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Bankers at the Gate: Microfinance and the High Cost of Borrowed Logics

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ABSTRACT

In this paper we examine how the interaction between influences of commercial banking and poverty alleviation shaped the evolution of modern microfinance. Using institutional theory as a lens, we observe that the commercial banking logic increasingly displaced the microfinance field's foundational poverty alleviation and development principles over time. We argue that this process of displacement can occur inadvertently as organizations that embody multiple logics draw disproportionately on only one of those logics when developing legitimating accounts of their activity to stakeholders. Furthermore, we introduce the concept of permeability – the extent to which the elements of a logic are ambiguous and loosely coupled – to explain why some logics may be more or less open to the influence of other logics. We conclude by discussing implications for entrepreneurship and poverty alleviation more generally.

Microfinance today is a major industry with thousands of organizations serving around 155 million clients worldwide (Armendariz & Morduch, 2010). In its modern form, the field was conceived by poverty alleviation practitioners as a tool to provide sustainable financial services to populations typically excluded by mainstream banking institutions (Ditcher 1999; Yunus, 2007). Besides the impressive growth of microfinance, recent observations suggest that the poverty alleviation practitioners are grappling with the rise - both structurally and ideologically - of increased commercial banking in the field (Evans, 2010; Khavul, 2010; Hermes, Lensink & Meesters, 2011; Hoque, Chishty & Halloway, 2011). The purpose of this paper is to explore this paradox: how is it that poverty alleviation practitioners find themselves being displaced by the very same commercial principles which had caused mainstream financial institutions to avoid poverty lending in the first place? We believe insight into this turn of events is important not only for understanding the state of microfinance today, but also the long-term trajectories of other industries which exist at the intersection of multiple institutions.

Our research suggests microfinance underwent three important shifts in its underlying principles. First, modern microfinance was established when poverty alleviation practitioners re-imagined financial principles as a mechanism for sustainable poverty alleviation. In doing so, they reinvigorated hope and attracted global attention to development work. Second, the merger of poverty alleviation with financial principles enabled microfinance organizations to track their success for donors, government, and media through either financial or development metrics. Here we find practitioners' preference for financial metrics and the subsequent refinement of practices enabling organizations to perform well on these metrics. Third, when observers brought challenges to the efficacy of microfinance, practitioners were unable to adequately harness evidence demonstrating their success in alleviating poverty. By contrast, microfinance organizations could

still justify their success to observers through their financial performance. We claim this shift to financial principles accompanied the loss of status among poverty alleviation practitioners, limited the latter's ability to define legitimate patterns of behavior in the microfinance field, and created a space for commercial bankers to establish influence.

In order to understand the rise and fall of various principles, patterns of behavior, and the groups committed to them in an organizational sector, we turn to the literature on institutional logics (Friedland & Alford, 1991; Thornton & Ocasio, 2008). The theoretical ideas we advance in this paper follow from our comparisons of this literature, especially on field-level complexity (Greenwood, Raynard, Kodieh, Micelotta, & Lounsbury, 2011), to patterns we see emerging in the field of microfinance. The material on microfinance we present in this paper comes from a review of empirical research; archival data such as news reports and editorials, public statements by microfinance actors, and industry guidelines; as well as discussions with academic and practitioner experts.

Beyond the context of microfinance, our study contributes to theory on field dynamics and institutional logics. First, we draw attention to and provide a mechanism through which institutional fields are shaped by unintended consequences rather than directed social action. Second, we introduce the notion of *permeability* to denote that some institutional logics may be more susceptible to the influence of other logics by nature of their nomological structure (Suddaby, 2010), and that organizational fields constituted of logics with asymmetric levels of permeability may be prone to instability. For practice, our review of the evolution of microfinance points to the need for entrepreneurial efforts to attend to the origins of legitimacy of these ventures (Hargadon & Douglas, 2001) in order to limit the unintended consequences of their actions. We caution that

techniques, metrics, and values that are borrowed from other fields to serve as a vocabulary of legitimation can ultimately lead to the displacement of entrepreneurs' original goals.

In the sections below we begin by providing an account of the microfinance context. We then develop and use our theoretical lens to gain insight on the evolution of microfinance, in the process advancing theoretical understanding of field dynamics and institutional logics. Finally, we discuss practical implications for poverty alleviation and conclude with suggestions for future research.

CONTEXT: POVERTY ALLEVIATION AND THE RISE OF MICROFINANCE

Prior to the establishment of modern microfinance, the field of global poverty alleviation was dominated by two movements born in the 1970's out of the perceived failures of post-war development assistance in reducing absolute poverty and disparities of income (Dichter, 1999). The two trends, basic human needs (BHN) and integrated rural development (IRD) were based on a view that portrayed poverty as a multifaceted phenomenon where factors such as the level of infrastructure development, availability of education, and community health were interrelated and integral in promoting or hindering economic development (Dichter, 1999).

These movements also put, for the first time, non-governmental organizations (NGOs) at the forefront of poverty alleviation activities. State agencies and inter-governmental organizations such as the World Bank which had previously been at the helm of these efforts were facing their own legitimacy crises such as allegations of corruption or pandering to special interests. It was hoped that NGOs, managed by poverty alleviation practitioners having unique knowledge from their locally embedded ties in developing countries would revitalize the field. By the 1980's however, the IRD/BHN movements themselves were already on the wane: they had failed to live

up to their promise. Observers noted that the comprehensive aid programs followed by NGOs were often beyond their means, and through mission drift they had become ineffective in making deep changes (Dichter, 1999).

The revitalization of hope for many in the poverty alleviation field came through the emergence of modern microfinance most famously led by economist and founder of the Grameen Bank, Mohammed Yunus, who combined the ideas of entrepreneurship, financial theory, and poverty alleviation (Khawari, 2004; Khavul, 2010). In 1983 the Grameen Bank was formally established.

Broadly speaking, the goal of microfinance was to provide cheap credit to people living in poverty, who were traditionally excluded by mainstream banks and had recourse only to loan sharks (Armendariz & Morduch, 2010). Poverty alleviation practitioners hoped that borrowers would use the small loans to establish enterprises that would enable them break cycles of poverty (Yunus, 2007). In the early stages of microfinance, group-lending was the dominant model. Under this model, the microfinance organization would not lend to individual clients, but would lend to small, self-selecting groups. Under such a system, the failure of one client to repay the loan would result in denial to credit for all group members (Armendariz & Morduch, 2010). Through group lending, microfinance organizations could save not only on transactions costs in a number of ways, but also substitute social capital in the place of traditional collateral that borrowers lacked (Armendariz & Morduch, 2010).

Initial recorded successes in Bangladesh (Yunus, 2007) led to the spread, and eventual mainstreaming of microfinance, leading the UN to declare 2005 the International Year of Microcredit. By 2007, the Microcredit Summit Campaign reported that 3,350 microfinance institutions served 154.8 million clients worldwide (Armendariz & Morduch, 2010). With growth, the field began to develop an infrastructure which included umbrella organizations such as CGAP

and ACCION, rating agencies such as MIX Market, "best practices", and regular meetings of practitioners (Epstein & Yuthas, 2010).

Two widely held goals in the field of microfinance which work to reinforce each other are *sustainability* and *outreach* (Dichter, 1999; Morduch, 1999; Khawari, 2004; Epstein & Yuthas, 2010; Hishigsuren, 2006). *Outreach* is the goal of extending as much access as possible to microfinance measured by the number of clients served thereby supporting the vision of an inclusive banking system. *Sustainability* is the goal of maintaining enough revenues to cover operating expenses over time, a necessary condition if microfinance is to impact poverty in the long run (Khawari, 2004; Rosengard, 2004).

