60% of their microfinance funding in South Asia. But MIVs have invested 9% and 6% in South Asia and Sub Saharan Africa, respectively.
To understand the nature of institutional demands placed on MFOs, a pertinent question would be: how would an MFO likely react to the availability of multiple resource pools available in the microfinance field? It depends on the size of the MFO and its geographical location. Large MFOs, especially those which are commercial entities, will be most likely supported by the BDFs. If a large MFO is in a mature market, there is a further likelihood that it would be supported by BDFs or commercially oriented CSFs. MIVs may also invest in it. On the other hand, a small non-profit MFO in relatively less mature markets is most likely to be supported by the MDOs and BDFs – more so, if that MFO is government-sponsored or -supported. There is no reason why microfinance products, particularly small loans, should differ much across various MFO structures, small and large. Table 8 identifies likely funding structures supported by the various funders profiled above.
### Table 8: MFO funding scenarios with respect to type of funders

<table>
<thead>
<tr>
<th>MFO Characteristics</th>
<th>MDO</th>
<th>BDO</th>
<th>BDF</th>
<th>CSF</th>
<th>MIV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small MFOs engaged in ‘microfinance-plus’ (PA orientation)</td>
<td>Funded through government microfinance projects embedded in broader poverty alleviation projects, particularly in low income countries</td>
<td>Grants for capacity building, especially in low income countries, to expand outreach to the poor</td>
<td>No funding</td>
<td>No funding</td>
<td>No funding</td>
</tr>
<tr>
<td>Fast growing non-profit ‘microfinance-only’ MFOs (FS orientation)</td>
<td>Funding during initial start-up/growth stage</td>
<td>Grants during initial start-up/growth stage</td>
<td>Equity/debt investments to convert to for-profit status</td>
<td>Equity/debt investment to promote conversion to for-profit status. Grants for capacity building (e.g. technology upgrade, product development)</td>
<td>Equity/debt investments once converted to for-profit status</td>
</tr>
<tr>
<td>Large non-profit government owned MFOs (PA orientation)</td>
<td>MDO funding under special ‘microfinance development projects’</td>
<td>Grants for capacity building</td>
<td>No funding</td>
<td>No funding</td>
<td>Non funding</td>
</tr>
<tr>
<td>Commercial MFOs (FS orientation)</td>
<td>No funding</td>
<td>No funding</td>
<td>Equity/debt investments</td>
<td>Equity/debt investments</td>
<td>Equity/debt investments</td>
</tr>
</tbody>
</table>

Resource providers, adhering to different logics, sustain those logics through their funding decisions. Purdy and Gray (2009) identify multiple, geographically specific resources as a crucial factor in sustaining Alternate Dispute Resolution organizations, espousing clashing logics, in the US. Gestel and Hillebrand (2011) provide an account of the Dutch public employment services field where multiple resource providers, including government and the private sector, support organizational structures conforming to divergent logics. The diversity of funding structures in the microfinance field also show a situation where those funding structures have been supporting different MFO types, including non-profits and for-profits.
6.5 Lack of widely accepted metrics for organizational performance

Why have MFOs in the microfinance not been able to converge to a set of organizational goals and structures with field-wide acceptability? The key reason for this goal divergence is the unresolved clash between those who consider microfinance to be a potently profitable activity and those who consider microfinance to be essentially about socio-economic development. However, even if the commercialization camp wins this battle of logics in the microfinance field, they would not be able to deny or detach the developmental objectives of microfinance from MFOs. Those developmental objectives are inextricably linked with the historically determined identity of microfinance. But how would MFOs be judged on their performance in the area of socio-economic development? Financial performance measurement is highly institutionalized in the form of ‘objectified’ financial ratios and other instruments (of textual nature) such as financial statements. However, measuring the ‘social performance’ of MFOs has continually been problematic and controversial.

The FS camp stresses the business imperative, and PA proponents privilege the social benefits. A renowned microfinance practitioner, somewhat inclined towards the FS side, thus states: “...the best practice in microfinance has fused two separate fields into one: development and finance. These two disciplines operate from separate paradigms...and have not previously been asked to exist together in an approach that attempts to deliver services to poor. Merging these two ways of thinking ...is the challenge microfinance is facing today.” (Otero, 2000:16). To judge the financial performance of MFOs, CGAP and others have borrowed performance metrics from commercial banking, such as Portfolio at Risk (PAR) and Return on Assets (ROA) (Rosenberg, 2009; SEEP Network, 2005). Reacting to these global ‘standard setting’ efforts a look at the microfinance field from a sociological perspective notes: “Drawn from the practices of commercial banking those minimalist gauges
of financial performance …crowd out the complex narratives…of poverty and social change” (Otero, 2000:125). It is this poverty narrative that brings in the subsidy element in microfinance; almost all MFOs are supported, one way or the other, through ‘soft’ or ‘below market’ concessional lending as reflected in the low interest rates charged on the microfinance projects funded by the bilateral and multilateral funders, and the long tenures of such funding (often going to over 20 years).

Subsidies make the application of purely commercial metrics of performance problematic in the microfinance field. A leading expert on microfinance, associated with the FS oriented Ohio School of Ohio State University, stated: “…MFOs are odd balls... MFOs get revenue both from sales and from subsidies...MFOs need subsidies, but they need to outgrow them…MFOs are non-profits, but they need profits. MFOs do not have owners, but they need to attract them. MFOs are not private, but, they need to act as if they were. MFOs help the poor by charging enough to pay costs” (Schreiner, 1997:2-3). To evaluate the efficacy of subsidies, the opportunity costs need to be evaluated. However, calculating opportunity costs in terms of the cost and benefits of all alternatives has been recognized by economists even in the popular press as a problematic issue (e.g. Frank, 2005). In other words, the problems with performance measurement can be attributed to the difficulty in transforming ‘social performance metrics’ into operational algorithms, hence the resultant lack of consensus on the ‘standard’ performance measure for organizations providing public goods, including microfinance. However, there have been efforts to create performance metrics for microfinance which remove the effects of subsidies in MFO capital structures to be able to measure MFO performance as a ‘pure’ commercial entity. The most influential such measure is the Subsidy Dependence Index (SDI) developed by the World Bank economist Jacob Yaron, and promoted by the World Bank (Schreiner & Yaron, 2001). However, those metrics associated with powerful actors in microfinance did not achieve
widespread acceptance, as others continued to dispute the merits of the metrics and tried to bring in their own performance metrics (Balkenhol & International Labour Organization, 2007).

In this scenario, to separate the financial health of an MFO a set of ‘subsidy adjusted indicators’ are used to arrive at MFO performance by taking out the subsidy element (Rosenberg, 2009). Despite complex adjustments, to remove the subsidy element from the financial performance indicators used by the likes of the World Bank there is no evidence to show the universal acceptance of such performance metrics at the field level. Further, the continued presence of subsidized funding structures has created seemingly irreconcilable contradictions in the discourse of the FS logic itself. A study on microfinance by a leading European bilateral funder hence states: “On the one hand [microfinance] is advanced as a commercial, business proposition. On the other hand, it is implicitly accepted (generally) not be a viable business proposition therefore requiring subsidies…Claiming that such a development intervention is an investment in a business venture is both inappropriate and misleading” (Birgegrad, 2004:14)

Another element in assessing the organizational performance of MFOs is the extent of ‘impact’ of microfinance on the lives of the poor who are provided microfinance services. This aspect is very important as developmental outcomes are intrinsically associated with microfinance which emerged as a poverty alleviation tool rather than a commercial activity. However, impact measurement or social performance measurement practices of microfinance are marred by controversial methodological issues, hence representing another strand of the divergent narratives prevalent in the microfinance field; and the social performance measures which have been formulated so far are considered to be costly and time consuming (Esherick, Rankin, & Joint Committee on Chinese Studies (U.S.), 1990; Mayoux & Chambers, 2005; Simanowitz, 2001). According to a microfinance expert:
Unlike financial indicators that have been developed over many years, social performance measurement is fairly new. Important financial indicators are precise – both in what they mean and in their measurement. Whereas, most social performance indicators are inherently less straightforward… (Hashemi, 2007:10).

An article on social performance in the June 2011 microfinance issue of Microbanking Bulletin (MBB) states:

...reporting on tangible results related to the [social] mission is more challenging. MFIs agree about most development goals for their institution, but very few of them can actually state whether their goals are met. An emblematic example is given by poverty reduction, defined as a goal by 84 percent of MFIs. But, when it comes to reporting the progress out of poverty for clients, only 10 percent of MFIs could provide this information... Microfinance is often seen as an important tool for reducing poverty levels and MFIs whose mission is reducing poverty should be able to provide such information. Nevertheless poverty is a very complex area of analysis...Coming up with easy-to-use metrics to assess changes for clients can represent a big challenge and cost... We thus lack evidence about whether most MFIs are fulfilling their development goals, which presents challenges to any attempt to link financial and social performance. Tracking and reporting social data is recent to the industry and social performance management is a work in progress (Pistelli, 2011:5)

The divergence of MFO performance measures is further evidenced by the provocative views of the microfinance pioneer, Muhammad Yunus of Grameen Bank, and the controversy triggered in the field by those views. Yunus has called for MFOs to be ‘social businesses’ which need to be ‘self sufficient’ but should not be profit oriented. In his bestselling book Creating a World Without Poverty: Social Business and the Future of
Capitalism, he has proposed ‘rules of thumb’ related to cost of operations of MFOs (Yunus & Weber, 2007). Those performance heuristics have also been brought to the attention of the general public through the popular media (Yunus, 2011). However, prescriptions suggested by a pioneer have not been accepted by the field, as evidenced by responses to Yunus’ ideas from a leading microfinance benchmarking platform (Gonzalez, 2010).

The critical voices on microfinance have also questioned the empowerment potential of microfinance and point towards the perverse consequences of the popular microfinance methodology of group lending on women’s social situation. Critics claim that the numerical visibility of women in microfinance programmes does not usually translate into their political or economic visibility (Fernando, 2006). It is argued that microfinance through group lending further entrenches the exploitative relations that tie up women, both in public as well as private spheres (Milgram, 2006). By using a borrower’s group as a proxy for collateral and for ensuring repayment discipline, microfinance tries to put pressure on women to confirm rather than defy repressive relationships. It has also been found that the NGOs that are supposed to champion empowerment of women, by encouraging breakdown of power structures, choose to distance themselves from intra-group conflicts related with power and domination. These NGOs instead consider securing repayment of loans as the more important consideration (Wright, 2001). Another key issue in microfinance strategies is that empowerment, necessarily a political process, is reduced to a technical/managerial process excluding and ignoring the issues of power and domination that mire the social realities faced by women in developing countries (Milgram, 2006).

Empirical work on microfinance in different country contexts has also challenged the altruistic rhetoric of microfinance and brought out the less publicized negative aspects such as inadequate supervision of borrower groups under group lending practices (Marr, 2002; Wright, 2001), and unrealistic and idealized expectations of community “solidarity” from
group members (Marr, 2002). Another interesting article (Bond, 2007), in the PA tradition of linking microfinance with broader development goals, and using a multi-disciplinary social policy perspective, highlights the failure of the microfinance programmes to create synergies with broader development issues such as health, particularly in the African context. However, Kabeer (2001), somewhat in consonance with the FS stance, and reacting to research that provide conflicting results on the impact of microfinance on women, contend that microfinance need not be overburdened with ‘women’s empowerment’ related goals; according to her, focus should rather be on developing effective and innovative financial products that facilitate expansion of outreach towards the poorest segments of developing country populations. But the ‘social impact’ debate in microfinance, concerning the need to show effectiveness of microfinance as a developmental tool, still rages in the field (Karlan & Goldberg, 2007; Roodman, 2009). Discourses on the means-ends relationships in the microfinance field have not been resolved; the field does not yet know whether MFOs are able to do what they set out to do over the last three decades, that is, socio-economic development in poor countries through financial services access to the poor at the grassroots. Hence, whenever a scandal erupts, this unresolved means-ends issue emerges to haunt the field.

The Microcredit Summit Campaign, the leading PA platform, in its 2011 annual report states:

As in past years, the Campaign’s greatest challenge is bridging the gap between its commitment to reaching the poorest and the lack of effective poverty measurement tools. Therefore, every use of the term “poorest” in [the 2011 annual report of the Microcredit Summit Campaign] should be read within the context of this dilemma (Reed, 2011:59)
In sum, the discourse on performance metrics in microfinance has divergent elements as represented by controversial texts produced by multiple power centres in microfinance (international funding organizations, a pioneer, and field level standard setters). Performance metrics associated with the FS logics of the field are well-established as they are drawn from the mature field of commercial banking. However, the performance aspects related to socio-economic development aspects of microfinance are not ‘institutionalized’ to represent a body of ‘ready to wear’ prescriptions. As the above-mentioned literature shows, the developmental outcomes of microfinance have been open to debate and controversy, leading to damage to the very legitimacy of microfinance as a development tool. The debate on these issues has still not been resolved so that the discourse on microfinance establishing the means-ends narrative on microfinance remains unfinished.

The microfinance field has not been able to come up with a uniform, generally agreed and institutionalized set of organizational performance metrics to check whether organizations in the field, particularly the MFOs, have been able to meet their social goals. Financial goals can be easily tracked using the metrics borrowed from the field of finance. But for ‘social performance measurement’ there are multiple tools formulated by different actors in the field, each tool vying for the attention of the field as a legitimate means of measuring social performance. Fields need to have mechanisms for determining means-ends relationships in organizational actions (Dorado, 2005). MFOs need to show whether they are able to alleviate poverty, or fulfil other social goals that they espouse. The inability to quantitatively measure results opens up spaces for contestation, as organizations find it difficult to legitimate themselves in the eyes of other actors, particularly the resource providers (Dejean, Gond, & Leca, 2004).
6.6 The contested legitimacy of microfinance

Just like the broader field of finance experienced unprecedented turbulence due to a set of public scandals that caused societal debate on the various ideas and practices associated with financial markets (De Cock, 2009), microfinance has also gone through its own issues which have been widely debated at the societal and field level (Consultative Group for Assisting the Poor, 2010). However, the scandals in microfinance had deeper repercussions, dealing a harder blow to the legitimacy of microfinance. The very existence of the microfinance field as a legitimate poverty alleviation tool started being questioned in public and practitioner discourse, unlike the finance field where particular organizational practices (for example, ‘collateralised debt obligations’) and related organizational actors started being questioned. Yet the generalized finance field retains its legitimacy in official circles. By contrast, flaws in microfinance in operation readily bring the entire field into disrepute. As mentioned above, in the case of high profile MFO IPOs, the financial dealings of the key players in those IPOs were a source of unease, which caused the field and the society at large to question the hazy financing structures associated with microfinance. The morality of a set of non-profit actors benefiting, in an unclear way, from IPO windfalls was widely debated in texts both at the societal and field level. There was another set of events which caused even more profound damage to the legitimacy of microfinance: the highhanded practices of MFOs in ensuring repayments from poor clients, particularly women, and ‘usurious’ pricing practices adopted by MFOs around the world.

The public discourse and the crisis of legitimacy associated with the scandals emerging from microfinance echo cautionary voices coming from academia and the field, warning against getting carried away by the romantic notions of microfinance as a panacea for the ills afflicting developing countries. Criticism from industry veterans, directed not just at microfinance but at the broader ‘international poverty alleviation industry’, most
systematic and scathing among them, Thomas Dichter (Dichter, 2007; Dichter & Harper, 2007) has questioned the contemporary international development efforts in general and microfinance in particular in a way that tries to de-link retail financial services provision from its current developmental connotations. On the other hand, there are some voices, especially in the traditions of feminist criticism, which only see sinister motives behind microfinance. For example, Weber (2002) positions microfinance in the new “global development architecture” where it is being used to promote global financial liberalization and to dampen resistance to market based development initiatives. Microfinance is also alleged to be a low cost substitute for public investment, favoured by the international development finance sector that is trying to promote private enterprise at the global level. On the other hand, feminist writers, such as Fernando (2006) and Mayoux (2001), try to bring out the negative power relations and argue that microfinance perpetuates the entrenched gender inequities by locking women in mutual credit obligations which pose inordinate risks for these women.

Another set of views reflecting a sharper critical edge, and drawing from varied social science traditions apart from the feminist view and including the sociological, anthropological and international relations scholarship, consider microfinance in a starkly conspiratorial colour and classify it as a neoliberal ploy to invade and dominate all aspects of society, particularly the concept of women’s empowerment in the developing world (Fernando, 2006). Critics also question the privileging of the ‘market’ as a channel for poverty alleviation by the neoliberal proponents of microfinance; poverty, according to the critics, is not because of ‘unrealised market potential’ of the poor, as posited by the neoliberal orthodoxy, but because of the relations of power and domination embedded in a society (Weber, 2002).

Scandals and crisis at the field level expose elements of contestation in the field. Microfinance has seen a number of scandals which have publicly and dramatically exposed
the clash between the FS and PA logics. Those scandals essentially showed the unsettled and unresolved nature of field level goals, and the measurement of achievement of those goals. Questions that emerged in the wake of those scandals reflect those unsettled aspects: should MFOs be profit oriented? how much interest should they charged if they turn into a profitable entity? what is the status of an altruistically motivated funder in a commercially transformed MFO? how much should the founder profit from commercial transformation or share market listing of a non-profit MFO? do MFOs which commercialize experience ‘mission drift’? These unsettled questions emerged during all crisis in microfinance, resulting in the questioning of the legitimacy of the field, within the practitioner circles and at the societal level as well. Hence, field level scandals may be a cause of field instability because they divert attention of the field towards undercurrents of unsettled issues in the field.

Microfinance, as mentioned earlier, is embedded in a broader development field. The development field itself is embedded in the broader societal logics calling for organized action to facilitate socio-economic development in poor countries. Hence, the scandals and crisis in microfinance are also linked with societal level dissatisfaction with microfinance as a poverty alleviation tool (Bateman, 2010; Malkin, 2008); and the societal level dissatisfaction with the development field itself (Dichter, 2003). Crisis or scandals, at the broader societal level, questioning the ideas and practices in fields, can also be considered as exogenous jolts experienced by those fields. Literature on exogenously triggered institutional change has found fields, where such change occurs, to resettle into new configurations in the wake of those exogenous triggers (e.g. Rao, Monin, & Durand, 2003). By contrast, microfinance has seen recurrence of latent disputes after the emergence of societal level scandals and crisis related to microfinance.
6.7 Conclusion

In this chapter, I have identified a set of plausible reasons for the continual clash of the FS and PA logics in the microfinance field. The main reasons for such clashes include: the incompatibility of the altruistic and commercial goals espoused by the field actors; the inextricable embeddedness of microfinance in the broader development field; fragmented resource providers supporting the FS and PA logics; and the lack of standardized performance metrics for assessing organizational performance. I have identified literature that resonates with most of the reasons for field instability identified by me. Given this scenario, how should institutional entrepreneurs devise their strategies to unify the field towards a common set of ideas and practices? I try to answer this question in Chapters 8, 9, and 10. Further, what would be the reaction, at an intra-organizational level, to such field level uncertainty? I try to answer this question in Chapters 13 and 14.
Chapter 7: Institutional entrepreneurship in fields with multiple clashing logics

7.1 Introduction

I have shown that the microfinance field is characterized by a continual clash between the FS and PA logics. I have shown that the most plausible causes of this clash were the persistence of altruistic goals conforming to the PA logic, and their incompatibility with the commercialization objectives also espoused within the field. The main structural constraint was the embedding of the microfinance field within the broader development field, and the associated lack of standardization of organizational practices associated with the altruistic imperatives. Instrumental in the contestation of the FS and PA logics were a set of influential actors, ‘institutional entrepreneurs’, trying to implement their preferred logic in the field. However, those influential change agents had to contend with the inherent structural constraints of the field. Those constraints have already been identified in chapters 4 and 5. The fact that the field has remained in a state of instability and contestation shows that the efforts of change agents to converge the field towards a set of uniform ideas and practices has failed – a result also noted by Khan and Lok (2010). The behaviour of those change agents is worth studying in order to find out how those institutional entrepreneurs tried to implement their change strategies in the face of resistance from rivals espousing a differing logic, and how structural constraints affected those change efforts.

In chapters 8, 9 and 10, I use the theoretical construct of institutional entrepreneurship to study the behaviour of two central change agents in the microfinance field: Muhammad Yunus, the microfinance pioneer and a leading PA supporter, credited with the rise of the microfinance field itself, and the Consultative Group for Assisting the Poor (CGAP), a global
In this chapter, I review literature on institutional entrepreneurship, particularly focussing on the literature which theorizes behaviour of institutional entrepreneurs in fields marked by the operation of multiple, clashing logics. The focus of my thesis is on an unstable field with clashing logics. Therefore, the rationale for this chapter is that it brings to sharp relief the literature most relevant to my theoretical and empirical focus. Further, this literature review will provide the theoretical framework for chapters 8 and 9, and help me place my theoretical contribution in the appropriate stream of institutional entrepreneurship literature.

7.2 Institutional entrepreneurship

The concept of institutional entrepreneurship was introduced in the institutional theory domain in the late 1980s, in response to the then prevalent focus of the theory on field level stability and structural isomorphism. Scholars theorizing the role of institutional entrepreneurs tried to provide endogenous explanations of change; institutional change till then was explained as external shocks rather than as emerging from within fields because actors were conceived as over-socialized and habitual imitators of taken-for-granted ideas and practices (Battilana, Leca, & Boxenbaum, 2009). The concept of institutional entrepreneurship was introduced by DiMaggio (1988) who stated: “New institutions arise... when organized actors with sufficient resources (institutional entrepreneurs) see in them an opportunity to realize interests that they value highly” (1988: 14). In other words, institutional entrepreneurs are no ordinary change agents. They try to bring what is termed as divergent change which breaks from the existing institutional templates in fields (Battilana, 2006).
In Chapter 3, I formulate my theoretical framework using the notion of institutional logics. Institutional entrepreneurship is also in consonance with this theoretical framework, as the institutional logics approach recognizes the presence of multiplicity of organizing principles in organizational fields (Thornton & Ocasio, 2008), and takes into account the work of change agents who try to diffuse their preferred logics in fields (e.g. Gestel & Hillebrand, 2011; Greenwood, Suddaby, & Hinings, 2002; Maguire, Hardy, & Lawrence, 2004).

7.2.1 Individuals and organizations as institutional entrepreneurs

Institutional entrepreneurs could be either individuals or organizations. The necessary condition is that their change initiatives aim to bring divergent change in fields. As an example of individual institutional entrepreneurship, Fligstein (1997) has presented the role of the French statesman, Jacques Delors, in facilitating the creation of the European Union. In the Canadian HIV/AIDS field, Maguire, Lawrence, and Hardy (2004) have highlighted efforts of a set of social activists who played a pioneering role in shaping the field. The IT company Sun Microsystems is an example of an organization acting as an institutional entrepreneur, trying to promote its preferred technology standard in the IT field (Garud, Jain, & Kumaraswamy, 2002). Large accounting firms have also been found to bring change in the accounting profession by introducing services such as management consultancy (Greenwood & Suddaby, 2006).

Individual entrepreneurs can also act as institutional entrepreneurs when they introduce new business models (Alrdrich, 1999; Alrdrich & Fiol, 1994). Hwang and Powell (2005), identify examples of individuals who have created new types of organizations; most prominent of the examples include the French chefs who, in the 1970s, created new culinary standards and processes conforming to the new logic of nouvelle cuisine (Rao, Monin, & Durand, 2003). More recently, the Spanish chef Ferran Adria is an example of an individual
who introduced novel culinary practices, and facilitated the rise of the New Spanish cuisine, through his restaurant, El Bulli (Svejenova, Mazza, & Planellas, 2007). Another historical account looks at Peter and Andrew Walker who created Peter Walker & Son Brewery in Liverpool, in the second half of the 19th century. During Peter and Andrew’s time, public houses, owned by breweries were run by nominally independent tenants contractually bound to buy products from the owner-brewers. But by late 19th century, salaried managers, liable to instant dismissal, became the norm, and this change could be directly linked with the innovative public houses established by Peter and Andrew (Mutch, 2007). However, the literature recognizes that accounts of entrepreneurs performing as institutional entrepreneurs are scarce (Battilana et al., 2009).

7.2.2 Field characteristics and institutional entrepreneurship

The conditions in a field play a crucial role in the shaping of institutional change opportunities in that field (Battilana et al., 2009). Field conditions have been defined in a variety of ways. Fields which are emerging, heterogeneous and relatively less institutionalized have been found to be fertile grounds for institutional entrepreneurs. Field conditions include degrees of institutionalization – that is, the extent to which practices are standardized and the presence of multiplicity of institutional logics (Greenwood, Raynard, Kodeih, Micelotta, & Lounsby, forthcoming). The presence of multiple institutional orders, in heterogeneous fields, allows for multiple and possibly contradictory ways of organizing in those fields. These multiple and contradictory possibilities of social reality can facilitate the rise of institutional entrepreneurs who may question the existing arrangements, and envision the efficacy of their preferred institutional logic (Sewell, 1992). The degree of institutionalization of fields is reflected in the extent to which standardized and taken-for-granted prescriptions are present to guide field actors. Emerging fields are particularly characterized by the lack of taken-for-granted standards and organizing templates. For
example, Dejean, Gond and Leca (2004) present an account of institutional entrepreneurship in the newly emerging, less institutionalized Social Investments field in France which lacked standardized ways of measuring the performance of such investments, and the emergence of an organization that tried to formulate performance measurement tools for the field. Garud, Jain and Kumaraswamy (2002) show how an entrepreneurial organization tried to fill a gap in the new and rapidly growing IT industry by providing a technological standard for that field. However, highly institutionalized fields characterized by the presence of stable and well established ways of organizing may also experience the rise of institutional entrepreneurs who envision alternatives based on dissatisfaction with the status quo and external influences, such as change in market conditions (Greenwood & Suddaby, 2006).

Crises in fields such as social upheaval, technological change, change in competitive forces, and regulatory changes might disturb the taken-for-granted ideas and practices in those fields and facilitate the rise of institutional entrepreneurs (Child, Lua, & Tsai, 2007; Fligstein, 2001; Greenwood et al., 2002).

Dorado (2005), directly linking institutional entrepreneurship with field conditions, proposes that fields which are institutionalized enough to have some basic level of stability of rules and norms, as well as structures of relationships, are ‘opportunity transparent’ for institutional entrepreneurs to implement change projects. On the other hand, she proposes two extremes where institutional entrepreneurs may find it difficult to conceptualize and implement change projects: ‘opportunity opaque’ fields which are institutionalized to such an extent that actors in that field fail to realize the need and opportunity for change, and ‘opportunity hazy’ fields, which are marred by so much uncertainty that change projects cannot be implemented due to the lack of rules of engagement.
Dorado (2005) has also proposed a set of behavioural profiles of institutional entrepreneurs who are most likely to arise, depending on field characteristics defined above. Fields which are ‘opportunity hazy’ will facilitate institutional entrepreneurs who engage in sense-making (Weick, 1995). On the other hand, fields which are ‘opportunity transparent’ will most likely have institutional entrepreneurs who engage in strategic action. This is so because opportunity transparent fields, with a modicum of stable organizing structures, allow actors to plan their actions for the future. However, not all those who see opportunities are able to implement their change agendas. Change implementation requires resources, both discursive and material (DiMaggio, 1988).

7.2.3 Field position and institutional entrepreneurship

Social position implies the relationship between a change agent and other actors in a field (Battilana, 2006). Social position is an important factor in an actor’s taking up the role of an institutional entrepreneurship, as social position may affect the actor’s perception of the field (Bourdieu, 1977). Institutional entrepreneurs need resources, and the social position of an institutional entrepreneur is also an important factor in providing access to resources in a field (Lawrence, 1999). Institutional entrepreneurs, particularly individuals, may hold ‘subject positions’ – formal positions as well as identities – which allow them to have legitimacy in the eyes of other field actors (Battilana, 2006). For example, Maguire et al. (2004) identify HIV/AIDS activists who were able to bring institutional change in the HIV/AIDS advocacy arena due to their highly legitimate position as sufferers of HIV/AIDS.

Both powerful actors at the centre of a field and actors working at the periphery have been found to be taking up the role of change agents. A strand of empirical literature identifying an institutional entrepreneur’s social position as a key factor has found institutional change brought about by individuals and organizations with low status in their fields (e.g. Garud et al., 2002; Haveman & Rao, 1997; Hirsch, 1986; Leblebici, Salancik,
Copay, & King, 1991). Another set of empirical studies have found actors holding powerful positions in their field as institutional entrepreneurs (Greenwood & Suddaby, 2006; Greenwood et al., 2002; Sherer & Lee, 2002). Institutional entrepreneurs have also been found who straddle multiple fields (Boxenbaum & Battilana, 2005; Philips, Lawrence, & Hardy, 2000; Sewell, 1992). Exposure to multiple fields increases opportunities for actors to take practices from one field and apply those practices to another field, as, for example, happened in the Danish diversity management field where a set of managers coming from international assignment overseas applied the practices that they experienced abroad in the Danish context (Boxenbaum & Battilana, 2005).

7.3 Strategies for institutional change implementation

Once appearing on the scene, how do institutional entrepreneurs implement change? The literature on institutional entrepreneurship identifies “...key sets of actions as distinct, consecutive steps in the process of institutional entrepreneurship...” (Battilana et al., 2009: 79). The literature identifies two elements of institutional entrepreneurial processes. First, institutional entrepreneurs create a vision for divergent change which is appealing to other field actors. This is done by framing the change agenda in such a way that the newly introduced change prescriptions appear to be better options as compared to the existing institutionalized practices (e.g. Boxenbaum & Battilana, 2005; Fligstein, 1997; Markowitz, 2007; Suddaby & Greenwood, 2005).

Second, change agents mobilize allies and cultivate alliances, to ensure that the vision of change falls on sympathetic ears (e.g. Boxenbaum & Battilana, 2005; Fligstein, 1997; Greenwood et al., 2002; Lawrence, Hardy, & Philips, 2002; Rao, 1998; Suddaby & Greenwood, 2005). The literature has mostly emphasized discursive elements of change implementation strategies used by institutional entrepreneurs, such as rhetorical strategies.
(e.g. Dejean et al., 2004; Suddaby & Greenwood, 2005), storytelling (e.g. Zilber, 2007), and analogies (Leblebici et al., 1991), in crafting and communicating a new vision and making that vision acceptable through coalition building.

Change agents may also mobilize non-discursive resources, including financial resources to promote their prescriptions (e.g. Demil & Bensedrine, 2005; Garud et al., 2002). Formal authority, particularly state authority, may also be used to enforce and legitimize change in a field (e.g. DiMaggio & Powell, 1983; Maguire et al., 2004; Reay & Hinings, 2005).

A relational resource identified in the literature is social capital, that is, a resource which “... accrues to one’s position in a web of social relations that provides (Greenwood et al., 2002) access to information and political support” (Battilana et al., 2009: 84). Social capital, embodied in relations between the change agent and other actors in the field, may enable that change agent to mobilize support for the change project (Maguire et al., 2004). Using their social capital, institutional entrepreneurs broker between different actors in the field to achieve greater convergence of the field towards the change agenda (Fligstein, 1997). Institutional entrepreneurs use their social capital by positioning themselves at the centre of the fields, so that they are connected with multiple networks of actors within the fields (e.g. Philips, Lawrence, & Hardy, 2004). Despite the identification of various manifestations of social capital as a resource for institutional entrepreneurship, social capital as a factor in institutional entrepreneurial processes has been less researched (Battilana et al., 2009). For example, the literature has not brought out similarities or differences between the mobilization of social capital by an individual institutional entrepreneur who develops a novel organizational model, and a central organization that has been established to ‘standardize’ a field and that acts on behalf of other actors in the field.
7.4 Institutional entrepreneurship in fields with contested logics

The literature has mostly identified rhetorical strategies and ‘discursive theorization’ as the predominant method used by institutional entrepreneurs for implementing change in organizational fields (Battilana et al., 2009). In the institutional theory literature related to institutional entrepreneurship, the term theorization means the compelling presentation of ideas so that those ideas appear more appropriate than other alternative ideas (Greenwood et al., 2002). Through theorization, institutional entrepreneurs ‘frame’ their change projects in such a way that those projects are perceived to be conceptually attractive to existing and potential allies in the field; institutional entrepreneurs identify deficiencies in current institutionalized practices, and assign blame (e.g. Suddaby & Greenwood, 2005); They try to place their preferred practices as superior solutions to the problems identified, and try to delegitimize existing practices (e.g. Dejean et al., 2004; Suddaby & Greenwood, 2005). However, often the change project is conceptualized in such a way that it is not cast in too radical a manner so that the new project does not invoke fear, incomprehension or irrelevance among existing and potential allies (e.g. Boxenbaum, 2006; Fligstein, 2001). Further, institutional entrepreneurs, in their theorization of the change project, may also try to accurately identify their social position and the position of other actors in the field (Fligstein, 2001), and empathize with the interests of those actors (Fligstein, 1997). However, obfuscation of social positions cannot be ruled out, if such obfuscation has the possibility of leading to a positive outcome for change agents. Hence institutional entrepreneurs may draw selectively from the repertoire of discursive tactics available to them, to appear as neutral brokers in the field, and to elicit cooperation and conformance from a broader set of actors in the field (e.g. Dejean et al., 2004; Fligstein, 1997).

However, in fields characterised by multiple logics and dispersed power centres, as well as a diverse subpopulation of actors, using discourse alone is not expected to be an
effective implementation strategy; financial resources (Demil & Bensedrine, 2005), training (Lounsbury & Crumley, 2007), advising (Perkmann & Spicer, 2007), and creating convening platforms (Khan & Lok, 2010) may also be required to implement a multi-pronged strategy to implement the preferred change agenda. Such an implementation plan may also involve simultaneous efforts on multiple fronts, both discursive and non-discursive (Khan & Lok, 2010).

It is a necessary condition for institutional entrepreneurs to engage in change in fields, but it is not inevitable that such change meets success. Fields marked by continual contest of logics, and diverse subpopulations may have multiple institutional entrepreneurs contesting to promote their change project, but failing to gain universal acceptance due to multiple constituencies and divergent goals (Pache & Santos, 2010, 2011; Purdy & Gray, 2009). The literature has identified change implementation strategies of institutional entrepreneurs where those change strategies have mostly met success (e.g. Greenwood & Suddaby, 2006; Greenwood et al., 2002; Mutch, 2007; Rao et al., 2003; Reay, Golden-Biddle, & Germann, 2006; Svejenova et al., 2007). But detailed accounts of change implementation where a field remains unsettled are scarce (Battilana et al., 2009). A fine-grained analysis of implementation strategies is needed which, instead of capturing change as a uni-directional staged process (Perkmann & Spicer, 2007), captures the multifaceted change implementation strategy followed by institutional entrepreneurs in contested fields.

Further, it is also possible that fields may go through their evolutionary stages and each stage may throw up a different kind of institutional entrepreneur. The literature is silent on such a possible link between field stage and institutional entrepreneurship, although calls have been made to do ‘multi-level’ analysis of change in fields (Battilana et al., 2009).
7.5 Conclusion

The literature shows institutional entrepreneurs to be using a variety of, mostly discursive, implementation strategies. However, change agents, particularly those working in complex fields characterised by the presence of multiple clashing logics, may need to deploy non-discursive strategies, such as the use of financial resources, political work, and standard setting, to implement change. Institutional entrepreneurs working in contested fields with complex structures are also most likely to implement their change agenda in a non-linear fashion, and simultaneously on multiple aspects of those fields.

The question that I explore in the ensuing chapters is: how do institutional entrepreneurs operating in this context implement their change agenda through using discursive and non-discursive strategies?

According to the literature, field conditions affect the behaviour of institutional entrepreneurs. Fields have been classified in terms of their historical stage (emergent vs. mature), heterogeneity vs. homogeneity, and degree of institutionalization. In the literature, institutional entrepreneurs have been shown to rise in a variety of field conditions, particularly, those fields which are emergent, less institutionalized and heterogeneous. But the literature does not explicitly compare institutional change behaviour of individual institutional entrepreneurs who appear at the time of the emergence of a field (especially when the field is ‘opportunity hazy’ (Dorado, 2005)) and those organizations that appear later when the field has achieved some level of recognized shape (when the field is ‘opportunity transparent’ (Dorado, 2005)).

By analyzing the behaviour of two institutional entrepreneurs, Muhammad Yunus and CGAP, I try to answer the question (in chapters 8 and 9): how do the efforts of the early pioneering individual entrepreneurs (Muhammad Yunus) differ from the change strategies of
the institutional entrepreneurs arriving later in the field (CGAP)? This is an important question because, as the literature indicates, different field conditions may provide different sets of challenges as well as opportunities, for institutional entrepreneurs. Fields may possibly have different conditions, at different stages of their evolution.

The literature identifies the social position of change agents as an important factor in shaping the institutional change agendas of those agents. Social position provides social capital by affecting the legitimacy of change agents. Social capital is a relational resource which actors leverage to influence other actors in the field. But the literature has not clearly taken account of the possible differences between the nature of social position of an individual change agent who creates a novel business model, and a central organization sponsored by the leading resource providers in the field. In chapter 10, I compare and contrast the nature of social position of Muhammad Yunus and CGAP.
Chapter 8: Muhammad Yunus as an institutional entrepreneur in the microfinance field

8.1 Introduction

In my thesis, I show that the microfinance field is characterized by a continual clash of the FS and PA logics. This clash of logics is mostly due to the inextricable identity of microfinance as a widely recognized means for poverty alleviation, rather than just another segment of the financial markets. It is this altruistic identity, and the resultant inalienable social development objectives of microfinance which has restrained the commercialization drive of the pro-FS camp. In my thesis, I endeavour to bring out the behaviour of a set of institutional entrepreneurs who try to promote their favoured logic in the context of an unsettled field like microfinance.

In this chapter I present an account of institutional entrepreneurship of an individual who is credited by many to be one of the founders of the microfinance field – Muhammad Yunus, the founder of Grameen Bank of Bangladesh. Muhammad Yunus is the most vociferous, prominent and influential defender of the PA logic against the FS onslaught. I present a detailed account of the institutional change implementation initiatives of Yunus, aimed at promoting and defending the PA logic in the microfinance field.

