

Rule bending, sociological citizenship, and organizational contestation in microfinance

Rodrigo Canales

Yale School of Management, New Haven, CT, USA

Abstract

This article explores how loan officers enact and adapt organizational policies within microfinance institutions. Some loan officers frequently bend or choose not to enforce written rules in an effort to better address client needs, while others enforce the rules strictly. These differences in enforcement styles are analyzed to explore the structural characteristics that generate and sustain rule-bending behavior. In microfinance, the pressures to standardize and automate lending decisions challenge loan officers' ability to manage clients because context uncertainty cannot be fully captured by centralized policies. The article shows that officers exercise discretion productively, as measured by the organization's own criteria to (i) better serve client needs when policies can lead to bad outcomes; (ii) purposefully improve the rules themselves; and (iii) defend loan officer status within the organization. The article unveils two inherent tensions in microfinance. First, increased efforts to centralize and enforce policies in fact only increase the motivation for loan officers to work outside the organizations' regulations. Second and ironically, the value of the productive rule bending displayed by some loan officers is best captured when other officers are strict enforcers.

Keywords: agency, embeddedness, microfinance, organizational routine, sociological citizenship, street-level bureaucracy.

1. Introduction

Each year, more than 150 million low-income customers receive loans from microfinance institutions (MFIs) around the world (Daley-Harris 2007, 2009),¹ US\$85 billion in loans are disbursed,² and close to US\$4 billion are invested in microfinance activities (Consultative Group to Assist the Poorest [CGAP] 2008). This signifies a remarkable progression from microfinance's humble origins in the late 1970s, not least because it has proven that, contrary to conventional economic models, poor households can present an appealing credit risk for financing companies (Cull *et al.* 2009). As microfinance activity has increased, so has the diversity of the organizations engaged in it, their geographic scope, and the models used to service clients.

Notwithstanding the diversity in the types of clients that are served by different MFIs – those from extremely poor rural populations to those from less poor urban ones – as well as the lending models used to serve them,³ several client characteristics are common across MFIs. First, microfinance clients are low income. It is true that there is much

Correspondence: Rodrigo Canales, Yale School of Management, 135 Prospect Street, PO Box 208200, New Haven, CT 06520, USA. Email: rodrigo.canales@yale.edu

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difference between a rural MFI client in Bangladesh and an urban MFI client in Mexico, but it is also true that both are relatively deprived. Second, and related, the clients are unbanked. That is, microfinance is the clients' first exposure to financial services that, for the most part, come in the form of a microloan.⁴ Third, regardless of the lending model, clients interact with their MFI through a loan officer. Loan officers are the primary – and often the sole – point of contact between an MFI and its clients. They are charged with loan promotion, credit analysis, loan approvals, loan management, and collection activities. Moreover, loan officers are typically assigned to geographic areas, which means that clients often establish a credit relationship with their MFI through a single loan officer. Loan officers reach clients in their home or business, and clients visit MFI branches only after a relationship has been established through the officer. Loan officers are thus the sole brokers of information between clients and MFIs where large cultural, economic, and social barriers between the clients and the MFI exist.