Since the period of explosive growth in the microfinance field, methods of poverty lending have become so highly sophisticated and refined that repayment rates among microfinance institutions exceed those of what most commercial banks maintain (Dichter, 1999). Despite these successes, few mechanisms – other than a handful of colorful stories of successful clients (Epstein & Smith, 2007; London, 2009) – have emerged to provide evidence that microfinance is actually benefitting the lives of the poor (CGAP, 2006; El-Zoghbi & Martinez, 2011). Criticisms are mounting from a number of corners that microfinance as a vehicle for poverty alleviation has failed to deliver on a number of fronts (Karnani, 2007; Bateman, 2011; El-Zoghbi & Martinez, 2011; Economist, 2009). These include concerns about its sustainability, lack of social and economic development, and the impact of aggressive lending practices in fostering escalating cycles of debt amongst borrowers (Simanowitz, 2011; Roodman, 2012).

The response from practitioners of microfinance in providing counter-evidence on the social and economic benefits of their activities has been relatively sparse. Instead, most microfinance organizations continue to rely on internal financial performance metrics in justifying their effectiveness (Rhyne, 2010; El-Zoghabi & Martinez, 2011; Simanowitz, 2011). The twin

pillars of outreach and sustainability, with no social indicators as a counterweight, have caused tension with development goals. Practitioners and industry observers suggest that the rush to growth has led microfinance organizations to increasingly seek clients who are easiest to assess, such as those in urban instead of rural areas (Rogaly, 1996; Simanowitz, 2011); those involved in businesses with rapid turnover, such as retail instead of farming (Dichter, 1999; Hermes, Lensink, & Meesters, 2011); and the 'better-off' of the poor (Chowdhury, 2009; Epstein & Yuthas, 2010), in a process called 'upscaling' that leads to microfinance institutions leaving behind their social mission to compete for the clients of traditional commercial banks (Armendariz & Murduch, 2010). Elizabeth Rhyne, Managing Director of the Center for Financial Inclusion, and a critic of aggressive growth strategies (Rhyne, 2010), claims that outreach ("scale") has become a "hypnotic mantra" taken by practitioners as inherently good for the world's poor without serious considerations of its downsides (Simanowitz, 2011: 4). In some cases this has led to conflicts between microfinance organizations competing for clients. For example, employees of Grameen Bank and BRAC were criticized for offering loans on the spot to women in villages already served by smaller NGOs (Rogaly, 1996: 107). These practices were attributed to staff compensation policies and expansion goals by the organizations (Ebdon, 1995; Rogaly, 1996)

Further challenging the delicate balance of development and banking, many formerly non-profit microfinance institutions have explicitly embraced a more commercial orientation. There have been several high profile cases of non-profit microfinance institutions transforming themselves into regulated commercial banks such as Banco Solidario (Morduch, 1999; Khawari, 2004), SKS Microfinance, Compartamos, and Caja los Andes (Epstein & Smith, 2007) which have then grown tremendously. Caja los Andes, for instance, after being spun off the NGO Procredito saw its loan portfolio rise from US $3.2 million to $36.8 million five years later (Rosengard, 2004). Currently, Epstein and Yuthas (2010) estimate that about 48 transformed microfinance

organizations are in existence alongside regulated banks that have entered the microfinance sector from the mainstream. While commercial microfinance organizations are still a minority in the field, their control over the market vastly exceeds their non-profit counterparts. In 1995, the World Bank's Sustainable Banking for the Poor survey estimated that while commercial banks constituted 7.8% of microfinance organizations worldwide, they accounted for 78% of outstanding loans. By contrast, 73% of microfinance organizations were classified as NGOs, and were responsible for only 4% of the outstanding loans (Dichter, 1999). More recently, a former Indian Minister of State for External Affairs and UN Under-secretary General noted that "only 50 of India's roughly 1,000 microfinance institutions are private (as opposed to NGOs), but the top four [commercial microfinance institutions] account for 80% of the market. Many of them doubled their revenues in the 2009-2010 fiscal year...whereas rural co-operatives, which also make small loans, grew by 3%" (Tharoor, 2010).

The proponents of commercialized microfinance have found support from external observers from the governments, media, donors, and academia (Ayayi & Sene, 2010; Copestake 2007). Researchers have suggested that superior outreach, lower interest rates, and more efficient governance (Tchakoute-Tchuigoua, 2010), in addition to the ability to offer savings accounts (Armendariz & Morduch, 2010) mean that commercial microfinance organizations can do more to help the world's poor in accessing financial services than NGOs, even if it is not their primary goal. While this debate has yet to be settled, recent public comments suggest that the influence of commercial banking has grown to a level far beyond the comfort of the founders of modern microfinance working in the field of poverty alleviation (Lascelles, 2008; Rosenberg, 2008; Yunus, 2011). This is a surprising turn for the founders of microfinance, who sought to establish the field in response to a commercial banking sector which they criticized as excluding the poor. In the next section, we weave together insights from institutional theory and entrepreneurship to explore the

migration and shifting boundaries of institutional logics, and their role in the unique development of the field of microfinance.

MODERN MICROFINANCE: AN INSTITUTIONAL APPROACH

Institutional Logics, Affordance, and Change

Research in the field of microfinance by management theorists has been relatively sparse (Khavul, 2010) although there are two recent studies which take an institutional theory perspective (Battilana & Dorado, 2010; Khavul, Chavez, & Bruton, 2011). In their comparative study of two microfinance organizations, Banco Solidario and Caja de Ahorro y Prestamo, Batillana and Dorado (2010) illustrate the importance of identity in organizations trying to balance hybrid logics. They suggest that microfinance institutions lack a "ready-to-wear" template in structuring their goals in activities, and that a strong, shared organizational identity is necessary to prevent competing subgroups from breaking apart the organization. On the other hand, Khavul et al. (2011) take a historical, macro-level perspective in analyzing the contested boundaries between the microfinance and commercial banking sectors in Bolivia in which regulatory battles played a key role in determining the players in the field.

Building on this body of work, we examine microfinance through the lens of institutional logics (Friedland & Alford, 1991; Thornton & Ocasio, 2008) as we believe the tensions between the two defining logics of the field – development and banking – drive much of its unique development and many of its interesting characteristics.

Institutional logics are "a set of material practices and symbolic constructions – which constitutes [an institution's] organizing principles and which is available to organizations and individuals to elaborate" (Friedland & Alford, 1991). Here, institutional logics are understood as

the 'DNA' behind institutions; they are normative and cultural-cognitive frameworks that are replicated and manifested in stable patterns of social behavior within which they exist and give meaning. A key element of logics is how they define the 'rules of the game' (Zhao & Wry, 2011), and thereby determine the legitimacy of actions and status of actors within an institutional field; a recognizable social field whose actors partake in a "common meaning system and ... interact more frequently and more fatefully with one another than with actors outside the field" (Scott, 2008).

Institutional logics are constituted of complex sets of more-or-less interrelated schemas, norms, causal explanations, symbols, and other cognitive elements (van Dijk et al., 2011). Yet, treatment of logics has in large part characterized them as monolithic entities. While early research into institutional logics portrayed interactions as limited to one dominant logic being contested by, and sometimes replaced with, an emerging logic (Greenwood et al., 2011), more recent work by contrast describes instances where multiple logics coexist within a field (Battilana & Dorado, 2010; Greenwood et al., 2011), settle in temporary truces (van Gestel & Hillebrand, 2011) or even complement one another (Goodrick & Reay, 2011; Secci, 2011). Furthermore, research shows that certain environments may grant actors 'affordances' to reshape their institutional contexts (Leinhart, Crowley, & Knutson, 2002)

More recently, van Dijk et al. (2011) in their study of radical innovation at two established firms describe logics as being constituted of a number of elements and use the concept of affordances to note that there may be opportunities in the interpretation of these elements, allowing reflexive actors (Giddens, 1984) to transform a logic by introducing "novel ideas to be incorporated into, merged with, or replace established interests, norms, and beliefs". Van Dijk et al.'s (2011) portrayal of logics involves elements which may be ambiguous and thus have room for interpretation, or as having multiplicity, where prescriptions may be sharply defined but contradictory. The flexible nature of logics is likewise echoed by institutional theorists who

describe how actors variously ‘edit’ or ‘translate’ logics to fit them to local contexts (see Sahlin and Wedlin, 2008 for a review).