The institutional theory literature has called for greater attention to individuals as institutional entrepreneurs, as there are many accounts of organizations but not many of individuals as institutional change agents and entrepreneurs (Battilana, Leca, & Boxenbaum, 2009). Hence the role of Yunus as an institutional entrepreneur is also significant from the perspective of institutional theory. Yunus has a unique position as an institutional
entrepreneur. He displayed entrepreneurial behaviour by founding a new venture, Grameen Bank. His entrepreneurial and institutional change activities are considered to be the main triggers of the rise and recognition of the microfinance field (Counts, 2008). Below is an account of institutional entrepreneurship of Yunus in the microfinance field. Yunus’ institutional change initiatives are summarized in Table 9 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Nature of Institutional Work*</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>Experimenting</td>
<td>Yunus lends $27 to 42 women in a village near Chittagong University. A local bank branch agrees to lend more money to other poor women, against personal guarantee of Yunus.</td>
</tr>
<tr>
<td>1979</td>
<td>Convening</td>
<td>The Grameen Bank Project is launched with Yunus as project head, with the help of a senior official in the Bangladeshi Central Bank. Grameen experiment is extended to a district, by using branches of government owned banks in that district as delivery channels of loans.</td>
</tr>
<tr>
<td>1982</td>
<td>Convening</td>
<td>The Grameen Project gets extension to five districts. Ford Foundation provides a US$800,000 guarantee fund to secure the funding provided by government banks to Grameen. IFAD and Bangladeshi Central Bank also provide funding.</td>
</tr>
<tr>
<td>1983</td>
<td>Convening</td>
<td>The Grameen Bank Project becomes a full-fledged bank, thanks to the efforts of the Bangladeshi finance minister and other politically connected figures close to Yunus.</td>
</tr>
<tr>
<td>1988</td>
<td>Inspiring/Showing/Advising</td>
<td>The Grameen model of microfinance goes to the US, as officials of a Chicago community bank South Shore Bank, who were earlier engaged by Ford Foundation to help Grameen in operations management, help establish Women’s Self-employment Programme. This was followed by a number of Grameen style replications, also facilitated in Arkansas by President Clinton.</td>
</tr>
<tr>
<td>1991</td>
<td>Advising/Showing/Standard Setting/Enforcing</td>
<td>Grameen Bank establishes Grameen Trust to replicate the Grameen model of microfinance around the world through its Grameen Dialogue Programme. It provides funding to MFOs on the condition that Grameen methodology is used by those organizations.</td>
</tr>
<tr>
<td>1997</td>
<td>Convening/Inspiring</td>
<td>The World Microcredit Summit is held, arranged by Sam Daley-Harris, a social activist inspired by Yunus’ ideas, with strong moral support of Yunus. Over 2000 delegates from 137 countries attended the event.</td>
</tr>
<tr>
<td>1997</td>
<td>Inspiring</td>
<td>Grameen Foundation founded by ‘friends of Grameen Bank’ to spread the Grameen philosophy worldwide by funding microfinance projects around the world.</td>
</tr>
<tr>
<td>1998</td>
<td>Theorising</td>
<td>Yunus launches bestselling autobiography which outlines his philosophy and presents an account of the rise of Grameen Bank.</td>
</tr>
<tr>
<td>2007</td>
<td>Theorising/Standard Setting/Enforcing</td>
<td>Yunus, extending his Grameen Bank model, presents the idea of Social Business envisioning market based organizations which, instead of earning a financial return to shareholders, reinvest their surplus to expand their socially beneficial services. He forbids MFOs from charging an interest rate on microloans, above a certain percentage in relation to cost of operations.</td>
</tr>
<tr>
<td>2007</td>
<td>Enforcing</td>
<td>Yunus severely criticises the launch of the commercial MFO, Compartamos of Mexico on the stock market, calls Compartamos as a ‘moneylender’ and reiterates his vision of a social business run on non-profit basis.</td>
</tr>
<tr>
<td>2010</td>
<td>Enforcing</td>
<td>Yunus continues with his tirade against commercialization, and questions the rise of another commercial MFO, SKS, India.</td>
</tr>
</tbody>
</table>

*Categories of change implementation under Nature of Institutional Work have been borrowed from my conference paper co-authored with Dr. Jaco Lok of UNSW (Khan & Lok, 2010). Dr. Lok has contributed in developing the categories.
8.2  Stage 1: The creation of a novel organizational form

8.2.1 Opportunity identification

Muhammad Yunus started Grameen Bank as an experiment, in 1976, when he was a professor of economics at Chittagong University, Bangladesh. Yunus used to observe the poverty-stricken inhabitants of a village named Jobra near his university and was curious as to how the poor with no assets or jobs could support their families in backward rural areas of Bangladesh. Through a quick survey conducted by his students, he found out that most were eking out a living through their tiny enterprises. They required only very small injections of capital to increase sales and income. The amount, calculated from the survey, turned out to be US$27 for those forty two people. Yunus lent this amount to those poor people with the condition that only the principal was returned in daily instalments at a tea stall in the village.

Yunus’ opportunity identification process which led to the establishment of the Grameen experiment has all the hallmarks of a typical entrepreneurial venture. He looked at the behaviour of other organizations providing small scale finance to the poor. He states: “In January 1977, when we started, I looked at how others ran their loan operations, and I learned from their mistakes...In Bangladesh, conventional banks and credit cooperatives always demanded lump sum repayments. This caused severe repayment problems...In structuring our loans, I decided to do exactly the opposite” (Yunus & Jolis, 1998: 104). This experience embodies a reflexive process found in other instances of entrepreneurs coming up with novel organizational models (Mutch, 2007). However, there was a crucial difference between the classic entrepreneurial venture creation processes and Yunus’ actions. By entrepreneurial ventures the implication is that such activities are aimed solely at commercial success. However, Yunus, although focussed on creating a ‘sustainable’ organizational structure, was more interested in pursuing social goals of poverty alleviation through that organizational structure.
Yunus’ realization of the need for a financial intermediation mechanism which reaches out to the un-banked poor has been well-documented by himself and others (Bornstein, 2005; Yunus & Jolis, 1998). Yunus initially did not have a grand idea or strategy which drove him to start Grameen. The opportunity recognition process seems to have been experimental and exploratory. Yunus’ opportunity recognition path included many small initiatives which seemed to have provided him feedback on the feasibility of ideas and practices. The first crucial aspect of Yunus’ path is his immersion within the relevant context. Before starting Grameen, he spent years trying to understand the behaviour of the poor living in the villages surrounding his place of work. He initiated a number of experimental community-based agricultural projects aimed at engaging farmers in villages near his university. But he got mixed results, as the community structures that he so painstakingly set up fell apart the moment he used to leave the projects to the poor beneficiaries to manage. It was this experience which probably ultimately helped him arrive at his pioneering community structure: group-based lending methodology whereby the poor are organized in groups where group members cross-guarantee each other’s loans, under the ever watchful eye of Grameen Bank staff (Yunus, 1994).

Yunus’ engagement with the poor seems to have also led to a process of ‘cognitive dissonance’ (Festinger, 1957) whereby the existing conceptual frameworks that Yunus was familiar with were not corresponding with the contextual reality. The reality of small scale development finance of that time constituted government initiatives funded by international funders such as the World Bank (e.g. The World Bank, 1976). Those projects were considered failures at that time since most of the financial resources in the forms of small loans meant for the poor ended up in the hand of the local elite, and the organizations providing those loans incurred heavy losses due to high default rates and organizational inefficiencies (Morss & Gow, 1981). Accordingly, in his writings, Yunus notes the lack of
workable models to help the poor stand on their own feet, and his dissatisfaction with the then current economic orthodoxy and abstract conceptualizations in the field of economics that he taught concurrently at his university. He particularly questioned the applicability of the theoretical models, developed in the industrialized West by the elite scholars associated with the discipline of economics (Yunus, 1998).

Yunus’ entrepreneurial inclinations went back even before his time as an academic. He belonged to a wealthy industrial family of Bangladesh. He had successfully established a printing press in Bangladesh, and he could have easily continued with his entrepreneurial career had he not gone to the US for his postgraduate studies. Biographies of Yunus note that this entrepreneurial inclination may have played a role in the opportunity identification process followed by Yunus (Bornstein, 2005). The literature on institutional change by entrepreneurial individuals has identified prior experiences, particularly gained in other fields, triggering ‘autonomous reflexivity’ in entrepreneurs who shape path breaking change; autonomous reflexivity implies the tendency to step back from problematic contexts and imagine novel alternatives to solve those problems (Mutch, 2007).

The second crucial aspect of opportunity recognition involves the ‘learning by doing’ or experimentation processes that Yunus went through over the initial years, another important entrepreneurial trait (Cope & Watts, 2000). His dissatisfaction with the current paradigmatic status quo played a crucial part in his initial ‘experimental’ projects, which can be considered entrepreneurial, novel, and with a developmental purpose. He established the Rural Economics Programme at his university where he tried to initiate a number of projects aimed at the social uplift of the rural poor in the vicinity of the university. With the help of local farmers, he established a cooperative farming scheme called the Three Share Farm through which he brought farmers together in a sharecropping scheme. In return for a one third share in the farm produce, he would manage water supply and input provision for the
farms. He did not achieve success in the scheme as the farmers cheated him of his share. This taught him a lesson that would endure, and provide help in organizing his Grameen experiment. The lesson was that the poor need to be the decision makers themselves without outside help. He called for self-reliance through ‘local based institutions’ that are initiated and managed by the poor themselves. The poor need to change their situation and only they should be accountable for themselves. All of his ideas, refined over time and, given an organizational form, seemed to have crystallised into his Grameen philosophy.

8.2.2 Resource mobilization

After the Jobra women repaid their loan in full, and requests for similar arrangements started coming in, Yunus convinced a local bank branch to lend him US$300, against his personal guarantee, for on-lending to the poor. In this way the Jobra Landless Association, the precursor to the Grameen experiment, was born in 1977. However, the Jobra loan was not the first relationship between the local bank and Yunus. Yunus had borrowed before from the same branch for his other experimental project where he would use the borrowed money to invest in a farmers’ collective (formed by Yunus as well). Those farmers were contracted to return the money to Yunus at harvest time. But the Jobra project was bigger in scope. It was managed from the platform of the Rural Economics Programme of the university where Yunus worked, with students performing various organizational roles such as accounting and loan tracking, etc. Through discussions with local villagers Yunus also devised the now fabled Group Lending Methodology as ‘social collateral’ so that borrowers’ groups were formed with group members cross-guaranteeing each other’s loans. The borrowers’ groups acted as a ‘self-supervisory’ framework by ensuring on-time payment of loans, and also acted as a mechanism of self-help and social empowerment. This was especially the case for women where group members discussed social problems and committed to social goals such as educating their children, ensuring cleanliness of their surrounding, etc. Adherence to those
social goals was later made part of the Grameen borrowing arrangements in the form of the ‘sixteen decisions’ that a borrower group needed to make.

The Jobra Landless Association became the Experimental Grameen Bank in 1978 when Yunus persuaded another Bangladeshi bank to provide funding. This project further expanded, thanks to Yunus’ influence with the Bangladeshi central bank, with seven government-owned Bangladeshi banks funding this expansion. In 1980, key funding organizations from the development finance field proper entered the picture as Grameen financiers: Ford Foundation and the International Fund for Agricultural Development (IFAD). The Ford Foundation – which had earlier also helped Yunus establish the Rural Economics Department at Chittagong University – linked Yunus to the banks which provided funding to the Grameen experiment in the early days. Later the Ford Foundation would again come to Yunus’ rescue by facilitating Grameen’s access to IFAD funding through acting as a guarantor in this funding arrangement. In case Grameen faced defaults out of IFAD funding, the Ford Foundation would cover such default to the extent of 10% of the portfolio.

The ultimate break for Grameen came during the period 1982-3 when the Experimental Grameen Branches, working within the organizational structure of the aforementioned Bangladeshi partner banks, converted to a full-fledged independent financial entity ratified by the Bangladeshi Parliament under the Grameen Bank Ordinance. The then new government’s policy emphasis on poverty alleviation and Yunus’ friendship with the Finance Minister, who was impressed with the Grameen success so far, acted as a serendipitous combination catapulting Grameen to a full scale independent bank run by Yunus.

By the end of 1984, the stable of influential international funding providers from the development finance field proper had expanded to include the Norwegian (NORAD) and Swiss (SDC) development agencies. The Ford Foundation also introduced top US
development bankers to Grameen bank. These bankers were associated with Southshore Bank, another pioneering bank in the USA, also focussed on providing financial services to the poor in Chicago. These development bankers helped enhance Grameen Bank’s operations, and established an enduring relationship with Yunus which resulted in the creation of the first set of experimental Grameen Bank replications in the US in the late 1980s.

By 1989, Grameen, already a fast growing and financially strong small-scale lending organization, had assembled a broad array of funding organizations – including large German development agencies (KfW, GTZ), as well as the long term Grameen financiers that included IFAD. Grameen was now diversifying its portfolio of services by including those government-run and donor-funded development projects, mostly in the agricultural sector, which had the potential to become self-sufficient but were in the doldrums at that time. Ultimately, as part of a re-organization, those projects were spun off as part of Grameen-owned independent entities in 1993. Most significantly, by 1993, Grameen had also got rid of most of the funding from international development funding agencies, and was now accessing financing from commercial banks and capital markets. The unique features of Grameen as a private entrepreneurial entity as well as a social development organization were also being noted by the international development funding agencies. For example, a major evaluation of Grameen done by United Nations Development Programme, titled Assessing the Ability of Grameen to Diversify (Jackelen, 1990) had noted that Grameen was not an ordinary development entity but behaved like an entrepreneurial venture, taking risks and diversifying its offerings. Accordingly, the report suggested that any funding organization partnering with Grameen should be ready to accept the risks associated with the activities initiated by Grameen.
Yunus also fulfilled another crucial criterion of an entrepreneur by testing his ideas using his own financial resources, hence going through an initial ‘bootstrapping’ process (Bhide, 1992). The initial loans given out to poor landless women in the village of Jobra in Bangladesh were financed by Yunus himself. On failing to secure lending for his initial group of borrowers from a local bank, Yunus obtained loans from the same bank against his own personal guarantee. When those loans were repaid on time by the poor borrowers, Yunus successfully persuaded Bangladesh’s largest agricultural bank to establish an experimental bank branch staffed by Yunus’ student volunteers. However, the expansion of this experimental branch faced tremendous resistance from the bank officers. It was only through Yunus’ personal influence and standing in the society which led the bank to continue with the experiment, ultimately leading to the establishment of Grameen Bank.

Over the years, the aforementioned link with the commercial sector was not broken, but further expanded as Grameen, gradually proving its success, accessed increasing funding from the Bangladeshi capital markets. Given the essential development goals of Grameen, it also attracted funding from the established resources providers in the development field such as IFAD and the Ford Foundation. Another globally active altruistically motivated US based financial entity, Shorebank International, also played a crucial role in guiding Yunus in his Grameen venture.

Yunus’ resource mobilisation strategy, although including features from entrepreneurial processes, has important aspects which show the nature of linkages between institutional entrepreneurs and the fields in which they are embedded. In the case of Grameen, access to multiple varieties of resource providers with different institutional referents allowed diversity in resource access, and the flexibility to engage in novel practices which defined Grameen in the first place – a situation also theorised in literature (Maguire, Hardy, & Lawrence, 2004). The loosely embedded agency of Yunus as an entrepreneur
played a crucial role in ensuring this flexibility in the multi-field embedding of Grameen. He has himself highlighted this point by emphasizing that he was neither a banker nor a development professional in a strict sense of the words; this detachment allowed him to see the problems and their possible solution from a fresh perspective (Yunus & Weber, 2007).

In the context of field conditions, as the small scale development finance field was in turmoil at the time, Yunus fell back on the commercial finance sector by default to gain funding for his venture. Although Yunus’ novel organizational model was of altruistic nature, it was still essentially a financial intermediation mechanism akin to a banking entity. However, the commercial banks that supported Grameen were not purely ‘private’ either. They were government-owned banks, with one bank, the Bangladesh Rural Development Bank, espousing welfare goals as well. The novel nature of Grameen Bank could be judged from the International Fund for Agricultural Development’s (IFAD) initial reaction to Grameen Funding: IFAD refused to fund Grameen because, according to IFAD assessment, Grameen “… had nothing to do with agriculture and didn’t really sound like banking” (Bornstein, 2005).

From the initial set of resource providers from the development field proper which funded Grameen, the Ford Foundation holds special significance in the small-scale retail development finance field of that time. The Ford Foundation helped Yunus establish the Rural Economics Department at his university. In many ways, the Ford Foundation represented a more entrepreneurial institution within the aforementioned field. Unlike the dominant international development organizations of that time, such as the World Bank and the U.N structures, it was not founded and sponsored by global governments, but instead represented the formally altruistic arm of a major US corporation, the Ford Motor Company. As a private philanthropic organization, it was more nimble and entrepreneurial in its global development activities. By the late 1970s, the Ford Foundation represented a newly emerging
class of international development organizations which espoused a philosophy and development strategy calling for a more direct grassroots level and community-based model of development. Grameen fitted perfectly into this community development template. The Ford Foundation then went on to bring IFAD, part of the old guard in the development finance field, into the Grameen fold as a funder by guaranteeing the IFAD credit line to Grameen.

8.2.3 Growth pangs of an entrepreneurial endeavour

Grameen organization also faced many hurdles over the years, which on occasions brought great financial and operational distress. In 1991, Grameen borrowers experienced hardships due to a severe cyclone which hit Bangladesh at that time. There was also unrest among staff resulting in the moves to create a union of employees. Yunus was able to handle both problems effectively. In 2001, Grameen was again hit by increasing loan defaults and the situation got so alarming that the Wall Street Journal took the position that Grameen systems were weak and it was hiding its true loan portfolio health and that it would ultimately fail due to its bad loan tracking systems. In response to that crisis, Grameen brought operational changes and initiated Grameen II – a set of reforms aimed at streamlining its products and procedures (Rutherford, Maniruzzaman, Sinha, & Acnabin and Co, 2003).

8.3 Stage 2: The emergence of ‘Grameencredit’ – Yunus’ Way of microfinance

The first full-fledged financial entity as a Grameen replication materialised in 1986 in Malaysia (Bornstein, 2005). In the same year, Grameen success spread globally to such an extent that Yunus was called upon to testify before the US congress on the issue of increasing US development funding for poor countries directed at enterprise development. During this period Yunus also established a strong partnership with a leading US advocacy organization,
RESULTS. The founder of this organization, Sam Daley-Harris, much impressed by the work of Yunus and the success of Grameen, would later organize the most significant event taking microfinance from a development policy tool and an organizational form to a social movement: the Microcredit Summit Campaign.

In 1989, Grameen Bank also formed Grameen Trust, a non-profit entity, to help interested actors in the field globally replicate the Grameen model, named by Yunus himself as ‘Grameen Credit’, and to engage in experimental projects that could not be handled through Grameen Bank due to its status as a bank. By the early 1990s, the Grameen Bank success story had spread across the world and started appearing in major international publications such as the *New York Times* and *Wall Street Journal*. Yunus himself advocated the redefinition of ‘credit as a human right’ in an article in the *New York Times* (Yunus, 1990). In 1997, the first meeting of the Microcredit Summit Campaign, organised by RESULTS, a US based advocacy group led by a Grameen enthusiast and Yunus ally, Sam Daley-Harris, brought over 2600 people from 137 countries to pledge expansion of the Grameen style provision of small loans to 100 million poor families throughout the world to reduce poverty. The Microcredit Summit Campaign placed microfinance firmly on the development agenda as the most important development policy initiative available for socio-economic betterment of the poor, and resulted in the creation of hundreds of Grameen Bank replication programmes throughout the world. The final crescendo of triumph for Yunus as a visionary social entrepreneur and Grameen as a pioneering organization came about when both Yunus and Grameen were awarded the Nobel Peace Prize in 2006.

**8.3.1 Yunus as propagator of Grameen Credit**

Once Grameen Bank was successfully established and noticed by the broader development field as a potent poverty alleviation tool, the role of Yunus transformed from an entrepreneur to trying to safeguard the survival of his creation, Grameen Bank, to an
in institutional entrepreneur, taking the Grameen message around the world. Elements of Yunus’ institutional entrepreneurship can be categorized as convening, theorizing, showing/advising, standard setting, enforcing/compliance, and experimenting. These are explained below.

8.3.1.1 Convening

Grameen Bank created Grameen Trust in 1989 to replicate the Grameen model of ‘Grameencredit’ throughout the world (Latiffee, 2002). Grameen Trust instituted training programmes and educational visits as well as internships at Grameen Bank for those who were interested in seeing firsthand the working of Grameen Bank. Starting from the late 1980s, these activities were conducted under a platform called International Dialogue Programmes. Later, as the Grameen success story travelled around the world, especially in the development field, other development organizations also joined in as sponsors, such as the German development agency GTZ, and the Asia Pacific Development Centre, Kuala Lumpur, among others (Shams, 2005).

A more ‘personalized’ nature of convening occurred through the activities of Yunus himself. He travelled widely and presented the story of the founding of Grameen Bank and its success to audiences in the development field (Shams, 2007). The charisma of Yunus as a gifted communicator able to present his ideas in a convincing and forceful manner is widely known (Bornstein, 2005). He also engaged with a global audience beyond the confines of the development finance field – for example, through articles in globally renowned news media such as the New York Times (Yunus, 1990; Yunus, 2011). In this discourse on the Grameen model of microfinance, Yunus highlighted Grameen’s organizational success when promoting his vision of microfinance, and unequivocally criticized the commercialization model of microfinance.

8.3.1.2 Theorizing and defining
Yunus has created a comprehensive picture of how microfinance, or in his preferred nomenclature, ‘Grameencredit’, needs to be defined and conceptualized (Shams, 2007; Yunus, 1994, 1998; Yunus & Jolis, 1998). In the field-wide discourse on microfinance, it is Yunus whose charismatic voice is often heard representing Grameen rather than some faceless Grameen public relations apparatus which propagates and defends the Grameen way. Hence, Yunus takes on a widely legitimized ‘subject position’ of the entrepreneurial pioneer and founder of Grameen to promote his change prescriptions in the microfinance field.

In Yunus’ ideas on microfinance, there is a strong element of defiance against the prevailing ideas and norms, both in the society at large and the global development field. Yunus does not position microfinance as a part of the existing taken-for-granted organizational templates available in society. According to Yunus, an MFO is not like a commercial bank but an antithesis of everything that represents commercial banking, as one of his famous quotes show: “We looked at the commercial banks and we turned everything around” (Yunus & Jolis, 1998: 118). Yunus rejects simple comparisons of the Grameen microfinance model with a commercial bank; in recent years he has also formulated alternative ‘social business’ models to replace the standard for-profit organizations, not only for microfinance but for all types of businesses (Yunus & Weber, 2007).

Yunus has questioned the given organizational templates associated with finance but has also taken issue with the mainstream economics discipline (Yunus, 1998). From the early days of the popularity of Grameen, he has questioned the economist’s conceptualization of loans as lubricants in an economic system, and has emphasized ‘credit as a human right’; this has been done both in the public discourse (Yunus, 1990) and in more formal academic as well as professional interactions (Yunus, 1998, 2004). Hence, in the afore-cited Yunus articles for an academic audience, credit is seen as a source of ‘social power’ particularly for poor women. For Yunus, small loans facilitate the empowerment of the poor. Grameen’s
target market has remained poor landless women; Grameen has from the start maintained a strict policy of catering to women (Mueller-Glodde, 1997). Yunus also questions the conceptualization of the entrepreneur as an unusually gifted and unique person. For Yunus the vast multitudes of self-employed poor in developing countries negate the presumed scarcity of entrepreneurial talents in societies. This contrast between the economist’s conceptualizations and the reality in developing countries is often seen in Yunus’ writings. Hence Yunus remarks: “Elegant economic theories have been extremely useful in understanding the forces that make up the economy. Unfortunately, this elegance lacks a social conscience” (Yunus, 1998: 53).

According to Yunus, Grameen has captured that social conscience by directly engaging with the poorest segment of the society and entrusting them with a banking relationship. In articulating the alternative Grameen vision for institutional change, it is the “… thirty-one year’ experience on the front lines of the battle against poverty…” through Grameen that Yunus emphatically asserts in order to establish the efficacy of his institutional change prescriptions (Yunus & Jolis, 1998: 43).

Apart from presenting its preferred conceptualization of small scale retail development finance, Grameen has also promoted its own nomenclature and the associated definitions of such small-scale finance; and the term it has used is not microfinance. The rise in the use of the term ‘microfinance’ is a recent development promoted by the Financial Systems paradigm calling for the commercialization of microfinance to show that the poor need finance, including loans, savings products and insurance, etc, not just loans or credit (Robinson, 2001). Instead, the word ‘microcredit’ became associated with the developmental potency of small loans to poor people, a term which invoked the pioneering work of Grameen as provider of very small loans to poor, landless women in rural Bangladesh. Yunus, and official Grameen Bank communication, continues to generally use the term microcredit or
Grameencredit in his speeches and writings on microfinance, in order to differentiate his vision from the FS stance (e.g. Shams, 2005). Further, to differentiate the Grameen way of doing microfinance, Yunus uses the term grameencredit (Yunus, 2003). Yunus’ prescriptions under Grameencredit can be clearly differentiated from the generally recognized ideas and practices associated with microfinance. For Yunus, Grameencredit has the following key distinguishing features (Yunus, 1994):

1. A deliberate focus on the poorest of the poor and women
2. No requirement for collateral as conditions for the provision of loans
3. Loans are only for the purpose of income generation and self-employment
4. Loan pricing should not be directed at earning high returns for shareholders but only for organizational sustainability and programme expansion. However, interest rates should still be in line with the market ‘interest rates’.
5. Non financial social services may be added to the financial products so as to promote the development of ‘social capital’ and for promoting auxiliary developmental goals such as education promotion, health, environmental protection etc.

Although Yunus’ ideas in support of promoting the Grameen way of microfinance mostly appear to be in defiance of the Financial Systems (FS) notions of microfinance, there are elements in common with the pro-commercialization camp. To identify commonalities between Yunus’ pronouncements and FS theorization we can divide microfinance into the following organizational elements:

1. Pricing of financial services
2. Notions about organizational sustainability
3. Funding sources
4. Non-profit vs for-profit organizational forms
Regarding the pricing aspect of financial services, the Grameen way envisions MFOs to be charging interest to cover their costs and earn sufficient surplus to expand their operations. Yunus, like the FS camp, has not given a nod to MFOs charging ‘below market’ interest rates which also do not cover operational costs; with the gap financed by concessionary donor funding (Yunus, 1994).

In general, the Grameen notions of sustainability have elements in common with the FS notions of commercialization. There is a clear preference for MFOs to achieve operational and financial viability, but the Grameen way does not encourage MFOs to go for ‘profit maximisation’. However, the scope of this ‘sustainability’ is not clearly established, apart from calls to put limits to profitability. The following quote from a key policy pronouncement of a Grameen replication initiative captures this problem (Latiffee, 2002:21):

To be efficient, cost-effective, and to operate on a sustainable basis, MFIs should follow market principles without sacrificing their social objectives. They should not (be) guided by the commercial motive of maximising profit. They should rather focus on achieving financial sufficiency and operating on a sustainable basis.

Thus MFOs, according to the Grameen vision, need to have an identity which distinguishes them from the commercial financial entities.

8.3.1.3 Standard setting

Standard setting involves creating standardized templates for organizational practices with the specific purpose of universal application of those practices throughout a field (Dejean, Gond, & Leca, 2004). Grameen has engaged in standard setting activities as part of its convening processes. The Grameen Replication Programme started by the Grameen Trust essentially aimed at promoting Grameen practices throughout the global field of microfinance (Latiffee, 2002). Through this replication programme, the Grameen Trust facilitated direct
‘immersion’ in the Grameen experience to those interested in applying Grameen model to their organizations. The Grameen Trust also provided financial help to those organizations which became part of this replication programme, and which fulfilled a set of criteria instituted by the Grameen Trust – one significant condition for such funding included implementation of Grameen model in the organizations funded (Shams, 2005). But these standard setting practices were not explicitly prescribed for all organizations in the field – only for those organizations that were willing to take up the Grameen model and that sought funding from the Grameen Trust.

However, Yunus himself has been vocal in prescribing a set of practices, in line with the Grameen way of microfinance, to the microfinance field at large. For example, Yunus has called for MFOs to limit their profit margins to a certain level, and suggested a set of specific bands within which MFO profit margins need to be maintained (Gonzalez, 2010). Yunus has also called for MFOs to limit their access to private capital which seeks profit maximising dividends as, according to Yunus, the purpose of social enterprise in general and microfinance in particular is to maximise outreach to the poorest through self sufficient organizations (Brencaccio, 2007). Commercial interests focussed on profit maximisation and shareholder wealth maximisation obviates the aforementioned poverty alleviation goals of microfinance. These standard setting positions taken by Yunus and practiced by Grameen are more like moral persuasions, invoking the original altruistic intent of microfinance. Most significantly, the Grameen standard setting strategy, mostly used by Yunus, also invokes the Grameen success story: make Grameen practices as standard because Grameen Bank has been a success in terms of sustainable reaching out to the poor (Yunus & Weber, 2007). The Grameen prescriptions do not fall back on some institutionalized code of conduct as their source of legitimacy. Accordingly, they do not prescribe the wholesale adoption of commercial banking practices, as the proponents of the FS logic do.
8.3.1.4 Advising/Showing

To facilitate the diffusion of newly created organizational models in a field, institutional entrepreneurs try to influence the behaviour of personnel and organizational processes followed by those working within organizations (Perkmann & Spicer, 2007). The strategies taken for influencing such intra-organizational behaviour traditionally include training programmes, and consulting and advisory services directed at personnel and management of organizations.

Yunus, in his capacity as the founder of Grameen Bank and a pioneering specialist in the microfinance field, has personally engaged in such advisory capacity. Yunus has occupied board positions in microfinance initiatives, particularly those aimed at the development of the microfinance field. For example, he has actively engaged with such Grameen-inspired initiatives as Grameen Foundation, USA, and the Microcredit Summit Campaign (Daley-Haris, 2002; Grameen Foundation, 2009b).

Grameen, through the Grameen Trust, has more directly instituted training programmes and international visitor programmes aimed at promoting the Grameen philosophy of development finance and the Grameen way of doing microfinance at the operational level. Most significantly, the Grameen replication programme of the Grameen Trust includes a Build Operation and Transfer model. Under this model, the Grameen Trust sends out Grameen staff to establish Grameen style microfinance programmes around the world. The projects often originate through interactions between Yunus and political leaders, businesses, government officials and actors in the development field interested in starting microfinance programmes in a particular country or region (Grameen Trust, 2010). Such projects also include the Grameen Trust which also often makes financial contributions in the form of start-up capital and/or capacity building grants (Grameen Trust, 2009).

8.3.1.5 Compliance/Enforcing
Institutional entrepreneurs need to enforce their prescribed practices on the field by ensuring that the field actors taking up the new practices comply with the key features of the practices, and maintain the momentum of practice diffusion in a field. Grameen Bank has engaged in such strategies aimed at the enforcement of their prescribed practices associated with microfinance. Grameen Bank, through the Grameen Trust, has provided funding to its replication partners under the proviso that the partners implement organizational practices in line with the Grameen style of doing microfinance. Under the Build, Operate, Transfer/Own processes, Grameen has controlled the operations of Grameen replications around the world by deputizing Grameen staff at those organizations as implementers and managers of those projects. Further, the Grameen Trust has also implemented a consultancy programme whereby Grameen microfinance practitioners are engaged by MFOs around the world to provide guidance on the operations of those MFOs.

A more subtle field-wide compliance mechanism has been used by Yunus when he has tried to publicly criticize organizations which deviate from his Grameen philosophy. Yunus’ pronouncements, coming from the most renowned pioneer and a Nobel Laureate, carry a level of influence not shared by any other actor in the field. Hence through his pronouncements Yunus has tried to question the efficacy of microfinance models not in line with the Grameen way. For example, his criticism of the business practices of Compartamos – a Mexican MFO – has been widely reported in the global popular press (Brennaccio, 2007) as well as in field level influential discourse (World Bank, 2007). This criticism of alternative organizational models has also found its way into the discourse of convening platforms related, directly or indirectly, with Yunus, such as the Grameen Trust (Latiffe, 2007), and the Microcredit Summit (Daley-Harris, 2009).

8.3.1.6 Experimenting
The main legitimating aspect of Grameen as a successful template for small-scale retail development finance is the essentially entrepreneurial aspect of its founding. Yunus has been recognized globally for successfully launching the ‘Grameen Experiment’ despite all odds and uncertainties (Counts, 2008; Sengupta & Aubuchon, 2008; Shams, 2005). Yunus and Grameen have tried to convey the message that the Grameen way of doing microfinance is not an abstract policy stance taken up by a set of ‘non-practitioner’ policy makers away from the ‘field’. Its ‘proof of concept’ is a physical entity in the form of a living organization, Grameen Bank.

The Grameen Trust, under its Grameen Replication Programme, has embarked upon this experimental strategy of institutionalisation by creating new MFOs under the Build, Operate, and Transfer/Own programme. In this programme the promotion of new organizational start-ups modelled on the Grameen template is not just through arms-length financing or capacity-building relationships prevalent in the broader development field. In some replications, Grameen bank employees have taken up operational roles, including top management positions as well as junior operational positions, in replication projects from the start and have guided the project towards complete operational sustainability (Grameen Trust, 2008; Hossain & Diaz, 1997; Latiffee, 2002).

8.3.1.7 Institutional change through ‘inspiration’

The literature mostly identifies situations where actors engage in strategic actions to attract and convene allies that would be willing to implement change agendas. But change agents may also inspire others to follow their prescribed change agenda (Battilana et al., 2009). Like the leaders of social movements, those entrepreneurs create attractive social identities that draw other actors towards the change agenda (Markowitz, 2007). Considering the necessity of convening in an institutional entrepreneurial process, the next logical step arising out of this inspirational role would likely include establishment of convening
platforms by those who are inspired, with little material support from the institutional entrepreneurs but considerable convening power due to the unique social capital associated with entrepreneurial identity of the institutional entrepreneurs. The literature has not provided detailed accounts for this aspect of institutional entrepreneurship by individuals. This would most likely happen in fields which revolve around complex social problems, like microfinance. In this case, the goal is not to copy the organizational model for personal pecuniary gains but to ‘partake’ in the efforts for solving a formidable social problem (Dorado, 2005).

The institutional entrepreneurial process associated with Yunus follows the above-mentioned dynamic. The most prominent of the convening platform phenomenon with the social movement characteristics of microfinance is the Microcredit Summit Campaign (MCS) (www.microcreditsummit.org), started in 1997. The summit was organised by Sam Daley-Harris, a US social worker and the head of the advocacy organization, RESULTS Educational Fund. Yunus was an active member of the board of directors of RESULT, the main organizer of the summit, providing overall mentoring and guidance to the summit, without any significant financial contribution to it. The summit was able to gather around 3000 high profile delegates from all walks of life and a commitment was made in that gathering that, by 2005, more than 100 million poor in developing countries will be provided with small loans so as to take them out of poverty (Daley-Harris, 1997). Yunus has also recounted how Sam Daley-Harris became inspired by Grameen’s work in Bangladesh in a chance meeting between the two, which led to Yunus joining RESULTS as a board member, and then contributing to the idea of launching the Summit (Yunus & Jolis, 1998). The Microcredit Summit Campaign is now widely considered to be a social movement which took microfinance beyond the realm of the development field and gave it the character of a social movement (Davis & Khosla, 2007). Through the State of the Summit Campaign report,
a widely distributed document in the microfinance field, the Campaign has propagated views on the nature of microfinance which are in consonance with the Yunus-Grameen stance (Daley-Harris, 2009).

The ideas propagated by the Microcredit Summit Campaign and Grameen Foundation have complete consonance with the vision of microfinance propagated by Grameen – the criticism of the World Bank’s lack of policy attention to microfinance as a poverty alleviation tool (Daley-Harris, 2003); the deliberate emphasis on the ‘poorest’ and the term ‘microcredit’ rather than the ‘working poor’ and microfinance (Counts, 2008); and favouring the provision of supposedly welfare enhancing non-financial services with financial services (Daley-Harris, 2009).

Another Yunus disciple, Alex Counts, was exposed to Grameen Bank during a stint in Bangladesh as a Fulbright Scholar in the early 1990s. He established another major Grameen-inspired initiative, the Grameen Foundation, and has subsequently propagated the Grameen philosophy in the microfinance field through his writings (Counts, 2008). The Grameen Foundation (GF) is another important microfinance field-based convening platform inspired by the work of Grameen but not directly created by the latter, although Yunus was a founding member of the GF board of directors. Grameen Foundation was “…inspired by the work of Grameen Bank…[and]…created to help share the Grameen philosophy….It replicates the success of Grameen Bank internationally by supporting [MFOs] that embody its vision and values. Although they are independent organizations, the Grameen Foundation and Grameen Bank maintain an enduring relationship” (Grameen Foundation, 2009a). GF provides financial resources and organizational development support to MFOs which follow the Grameen vision of microfinance; GF also strongly emphasizes the endorsement of its services by Yunus (Grameen Foundation, 2009a, b).
Grameen-inspired standard setting activities, aimed at instituting organizational practices compatible with the Grameen way of doing microfinance, have been carried out by the Grameen Foundation, USA. The Grameen Foundation has developed its Progress out of Poverty Index, endorsed by Yunus (Grameen Foundation, 2009a). This index reflects the need, as emphasized by the Grameen way of microfinance as well as the Poverty Alleviation (PA) approach, for reaching out to the poorest segments of the population and measuring the impact of such outreach.

There are other organizations and projects inspired by the Grameen way and often incorporating Yunus as a figurehead. Another such collaborative venture of Grameen’s founder and a set of organizations inspired by the Grameen way is Grameen Creative Labs. A chance meeting between a German entrepreneur and business consultant, Hans Reitz, and Yunus ultimately resulted in the creation of Grameen Creative Labs (GCL) (Grameen Creative Labs, 2009). Formally, GCL is a joint venture between Yunus Centre and circ-responsibility, a German consulting firm. Yunus Centre is a think tank founded by Yunus to facilitate poverty alleviation through the propagation and replication of the idea of social business, around the world.

Field conditions also play a part in constructing the social position of change agents (Battilana et al., 2009). Yunus’ inspirational role was in consonance with the field’s emergent state, particularly during the early 1990s. Yunus provided the organizational template to the then emerging field which was in need of a template that fulfilled the societal goals of poverty alleviation and was also in consonance with the emerging consensus that development finance should be ‘sustainable’ (Bornstein, 2005; Fuglesang & Chandler, 1986; Hossain, 1988; Mueller-Glodde, 1997). At the time of the emergence of the Grameen model, even the pro-FS camp recognized the success of the Grameen model, calling it a pioneering
model of financial intermediation (Pischke, 1993), and a win-win situation in terms of ensuring organizational sustainability and poverty alleviation (Morduch, 1999).

8.4 Conclusion

In this chapter, I analyse Muhammad Yunus’ institutional change strategy as a two-stage process whereby, in the first stage, he acted as an entrepreneur, and founder of his novel organization, Grameen Bank, and in the second stage, he made efforts to promote the Grameen way of microfinance around the world. Further, it was his role as an entrepreneur, and founder of Grameen Bank, which attracted wide attention at the societal level, and in the development finance arena. His emergence and the creation of Grameen happened at an opportune moment as the field of small scale development finance was in turmoil and lacked a successful organizational template. This entrepreneurial legitimacy also attracted inspired individuals who went on to create their own institutional entrepreneurial ventures to propagate the Grameen way of doing microfinance. Further, he has always taken a vociferously opposite stance against his opponents, the pro-commercialization camp. This stance makes sense in terms of his position in the field as innovator and promoter of the original cause of microfinance as a poverty alleviation tool.

In chapter 9, I investigate the activities of the most prominent member of the pro-FS camp, the Consultative Group for Assisting the Poor (CGAP). CGAP was the only pro-FS actor with global reach and legitimacy to undertake the commercialization of the microfinance field.
Chapter 9: The Consultative Group for Assisting the Poor as an institutional entrepreneurship promoting the Financial Systems approach in microfinance

9.1 Introduction

In my thesis, I portray microfinance as a field marked by contestation between the FS and PA logics. I also show that this contest has not subsided over the years as the field is characterized by divergent, historically determined and contradictory goals and lack of standardization of practices. The field has also periodically seen emergence of crisis which has brought to the surface the latent contradictions and unsettled elements in the field.

In this chapter, I examine the Consultative Group for Assisting the Poor (CGAP). My question in this chapter is: how did CGAP try to implement its change agenda, comprising efforts for the commercialization of the microfinance field, given the unsettled nature of the field?