Given the control that loan officers have over client relationships, it is surprising that research on microfinance has so little to say about them. The most cited works emphasize structural features of the programs as determinants of performance and have, for the most part, neglected the role of organizational practices (Jain & Moore 2003). To focus on contractual structures as determinants of MFI performance implicitly assumes that field agents closely adhere to homogenized, centralized organizational scripts and, as a result, have little or no impact on organizational performance let alone on the specification of new policies. However, we have much reason to be skeptical of this. In general terms, organizational rules and the routines that accompany them are indeed defined centrally and seek to reduce complexity, facilitate control, and increase organizational legitimacy through the standardization of employee actions that become “decided in advance” (Gersick & Hackman 1990; March 1991; March & Simon 1993; Cohen & Bacdayan 1994; Cohen *et al.* 1996). Yet the complexity of organizational life limits the extent to which rules can fully determine action (Blau 1955; Wittgenstein 1968; Taylor 1993; March 1997). In addition, rules are not applied in a void but are enacted by individuals in specific contexts, at specific times, and with specific constraints. As a result, individuals – who vary in their backgrounds and histories – exercise agency in the recognition, selection, and implementation of rules in work situations, unavoidably introducing improvisation and variability to the enactment of organizational scripts (Feldman 2000; Feldman & Pentland 2003; Becker 2004; Howard-Grenville 2005; Reynaud 2005). More specifically, loan officers and branch managers, like most street-level bureaucrats, work with inadequate resources, in circumstances where demand will usually surpass the supply of services, in settings where decisions can greatly impact the lives of those served, with populations that present high degrees of variability in the situations faced, and with significant constraints on the types of actions available to them (Lipsky 1980). In such settings, it has been shown that agents must retain broad discretion with respect to the utilization of resources and the management of particular interactions (Silbey 1981; Silbey & Bittner 1982; Thomas & Hawkins 1984). Put differently, the nature of street-level bureaucracies further increases the inherent tension between the ostensive and the performative aspects of organizational rules (Feldman & Pentland 2003).⁵ This means that, even though MFI procedures are defined centrally – and have increasingly converged on international best practices – field agents vary in the interpretations they make of those policies and what it means to enact them.

This article sheds light on the links among centralized policies, the actual enactment of those policies, and organizational performance. Specifically, I study the conditions under which loan officers diverge from centralized policies, the reasons behind such divergence, and the broader impact this divergence can have on organizational policies. I will show that certain loan officers establish strong relationships with clients seeking to gather organizationally relevant information. In so doing, they achieve a deeper understanding of clients, the constraints they face, and the nuances of their environment. When company policies miss or undervalue relevant aspects of a client's situation, these "embedded" loan officers diverge from official procedures in an effort to improve organizational outcomes. Importantly, such divergence is categorically different from mere variation, because it is based on a detailed understanding of organizational policies and the broader goals such policies serve. Moreover, the rule deviation is performed specifically as an attempt to narrow existing gaps between procedures and desired outcomes (Feldman 2000); between the organization that *is* and the organization that *could be* (Feldman 2003). In that sense, loan officers who engage in this type of divergence act less as deviants than as sociological citizens, or

an unexpected population of non-sociologists [with] the capacity to see relational interdependence and to use this systemic perspective to meet occupational and professional obligations. . . . These actors view their organizations or states as a dynamic entity in which their own role is reconceived as simultaneously insignificant by itself yet essential to the whole. (Silbey *et al.* 2009, pp. 201–202)

Furthermore, as institutional and economic pressures compel management to push for automation, standardization, and cost reduction, they challenge loan officers' claims to professionalism. Partly in reaction to this, field agents use their ability to relate to clients, understand the nuances of the market, and provide a personalized service – by bending policies – to defend the standing of their role in the organization.

2. Background on microfinance

In the late 1970s and early 1980s, microfinance pioneers challenged the notion that poor households could not contract credit responsibly. Conventional wisdom held that low-income families could be financed only through substantial subsidies, partly due to the operational cost of serving such an atomized set of clients and partly due to their economic vulnerability, which translated to a low expected repayment rate (e.g. Stiglitz & Weiss 1981; Cull *et al.* 2009). This ultimately mistaken notion was reinforced at the time by the fact that low-income (mostly agrarian) financing had been performed by government agencies that were overstaffed, driven by political rather than social or economic motives, and often chose not to put resources into loan collection (Khandker 1998; Morduch 1999; Marulanda & Otero 2005). Early microfinance efforts demonstrated that, in fact, low-income households not only could put small loans to highly productive uses but also displayed remarkably high repayment rates, even without the presence of collateral (Morduch & Armendariz de Aghion 2005; Cull *et al.* 2007, 2009). The high productivity of their investments, moreover, allowed clients to pay high interest rates that more than offset the high costs of managing the loans. The idea that poor households could pull themselves out of poverty through productive loans – and that this financing could be provided in a non-subsidized manner – launched the microfinance revolution

that has swept through the developing world (Morduch 1999). From its humble origins, microfinance expanded geographically, diversified from basic group lending in rural areas to other models and geographies, and became a central tool in the fight against poverty.