Complementary to these insights is work on institutional entrepreneurship (Hardy & Maguire, 2008; Tracey, Phillips, & Jarvis, 2011). Tracey et al. (2011) describe institutional entrepreneurship as a multi-level phenomenon that includes political processes and production or alteration of meaning systems by actors (individual or collective) seeking to change or create new institutions. Parallel processes are described by researchers studying institutional work (Lawrence & Suddaby, 2006), as the “purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” that generally show the social action of actors in more subtle, rather than ‘heroic’ terms (Lawrence, Suddaby, & Leca, 2011).

Both of these streams have shown that actors embedded in, or at least having access to, multiple logics can draw from them to bring about institutional change in their field. The work in this tradition of institutional entrepreneurship includes Boxenbaum and Battilana’s (2005) study of the transposition of diversity management practices to Denmark by employees and consultants; Rao, Monin, and Durand’s (2003) study of the emergence of nouvelle cuisine in the French culinary world; and Tracey et al.’s (2011) study of the creation of new organizational forms. In each of these cases, opportunity recognition and creative insights by actors engaged in institutional entrepreneurship follow their experiences with multiple logics, which enables them to see beyond the taken-for-granted ‘rules’ defining any one field.

The High Cost of Borrowed Logics

We present our theoretical analysis of the evolution of microfinance in three stages, each drawing attention to a particular set of interactions between the logics of development and commercial banking occurring in a roughly sequential, but overlapping gradient-like manner. The

first stage covers the emergence of modern microfinance through the importation of banking logics into the field of development, and how this enabled institutional entrepreneurs provide the latter with newfound legitimacy. The second stage follows the operations of microfinance organizations and the various options available to them in producing legitimating accounts. Here we observe the institutionalization of the practice of using financial metrics to infer poverty alleviation and social development outcomes. The third stage begins with the wave of internal and external criticism directed at microfinance's efficacy at fulfilling development goals, and the following changes in the field. Here we argue that earlier choices by microfinance practitioners resulted in a highly sophisticated financial framework which withstood the criticism, and gave room for commercial bankers to shift the field's underlying principle towards their commercial logic. A model of this process is outlined in figure 1 below.

Insert Figure 1 about here

Stage 1: Hybridization of logics and the creation of microfinance provides poverty alleviation with newfound legitimacy

We contend that if institutional logics are 'open' to transformation by virtue of their ambiguities and contradictions, then the presence of a shared, strongly-articulated alternative logic would provide actors with a set of material (norms, cognitive frameworks, practices, and so on) by which to resolve them. While van Dijk et al. (2011) describe actors manipulating elements within an institutional logic, it follows from research dealing with the multiplicity of logics that actors can also interpret ambiguities, resolve contradictions, or otherwise 'fill in the gaps' apparent in one logic by drawing on other logics available to them, rather than drawing on this material out of thin air (Greenwood et al., 2011).

Within the context of microfinance, Mohammad Yunus, an American-trained economist held a professorship at Chittagong University in his native Bangladesh. Yunus describes how his particular position as an economist working in a university surrounded by poverty-stricken villages allowed him to see a contradiction between two logics at a time of famine in his country:

> I used to feel a thrill at teaching my students the elegant economic theories that could supposedly cure societal problems of all types. But in 1974, I started to dread my own lectures. What good were all my complex theories when people were dying of starvation on the sidewalks and porches across from my lecture hall?" (Yunus, 2007, p. viii).

Motivated to alleviate the desperate poverty he saw, Yunus made repeated trips with his students to develop practical solutions grounded in the context of nearby villages. Yet, instead of being completely detached from his economic training, Yunus drew from the basic assumptions of economic theory in interpreting the causes of poverty. In his account of interviewing a stool-maker in Jobra village (Yunus, 2007, p. 46), Yunus's attention and reasoning is clearly revealing of his educational background: his mind is focused on issues of interest rates and access to raw materials, framing the villager's poverty as an input-output micro-level process, and claiming that the poor were 'natural entrepreneurs' (see Thornton & Ocasio, 2008 for how logics mediate attention).

In their model of institutional entrepreneurship, Tracey et al. (2011) describe problem framing as the first step in opportunity recognition. Yunus defined the problem as the poor being unable to access cheap credit (Yunus, 2007) and proposed that through banking services and market mechanisms (Khavul, 2010) the poor would be able to reap the benefits of their work and improve their living conditions (Morduch, 1999; Yunus, 2007).

Such tactics legitimate the focal actor to the extent that other actors in the local field are willing to accept the imported accounts on the basis that 1) the external logic is considered

legitimate and 2) the external logic is considered applicable to the local field (Friedland & Alford, 1991). In the context of microfinance, we find that the foundational work by Yunus and the Grameen Bank was aimed at solving a crisis in the poverty alleviation field concerning the means of traditional development methods by importing the logics of economic theory-based banking.

By the 1980's IRD and BHN had lost much of their legitimacy both among poverty alleviation practitioners and broader society (Dichter, 1999). While the espoused goal of a poverty-free world may not have been questioned, traditional methods used in working towards that goal had failed to demonstrate their efficacy and thus left room for a new approach. The foundation of modern microfinance, through the work of Yunus and the Grameen Bank, marks the beginning of dual logics in this field: banking and development (Rogaly, 1996; Batillana & Dorado, 2010; Khavul et al., 2011). The early institutional entrepreneurs had clear intentions to use the logics of banking in order to solve extant problems in the field of poverty alleviation. Yunus himself is quite explicit about his institution-building intentions to aid the poor:

> So we go step by step, concept by concept and institution by institution. We picked one institution that is banking. There may be something wrong there that we can fix. So we created another kind of banking — banking which doesn't depend on collateral. (Bajaj, 2006).

This new hybrid logic was effective in renewing hope in the poverty alleviation field as it promised to solve the extant problems in the field. The problematic track record of NGOs engaging in comprehensive aid in the IRD/BHD-era would be overcome by a minimalist 'hands off' approach where NGOs could do the lending and avoid becoming bogged down in far-reaching endeavors well beyond their resources and competencies (Bhatt & Tang, 2001). The role for social enterprises as lenders to the poor would enable NGOs to retain their central position in the field of poverty alleviation and keep at bay the state agencies and inter-governmental institutions whom they viewed with suspicion. Visions of the poor as natural entrepreneurs who knew best for

themselves fit equally well with the populist values of activists looking to avoid imposing 'top-down' solutions (Dichter, 1999; Bhatt & Tang, 2001; Khavul, 2010) and the rising trend of neoliberal economic theories (Friedman & Friedman, 1980; Rogaly, 1996; Chowdhury, 2009). Dual compatibilities of the last type were apparent in many aspects of microfinance: an increase in outreach lowered transactions costs while making access to financial services more inclusive (Epstein & Yuthas, 2010; Hishigsuren, 2006); high repayment rates meant recovering lending costs and were taken as a sign of growing wealth among borrowers (Economist, 2009; Khavul, 2010); recovering costs allowed organizations to survive, thus making microfinance 'sustainable' and therefore able to impact poverty in the long-term (Khawari, 2004); and evidence showing females had higher repayment rates than males (Khawari, 2004; Morduch, 1999) meant economic development, good banking, and women's empowerment could be simultaneously realized through the act of poverty lending. In other words, a single type of institutional practice was explained and legitimated by two different logics. Thus, the logics of poverty alleviation and banking did not only co-exist, they reinforced each other (Greenwood et al., 2010).

In drawing on other available logics, it is apparent that actors involved in institutional entrepreneurship and institutional work and are embedded in multiple logics do not need to – nor should be motivated to – solve issues in one field by wholesale importation of external logics. Rather, these actors would do better to draw on only the elements, cognitive or normative, suited to advancing their particular goals. In adopting the logic of banking, the founders of microfinance were careful to incorporate only elements suited to their mission rather than the 'complete set' of available elements. Particularly, Yunus and his colleagues wanted to harness the highly legitimate methods of banking – backed by the framework of economic theory – to work towards the goal of poverty alleviation. Legitimate means from the banking logic were substituted in place of the

tarnished means supported by the development logic of poverty alleviation. While the economic-based logics of banking and entrepreneurship were used to theorize that access to capital would lead to value-generating activities among the poor (Yunus, 2007), economic prescriptions about letting the market decide interest rates were resisted because charging high interest rates and making extensive profit off the poor conflicted with the values of poverty alleviation practitioners (Ayayi & Sene, 2010; Yunus, 2011).