9.2 The rise of CGAP and the FS logic

Paradoxically, although CGAP is widely acknowledged as a champion of commercialization in the microfinance field (Roy, 2010), it was founded due to a widely felt need, in the broader arena of development finance, for a more focussed approach on poverty alleviation. The idea of CGAP was first aired by international funders in a meeting of the Donor Working Group, convened in 1994, to improve programmes directed to the eradication of hunger (Bresnyan, 2004). It was an opportune time for such an initiative. By the mid 1990s, the ‘structural adjustment approach’, the latest development policy fad of that time, had run out of steam amidst the famines and the spiralling debt crisis in Africa. Behind this sombre background, it was the World Bank, fulfilling its historically dominant convening
role in the broader development field (Lele & Gerrard, 2003), which suggested a donor representative organization solely focussed on channelling funding towards microfinance by replicating the successful pioneers, most prominently the Grameen Bank. The World Bank senior executive who reportedly initiated the idea of CGAP, Ismael Serageldin, was an enthusiastic Grameen supporter, fired up by the mission of taking microfinance to the officialdom of the multilateral development organizations (Yunus & Jolis, 1998).

But the mid to late 1990s were also marked by the ascendance of neo-liberalism in the global economic policy arena and in the development field (Harvey, 2007). Global organizations and governments were implementing privatization policies, ‘free market’ reforms, and vociferously calling for the reduction of the role of the state in economic activities. In the development field, there was a greater emphasis on envisaging the private sector as the most important engine of economic development in poor countries (Taylor, 1997). This emergence of the ‘free market’ approach to development also reached the field of development finance in general and microfinance in particular, and the Financial Systems (FS) approach in the microfinance field started gaining ascendance (Dalgic, 2007). The World Bank’s flagship publication, the *World Development Report*, had highlighted the links between, as the title puts it, *Financial Systems and Economic Development* (The World Bank, 1989). However, as highlighted in chapters 5 and 6, this ascendance only manifested itself during the 1990s, in the form of broader policy pronouncements by key international funders. There was no global level platform to formulate specific standardized practice prescriptions for the field and to implement those prescriptions within organizations engaged in microfinance.

A noteworthy presence of the FS approach, in its broader contours, is the prescriptive text titled *Guiding Principles for Selecting and Supporting Intermediaries in Micro and Small Enterprise Finance*. It was developed in 1995 by the Donor Committee of Donors for Small
Enterprise Development, a platform of international funders for microfinance, founded and actively nurtured by the World Bank (Committee of Donor Agencies for Small Enterprise Development, 2001). The title itself shows the stance of that time on microfinance. The focus of small scale financial services was considered to be narrower in terms of providing financial services to small enterprises as opposed to the poor in general. Another publication showing commercially-oriented success stories in microfinance and, ignoring the pioneering efforts of the Grameen Bank, announced the emergence of *The new world of microenterprise finance: building healthy financial institutions for the poor* (Otero & Rhyne, 1994). But the Microcredit Summit was also held in 1997, by the pro-PA actors in the field. The enthusiastic response to the Summit, not just at the field level but also at the societal level, reaffirmed the inextricable altruistic focus on microfinance (Daley-Harris, 1997). Hence, at the time when CGAP appeared, microfinance was a visibly contested arena revealing commercialization vs. poverty alleviation ‘schisms’ (Morduch, 2000), along with the much acclaimed promise of poverty alleviation (Morduch, 1999).

Amidst this contestation and euphoria surrounding microfinance, CGAP emerged, in 1995, following the PA oriented spirit of its founding organizations, but this altruistic imperative morphed into a need to ‘standardize’ the field. As an organization representing some of the most influential actors, and mandated to spearhead institutional change CGAP’s role as a change agent appears to be unparalleled in the microfinance field (World Bank 2008). Its aim is to develop ‘public goods’ with field-wide implications so as to spread ‘best practice’ microfinance, particularly among its main constituency of the donor community (Bresnyan 2004). In line with this aim CGAP envisions itself as a “…standard setter, convening platform, incubator of innovations, knowledge centre, and information clearinghouse…” in the microfinance field (Consultative Group for Assisting the Poor, 2002: 9)
<table>
<thead>
<tr>
<th>Year</th>
<th>Nature of Institutional Work *</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Convening</td>
<td>CGAP formed, through World Bank prodding and seed money, as a collaborative platform for promoting microfinance as a poverty alleviation tool.</td>
</tr>
<tr>
<td></td>
<td>Theorising and Defining/Standard Setting</td>
<td>The first conceptualisation of CGAP preferred 'success stories' and related 'lessons learned' emerge in the form of Focus Note 2 Maximising the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs.</td>
</tr>
<tr>
<td>1997</td>
<td>Standard Setting</td>
<td>Microbanking Bulletin (MBB), an online publication for organizational benchmarking launched, which collects and disseminates data and analysis on MFO using a set of indicators mostly emphasising commercial success.</td>
</tr>
<tr>
<td>1998–9</td>
<td>Convening/Showing</td>
<td>Africa Capacity Building Programme (AFCAP) launched; co-funded by the UK and French governments. Aim: to change organizational practices mainly through training and advisory services. The training programme later launched globally as Skills for Microfinance Managers Programme.</td>
</tr>
<tr>
<td>2000</td>
<td>Theorising and Defining</td>
<td>Launched an online knowledge depository on microfinance: microfinancegateway.com</td>
</tr>
<tr>
<td>2001</td>
<td>Convening/Enforcing</td>
<td>Appraisal and Monitoring Services launched whereby CGAP is engaged by its member organizations to conduct appraisal MFOs seeking funding from the CGAP member organizations.</td>
</tr>
<tr>
<td></td>
<td>Showing</td>
<td>Provided resources for the globally renowned microfinance training programme for middle managers: Boulder Microfinance Training Programme. Provided scholarships to self-selected participants in lieu of training fees.</td>
</tr>
<tr>
<td>2002</td>
<td>Standard Setting/Convening</td>
<td>Launched, in collaboration with other leading microfinance support organizations, Microfinance Information Exchange (MIX) – an online portal for collecting and presenting standardised benchmarked data on MFOs, in line with CGAP’s guidelines.</td>
</tr>
<tr>
<td></td>
<td>Convening</td>
<td>Two ‘private’ philanthropic entities join as CGAP members, Ford Foundation and Argedius Foundation, fulfilling the longstanding goal of incorporating the private sector in microfinance.</td>
</tr>
<tr>
<td></td>
<td>Showing/Convening</td>
<td>‘Microfinance in MBA’ programme launched in collaboration with a US based philanthropic entity Open Society Institute, founded by the financier George Soros. Aim: to ‘mainstream’ microfinance education into business education curricula.</td>
</tr>
<tr>
<td>2003–4</td>
<td>Enforcing/Convening</td>
<td>Donor Peer Reviews conducted to assess the extent of compliance of activities/practices of CGAP members with ‘best practices’ as devised/promoted by CGAP.</td>
</tr>
<tr>
<td></td>
<td>Theorising and Defining/Convening</td>
<td>‘Key Principles of Microfinance’ launched and endorsed by CGAP members and influential players in the field.</td>
</tr>
<tr>
<td></td>
<td>Standard Setting/Convening</td>
<td>‘Social Performance Indicators’ developed in collaboration with other leading players in the field launched to track the social objectives of MFOs.</td>
</tr>
<tr>
<td>2004</td>
<td>Showing/Convening</td>
<td>Launched Retail Advisory Services for commercial banks to help them start profitable microfinance product lines.</td>
</tr>
<tr>
<td>2006</td>
<td>Standard Setting/Convening</td>
<td>Good Practice Guidelines for Funders of Microfinance formulated as a replacement of the existing practice guidelines (the so called ‘Pink Book’ used since 1985) launched and endorsed by all influential actors in the field.</td>
</tr>
<tr>
<td></td>
<td>Standard Setting/Convening</td>
<td>SmartAid Index developed and endorsed for use by leading microfinance supporters. The index quantitatively measures the extent of compliance of funding practices with ‘best practice’ prescriptions.</td>
</tr>
<tr>
<td>2006–8</td>
<td>Convening</td>
<td>More private sector players joined CGAP as members, most significantly including, Bill &amp; Malinda Gates Foundation, Citigroup and Mastercard Foundation – philanthropic arms of large multinational organizations also from the financial sector.</td>
</tr>
<tr>
<td>2007</td>
<td>Showing/Convening</td>
<td>Started championing technology use in microfinance such as ‘branchless banking’ Launched ‘pilot demonstration projects’ co-funded by Bill and Malinda Gates foundation and others, for introducing new mobile phone and other information technologies in partner MFOs.</td>
</tr>
<tr>
<td></td>
<td>Convening/Standard Setting</td>
<td>Formulated the Social Performance Reporting Framework as part of the 150 member Social Performance Task Force (also convened by CGAP). 30 MFOs agree to implement the framework and relay data to Microfinance Information Exchange (MIX).</td>
</tr>
</tbody>
</table>

*Categories of change implementation under Nature of Institutional Work have been borrowed from my conference paper co-authored with Dr. Jaco Lok of UNSW (Khan & Lok, 2010). Dr. Lok has contributed in developing the categories.
## 9.3 CGAP’s institutional change initiatives

### 9.3.1 Convening

CGAP’s institutional change initiatives are summarized in Table 10. Convening activities involving collaboration, consultation and consensus building have been the foundation on which CGAP built its repertoire of change initiatives in the microfinance field. CGAP was particularly effective in creating collaborative platforms and partnerships because of its central position (Battilana, Leca, & Boxenbaum, 2009), afforded due to it being a collaborative platform of influential international microfinance players, most prominent among them being the World Bank. CGAP is administratively embedded in the World Bank’s organizational structure where the latter acts as a trustee of funds allocated by not only the World Bank but all other CGAP members (World Bank, 2008). CGAP’s change initiatives are almost always the result of a partnering arrangement with an organization of significance in the microfinance field. CGAP’s convening activities have been found to have taken five main shapes, often labelled by CGAP as ‘investments’ (World Bank, 2008):

1. One to one engagement where CGAP has contributed financial resources and advice to a partner organization to implement change; this kind of engagement has been mostly established with retail MFOs. The engagement involved direct provision of credit line, provision of advisory services, or a combination of both, and also seemed to be conditional upon allowing CGAP to ‘pilot’ a new organizational practice. Furthermore, the main thrust of change activities also involved the introduction of practices aligned with the FS approach. For example, in some instances partners were helped in accessing commercial sources of capital (e.g. ACODEP (Nicaragua) as mentioned in (Consultative Group for Assisting the Poor, 2000)), or transformation from non-profit entities to commercial banks (e.g. XAC Bank, Mongolia (Reille, 2000))
2. Variants of a ‘sub-contracting’ arrangement where a specialized service provider was hired to facilitate CGAP’s change initiative; in this case CGAP mostly engaged organizations due to the speciality of those organizations matching CGAP’s change need. For example, CGAP contracted the International Food Policy Research Institute (IFPRI) to develop poverty assessment tools under the broader theme of ‘social performance measurement’ (Henry, Sharma, Lapenu, & Zeller, 2003). However, I discovered that those arrangements were not arm-length contracts where the sub-contractor provides the final products to CGAP; CGAP actively participated in those engagements by assigning its key staff to those projects.

3. Co-funding/co-founding of a change initiative, and possibly also acting in an advisory capacity in that initiative, with other change agents (often CGAP members); this is a partnership arrangement which has been found to be prevalent in CGAP’s change initiatives. By leveraging its relationships with funding organizations (often CGAP members), which constitute consortia for field wide change, CGAP has joined such consortia and occupied technical advisory positions. The resulting advice often proved to have two effects: a powerful channel was created for the CGAP preferred change prescriptions, and the partnerships facilitated the consultation processes needed for CGAP to give an impression of field level acceptability and legitimacy of CGAP initiatives. Furthermore, by engaging in what the literature terms ‘leveraging’ (Dorado, 2005), CGAP exploited its close association with the World Bank organization; CGAP has often ‘piggy backed’ on existing partnerships initiated by the World Bank or its affiliates. For example, CGAP kicked off its change implementation activities, around 1997, by linking its Africa Capacity Building Initiative with the UK government’s microfinance development efforts in microfinance (Consultative Group for Assisting the Poor, 1999). Another noteworthy
instance of CGAP’s partnership-based change activities includes partnership with the International Finance Corporation (IFC), a World Bank affiliate, and the United Nations Development Programme (UNDP), to support a Mongolian MFO (Frankiewicz & de Souza-Shields, 2005). Another significant example involved CGAP acting in an advisory capacity to Gateway Fund, a microfinance investment fund created by ACCION International, a pioneer in the field, and then later on joining in as contributor to the fund with the stance that ACCION had an “…impressive record to leading commercialisation of microfinance…” (Consultative Group for Assisting the Poor, 2001: 11). The IFC was also reported to have joined the aforementioned fund based on CGAP’s partnership.

CGAP has also partnered a set of emerging ‘private’ philanthropic organizations on highly specific themes often associated with the businesses of the sponsors of such private philanthropies. The CGAP – Gates Technology program is the most significant example where CGAP has partnered with the Bill and Melinda Gates Foundation for change initiatives aimed at introducing information technology in the microfinance field (Consultative Group for Assisting the Poor, 2008).

4. Partnerships where CGAP contributes only in an advisory capacity rather than contributing financial resources. This is a typical scenario where CGAP’s speciality as a microfinance change agent was recognised by other partners; accordingly the former was incorporated in collaborative arrangements to provide technical input for ultimate field-wide change.

Some of these arrangements, especially involving retail MFOs, often ultimately end up in CGAP also contributing financially with other funding partners or facilitating access to funding to the recipient retail MFOs, giving the impression that the carrot of funding is often
attached with the stick of CGAP advice! CGAP’s Appraisal and Monitoring Services is an
example of this situation (Consultative Group for Assisting the Poor, 2001; Reille, 2000).

Under these arrangements, CGAP has also engaged in creating the tone of the
discourse in the field by creating documents commissioned by partner funding organizations.
For example, CGAP authored the World Bank’s Agricultural Investment Source Book
(Consultative Group for Assisting the Poor, 2003a). CGAP has also advised and conducted
portfolio reviews of IFAD and the Dutch Microfinance Platforms (Consultative Group for
Assisting the Poor, 2008). Moreover, CGAP has created Donor Working Groups with like-
minded members to tackle field-wide issues – for example the Working Group on Savings
Mobilisation (Mukherjee & Wisniwski, 1998) and the Social Performance Task Force
(Hashemi & Anand, 2007)

CGAP is essentially an organization representing the sub-population of the
microfinance field comprising the funding organizations. These funding organizations,
holding the purse strings, hold the most influential position not just, in terms of their ability to
provide material resources but also as a dominant source of ideas and practices. CGAP
members come from all categories of this sup-population, espousing different often differing
institutional logics, as outlined in chapter 6, on the players in the microfinance field.
However, a vast majority of CGAP members are the multilateral and bilateral organizations,
chiefly sponsored by the governments of the rich industrialized nations. CGAP has been
trying to attract more of the private entities into its fold. In recent years, CGAP has been able
to attract those influential ‘private’ philanthropic entities focussed on the development of the
microfinance field; prominent examples include Citi Foundation, and the Bill and Melinda
Gates Foundation. Our analysis shows that it has been a small set of mostly multilateral and
bilateral organizations (USAID, the World Bank), a very few multilateral organizations (e.g.
IFAD, UNDP) but all of the private entities that are CGAP members, which have been the
most active partners of CGAP in the latter’s change implementation activities. The World Bank, the main founder and sponsor of CGAP, has also been an active CGAP partner and the biggest contributor to CGAP’s operational budget, even though this involvement has entailed flouting its own rules in such projects (World Bank, 2008).

From an analysis of the policies of CGAP’s most active and consistent bilateral and multilateral partners, it is clear that those organizations were the earliest adoptors (e.g. DFID, the World Bank) and pioneers (USAID) of the FS approach. This consistency of logics between CGAP and its partners is also reflected in the change projects implemented in the wake of such partnerships.

An analysis of CGAP’s mission and its relation with the zeitgeist of the field also highlights that CGAP has explicitly or implicitly pushed field-wide change on the lines of the FS approach, but, as a ‘communal’ organization it has had to perform a convening and conciliatory role because its members included multiple constituencies with varied approaches, philosophies and practices for promoting and funding microfinance. CGAP, apparently as an ‘accommodation’ of the altruistic field imperatives, has also partnered with organizations with an explicit PA stance, such as the Grameen Foundation, on topics such as impact assessment and social performance management (Grameen Foundation, 2008), which have traditionally been of lesser concern to the pure FS approach.

Most significantly the need for collaboration has been driven by CGAP’s strategy to legitimate its change activities. As a de facto World Bank initiative, trying to shed its image of a 'mouthpiece' for World Bank policies (World Bank, 2008), CGAP has tried to reach out to its target constituency of a broad range of funding organizations. Hence, right at the start, an influential bilateral organization, DFID, a new FS convert, was partnered in CGAP’s Africa Capacity Building Initiative (CGAP, 1999). Later, ‘principles of microfinance’ were
introduced, and the field-wide practice guidelines were revised through a lengthy process of consultations, ‘peer review’ of member practices (CGAP, 2004) and, ultimately, endorsement of the resultant framework in a high profile gathering of decision makers of the member organizations and their governments (CGAP, 2006).

As a collaborative platform of resource providers in the microfinance field, and an organization embedded in the administrative structures of the World Bank, CGAP was able to shape and leverage its social capital in consonance with its unique position in the field. Social capital implies the political support, and access to information provided by actors due to the relationships of those actors with other actors in a field (Battilana, 2006; Battilana et al., 2009). CGAP used its social capital in two ways. First, due to its central position in the field, it convened members of its constituency on platforms created to implement CGAP-preferred change. Second, as shown below, it shaped its identity as a technical standard setter and leveraged its apparently neutral position to gain support.

9.3.2 Theorizing

The literature identifies theorization as the key to practice diffusion in the institutionalization process (Greenwood, Suddaby, & Hinings, 2002). By carefully cultivating its identity as the first and foremost technical expert in what constitutes ‘best practice’ in the microfinance field, CGAP was able to attain a position as a neutral knowledge creator and disseminator (Fligstein, 1997). This position would not have been achievable had it actively engaged in controversies surrounding the clash between the FS logic of microfinance and the PA logic. CGAP presented the legitimacy of the FS logic in a taken-for-granted, neutral, technical way, and coopted the PA logic by formally endorsing its goal, by partnering with PA based organizations, and, in this process, by subtly reframing the PA logic in terms of technical FS principles and guidelines. This technical reframing facilitated practice adoption
by concealing the institutional logic that underpinned them (Oakes, Townley, & Cooper, 1998).

CGAP has theorized and defined its prescribed ideas and practices of microfinance in line with the FS approach. In 2004, it formulated the ‘Key Principles of Microfinance’ (CGAP, 2004) which define the scope of the field, prescribing a pro-FS stand on the most contentious issues, and envisioning the role of key actors in that field. CGAP has also crafted and presented organizational role models of key actors in the field by, for example, incorporating fictitious case studies as teaching aids in educational projects, and by including, in its various texts, actual organizations that reflect CGAP prescribed ‘best practice’ scenarios.

CGAP has also engaged in creating widely disseminated texts which coherently present the FS vision of microfinance, most prominently *Access for All: Building Inclusive Financial Systems* (Helms, 2006). Through these continued theorizing activities which heavily draw on the FS logic, CGAP has worked to bolster the contested legitimacy of FS based practices.

It appears that all of these activities were done without any chronological order. The principles were developed in 2004, after almost nine years of CGAP’s founding. However, the training and showcasing of success stories has been a continuous process which is ongoing.

CGAP was promoting commercialization of the field but it was careful enough not to diverge from the altruistic goals and concerns of the field at large. The literature has noted similar scenarios in institutional entrepreneurial phenomena in other empirical settings as well (e.g. Boxenbaum, 2006; Suddaby & Greenwood, 2005). In the CGAP-formulated principles of microfinance, there is a pro-FS call for financial sustainability and the
development of 'financial systems' for the poor, implied in its prescriptions, but there is also an admission of the place for donors, subsidies and the over-arching theme of poverty alleviation. Similarly, the espousal of themes and related activities such as social performance (Hashemi, 2001; Hashemi & Anand, 2007), 'graduating' the poorest out of poverty (El-Zoghby & Montesquiou, 2009) and, more recently, in the wake of Global Financial Crisis, the slogan of ‘consumer protection’ (Brix & McKee, 2010), all reflect the impact of field wide pressures on the CGAP change agenda.

CGAP has also invoked imageries of its preferred organizational archetypes in its training programmes, via fictitious case studies. The case studies depict scenarios where MFOs as organizations have a commercially oriented mission; organizations actively seek to convert to commercial banks; organizations seek commercial sources of funding; organizations are freeing themselves from philanthropic funding; and the microfinance field is a free market environment with liberalized interest rates and no government intervention (for example, Consultative Group for Assisting the Poor (2009c)). Training activities have been considered to be the most successful change implementation activity with a global outreach (Forster, Maurer, & Mithika, 2007). In fact, training and education programmes have been CGAP’s first set of change initiatives in the field (Consultative Group for Assisting the Poor, 1999).

CGAP has also showcased a set of organizations as successful examples or templates of CGAP preferred practices. A detailed analysis of CGAP projects and related reports show that the ultimate pioneering organization, Grameen Bank, has been the least visible as a model MFO. In most of the instances, CGAP prefers to highlight organizations like BancoSol (the first NGO transformation into a commercial bank) or BRI (Indonesia; a commercial bank with a renowned and profitable microfinance programme, and a darling of the FS proponents in general, as depicted in Robinson (2002)). Most of the organizations put on the pedestal as
success stories have also been extensively and continuously supported financially by CGAP, through credit lines and grants – for example BancoSol, Bolivia (Chen, 1997; Consultative Group for Assisting the Poor, 2001) and Bank Rakayat Indonesia (BRI) (Consultative Group for Assisting the Poor, 2002; Mukherjee, 1997).

In theorizing about the microfinance field, CGAP could not completely alienate its biggest constituency: international funders which provide subsidized loans to MFOs. Hence, CGAP attempts to prevent subsidized loans to MFOs by international funders:

Gradually phase out grants and subsidized loans as local and/or international commercial capital markets and domestic savers become viable sources of capital for the financial institution (Consultative Group for Assisting the Poor, 2006c: 13).

But CGAP also creates a role for subsidies:

Funding organizations with large amounts of public subsidy or grant funds should take more risk to build the next generation of strong institutions, support product development and experimentation, and expand outreach to underserved populations (Consultative Group for Assisting the Poor, 2006c: 13).

CGAP highlights the importance of commercial banks as the preferable organizational structures of doing microfinance:

Compared with many existing providers of microfinance, commercial banks have potential competitive advantages in a number of areas, such as recognizable consumer brand names, existing infrastructure and systems, and access to capital (Mukherjee, 2005:1).

But CGAP also accepts the variety of organizational forms in the field, including government owned banks, a blasphemous proposition as per the FS approach:
The range of retail financial institutions with potential to serve poor people is much broader than NGOs and includes private and state-owned banks, postal and savings banks, savings and credit cooperatives, member-owned community organizations, and other nonbank intermediaries, such as finance or insurance companies. Furthermore, nonfinancial institutions, such as agricultural traders, are sometimes important providers of financial services (Consultative Group for Assisting the Poor, 2006c: 9).

9.3.3 Standard setting

Introduction of seemingly neutral practice standards is a crucial element of implementation strategies adopted by institutional entrepreneurs (Dejean, Gond, & Leca, 2004). CGAP created its identity as a technical standard setting organization in the field, and leveraged this role to gain political and informational advantage. CGAP ‘standard setting’ activities include creation of performance benchmarks, revision of existing practice guidelines and the creation of new guidelines, and knowledge depositories. Under the standard setting strategies, CGAP created texts which prescribed practices for measuring the performance of microfinance organizations – for example, the *CGAP Appraisal Guide for Microfinance Institutions* (Isern, Abrams, & Brown, 2008) and the *MicroBanking Bulletin* (available on www.themix.org). Based on those prescriptions, CGAP founded organizations which called upon microfinance organizations to voluntarily submit organizational information, on CGAP prescribed FS compliant format, for generating field wide performance benchmarks. The most important practice guideline document in the field for funding providers, created in 1985, the *Good Practice Guideline for Funders of Microfinance*, also termed as the ‘pink book’ due to its pink cover, was revised by CGAP through its review process (of which below).

CGAP has also created widely used knowledge depositories such as online portals for not only disseminating its prescribed texts and messages but also to create a library of
material on microfinance (www.microfinancegateway.org). The knowledge depositories disseminate CGAP sponsored activities and information and also act as a clearing house on all field-generated knowledge.

Standard setting activities have mostly involved borrowing from the established conventions of the commercial field, including defining the various organizational performance metrics (Consultative Group for Assisting the Poor, 2003c), frameworks for assessing MFOs for funding (Isern et al., 2008), providing contract templates from the commercial finance field to access private capital (Consultative Group for Assisting the Poor, 2006a) and regulatory issues (Christen, Lyman, & Rosenberg, 2003). The MicroBanking Bulletin (MBB), the benchmarking publication by CGAP-sponsored organization, the Microfinance Information Exchange (MIX), has also used pro forma financial information following the commercial benchmarking metrics (for example, Microbanking Bulletin, 2009).

In terms of performance benchmarks, CGAP appeared to be influenced by the growing call by the field actors to create ‘social performance benchmarks’ to find out the extent to which MFOs were fulfilling their main goal of poverty alleviation (e.g. Simanowitz & Walter, 2002). In recent years, CGAP has partnered with Grameen Foundation to create a social performance metrics called Progress Out of Poverty Index (Grameen Foundation, 2010). CGAP admits that:

...for most microfinance practitioners and funders, it is also important to reach poor and very poor people, to provide quality services, and most important to improve clients’ lives. In other words, both financial performance and performance in positively affecting people’s lives – social performance – matter. And the two aims are not necessarily at odds with one another. Thus, many funders and financial institutions are seeking more transparent ways to measure social performance in
addition to measuring for financial performance....Much of the passion and commitment to microfinance is anchored in the belief that access to financial services can help clients improve their lives. Though financial sustainability is essential for massively expanding services, it does not automatically ensure that client-level benefits are realized... (Hashemi, 2007: 1).

However, CGAP, following a path-dependent adherence to its FS message, re-cast its social performance measurement theorization on its own terms which entailed maintaining focus on organizational sustainability and invoking slogans such as ‘truth in advertisement’ taken from mainstream retail finance, rather than solely privileging the poverty alleviation discourse. Hence CGAP states:

Assessing and managing an institution’s social performance also can be good business: improving the financial bottom line through better retention of clients and reduction of costs... (Hashemi, 2007: 2).

Traditional evaluation has focused on end results and impact. However impact (which refers to changes in client or community conditions that can be directly attributed to programs) is just one element of social performance (Hashemi, 2007: 3)

9.3.4 Advising/Showing

Institutional entrepreneurs may engage in a more involved manner, such as educational, consulting and advising activities, with field actors to demonstrate the efficacy of change projects and impart skills to field practitioners about associated practices (Perkmann & Spicer, 2007). CGAP has tried to ‘show’ how its procedures work and the significance of its prescribed practices, mainly through two implementation activities: training/education and consultancy. Through training, CGAP has introduced technical topics for various functional aspects of organizations through a set of carefully selected
training/educational topics (e.g. financial analysis, business planning, accounting, interest rate setting etc) (e.g. Consultative Group for Assisting the Poor, 2009a; Consultative Group for Assisting the Poor, 2009b, c, d, f). CGAP has also tried to introduce microfinance as an elective MBA course in countries with a large existing or potential microfinance market (Gibb, Richardson, & Nelson, 2007). CGAP, through such initiatives, has tried to show that microfinance was a proper business domain rather than a topic belonging to the traditional ‘development studies’ stream in the social sciences (World Bank, 2008).

Training has been the earliest method used for change implementation by CGAP, and the most overt strategy of promoting the FS approach in microfinance (Consultative Group for Assisting the Poor, 2000). Training has been considered to be the most successful change implementation activity of CGAP, reaching out to over 10,000 practitioners in over 48 countries by 2005 (Forster et al., 2007; World Bank, 2008). The training topics have been clearly borrowed from the standard corporate training curriculum (e.g Consultative Group for Assisting the Poor, 2009d).

CGAP has also provided advisory services to MFOs and funding organizations on ‘best practices’ in microfinance. The introduction of advisory services involved careful opportunistic timing, with special attention to the contexts and organizations involved. Under Retail Advisory Services (Consultative Group for Assisting the Poor, 2007), CGAP has tried to facilitate commercial banks in starting microfinance product lines. Advisory services also took the form of ‘institutional appraisals’ of individual MFOs linked with the provision of material resources, and pilot testing of CGAP-preferred practices (Consultative Group for Assisting the Poor, 2001; Reille, 2000). CGAP often ‘piggy backed’ its implementation activities onto existing funding consortia and chipped in funds with an advisory component, for example under its Appraisal and Monitoring Services (Consultative Group for Assisting the Poor, 2001). In some instances CGAP initiated advisory services with a promise of
bringing in more funding from other funders (Consultative Group for Assisting the Poor, 2001; Reille, 2000). This has ensured that the CGAP message has achieved effectiveness, legitimacy and a large audience in the microfinance field, as CGAP appraisals are closely enmeshed with the actual financial flows in the microfinance field facilitated by CGAP.

The activities included in advising have depended on the context and other partners. An analysis of CGAP’s engagement with MDOs and BDOs reveals that CGAP has mostly engaged in discursive activities of verbal advice provided as part of a broader consortia of funding organizations, often involved in policy level dialogue with governments or consultations with retail MFOs to suggest changes in organizational practices (Bresnyan, 2004; CGAP, 2003). Yet in the case of the organizations from the sub-population of CSFs and their change initiatives, CGAP has also engaged in a more pro-active ‘hands-on’ approach involving ‘experimentation’ with internal organizational practices of partner retail MFOs – for example, in adopting technology to facilitate microfinance transactions (Ivatury & Mas, 2008).

9.3.5 Compliance/Enforcing

Institutional entrepreneurs may create their own strategies to ensure compliance of field actors to the change agenda, depending on the nature of their interaction with other field actors (Fligstein, 1990). CGAP seems to have employed subtle ways of persuading field actors into compliance, particularly the international funders which were part of the membership of CGAP. The microfinance field comprises different constituencies following different institutional referents. In this scenario, it would make sense to not come out with explicit coercive mechanisms to ensure compliance. Further, CGAP has always portrayed itself as a consultative group working through consensus. Hence, CGAP’s interactions, aimed at gently nudging the actors to adopt the so called ‘best practices’, often took the nomenclature of ‘appraisals’ or ‘peer reviews’, lending them connotations of technicality and
objectivity (Consultative Group for Assisting the Poor, 2003b). These reviews constitute a form of institutional maintenance work (Lawrence & Suddaby, 2006), and they also aid further diffusion by implicitly gaining endorsement of the reviewed organizations as adopters of FS based practices.

A large number of such appraisals have been conducted over time, most significantly with member organizations. Two specific initiatives, done on a large scale, with significant consequences and with much fanfare, are noteworthy. The first one, donor peer reviews, involved comparing the funding practices of individual practices of those organizations with a set of agreed-upon ‘best practices’ (Consultative Group for Assisting the Poor, 2003b). In such reviews, CGAP presented itself as an independent facilitator, and the reviewed were conducted by independent reviewers from other funding organizations. The second set of reviews, Country Level Effectiveness and Accountability Reviews (CLEAR), critically looked at the microfinance field at a country level and compared the situation on the ground with CGAP’s prescriptions at country level of operations for international funders (Consultative Group for Assisting the Poor, 2004b). The results of both the reviews were used to revise the most important practice prescription in the field called the ‘pink book’ and the creation of CGAP’s *Good Practice Guidelines for Funders of Microfinance* (Consultative Group for Assisting the Poor, 2006c).

The donor peer reviews are significant as, during these reviews, the multiple logics of the field, the polarized stance of the field actors and the controversial position of CGAP change strategies came to the fore. Out of the seventeen reviews, six organizations publicly responded to CGAP’s recommendations. Two organizations, the Canadian Agency for International Development (CIDA) and the Swedish International Development Agency (SIDA), explicitly disagreed with CGAP prescriptions (Birgegrad, 2004; Consultative Group for Assisting the Poor, 2004a). Canada’s Minister for International Cooperation, refusing to
accept CGAP’s prescription to discontinue the use of microfinance as a ‘component’ in development projects, stated:

...that CIDA funds many projects which make use of credit components. While certain difficulties have undoubtedly been encountered, in our view this does not by itself, support the argument of outright elimination of such components...We believe that credit remains an important and useful adjunct to other interventions as long as it is managed in line with established best practices (Consultative Group for Assisting the Poor, 2004a: 13)

The Swedish response came out in a report written in the wake of the CGAP peer review conducted for the Swedish microfinance funding organization’s microfinance programme. Implicitly questioning CGAP’s FS oriented calls for across the board commercialization, and identifying the contradictions inherent in the application of such prescriptions, the report states:

On the one hand [microfinance] is advanced as a commercial, business proposition. On the other hand, it is implicitly accepted (generally) not be a viable business proposition therefore requiring subsidies...Claiming that such a development intervention is an investment in a business venture is both inappropriate and misleading (Birgegrad, 2004: 14)

However, surprisingly, despite some resistance from the field, CGAP recommendations, coming out of the reviews and CLEAR, were unanimously approved in a high profile gathering of the funding organizations, which included the dissenting organizations (Consultative Group for Assisting the Poor, 2006b).
Institutional entrepreneurs may also leverage their financial resources to gain support among field actors (Demil & Bensedrine, 2005). CGAP has also used its financial resources to influence actors in the field by deploying ‘conditional funding’ mechanisms. Actors in the field, particularly the microfinance organizations directly engaged in retail financial services, have been provided financial resources with the condition that CGAP be allowed to conduct operational ‘appraisals’ of those organizations and suggest changes in organizational routines (Bresnyan, 2004; Consultative Group for Assisting the Poor, 1999, 2000, 2001). Funding has also been attached to the proviso that recipient organizations conduct ‘pilot tests’ of CGAP prescribed routines (e.g. Ivatury & Mas, 2008). Table 11 presents some noteworthy examples of CGAP funding to predominantly FS oriented activities.

9.3.6 Experimenting

The literature on institutional entrepreneurship has not so far highlighted experimentation as an implementation strategy by institutional entrepreneurs. CGAP has engaged in experimentation from the start by conducting pilot testing of its ideas and practices through partnership with organizations, including MFOs that were willing to adopt the CGAP prescribed practices.
<table>
<thead>
<tr>
<th>MFO Funded</th>
<th>Amount of funding in US $ (year)</th>
<th>Purpose of funding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compartamos, Mexico</td>
<td>2000,000 (1999)</td>
<td>Grants for expanding loan portfolio and to help conversion to a commercial entity.</td>
<td>It converted from a non-profit status to a commercial entity in 2000, facilitated by CGAP.</td>
</tr>
<tr>
<td>ACODEP, Nicaragua</td>
<td>2000,000 (1999)</td>
<td>Funding provided by CGAP to leverage further funding from commercial banks.</td>
<td>ACODEP established by the MBA alumni of a leading Latin American business school INCEA.</td>
</tr>
<tr>
<td>CARD, Philippines</td>
<td>120,000 (1999)</td>
<td>CGAP provided ‘business planning’ advisory service using its prescribed guidelines.</td>
<td>The largest MFO in Philippines and the 1st to convert to a commercial bank.</td>
</tr>
<tr>
<td>K-Rep, Kenya</td>
<td>900,000 (1999)</td>
<td>CGAP funding helped it to convert into a commercial bank through employee stock—option</td>
<td>CGAP funding brought in IFC, a commercial oriented funder.</td>
</tr>
<tr>
<td>XAC Bank, Mongolia</td>
<td>95,000 (2000)</td>
<td>‘Advisory services’ to help streamline operations and achieve profitability.</td>
<td>The 1st commercial MFO in Mongolia; CGAP ‘appraisal’ brought in other commercially oriented funders (e.g. IFC) as investors, CGAP tested its ‘Microfin’ financial planning software and auditing guidelines at XAC.</td>
</tr>
</tbody>
</table>

For example, with MFOs such as ProMujer (Bolivia), SHARE (India), CARD (Philippines), and XAC (Mongolia), CGAP has pilot tested its various prescriptive ‘tools’ to promote its activities and gain legitimacy (Consultative Group for Assisting the Poor, 1999, 2000, 2007). Pilot projects initiated with its member funders, once having achieved some success, were then spun off as independent entities with CGAP as a shareholder (Consultative Group for Assisting the Poor, 2002). Furthermore, training and educational activities were also spun off as an independent collaborative entity called Microfinance Management Institute (MFMI) (Gibb et al., 2007). Through pilot testing and experimentation CGAP has tried to gain the legitimacy of field innovators that only the likes of Grameen Bank had enjoyed. Moreover, the spin-offs it has created have an aura of independence and neutrality.
that is more difficult to achieve for CGAP based on its close association with the World Bank (World Bank, 2008).

It is through experimentation that CGAP has tried to detach itself from the inflexible practices associated with the development finance field proper and associate itself with the entrepreneurial milieu of the ‘private’ funders and other actors. Chapter 4 provides a typology of funders active in microfinance. With the MDOs and, to a lesser extent, BDOs, CGAP has tended to limit its engagement involving change implementation to a mix of discursive and material actions within the predictable confines of trainings, appraisal or credit lines. However, CSFs such as the Bill and Melinda Gates Fund are more focussed on themes related with the industries of their sponsors (in this case technology) and they want direct action at the retail level to implement their agenda. Hence, it made more sense for CGAP to attract these players through promising a more active approach in change implementation, involving partnerships with MFOs for pilot based implementation of new practices. CGAP also promised taking a financial stake, contributing $2 million of its own money with the $24 million Gates Foundation funding (Consultative Group for Assisting the Poor, 2007) in these initiatives and attempted to demonstrate in-depth understanding of issues involving those new practices (Mas & Kumar, 2008).

9.4 Conclusion

In this chapter, I present an account of the institutional change strategies pursued by a central organization in the field of microfinance, CGAP. I show that CGAP has engaged in a variety of change initiatives launched at different points in time, and with a variety of actors in the field. This scenario was necessitated due the complex nature of the field, marked by contesting logics, and diverse actors so that CGAP had to engage in a multipronged strategy to implement its change agenda. Although the literature identifies theorization as the
dominant strategy used by institutional entrepreneurs, CGAP used non-discursive strategies to implement its change agenda. Further, unlike the accounts given in the literature, there was no clear chronological separation between the various change implementation activities. Further, CGAP was able to leverage its central position in the field to convene other powerful actors around its change agenda. Last but not the least, the particular evolutionary stage of the field at the time of the emergence of CGAP also shaped CGAP’s change agenda. The pro-commercialization camp in the field at the time of CGAP’s emergence was missing specific standardized practices related to microfinance. CGAP, by acting as a technical standard setter, formulated those practices, and used its convening power to implement those practices among its constituents.