Stage 2: Legitimating accounts of microfinance and the use of financial metrics to infer social performance

Once accounts resting on 'borrowed' logics are successfully introduced and become known locally, they can then be utilized and further articulated by other actors in the field pursuing their own agendas – i.e., taking advantage of affordances (van Dijk et al. 2011). If one financial indicator or framework is established as a measure for social development among poverty alleviation practitioners, it becomes less unusual that other elements of finance might be used to infer development as well (Shipilov, Greve, & Rowley, 2010). We contend that if such acts of borrowing and re-use are successfully repeated within a field, then over time local accounts of behavior will have potentially more and more of their legitimacy derived from that alternate logic. That is, it can become the norm more widely to think about or rationalize development practices by using financial explanations.

In the early years, the excitement hybrid development-banking logic was sufficient in providing legitimacy to practitioners in the field of microfinance. In the following years few rigorous evaluation systems were put in place to measure direct impact on clients or their communities (Chowdhury, 2009; Duvendack et al., 2011). The lack of measurement efforts can partly be attributed to the prohibitive nature of collecting economic development data in rural parts

of developing countries (Copestake, 2007; Khavul, 2010). However, there has also been a lack of motivation among practitioners and donors (Bajaj, 2011), many of whom consider spending resources on evaluation a 'waste of time' (Morduch, 1999). Practitioners have often taken microfinance on faith, and Yunus claims retrospectively that strong rhetoric and "overbilling" were necessary to mobilize donor support (Bunting, 2011). Donors for their part generally desire that their funds to be used for programmatic activities rather than research that may cast doubt on the efficacy of the programs they support (Mordoch, 1999). In its guidelines for donors, the umbrella organization CGAP (CGAP, 2006) recommends that donors track key performance indicators with no mention of direct social impact: "general outreach, outreach to the poor, portfolio quality, profitability/sustainability, efficiency" and to otherwise "avoid burdening financial institutions with too many indicators". In fact, only in the last three years have randomized controlled trials, which can show whether microfinance is making a social impact, have been conducted (El-Zoghbi & Martinez, 2011).

To be sure, actors may engage in post-hoc theorizing to conciliate newly adopted activities with their dominant logic (Berger & Luckmann, 1966; Sahlin & Wedlin, 2008), but unless there are specific legitimacy challenges, these practices can remain under-theorized from the perspective of the this logic. In the case of microfinance, practitioners may see no reason to engage in potentially contentious attempts to prove their banking methods work under direct measures of development if no one is questioning them, as such attempts may take their already accepted practices from the realm of 'confidence and good faith' (Meyer & Rowan, 1977) into one of conscious debate.

To manage the legitimacy of microfinance from a development logic perspective, practitioners have a history of utilizing case studies – compelling stories of individual clients improving their lives – to support claims that microfinance works (London, 2009; Duvendack et

al., 2011) and Mohammad Yunus's famously repeated claim that "5% of Grameen borrowers escape poverty every year" (Bajaj, 2006). In an examination of microfinance, Epstein and Yuthas (2010: 212) note that while several rating systems had been developed to measure social outcomes, existing systems are "heavily weighted toward financial performance and either ignore the social impact of the [microfinance institution] or provide only superficial indicators of effectiveness in this area". Similarly, Copestake (2007: 1722) suggests social performance assessment and management in the field of microfinance "have failed to achieve the same clarity, consistency, and level of acceptance as financial performance assessment and management".

While these development practices may remain supported by financial explanations for some time, they will still be vulnerable to institutional challenges from actors not acquainted with – or swayed by – banking logics (i.e. conditions 1 and 2 above are not met). Such criticism may become an issue when previously peripheral actors gain power in the field (van Gestel & Hillebrand, 2011), or when powerful external actors ascribing to different logics take notice of the local field (Zietsma & Lawrence, 2010). While local actors may respond to these challenges by post-hoc theorizing, they may fail to generate compelling accounts of the legitimacy of their behavior, for example when long-term documentation (or lack thereof) makes it difficult for actors to control interpretation of their actions. We illustrate these challenges in stage three.

Stage 3: Challenges to microfinance's efficacy as a tool for development and the shift to commercialization

The heightened visibility of the microfinance field coupled with the perceived lack of evidence on its progress towards social goals had made the field ripe for criticism. Since the 1990's skeptics in media, government, and academia have mounted attacks on a number of fronts claiming that microfinance does not lead to economic development (Coleman, 2000; Karnani, 2007;

Economist, 2009; Bateman, 2011; Duvendack et al., 2011), does not spur the creation of legitimate entrepreneurial ventures (Ditcher, 1999; Karnani, 2007), is not sustainable (Bhatt & Tang, 2001; Kashyap, 2010), does not enhance women's status (Duvendack et al., 2011; IRIN Global, 2012), and is engaged in aggressive lending to uninformed clients (Epstein & Smith, 2007; Gokhale, 2009; Kashyap, 2010). Even extraordinarily high repayment rates, the centerpiece of the assertion that microfinance is both sustainable and generating value for its clients, is questioned not only on grounds of inflated figures (Battilana & Dorado, 2010) but on grounds that they create spirals of debt among borrowers who resort to taking loans from multiple banks, (Khavul, 2010; Simanowitz, 2011) or face social exclusion and intimidation when they run into financial difficulties (Simanowitz, 2011; Tharoor, 2011). Stories of clients in rural parts of India committing suicide by the scores have hit the news, further damaging good will towards the microfinance field, and leading to government intervention forgiving clients of their debts and restricting microlending activities (Sinha, 2011; Tharoor, 2011).

The logic of poverty alleviation as a basis for microfinance is experiencing challenges to its legitimacy. However, the loss of legitimacy does not entail the collapse of microfinance as an activity but rather shifts the underlying basis given for its existence and perhaps a reconfiguration of certain practices (e.g. see Thornton & Ocasio, 1999 and Meyer & Hammerschmid, 2006 for fields shifting bases of legitimacy). The legitimacy vacuum can therefore continue to be filled by alternative logics by actors interested in maintaining their social practices (Dacin & Dacin, 2008). With no local counterweight to these logics however, local institutional entrepreneurs will have difficulty maintaining the course of their original goals and their own centrality in the field.

Standing in contrast with the lack of serious assessment of microfinance's social impact is the availability of rigorous evaluation systems and the consensus surrounding the banking side of operations (Copestake, 2007). It is these banking indicators that practitioners of microfinance once

used as proxies in place of direct measures of social impact that have sometimes become ends of themselves (Rhyne, 2010) as the banking logic has become more influential.

This is an important point as the indictors have been taken up by industry observers, and because prior research has shown that ranking systems have a powerful effect not only on conferring legitimacy, but on shaping the categories by which organizational members evaluate themselves (Sauder & Espeland, 2009). In this respect, the Microfinance Information Exchange, Inc (MIX) founded by CGAP and other important actors in the microfinance industry (www.themix.org) is one of the major organizations that collects data and disseminates information on microfinance institutions and has been relied on by a number of academics in the fields such as management, economics, and development (e.g. Ayayi & Sene, 2010; Hermes et al., 2011; Hoque, Chishty, & Halloway, 2011) in conducting peer-reviewed research. MIX, like nearly all the rating systems in the field, relies solely on financial indicators such as scale, efficiency, risk, and returns in its highly visible ranking of microfinance institutions (Epstein & Yuthas, 2010). Sustainability continues to be an essential achievement for legitimacy in the field, with CGAP declaring that "Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people" (CGAP, 2006).

While the rhetoric of the development logic stands, the norms for behavior in microfinance have become less distinguishable from mainstream commercial banking. CGAP announces that "microfinance will only realize its potential if it is integrated into a country mainstream financial system" (CGAP, 2004). The apex organization has also abandoned the wariness of early microfinance practitioners to lend interest at free market rates, noting in its 2006 'good practice guidelines' the key principle that "Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people (CGAP, 2006).

Given the penetration of banking logics in the field of microfinance, commercial banks have been able to use them to legitimate practices that may have been unacceptable in the field's early years. One such organization is Compartamos Banco, which was founded as a non-profit organization in 1990, and underwent transformation in 2006 to become the largest microfinance bank in Latin America (Rosenberg, 2007). When attacks on its choice to commercialize and undertake an IPO emerged from poverty alleviation practitioners, Compartamos Banco responded with a "letter to our peers", defending the legitimacy of its actions (Danel & Labarthe, 2008). In the response, co-founders Carlos Danel and Carlos Labarthe repeatedly draw on banking-based logics to justify how increased commercialization ultimately helps alleviate poverty more effectively than developmental approaches. The following quotes illustrate how commercial microfinance is justified by aligning it with mainstream finance, by arguing that "mainstream" investors benefits the poor more than socially motivated investors due to sustainability, and a justification that organizations working within commercial markets are more accountable than non-profits, respectively:

> Good microfinance institutions are good financial institutions: those who can understand the needs of their clients and provide products that add value to them and reduce risk in the process...microfinance has to be treated as finance, because it is no different from it. (Danel & Labarthe, 2008: 3)
>
> …we were very much committed to prove that microfinance was investment worthy within the mainstream financial sector. Filling our balance sheet with socially motivated investors was attractive, but it crowded out mainstream investors in the long run...we are convinced about average profits are necessary to draw in investors and competition. (7)
>
> A public company such as Compartamos has to be ultra-transparent (not only by choice but by regulation) and is held accountable by many (the industry, markets, analysts, raters and regulators). We wish we could see this across the industry. (9)

With such statements, the authors mobilize the legitimacy accorded to the banking logic to not only resolve its contradictions with the development logic, but effectively argue that resolving the contradictions in favor of the banking logics is in fact the most legitimate way of accomplishing the goals constructed by the development logic. Furthermore, the statement of Compartamos, to put a play on words, replaces the vision of 'doing well by doing good' with a rationale of 'doing good by doing well'. The profitability of Compartamos is to be taken as a sign that the bank's behaviors are furthering the goals that the poverty alleviation practitioners espouse:

> But one thing needs to be pointed out: the only reason Compartamos has been able to create economic value, is because of the social value created by this financial and working methodology. (9)

The actions of Compartamos Banco in commercializing are defended by some of the major microfinance umbrella organizations. The Chairman of ACCION International, of which Comparatamos is a member, calls the IPO a "big win" that is needed to attract more capital into the industry (Economist, 2008). A CGAP issued report by senior advisor Richard Rosenberg (2007:1) states that the bank's 2007 IPO was a "spectacular success" for attracting "truly commercial investors, [and] not socially responsible investors". The report goes on to promote the merging of microfinance with commercial markets, predicting that "the transaction will probably give a significant boost to the credibility of microfinance in commercial capital markets, and accelerate the mobilization of private capital for the business of providing financial serves to poor and low-income people" (1).

We believe that the norm-setting capacities of umbrella organizations (DiMaggio & Powell, 1983) such as CGAP and institutions that rank organizations in the field and confer legitimacy (Sauder & Espeland, 2009) such as MIX market, as well as the explosive growth of commercial

banks in microfinance represent a success in the legitimization of poverty lending, yet in a form that is increasingly legitimized by banking logics, rather than their selective application to development issues. In the following section, we construct an analytical dimension of institutional logics focused upon permeability and openness to change to account for the long-term instability in the "banking-development" hybrid logic.

The Permeability of Institutional Logics

The characterization of institutional logics in the preceding section as a set of elements follows from research focusing on how actors navigate institutional environments when seeking status and legitimacy. In this case, our desire is to show how isolated bits of commercial banking logic are followed by the rest of the logic into the microfinance field, in large part without explicit attempts at institutional change in favor of increasing banking dominance. From the macro-perspective the effect is the creation of a hybrid logic composed of development and banking logics in equal parts, followed by the increasing influence of the latter at the cost of the former. This is in line with much of the macro-level research conceptualizing logics as having relatively stable boundaries – that is, a view that a handful of logics and their relative influence can be identified and represented by researchers examining an institutional field (see Battilana & Dorado, 2010 and Khavul et al., 2011 for a breakdown of the logics constituting microfinance).

Evidence from research suggests that upon entry into a contested field, institutional logics may blend but do not immediately dissolve into a sea of their constitutive elements as actors try to pull them apart in pursuing their individual goals (DiMaggio, 1997; Greenwood et al., 2011). Part of this consistency can be ascribed to regulatory mechanisms, such as efforts by professions to maintain standards (DiMaggio & Powell, 1983). Yet in the field of microfinance, we find that intentions of institutional entrepreneurs were quite the opposite: to incorporate only a subset of the

banking logic into their field. Despite these early desires, as we have argued, the banking logic over time was articulated within the microfinance field more wholly, and in a form more consistent with its presence in mainstream commercial banking. This is especially surprising given the field of microfinance was in its early days dominated by poverty alleviation practitioners who would have been more comfortable with a development logic over a banking logic; those individuals described by Banco Solidario's founder in Battilana and Dorado (2010: 1425) as "social workers, teachers, sociologists, graduates from the school of life, ex-nuns and priests, Trotskyites and theologians."

We find in the contrast between the development and banking logics in the context of microfinance, an opportunity to conciliate the affording view of institutional logics as being composed of a set of contested elements with room for creative maneuver (van Dijk et al., 2011), and the view of institutional logics as having some unity which makes them relatively coherent and distinguishable at the macro-level (Friedland & Alford, 1991). In order to do so, we suggest that the elements, whether symbolic or material, constituting institutional logics can be seen as a nomological network or a system of signification (see Suddaby, 2010) by which the meaning of a particular institutional norm, concept, or practice only makes sense relative to a larger system (Searle, 1995). Such a view implies that the nature of a logic is not only dependent on the aggregate of substantive elements it contains, but the structure of interrelations among them. Keeping this in mind, we define *permeability* as the extent to which an institutional logic's composition consists of ambiguity in, and loose coupling amongst its elements. As will be explained below, the more permeable a logic is, the more it is amenable to re-interpretation, 'editing' (Sahlin & Wedlin, 2008), and creative maneuver (van Dijk et al., 2011) because its elements may be more easily detached or re-interpreted by actors to adapt the logic to legitimate themselves or their practices. We also contend that the degree of permeability of an institutional logic is equivalent to the likelihood it

will be transformed by other logics in a hybrid institutional field. This follows from the observation above that actors can re-interpret and elaborate institutional logics using any cultural material available to them, such as other logics. As such, the more open an institutional logic is open to re-interpretation, the more freedom actors have un inserting elements from alternative logics into it in order to solve problems, 'fill in the gaps,' or pursue political goals. We elaborate on the two aspects that determine the permeability of a logic below, ambiguity and coupling among elements, and explain the relevance of these characteristics for microfinance.

Van Dijk et al. (2011) highlight the first important characteristic of institutional logics upon which permeability may vary, ambiguity, which "... arises where different interpretations conflict or where meanings of institutional interests, norms and beliefs are vague or inconsistent". They go on to show, within an organizational context, how actors 'transform' the local logic to fit understandings of legitimate behavior around their own initiatives within the firm. Thus, ambiguous elements are more malleable to the political behavior of actors during reproduction in a way that more specific elements are not. The level of ambiguity of an element (whether a concept, norm, or practice) may vary to the extent it relies on sharp distinctions, and the extent to which it can be quantified and codified.