In chapter 10, I compare and contrast the institutional change behaviour of both CGAP and Muhammad Yunus.
Chapter 10: A comparison of CGAP’s and Muhammad Yunus’ institutional entrepreneurship strategies

10.1 Introduction

Two institutional entrepreneurs have played the most prominent role in the microfinance field to promote the PA and FS logics in the field. First, Muhammad Yunus is the pioneering entrepreneur who created a novel organization, Grameen Bank. He is often credited with laying the foundations of the contemporary microfinance field. He fervently promotes the PA logic in microfinance. Second, CGAP appeared later in the field when the field had already taken shape. CGAP arrived to promote commercialization under the FS logic. The strategies of CGAP and Yunus have both common and divergent elements. In this chapter, I bring out the key similarities and differences between the change strategies of these two institutional entrepreneurs. Detailed analysis of the institutional change implementation strategies of these actors is provided in chapters 8 and 9. The comparison of key elements of their strategies is summarized in Table 12 below. I have used categories of change implementation generated for the detailed analysis of the change agendas of the two institutional entrepreneurs in chapter 8 and 9 as a basis of comparison.
Convening

Institutional entrepreneurs try to mobilize political and regulatory support for their change endeavours (Suddaby & Lawrence, 2006). Institutional entrepreneurs are often portrayed in the literature as change agents and disruptors of existing institutional arrangements but, at the same time, act as wheelers and dealers who are also pragmatically trying to conform to the structures in which they are embedded (Durand & McGuire, 2005; Fligstein, 2001; Fligstein & Mara-Darita, 1996; Maguire, Hardy, & Lawrence, 2004). CGAP’s institutional change profile fits the above stereotype to a greater extent. As a collective endeavour of the powerful funding providers in the microfinance field and administratively placed within the World Bank, CGAP was operating out of a well entrenched position in the network of key organizations in the microfinance field (Bresnyan, 2004). CGAP’s change endeavours were also directed at those funding organizations.

Yunus’ position as a legitimate institutional entrepreneur springs from his entrepreneurial role as the founder of the novel organizational model, Grameen Bank (Counts, 2008). Yunus has leveraged his personal relationships to garner support for the founding and survival of his novel organization; a leveraging role already theorized in the

| Table 12 Comparing institutional entrepreneurship of a convening organization and a pioneering individual: CGAP vs. Muhammad Yunus |
|---|---|---|
| Categories of change implementation* | CGAP | Muhammad Yunus |
| **Convening** | Focussed on powerful central resource providers | Broader appeal, including MFOs |
| **Theorizing** | Promoted FS logic, oriented towards norms from the finance sector; lately pragmatic to include PA oriented elements still framed in FS terms | Radically novel prescriptions favouring PA logic; vocal and unequivocal anti-commercialization message |
| **Standard Setting** | Systematic consensus based efforts; norms mostly drawn from the finance sector | Radically novel prescriptions mostly calling for restricting profit-orientation of MFOs |
| **Advising/showing** | Elaborate and formal ‘advisory’ processes. | Experiential (Grameen visits etc.) and Inspirational |
| **Experimenting** | Pilot test and legitimize new prescriptions. | Create novel, alternative organizing models (Grameen) |
| **Enforcing compliance** | Subtly persuasive, invoking ‘best practice’ normative arguments; used pecuniary incentives sometimes | Unequivocal, Moralistic invoking altruistic arguments; used pecuniary incentives to replicate the Grameen model |

*categories of change implementation have been borrowed from my conference paper co-authored with Dr. Jaco Lok of UNSW (Khan & Lok, 2010). Dr. Lok has contributed in developing the categories.

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His convening strategy, often operationalized through Grameen Bank and its affiliates, has a broader appeal at the societal level. Yunus’ PA oriented stance on microfinance and advocating of microfinance as foremost a poverty alleviation tool resonated with the societal need to find an organizational model to solve socio-economic problem at the grassroots level in poor countries (Counts, 2008). The most prominent convening platform for Yunus is the Microcredit Summit, at the vanguard of those who consider microfinance as a PA oriented microfinance, rather than a part of the ‘financial system’ (Daley-Harris, 1997; Yunus & Jolis, 1998).

Yunus considers international funds, particularly the multilateral and bilateral funders such as the World Bank, as bureaucratic and structurally incapable of solving the poverty problem in poor countries. Yunus states:

The World Bank and Grameen have been through so many fights and disagreements over the years that some commentators have called us ‘sparring partners’...our styles are so radically different that for many years we have spent more time and energy fighting each other... (Yunus & Jolis, 1998: 13)

The World Bank is the main founder and financial supporter of CGAP. Most of the other multilateral and bilateral funders in the microfinance field also have a stake in CGAP as the latter’s constituent members (Bresnyan, 2004). Hence, CGAP is financially dependent on the constituency targeted by it for institutional change. CGAP is able to convene its target constituency by successfully utilizing its position in the network of influential microfinance funders (Roy, 2010). Yunus, on the other hand, reaches out to the broader society and appeals to the societal need to engage in altruistic activities to support the poor. Yunus has demonstrated his success in fulfilling that societal need by creating Grameen Bank. Yunus’
role is parallel to other individual pioneers who create new organizational forms (e.g. Mutch, 2007; Svejenova, Mazza, & Planellas, 2007).

10.3 Theorizing

Theorizing involves changing the cognitive map of the field by creating or changing categories of meanings (Greenwood, Suddaby, & Hinings, 2002; Oakes, Townley, & Cooper, 1998). CGAP has engaged in extensive theorizing in the field. The key aspect of this theorization included bringing in the organizing templates of the FS logic in the field. In this way, CGAP has engaged in seemingly neutral, ‘technical framing’ of the FS logic to conceal the ideological underpinnings of its prescriptions (Oakes et al., 1998). However, the commercial imperative in this theorization processes has been tempered with elements of the PA logics, due to pressures from the field to accommodate the altruistic goals of the field (Hashemi & Anand, 2007). A 2007 evaluation of CGAP’s operations states:

The strategic shift towards a financial systems approach risked alienating and reducing CGAP’s relevance to NGO MFIs and more socially-oriented players. However, for the most part, CGAP has mitigated this risk by having a focus on poverty throughout its operational work and focusing attention on measuring social, as well as financial, performance (Forster, Maurer, & Mithika, 2007: iii - iv).

Yunus, on the other hand, has maintained a consistent pattern of his theorization activity by unequivocally questioning the FS logic, and vociferously presenting his prescriptions in public media (Business Week, 2007; Yunus, 1990; Yunus, 2011), and practitioner discourse (Gonzalez, 2010; Shams, 2007; Yunus, 2003, 2004).

The key difference between the institutional entrepreneurship of CGAP and Yunus also appears to be the intent of the two change agents. CGAP seeks ‘standardization’ as a
means of achieving its FS agenda (e.g. Consultative Group for Assisting the Poor, 2006b). Yunus wants to see radical change in the economic system, not just through microfinance, and encourages defiance (Yunus & Weber, 2007).

10.4 Advising/Showing

Institutional entrepreneurs need to transfer skills and knowledge, related to the new practices being institutionalized, to their constituencies (Lawrence & Suddaby, 2006). Both CGAP and Yunus have instituted systematic mechanisms to implement their prescribed changes within organizations around the world. CGAP engaged mostly with its main constituency, the international funders (e.g. Consultative Group for Assisting the Poor, 2009b; Reille, 2000). Yunus, in contrast, helped launch hundreds of ‘Grameen replicators’ and ran a ‘Grameen Dialogue Programme’ through a Grameen Bank sister organization, Grameen Trust (Latiffee, 2002).

CGAP has taken full advantage of its position in the network of influential organizations and has instituted formal systems of transferring its prescriptions to its constituency. Hence, CGAP’s embedded position not only constrains its agency but also facilitates it by giving it leverage within its constituency (Reay, Golden-Biddle, & Germann, 2006). On the other hand, Yunus has been able to transfer his prescriptions, through direct and formal channels, such as Grameen Trust, but also through acting as an inspirational role model for other individual change agents. For example, the Microcredit Summit campaign was started by a leading US social worker Sam Daley-Harris, who became inspired by Yunus’ work (Daley-Haris, 2002).

This does not mean that Yunus’ agency has not been constrained by the existing institutional structures in the microfinance field. At the time of the founding of Grameen Bank, he was forced to accept majority shareholding in the bank from the Bangladeshi
government (Yunus & Jolis, 1998). Despite continually criticizing the international funders, particularly the Multilateral Development Organizations (MDOs), including the World Bank, he accessed capital for the Grameen Bank from a leading MDO, the International fund for Agricultural Development (IFAD) (Bornstein, 2005). Later, in the wake of mounting loan defaults and administrative lapses, widely publicized in the media, he was forced to make Grameen Bank abandon some of his signature prescribed practices, mainly the group lending methodology (Rutherford, Maniruzzaman, Sinha, & Acnabin and Co, 2003). Hence, Yunus’ experience as well as the experience of CGAP, shows that even influential change agents are structurally constrained and are forced to compromise on their ideals (Emirbayer & Mische, 1998; Seo & Creed, 2002)

10.5 Standard Setting

CGAP’s standard setting agenda predominantly included commercialization of the field. It borrowed standards of organizational performance from the commercial banking arena (e.g. Consultative Group for Assisting the Poor, 2006a; Rosenberg, 2009). However, under pressure from the field to incorporate ‘social performance’ of MFO to take into account the altruistic objectives of MFOs, CGAP had to also incorporate standards which corresponded with those altruistic objectives (Hashemi, 2007). In its standard setting processes, CGAP was systematic and cautious, so as not to alienate its main constituency of international funders.

Yunus’ standard setting was in many ways both reactionary and radical, just like other entrepreneurs who create new organizational forms and practices (Svejenova et al., 2007). In order to curb the commercialization tendency of the field, he proposed a limit on profit margins of MFOs (Gonzalez, 2010; Yunus & Weber, 2007). Yunus’ standard setting influence has also been indirect and inspirational. For example, Grameen Foundation, the
organization established by a social activist inspired by Yunus, has done work on developing social performance measurement metrics (Grameen Foundation, 2010).

The legitimated identity or ‘subject position’ (Maguire et al., 2004) of the two change agents partially explains the contrasting stance of those agents on standard setting. Yunus emerged at the initial stage of the field and provided the field a successful novel organizational template. CGAP was established in the field as a standard setter by the powerful funding organization in the field.

10.6 Enforcing/Compliance

Institutional entrepreneurs use both sanctions and inducements to ensure implementation of their preferred practices (Suddaby & Lawrence, 2006). Auditing and monitoring through certification is a common practice to facilitate compliance, especially by institutional entrepreneurs who intend to ‘professionalize’ a field (Guler, Guillen, & McPherson, 2002). CGAP has engaged in such type of compliance and instituted various mechanisms to inspect international organizational processes to confirm their compliance with the FS approach (e.g. Consultative Group for Assisting the Poor, 2003; Latortue & Huber, 2009). CGAP used normative arguments in its strategy by invoking the imperative of economic efficiency as the main normative criterion to persuade its target organizations to accept CGAP prescribed practices. This made sense, with respect to CGAP, as it has always assumed the identity of a ‘standard setter’ in the field (Bresnyan, 2004). Further, it has used its proximity to, and embedding in, the network structures of its main constituency. Hence, acting as an ‘embedded agent’, it has used its institutional constraints to its advantage by attacking the institutions from within (Reay et al., 2006).

Yunus has not projected the identity of a standard setter. He appears more as a leader of a social movement which envisions alternatives to existing structures to solve social
problems (Lounsbury, Ventresca, & Hirsch, 2003). Accordingly, he has invoked moralistic arguments to defend his PA oriented stance, which resonates with the broader societal level theorization of microfinance as a poverty alleviation mechanism (The Economist, 1997; Varian, 2001). He also uses the derogatory term of ‘money lenders’ for commercialized MFOs (Business Week, 2007). He has called access of the poor to small loans as their human right (Yunus, 1990). However, he has also used formal channels, such as the Grameen Bank sister concern, the Grameen Trust, to channel funds to MFOs that want to follow the Grameen way of microfinance (Grameen Trust, 2010; Latiffee, 2002).

10.7 Experimenting

Entrepreneurs, who create new organizational models, draw their legitimacy as successful institutional change agents through portraying their identity as successful experimenters and innovators (Hargadon & Douglas, 2001; Svejenova et al., 2007). This ‘innovative legitimacy’, especially when associated with successful novel organizational models, allows them to attract other adherents in the field who in turn distance themselves from institutional pressures in the field and create novel change (De Clercq & Voronov, 2009; Seo & Creed, 2002). Yunus, as the creator of Grameen Bank, has exploited his identity as an experimenter and attained innovative legitimacy. He invokes this identity every time he defends his stance on microfinance (e.g. Yunus, 1991; Yunus, 1998; Yunus & Jolis, 1998; Yunus & Weber, 2007). In a publication highlighting the role of microfinance in poverty alleviation, Yunus highlights his Grameen Bank experience thus:

In 1974 Bangladesh was gripped by terrible famine. Previously, I used to get excited telling my students how economic theories provided the answers to economic problems of all types. I got carried away with the beauty and elegance of these theories. But now I was having doubts. What good were theories when people all
around me were dying of starvation? I wanted to understand more about the real-life
economics played out every day in the villages where people in my Country lived.
Fortunately, Chittagong University campus where I worked was right next to one of
these villages, Jobra... I did my best to learn about poor people and see their problems
as they faced them. One such problem led me to the Grameen Bank idea (Yunus,

In his bestseller autobiography he states in the preface:

My experience working in the Grameen Bank has given me faith; an unshakable faith
in the creativity of human beings. It leads me to believe that humans [are?] not born to
suffer the misery of hunger and poverty... I have come to believe, deeply and firmly,
that we can create a poverty-free world, if we want to. I came to this conclusion not as
a product of a pious dream, but as a concrete result of experience gained in the work
of the Grameen Bank (Yunus & Jolis, 1998: xvii)

On the other hand, CGAP is essentially a convenor and consensus builder around its
pro-FS change agenda. It is not a creator of novel organizational forms, but a replicator of
existing forms from the broader financial sector. A CGAP strategy document states:

Since its inception, CGAP has played a pivotal role in developing a common language
for the microfinance industry, catalyzing the movement toward good practice
performance standards and building consensus among its many and varied
stakeholders (Consultative Group for Assisting the Poor, 2008: 2).

CGAP is deeply embedded in the networks of the international funders, and it cannot
stray too far from the institutional demands placed by those funders. It has also engaged in
experimentation which is different from the entrepreneurial experimentation of Yunus.
CGAP’s experimentation included ‘pilot tests’ of CGAP prescriptions and change strategies in partner organizations (e.g. Frankiewicz & de Souza-Shields, 2005; Ivatury & Mas, 2008). The purpose of such experimentation appears to be to gain legitimacy of its prescriptions, particularly among the new set of funders coming into the field such as private philanthropic initiatives of major international corporations. It wanted to send out the signal in the field that its prescribed practices are being successfully implemented by key actors in the field. A recent and noteworthy CGAP activity includes its collaboration with the Bill and Melinda Gates Foundation. A CGAP evaluation of this activity states:

This experimentation model is inherently risky and is bound to produce some losers but also some great wins. The challenge will be for CGAP to effectively raise awareness of the ‘winning ideas’, understand impacts and communicate this across different sectors. CGAP must be very clear on how the learning will be captured and shared with the different multi-sector actors (Forster et al., 2007: 14).

In its 2009 annual report, CGAP highlights the collaborative nature of its experimentation activities:

Through these pilots, new technologies are being tested... These new business models are explored in partnerships with a wide range of stakeholders, from grassroots organizations to local businesses, to telecommunications companies, and to governments (Consultative Group for Assisting the Poor, 2009a: 17).

10.8 **Factors shaping institutional entrepreneurship: Field conditions, and social position**

The difference in the nature of institutional entrepreneurship between Yunus and Grameen can be partially attributed to the particular moment in the evolutionary stage of the microfinance field at which those change agents appeared. Yunus appeared when the broader
‘development finance’ field, engaged in providing small scale financial services to the poor, was in turmoil. The field lacked workable organizational models to provide financial access to the poor. Chapters 4 and 5 of my thesis provide detailed account of field conditions of that time. Yunus appeared and created the novel organizational model of Grameen Bank. The literature has already theorized similar situations where newly emergent fields (Maguire et al., 2004), or fields in turmoil give rise to change agents (Reay & Hinings, 2005). Entrepreneurial actors have also been noted as change agents, giving rise to new organizational models, including both peripheral actors (Leblebici, Salancik, Copay, & King, 1991), and key players (Mutch, 2007).

CGAP, on the other hand, appeared during the mid-1990s, when the field achieved a recognizable shape in terms of rapidly growing populations of MFOs, and the emergence of practices, albeit contested, for deploying financial services to the poor. The field, particularly the influential funding providers, such as the United States Agency for International Development (USAID), at that time called for the standardization of the field and crystallization of ‘best practices’. CGAP was thence created to fulfil this need. Hence CGAP has been deeply enmeshed in the network of the funding providers in the microfinance field. These funding providers have also been the focus of CGAP’s change agenda as well. This provides a classic situation of ‘embedded agency’ whereby an actor rooted in its environment also attempts to change that environment (Holm, 1995). Such positions of higher embeddedness may also mean that actors may not be able to either perceive the need for change or to be so constrained as not able to bring change. However, embeddedness, besides constraining CGAP’s agency, also provided a ‘basis for action’ through access to the inner sanctums of the field resource providers (Reay et al., 2006). CGAP strategically used its position, converted its embeddedness as opportunity and performed a convening role (Oliver, 1991).
However, Khan, Munir and Willmot (2007) claim that institutional entrepreneurs are not in full control of their agency. Power deployed through that agency is also shaped by the hegemonic power structures in which agents are embedded. CGAP was able to promote the FS approach because its supporters and sponsors were already sold to the idea of commercialization of microfinance at the policy level. CGAP’s change agenda was, after all, not a truly radical departure from the rising commercialization discourse of that time. The issue was the technical implementation of that commercialization agenda. Chapter 5 of the thesis provides contextual background to the rise of microfinance and shows that the commercialization stance acquired traction with the influential resource providers even before the establishment of CGAP.

Yunus was not embedded in the superstructures of the international funders, and Grameen stopped sourcing its capital needs from international funders in the late 1990s (Yunus & Jolis, 1998). Yunus’ agency worked in a different way. His ‘remoteness’ from those powerful actors made him a bold change agent, less constrained by the discourses and material constraints of powerful field level resource providers. Further, Yunus’ role was also facilitated as an institutional entrepreneur because the microfinance field lacked established rules, norms and established organizational templates. This was a situation also empirically unearthed elsewhere as well (Maguire et al., 2004). Even at the societal level, small scale development finance was not clearly associated with the altruistic objectives of poverty alleviation. Yunus, through his work, played a major part in bringing development finance to the public attention. His structural remoteness from powerful actors was balanced by his broader appeal at the societal level, as a social entrepreneurial change agent (Mair & Marti, 2006). This broader appeal, due to his entrepreneurial role, legitimated his defiant stance.

But Yunus’ comparative freedom from the structural constraints of the microfinance field did not save him from Bangladeshi power politics. He was ultimately forced to resign
from his position as the Managing Director of the Grameen Bank, reportedly, due to his falling out with key political figures in power (Stace, 2011). Around the time of the unfolding of this event, microfinance itself got itself a bad name as stories of borrower maltreatment at the hands of MFOs started surfacing in the popular press, followed by negative statements of political figures in Bangladesh and India calling for a rethink of microfinance practices followed by MFOs. Further, even at the time of the creation of Grameen Bank, Yunus had to use his personal connections in the government to access government resources to ‘jump start’ and expand Grameen. Yunus had to depend on the government, where most of his personal networks resided. This resulted in the ultimate de facto ownership of Grameen by the government; a situation which Yunus had tried to avoid (Bornstein, 2005). Hence, both Grameen and Yunus were embedded in power structures which facilitated and hindered their institutional entrepreneurship.

My comparative analysis of institutional entrepreneurship extends the possible repertoire of behaviours attributed to change agents in unsettled fields. Dorado (2005) posits that field level uncertainty will likely force institutional entrepreneurs to engage in sense-making (Weick, 1995). This sense-making process can be seen in the case of CGAP’s continual theorization of microfinance, as CGAP tried to provide an ordered set of ideas and prescriptions to the microfinance field which lacked a body of standardized organizing principles. However, Yunus’ actions show that entrepreneurial processes, in the face of institutional uncertainty, may not just revolve around sense-making, but involve entrepreneurial action of organizational creation. That is, when Yunus did not find a solution to the problems at a local village, he tried to craft a novel solution in the form of Grameen Bank. But CGAP’s entrepreneurial initiatives were essentially attempts to mimic the broader finance sector. Yunus’ sense making is more ‘bottom up’, CGAP’s sense making is in large part ‘a-priorist’ top-down. Identity of a change agent, in consonance with the change agent’s
field position, also constitutes an important factor in change implementation. Yunus had a unique identity as an entrepreneur and founder of a pioneering MFO. CGAP lacked this identity. Yunus’ entrepreneurial identity gave him the reputation and esteem which drew attention, not just from the field but from the society as well. This situation has been recorded in other instances of entrepreneurial endeavours turning into institutional change (Mutch, 2007; Rao, Monin, & Durand, 2003; Svejenova et al., 2007).

By highlighting Yunus’ entrepreneurial identity as the main factor in shaping his change strategy, I am not attributing ‘heroic’ agency to Yunus. He had to compromise, especially during the early days of Grameen, to ensure the survival of his venture. He had to accept partial government ownership of Grameen at that time. He also had to accept financial help from the international Multilateral Development Organizations (MDOs) to gain access to resources for Grameen at a crucial stage. Grameen Trust, the arm of Grameen Bank, tasked with replicating the Grameen Model around the world, also received funding from MDOs. But all those interactions of Yunus with the powerful international funders remained ‘arms-length’. In other words, Yunus did not assume resource dependency on funders, hence avoided becoming susceptible to pressures from resource providers.

Finally, it would seem odd that I have compared an organization with an individual. The purpose of this comparison was to bring to sharp relief, the essential differences between the agency of an entrepreneurial individual and the agenda of a ‘convening’ organization, each using its core competence, as a pioneering originator of an organizational model, and a central actor aligned with the powerful resource providers in the field, respectively. Further research needs to be done to, for example, to highlight the role of entrepreneurial individuals within convening organizations such as CGAP.
10.9 Conclusion

In conclusion I would like to highlight the nature of agency of the two change agents. There are crucial differences between the agency of CGAP and the instrumental role of Yunus in the microfinance field. Yunus was radical in his theorization, vocal in promoting his prescriptions and broader in the scope of his convening activities. In contrast, CGAP’s change implementation strategy was, measured in terms of its ‘technical’ theorization, focused on convening a small set of powerful actors, and somewhat accommodating of demands coming from the broader field (as seen, for example, in the case of CGAP’s social performance management initiatives). Why such a contrasting change implementation strategy? The contrasting positions of these change agents in the microfinance field are shaped by the nature of their ‘social position’ in the field and the timing of their emergence in the microfinance field. Yunus’ position is legitimated as the defiant entrepreneur and creator of a novel and successful organizational form. This legitimating aspect makes sense when seen in the light of the microfinance field which has been marked by a continual search for successful and replicable organizational models to increase access of the poor to financial services. This was particularly so at the time of the founding of Grameen Bank and its increasing popularity. CGAP’s position is legitimated in a different way. He appeared when microfinance was already a recognizable organizational field. But key players within this field felt a need for universally agreed organizational templates. To fulfil this need, CGAP has deliberately assumed the role of a convener and standard setter of ‘best practices’.
Part C

Chapter 11: Interplay of logics within organizations: Institutional work below ‘the official radar’

11.1 Introduction

So far, I have presented a ‘macro’ account of the microfinance field. I have traced the rise of the field at the global level, particularly focussing on the ascendance of the Financial Systems (FS) logic in the field. Subsequently, I have also analyzed the role of key institutional entrepreneurs in the field, and how those entrepreneurs tried to diffuse the FS and Poverty Alleviation (PA) logics in the field. In this section, I go down to the ‘micro’ level and analyse the interplay of the FS and PA logics within an organization – a commercial bank, ‘ComBank’ (CB) which tried to engage in microfinance. This initiative ultimately did not maintain its momentum, and hence was considered a failure within the bank. By initiating MF as a ‘product line’, CB introduced the PA logic in a commercial entity where the FS logic had been intrinsic to its identity. In this way, CB represented an organization where multiple, and clashing, logics came into play. This case study thus has two unique aspects: first, it represents a rare situation in the microfinance field when a commercial bank initiates an in-house microfinance programme; second that this in-house programme turns out to be a failure of sorts rather than a resounding success. Successful scenarios of microfinance in commercial banks are widely celebrated and publicized (Consultative Group for Assisting the Poor, 1998; Harper & Arora, 2005). However, there are few public profiles that depict struggling microfinance operations within a commercial banking setting. An early study of commercial bank downscaling of microfinance, which tracked 18 commercial banks, showed 11 out of those 18 were classified as those which experienced limited growth, discontinued their engagement with microfinance, or failed as banking entities (Velenzuela, 2002).
Through an inductive qualitative case study of CB, in chapters 13 to 15, I investigate the evolution of the MF programme in CB and, more specifically I focus on how individuals espousing the PA logic (represented by individuals associated with the MF programme) and those espousing the FS logic (represented by commercial bankers) interacted with each other. This interaction was both adversarial as well as cooperative. In this chapter, I establish a theoretical setting for my case study. I conduct a literature review in the area of institutional theory to find out how the literature, particularly the empirical studies of micro-processes involving multi-logic contexts, theorizes about such interactions of individuals. In subsequent chapters, I present the field context in which CB operated, followed by a detailed organizational biography of the bank and, finally, an in-depth interpretive analysis of the interviews of microfinance staff working in the bank.

11.2 Intra-organizational institutional work in the midst of multiple logics

A theoretical construct that represents the situated agency of actors is called ‘institutional work’ (Lawrence & Suddaby, 2006). Institutional work is “... the purposive action of individuals and organizations aimed at creating, maintaining, and disrupting institutions” (Lawrence & Suddaby, 2006:215). This notion of institutional work, in tune with the aforementioned empirical literature, envisages actors who are ‘culturally competent’ hence able to negotiate their way through the fields in which they are embedded. Such institutional work requires resources which could be material, political and cognitive. Such actors work within the institutionally defined logics in their fields (March, 1994) but, instead of acting like ‘cultural dopes’ (Hirsch & Lounsbury, 1997) show creativity in adapting to demanding conditions in their fields (Cassel, 1993). Recognizing the presence of multiple logics, and the situated actions of actors, Lawrence and Suddaby (2006) consider the notion of institutional work as a framework ‘... to understand the ways in which disparate sets of
actors, each pursuing their own vision … become coordinated in a common project” (Lawrence & Suddaby, 2006:249). The following is a review of empirical literature that unearthed institutional work in pluri-logic contexts.

Institutional theory literature has taken account of the multi-logic institutional environments and the behaviour of organizations in those environments (e.g. Lounsbury, 2007; Marquis & Lounsbury, 2007; Oliver, 1991; Reay & Hinings, 2005). However, accounts of intra-organizational interplay of logics are scarce (Battilana & Dorado, 2010; Kraatz & Block, 2008). Although the literature has taken account of how one dominant logic ultimately prevailed in a field (e.g. Greenwood, Suddaby, & Hinings, 2002; Hoffman, 1999), accounts are particularly scarce of how individuals in multi-logic organizations maintain the plurality of logics in those organizations (Reay & Hinings, 2009). Thus the related theoretical question is: in organizations embodying multiple, often clashing institutional logics, how do individuals within those organizations ‘get things done’?

Reay and Hinings (2009) present an account of the interaction among three actors in the Canadian health system: government, physicians and geographically determined administrative structures, responsible for delivering health care, called Regional Health Authorities (RHA). They identify four ways through which actors in organizations maintain their separate identities but engage in ‘pragmatic collaboration’, necessitated by the need to carry out day to day work in those organizations. Government reforms, spearheading the logic of ‘business-like health care’, reduced the influence of the physicians who espoused the logic of ‘medical professionalism’, and provided more administrative powers to RHAs. First, RHAs and physicians, although espousing clashing logics, were forced to collaborate because of their joint responsibility to provide health care in the Canadian regions. Second, RHAs developed organizational structures, called Physician Liaison Councils, to allow physicians to provide medical advice to RHAs. RHAs also sought informal input of physicians in annual
business plans. Third, following the saying, ‘the enemy of my enemy is my friend’, RHA’s and physicians combined ranks to counter their common enemy – government. Physicians already disliked government due to the latter’s reform strategy, and RHAs felt the need to achieve autonomy from government influence. Finally, RHAs and physicians also collaborated in experimental and innovative projects for further improving healthcare. In those collaborative efforts, each actor maintained its independence but brought its specialized capability to the relationship. Collaboration meant that actors were on different institutional planes and from their respective planes reached out to interact, hence maintaining logic independence as well as logic interaction, ultimately facilitating logic coexistence.

In this account of institutional plurality, actors espousing different institutional logics physically occupied different organizational spaces: physicians, government and RHAs worked in their own organizational setups. However, they interacted periodically at the field level, mostly on the RHA platform. During these interactions those actors collaborated and combined the logics that they espoused. What if individuals, instead of being located in different organizations, are physically ‘embedded’ in a single organization? Reay, Golden-Biddle and Germann (2006) present a longitudinal study of nurse practitioners (a new work role), working in health care organizations in Alberta, Canada. This account shows that embeddedness, often portrayed in the literature as a hurdle to change (e.g. Seo & Creed, 2002), can be liberating as much as constraining for actors, and a source of legitimacy for institutionalising change. Actors who are intimately familiar with their contexts and their work environments are in a better position to take purposive action to change established ways. In the afore-cited account nursing professionals were found to be highly sophisticated change agents who drew strength from their embeddedness to gain legitimacy for their newly created role as a nursing professional.
Those nursing professionals engaged in four micro-processes to institutionalize the new nursing role in health organizations. First, they tried to find and create opportunities to increase their visibility as a nurse professional. For example, they used their personal contacts to gain entry into special assignments. They targeted areas where physician coverage was low, hence necessitating the employment of nurse practitioners. In some instances, they tried to literally promote their presence by placing their offices at highly visible locations in buildings. The second micro-process involved fitting the nurse practitioner role in the institutionalized systems of health care, hence legitimating their access to resources, work procedures and structures. For example, they incorporated their job descriptions in HR systems at health care organizations, and at the same time maintained their unique identity as a nursing professional. To fit their new role in the formal organizational structure, they carefully leveraged their contacts in relevant departments so as to find allies. The third micro-process involved proving the value of the nurse practitioner role. This was done, for example, by careful one-on-one interaction with other colleagues to show technical competence, hence to gain trust and legitimacy. Finally the fourth micro-process, simultaneously occurring with the other three, was the strategy to create small wins for the nurse practitioners which slowly and steadily consolidated gains, ultimately leading to their acceptance and legitimacy. These small gains included greater recognition from patients, in the form of ‘thank you’ notes, and small statements of recognition by other colleagues, especially the physicians.

Maguire, Hardy and Philips (2004) provide an account of institutional entrepreneurship and the management of competing institutional logics in a newly emerging Canadian field of HIV/AIDS treatment advocacy. The most significant clash of logics happened between HIV/AIDS activists and pharmaceutical companies. The activists, wary of pharmaceutical companies, tried to promote a broader community based agenda aimed at awareness creation and government policy action. On the other hand, pharmaceutical
companies tried to focus on creating treatments for AIDS, and tried to take on board for consultation AIDS treatment activists. A group of institutional entrepreneurs tried to combine the community concerns of AIDS activists with the technical medical concerns and policy issues of AIDS treatment activities to create new logics and organizational platforms. The institutional entrepreneurs used their ‘subject positions’, their personal position as AIDS-affected individuals, as a source of legitimacy in the field. These subject positions also involved ‘bridging’ of positions to create legitimacy for multiple stakeholders. The institutional entrepreneurs profiled in the study had access to both pharmaceutical companies and the activist communities, hence they were able to access multiple resources from diverse stakeholders. Most significantly, the institutional entrepreneurs used their powers of persuasion to show their prescriptions as logical solutions to solve problems, and they “…mobilize[d] political support – through negotiations, bargaining, compromises…” (Maguire, Hardy, & Lawrence, 2004:671). An interview respondent in this study remarked: “When there were people who were particularly difficult ... I’d just sort of take them off in a corner and we’d have a gentle little discussion and we’d come back.” (Maguire et al., 2004: 671 ). This experience further confirms that personal relationships played a crucial role in the efforts of institutional entrepreneurs, to manage competing logics (Dubini & Aldrich, 1991).

In another instance of a pluri-logic institutional context, Zilber (2002) presents an account of an organization, an Israeli rape crisis centre, which espoused a feminist activist logic. This feminist identity emerged because it was established and run by social activists. However, over time new ‘therapeutically oriented’ actors (e.g. psychologists and social workers), formally trained in the institutionalized professions of psychology and social work were hired, who brought with them a new set of logics. On the one hand, there was a clash between the more formalized, ‘scientific’ ideas and practices of the therapeutic logic and humane traditions of activism. There was mutual accommodation of both logics. Some
practices of the existing feminist logic remained intact; however, the meanings associated with those existing logics changed so that some existing practices were maintained but reinterpreted in the mould of the therapeutic logic. This was done to accommodate the increasing number of volunteers who came from a therapeutic background. However, the feminist volunteers, particularly those who have worked at the organization for a long time, maintained original meanings of those practices, in line with their personal beliefs.

Battilana and Dorado (2010) have undertaken a comparative case study of two MFOs, unique in the sense that both converted from a non-profit to a commercial form, and which tried to manage the competing banking and development logics within their organizations. The authors identify two formal organizational practices as sources of logic hybridity in those new hybrid organizational forms: hiring and socialization. Organizations may try to introduce a new logic by hiring individuals with prior experiences and capabilities associated with that logic. Organizations may also hire individuals with no prior experience of any of the operant logics; those individuals may then be ‘socialized’ through, for example, training into a desired logic. Socialization processes, defined as “… communication as well as training, promotion and incentive systems …” (Battilana & Dorado, 2010:1422) may be provided to reinforce desired values and behaviours in the new hires. In this way, it was envisaged that individuals with the right background and training will be able to combine different logics in their work-a day-lives. The study showed that for one organization, BancoSol, hiring individuals already steeped in a particular set of logics did not prevent the clashing of logics boiling over and hindering organizational functioning. The conflicting identities of those individuals inhibited operational collaboration. Those adhering to the development logic considered the banking logic to be too rigid and insensitive to the needs of the poor, hence not capable of catering to the financial needs of the poor. Those coming from the banking logic considered the adherents of the development logic to be ‘dangerous idealists’, not
familiar with the working of finance. On the other hand, the other MFO, Los Andes, hired inexperienced individuals and trained them to develop their operational capabilities and identity; this strategy seemed to have worked in maintaining hybrid logics, and Los Andes was found to be more successful in maintaining its hybrid identity.

11.3 Local interactions in multi-logic situations: Getting really personal

The aforementioned studies identify interactions of an essentially formalized and ‘bureaucratic’ nature by individuals to negotiate multiple and clashing institutional logics. In these accounts, individuals espousing different logics clash because of their disagreements on the technical aspects of organization. Table 13 provides a comparative picture of the key literature on micro-processes inside organizations. In the study by Reay and Hinings (2009), physicians espoused the logic of ‘medical professionalism’ which was aligned with societal expectations from health professionals. On the other hand, government and RHAs believed in the supremacy of the ‘health as business’ paradigm, which also represented a broader societal level effort towards adopting ‘neoliberal’ managerialist policies. Hence the macro level conflicts between logics were shown to have trickled downwards into micro level conflicts between individuals in these accounts; a situation already theorized in the earlier seminal work on institutional logics (Friedland & Alford, 1991). In the study of MFOs by Battiliana and Dorado (2010), the clash of logics involved questions regarding individual knowledge and capability related to the technical aspects of microfinance, such as the ability to understand the mechanics of finance, or the skill needed to understand financial service demands of the poor.
<table>
<thead>
<tr>
<th>Empirical Setting</th>
<th>Means of accommodating logics within organizations</th>
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<tr>
<td>Physicians and Regional health officials espouse opposing logics of Medical Professionalism and business-like healthcare in the Canadian health care system (Reay &amp; Hinings, 2009)</td>
<td>Physician Liaison Councils where physicians and regional health authorities convene to facilitate medical decisions. Experimental projects to facilitate innovation, co-managed by physicians and health authorities</td>
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<tr>
<td>Nurse Practitioners try to legitimate their newly created role as health care providers in Canadian health care system, resisted by physicians etc. (Reay, Golden-Biddle &amp; Germann, 2006).</td>
<td>Made efforts to incorporate a clear role for nurse practitioners in hospital HR policies. Show exceptional technical competence in health care assignments</td>
</tr>
<tr>
<td>Efforts of HIV/AIDS activists to reconcile and convene pharmaceutical companies and the opposing advocacy groups (Maguire, Hardy &amp; Lawrence, 2004)</td>
<td>Creation of formal convening platforms where opposing parties met to reconcile differences</td>
</tr>
<tr>
<td>MFOs in Bolivia hire people from commercial (following the FS approach) and social (following the PA approach) backgrounds (Battilana &amp; Dorado, 2010)</td>
<td>Official training programmes, and socialization retreats</td>
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</table>

Further, in these accounts, the imperative to reconcile logics and to ‘get things done’, involved “… attention to public, intended aspects of bureaucracy …” (Gouldner, 1954:25, quoted in Hallet and Vantresca (2006)). It involved, for example, forming quasi-formal collaborative mechanisms and using official communication channels to generate conciliatory discourses (Reay & Hinings, 2009). In the case of the efforts of nurse practitioners to gain recognition as a legitimate organizational role, individuals engaged in legitimacy enhancing demonstration of technical capabilities, and lobbying through allies within organizations for favourable change in organizational systems and procedures (Reay et al., 2006). Training and official retreats were another set of officially sanctioned measures for facilitating the reconciliation of logics at an individual level (Battilana & Dorado, 2010). Individuals in their micro and ‘personal’ interactions still took formal, impersonal and technical aspects of organizations as key determinants of their interactions to reconcile logics.
However, interactions at the micro level, reflecting both clash and reconciliation of logics, may be of a more surreptitious nature and below the official radar. For instance, Fine (1996), in his ethnographic study of restaurant kitchens, found that “While conditions of job [i.e. institutions] contribute to satisfaction, friendships also help determine the quality of work life” (1996: 222). In other words, the organizational reality at restaurant kitchens is not just about the formal organizational processes and structures but also about the deeper interpersonal relationships among the individuals working in those kitchens. Hallet and Vantresca (2006) also highlight personal relationships in institutional change processes by invoking the notions of ‘local networks of interaction’ – that is, the highly personalized interactions among employees in organizations, and ‘extra-local conventions’ which signify the formal institutionalised organizational practices within organizations. Hallet and Vantresca (2006) contend that even though institutional theory recognises divergent interests of individuals and the influence of broader ‘cultural logics’, it has not clearly theorized regarding how institutional logics are actively negotiated in local interactions. Institutional theory “… gives more attention to external categories of meaning: ’the market’, ’the family’, ’the state’” (2006:227). They use the term ‘local negotiated order’ to signify such localized interaction and meaning making.

Revisiting a classic ethnographic study of a US gypsum mine by Alvin Gouldner titled *Patterns of Industrial Bureaucracy*, Hallet and Vantresca (2006) depict situations in which highly localized contingent actions take place among individuals, without invoking grand notions from ‘macro logics’ of bureaucracy or its opposing logic – termed by Hallet and Vantresca as ‘indulgent bureaucracy’. In that mine, the new management, representing the ascendant bureaucratic logics, tried to inculcate greater efficiency and discipline by instituting strict rules of conduct for the employees. The employees, instead of questioning some abstract notion of bureaucratic control, and blaming the bureaucratic paradigm as the
main problem, considered lack of trust of the management on employees as the main problem. More significantly, in some instances, management, instead of strictly adhering to its rules, tacitly allowed breaches of some rules. For example, a ‘no smoking’ rule was formalized but never implemented with informal consent of the management, except when the inspectors were around. If the rule was broken in the presence of the inspectors, informal means of punishment were instituted.

Lawrence and Suddaby (2006), in their notion of institutional work, formulate strategies followed by actors to create, maintain and disrupt institutions. However, most of the strategies implicitly emphasize institutional work by individuals directed towards the field at large, as if institutional change messages were being ‘broadcast’ to the field (at the macro level) and to the employees in an organization (at the micro level). The notion of institutional work does not clearly separate macro level institutional change initiatives from micro level intimate interactions among actors to negotiate multiple, clashing logics. To create institutions, actors need to engage in formulating and enforcing rules, or effect changes in norms and beliefs. However, I found scenarios involving change in norms and beliefs as closest to the highly personalized interaction between individuals in order to ‘negotiate’ with each other and spawn social interactions to maintain or disrupt multiple logics. I also found that Lawrence and Suddaby’s category of institutional work termed ‘normative networks’, aimed at creating institutions, comes closest to articulating mechanisms through which the intimate micro processes of negotiating multiple logics could be implemented. According to Lawrence and Suddaby, “… [normative networks] are by their nature a cooperative enterprise and so creating them involves a form of institutional work that depends heavily on the ability of actors to establish and maintain cooperative ties” (Lawrence & Suddaby, 2006:229).

Identity of individuals within organizations also plays a crucial role in determining the interplay of logics within organizations (Lok, 2010). Identity implies questions of the nature:
who am I? what am I doing? why I am doing it? These identity questions determine meanings held by individuals, as well as the actions derived from those meanings (Lok, 2010). Identity is related to the macro aspects of a logic. By answering the question, who am I, individuals are associating themselves with identity categories defined by a field. But identity is also contingently shaped in local interactions. This happens when actors invoke field level identity categories. This also happens when actors involve other criteria during localized interactions.

For example, the nursing professionals study (Reay et al., 2006) found that they tried to assimilate their roles in the health care system by trying to confirm to the existing logics of that system while striving to maintain their independent identity as specialized health professionals. In the Canadian health system study (Reay et al., 2006), physicians and RHAs maintained their independent identity in terms of the logics that they espoused, but tried to collaborate in localized settings to take advantage of the capabilities defined by those identities (Reay et al., 2006). In the study of the two MFOs trying to reconcile the banking and poverty alleviation logics, the success of such logic reconciliation ultimately depended on the ability of those two organizations to change the identity of the employees; the organization which was able to mould its employees’ identities to accommodate multiple logics proved to be successful (Battilana & Dorado, 2010).

Lok (2010) has theorized the notion of ‘identity work’ through an account of the rise of the ‘shareholder value’ logic in the UK. He has analyzed the response of management and institutional investors to the rise of shareholder logic. His analysis shows that ‘non-entrepreneurial individuals’, instead of adopting an ascendant logic promoted by influential change agents, continue to maintain the identities and practices associated with the old logic in their day to day work. Creed, DeJordy and Lok (2010) present another account of identity work done by Gay Bi-sexual Lesbian and Transgender (GBLT) ministers in two mainline protestant denominations in the US. Those GBLT ministers, a marginalised community of
individuals, tried to reconcile their gender and sexuality with the religious institutions they were associated with, hence becoming agents of change. They incorporated their institutionally deviant identity with their highly institutionalized religious beliefs. First there was an identity crisis marked by institutional contradictions between their identity and their institutionalized role as a religious minister. Then the micro processes of identity reconciliation work to accommodate the contradictions. This resulted in their efforts to bring institutional change: striving to achieve a more inclusive church. The most significant aspect of this institutional work (Lawrence & Suddaby, 2006) by a set of marginalized actors is the deeply personal and emotional nature of processes that went into subtle efforts for institutional change – a scenario that stands in contrast to the institutional change accounts of heroic and highly ‘public’ dominant actors working through highly visible and formal organizational processes (e.g. Fligstein & Mara - Drita, 1996; Greenwood et al., 2002; Lawrence, Hardy, & Phillips, 2002).

11.4 Conclusion

In this chapter I present a review of literature in institutional theory, relatively scarce compared to macro level studies, which looks at the micro-processes of institutional work within organizations. From the literature we know that in fields with clashing logics, individuals within organizations oppose other individuals based on the logics that those individuals espouse. Hence field level clash of logics translates to clash at the intra-organizational level. The literature also shows that in fields with clashing logics, those holding different logics may also compromise through various official level platforms and processes. The literature indicates the presence of unofficial, informal mechanisms to achieve compromise and accommodation among opposing sets of individuals. But such instances of intimate interactions among individuals are rare and less clearly explained in the literature.
Further, antagonism between actors espousing different logics may involve relational aspects which could go beyond the ‘technical’ differences related to logics. Thus there is a possibility that individuals working within organizations may promote, accommodate or oppose logics not because they agree or disagree with the terms of the logics but because of the dynamics of their relationships with those who espouse other logics, and the meanings given to those relationships.

In the ensuing chapters, I unearth interactions between commercial bankers and microfinance practitioners in a commercial bank which tried to introduce a microfinance product line. In this case study, I particularly look for instances where individuals invoked aspects of their relationship which go beyond the technicalities of logics. Hence my questions are: Why did the commercial bankers oppose the microfinance practitioners in the bank? Was it because of the commercial banker’s distaste for microfinance because microfinance was an altruistic activity antithetical to the commercial imperative of banking? How were the microfinance practitioners and commercial bankers able to work together to ‘get things done’ as, despite the antagonistic relationship between them, the operations of commercial banking were tied with microfinance?
Chapter 12: Microfinance in Pakistan

12.1 Introduction

This chapter sets the context for the organizational case study that follows in the forthcoming chapters. In this chapter, I outline the rise and the current state of the Pakistani microfinance field. I have divided the evolution of the field in phases, across successive decades – an analytical strategy akin to Langley’s (1999) ‘temporal bracketing’. In each phase, three aspects of the microfinance field have been highlighted: 1) the rise of a particular set of important actors, and significant activities performed by those actors to shape the institutional logics in the field; 2) the emergence of networks of those actors; and 3) the emergence the Financial Systems (FS) and Poverty Alleviation (PA) logics in the field. Table 14 identifies some key events in the evolution of the Pakistani microfinance field.

12.2 The Historical evolution of the Pakistani microfinance field

12.2.1 1970s: Government led efforts for small enterprise development

The origins of small scale retail development finance are rooted in government efforts to promote socio-economic development in Pakistan. These efforts can be traced to the early 1970s, marked by the establishment of the Small Business Finance Corporation (SBFC) in 1972 by the federal government (State Bank of Pakistan, 2004). The Nationalized Commercial Banks (NCBs) of the time were also used by the government as delivery channels for small enterprise loans. The policy drift during that period favoured planned economic development with a strong statist flavour, somewhat representing the zeitgeist of its time. During this period, the government’s small enterprise financing efforts were also supported by multilateral donors such as the World Bank through credit lines and grants to
government entities engaged in small enterprise support and financing (World Bank, 1974, 1994).

The 1970s era is associated with ideas calling for government interventions in the economy on equity and social welfare concerns (Chang, 2003; Nauman, 1990). The Poverty Alleviation (PA) logic was at its zenith during this period. Some of the Pakistani government’s actions, in line with the PA stance, also achieved prominence during the 1970s (Malik, Mushtaq, & Gill, 1991).

In this way, Pakistan’s early experience with small scale retail development finance emerged through governmental efforts, supported by international funding organizations. The fundamental funding structures of small scale finance present during the 1970s would be institutionalized during the next two decades. The resultant financial (donor-recipient) relations between the governments and the international funding organizations would endure, giving rise to ideas and material practices transplanted into the microfinance field as well.
Table 14 Key events in the evolution of the Pakistani microfinance field

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>Establishment of Small Business Finance Corporation (SBFC) and Agricultural Development Bank of Pakistan (ADBP)</td>
<td>Small scale retail development finance in Pakistan traces back to government efforts to support small farmers and enterprises. Such efforts mostly funded by international funders, mainly the World Bank in line with the then dominant international development policy paradigms.</td>
</tr>
<tr>
<td>1982</td>
<td>Orange Pilot Project (OPP) established</td>
<td>A civil servant, and rural development pioneer in Pakistan, Dr. A. H. Khan replicates his earlier rural development experiences establishes OPP. OPP becomes a source of inspiration for other similar ventures in Pakistan.</td>
</tr>
<tr>
<td>1983</td>
<td>Aga Khan Rural Support Programme (AKRSP) established</td>
<td>The first replication of the Comilla multi-sector development model established by a global philanthropy, the Aga Khan Foundation, and funded by international development agencies. Established a full-fledged small loans programme in 1989.</td>
</tr>
<tr>
<td>1980+</td>
<td>Small scale loan schemes run by governments, funded by international donors</td>
<td>A replay of 1970s small scale finance structures, run by governments by this time implemented through NGOs. Established mostly in rural areas, structured on the lines of multi-sector AKRSP style projects. Funders: the World Bank and Asian Development Bank. But project reviews note mixed results in terms of social impact of projects. Projects discontinued by early 2000s as the funders take on a more FS oriented approach supporting the rise of ‘private’ specialised, preferably for-profit MFOs.</td>
</tr>
<tr>
<td>1996</td>
<td>KASHF Foundation</td>
<td>The first specialized ‘microfinance only’ NGO established by an ex-World Bank employee; the first replication of Grameen Bank in Pakistan.</td>
</tr>
<tr>
<td>1997-98</td>
<td>First Women’s Bank Ltd, and The Bank of Khyber start microfinance</td>
<td>Entry in microfinance apparently facilitated and encouraged, under the emergent FS policy stance, by the government and international funders active in Pakistan. But these initiatives lost momentum after some time.</td>
</tr>
<tr>
<td>1998</td>
<td>Pakistan Microfinance Network (PMN)</td>
<td>Emerging Pakistani MFOs establish a network to share experiences. Bilateral funding agency of the UK government funds the initiative. PMN ultimately takes on the role of diffuser of commercialization ‘best practices’. Implements CGAP’s MFOs performance benchmarks, and links up with CGAP’s online benchmarking platform, Microfinance Information Exchange (MIX).</td>
</tr>
<tr>
<td>2000</td>
<td>Pakistan Poverty Alleviation Fund (PPAF)</td>
<td>An apex body established by the government through World Bank funding. Provides subsidized loans and grants to MFOs for on-lending as small loans and infrastructure projects for the poor. Subject to much ire from the pro-commercialization camp, including CGAP because of its resemblance to the discredited models of development finance prevalent in the 1980s.</td>
</tr>
<tr>
<td>2001</td>
<td>Central Bank promulgates the Microfinance Bank law.</td>
<td>Reflects the ‘policy reforms’ to commercialize the field by encouraging rise of formal bank-like structures. The FS approach formally arrives in the Pakistani microfinance field.</td>
</tr>
<tr>
<td>2002-06</td>
<td>First Microfinance Bank (FMFB) Network Bank, Tameer Bank, Pak Oman Bank</td>
<td>Microfinance Banks established under the new law, mostly set up by socially motivated interests and sponsored/funded by international funders, rather than spearheaded by purely commercial players. FMFB created by AKRSP by converting its microfinance operations into a bank. Pak Oman Bank capitalized by the government of Oman.</td>
</tr>
<tr>
<td>2008</td>
<td>KASHF Microfinance Bank</td>
<td>KASHF Foundation, the first specialized NGO MFO converts to a bank. Sponsored by global social investors (Acumen Fund, New York) and development funders (the World Bank, KfW – Germany).</td>
</tr>
<tr>
<td>2011</td>
<td>NRSP Microfinance Bank</td>
<td>One of the largest MFOs, a government owned Rural Support Programme, converts microfinance operations into a bank, sponsored by global social investors (Acumen Fund, New York) and development funders (the World Bank, KfW – Germany).</td>
</tr>
<tr>
<td>2011</td>
<td>PPAF under public scrutiny</td>
<td>Politicians question the efficacy of PPAF, claiming no change in the lives of the poor, calls for its audit by a government accountability watchdog. Objections are raised on the high salaries of staff at PPAF, despite the latter being a social development organization. The rise of microfinance banks, and the much touted role of PPAF in facilitating ‘graduation’ of some non-profit MFOs to for-profit commercial banks fall on deaf ears!</td>
</tr>
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12.2.2 1980s: The emergence of pioneering ‘private’ microfinance initiatives

To appreciate the events of the 1980s, which established the foundations of the microfinance movement in Pakistan, we return to the 1960s to consider the work of a pioneering individual in the area of community based development: Dr. Akhtar Hameed Khan. Dr. Khan established a government research institution and a development project,
named the Comilla Project, to experiment with a grassroots development model styled on the cooperatives model (Khan, 1979). Dr. Khan later established the Orangi Pilot Project in the early 1980s. OPP holds a special significance in the Pakistani microfinance movement because it acted as a source of inspiration and organizational practice for an important set of players to emerge in the 1990s: the Rural Support Programme (RSP). RSPs, government owned development agencies, have emerged to be one of the biggest providers of microfinance in Pakistan; they are among the top ten providers of microfinance in Pakistan in terms of MFO assets (Shah, 2010). From the FS perspective, which discourages government interventions in markets, particularly financial markets, it is noteworthy that that the Comilla Project was essentially a government initiative but spearheaded by a dedicated social entrepreneur.

Dr. Khan transferred his ideas and efforts from a government bureaucratic context (the Comilla Project) to a more flexible and entrepreneurial NGO context when he established the Orangi Pilot Project (OPP) in 1980s, in Karachi. The main motivation behind OPP was to provide sanitation infrastructure, through community self help, in a massive slum area. Later, OPP expanded its programme by including low cost housing, health and microfinance in its activity portfolio. OPP played a role in the establishment of another development entity, the Aga Khan Rural Support Programme, which had more direct significance in the arrival of the microfinance movement in Pakistan. OPP has been recognized globally as a pioneering developmental effort (Pearce, 1996).

The Aga Khan Rural Support Programme (AKRSP) was established in the early 1980s, and was sponsored and managed by a global private philanthropy named the the Aga Khan Foundation; a development agency of the Canadian International Development Agency (CIDA), which was also among its first major funders at that time (Dichter, 1998). The key individuals who established AKRSP were disciples of Dr. Akhtar Hameed Khan, who tried to
implement Dr. Khan’s ideas and methods at AKRSP. AKRP’s credit and savings programme was the first international success story of the microfinance movement originating from Pakistan in the area of grassroots community mobilization for financial services provision. Multilateral donors funding microfinance projects in Pakistan in the 1990s invoked AKRP’s success story to justify the microfinance funding models involving NGOs as delivery channels (e.g. World Bank, 1997). AKRSP inspired the government to establish its own organizational structures similar to AKRSP, called Rural Support Programmes (RSPs) – in many ways considered to be AKRSP clones – all over Pakistan (Khan, 2006). RSPs have also emerged to be one of the biggest providers of microfinance in Pakistan (Shah, 2010).

In the rise of the AKRSP during the 1980s, we see the emergence in the Pakistani microfinance field of bilateral funding organizations (i.e. Canadian International Development Agency), as well as the private development agencies (i.e. the Aga Khan Foundation). However, in the government funded development finance arena, we see the public sector entities continuing to engage in small scale development finance, and funded by the international multilateral funding organizations, chiefly the World Bank and the Asian Development Bank. At that time, microfinance in Pakistan, despite the emergence of the pioneering work of OPP and AKRSP, did not achieve the required momentum so as to become a recognizable organizational field during the 1980s. From the perspective of commercialization of microfinance and the prescriptions of the FS approach, the organizational models that appeared during the 1980s, OPP and AKRSP, did not conform to the vision of microfinance as a specialized activity prescribed by the FS proponents. However, AKRSP would later provide the organizational template for development interventions, including microfinance, to organizations that would emerge during the 1990s.

At the global level, the 1980s saw the rise of ‘neoliberal’ economic agenda calling for privatization and reduction in public sector activities, particularly in the development finance
field. Accordingly, international funding organizations, particularly the multilateral entities, called for change in government policy towards development finance. The standard recipes included interest rate liberalization, removal of subsidies and the privatization of state-owned enterprises. The neoliberal policy prescriptions of financial sector liberalization came to Pakistan through the prodding of the World Bank and IMF in the late 1980s (Mathieu, 1998; The World Bank, 2007).

At the global level, the global microfinance movement was itself in its infancy, with global pioneers such as Grameen Bank still growing through its initial phase. However two counter currents in the development finance field would set the stage for the rise of microfinance and the FS approach to microfinance in Pakistan and all over the world: the discrediting of the ‘directed credit’ approach of government-sponsored subsidised credit schemes (Adams, Graham, & Pichke, 1984), and the emergence of the ‘bottom up’ community based development paradigm (Woolcock, 1998). New organizational structures of microfinance would emerge in the coming decade, especially through funding from international funding organizations.

12.2.3 1990s: The microfinance field takes shape

Almost in line with the global experience, microfinance in Pakistan started gaining momentum in terms of increasing organizational activity in microfinance. The organizational template of multi-sector development organizations with a microfinance component emerged during the 1990s, as reflected in the founding of three types of organizational actors: the Rural Support Programmes (RSPs), private NGOs, and donor-funded Area Development Programmes. RSPs are government sponsored multi-sector agencies, supported by international funding organizations, working all over Pakistan (Dichter, 1998). RSPs were established on the lines of AKRSP, the pioneering development agency established in 1980s
by international funders. However, as government-owned organizations RSPs appear to be the reincarnation of government-owned DFIs.

The second most significant players that emerged during the 1990s were the private NGOs belonging to so called ‘civil society’. In Pakistan a number of multi-sector NGOs, working on the lines of RSPs, emerged in the early 1990s with interest in microfinance, such as SUNGI, SAFWCO, Taraqi Foundation, and DAMEN (Haq, 2008). These NGOs, as champions of socio-economic development goals, engaged in microfinance from a pure poverty alleviation philosophy and did not include the FS logic. The emergence of the NGO KASHF is significant in this context as a specialized microfinance NGO with a stated objective to achieve ‘sustainable’ outreach of microfinance through a ‘financial services’ approach (Syed, 2009). KASHF is a Grameen Bank replication in Pakistan, funded by the Grameen Trust – a Grameen Bank entity entrusted with the task of replicating the Grameen way of microfinance around the world (Syed, 2009). Ironically, KASHF has been at the forefront of adopting the FS approach of microfinance, most visibly by recently converting into a microfinance bank.

Three events occurred during the latter half of the 1990s which signify recognition of microfinance as a specialized financial service in Pakistan, somewhat in line with the FS approach: creation of a separate microfinance business unit by AKRSP; the establishment of a microfinance focussed pilot project Urban Poverty Alleviation Project (UPAP) by a leading RSP, National Rural Support Programme (NRSP); and, most significant of all, the founding of a specialised microfinance-only NGO named KASHF (Haq, 2008). By contrast, both AKRSP, and its copycat government organization NRSP, are multidimensional poverty alleviation programmes with microfinance as an add-on.

The third set of players includes projects funded by international funding organizations. Apart from the above-mentioned key developments, the 1990s also saw
another major change in small scale retail development finance in the realm of donor-funded and government-implemented projects. Donors, including the Asian Development Bank and the International Fund for Agricultural Development (IFAD), stopped their earlier practice of funding government-owned financial entities as conduits of small loans to farmers and small enterprise, and instead embarked upon financing what they called ‘second generation’ multi-sector Area Development Programmes (ADPs). Those projects were targeted at underdeveloped regions of the country. The novel element of these projects was the inclusion of NGOs and commercial financial entities as Participating Credit Institutions (PCIs) to implement the ‘credit component’ of those projects. These projects had structural similarities with the RSP and NGO developmental model, with the added feature of having government agencies as Project Implementation Units (PMUs) – essentially old wine in new bottles! The successful experiences of AKRSP and other global pioneers such as Grameen Bank were invoked to justify project design including the deployment of NGOs as project partners (c/f Asian Development Bank, 2001).

The 1990s also saw increased funding activity for microfinance by the bilateral funding organizations – entities sponsored by individual industrialised countries entrusted with taxpayer’s money and the responsibility for initiating development projects in poor countries like Pakistan. Due to their flexible structure, unlike multilateral funding organizations, they were not required to channel funding through recipient country governments – they were thus able to fund the microfinance projects of private NGOs. The most active of those bilateral funders was the Swiss government-sponsored Swiss Agency for Development Cooperation (SDC).

During the 1990s, entities from the financial sector proper also entered the microfinance arena, following the ‘carrot’ of funding of international funding organizations. SDC came with a high profile project in 1996 to promote micro-leasing and partnered with
five leasing companies in Pakistan (Havers, 1999). However, despite this flurry of activity in the leasing sector, the ratio of leasing companies in the overall Pakistani microfinance portfolio has remained negligible. There is only one leasing company amongst the 23 Microfinance Providers (MFPs) that provided data for tracking and benchmarking by the microfinance representative body Pakistani Microfinance Network which establishes performance benchmarks for the field in Pakistan (Shah, 2010). The initial entry of the leasing companies in the microfinance field through donor funding did not seem to result in a major breakthrough. In terms of volume, micro-leasing has achieved a negligible share in the overall national microfinance portfolio over the years (Shah, 2010).

The 1990s also saw the entry of commercial banks in microfinance through two financing windows: retail level through in-house microfinance products, and through credit lines provided to other MFOs. Two banks, The Bank of Khyber (BOK) and the First Women’s Bank (FWBL) made an entry into microfinance during the early 1990s. However, as in the case of the leasing companies, the microfinance product lines of these financial entities seem to have faltered. This is evidenced in the relatively insignificant share of these organizations in the total Pakistani microfinance portfolio (Shah, 2010).

The Pakistani microfinance field settled down during the 1990s to achieve a recognizable form, with civil society NGOs, RSPs and financial sector entities engaged in providing services to the poor. The most significant network of microfinance actors that emerged during the 1990s was the Pakistan Microfinance Group which was formed in the wake of the 1997 global microfinance watershed event: the Microcredit Summit, Washington D.C. An informal gathering of Pakistan microfinance players, most prominently AKRSP which also acted as a de-facto host for this network, decided to organize a platform for the Pakistan microfinance players to learn from each other’s experiences (Burki & Chen, 2006). The Pakistan Microfinance Group would later become Pakistan Microfinance Network, a
member-based organization of MFOs in Pakistan funded by bilateral funding organizations, chiefly the UK government Department for International Development. PMN would also play a crucial role in disseminating the message of the FS approach through its training programmes adapted from CGAP training initiatives. Events during this period also signify the first serious appearance of FS logics on the Pakistani scene.

During the 1990s, the funding relationship between international funding organizations and local, mostly NGO-based microfinance programmes further strengthened. Multilateral projects, that is, the Area Development Programmes, implemented through government entities, also established linkages between NGOs and financial entities (as delivery channels). These linkages involved both the provision of wholesale funds from financial entities to NGOs, as well as the use of NGOs as ‘social mobilization’ facilitators with the financial entities as providers of small loans to the ‘groups’ formed due to the social mobilization efforts of the NGOs.

Microfinance activities during the 1990s represent a ‘smorgasbord’ of organizations working within their structural constraints and doing their bit to promote microfinance as a developmental intervention. It may be noted that during the 1990s, at the global level and especially at the World Bank, poverty alleviation came back at the top of the development funding agenda. The role of NGOs as delivery channels gained popularity, with recognition of some of the signature microfinance practices like the group lending methodology (Ditchter, 1999). Traces of these events can be found in the microfinance activities in the Pakistani context.

Simultaneously, at the government policy level, financial sector liberalization and a greater role for the private sector became the established view. This stance was supported through generous funding, under ‘Financial Sector Adjustment Loans’, by the World Bank (Mathieu, 1998; The World Bank, 2007). However, at the microfinance front, the then
prevailing strategy of international funders continued to support government-sponsored mechanisms for small scale lending, that is, the Area Development Programmes (e.g. Asian Development Bank, 1992; International fund for Agricultural Development, 2008b). Microfinance strategy was conceptualized as ‘small enterprise development’ in Area Development Projects, as well as other donor funded development projects also increasingly funded by bilateral funding organizations.

12.2.4 2000: Moves towards commercialization of microfinance?

By mid 2000s, the Pakistani microfinance field achieved a recognizable shape, with a sizeable clientele of small scale borrowers, and growing asset base of MFOs, as shown in Figures 4 and 5. The evolution of the Pakistani microfinance field during the 2000s shows a facade of newly emerging commercialization trends, but in essence continued to represent altruistic motivations and non-profit interests.

Figure 4 Pakistan microfinance: Outreach trend

![Graph showing outreach trend from 2003 to 2010.](source: Pakistan Microfinance Review (2009); Microfinance Information Exchange Inc. (www.mixmarket.org); Pakistan Microfinance Network (www.pmronline.info))
First there was a flurry of conversions of non-profit MFOs to banks. AKRSP’s microfinance programme converted into an MFB, aptly named First Microfinance Bank (FMFB), under the new government regulation promoting microfinance banks, followed by the creation of three more MFBs. Another specialized NGO MFO also emerged named ASASAH. All of these events in the private microfinance domain were ‘dreams come true’ for those promoting commercialization of microfinance under the FS approach. Finally, in the latter part of the 2000s, KASHF also converted into an MFB. But behind the facade of for-profit structures, the newly emerging for-profit entities were essentially spearheaded and supported by altruistically inclined actors coming from the fields of social development; the main sponsors included international social investment entities (Acumen Fund, New York), multilateral funders (IFC) and development banks owned by developed country governments (KfW) (Nenova, Niang, & Ahmad, 2009; Shah, 2010). Purely private sector pecuniary interest has not entered microfinance. If it did enter microfinance, in the case of the leasing companies, and commercial banks, the entry was short-lived and insignificant.
<table>
<thead>
<tr>
<th>Year</th>
<th>Emergence of for-profit MFOs</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>First Microfinance Bank</td>
<td>The microfinance portfolio of Aga Khan Rural Support Programme (AKRSP), a multi sectoral NGO and early pioneer in Pakistani microfinance, converted into a new commercial entity.</td>
</tr>
<tr>
<td>2004</td>
<td>Rozgar Microfinance Bank</td>
<td>Launched by a group of businessmen, its operations are focussed on the Pakistani port city and business hub of Karachi.</td>
</tr>
<tr>
<td>2005</td>
<td>Network Bank</td>
<td>Launched by a Pakistani leasing company, Network Leasing with a history of microfinance and funding from international agencies particularly the Swiss Agency for Development Cooperation (SDC). The first microfinance bank to be listed on a Pakistani stock exchange.</td>
</tr>
<tr>
<td>2005</td>
<td>Tameer Bank</td>
<td>Launched by Telenor, a global telecommunication company, also has shareholdings of the World Bank affiliate IFC. It is the first MFO which started technology based delivery channels for microfinance such as mobile phone banking and biometric scanners.</td>
</tr>
<tr>
<td>2006</td>
<td>Pak Oman Microfinance Bank</td>
<td>Launched by the governments of the Sultanate of Oman and Pakistan to promote microfinance in Pakistan</td>
</tr>
<tr>
<td>2008</td>
<td>Kashf Microfinance Bank</td>
<td>Launched by Kashf Foundation, a microfinance NGO which was launched in 1996 to replicate the Grameen Bank model of microfinance in Pakistan. Kashf Foundation, although inspired by Grameen Bank, and Yunus’ philosophy of outreach to women through loans, focussed on commercial sustainability right from the start. Its shareholders include IFC, and an international social investment fund, Acumen Fund.</td>
</tr>
<tr>
<td>2011</td>
<td>NRSP Microfinance Bank</td>
<td>Launched by the largest government sponsored Rural Support Programme (RSP), and microfinance provider in Pakistan, the National Rural Support Programme (NRSP). Its shareholders include IFC, a German development bank, KfW, and Acumen Fund.</td>
</tr>
</tbody>
</table>

Source: Company websites
On the one hand, signs of overt commercialization were appearing but, on the other hand, a set of organizations were emerging that reflected the continuation of structures associated with the PA approach: government-owned and -sponsored entities, funded by international resource providers, engaged in subsidized lending for purely altruistic objectives. PPAF and Khushali Bank were established through loans from the World Bank and Asian Development Bank respectively (World Bank, 2005; Asian Development Bank, 2008). PPAF deserves particular mention as a microfinance funding provider in Pakistan. PPAF has been inspired by a similar Bangladeshi wholesale funding entity, also spearheaded and funded by the government and donor agencies (The World Bank, 2003). The organizational structure of PPAF has been praised by international funders due to its presumed sustainability, efficiency and political neutrality as a quasi-government entity – characteristics which were also presumed lacking in earlier funding channels of the 1970s and 1990s which comprised government-owned financial entities called Development Finance Institutions (DFIs), and later, the government-managed multi-sector development projects called Area Development Programmes (ADPs). But essentially, PPAF resembles in many ways the multi-sector development projects in vogue during the 1990s. PPAF is a funding channel of both wholesale microfinance loans and grants for other development interventions, mostly in the rural areas of Pakistan. Hence for MFOs, PPAF is a source of debt funding, albeit at concessionary rates, due to the ultimate source of that funding from international funding agencies such as the World Bank and Asian Development Bank. Hence, PPAF violates almost all of the tenets of the FS approach calling for the commercialization of microfinance: avoidance of government entities as source of concessionary finance and avoidance of mixing finance with non-finance grant-based activities. PPAF has been criticized for this reason by FS proponents (Duflos, Latortue, Mommartz, Perrett, & Staschen, 2007)
Khushali Bank (KB), the government-owned MFB, sponsored by the Asian Development Bank, can be considered an even bigger sin against the FS approach committed by the government. It is a repetition of the ‘mistakes’ which the FS proponents identified in the late 1970s as the main cause of ‘market distortions’ as well as hindrance to access to finance for the poor: subsidized government entities do not have the incentives to be financially sustainable and efficient and run the risk of being used for political purposes by governments. However, the Asian Development Bank justified funding KB by using ‘market failure’ arguments which have been oft repeated since the start of the broader development finance field in the early 20th century (Asian Development Bank, 2008).

Even the much trumpeted ‘private’ microfinance initiatives, including KASHF Foundation (now KASHF Microfinance Bank), do not represent private profit-seeking capital linked to the financial markets. KASHF is an NGO established with the sole purpose of replicating the organizational model of Grameen Bank (providing microfinance to women through group-based lending method) in Pakistan and having international funders as major sources of capital (Syed, 2009). However, KASHF did access funding from commercial sources through guarantees provided by Grameen Foundation – a US based Grameen-inspired NGO funding microfinance development around the world (Khalid, 2008). The closest that the private financial sector came to launching retail microfinance services in Pakistan was in the case of the leasing sector during the mid 1990s. As mentioned above, the Swiss bilateral agency SDC funded a project to prod a set of five leasing companies to engage in micro-leasing. Two leasing companies made a significant headway in microfinance: ORIX Leasing started a micro-leasing window and continues to operate one, and Network Leasing Corporation, established for the sole purpose of doing micro-leasing, converted into a Microfinance Bank. However, the share of leasing companies is miniscule in the overall microfinance portfolio in Pakistan.
The recent entry of the globally renowned Bangladeshi MFO, BRAC, in the Pakistani microfinance field represents a significant milestone (Shah, 2010). However, BRAC, as a multi-sector development NGO, also represents more of a ‘welfarist’ ethos rather than the cut-throat financial services specialization preferred by the pro-commercialization camp. The BRAC model of microfinance, which calls for linking financial services with non-finance social services, a position antithetical to the FS logic, is also placed by microfinance practitioners in contrast to the ‘minimalist’ financial intermediation model of the Grameen Bank (Smillie, 2009).

Overall, the Pakistani microfinance field shows diverse organizational structures with regulated financial entities operating side by side with NGOs. Due in part to active engagement with the international funding universe, elaborate regulatory structures, conforming with the global commercialization policy fad, have been put in place. However, the essential structure of the microfinance field is far from the FS ideal where microfinance is part of Pakistani financial market. A small set of large players, the majority of them owned by government, operate in an environment with ‘below market’ subsidized interest rates (Duflos et al., 2007). In fact, the Pakistani financial market itself is not mature even relative to its regional peers, marked by limited ‘depth’ and outreach (Shah, 2010).

Interestingly, the form vs substance dichotomy that we see in microfinance can also be seen in the case of the ‘liberalization’ of the financial market. The market liberalization policies initiated by Pakistan at the behest of the international donors had a partial impact on the established government-sponsored financial service channels earlier supported by those very donors, and later targeted for privatization and ‘corporatization’. The government-owned Agricultural Development Bank (ADB) and SME Bank were ‘restructured’ by giving them an autonomous legal status, but both were not privatized by the government despite assurances given to the international development funders that those organizations
would be privatized. Despite several attempts, prodded by the development funding organizations, the government did not succeed in making ADBP a profitable entity (Asian Development Bank, 2006); nor was the government able to privatize it. Similarly, SME Bank, despite conversion to a commercial bank, could not attract a suitable buyer in its privatization bid.

The FS agenda for the development of the microfinance field ultimately aims at making the field attractive to for-profit commercial interests (Ledgerwood et al., 2006). However, the pro-commercialization changes seen in the evolution of the Pakistani microfinance field did not witness a large scale entry of the financial sector proper into the microfinance field. The essential substance of the field continues to be embedded in the developmental goals historically attached to microfinance. The actors behind the corporatized façade of microfinance – including the international funding organizations, governments and the NGOs – continue to predominantly represent the interests of the broader development field rather than private profit-seeking capital.

The emergence of the Pakistani microfinance field runs parallel with the rise and development of the global microfinance movement. As with the global experience, the Pakistani microfinance field had developmental motivations at the inception stage, as institutionally expressed in the ideal type of the Poverty Alleviation (PA) logic. At the global level, microfinance, initially labelled ‘microcredit’, has always been inextricably linked with developmental goals – mainly including poverty alleviation, women’s empowerment, and income generation. It was predominantly a domain of non-profit developmental organizations, the NGOs. Both of these aspects are also present in the Pakistan microfinance field. Global microfinance funding is dominated by international multilateral organizations such as the World Bank. The same situation can be seen in the Pakistani context with leading international funding organizations, such as the World Bank and Asian Development Bank,
also the dominant funders of the microfinance field in Pakistan. Hence, microfinance in Pakistan is seemingly inextricably embedded in the global altruistic development finance field. The developmental underpinnings of the microfinance field can be seen in terms of its current dominant players: in 2009, two government-sponsored ‘quasi private’ entities, Khushali Bank and National Rural Support Programme (NRSP), as well as an NGO (now turned into a Microfinance Bank), cover more than 70% of the total microfinance portfolio amounting to Rs 35 billion (December 31, 2009), which emerge as the top three MFOs in Pakistan (Shah, 2010).

Despite the rise of the FS approach in terms of the ascendant commercialization policy paradigm in the field since the early 2000s, the field is at the core isolated from the Pakistani financial markets. The policy discourse has adopted the narrative of ‘microfinance as banking’. The field actors are also increasingly adopting commercial logics by, most significantly, converting to Microfinance Banks. However, this flurry of recent activity favouring the FS approach masks the essential continuity of one key field trait: the most important shareholders in almost all of the key microfinance initiatives that dominate the field in terms of their financial clout belong to the ‘development industry’. These shareholders include government, international funding organizations, and other actors with altruistic motives. The ‘private sector’, seeking profitable opportunities in microfinance, has not penetrated the field in a big way. The continuity of the status quo and the negation of the commercialization paradigm is also reflected in the fact that, in 2009, 80% of microloans given out by RSPs and NGO MFOs were financed through ‘subsidised debt’ taken mainly from the government-owned apex lending window PPAF, at rates below the wholesale inter-bank lending rates; it is generally believed that there is no incentive in the market to access commercial funding due to the presence of such low cost altruistically-motivated sources of
funding (Shah, 2010). As Table 15 shows, the top five Pakistani MFOs have altruistically oriented sponsors.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>MFO Name</th>
<th>Share (% of active borrowers)*</th>
<th>Noteworthy organizational aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>National Rural Support Programme (NRSP)</td>
<td>21</td>
<td>A government owned multi-sector Rural Support Programme which launched its Microfinance Bank in March 2011, also funded by a global socially responsible investor Acumen Fund, the World Bank sister organization, IFC, and German development bank, KfW.</td>
</tr>
<tr>
<td>2</td>
<td>Kushali Bank (KB)</td>
<td>19.9</td>
<td>A government and Asian Development Bank (ADB) sponsored Microfinance Bank, established in 2000. Touted as a ‘public-private’ partnership with nominal investments by commercial banks, with the majority investment by a government commercial bank. Failed to achieve profitability as envisaged. Plans to ‘privatize’ the bank also failed.</td>
</tr>
<tr>
<td>3</td>
<td>KASHF</td>
<td>15.2</td>
<td>A Microfinance Bank which emerged from an NGO, in 2008. The NGO was earlier set up as a Grameen replication initiative. Capital to the transformed bank also provided by a European socially oriented investment bank, Triodos Bank, and the World Bank affiliate IFC.</td>
</tr>
<tr>
<td>4</td>
<td>First Microfinance Bank (FMFB)</td>
<td>8.1</td>
<td>A spin off of a globally renowned Pakistani NGO, and one of the Pakistani pioneers in microfinance, Aga Khan Rural Support Programme (AKRSP).</td>
</tr>
<tr>
<td>5</td>
<td>Punjab Rural Support Programme (PRSP)</td>
<td>6.6</td>
<td>A government owned multi-sector Rural Support Programme working in the Pakistani province of Punjab.</td>
</tr>
</tbody>
</table>

Total 70.8

* As on December 31, 2010


Microfinance Banks (MFBs) are the regulated for-profit financial entities established under the new microfinance regulation. MFBs, as mirror images of commercial banks, are the ideal organizational structure for the pro-commercialisation camp. MFBs are also considered to be superior to the NGOs by the FS proponents because of the MFBs’ ability to generate local deposits. However, in the Pakistan scenario, MFBs have generated only 40% of total assets through deposits; and that deposit generation effort by those MFBs has been mostly directed at large institutional investors rather than at the small deposits from poor clients (Shah, 2010). So how did MFBs fund their microfinance lending operations? It was mostly through ‘donated equity’ and concessional loans, both mostly provided by international funders.

Why is it that the private sector did not enter the microfinance field in a significant way despite a favourable regulatory environment (in fact, one of the best in the World (The
Economist Intelligence Unit, 2010)? Despite policy efforts by governments and funders, this basic attitude towards microfinance shown by commercial banks could not be changed (International Finance Corporation, 2008). The answer to this conundrum lies in three aspects of Pakistani microfinance: the extent of commercial potential of the microfinance field, the general state of the financial markets in Pakistan and the financial infrastructure. Efforts for a more private sector oriented financial market reform failed even at the broader level, as noted by the World Bank, even during the early days of reforms (Mathieu, 1998). Figure 6 shows the abysmal returns on equity trends for most of the 2000s.

![Figure 6 Pakistan microfinance profitability trend](source)

Further, financial services access is limited even in the case of the mainstream financial sector, with only 14% of Pakistan’s population were having access to financial services from the mainstream financial sector, as on December 31, 2008; microfinance reached less than 2% of the poor at that point in time (Nenova et al., 2009). More recently, comparative financial access figures show a dismal picture of access of the general populace to banking services, as shown in Table 16.
Table 17  State of access to financial services in Pakistan

<table>
<thead>
<tr>
<th></th>
<th>Pakistan</th>
<th>Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit Accounts per 1000 adults</td>
<td>229</td>
<td>737</td>
</tr>
<tr>
<td>Loans per 1000 adults</td>
<td>35</td>
<td>258</td>
</tr>
<tr>
<td>Bank branches per 100,000 adults</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Financial Access 2010 (Consultative Group for Assisting the Poor & The World Bank, 2010)

Low market penetration of existing MFOs may have been perceived as an opportunity, especially by the commercial finance entities. But investments in the microfinance field could not be perceived as profitable. More generally, the overall financial and physical infrastructure has been inadequate to support a rapid expansion of financial services – involving weak legal and debt enforcement mechanisms and no credit bureaux to check client indebtedness (albeit a credit bureaux has recently been launched though donor funding) (Burki & Chen, 2006; Haq, 2008).