In considering the banking logic within the context of microfinance, we see little ambiguity in its categories of evaluation. While broadly defined visions of corporate identity were transformed by actors in van Dijk et al. (2011), it is more difficult to imagine how the logic of banking, with quantitative measures of evaluation such as portfolio size and return on assets could be easily re-interpreted by proponents of a project generating a loss. At best, some minor modifications can be made with concepts such as portfolio at risk where the proportion of outstanding loans can be defined variously as 30, 60, or 90 days (Armendariz & Morduch, 2010). Even so, such decisions are largely visible to observers and must be changed on an explicit basis.

Institutional logics with more quantifiable measures and metrics (Thornton & Ocasio, 2008) may thus require actors to have more resources in the field as they must make their changes with greater transparency, and will have less affordances given to them. Furthermore, sharp categories and lack of tacit elements of a logic may protect unintentional transformation. Zucker (1988) proposed that institutions are susceptible to erosion over time through "imperfect transmission" due to a number of factors such as political pressures and personal characteristics of actors occupying roles. Following this argument, the banking logics could be taken into the microfinance field relatively intact due to its clear categories and reliance on equations for theory contained in codified form (for example, textbooks). In contrast, the development logic tends to be defined by ambiguous statements of poverty alleviation. To that end, a history of poverty alleviation in the 20th century illuminates the great variance in the criteria of legitimate participants, techniques, and even the definition of poverty (Ditcher, 1999).

The second characteristic of an institutional logic shaping its permeability is the extent to which the elements of a logic are tightly versus loosely coupled. More permeable logics are composed of elements which are not strongly bound together through reference or signification (Suddaby, 2010). For instance, certain means will not be strongly tied to ends. Different values will inform specific areas of practice but not always reference each other, and the elements of a set will be together through happenstance rather than logical order. Impermeable logics by contrast will have strong interconnections between their elements; means and ends will be tightly coupled with each other. Consequently, when a portion of its elements diffuse to a field, there will be a pressure to adopt the rest of the 'set'. This can occur passively without any political intention, as when actors who have taken-for-granted only some elements of the logic will likely rediscover other elements of the set during acts of theorizing or will find the explanations offered by the rest of the logic, should they come into contact with it, very compelling (Shipilov et al., 2010). It may also occur

actively, such as when an actor importing an element to legitimate their actions will continue to articulate their account with more elements of the set.

The coherence of the banking logic comes from the structure provided by rational choice theory (RCT). Acceptance of the theory as a true or useful description of human behavior, and the early successes of its application create a force for its expansion. Measures are tightly interwoven and may have a hierarchical (Pfeffer, 1993; Searle, 1995), or 'cumulative' (Cohen & Levinthal, 1990) order. To measure portfolio at risk requires measurement of gross loan portfolio and through that other financial indicators. The hierarchical nature of financial indicators as part of the banking logic thus encourage collection of multiple forms of data to create these higher-level metrics, and in doing so, provide microfinance organizations with many lower-level financial indicators that guide lending policies.

In addition to increased refinement of measures, a second mechanism through which banking logics expand is through generalization of scope. If lending models such as group lending (Armendariz & Morduch, 2010) applying RCT encourage clients to repay, then it follows that governance structures in line with RCT will encourage microfinance staff to perform as intended by top management and donors. Theories of intrinsic motivation of staff become as unbelievable as beliefs that clients would repay out of their own good will if lending technologies were not in place. Such a multi-wave model of diffusion is illustrated by Shipilov et al. (2010), who in a study of Canadian public corporations, proposed that adoption of board practices backed by agency theory committed organizations to defining the problem by the logic of agency theory, and thus made them more likely to adopt further practices along those lines. Agency theory, deriving from the rational choice model, has become increasingly important for both practitioners of microfinance and the research that guides them (Mersland, 2010). In particular, donors have requested that microfinance organizations demonstrate 'professional rigor' by adoption of governance procedures

(Epstein & Yuthas, 2010) which work along agency theory lines. The shift to RCT within the field of microfinance is illustrated by the following CGAP report claiming that:

> "It is increasingly recognized that, to be effective, financial services for the poor must be market driven and thus respond to client needs" (CGAP, 2006).

The banking logic present in the microfinance field represents a case from the impermeable side of the field. This logic is strongly, deliberately theorized and rests on economic theory. Such theory has low ambiguity and tight coupling among elements. Elements of the logic follow – and can be reconstructed – from a relatively narrow set elements, such as RCT and marginal decision making. Furthermore, positive claims (free markets generate the most wealth for society) are strongly attached to, and imply, norms (free markets are good for society).

Pfeffer (1993) makes a similar distinction in contrasting social scientific fields, arguing that those marked by more unified paradigm benefit from consensus regarding basic assumptions, outcome evaluation, consistency in research methods, and frameworks which are easy to absorb as a cohesive argument and recall. According to Pfeffer (1993), this consensus provides the field with a higher degree of cumulative development of theory, as well as influence over other fields. Those disciplines lacking a core of consensus he argues, are less influential and littered with ideas from adjacent fields wherever they have come in handy. Placing these arguments in the context of microfinance, we find that the development logic contains a myriad of understandings about poverty alleviation – from post-war development assistance (Dichter, 1999) to BHN/IRD to microfinance and more recently, Bottom of the Pyramid (BOP) approaches (Prahalad & Hammond, 2002), and resembles more a bundle of inherited ideas, many of which can be dropped without creating discontinuity in the field (Zammuto, 1984), rather than a systemic line of thought.

During hybridization of two or more logics then, we would expect then a logic characterized by high permeability, like development, to be manifested more recessively than a less permeable

logic, like the economically-backed banking logic. Elements of permeable logics failing to provide legitimate accounts to the field or any actor within it can be more easily re-interpreted or discarded without threatening other, more useful or taken-for-granted, elements of the set. We therefore foresee that in contested spaces, logics with ambiguous or loosely coupled elements will be particularly malleable in suiting actor's needs and gradually lose their meaning. In the case of institutions where actors are drawn from multiple fields, these logics may not so much be adopted or discarded wholesale, but become diluted by elements of other logics. By contrast, impermeable logics with their systemic reasoning will be less amenable to the entrance of external elements, as an assault on the legitimacy of any element threatens (many) other elements as well (Bunge, 2000). Actors will therefore have less room to use external accounts to legitimate their behaviors unless they attempt to re-theorize their entire field, or do not realize such re-theorization by others may be an unintended consequence of minute acts of borrowing. The contrast between permeable and impermeable institutional logics is summarized in Table 1.

The upper section of the table outlines the two categories along which we determine the permeability of an institutional logic: the extent of ambiguity and loose coupling of its elements. Ambiguity arises from features such as vague, inconsistent, or tacit rules and conceptual schemes; loose coupling elements such as rules and concepts that do not logically necessitate the existence or specific interpretation of other elements within the logic. The lower section of the table summarizes the proposed significance of the permeability concept. Namely, relatively permeable logics can be more easily hybridized or edited by institutional entrepreneurs and those seeking legitimate accounts of their activity. On account of these possibilities, we further expect institutional logics that are permeable will be more often found in various mutations across fields, rather than existing in a more consistent form. For this reason, we also expect more difficulty in classification of these logics by researchers.

Insert Table 1 about here

DISCUSSION

Our objective in this paper was to examine the evolution of microfinance and in particular to understand why the poverty alleviation practitioners who established the field found themselves and their principles displaced by the same commercial forces who had previously little interest in this market. To this end, we argued that selective application and borrowing of financial principles underlying a banking logic were utilized by poverty alleviation practitioners to infuse their field with legitimacy. Over time, the banking logic increasingly dominated as the vocabulary of legitimacy the field, and the lack of theorization of the development logic subsequently left it open for criticism, leading actors in the microfinance field to take new loans from the banking logic to sustain their legitimacy. We propose that this process occurred largely unintentionally, out of the aggregate of attempts among microfinance practitioners to demonstrate their efficacy in alleviating poverty by appealing to financial indicators. Furthermore, we introduced the concept of permeability – the extent to which the elements of an institutional logic are ambiguous and loosely coupled – to explain why some logics may be more malleable and open to the influence of other logics than others. We believe this examination and interpretation provides contributions for both theory and for practice.