Finally, there are no incentives for the microfinance players to access commercial finance as there has been ample altruistic funding available from international funders (Burki & Chen, 2006; Duflos et al., 2007; Haq & Saleem, 2009).

On the one hand, international funders were promoting the FS approach during the 2000s; on the other hand, the same funders were implementing policies in Pakistan that went against the letter and spirit of commercialization. The World Bank provided seed money to the government to establish PPAF, a wholesale apex funding organization which provided subsidized funding to the microfinance field, particularly the NGOs; The Asian Development Bank sponsored Khushali Bank, an essentially government-owned Microfinance Bank which had nominal shareholding of private commercial banks as well. The working of both organizations have been criticised by the FS proponents (Duflos et al., 2007).

Why did leading international multilateral funding organizations, particularly the World Bank, the key proponent of the FS approach, ignore their own strategic stance on development finance? The answer lies in the essential institutional structures, the network of relationships and funding practices historically embedded in the rules of business of those
organizations, and the key stakeholders engaged by them (Duflos et al., 2007; Haq, 2008; Haq & Saleem, 2009; Shah, 2010). The fact is that the multilateral funding organizations are not private for-profit entities and thus they do not have the pecuniary incentives to engage with microfinance as private investors – a point highlighted early on by observers of microfinance (Schreiner, 1997). The multilaterals are owned by governments, with a dominant shareholding by the industrialized countries; hence they follow the agenda set by those governments. That agenda mostly includes developmental aims as historically determined and recently reinforced in the Millennium Development Goals of the UN (United Nations, 2005). When these multilateral organizations engage in funding of development interventions in poor countries, the objective is welfare oriented, with an overarching goal of poverty alleviation and related themes. An analysis of multilateral projects could be seen as evidence of this scenario – for example, the World Bank’s 2002 country strategy for Pakistan (World Bank, 2002). But motivations for funding microfinance have been reported to be not exclusively altruistic. Developed country governments, particularly the US, have their own vested interests that are promoted by influencing the channelling of funding in developing countries (Alesina & Dollar, 2000; Chomsky, 1999; Martens, 2005; Staples, 2006; Weber, 2002).

The other aspect of multilateral projects is that those projects need to channel funding through national recipient governments; and the projects need to be identified through consultations with those governments. Hence, multilateral projects are constrained to engage with government sector entities. This happens even when a private financial entity is included as a project partner. Thus the main overseeing authority is a government entity with no incentive to focus on the profitability of the partner MFO. Finally, even when multilaterals intend to engage private MFOs, they obviously need to go to those organizations that are willing to be partner with the multilaterals and to be part of the microfinance field. Again,
those organizations are not commercial banks or other financial entities but NGOs or other entities that are already part of the microfinance field.

Crisis in the microfinance field also bring to the fore the deeper fault lines and structural issues associated with small scale retail development finance. These are the issues which hinder the pro-FS camp in realizing their dream of a commercialized microfinance. Chapters 5 and 6 highlighted scandals and crises in the global microfinance field. Pakistani microfinance field also faced its crisis moments recently. In 2008, microfinance borrowers of a group of MFOs working in the Pakistani province of Punjab started defaulting on their loan repayments, and this delinquency increased when politicians in that area started making false proclamations of loan amnesty (Chen, Rasmussen, & Reille, 2010). A politician announcing loan amnesty is not a new phenomenon. It mimics a well established practice in the government whereby government-owned financial institutions used to announce loan waivers to favour a particular political sensitive constituency of the ruling political actors (International fund for Agricultural Development, 2008a). Loan waivers would also come into effect in case of a calamity in a particular area.

Further, Pakistani MFOs have been accused of using highhandedness and rough treatment towards their poor borrowers, particularly in highly competitive and saturated peri-urban markets in the Pakistani province of Punjab (Mustafa, 2009). Again, in this situation, government officials and the media came out strongly against MFOs, invoking the altruistic objectives as the main driving force for microfinance rather than the need for organizational sustainability. For example, the Pakistan Poverty Alleviation Fund (PPAF) has been criticized for not having any impact in its area of operations, and the high salaries paid to PPAF management was also criticized (Klasra, 2011). These events highlight that microfinance has always been a politically sensitive issue with strong involvement of
governments for populist reasons (Zafar, Afzal, & Khan, 2009). In this situation, the private financial sector could not be expected to invest in microfinance.

12.3 Conclusion

Pakistani microfinance is characterized by a predominance of altruistically motivated actors, and resource providers. The rhetoric of the dominant resource providers has taken up some FS oriented elements. But the activities on the ground are structured on PA lines. The much trumpeted role of the commercial finance players in the microfinance arena has remained minimal and, if present, mostly due to the prodding and financial incentives of the international funders. The rates of return for microfinance have remained negative, making microfinance an unattractive proposition for the commercial actors. Governments have continued to play a leading role in the retailing of microfinance due to the politically charged rhetorical association of microfinance with poverty alleviation. Commercialization does not feature in this story as an attractive political agenda.

In this situation, how would a microfinance initiative in Pakistan, started by a commercial financial entity, emerge and survive, given the context of Pakistani microfinance presented in this chapter? The ensuing chapters try to answer this question by presenting a case study of a commercial bank doing microfinance.
Chapter 13: ComBank (CB): An organizational biography

13.1 Introduction

Commercial banks engaged in microfinance are a dream come true for the proponents of the Financial Systems (FS) logic. Microfinance, according to the FS proponents, is financial intermediation. Accordingly, FS oriented microfinance development policy, particularly espoused by the influential international funders, has promoted the engagement of commercial banks as microfinance providers. The Pakistani microfinance field is a case in point, where funders tried to promote microfinance among commercial players, including leasing companies and commercial banks. Chapter 12 provides more details on this phenomenon. However, as shown, microfinance lost momentum with commercial financial entities over a period of time. This chapter tells the story of a commercial bank, anonymously labelled ComBank (CB), which initiated a small scale retail development finance initiative in around 1994. But this initiative lost its momentum by 2005. This chapter provides the reader with a biography of the organization and context of its evolution. This chapter introduces those elements, including resources and organizational structures, which either facilitated or hindered the uptake of the FS and Poverty Alleviation (PA) logics in the bank. Chapter 14 and 15 directly address the issue of clash of logics in the bank. Chapter 14 provides a detailed analysis of CB’s experience in terms of the clash of the FS and Poverty Alleviation (PA) logics within the bank. Chapter 14 also goes further and identifies micro-processes of clash and reconciliation of the aforementioned logics as perceived by informants working in the microfinance operations of CB.
Please note that names of some of the organizations which engaged with CB have not been divulged to maintain CB’s anonymous identity.

13.2 **ComBank (CB) origins: A commercial bank with PA oriented intent**

The establishment of CB itself in 1991 is a paradox in the Pakistani financial sector. On the one hand, the Pakistani financial sector was undergoing a ‘market liberalization’ reform programme whereby government shareholding in public sector commercial banks was being divested and the establishment of private banks was encouraged. On the other hand, a then regional government went on to establish CB in 1991 through an Act of that regional Parliament. This bank was to focus on resource mobilization in an underdeveloped region of Pakistan – giving rise to the so called ‘development mandate’ of the bank which would be invoked later in almost every document that justified the bank’s entry into microfinance. The goals of CB were reminiscent of the then defunct and discredited Development Finance Institutions (DFI) which was established by governments during the 1970s and 1980 with similar lofty objectives but which, according to the FS proponents, went down due to their politically motivated lending decisions and organizational inefficiencies (Adams, Graham, & Pichke, 1984). Ironically, during the time when CB was established, influential international funders such as the World Bank and Asian Development Bank launched and funded major financial sector liberalization programmes in Pakistan (Asian Development Bank, 2005; World Bank, 1994).

A German international development bank, active in the global development finance, including microfinance, invested as a shareholder in the bank during the initial years of the bank, and played a part in CB’s early decision to start its Small and Medium Enterprise (SME) financing window. Because of this German bank, another German development finance entity, a sister concern of the former, also provided credit lines to CB for onlending to
the SME sector. In fact, CB was different from other commercial banks right from the start. Commercial banks are focussed on short to medium term financing, and do not have a ‘long term lending’ product line. But CB had a ‘Long Term Projects’ division through which credit lines from the aforementioned funding organizations were channelled toward the bank’s SME lending windows. Hence in some ways, CB also resembled a DFI rather than a purely profit-oriented commercial bank channelling depositors funds towards short term lending.

Why did CB include DFI-like characteristics when it was established as a commercial bank proper? The founding MD was not a commercial banker but a senior and highly influential bureaucrat with previous stints at the top within various DFIs, and he had also been an ex-World Bank executive. He formed a team of top executives who were also mostly from DFI backgrounds rather than from commercial banking. As an ex-World Bank official he had links with the then global development finance community. These links facilitated the bank’s efforts in attracting international capital injections by the two German development banks, and the introduction of the SME finance window at the bank. The early part of the 1990s also saw increasing popularity of SME finance as a development policy in the broader development field and the policy frameworks of the international development funding organizations; hence what was happening at CB paralleled global developments as well (Rhyne & Otero, 1994).

13.3 Phase 1: Initial foray into small scale finance (1994-1996)

CB’s inclination towards development finance can be traced to its founding principles as laid out by the sponsoring provincial government. It was established as a commercial bank following the imperatives of profitability but it was also meant to be a financial intermediary with the express goal of recycling financial resources for investing within the province. The
fact that it was government-sponsored and -owned entity, funded by taxpayer’s money, lent it a ‘public good’ nature.

The human resources that established the bank, especially the top management, did not mostly come from a purely commercial banking background. The founding Managing Director was a development banker with extensive experience as the head of leading national and regional Development Finance Institutions (DFIs), public sector organizations which, although structurally resembling commercial banking entities were exclusively tasked, and by law mandated, with providing financial services for socio-economic development purposes. The second top tier of management also included persons who had mostly spent time at the DFIs. They were also attuned to a more ‘project finance’ oriented frameworks prevalent in the DFIs. Two aspects of the organizational structure of CB and its product profile further attests to its development finance orientation: First, unlike a commercial bank, CB started a separate division and a product line aimed at providing long term (3 to 7 years) financing to existing as well as new industrial projects resident in the province, and which also had employment/regional development potential. The funding for this product line came from a special credit line made available from a leading European development finance entity. Second, the bank’s financiers included another major European development finance entity whose debt holding in the bank had a built-in clause of conversion into equity subject to a mutual agreement between that finance entity and the main sponsor, the provincial government.

These development finance activities of CB in the early to mid 1990s were more in line with the development finance policy of the 1970s and 1980s when project financing for large scale industrial financing was in vogue under the ‘supply led’ (Patrick, 1966) approach to finance. Based on a review of official correspondence and key policy documents, as well as interviews with key founding executives of the bank, it appears that it was the presence of
a set of international donor funded projects in the province aimed at providing training, business advisory services and small scale finance to skill-based small enterprises, such as carpentry, metal joinery, and light engineering industry, which had a demonstration effect for the bank. In some cases, CB acted as a banker, as well as an advisory board member, for those projects. Further, in the mid 1990s, the field of microfinance, particularly the ‘Financial Systems (FS)’ approach was still in the making. The term microcredit was mostly used, and it mostly signified small scale retail financial services aimed at income generating activities of the poor, particular small-scale artisan-based enterprises. The book titled *The New World of Microenterprise Finance: Building healthy financial institutions for the poor* (Rhyne & Otero, 1994), which holds a central position in the theorization of the FS stance, had just appeared at that time, putting emphasis on the sustainable provision of financial services to small enterprises in developing countries.

Hence, seemingly inspired by the contemporary small enterprise development projects, CB started its Small Business Development department (SBD) in 1995. The founding manager of the department was initially hired to assess the feasibility of this department. He was working as a senior consultant with a leading national management consultancy firm, also specializing in providing consultancy services to development projects in the country. This consultancy firm was also a project evaluator and consultant to one of the small enterprise development projects that were the source of inspiration for CB at that time.

During this initial phase, although the focus was on small enterprise financing mostly through the urban-based branches of the bank, interactions with a leading international development finance entity were initiated for including CB as a Participating Credit Institution (PCI) in a major Area Development Programme (ADP) funded by a leading multilateral development finance entity. ADPs, aimed at promoting socio-economic development in rural areas of poor countries, include a set of development services such as
agricultural extension, education, health, and small-scale farm credit (e.g. Asian Development Bank, 2001). ADPs were financed by international development finance entities and implemented through organizational mechanisms managed by developing country governments. The small-scale finance component of such ADPs is often subcontracted to financial entities, often government-sponsored DFIs. Moreover, the international development finance entity could only channel its financing, particularly for its ADP, through the government of the recipient countries. Hence, CB, as a government-owned commercial bank, fitted the ideal financial intermediary profile for ADPs in all respects. It was a government-owned bank, hence able to leverage its public sector status to become part of the ADPs. As a commercial bank, it was also an attractive partner under the then newly emerging neoliberal policy stance which envisioned small-scale finance through properly regulated financial intermediaries.

It was through interaction with the aforementioned international development finance entity that CB became exposed to the then emerging field of microfinance proper. The first thing that the bank did, to fit into the paradigm of microfinance and the related rural development templates in line with the ADPs, was to change the name of SBD, in 1996, to Small Business and Rural Development Department (SBRD) - the ‘rural development’ part added to give it an inclusive developmental flavour.

During its early phase spanning 1994-96, there does not appear to be major friction between the proponents of microfinance in the bank calling for greater emphasis on the development mandate of the bank, and the opposing camp, which considered CB to be a commercial entity whose only social purpose was to make profits while serving its clientele in the target markets. The early smooth sailing of microfinance within a commercial banking environment materialized because the top management was unambiguously in favour of development finance and its embodiment in the form of SBD (later SBRD). The MD of the
bank, as mentioned above, was a powerful and dominant personality within the bank but also in the echelons of power in government and the bureaucracy (the latter constituted the majority of the bank board members). The top management shielded the microfinance activities of that time from the commercial bank operations by giving SBD de facto autonomous status under a founding manager with very strong interpersonal skills. Moreover, the funding sources of SBD did not rely too much on the bank’s commercially generated deposit base. The projects financed by SBD were either funded from the credit lines provided by a leading European development finance entity, or the bank’s own funds were used by invoking a law which allowed commercial banks to finance ‘long term projects’ (loans with durations from 3 to 7 years) with the maximum cap of 5% of bank’s deposits.

13.4 Phase 2: The emergence of ‘microfinance’ (1997 – 1999)

In the first phase of the establishment of SBD, the bank was not truly embedded in the small scale retail finance field recognizable as microfinance. At that time, microfinance as a field itself was not clearly delineated at the global level. However, efforts had begun to ‘mainstream’ microfinance in commercial banks under the increasingly influential policy frameworks in close affinity to neoliberal ideals. The rise of the pro-FS stance was reflected at that time by the establishment of Consultative Group for Assisting the Poor (CGAP); Chapter 8 outlines the activities of CGAP. Interestingly, although at the global field level, the use of the ADPs and ‘directed credit’ with overt socio-economic objectives were losing their respectability in the 1970s and 1980s, the international development financial entities continued to finance such ADPs in poor countries. One particular twist, which superficially brought such ADPs closer to the neoliberal ideals, was the introduction of formal regulated commercial entities as Participating Credit Institutions (PCIs). These PCIs were used as
channels through which retail small-scale finance components were administered to the target markets of the rural poor.

In this scenario CB played its cards well by successfully lobbying its sponsor provincial government for the bank’s inclusion in one such ADP; ultimately the bank ended up becoming part of two Area ADPs in quick succession. Those ADPs aimed at facilitating the provision of financial services, apart from other development interventions, in some of the most economically backward and geographically inaccessible parts of the province. CB was entrusted with the task of channelling those financial services to the poor in those regions.

The sudden influx of a large amount of funding and other capacity building assistance emboldened the bank to hire more staff and expand its operations. Significantly, the small enterprise development projects, mentioned above in the first phase of SDB, also acted as a source of human resources for the expansion in this second phase. Most of the field personnel of SBD came from the small enterprise development projects, hence, bringing in the small scale development finance ethos associated with those projects.

This phase saw activities which clearly broke from the prevailing commercial banking conventions. The bank was going into small scale rural finance, hiring staff with no commercial banking experience and, most significantly, collaborating with NGOs from the development field to expand financial service outreach further down the economic strata in its operational areas. It was the first time in Pakistan that a commercial bank was partnering with non-banking and non-profit entities to expand the reach of financial services. As part of those ADPs, the bank also introduced the renowned Grameen bank institutional innovation, the Group Lending Methodology, in its rural lending operations. Borrowers’ groups were
organized by partner NGOs linked up with the bank through the ADPs, and loans were channelled through the bank’s local field officers to those groups.

SBD, now transformed to SBRD, was fully immersed in the practices of the development finance field in general and microfinance in particular. There were ‘review missions’ comprising international microfinance consultants, funded by the international development finance entities which have funded the projects implemented by SBRD. There were capacity building components of such projects under which staff and management of SBRD visited leading international microfinance organizations in Bangladesh, including Grameen Bank and ASA. CB was fully immersed in the global rituals of the microfinance field of its time.

By the end of this phase, the microfinance initiative of CB had a benevolent management, protective of its by then high profile microfinance endeavours, generous flow of financial resources, and a positive policy environment recognizing the benefits of microfinance. All of these factors appear to have played mutually reinforcing roles in boosting the expansion of SBRD as well as the diffusion of microfinance practices in the bank. However, muted murmurs of disapproval, with strong hints of jealousy, could be sensed in the corridors and offices of the bank’s commercial banking operations questioning the bank’s foray into an area alien to commercial banking, and with no prospects of financial returns apart from the feel-good effect and goodwill generated in certain government quarters. But time was not yet on the side of those who questioned the wisdom of development finance; neither were such people at the helm in the bank.
13.5 Phase 3: The emergence of the ‘Microfinance Unit’ (1999-2000)

SBRD converted from a department of the bank to a separate operational unit, Microfinance Business Unit (MBU), in 1999. Interviews and archival material demonstrate that the establishment of the unit was as much a show of the prominence of the microfinance programme in the bank as the need to be a profitable entity at par in prestige with the commercial operations of the bank. By becoming MBU, the microfinance operations of the bank were responding to the expectations of the commercial banking line of business. The microfinance camp wanted to show the commercial banking camp that microfinance could be profitable. The commercial banking cousins of the microfinance operations, still not recognizing the efficacy of the microfinance operations despite the raising of the profile of the bank by the pioneering endeavours of SBRD, wanted the microfinance operations to be judged solely on the basis of profitability. Hence, it was during this phase that the words ‘sustainability’, ‘efficiency’ and ‘profitability’ started cropping up in official correspondence and staff meetings of SBRD/MBU.

Meanwhile, microfinance operations continued their expansion through more partnerships with NGOs and further linkages with leading international development organizations. These development organizations provided capacity building support to MBU by sending in international consultants who analyzed the microfinance programme of the bank and provided extensive support in diffusing international microfinance ‘best practices’ of the time. The consultants mostly introduced systems which facilitated a sharper identification of cost and revenue drivers of MBU, and advocated the need for making the microfinance operations financially sustainable. For example, one particular consultant, who specialized in helping microfinance organizations conduct detailed business planning and process improvement exercises to achieve financial sustainability in a shortened period of time, introduced a significant World Bank publication aligned with the Financial Systems
approach, *Microfinance handbook: An institutional and financial perspective* (Ledgerwood, 1998). This book, akin to a ‘how to’ manual, was part of a World Bank project titled ‘Sustainable Banking with the Poor’ with the aim of creating commercially profitable microfinance organizations in the global microfinance field. The development field showing how to do finance to commercial banking would have appeared amusing, to say the least, to the commercial bankers at the bank.

In its desire to become financially sustainable, MBU also started its consumer finance programme for the salaried target market. In essence, with consumer finance, microfinance steered into commercial banking territory. This product line was clearly not within the scope of microfinance as it was started to enhance the revenue generating capacity of MBU. It also appears that an implicit purpose of this product line was to win over the commercial banking camp, especially at the branch level. It was thought that branch staff, particularly the branch managers, were not receptive to microfinance, but the lucrative consumer finance product line would give microfinance some level of acceptability (and add to the profitability) at the branch level. During this phase, the support for microfinance among the top management diluted over time – due mostly to the demise of the founding MD, and later his top lieutenants – it was left to the middle management and lower staff to offer a carrot to their commercial banking colleagues in the form of a lucrative financial product. It would be this consumer finance window which will ultimately become the main product line in whatever would be left of the microfinance section of the bank.

13.6 Phase 4: The beginning of the end (2001 - 2008)

The start of the new Millennium marked a slow slide of microfinance from a position of great pride for the bank as a pioneering initiative not only nationally but also at the global level, to a position of notoriety due to alarmingly increasing loan defaults, souring of
relations with partner international funding organizations and an increasingly hostile intra-organizational environment marked by unfriendly board and top management. The first sign that things were not going well emerged when management withdrew the autonomous status of MBU in 2001, and demoted microfinance operations to the level of a department administratively under the bank’s credit operations. Accordingly, microfinance staff, thitherto enjoying an autonomous operational step at the branch level, was made answerable to the branch manager; a situation which was not seen as conducive to microfinance operations as official correspondence showed a tense relationship between the branch staff and microfinance personnel. After this withdrawal of autonomous status, microfinance operations would see frequent administrative changes sometimes giving microfinance staff operational autonomy, then subsequently taking their autonomy back. This frequent set of administrative changes would create an air of uncertainty among the microfinance staff, and would embolden the branch staff, particularly the managers, to avoid cooperation/coordination with the microfinance staff in the operations of microfinance loans. In some instances, microfinance staff, instead of being out ‘in the field’ managing clients and expanding portfolio, would be sitting in branches and performing desk based operational roles related to commercial banking.

By mid 2005, microfinance staff strength at the field level went down to 22 from a peak of 38 (in 2003). Many of them prudently chose to transfer themselves into commercial banking operations; others quit for greener pastures. In the aforementioned situation, and due to the rapid decline in staff morale, the health of the loan portfolio started rapidly deteriorating. By this time, the ADPs which the bank joined with great fanfare also floundered for one reason or the other (more on this below) due to which ultimately the bank had to withdraw from those programmes. This withdrawal also meant that the support (e.g.
transport, human resources) in the field that the bank used to get from the project apparatus also vanished; resultanty loan portfolio quality deteriorated precipitously.

However, during this phase, there was a brief respite during 2003-4 when a new MD, somewhat friendly to the microfinance operations of the bank, facilitated a resurgence of MBU. The first positive sign was the reversion of MBU to a division status (MBDiv). This involved, most significantly, some level of autonomy to microfinance field staff. However, decision-making regarding loan processing was delegated to a committee comprising branch manager and microfinance field staff.

During the period of 2003-4, one of the key founding executives, who had left earlier on long service leave, due to the hostile environment created by the top management and the board, returned to retake his position as the head of MBU. It was due to his efforts that MBD became an autonomous division (MBDiv). During this period, in an effort to show that the microfinance operations are showing profits despite the growing problems of loan default, MBDiv conducted an audit of its operations and reported a profit. MBDiv also tried to expand its portfolio and streamline its operations by re-launching its group lending programme, this time without the support of facilitating NGOs. A financial planning exercise was conducted to show that this group lending based expansion would be profitable within three years.

Unfortunately, the above mentioned resurgence proved to be a false start as the new MD of CB, who was not that hostile to microfinance and who had arrived in 2003, left the bank by the middle of 2004. By that time, the defaults in the microfinance portfolio reached such an alarming ratio that the matter reached the board of directors of the bank who asked for an explanation. The reputation of the microfinance operations were by then irreversibly tainted. By the end of 2004, the founding executive who had arrived earlier to take the helm
of microfinance, left the bank permanently, leaving the middle and lower management of MBDiv at the mercy of a hostile environment totally unsympathetic to any kind of development finance thinking which had salvaged the microfinance operations even in the face of problems such as increasing loan defaults or operational problems. In mid 2004, MBDiv was reverted, again, to the status of a department (MBD), with all loan approval powers of microfinance field staff (in collaboration with the branch managers) taken away and centralized at the head office level; and field staff made answerable to branch managers.

By 2005, the bank had also withdrawn its partnership with all of the ADPs), and returned the funds received from international development finance entities under those programmes. The backing of those development finance entities and their resources had provided a line of reasoning to the microfinance proponents in the bank to defend their position against the criticism of their commercial banking colleagues. Most of the microfinance activities of the bank were underwritten by external resources and not funded by the bank’s commercial banking deposit base. However, even before the discontinuation of those alternative sources of finance, the backing of the development finance entities had turned out to be shaky, and a cause of concern for all. The bank went into a relationship with international development financing entities under the latter’s ADPs during the former’s initial formative phase so as to consolidate its position as a pioneering small scale retail development finance entity.

However, in the initial haste of capturing the partnership with prestigious international entities, the bank did not realize that the margins provided by the credit line provided under the ADPs were not enough to cover the highly cost-intensive financial operations of the bank in the area of small scale finance in remote regions; moreover, the bank also assumed that it would overcome the lack of infrastructure (it did not have enough branch network in the project areas) through reliance on NGO partners. However, the NGOs working in those areas
were not administratively mature enough to handle a large volume of loan processes and monitoring. The government, the main intermediating party in the ADP, did not cooperate with the bank in increasing the financial margins, even though the international development finance entities were willing to reconsider their financing agreements. The stance of the government was that the bank needed to control its own costs instead of increasing the end product interest rates for the poor borrowers. In 2005, once the bank was out of the ADPs, and left with a loan portfolio of those programmes infected with severe and widespread loan defaults, the commercial banking arm of the bank panicked and further reacted negatively to the microfinance operations by stopping all lending.

The products that continued to be operational in the microfinance operations of the bank were the consumer finance schemes which the bank launched from time to time and had them managed by MFD. It was the initial consumer loans for the salaried class, started in 1999-2000, that gave the microfinance operations its initial comparative advantage in this line of products. The purpose of that product line was to provide the microfinance operations a source of easy revenue. The microfinance operations already had the ability to handle small scale financial transactions; consumer loan products were simply added on to the existing infrastructure. Although microfinance product lines were either closed or restricted with all branch level loan approval powers taken away, the consumer lending window remained active and received a further boost through the addition of more products.

As the microfinance infrastructure proved to be useful for the product lines of consumer financing compatible with commercial banking, in a similar fashion, the skill sets of the staff of MBD with their extensive experience in field-based loan portfolio management and client interaction, were also easily transferrable to commercial banking. Hence, during the period spanning 2004–08, many of those who either opted for commercial banking or who were transferred to commercial banking took on commercial banking roles with ease.
Some were also made branch managers; including those who had no commercial banking experience apart from working in microfinance. In general, interviews with some of the branch managers who had extensive exposure to microfinance at their branches spoke highly of the microfinance staff, especially those microfinance professionals who had many years of experience with the small enterprise development projects funded by international development finance entities, as mentioned above in phase 1.

Finally, in 2008, all lending operations of MFD ceased, apart from the consumer finance window. The focus of operations shifted to the recovery of loans rather than expansion of the portfolio, as management was alarmed at the large volume of defaults with no movement in recovery of such loans. At the higher governance level, the board was no longer interested in microfinance as there were other pressing issues at hand such as the then fast developing fad of ‘Islamic finance’ and the need to position the bank in that area. The key personnel, especially at the line and staff level, who had been associated with microfinance for many years, had been dispersed by the bank in other departments so that MFD lacked a strong leadership to steer the microfinance operations back into a coherent strategy. Microfinance had lost the war.

### 13.7 Conclusion

In this chapter, I trace the history of microfinance in a commercial bank. Although the proponents of the FS approach have identified the similarities between commercial banking and microfinance, the experience of CB has shown that microfinance may face hurdles in a commercial banking structure. This chapter, with its detailed biographical narrative of the organization in question, offers a contextual familiarity with the organization. Chapter 14 provides a detailed analysis of CB’s experience in terms of the clash of the FS and PA logics within the bank.
Chapter 14: Intra-organizational interplay of logics: Financial Systems (FS) and Poverty Alleviation (PA) logics in ComBank (CB)

14.1 Introduction

This chapter brings out the implications from the story of ComBank (CB) and the operations of the FS and PA logics within the bank. The chapter has two parts. In the first part, I analyze critical events and their implications and identify a set of themes emerging from the interaction between the FS and PA logics in the bank. These themes emerged through the analysis of both confidential and publicly available information reflecting the interplay of the FS and PA logics embodied in the microfinance programme of CB. In the second part, I review interview data obtained from ComBank to analyze the relationship between commercial banking and microfinance, as perceived through the experiences of the microfinance practitioners. How did individuals, belonging to both the commercial banking and microfinance areas of operation, interact with each other? Were there relational dynamics of a more personal nature which facilitated (and impeded) the merging of the logics of commercial banking and microfinance? Based on the responses of interviewees, I trace the dynamics of accommodation and personal enmity between commercial banking staff and microfinance practitioners in CB.

References to resources, both publicly available and confidential, have not been cited; where cited, the key identifying aspects such as authors and locations have not been revealed. This is done in order to maintain organizational anonymity as per confidentiality agreement with CB and staff. Readers can be provided, if required, with evidence for specific aspects of
CB as mentioned in the thesis. Further information on the nature of archival material consulted and the process of data analysis is given in chapter 2.

A. Clash of logics in ComBank: Analysis of Critical Events and Themes

14.2 Hybrid organizational identity

Organizational identity is a crucial determinant in shaping logics by defining core competencies and resources, as well as formal organizational structures, or what the literature terms as ‘latent organizational design’ (Battilana & Dorado, 2010; Glynn, 2000). CB’s organizational identity, shaped at the time of its founding, embodied the two clashing logics of commercial banking and development finance. In terms of its formal structure, it was a regulated commercial bank, constrained to following the rules of commercial banking as laid out by the central bank and the relevant government authorities. Accordingly, it was supposed to be a commercially sustainable financial services provider, focussed on commercial sustainability. On the other hand, it was also an entity established through an Act of a regional Parliament to mobilize and invest resources within an economically backward region. It was thought that conventional privately-owned commercial banks had failed to live up to the task of indigenous resource mobilization and reinvestment.

I found traces of tensions as well as of reconciliation between the FS oriented commercial banking identity and the PA oriented development banking persona of the bank. A senior executive of the bank, making a presentation to government officials on microfinance operations, stated: “Present setup cannot attain outreach to micro-clients… [CB is]… [b]asically a commercial bank”. However, as late as 2008, a proposal prepared by the commercial banking division stated: “Reaching out to the poor; Why [CB]? … [CB] is mandated by [an Act of Parliament] to support socio-economic development processes”. The
same document further states: “Microfinance can provide profitable business opportunities to the bank … microfinance can be a self sustaining operation besides adding value to the bank’s marketing and deposit mobilisation strategies”. This resonates with the literature originating from the microfinance field which justifies commercial bank engagement in microfinance in terms of the potential commercial benefits of microfinance operations (Isern & Porteous, 2005). Institutional theory has also acknowledged the justification of alien logics in hybrid organizations on the basis of economic benefits from such logics (Greenwood & Suddaby, 2006).

This hybrid organizational identity translated into the organizational structure of CB, unlike a typical commercial bank. Apart from having the institutionalised structures of a commercial bank, a relatively mature organizational field in Pakistan, it also had elements of the development finance field. The development finance elements included a Long Term Projects (LTP) department, and the small enterprise finance department (which evolved into a microfinance department). The LTP department provided long term funding (five to seven years duration) to industrial enterprises which could justify a developmental angle to their activities. In this way, CB was able to apportion a ‘relational space’ (Kellogg, 2009) for activities that did not come strictly under the traditional domain of commercial banking, and which needed protection from the hostile commercial banking quarters within the bank.

14.3 The role of founding executives in initiating and maintaining institutional change

The literature theorizes that key executives, especially at the time of founding, play a crucial role in determining logics operant in an organization (Rao, 1998). Those founding figures often link broader field and societal logics and related discourses with organizational objectives and activities (Meyer & Hammerschmid, 2006). I found evidence of these
theoretical implications in CB where the top management played an instrumental role in crafting a hybrid organizational identity for the bank, and made efforts to bring in the PA logic. The practitioner-based literature on microfinance has also highlighted the role of visionary leaders and ‘operational champions’ within a commercial bank who have the potential to play an instrumental role in ensuring the success of microfinance programmes in those banks (Bayadas, Graham, & Velenzuela, 1997; Velenzuela, 2002). At CB, the management appears to have introduced elements of an organizational archetype called a ‘Development Finance Institution’ (DFI). DFI is a specialised government-owned and international donor-funded financial intermediary, a popular organizational form in the 1970s and 1980s, established for promoting industrialisation in backward regions of poor countries (Adams, Graham, & Pichke, 1984). Pakistan had a long history of such DFIs which were most active during the 1970s and 1980s (Asian Development Bank, 2006; The World Bank, 1994, 1995). Hence, the founding identity of the bank implied that PA logic was being introduced into an organizational archetype of commercial banking, with a dominant logic and strong commercial identity as a profit-making organization. As discussed in Chapter 3, Battilana and Dorado (2010) have presented an account of the operations of hybrid logics in two renowned Latin American microfinance organizations. However, that account concerns newly created commercial microfinance organizations which were not embedded in the mature organizational field of commercial banking; Battilana and Dorado’s organizations represent a separate commercial microfinance organizational form prevalent in Latin America. In those MFOs, there was no dominant logic which could provide a ‘ready to wear’ organizing template. However, the CB has formally taken the organizational form of a commercial bank, even though it espoused developmental activities. In CB, development banking, including microfinance, formed a relatively small part of bank operations.
The founding management of CB brought in global logics of development finance in the bank because members of the top and middle management at the founding stage had a development finance background. The literature has taken account of similar instances where ‘immigrant executives’ bring new logics to organizations (Kraatz & Zajac, 1996). The managing director of the bank, a senior bureaucrat and ex-managing director of some of the biggest DFIs in Pakistan played the most crucial role in infusing and strengthening a developmental character within the bank. The majority of the team of mid-level executives had made their careers in DFIs, often under the tutelage of the managing director who used to be at the helm of those DFIs. Finally, the managing director had a major stint at one of the most influential international funding organizations in the world; this exposure brought connections and credibility at international funding organizations which funded CB’s forays into microfinance. The literature has already taken account of such scenarios where key executives are ‘dis-embedded’ due to their ‘network centric’ position which allows them to ‘bridge’ different institutions (Greenwood & Suddaby, 2006). Hence, CB’s initial construction of its identity was strongly influenced by those who were at the helm. A review of career profiles of the lower staff also showed an eclectic mix of people coming from a variety of organizations, not just commercial banks.

14.4 Confirming to multiple stakeholders to access resources and adopt practices

Organizations must comply with demands of various stakeholders to gain legitimacy (Meyer & Rowan, 1977) and access to resources (Pfeffer & Salancik, 1978). This is also true for organizations espousing multiple logics (Battilana & Dorado, 2010; Purdy & Gray, 2009). The microfinance programme of CB showed efforts to comply with the stakeholders of the bank, which mainly included government, international funding organizations, and the central bank. To comply with the commercial banking and FS logic for financial sustainability,
within three years of its operations, particularly during the early 2000s, the CB microfinance operations made systematic efforts to achieve profitability. Documentary evidence of the bank, pertaining to the period 1999-2002, shows the constitution of task forces comprising commercial banking staff and microfinance managers to prepare business plans clearly marking out a path towards financial sustainability. In 1999, the bank started finalizing plans to convert microfinance operations into a separate Microfinance Business Unit (MBU). The proposal presented to the management was aptly named "Proposal for [MBU] as a Profit Centre." The proposal states:

The [microfinance] department although autonomous in its product development and financing strategy, works in close co-ordination with the commercial banking operations in provision of general banking services to its customers. Presently, its complete autonomy as a separate micro financing “profit centre” is under consideration. The aim [of microfinance operations] is socio-economic development [in] this province. This aim is to be achieved by fulfilling financial needs of micro businesses... The element of sustainability lies at the core of all strategies for fulfilment of the stated aims.

The calls for financial sustainability may not have just come from the commercial banking quarters. International funders also instituted efforts to make the microfinance operations profitable. In the early 2000s, CB received ‘capacity building’ funding from a set of bilateral funders. An internal newsletter circulated across the bank around that time, on the microfinance operations of the bank, noted the arrival and ‘capacity building’ support of the international consultants from the bilateral funder. This support focussed almost exclusively on helping the microfinance operations achieve sustainability, based on the ‘best practice’ templates promoted by the international funders at that time; those templates fully complied with the FS logic, and many of them were practices associated with CGAP. The international
consultants, which included employees of internationally renowned MFOs focussed on what the newsletter labelled “Sustainable Microfinance Services Model” were envisaged to provide recommendations to the bank on “…a pricing structure of [microfinance loans] for obtaining desired level of financial self-sufficiency”.

CB attracted five international funding organizations as resource providers. Those funding organizations included Multilateral Development Banks, Bilateral Development Banks and Bilateral Development Agencies. CB got access to those funding organizations through government. As a government bank, it was placed in a network of relationships involving government entities, as a custodian of funds for development projects. This relationship led to the introduction of the bank to a variety of ‘small enterprise projects’ operating in the region. Further, multilateral international funding organizations, as per statutory requirements, had to channel their funding for development projects through government. Government in turn was more than happy to use a financial intermediary as a ‘Participating Credit Institution’ which retails that funding onwards to the poor.

The partnership between CB and international funding organizations mostly reflects the diffusion of the FS logics from the global microfinance arena. It reflects the increasing policy emphasis of global organizations working on developing the microfinance field by engagement with regulated financial entities in microfinance. Hence, international funding organizations, as part of their increasingly pro-FS policies, started favouring partnerships with regulated commercial banks in microfinance projects instead of with their traditional partners, the NGOs or DFIs. CB, as a commercial bank with a social mission, seemed to be a perfect match to those pro-FS requirements.

During the early 2000s, microfinance operations needed financial resources to expand and establish itself as a significant operation within the bank. The founding manager summed
up the strategy followed by microfinance management as follows: “…we were not interested in making a lot of money… more important thing…is to attain size …you attain a level of operations which justifies your existence and mitigates your risk [of being closed down by the commercial banking operations]…” However, there were statutory limitations on the bank in accessing the deposit base of the commercial banking operations for on-lending in microfinance. Therefore, during the late 1990s and early 2000s, the bank made efforts to gain access to low cost credit lines from international funding organizations. In this regard, the bank was fortunate. Due to the ‘network centrality’ (Greenwood & Suddaby, 2006) of the bank and its key executives (that is, the relationship of the bank with the governments), and access to international funding organizations through the government, the bank was able to successfully access low cost credit lines from those funding organizations. Further, organizational identity also shapes strategies for resource mobilization (Glynn, 2000); CB’s organizational identity during the late 1990s and early 2000s was aligned with developmental aspects of finance and the bank considered itself as a player in ‘development banking’ as much as a commercial bank. In this scenario, linking up with like-minded resources providers would have been an obvious strategy.

However, resource dependence on a set of resource providers may also entail compliance with the institutional logics compatible with those resource providers (Oliver, 1991), and multiple institutional demands (Pache & Santos, 2010). Utilising Scott’s (1995) framework for institutional compliance I found evidence of two kinds of compliance by CB with the international funders: first, regulative compliance involving contractually stipulated constraints on organizational structures envisaged for microfinance projects funded through the international funders; second, normative compliance involving acceptance and operationalization of institutionalized microfinance practices associated with the global microfinance field as prescribed by international consultants engaged in those projects. For
example, it was the microfinance projects funded by international funders which provided microfinance practices such as ‘group lending methodology’ (at the field level), and a set of business planning tools (at the head office level) to CB.

Actors respond to institutional pressures through engaging in ‘proactive manipulation’ strategies such as a ‘compromise’ (Oliver, 1991). Compromise involves balancing the expectations of multiple stakeholders, accommodating some institutional elements, and negotiating others. CB engaged in accommodation by, for example, accepting loan pricing decisions related to retail microfinance loans funded through credit lines from international funders; and shaping organizational objectives and policy discourse in line with those international funders. It also tried to comply with organizational structures at the field level proposed by international consultants hired by international funders. To comply with the sustainability concerns of international funders (and FS proponents including commercial bankers), it also tried to institute changes in organizational structures to make microfinance more profitable.

Hiring and ‘socialization’ (e.g. training) policies are another source of logic diffusion and accommodation (Battilana & Dorado, 2010). Microfinance projects and the resultant expansion of microfinance operations also brought new staff into the bank. This staff mostly came from NGOs or other donor-funded projects steeped in PA logics of microfinance. This was another sourced of the diffusion of the PA logic in the bank. International funding organizations also sponsored tips of key managers and other field staff to leading international microfinance programmes. Microfinance staff went to a variety of MFOs, including those which had a PA orientation as well as those which were more commercially oriented. Further, during the initial phase of expansion, the bank hired experienced people with broader development experience. However, after the early 2000s, when pressures
increased to attain profitability, the bank started hiring business graduates, especially for field level positions.

14.5 Constraints leading to decline of a newly emergent logic

Based on the official discourse given in the bank’s documents, the institutionalization of PA logic of microfinance in CB ultimately lost its momentum predominantly due the bank’s organizational structures being incompatible with the decentralized nature of microfinance service delivery. The departure of pro-microfinance powerful actors at the helm left microfinance vulnerable to adversarial constraints put up by commercial banking.

14.5.1 Departure of the pro-microfinance ‘old guard’

Baron, Hannan and Burton (2001) identify scenarios in nascent fields where the departure of the ‘old guard’ may lead to institutional disruption; it is so because key authority figures, particularly the founding leaders, provide the organizing ‘cultural blue prints’ to those organizations. The departure of key leaders is particularly troublesome when disenchantment is the main reason for such departure. In the case of CB, the main protectors and promoters of microfinance and the development banking identity of CB started leaving the bank in 2001. Based on interviews it seems that the departure of top management of the bank was more due to their disagreements with the main shareholders in the bank, the regional government. The political government of the day wanted to bring in their own people as top management. However, the new top management, career commercial bankers, immediately took the first adversarial step of removing the operational autonomy of microfinance operations, and brought it under the purview of commercial banking operations – hence microfinance lost its special status and became another product line within the commercial banking setup. After that, microfinance operations saw episodes of autonomy with prolonged periods of operational restrictions under commercial banking hierarchy;
fortunes of microfinance depended on the whim of management. Finally, in 2008, all sanctioning powers and lending operations were effectively withdrawn from microfinance. In this way the departure of charismatic individuals with a favourable stance on microfinance, and powerful ‘subject positions’ (Maguire, Hardy, & Lawrence, 2004) and political skills (Perkmann & Spicer, 2007) to maintain institutional plurality due to their legitimacy among important networks of actors (government and international funders), led to the decline of the PA logic in CB.

14.5.2 Loss of pro-microfinance resource providers

The biggest source of financial resources for on-lending as micro-loans came from international funders through long term, low-interest credit lines. These credit lines were meant to cover the resource gap which arose at the time of the expansion of microfinance operations in late 1990s. Commercial bank deposits could not be used to fund microfinance operations due to regulatory limits on using short term commercial banking deposits for ‘uncollateralised’ loans (microfinance loans were mostly without tangible collateral). However, despite CB’s promises to the funders and the government (funding rules required that all international funding be channelled through governments), that operational structures of the bank would be adapted to the needs of microfinance operation in the areas where microfinance projects operated, the bank failed to fulfil its promises. Hence the PA oriented institutional demands from the international funders clashed with the rival FS oriented institutional demands represented by the commercial banking identity of the bank. Such conflicting institutional demands made microfinance operations almost impossible to move forward.

CB could not increase its branch network in project areas apparently due to regulatory constraints, and reluctance of commercial banking operations to establish branches due to microfinance projects. It did collaborate with local non-profit organizations so that client
identification and application process was outsourced to those organizations. However, this collaboration also did not go too far. CB reported lack of organizational capacity of those NGOs partners as the main reason that those partnership faltered.

The government, through which the bank accessed funding for microfinance projects from the international funders, also showed rigidity in dealing with requests from the bank. Chapter 6 describes the operational aspects of international funders in microfinance. The bank asked for the revision of interest rate spreads to cover unanticipated changes to the cost structure of microfinance operations, and to pay for the ‘intermediation costs’ paid to NGOs for their help in loan processing. The government responded by saying that these costs needed to be covered by the bank as it is a profit-making organization, and that it should establish branches instead of dealing with NGOs. This is a paradoxical situation. On the one hand, government, under its PA oriented mandate to promote economic development facilitated the link-up of international funders with the bank’ on the other hand, the government also invoked the inherent FS oriented identity of the bank in the operational matters of the microfinance projects contracted to CB. Further, the cost of funds from depositors and the interbank market at that time also declined significantly so that funds from the international funders did not remain attractive. But CB was contractually bound to the government for the credit lines obtained from the international funders.

14.5.3 Inappropriate structures lead to loan defaults

In 2003, a memo sent to all branches where microfinance operated ominously announced that “...while reviewing the performance of the last quarter it has been noticed with deep concern that the arrears percentage is constantly on the increase”. The agenda for a meeting of the Board of Directors in the same year notes the main reason for the rise in default: “Pursuant to the management decision, loan amounts were decentralized at respective branches during the early 2002 and the field staff were put under the administrative control of
branch managers. Field staff remained busy at deskwork for reconciliation at branches and routine monitoring and follow-up [of microfinance loans] thus could not continue.”

Microfinance thus had to submit to the ‘branch banking’ logic of commercial banking and had to neglect the key microfinance practice of ‘grassroots banking’ involving direct and frequent interaction with the clients.

The rising default rate in microfinance loans appears to have been a major factor in tarnishing the legitimacy of microfinance in the bank. It was a self-fulfilling prophecy. Interviewees indicated that commercial bankers always feared that the microfinance loans, almost all of them without physical collateral, would go into default. Documentary records, including minutes of meeting and operational reports, clearly showed alarm at the rise of ‘infected portfolio’ of the microfinance operations. Microfinance blamed frequent structural changes (i.e. frequent changes in status of microfinance operations from an autonomous business unit to a department) and the resultant loss of staff morale as the main cause of this default. It also highlighted inadequate loan monitoring and client service staff as another important factor, as most microfinance staff were said to be involved in branch back office work (implying that commercial banking staff at branches were not helping in back office work), and could not find time to go out and visit clients.

CB ultimately withdrew from microfinance projects funded by international funders by around 2005. Those projects required CB to have a decentralized operation at the grassroots. But CB could not get central bank licences to establish branches in project areas. In this way, microfinance operations lost its most important source of survival: cheap sources funding. The unwillingness of the government, through which the funding was channelled, to increase profit margins for CB further exacerbated the grim operational situation for microfinance.
Successful logic adaptation: Microfinance inspires consumer finance

In Latin American countries, consumer finance companies have gradually diversified into microfinance due to structural similarities between the business models of microfinance and consumer finance (Berger, Goldmark, Sanabria, & Inter-American Development Bank, 2006). However, in the case of CB, the bank’s consumer finance operations evolved from a microfinance product line. The origins of consumer finance have another noteworthy element: under pressure from the commercial banking operations, microfinance operations diversified its product line, and diverted some of its attention away from its core social finance function by engaging in consumer finance. This was apparently done to diversify sources of income and achieve financial sustainability. The initial success of this consumer finance operation in the microfinance product line attracted the attention of commercial banking operations and in this way a consumer finance division was established with the help of a set of key microfinance staff. This consumer finance division imitated many of the features and practices incorporated in the consumer finance product of the microfinance operations.

Literature has not unearthed scenarios where an increasingly receding logic in an organization provides competencies to a dominant logic. Reay and Hinings (2009) identified a situation where Regional Health Authorities (RHAs) in Canada, espousing a new dominant ‘business-like health care’ continued to collaborate with and take advantage of physicians espousing the opposing logic of medical professionalism, although the latter were discredited by the government and efforts were made to reduce the influence of physicians and their model of healthcare on the health system. Hence, despite this clash, those espousing health as business logics took advantage of the useful competencies of the medical as a professional logic. One such collaborative strategy highlighted was ‘joint innovation in experimental sites’. The adoption of consumer finance practices of microfinance operations, and the
expertise of microfinance professionals in this area by commercial banking shows such collaboration for experimentation in the consumer finance arena.

**B. Negotiation of logics at the individual level “below the official radar”**

At the micro level, interactions among individual actors espousing different and differing logics may also be of a more ‘intimate’ nature, both resisting and accommodating institutional logics in their work-a-day world (e.g. Battilana & Dorado, 2010; Lok, 2010; Zilber, 2002). However, I propose that micro-processes of logic negotiation could go beyond the technical parameters of those logics and involve interactions personal interests. Individuals accommodate or oppose logics partly because of the dynamics of their relationships with those who espouse other logics, and the meanings given to those relationships.

The official discourse of the bank regarding its microfinance operations identifies technical issues – higher costs of microfinance operations, unsuitable commercial banking structures, and higher default risks – as main impediments to microfinance in the bank; those impediments, according to the official discourse, resulted in the downfall of microfinance within the bank. This outcome resonates with the practitioner generated literature on commercial bank engagement in microfinance (Velenzuela, 2002). But the microfinance operations continued for several years within the bank, despite the technical operational issues highlighted in the official discourse.

**14.7 Accessing alternative resources compatible with logics**

The people instrumental in launching and sustaining microfinance in CB highlighted the identity of the bank more as a development-promoting organization and less as a
commercial bank. A key top executive, part of the ‘old guard’ which founded the bank, and
who played a crucial leadership role in the microfinance operations, stated:

... let’s go back to the background, why a programme in [CB], more development
oriented, than commercial oriented? ... The mandate was given to the bank, if you
read the Act under which [CB] was established, the bank was supposed to help
unleash development in agricultural and rural livelihood ... industrialisation ... it was
not created to add another commercial bank in [the region], there were already [many]
commercial banks mopping up deposits... (Founding senior executive)

A microfinance field officer with extensive development-related background, and
who played a major role in managing microfinance projects funded by international funding
organizations, commented:

... [the] development mandate is very much in [CB’s] Act... I have arguments with my
colleagues... [CB] was not meant to be a commercial bank...its purpose was not to
have a totally commercially oriented approach of a ‘banya’ [a derogatory local word
for a ‘money lender’]... (Field Manager)

As a commercial bank with a developmental facet, how did it organize and sustain
this developmental aspect? It broke from the taken-for-granted institutionalized
organizational template of a commercial bank by establishing a small enterprise
finance/microfinance department within its organizational structure, and introduced
microfinance product lines along with its commercial products. Respondents identified an
active resource mobilisation strategy, targeting international funders interested in supporting
microfinance in Pakistan, during the initial phase of the bank’s forays in microfinance during
the late 1990s.
The executive dealing with microfinance at that time commented as follows regarding the need to collaborate for accessing resources and expertise:

...we started off by collaborating with existing donor funded projects...as we went along, we felt that we needed to specialise...in the mid 90s this whole thing about microfinance started gaining a lot of momentum, and money was being made available by multilateral and bilateral institutions...and that is how we were kind of spotted by various institutions who felt that here was a very innovative way of reaching out to those segments of businesses which are not touched by traditional banking systems...and we felt that as a bank of the province we can play this role better than anyone else... (Founding Senior Executive)

Accessing resources from the commercial banking arm of the banking, that is, the customer deposits generated through bank’s branch network, ran into trouble as the commercial banking side appeared to be wary of the development finance side. This made sense, as highlighted in Chapter 12 on the field conditions of the Pakistani microfinance field, since microfinance has never been an acceptable business for commercial banks in Pakistan; the share of commercial banks, or any mainstream financial entity in the total microfinance portfolio of the country has been negligible over the years (Shah, 2010)

The first operational head of microfinance further commented on the need for seeking alternative sources of funding of microfinance due to constraints from commercial banking:

...as we started to roll, we were looking at the sources of funds...after a few initial cases [of small enterprise loans], there were fears among commercial bankers...that this was very risky...they were not comfortable with commercial bank funds raised from depositors...the negative perception held by commercial bankers forced us to begin to look for alternative sources of funding... [CB] was already negotiating with
[an international development funder] which had earlier provided funding for [CB’s] small and medium enterprise finance programme ... it was suggested that [that international funder] provide a portion of its credit line to this initiative [i.e. microfinance]...[that international funder] gladly obliged... (Founding Manager)

Respondents also highlighted the legitimacy gained in the microfinance field due to good relations with leading international funders. The manager, who was specially recruited and entrusted with the task of establishing microfinance in the bank, states the role of international funders:

...how many financial institutions are there which can actually boast of the kind of comments and appreciation that we got from an institution like [a leading international funder]...[this funder] is not an organization which did not know what it was talking about ...we were an international best practice... (Founding Manager)

CB, to compensate for its structural inadequacy (to do microfinance) as a commercial bank, partnered with other organizations active in microfinance. Commercial banks conduct their business through branches, and CB’s branch network was considerably limited. In this situation, leveraging the extensive outreach mechanisms of NGOs and other players made sense.

...so how can you ...take finance to a larger number of people who deserve ...so what we did was that we collaborated with those donor funded projects and NGOs...it was not possible for us to establish branches that would give us that kind of outreach so we started a very innovative collaboration with the existing rural development programmes and NGOs which had already developed social capital by organizing village communities...we went to [an NGO] and suggested to them a possibility of
adding another component to their existing menu of services... (Founding Senior Executive)

The interview respondents explained how socially motivated finance, introduced in the organization through the microfinance operations, was sustained through accessing resource providers appropriate to the newly introduced logic. Given the rise of microfinance as a potent poverty alleviation tool in Pakistan, parallel to a similar ascent of microfinance at the global level, governments saw microfinance in a favourable light (see chapter 12 for a review of the Pakistani microfinance context). Hence, being a government-owned bank with a specially assigned developmental role, it made sense for CB to initiate microfinance at that time. But the intrinsic organizational identity of CB was as a commercial bank. In this way two conflicting institutional demands were placed on the bank: Poverty Alleviation (PA) oriented from the government, and Financial Systems (FS) oriented from the management.

Because CB’s predominant identification was commercial and it was formally organized accordingly, proponents of microfinance first tried to establish legitimacy by pointing to CB’s formal charter, its ‘development mandate’, to create a space/justification for microfinance, and then reached out externally to secure the required resources due to internal resistance. The resource-dependency view has already taken note of organizations aligning themselves with appropriate resource providers (Pfeffer, 1982). CB’s strategy of isolating microfinance operations from the hostile commercial banking operations through accessing alternative resources, particularly financial resources, resonates to some extent with the literature (e.g. Reay & Hinings, 2009). Hence, ‘relational spaces’ are constructed within organizations to protect the identity of change projects, and to isolate change initiatives from hostile sections within organizations (Kellogg, 2009).
The above analysis shows that the interview respondents saw three parts to the establishment and operation of microfinance within the bank: 1) establish formal legitimacy (based on the charter of the bank to engage in developmental endeavours); 2) use external parties for funding following internal resistance; 3) maintain an independent organization with its own identity that co-exists in a separate space with the rest of the organization.

14.8 Employee motivation as means of logic sustenance: Calculus of altruistic emotions

The staff of CB’s microfinance programme considered staff motivation to be a crucial factor in sustaining microfinance despite all odds. They highlighted the nature of microfinance being a developmental activity which required microfinance practitioners to engage at a deeper emotional level with their clients. Such engagement involved not just selling financial services to those clients and making a profit, but also enhancing the welfare of those clients by helping their businesses grow. Hence, despite all the opposition from commercial banking, microfinance staff appeared to have been sustained because of their apparent ‘missionary zeal’ for microfinance. This emotional element of microfinance was highlighted by respondents and verbalized in terms of a ‘religious duty’ or pursuit of ‘inner satisfaction’. Interestingly, commercial banking staff interviewed, who also later worked in microfinance, also reacted with similar feelings towards microfinance. Battilana and Dorado (2010), in their study of MFOs in Bolivia, similarly highlight staff in those MFOs who come from a social development background, and who are motivated by an altruistic zeal. According to Battilana and Dorado, those new hires were the most resistant to the FS oriented training given to them by the MFOs. But in CB’s case, it was the newly hired staff with social background who were somewhat successful in converting the commercial bankers to their side through a more informal kind of ‘socialization’.
A head of microfinance operations, transferred from commercial banking to microfinance, much to his initial displeasure, commented hence:

...at the start, I was against it [i.e. microfinance operations]. But it gave me job satisfaction...I had helped someone...we financed [poor small entrepreneurs in a local craft sector, who were [previously] forced to quit due to funding problems], brought them back to their businesses...my group head [an operational head of a group of departments, including microfinance] asked me why I was doing microfinance, and that I should leave and re-join commercial banking, but I said that the job satisfaction I am getting here I will not find in corporate lending...this [microfinance] is my prayer...I will keep on doing it no matter what...the group head replied that [commercial banking] earns hundred times more than microfinance despite microfinance doing so much hard work... but I said that [microfinance] does not talk about amounts, we talk about clients... (Senior Manager 2)

A young field officer considered it his ‘mission and movement’ (Field Officer 2), another field officer, transferred from commercial banking to microfinance, cast himself as a ‘social worker with heartfelt earnestness’ (Field Officer 1); a field officer who also became a commercial bank manager also summarized his views as: “we used to have inner satisfaction that we were ... empowering those people who were neglected... no other organization has given them this [microfinance loan] facility...we were a source of financial empowerment to neglected people... ”(Field Manager 6).

Another microfinance field officer identifies the ‘socialization process’ of directly experiencing the microfinance processes and client situations, aimed at commercial bank managers:
... [The branch manager] used to question me ‘why give loans to the riff raff of society?’... when he saw people coming from far flung area and repaying loans... he still used to say it [i.e. microfinance] is a futile exercise [due to high operational costs]. But later his stance changed...as he saw people coming back to the bank for more loans and found out about the business activities of those people, and accompanied me to the businesses of those people. I personally involved him in [microfinance operations], and made him come out of the bank branch. I showed him how those people [i.e. microfinance clients] were running their businesses...that basically changed his [branch manager’s] approach... (Field Manager 2)

14.9 Sustenance through practice adaptation: Fighting with ‘snatched ammunition’

Zilber (2002) depicts a situation where practices were maintained but their meanings were changed to confirm to different logics. In CB we see a similar change in meanings associated with practices; both microfinance and its key practice, group lending, were reinterpreted to accommodate commercial banking rhetorical imperatives.

Group lending methodology was rationalized by respondents not in terms of the logics of the microfinance field which invoke the developmental aspects of that practice but in terms of elements conforming to the commercial banking logic. Group lending methodology was justified by participants because this particular way of doing microfinance facilitated rapid and comparatively more cost effective portfolio growth. Group lending methodology was not justified on the basis of its developmental aspects such as community development, gender empowerment, etc.

A microfinance manager justified group lending as follows:
...group lending is justified on the basis of its potential to facilitate portfolio growth...it is a great tool for portfolio growth...with one intervention you get 15 to 20 clients. If you have little time but you need to grow your portfolio, group lending is the best tool...this is how it was justified in the bank... (Field Manager 5)

Another key manager, not from a commercial banking background, who was at the helm at the time of the founding of microfinance operations, also justified group lending:

...the small loan size...we thought it to be counterproductive to book them as individual loans, so we thought of booking them on collective terms, although the individual loans were there...accounting of loans will be done in one transaction...

(Field Manager 6)

Another microfinance officer mentioned how he used to tailor his presentation of microfinance according to his audience. He commented:

...to the branch manager interested in deposits, we used to say ‘Mr Manager, you will get a new deposit client soon as [a potential client] is a friend of mine and he will open his account soon’ ... similarly to senior microfinance executives, microfinance staff at headquarters, and commercial bankers at headquarters, I used to highlight a different aspect of my work, in line with the perspectives of those people (Field Manager 5)

The need to adapt the message and practices of development finance according to the commercial banking logic are highlighted as follows by a microfinance manager:

...we had to find our way... this meant that we had to justify to the commercial banker from his own ‘book’, the passages that she/he had not read, to identify those clauses which allowed us leeway to introduce some of the microfinance practices… or to
show there was nothing in [operational procedures] against those practices...it was like fighting a war... and the only ammunition that you could use was the ones snatched away from [your opponents]... (Field Manager 6)

Respondents noted that commercial bankers often made sense of microfinance by invoking the risk management aspects of microfinance loan portfolio. A field officer recast microfinance loans in terms of risk management frameworks of commercial banking as follows:

...if one commercial banking loan defaults, it is a huge loss to the bank, but in our small loans, if a single loan defaults, there is not much effect on the portfolio [of small loans] (Field Officer 1)

Another microfinance field officer who later became a commercial branch manager stated:

...we used to argue with the manager ‘if you give Rupees 10 million to a person [as a corporate loan], probability of loss from default of this loan is high, as you would risk losing all that amount if that one person defaults, but if that money was lent [to a large number of borrowers] in microfinance, [based on historical default rates] you could lose 5% due to bad debt and earn 95%... (Field Manager 6)

On the one hand, microfinance practices were recast more in terms of their economic imperative in line with the FS logic of commercial banking; on the other hand, respondents also strongly emphasized the development mandate of the bank and the developmental significance of the work that they were doing as microfinance officers. This paradoxical adoption of contradictory logics in the identity of actors is best illustrated by a respondent
who was a veteran microfinance practitioner but later became a successful commercial bank branch manager – a rarity in the bank.

…as a commercial bank manager now, just like in my previous role as a microfinance manager, I try to cater to as many small entrepreneurs as possible…it is all about volumes… using that formula, if I have rupees ten million, and I give that money to ten people, then ten individual’s needs are fulfilled… so two benefits achieved: financial benefit in terms of profitability and development benefit in terms of outreach… (Field Manager 6)

He further added:

We used to have inner satisfaction that we were… empowering those people who were neglected [by commercial banks]… we were giving financial empowerment… and earning profits as well…basically we are bankers… any activity needs to be profitable.. If it is not profitable no institution or no commercial bank will own you… from day one we were conscious that we needed to become viable. (Field Manager 6)

In the literature, Lok (2010) has presented a similar situation where actors paradoxically accommodated and resisted opposing logics, hence created new logics and maintained old ones.

14.10 Founding executives as institutional entrepreneurs

The respondents associated the successful introduction and sustenance of microfinance in CB did so with the efforts of a set of key executives, most importantly the managing director. As long as the top management owned and promoted the microfinance programme of the bank, the resistance that microfinance faced in the bank was successfully countered; and new microfinance practices were successfully introduced. However, when this
top management left the bank, microfinance operations started facing increasingly disruptive opposition from commercial banking quarters.

This aspect, highlighted by the interview respondents, provides clues to the dynamics associated with sustaining institutional change initiatives in organizations. In a section above, respondents were shown to be indicating the presence of key executives with links in the microfinance field as the main trigger of introducing the microfinance logics in the bank. The tempo of institutional change, once introduced in the bank, needed to be maintained and defended against the opposing forces associated with the existing commercial banking logics. The presence of microfinance champions at the top ensured such defence. Those champions manoeuvred their way through the opposition thrown up by commercial bankers. They tried to resolve the issues that arose due to the novel nature of microfinance operations in the bank. This point was particularly highlighted by the founding operational manager of the microfinance programme. However, once the defenders of the newly instituted logics were gone, the new logics could not keep up their momentum.

Most significantly, top management of the bank, which was sympathetic to microfinance, and associated with the bank since CB’s founding, played a crucial role in isolating the microfinance programme from commercial banking operations. In this way, top management shielded microfinance operations from the adversarial relationships marking the clash of logics between microfinance and commercial banking. A microfinance manager who was in the audit division of the bank before joining microfinance states:

...as [an auditor] I conducted a branch inspection....we checked attendance also...we marked late the [microfinance] officers... in my report to [the Managing Director], I reported them late...on the same day [a senior microfinance executive] called me and said: ‘you are wasting your time and Managing Director’s time’... for me this kind of
attitude was irritating...these situations used to create rivalry [between commercial banking and microfinance]...when branch manager was late, we used to report.... but [a microfinance officer] could not be touched because the boss was strong... (Senior Manager 3)

Highlighting the role of the managing director, a senior executive states the following:

...when [the managing director] left, I was left alone to fight all the battles. The [new] top man did not have ...ownership, he did not have that understanding...vision, and so he started seeing this as a hindrance in his way to do his job as a commercial bank...

(Founding Senior Executive)

The manager who came in at the time of the establishment of microfinance operations states:

...when the study [to establish microfinance operations] was conducted, there were six or seven people [from commercial banking] who were invited to see what were the findings... some of them tried to find technical problems...but the chair (Managing Director), as a balancing act, made the observation that the [proposers of microfinance operations] have done a very good job, if they [those criticizing] needed to question any of the aspects, then they should ask about implementation of the proposal.... (Founding Manager)

He further states:

I was given political support by the then MD... whatever I was doing I had to justify... There were devil’s advocates, but once I had established a proposition, I was allowed to work and the system was made flexible for us to take the next step (Founding Manager)
The literature, resonating with my findings regarding the role of top management in spearheading and sustaining new logics, has taken into account the role of ‘immigrant executives’ in implementing divergent organizational change (Kraatz & Zajac, 1996), introducing new logics in fields through selection and adaption of key practices of those logics into new organizational contexts. Baron, Hannan, and Burton (2001) mention scenarios in nascent fields where the departure of the ‘old guard’ may lead to institutional disruption; it is so because key authority figures, particularly the founding leaders, provide the organizing ‘cultural blueprints’ to those organizations.

14.11 Maintaining logic plurality ‘below the official radar’

As discussed in Chapter 11, the literature, which looks at the micro-processes involving maintenance of logics within organizations, has mostly identified officially visible and sanctioned processes for logic maintenance (Battilana, Leca, & Boxenbaum, 2009; Reay and Hinings 2009; Lawrence & Suddaby, 2006). Reay, Golden-Biddle and Germann (2006), however, did unearth instances of strategies, adopted by nurse practitioners, involving informal interactions with key individuals within health care organizations as well as at the societal level to create acceptance of their role as nurse practitioner. Creed, DeJordy and Lok (2010), who present an account of identity work done by Gay Bi-sexual Lesbian and Transgender (GBLT) ministers in two mainline protestant denominations in the US, also identify micro-processes of institutional change involving highly personal individual efforts for effecting change.

In my research on CB, I have also identified a set of informal interactions between staff associated with microfinance and commercial banking which facilitated the sustenance of the opposing logics of commercial banking and microfinance. As mentioned above, literature is scarce which unearths such intimate interactions between individuals belonging
to opposing logics. I have identified two main informal mechanisms through which the institutional logics of microfinance were maintained at CB at the individual level: personal relationships, beyond official interactions, between microfinance officers and commercial bankers, and exchange of favours as part of those relationships.

14.11.1 Negotiating logics through personal relationships

Personal relationships have already been identified by the literature as a key means of negotiating logics within organizations. Nurse practitioners (Reay et al., 2006) and doctors (Reay & Hinings, 2009) have been shown to have used networks of personal relationships to reconcile logics. Battilana (2006) has also theorized about ‘individual’s informal position in organizational networks’ as a means for bringing organizational change. Taking cues from seminal work on the importance of personal networks (Granovetter, 1985) and empirical literature (Valley & Thompson, 1998), individuals, even from low status positions, may conduct divergent organizational change by aligning themselves with high status individuals. Respondents in my interviews clearly depict scenarios compatible with such theorisation. Microfinance staff, having a ‘low status’ in the bank, interacted with commercial bankers with high status; change was facilitated where this relationship was positive. It appears from responses of the interviewees that personal relationships played a crucial role in smoothing over rivalry between logics at the individual level, and overshadowed issues of a technical nature.

Strong personal relationships can promote trust and reciprocity (Gulati, Dialdin, & Wang, 2002). A field manager demonstrated this confidence building process between him and his branch manager as follows:

...I had developed personal rapport with branch managers, this personal relationship was beyond our work... It [support to microfinance operations by the branch manager]
was like a personal favour...it was friendship...on that basis I used to convince the
branch manager [regarding microfinance lending decisions]... branch manager never
went in-depth into loan appraisal... he used to follow our two or four lines
recommendations [on loan proposal documents]... he did not go into details of
financial analysis... he used to look at my explanation... (Field Manager 1)

Another microfinance field manager comments:

... [At the branch level] we were not accepted as [bank] employees... but with the
passage of time, and after spending some time in my branch ...it was a matter of
‘Pukhto’ [i.e. Pashtun tribal code of honour between men]... so lots of things [about
microfinance] were overlooked [by branch staff] just because of our personal
relationship... (Field Manager 3)

This quote shows that relationships between commercial banking staff and
microfinance officers were also strongly influenced by broader cultural institutions which
shaped personal interactions in the society. Valley and Thompson (1998) identify ‘sticky ties’
existing before the initiation of organizational change which may affect the adoption of
change. However, they imply ‘work related ties’ rather than cultural ties as a variable in
organizational change. Friedland and Alford (1991) assert that a set of core societal
institutions, embodied in the capitalist market, state, family and religion, provides social
actors with a sense of self and motive for action. The above mentioned quote represent a
situation where individuals privileged their deeper ethnic identity (hence a societal logic)
over their (narrower and) contradictory microfinance and commercial banking logics in
negotiating their day to day work related to microfinance. This behaviour is consistent with
the societal notion of biraderi, a term representing common descent based on family, tribe or
caste (Lyon, 2002).
A field officer further adds:

Microfinance staff at branch used to support the manager and [branch] staff in their work...[microfinance operations] never got totally independent of branch operations, at branch level, we were still part of a branch...at a branch, the branch manager is king.. it’s his branch... so I used to coordinate with the branch manager... me and branch manager worked together...he needed to be convinced, ... who was the [microfinance client] borrower, he used to ask us to introduce him to the borrower... then we would ask him to go with us [to visit borrower’s premises]... (Field Officer 2)

Another field officer highlighted his personal relationship with branch managers but also the education background of a manager as a factor in facilitating better relationships:

... [Relationship with managers] varied from branch to branch and depended on the attitude of the branch manager. In [a particular branch]...I had good relationship with the manager, in [another branch] the manager, who had an economics degree, understood [microfinance] so he used to motivate us. Junior people [in commercial banking]...educated people were easier to handle...(Field Manager 4).

14.11.2 Negotiating logics through exchange of favours

The literature on micro-processes of institutional change has not identified exchange of favours as a strategy to negotiate clashing logics. In CB’s microfinance operations, I found evidence of exchange of favours between commercial bankers and microfinance officers so as to facilitate each other’s work.

Exchange of favours also involved ‘accommodating’ commercial bank clients as well.

A senior microfinance manager comments:
…if a branch manager could not accommodate a loan request of a client, if that loan request was too small for corporate lending, we used to accommodate that loan request… if a major [client] with the branch recommended a loan, we used to accommodate that loan….in this way our [microfinance] loans were also processed by the manager… (Field Manager 4)

Respondents highlighted the crucial importance of personal relationships of commercial bankers and microfinance officers as a key factor in the success of microfinance at the branch level. If microfinance officers were able to get along well with commercial banking staff, microfinance operations in that branch would suffer less hindrance from the commercial banking quarters. Further, to ensure the initiation and continuation of such a relationship, sometimes it would be necessary for microfinance officers to accommodate the demands of commercial banking officers, particularly managers. Such demands would often include microfinance officer’s consent to a small enterprise loan given to an applicant favoured by the branch manager. This favoured person need not necessarily be a personal relationship of the branch manager but would often be a favoured client being accommodated by the manager to maintain business relationship for other commercial banking services. Such favours would also include microfinance officers performing commercial banking duties if required by commercial banking staff.

Another comparatively less experienced microfinance field officer states:

...we contributed to [commercial banking] branch operations of our branch in addition to our microfinance work...due to this our relationship with the branch was better...we have done favours for the branch manager...although we realized that we were performing our duties assigned by the bank, and not doing personal chores of the
branch manager, but we have tried to maintain good personal relationship... (Field Officer 1)

A confidential report tracking the default levels in microfinance loans noted the extra commercial banking related duties given to a microfinance staff:

[A microfinance staff member] is working in general banking for the last two weeks without any written permission from the management.

The above aspects of reconciliation of logics highlight the working of broader societal level logics rather than field level logics. Differences are reconciled, if ephemerally, and things get done through exchange of favours. In Pakistan the notion of sifarish (literally meaning recommendation) plays an important role in getting things done within organizations: public services can be accessed more quickly if a recommendation is made through an influential person, especially a government official; jobs are arranged, bank loans are approved, etc., through this culture of sifarish in informal networks within the society (Islam, 2004; Jones, Jones, Lane, & Schulte, 2010). It is the prevalent method of distributing patronage and resources among family and friends, which might sometimes work for the good.

14.12 Reconciling logics – Resource transfer from a ‘defeated’ logic to the ascendant logic

Documentary evidence and interviews with key informants show that microfinance ultimately failed to take root in CB. However, a set of resources and capabilities were transferred from microfinance, the defeated logic, to commercial banking, the dominant logic within the bank. In the case of CB, respondents identified the launch of consumer finance as a clear transfer of capabilities from microfinance to commercial banking. Interestingly, it was the microfinance operations of the bank that initiated the first consumer finance product in
the bank. This consumer lending product was started when microfinance, increasingly under pressure to show profitability by an increasingly strident management, wanted to make ‘a quick buck’. Respondents identify microfinance’s success with consumer finance as a trigger for the commercial banking operations to launch consumer finance products through a separate consumer finance window. Commercial banking operations, lacking systems for tracking small scale high volume loan portfolio, ultimately borrowed loan tracking systems from microfinance. Respondents identified another product line, agricultural finance, managed by the commercial banking operations, which has also borrowed its systems from microfinance. The head of the microfinance programme was at one time also running the agricultural finance programme.

Regarding the role of microfinance in establishing the consumer finance product line of the bank, the erstwhile microfinance manager turned consumer finance manager states:

Consumer finance came in [the bank] due to microfinance. Consumer finance department was a child of microfinance. Microfinance clients used to come with their consumer loan requests... so we created a [consumer finance] window [within microfinance operations]...then [a commercial bank branch] convinced the bank headquarters to go for a partnership agreement with [a leading local consumer electronics retailer]... in this way a consumer finance department was ultimately set up... (Field Manager 3)

A commercial banker who later became a microfinance manager states:

...our [i.e. microfinance] systems such as information technology and MIS were very good and used even now...in the bank’s consumer finance division... (Senior Manager 2)
More significantly, some of the microfinance officers were transferred to various commercial banking functions. One such person states:

I used my microfinance experience in my current role as a marketing development officer working on product development... I used my skills honed as a microfinance field officer, to gather market information... (Field Manager 4)

According to the interview respondents, the second form of transfer of capabilities from microfinance to commercial banking happened in the form of transfer of key microfinance staff to various commercial banking divisions, most notably, as a branch manager. Respondents noted that the transferred microfinance officers, with extensive client dealing experience and better educational qualifications as compared to commercial banking staff, were able to handle commercial banking duties without any problem.

Another aspect of the introduction of microfinance in CB was the role that microfinance played in boosting the societal level image of the bank. According to the interview respondents this happened in two ways. At the broader societal level, microfinance gained recognition as a powerful tool to alleviate poverty. CB, by initiating microfinance, gained public kudos (especially in government circles) for making such a ‘socially responsible’ investment by focussing on microfinance. The government, even though the bank’s major shareholder, could not effectively counter the commercial bankers as there was no sympathetic voice inside the bank management to defend microfinance; the board of directors had to listen to the commercial bankers. At the second level, at the level of local markets where CB operated, microfinance also played a crucial role in establishing its name as a bank for the common man. This was significant because banks in the areas where CB operated did not cater to small enterprises. Most of them only generated deposits locally and invested those deposits in more commercially developed regions. CB was then seen to be
generating resources within the region and investing those resources in local communities. Hence CB also gained popularity among its stakeholders and potential clients due to the boost given by microfinance to the ‘socially responsible’ image of the bank. A microfinance manager hence states:

Seasoned managers ...have accepted that microfinance was the only product which actually gave a boost to bank’s goodwill, resulting in increase in deposits...also promoting bank’s public profile... our bank had no media policy, no advertising policy, so that people could recognise the bank...other banks have a history before partition... (Field Manager 4)

Hence, microfinance, although clashing with the institutionalized commercial banking logics of the bank, matched with the societal concerns of socio-economic development, and thus boosted the legitimacy of CB at the societal level. This enhanced legitimacy allowed the bank to attract more business – particularly from its main stakeholder, the government. Respondents also mentioned that even the central bank eased its regulatory oversight for the microfinance operations of the bank.

A microfinance manager, who later became head of agricultural finance at the bank, mentioned a successful transfer of a microfinance practice to agricultural finance operations:

...individual lending is costly... we are doing group lending in our agricultural finance product...in this [group lending] cost is minimised... [through group lending] we access twenty people in a group in a single customer interaction... (Senior Manager 3)

These scenarios depicting the adoption of some resources and practices of microfinance by commercial banking can be theorized in the following manner. Only those resources and practices survived and got embedded in the commercial banking setup which
conformed to the dominant logics of commercial banking. Commercial banking adopted systems of microfinance operations which involved successful processing of a large number of small transactions. The feature of microfinance operations considered to be of greatest benefit, according to commercial banking, was the Management Informational System (MIS) which tracked microfinance loans. Typical commercial banking operations in Pakistan, specializing in medium to large corporate loans, often do not have the capability of handling ‘small ticket’ loans and large lending volumes.

Similarly, microfinance officers absorbed by commercial banking were those people who had demonstrated ability in functions associated with commercial banking: problem loan recovery, credit administration, marketing and MIS. Finally, CB used microfinance as a tool to increase its legitimacy targeted at stakeholders who would probably care more about such legitimacy associated with bank’s efforts for social development – most particularly the government. Hence, the clashing logics of commercial banking and microfinance found common ground on the basis of the usefulness of the elements of the microfinance logic to commercial banking. I found parallels of this situation in the study of the Canadian health system (Reay & Hinings, 2009). In that empirical study, the physicians espousing the logic of medical professionalism collaborated with the promoters and implementers of ‘business-like healthcare’ logic. The rationale of collaboration suited the ascendant or dominant logic (i.e business-like healthcare). Healthcare organizations informally incorporated the opinion of physicians to fulfil a function required by those organizations: technical aspects of medical advice rather than organizational issues-related.