Contributions to Institutional Theory

The literature on institutional logics is an emerging area of inquiry within the broader domain of institutional theory. Our examination of the evolution of microfinance contributes to this area in two ways in illustrating the impact that established logics can have when they are brought in to bring legitimacy to other fields. First, we show that institutional entrepreneurs' success in

establishing a logic over a field, and even standard operating procedures, can create conditions which can be appropriated by third parties who act as rivals. Institutional entrepreneurs and organizations in borrowing logics from other fields risk 'opening the gates' to a set of organizations that are well adapted to operating under that logic. We thus contend accounts of institutional change stressing agency also need to pay attention to how that change may be appropriated by others whose response may be anything but static.

Second, by introducing the notion of permeability, we argue that some hybridized fields are prone to instability due to their component logics. When there are differences in the specificity and coupling of elements between two logics, we suggest fields may naturally drift to one pole unless balancing mechanisms are in place. We elaborate on each of these contributions below and discuss how they relate to recent work in the institutional logics literature.

Unintended Change: In exploring how individuals and organizations legitimate themselves under existing frameworks, researchers stress that actors creatively manage logics through discursive means in order to present their interests as comprehensible, correct, and appropriate (Sahlin & Wedlin, 2008 ; van Dijk et al., 2011). These discussions stand somewhat apart from research in areas such as institutional work (Lawrence & Suddaby, 2006) and entrepreneurship (Hardy & Maguire, 2008) where actors seek to advance their interests by purposively changing their institutional environment. We offer as a contribution an insight into the long-term, unanticipated consequences at the field-level stemming from use of institutional affordances. We suggest that actors developing accounts to legitimate themselves under a given framework may be contributing to large scale institutional shifts without intending to do so or even being aware of it. Poverty alleviation practitioners working in microfinance were able to manage impressions in the short run by drawing on banking logics, but in the long-run they created an environment in which others, namely commercial banks, were more suited to succeed. While representatives of

commercial banking were able to increase their influence and centrality in the field of microfinance through concentrated efforts to change the rules of the game, it seems much of the groundwork had been done for them through poverty alleviation practitioners' accounts equating financial success with development goals.

We do not suggest that such outcomes are inevitable however. In the context of microfinance, Battilana and Dorado (2010) show at the organizational level how managers may be able to maintain a balance between multiple logics by fostering a strong organizational identity. At the institutional level, control over collective identities and legitimation practices may be more difficult, but achievable either through professionalization, a stronger role for umbrella organizations committed to maintaining a balance of logics, or emerging norms between rival firms which define acceptable use of legitimation tactics (Porac, Thomas, Wilson, Paton, & Kanfer, 1995).

At the institutional level, some insights can be gained by comparing the trends identified in the field of microfinance to Murray's (2010) study of multiple institutional logics between the boundaries of academic and commercial genetic research. Rejecting that overlapping institutional logics must inevitably result in the domination of one or that boundaries between fields sharing logics necessarily dissolve, Murray (2010: 346) argues that skilled actors can "take the resources of one logic, transform their meaning, and thus establish differentiating meanings". In the case of genetic research, Murray (2010) shows how academic researchers were able to subvert the encroachment of commercial logics in their field by appropriating practices of the commercial logic, namely patenting laws, in order to safeguard the scientific commons. Two issues of interest here are the existing institutional resources available to social actors, and the extent that meanings of practices are predefined. First, Murray (2010) notes that powerful institutional resources, such as the National Institutes of Health, enabled academic researchers to engage in boundary work

which eventually became embodied within scientific institutions, thus limiting the influence of commercial logics in academic science. By contrast, the field of modern microfinance incorporated banking logics from its outset, which meant that there was little opportunity for poverty alleviation practitioners to construct institutions that would protect the boundaries of their field. When boundary-defining structures did arrive, such as CGAP, ACCION, and MIX market, they were heavily imprinted with a banking logic, and in many cases opposed or undermined the boundary work of poverty alleviation practitioners, such as their declarations that interest rate ceilings were illegitimate (CGAP, 2006) or by championing Comparatmos's decision to reach out to 'mainstream' investors. (Economist, 2008; Rosenberg, 2007). The porosity of the field of microfinance to commercial logics relative to academic science may be partially explained then, by their historical development. Research on the diffusion of logics across fields may thus benefit from paying greater attention to the origins of local institutions, and how imprinting effects may explain why they sometimes enable boundary work, and sometimes undermine it.

Secondly, Murray (2010: 380) notes that the meaning of some practices, such as patenting laws were underdetermined, which allowed for their flexible manipulation by interested social actors. She contrasts this to other practices with more rigid meanings, such as "might be the case if universities were to replace tenure with corporate-style employment contracts". In the context of microfinance we find that many practices were neither underdetermined nor rigidly determined, but instead were overdetermined. Practices such as lending to women or increasing outreach had two well-defined – but different – meanings within different institutional systems. This allowed social actors to engage in a practice to attain one set of goals, while espousing the legitimacy of their actions under alternative logics. Thus, poverty alleviation practitioners initially were able to lend to women and claim it was sound banking practice (Morduch, 1999), and later the proponents of commercial banking were able to raise interest rates and claim it was necessary for solving

poverty in the long run (CGAP, 2006; Danel & Labarthe, 2008). Future researchers may wish to consider using comparative studies how factors of institutional resources and determinacy of practices are associated with varying abilities of institutional entrepreneurs to engage in containment of borrowed logics.

In addition to issues of institutional resources and determinacy of meaning, we suggest one particularly fruitful avenue of research would be to examine how differential outcomes of legitimacy borrowing may arise from the bases of social capital within a field (Thornton & Ocasio, 1999). Banking logics, for instance, grant status to individuals knowledgeable in the field of finance (Lounsbury, 2002), which in turn may be signaled through a career in commercial enterprise or business education. Such status-granting forms of social capital may be difficult for poverty alleviation practitioners to obtain, thus giving external actors an edge in the field once the borrowing has occurred. Had poverty alleviation practitioners borrowed logics from a field where the barriers to obtaining social capital were weaker, borrowed legitimacy may not have posed such a threat to their status in their own field. As suggested above, we believe that field-level comparative studies may be able to give insight to the questions raised here.

On the structure of logics: Institutional theorists have modeled how field instability may arise from social structural variables (Greenwood et al., 2011). To antecedents of field instability we add another dimension: our second contribution is to highlight the role of the internal differences of institutional logics themselves. Specifically, we suggest differences in the form between the development and banking logics corresponded to the former logic's gradual dilution and loss of influence in the field. In exploring these distinctions between logics, we made the case that conceptualizing some logics as more permeable than others was a useful perspective. Permeable logics, we stated are marked by ambiguity in, and loose coupling among, their elements, and were associated with divisibility, organic development, tactic knowledge. Impermeable logics

by contrast have higher specificity in their elements, which are more tightly coupled as well. Such logics were associated with a high degree of coherence or cumulativeness amongst their components, reliance on explicit knowledge, and a higher degree of cultural-cognitive comprehensibility (Sine & David, 2010). This puts institutional entrepreneurs promoting permeable logics in contested fields at a disadvantage, we argued, as permeable logics have little inertia, and are more likely to be 'undone' or hijacked by less permeable ones. Our explication of the permeability concept is provisionary and we hope future researchers will consider the antecedents and consequences of such a category in empirical work, and examine future dimensions by which logics may differ. One particularly interesting question is how the historical development of a logic may account for a characteristic such as permeability. Modern economic theory was primarily developed by academics hoping to achieve internal consistency and universalistic explanations (Scott, 2008), whereas the development logic grew out of practitioners like Muhammad Yunus improvising in local contexts. A field-level characteristic such as the level of fragmentation (Meyer, Scott, & Strang, 1991) may be one set of contextual variables that researchers may wish to consider in developing historical accounts of institutional logics. That is, institutional logics emerging from fields with central, hierarchically structured authorities may have a different character to them than those emerging from fields where there are multiple, less stable sources of authority.