14.13 Clash of Logics

14.13.1 Clash of logics – resistance from the top

A quote from a top executive who helped setup microfinance at CB are noteworthy:
One thing which is very important and which you need to bring out very clearly is that no matter what you do, the buy-in at the top governance level starting from the board to the top management level is vital...you may invest a huge amount of resources and time in trying to intervene or introduce new ideas but unless and until you are able to take care of this particular aspect, it would all be in vain...we could have succeeded if some of the other things did not change so drastically. Immediately after my departure, a number of things started changing with the political scenario... the MD of the bank was unceremoniously removed......the board also underwent a lot of changes... people who came [later] on the board had absolutely no idea, absolutely no appreciation for what had been done [in microfinance] (Founding Senior Executive)

The literature has taken note of the role of individuals, particularly in leadership positions, in initiating and maintaining institutional change (Battilana et al., 2009). Introducing new logics within an organization and sustaining that logic requires creating a compelling narrative for implementing and sustaining the new logics (Maguire, Hardy, & Lawrence, 2004a). Institutional entrepreneurs bringing intra-organizational change are politically skilled actors with intimate understanding of the newly introduced logics (Dorado, 2005; Perkmann & Spicer, 2007). From the evidence provided by interview respondents it appears that when those skilled actors are gone, institutional change projects have a high chance of losing momentum:

…what was the reason for failure? The team [of top executives sympathetic to microfinance] is no more...every new managing director needs to be briefed on the reason for the establishment of the bank and why microfinance is being done... all of this needs to be explained... Otherwise he [i.e. the new managing director] comes from [commercial banks]... he does not have any idea about microfinance… (Field Manager 1)
Institutional entrepreneurs may be further stymied in their efforts when key stakeholders (such as board of directors) do not understand the vision behind the new logics:

…the people who later came on the Board of Directors of the bank…. were basically petty businessmen…we call them ‘shopkeepers’… in one of the board meetings I tried to educate them on the importance of microfinance and the bank’s efforts…I told them about the extent of our microfinance portfolio constituting an outstanding amount of almost Rs. 1 billion…they said: ‘Oh my god so much amount stuck!’ … actually they thought outstanding meant defaulted amount… they could never understand this [microfinance]… (Founding Senior Executive)

Top management, partial to the newly introduced logics, and champions of those logics defended those logics from those who opposed those logics. Once that top-down defence is gone, and top management itself became chief instigators of opposition to the new logics, clash of logics festers, undermining the new, often less rooted logics. The respondents, especially those based at the branches, highlight this situation where they found increasing resistance of commercial bank managers to microfinance operations at the branch level. When coercive pressure is gone, institutional change initiatives may lose momentum:

…you see again, the question is… a guy sitting in a branch looks up to the head office…he starts getting signals from the head office that all this [i.e. microfinance] is not important… then he starts getting bolder… he starts thinking ‘yes, I think now I should come down hard on them [microfinance]. (Founding Senior Executive)

According to the respondents, the managing director of the bank was forcibly removed from his position, and his team was also forced to leave the bank; an aspect which was not clearly visible in the archival material. Hence, in the case of CB, we not only see a clear example of a strong agency which sustains a set of ‘weak’ institutional logics (the
microfinance field is not as ‘mature’ as the commercial banking field), but we also see the weakness of this agency in the face of external and internal resistance to change agents. This resistance may be unrelated to microfinance.

A senior executive of the bank who took a major role in the founding of the microfinance programme states:

... [the MD who founded and supported microfinance] was removed from the position of MD, six months before the expiry of his contractual term...the reason ... was that the Chief Minister...wanted his own handpicked man...I am witness to several meetings [of the deposed MD] with the Chief Minister that ended in tensions and disagreements...soon after the departure of [the deposed MD], intrigues against [microfinance operations] started both within the bank management and other stakeholders... the Board, and government...for this I hold [one of the MDs who rose through the ranks of executives and reached the helm after the deposed pro-microfinance MD] responsible. He was a very conservative banker and though he worked with us while we developed [microfinance within the bank], he could never understand and own [microfinance operations] as a useful financial service...

(Founding Senior Executive)

Internally, commercial banking operations were obviously resisting the rise of microfinance in the bank; microfinance falling out of favour with the government as main shareholder further emboldened those in commercial banking opposed to microfinance. The regional elections in 2002 brought an Islamist coalition of religious parties to power. This new political dispensation changed the policy discourse on development finance so that ‘Islamic finance’ became a major policy objective of the government. The government was no more interested in microfinance.
This scenario resonates with Gouldner’s seminal study of a gypsum mine, as reviewed by Hallet and Vantresca (Hallet & Vantresca, 2006). The dominant logic in that mine, associated with a long serving manager, went into decline due to the death of that manager; the arrival of new management hostile to the organizational practices associated with that manager, was also hostile to the organizational practices associated with the previous manager. Microfinance did not get accepted as a legitimate activity in the commercial banking field in Pakistan (Shah, 2010). The executives sympathetic to microfinance could sustain microfinance for a period when microfinance was acceptable to the key government shareholder through skilful use of their networks, and in some cases employed coercion at the branch level to force branch managers to cooperate with microfinance staff. Once those executives were gone, the forces opposed to microfinance got emboldened, further supported by governance level (i.e. government and board of directors) lack of support for microfinance.

The literature presenting empirical accounts of coercive strategies in maintaining and initiating institutional change has highlighted macro field-wide ‘policing’ through ‘rule based’ mechanisms, to submit actors to institutional norms (Lawrence & Suddaby, 2006). Regarding the role of management in coercing branch staff into compliance and cooperation with microfinance operations, a microfinance officer states:

…on a few occasions I complained to the boss [executive in-charge of microfinance] because the branch manager was not cooperating… and my work was suffering …the manager immediately started cooperating… he said ‘ why did you tell the boss’…I said ‘ this is not personal, it is a job’… (Field Officer 1)

14.13.2 Clash of performance metrics and incentives
Microfinance, as an ‘unsettled’ field, does not have a widely recognized and accepted organizing template (Bateman, 2010; Battilana & Dorado, 2010; Morduch, 2000; Roy, 2010). One aspect of this unsettled nature of microfinance is reflected in the organizational objectives commonly espoused by MFOs. Microfinance objectives go beyond profit maximisation, and those altruistic objectives are often of an intangible nature, such as enterprise development and socio-economic empowerment (Morduch, 1999).

When objectives are not clearly defined, measuring organizational performance against those objectives also tends to be problematic. Hence, there is no consensus on acceptable performance metrics for microfinance, particularly those metrics which try to measure social performance of microfinance (Karlan & Goldberg, 2007). On the one hand, the social performance aspect is difficult to measure; on the other hand, commercial metrics of success, chiefly revolving around profitability and borrowed from the corporate world, are institutionalised. This is a situation reflected in the microfinance field as well; the ‘consensus’ guidelines promoted by global institutional entrepreneurs working in the area of microfinance have elaborate financial performance metrics but social performance metrics are less clearly defined (Rosenberg, 2009).

How would a microfinance officer, working in the field and managing a portfolio of micro-loans, think and feel about microfinance as an activity? A microfinance officer who was transferred from microfinance to commercial banking, states:

...now I am relaxed in commercial banking... this is a new branch and a lot of work but as compared to microfinance this is nothing....this [commercial banking] is a traditional setup...in microfinance, every client was different...each client situation was different... but this [commercial banking] is very easy... (Field Officer 1)
Respondents highlighted the emphasis of microfinance on improving welfare of clients as an important part of performance metrics of microfinance. For commercial bankers, the first important thing to consider was the default rate of the loan portfolio and profitability. Hence branch managers and microfinance perceived operational issues differently:

Microfinance is a development activity… but if [a microfinance loan] instalment [of a client] is late then commercial banking gives top priority to recovery, markup [i.e. interest income] etc… but development means that I should wait if client is in difficult situation… a separate microfinance bank may have a cushion for such distressed clients (Field Manager 4)

On the one hand, performance metrics were not clearly established for microfinance; on the other hand, the commercial aspects of microfinance, for which performance metrics are highly institutionalized, were also not attractive enough for commercial bankers to engage in microfinance. A microfinance officer comments:

...branch managers thought lending costs [for microfinance] were high…deposit volume not good enough… branch costs on different heads [in microfinance] very high… …earnings less.. from branch manager to upper management had the same thinking... so at the branch level there was less support [to microfinance] …commercial managers said it was easier to given Rs. 10 million loan to [a corporate entity]… it was easier from commercial point of view to deal with [those corporate entities] …easy to entertain them… but development thinking involved catering to a lot more people with the same amount… (Field Manager 6)

Microfinance loans did not provide the kind of financial rewards associated with dealing with ‘big ticket’ clients:
There was a certain amount of friction because if a commercial banker is going to be evaluated on how many deposits they bring then why would they spend time dealing with the officer [in microfinance] who is going out and bringing in small loans because that is not what is really adding up to the numbers that he [branch manager] is looking at.... so there were two different areas of focus or orientations [in a bank branch]: the microfinance officer in-charge of the microfinance programme going out and promoting a concept and delivering services to the kind of clients which did not fall within the ambit of commercial banking, and commercial banking staff trying to attract a comparatively well to do clientele... so naturally the required level of support... level of ownership [for microfinance] was not there… (Founding Senior Executive)

The problems faced by microfinance operations working in an organization already immersed in a dominant commercial banking logic, and without a clearly identified set of microfinance templates, were also faced by the founding pioneers:

…so we had to find our way… to carve a niche for our work… this meant that we had to pinpoint to the commercial banker, from his own book, passages which he had not read, and which allowed the kind of things we wanted to do in microfinance…it was like fighting a war with a set of opponents and the only ammunition that you could use was the ones snatched away from them ...those were commercial bankers, guardians of the banking practices and laws...and these guys were like totally against the idea [of microfinance] ...and we had to convince them not only the merits of our case [to establish a microfinance department] on the basis of a commercial sense but we also had to respond very specifically to whatever questions they were throwing at us… (Founding Manager)
The unsettled institutional characteristics of microfinance reflect a broader problem faced by organized activities in the area of corporate social responsibility and social enterprise where social performance measurement cannot be reduced to a unique numerical ratio (e.g., Dejean, Gond, & Leca, 2004; Thornton & Ocasio, 1999). Further, measurement itself, and particularly, performance measurement, is a mode of legitimation (Dejean et al., 2004). Microfinance operations, due to lack of access to a widely accepted measurement of its social performance, could not establish its legitimacy in the dominant institutional domain of commercial banking.

14.13.3 Clash of logics – Incompatible practices

Some key microfinance practices were incompatible with the norms of commercial banking, particularly at the branch level. This incompatibility, according to respondents, played an important role in the failure of microfinance to establish itself in the bank.

Commercial banking in Pakistan, and around the world, is mostly done through a branch. On the other hand, microfinance distinguishes itself from commercial banking by highlighting its business model which involves going to the doorstep of the poor with financial services (Yunus & Jolis, 1998). Microfinance field officers visit clients and, in many situations, live and conduct their business of micro-lending in close proximity to their clients (Bornstein, 2005). However, commercial banking is an arms-length relationship involving physical collaterals to cover risk, and extensive legal formalities; aspects which are abhorred by microfinance proponents as antithetical to the spirit of microfinance as a developmental tool.

Group lending, the most well-known practice in microfinance, was a novelty in the bank. A microfinance manager states:
…audit division did not accept [practices of] microfinance. Audit division used to say ‘what is ‘group security”?... Audit department considered it odd that only personal guarantees of group members was taken as a security… I used to say this is ‘social collateral’ but audit did not accept this explanation (Field Manager 3)

Commercial banking branch managers did not realize the importance of constant contact between microfinance clients and field officers. Field visits were seen in a different light. A microfinance field manager states:

…When a field officer used to visit clients … branch manager used to think that the field officer is out tending to his personal chores... the field officer might have had a hard day, travelled long distance to meet difficult clients… but branch manager did not recognise this… (Field Manager 1)

Respondents also mentioned that commercial branch officers, particularly branch managers, were wary of microfinance field staff staying away from branches and conducting field visits. Having a close liaison with clients to ensure effective monitoring is a crucial microfinance practice. However, branch staff did not appreciate the efficacy of this practice. Respondents mentioned that branch managers considered microfinance operations costly because of this field level client monitoring aspect. Branch managers often argued that it did not make sense pursuing a hundred costly microfinance clients who, because of their lack of knowledge about products and illiteracy, were a big hassle, rather than a few corporate clients who, because of greater level of education and awareness were easier to handle.

Another reflection of clash of practices was differences in perceptions about client behaviour, particularly related to clients who delayed loan repayments. Lack of understanding and appreciation by managers about the nature of microfinance clients and the operational needs of microfinance resulted in mishandling of clients as well. Respondents
pin-pointed the difference in perception between a commercial bank manager and a microfinance officer regarding a loan with delayed payments. A microfinance manager states:

…”branch manager got concerned regarding a delinquent client …but this was my client…I helped the client develop his business... but he was sick due to hepatitis... but the manager said ‘he is a defaulter put him behind bars’… but I stressed on the need for support to the client... (Field Officer 2)

Another microfinance officer states:

“…we had developed clusters of small enterprises through our loans... we had removed middlemen…but management never bothered about these achievements...when a client had genuine problems then we should have been lenient with that client ... but [bank] management wanted prompt recovery… microfinance is a development activity… but when a client delays an instalment then commercial banking aspects get top priority like recovery, markup [i.e. interest income] … but development means that I should wait If a client is in difficulty” (Field Manager 2)

The branch manager, alarmed at the delayed loan payments or default, would react by calling for strong action against the borrower. On the other hand, the microfinance officer associated with that particular loan would caution the branch manager against an across-the-board intolerant attitude against the borrower and would call for deeper investigation of the causes of default and, if required, provision of another loan to help the defaulter get back on their feet. The branch manager would disagree with this suggestion and often interpret it as a sign of weak portfolio management on the part of the microfinance officer.

Regarding the difference in the demographics and socio-economic profile of clients, a seasoned microfinance field officer narrated his experience in a branch as follows:
… [Corporate] clients were well dressed hence provided good client service by the branch... [microfinance] clients were shabbily dressed so not attended properly...cheques of our microfinance clients were not processed efficiently… loan repayment instalments of microfinance clients were very small... branch staff used to harshly treat those coming to repay loan instalments… branch staff used to yell at the microfinance clients …so conflict of interest between branch and us especially during month end [when recovery and deposit target deadlines for both microfinance and commercial banking used to fall]... branch was always under this impression that commercial bankers were earning and microfinance people were spending that earning [on non-profitable small lending operations] ... (Field Manager 4)

Microfinance tried to apply practices of the dominant logic of commercial banking. A microfinance manager states:

...when we started initiating mf in [CB], my experience was that we had numerous problems: first due to conservative corporate culture of the bank, we had to use a centralised credit operations systems which meant all applications went to head office for scrutiny... but the poor clients, small vendors... needed loans on urgent basis... you should not rely on heavy documentation, sending those documents to head office, and then you wait for decision... why we did not change our methodology: bank’s main products included syndicate loans, commercial credit etc...so they applied the same tools to MF... (Field Manager 2)

Frictions between individuals, due to clashing practices, are crucial elements of clash of logics in multi-logic organizations (e.g. Glynn, 2000; Zilber, 2002), as demonstrated in microfinance as well (Battilana & Dorado, 2010). CB’s microfinance operations depict a situation where a new logic, and corresponding practices, was introduced in an organization
with an already established organizational ‘archetype’ of commercial banking (Greenwood & Hinings, 1993). Further, institutional logics are enacted as organizational practices by individuals with capabilities corresponding to those practices (Glynn, 2000). Hence capabilities are shaped by the logics espoused by individuals. In this situation, an individual proficient in one set of organizational practices linked with a set of logics may not be proficient in another set of practices representing an opposing set of logics. Commercial bankers were not able to appreciate the practices associated with microfinance. They framed those practices only in terms of commercial banking norms. A possible solution to this problem would be to separate the actors espousing clashing logics; as was done in the case of Canadian health care field where actors espousing differing logics maintained their separate organizational identity with arms-length coordination to perform essential organizational tasks involving practices considered useful to all involved (Reay & Hinings, 2009).

To avoid clash of practices between microfinance and commercial banking, CB instituted isolating mechanisms for its microfinance operations. It separated microfinance operations as an autonomous business unit, albeit with a commercial banking interface to facilitate basic banking services (e.g. cash deposits/withdrawals) for microfinance clients; branch managers were also removed from the field level hierarchy. However, such episodes of operational autonomy remained short-lived as changes at top level management, and the resultant fluctuation in sympathy towards microfinance operations, resulted in a constant pressure to ‘submit’ microfinance to the commercial banking hierarchy.

14.13.4 Clash of logics: Some crucial hidden aspects

On the surface, the story of CB’s microfinance programme would show that the reason for the downfall of microfinance in the bank was due to differences between the welfare-oriented logics of microfinance and the profitability imperative of commercial banking. Top executives sympathetic to microfinance kept the microfinance programme alive
through isolating it from commercial banking. They sometimes engaged in coercive tactics to make commercial banking operations cooperate with microfinance. However, based on interviews with key insiders within the bank who dealt with microfinance, CB’s microfinance initiative failed to take root in CB not just because of structural issues, but also because of reasons of a more ‘personal’ nature. Those hidden reasons, not visible in official discourse (in archival records) but clearly and consistently articulated in interviews, mostly concerned perceptions of commercial banking about microfinance, and the perceived imbalance in access to resources by the latter. The following section explains these surreptitious elements in the story of the rise and ultimate eclipse of microfinance within CB.

14.13.5 Clash of logics – The role of power and resources

Interview respondents stated that commercial banking operations perceived microfinance as a tool, in the hands of those at the helm of microfinance operations, to gain and maintain their separate power centre within the bank. The top management thought microfinance executives were ‘creating a bank within a bank’. Further down the hierarchy, the branch managers thought that their microfinance field colleagues had access to inordinate resources which they did not deserve. According to interview respondents, both of these perceptions, rather than technical issues with microfinance, played an extraordinary role in the downfall of microfinance.

When the founding managing director, an authoritative figure with no commercial banking background but a strong network within the international funding organizations and government, left the bank, the subsequent managing directors, all of them career commercial bankers with no links to the microfinance field, were often hostile to microfinance. A key executive and confidante of the founding managing director sums up the key issue at the top:
...he [i.e. the new managing director hostile to microfinance] thought that this [microfinance department] was creating ‘a bank within a bank’ and that through microfinance a set of top executives had carved out their own little domain, which had nothing to do with commercial banking... (Founding Senior Executive)

A report on CB’s microfinance programme by leading international microfinance specialists concluded:

...the executives at the head office saw [microfinance operations] as an experiment by those who wanted to carve out something for themselves...

The above quotes reflect a sentiment repeated by almost all the interview respondents. It was also highlighted as the most important cause of the fall of microfinance in the bank, in a report on CB’s microfinance programme by a global think-tank (cannot be cited for confidentiality reasons). This wary attitude towards the microfinance proponents within the bank reflects broader societal logics in Pakistan where, whether in politics or in business, or in any other organized social domain, the boundaries between the personal and the official often get blurred.

The respondents also highlighted the ‘public’ nature of the bank as a government-owned financial entity. As a government-owned bank, it also embodied political interests of governments of the day, and other stakeholders. A senior executive who played a key role in establishing microfinance in the bank comments on the political economy of the region:

…we were a public sector entity…the bank was not being run with the dynamics of a private enterprise so we did our best to thwart … any kind of influence from vested interests…there were various other stakeholders, business community, politicians bureaucrats... all those people pounced on you for their own vested
interest…somebody wanted to get a loan, bureaucrats wanted more control, a politician wanted to get credit for what is happening out there [in microfinance] … it is a small province, it is a small tightly knit society…so all eyes on you… (Foundation Senior Executive)

Another seasoned microfinance manager, with extensive experience in development projects in Pakistan, linked the problems faced by microfinance in the bank with broader societal issues in Pakistan:

…policies change with every change in management… policies linked with personalities…this is a major factor for our failure…all third world countries are having this problem… (Field Manager 3)

By considering microfinance as a personal instrument of power of microfinance executives, commercial banking executives were applying, either intentionally or involuntarily, a culturally shaped cognitive frame. This cognitive frame invokes a prevalent problem in Pakistan: endemic corruption and misuse of official power and resources for personal benefit (Islam, 2004). Commercial banking executives perceived the survival strategies of microfinance operations as surreptitious moves by those involved in microfinance, particularly at the helm, for personal aggrandisement. It may also be noted that one of the top executives of the bank, who was instrumental in launching microfinance and managing it for many years, belonged to an influential political family; this political background of the key player in microfinance operations further strengthened the adverse perceptions of bank staff about this microfinance executive. This key executive was seen to be creating a ‘bank within a bank’ – a personal fiefdom to strengthen his social position.

Culture has been highlighted in classic literature on institutional theory as one of the most important sources of institutional pressures that shape human behaviour (Friedland &
Alford, 1991; Meyer & Rowan, 1977; Thornton & Ocasio, 2008). DiMaggio’s seminal article, linking culture with cognition, highlights the role of ‘culturally available schemata’: “…knowledge structures that represent objects or events and provide default assumptions about their characteristics, relationships, and entailments under conditions of incomplete information” (DiMaggio, 1997:269). In the case of CB’s microfinance operations, the rise of microfinance within the bank invoked ‘default assumptions’ originating at the societal level about the activities of top microfinance executives and microfinance operations.

At the lower branch level, microfinance came to be symbolized as an exercise of power, in the form of ‘undeserved’ resources, by a set of people who happen to be associated with microfinance operations. The first step taken to nip the fledgling microfinance department was to take away the cars and motorcycles that field staff had.

...when [a new managing director] came he asked about microfinance: ‘what is this [microfinance]?... why are those cars given to microfinance?’ ...at that time no one was ready to hear us... if you do not have a listener then no use shouting ...” (Field Manager 3)

Commercial bank staff at the branch level showed ‘jealousy’ towards the microfinance staff due to the latter’s access to resources such as cars, and the extra attention that microfinance staff received in the market due to their work. Commercial banking staff did not appreciate the logic of microfinance practices. If the microfinance staff were given cars it was because they were supposed to extensively visit microfinance clients dispersed in a greater geographical area. This is an essential element of microfinance operations. However, commercial banking staff did not realize the importance of this aspect. Microfinance officers continued to remain targets of jealousy from commercial banking staff. Respondents claim that one reason commercial banking sections of the bank were happy to see microfinance scaled back was because the commercial banking staff wanted the
microfinance ‘to be put in their right place’ by being relegated to a lower status position in the bank and removing their facilities such as cars. One of the first anti-microfinance steps taken by management opposed to microfinance was to order microfinance field officers to return their cars!

Respondents also highlighted the high profile of the microfinance field staff in the branch as a source of resentment of branch managers. Microfinance field staff used to get visited by an increasing stream of small entrepreneurs either asking for loans or making repayments and discussing their businesses. The geographical target area of that branch being mostly populated by small enterprises rather than large industries, branch managers often would not be able to find enough large or medium or large scale enterprise as clients of the bank’s corporate lending window. In this situation, it would often appear that most customer inflow and attention was going to microfinance rather than commercial banking product lines. Further, due to the linkages enjoyed by microfinance with other development projects, microfinance field officers enjoyed a higher public profile in the community than the commercial bank manager. This situation resulted in a simmering jealousy among commercial bank managers which persisted till the end:

...we used branch premises, we came administratively under branch manager, we used branch money...but the biggest problem was mindset [of the manager]. We were experienced people... our salary was often higher than branch manager’s salary....we had cars...car has a big social effect... if you have an official car it is a big thing in our society.... the only other car in the branch is with the branch manager... branch manager used to feel uneasy.... we used to frequently go to head office for meetings, we had frequent contact with executives at head office, we were more educated, more vocal...... branch manager felt insecure... (Field Manager 6)
...initially branch managers were confused...they saw our facilities like cars... professional rivalry with branch manager hence started...there used to a stream of clients and other people visiting microfinance field offices not the branch manager...branch manager used to think: ‘microfinance operations are in my branch but all the attention is going to microfinance officers’...(Field Manager 3)

A microfinance officer who came from commercial banking but later moved back states:

...commercial banking people are really happy that microfinance operations have been stopped... the facilities [cars etc] that we [microfinance field officers] got that were a big source of uneasiness for the commercial bank guys....it was not lack of profitability that they used to claim as the main problem with microfinance...they used to say ‘look he [a microfinance officer] used to get so many facilities it is good that MF is over and done with’... profitability [of microfinance operations] was not clear in all branches.. some branches ... have made good money out of microfinance... but [some].... lost a lot of money...but overall because of jealousy people are happy that the high profile of microfinance is gone now...like in a branch only the manager used to have a car.. but a microfinance officer also used to have a car...so this problem [of jealousy towards microfinance staff] was everywhere... (Field Officer 1)

An MD who was reported by the interviewees to be hostile to the microfinance programme also officially admitted in a memo, in the wake of the programme attaining the status of a ‘profit centre’ that:

...I am pleased to inform that this development endeavour of our [i.e. microfinance] has attained encouraging level of self-sufficiency. [This] has given us immense confidence to go ahead and build further on the foundations laid back five years back
The perceptions of branch staff hostile to microfinance paralleled the views of the top management. At the branch level, technical aspects of microfinance, not compatible with commercial banking, were criticized. But the most important driver of opposition to microfinance, according to the interview respondents, was the perceived abundance of official resources and popular stature enjoyed by microfinance staff. Resource access and enhanced status invoked jealousy among the commercial banking staff. Again, I attribute this scenario to the activation of broader societal logic as the operational logic at the cognitive level. In Pakistani society, characterized by acute disparities in resource access and frequent emergence of political scandals of corruption and personal aggrandisement, negative perceptions about microfinance operations makes sense.

14.4 Conclusion

At CB, the FS logic was represented by commercial banking operations, and the PA logic was embodied in the strategies and practices of the microfinance operations. The official discourse, as reflected in the documents of CB, show a typical clash of logics based on the technical incompatibilities of microfinance and commercial banking. Pro-microfinance executives also tried to isolate microfinance by arranging alternative sources of funding, and defending microfinance from the commercial banking opponents. The archival record of CB also shows that the incompatibilities between commercial banking and microfinance translated into higher microfinance loan default rates, and further discrediting of microfinance. Hence organizational constraints and bad organizational performance came together in a vicious circle. Microfinance operations appeared to have suffered, in the form of high loan default rates, due to organizational constraints triggered by incompatibilities between commercial banking and microfinance practices. But higher loan default rates further strengthened the case of commercial bankers against microfinance, and gave them
ammunition to question microfinance. This story of clashing of logics conforms to the practitioner literature on commercial banks engage in microfinance (Bayadas et al., 1997; Velenzuela, 2002), and academic literature on clash of logics in microfinance (Battilana & Dorado, 2010) and in other arenas (Pache & Santos, 2010).

Not all aspects of microfinance were problematic for commercial banking. Commercial banking operations adopted strategies and practices of consumer finance from the successful consumer credit operations of microfinance. This is a scenario which has not been unearthed in other instances of commercial entities engaged in microfinance. Institutional theory literature has also not identified similar situations were a ‘defeated’ logic provides templates for adoption by the dominant logic.

In the official discourse, microfinance is shown to be technically problematic within a commercial bank. But despite the technical issues, microfinance continued to grow between 1997 and 2005, and even attain financial sustainability during the financial year 2001 – a scenario also noted by commercial bankers, and recorded in the official documents with great fanfare. How did microfinance officers in the bank ensure that microfinance operations continue successfully over all those years? How did microfinance and commercial banking staff get along at the personal level at the bank branches? How did commercial banking staff at the branch level perceive microfinance? The answers to these questions cannot be obtained from official documents. To find answers to those questions, I interviewed microfinance staff, including career microfinance practitioners, and commercial bankers-turned-microfinance practitioners.

The analysis of interview data in the second part of this chapter shows that the incoming logics may also be resisted on the basis of other systems of meaning and practice located at a broader level. Commercial banking officials opposed microfinance executives
because of the field level clash of commercial banking and microfinance logics, but also because of the perceptions of those commercial banking officials portraying microfinance officials as power hungry people trying to increase their access to resources and influence within the bank. Similarly, branch level commercial banking staff perceived microfinance staff to be enjoying levels of resource access and prestige not commensurate with the ‘status’ of microfinance within the bank. I suggest that executives and branch level officers were acting on a societal level of institutionalized script which makes individuals within organizations excessively sensitive to resource access.

The incoming logics may also be reconciled with the incumbent dominant logics, not purely in terms of the ‘fit’ of those incoming logics with the frameworks of the dominant logics but also due to highly personalised interactions at the individual level. Paradoxically, the driving force for such personalized actions are not the immediately available frameworks of the concerned logics; rather, the script and cognitive frameworks for such action may originate from broader societal systems of meanings: the culture of the region which favours personal relationships based on caste and ethnicity (as well as religion) over official relationships, and the culture of exchanging personal favours as part of business/official dealings.

However, as a case study on a single organization, this story has its limitations. The findings of the case study need to be further tested through detailed comparative case study of multiple organizations. Further, I could not access commercial banking staff of the bank for various reasons, including the general reluctance of key commercial banking staff to talk about microfinance. Hence, there is a need for more case studies on commercial banks which entered microfinance over the last two decades.
Chapter 15: Conclusion

In this thesis I have investigated the organizational arena of microfinance. I was particularly interested in how the clash, between those who call for the commercialization of microfinance and those who call for microfinance to remain true to its developmental nature, had persisted over the years. Discourses on microfinance, in both the popular media and practitioner interactions, would ultimately turn towards the debate between the pro-commercial camp and the pro-poverty alleviation adherents. The unsettled nature of the social reality of microfinance has also raised its head every time a scandal or a crisis would emerge. That crisis would often be limited in its scope to a particular geographical area or to an organization, but the reaction from the practitioners and the public at large would reverberate throughout the world.

Yet, despite the contested nature of microfinance, thousands of organizations have continued to engage in microfinance throughout the world over the years. Those who adhere to the poverty alleviation stance and those who envision commercialization have continued to gain adherents. As Chapter 5 shows, the number of organizations, both for-profit and non-profit, that have emerged on the microfinance platforms such as the Microcredit Summit and the online benchmarking platform, Microfinance Information Exchange (MIX), have continued to increase over time. Why has the contest between the commercialization and the poverty alleviation camps persisted over time, along with the overall growth of microfinance? My thesis has tried to answer this overarching question by utilizing the theoretical domain of institutional theory.

Within institutional theory, I use the frameworks of organizational fields and institutional logics. I consider microfinance to be akin to an organizational field, pervaded by two institutional logics - the Financial Systems (FS) approach and the Poverty Alleviation
(PA) approach. Chapter 3 provides a literature review on the theoretical domains of institutional logics and organizational fields. Below is the summary of my key findings in the three substantive sections of my thesis.

15.1 Field level dynamics of microfinance

In chapters 3 to 6, I have tried to answer the questions: how did microfinance field evolve over a period of time? what are the reasons for the continued contestation between the FS and PA approach in microfinance? In the historical account of the evolution of microfinance (Chapter 5), I show that the emergence of the contemporary arena of microfinance has been significantly fashioned through the entrepreneurial efforts of a set of individuals – most prominently among them, Muhammad Yunus, who established the Grameen Bank The early efforts associated with microfinance, particularly the Grameen Bank, were driven by developmental objectives such as poverty alleviation and women’s empowerment. At that time, the broader field of development finance lacked a workable organizational model that provided the poor with access to finance. Grameen Bank showed that the poor subsistence level entrepreneurs could be bankable. The development promise of microfinance inspired the replication of microfinance around the world as a development policy tool and organizational model. However, the microfinance arena continued to be a battleground between those who envisioned microfinance to be a profitable activity, and those who wanted microfinance to stay true to its original mission and did not want microfinance to be a commercialized activity. Chapter 4 explains the two opposing views of the pro commercialization and anti-commercialization camps.

Chapter 6 provides plausible reasons for the continual clash between the FS and PA approaches. The main reasons for such a clash include: the incompatibility of the altruistic and commercial goals espoused by the field actors, the embeddedness of microfinance in the
broader development field, fragmented resource providers supporting the FS and PA logics, and the lack of standardized performance metrics for assessing organizational performance. Those reasons for field contestation resonate within the literature reviewed in Chapter 3 (e.g. Gestel & Hillebrand, 2011; Purdy & Gray, 2009).

15.2 Field level institutional entrepreneurship in microfinance

In chapters 7 to 10, I used the theoretical domain of institutional entrepreneurship to study the behaviour of two central change agents in the microfinance field: Muhammad Yunus, the microfinance pioneer and a leading PA supporter, credited with the rise of the microfinance field itself, and the Consultative Group for Assisting the Poor (CGAP), a global standard setting think tank and pro-FS advocate. In this case, my question was: how do institutional entrepreneurs, operating in contested fields, implement their change agenda? I showed how the two institutional entrepreneurs have promoted their preferred logics, hence resulting in both contestation and promotion of both logics in microfinance. Yunus has inspired the replication of the Grameen bank model of microfinance, and helped spawn hundreds of Grameen replications around the world. CGAP has supported the commercialization of microfinance organizations, and helped create high profile commercial microfinance success stories. In Chapter 7, I review literature on institutional entrepreneurship, particularly focussing on the literature that theorizes behaviour of institutional entrepreneurs in fields marked by the operation of multiple, clashing logics.

There are crucial differences between the agency of CGAP and the instrumental role of Yunus in the microfinance field. Muhammad Yunus’ institutional change strategy was a two stage process whereby he acted as an entrepreneur and founder of his novel organization, Grameen Bank, and subsequently made efforts to promote the Grameen way of microfinance around the world. His role as an entrepreneur attracted wide attention at the societal level and
in the development finance arena. CGAP followed a path of institutional entrepreneurship already delineated in the literature (Battilana, Leca, & Boxenbaum, 2009; Perkmann & Spicer, 2007). Yunus was radical in his theorization, vocal in promoting his prescriptions and broader in the scope of his convening activities. In contrast, CGAP’s change implementation strategy was, measured in terms of its ‘technical’ theorization, focussed on convening a small set of powerful actors, and initially accommodating of demands coming from the broader field (as seen in the case of CGAP’s social performance management initiatives). Why such a contrasting change implementation strategy?

The contrasting positions of these change agents in the microfinance field appear to have been partially shaped by the nature of their ‘social position’ (Battilana, 2006) in the field and the timing of their emergence. I contribute to the literature on institutional entrepreneurship by highlighting the timing aspect of emergence of institutional entrepreneurs. Yunus’ position is legitimated as the defiant entrepreneur and creator of a novel and successful organizational form. This legitimating aspect makes sense when seen in the light of the microfinance field which has been marked by a continual search for successful and replicable organizational models to increase access of the poor to financial services. CGAP’s position is legitimated in a different way. It appeared when microfinance was already a recognizable organizational field. But certain players in this field felt a need for universally agreed organizational templates. To fulfil this need, CGAP has deliberately assumed the role of a convener and standard setter of ‘best practices’. I also contribute to the literature on institutional entrepreneurship by expanding the scope of the term ‘social position’. Muhammad Yunus’ role as an entrepreneur and creator of a successful organizational form provided him the legitimacy to act as an institutional entrepreneur.
15.3 Intra-organizational interplay of logics

Despite the clash of logics at the broader field level in microfinance, a variety of MFOs continued to provide microfinance services to ever increasing number of poor in the developing world. How do individuals espousing the PA and FS logics interact with each other and get things done inside organizations? How is the clash of logics played out among those individuals? I tried to answer this question in Chapters 11 to 14, by undertaking an in-depth qualitative inductive case study of a commercial bank which introduced microfinance as a product line. The results of analysis of official documents and interviews with key microfinance personnel of the bank show that the official discourse of the bank regarding its microfinance operations (see chapter 13 and 14) identified technical issues – higher costs of microfinance operations, unsuitable commercial banking structures, and higher default risks – as main impediments to microfinance in the bank. Those impediments, according to the official discourse, resulted in the downfall of microfinance within the bank. This resonates with the practitioner generated literature on commercial bank engagement in microfinance (Velenzuela, 2002). But the microfinance operations continued for several years within the bank, despite the technical and operational issues highlighted in the official discourse. How did individuals, belonging both to the commercial banking and microfinance areas of operation, interacted with each other? Were there relational dynamics of a more personal nature that facilitated (and impeded) the merging of the logics of commercial banking and microfinance? The incoming logics may also be reconciled with the incumbent dominant logics, not purely in terms of the ‘fit’ of those incoming logics with the frameworks of the dominant logics but also due to highly personalized interactions at the individual level. Paradoxically, the driving force for such personalized actions are not the immediately available frameworks of the concerned logics; rather, the script and cognitive frameworks for such action may originate from broader societal systems of meanings: the culture of the
region which favours personal relationships based on caste and ethnicity (as well as religion) over official relationships, and the culture of exchanging personal favours as part of business/official dealings. Further, microfinance operations in this bank ran a successful consumer finance operations. The commercial bank operations, when designing its own consumer finance operations, borrowed the consumer finance business model from microfinance. Literature related to both institutional theory and microfinance has not recorded a similar transfer of competency from a minority logic to a dominant logic.

Interviews with key microfinance personnel showed that commercial banking officials opposed microfinance executives because of the field level clash of commercial banking and microfinance logics, but also because of the perceptions of those commercial banking officials portraying microfinance officials as power hungry people trying to increase their access to resources and influence within the bank. Similarly, branch level commercial banking staff perceived microfinance staff to be enjoying levels of resource access and prestige not commensurate with the ‘status’ of microfinance within the bank. I suggest that executives and branch level officers were acting on a societal level of institutionalized script which makes individuals within organisations excessively sensitive to resource access.

Theoretical and empirical treatment of clashing logics in plural fields has taken account of ‘formal’ processes of logic clash and logic reconciliation. At the macro level, institutional entrepreneurs try to diffuse a set of logics through their institutional work (Lawrence & Suddaby, 2006; Thornton & Ocasio, 2008). On the other hand, at the micro level, interactions among individual actors espousing different and differing logics may also be of a more ‘intimate’ nature, both resisting and accommodating institutional logics in their work-a-day world (e.g. Battilana & Dorado, 2010; Lok, 2010; Zilber, 2002). However, I propose that micro-processes of logic negotiation could go beyond the technical parameters of those logics and involve personal interests. Individuals accommodate or oppose logics not
merely because they agree or disagree with the terms of the logics but because of the dynamics of their personal relationships with those who espouse other logics, and the meanings given to those relationships.

15.4 Future research possibilities in microfinance

I have conducted a multi-level investigation of clashing logics in an organizational field by looking at the macro level dynamics, institutional entrepreneurship processes, and intra-organizational interplay of logics. There is a vast potential for further research in the microfinance arena within the broader organization studies domain. There is potential to look at the diffusion and adoption of specific practices both at the macro and micro organizational level. For example, the most renowned microfinance practice, group lending methodology, has been adopted all over the world, both by commercial and non-profit MFOs. A global study at the MFO level can look at the local uptake of this practice by the commercial and non-profit organizations in microfinance, and contrast it with the way that broader microfinance policy frameworks have tried to promote the practice around the world.

Other pioneer individuals and organizations have also acted as institutional entrepreneurs in the microfinance arena – for example, the role of individuals such as John Hatch and his organization FINCA International. The roles of such organizations need to be brought out and compared with Yunus. This comparison may be able to throw light on different forms of agency in an organizational field embodied by different players. Further, I have investigated a single organization, a commercial bank’s microfinance programme. There is a scope for multi-case comparative analysis of MFOs with varying legal structures and political contexts that have tried to merge the PA and FS approaches in their operations.
15.5 Limitations

As a research study in the qualitative paradigm of enquiry, there are possible limits to its transferability to other research settings and confirmability of its results (Miles & Hubberman, 1994). Further, the finding from the qualitative inductive case study cannot be readily transferred to other organizations including MFOs, as the results were based on a single organization and on a sample of individuals. The information provided by individual interviewees could be biased due to ex-post rationalization of their experiences. However, this potential problem was mitigated through triangulating some of the information from archival materials, and asking the same probing questions from multiple interviewees.
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