Contributions to Poverty Alleviation and Entrepreneurship

Despite the relative sidelining of poverty alleviation practitioners in the institutional structures of microfinance, the recent outcomes of their efforts should not be seen in a necessarily negative light. In a case that echoes the current context, Tracey et al. (2011) highlight how entrepreneurial efforts that are commercial failures can lead to the broad legitimation of

organizational forms that outlast the initial ventures they were modeled on. From such a standpoint, the initial proponents of microfinance, as a class of social actor, may no longer be in control of the direction of the field, but their work in legitimating microlending to alleviate poverty has made a lasting impact. It remains an open question whether an increasingly commercialized microfinance field in the future will work to alleviate poverty, or whether it will subvert those goals. In the meantime, our ideas points to some practices that may allow poverty alleviation practitioners to regain some lost control in setting the direction of the field

In the context of microfinance, higher emphasis on developing metrics to evaluate social impact would be a vital step forward. Such measures must stand on their own, without needing to be legitimated by commercial banking practices. It may even be beneficial to development goals if poverty alleviation practitioners can distinguish where these metrics legitimate practices that are different from, or even contradict, standard banking evaluations. We believe there is a much smaller risk for mission drift if a microfinance organization has the capacity to show that choices between financial growth and poverty alleviation do in fact, exist.

One concern is that microfinance organizations have thus far been unable to demonstrate the level of success using social metrics as with financial ones (Duvendack et al., 2011). It is conceivable that should these organizations introduce new and rigorous evaluation systems for social performance, and then fail to deliver on these metrics, they will have an even harder time maintaining their status as legitimate actors in the field (Morduch, 1999). At the same time, we see no evidence that poverty lending is inherently more suited to making profit than demonstrable social performance. Modern microfinance follows from decades of failed attempts by states to provide credit to the poor (Armendariz & Morduch, 2010), and itself took years to refine lending programs in order to achieve the high repayment rates it is known for (Yunus, 2007; Armendariz

& Morduch, 2010). In other words, organizations often develop the capacities that allow them to demonstrate success by the metrics imposed on them (Saunder & Espeland, 2009). More concretely, when microfinance organizations measure and are judged according to their repayment rates, they become exceedingly effective at improving their repayment rates. The trouble is that the drive towards higher repayment rates creates problems such as spiraling debt among borrowers which eventually drew attention and challenged the notion of microfinance as a poverty alleviation tool. If social metrics are made to count as much as financial ones, we suggest microfinance organizations can eventually develop the capacities to succeed on them as well. To this end, poverty alleviation practitioners in the field of microfinance may find greater space to build these capacities with socially-oriented investors, rather than in the mainstream financial markets championed by institutions like ACCION (Economist, 2008). In addition to social performance metrics, our study suggests that if microfinance is to be sustainable, a significant portion of the entrepreneurial agenda must be devoted to the development of an entrepreneurial infrastructure that supports developmental goals. This infrastructure may include such things as training and education, coaching and consulting on venture management, social finance and the development of strong local umbrella organizations and rating agencies committed to poverty alleviation goals to monitor, support and anchor microfinance initiatives (Hulme & Mosley, 1996; Karnani, 2007; Chowdhury, 2009); . Thus, the work of poverty alleviation practitioners in microfinance does not stop at developing workable organizational models, but continues in maintaining an institutional framework in which they can exist. More broadly, we see these factors as important to consider for all social entrepreneurs given the typically blurred boundaries between social and conventional entrepreneurship (Dacin, Dacin, & Matear, 2010). The 'perfect fit' between a venture's social mission and commercial framework may seem well initially, but could eventually lead to social missions being sidelined.

Finally, it is important to recognize microfinance is but one tool which emerged to stimulate enterprise development amongst the poor. Recent, experimental models of development such as microfranchising (Fairbourne, Gibson, & Gibb, 2008) and microconsignment (van Kirk, 2010) follow on basic philosophies of microfinance such as sustainability and the entrepreneurship among the poor while avoiding many of its pitfalls. On a broader level, the rise of microfinance may have as its greatest social impact in presenting these approaches as a legitimate alternative to traditional development models.

FIGURE 1

Development and Banking Logics in the Evolution of Microfinance

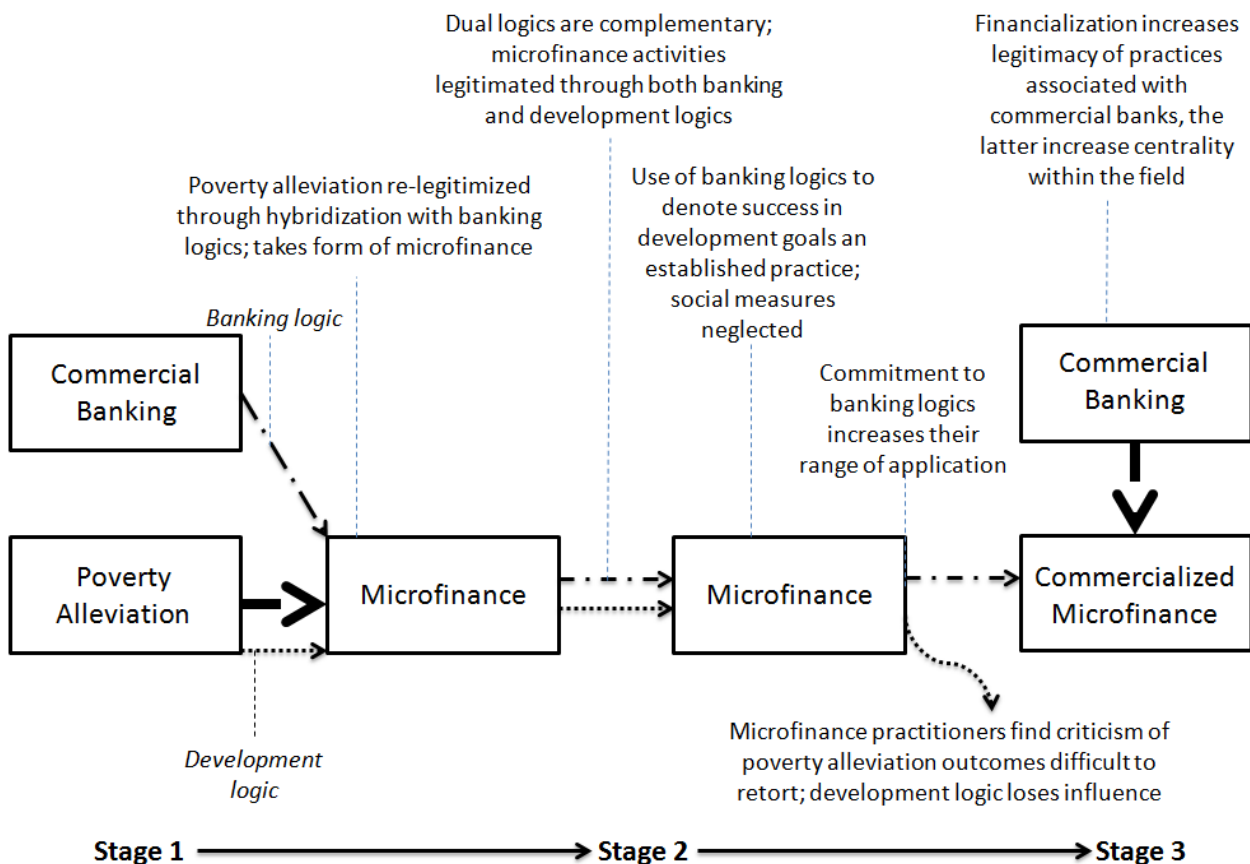

TABLE 1

The Permeability of Institutional Logics

		Permeable Logics	Impermeable Logics
Nature	Ambiguity	High	Low
	Coupling among elements	Loose/Divisible	Tight/Cumulative
Outcomes	Openness to hybridization	High	Low
	Restrictions on editing	Low	High
	Differentiation across fields	High	Low
	Ease of identification	Low	High

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