As the number of MFIs disseminating success stories increased, so did the attention that donors and investors paid to them. This increased activity at the global level, together with the intensifying engagement of international development agencies, eventually evolved into a clear paradigm for MFIs. Organizations should seek profits, avoid subsidies, expand as rapidly as profits allow, and attract private investors (Cull *et al.* 2009). The emergence of this paradigm of profitability, dubbed sustainability,⁶ has resulted in significant pressure for MFIs to adhere to strict norms of efficiency. Investors increasingly expect MFIs across the world to conform to the now relatively narrow set of international best practices, as well as to perform according to international operating benchmarks.⁷ As a result, MFIs have developed industry standard technologies that appeal to donors and investors. They have also used technology to increase the reach and scope of their service offering while limiting cost (e.g. Dugan & Goodwin-Groen 2005). These new tools include complex accounting, auditing, reporting, and general managerial systems; detailed credit-scoring models; statistical algorithms and tools for actuarial judgment; and hand-held devices that loan officers can use in the field to access information in real time.

The pressure to reduce operational costs presents a challenge because MFIs are inherently labor-intensive. MFIs service mostly remote, often rural populations and provide their services through loan officers who must find, recruit, and monitor a great number of atomized clients (Morduch & Armendariz de Aghion 2005). Any serious reduction in operational costs must therefore target the relative costs of loan officer compensation. However, loan officers represent the sole point of contact between clients and MFIs. Their decisions determine both the access that a potential client will have to a loan and its conditions. In addition, loan officers manage the clients' changing reactions to the firm, thus allowing the firm to operate on constantly shifting ground. While the major dimensions of work – lending policies, incentive schemes, and collection rules – are centrally defined, loan officers operate in situations that often require responses on dimensions that cannot be contemplated by formal rules, such as gauging the moral character of a client with no financial records or dealing with the effect of client vulnerability on loan performance. As discussed above, employees in such complex, uncertain, and under-resourced settings tend to exercise great amounts of discretion in the application of rules (Kadish & Kadish 1973; Lipsky 1980; Hawkins & Thomas 1989). The complexity of loan officer work, the localized nature of microfinance, and the large differences that are bound to exist among contexts – even within the same firm – indicate that there is likely at least some degree of decoupling between centralized and increasingly homogeneous MFI policies and loan officer practices (Feldman 2000; Feldman & Pentland 2003; Reynaud 2005). Yet existing studies focus solely on structural factors such as contractual structures while neglecting managerial or operational practices (Jain & Moore 2003).

As MFIs seek to reduce labor costs through the standardization of policies, loan officers are pressured further in an already tight position. The most direct way to decrease the labor cost per loan is to increase the number of clients per loan officer. Standardization and automation of decisions allows for this increase but also limits the span of loan officer discretion. For loan officers, who already face the low status and high demands of

their work, these added restrictions challenge their claims to professional expertise and further threaten their standing in the organization vis-à-vis other groups, such as risk intelligence, that compete for the same resources. Standardization and technology driven procedures also reduce the loan officers' ability to act as a buffer between the organization and its clients, given that more decisions are beyond the loan officers' control. Both of these efficiency driven outcomes ironically only increase the structural pressures for loan officers to diverge from official policies. Given the central role that loan officers play, it is important to consider the large potential variance contained in their practices, the causes behind that variation, and the impact that it can have on organizational policies. As MFIs and other street-level bureaucracies struggle to manage the tension between efficiency, effectiveness, and fairness, they require a deeper understanding of the nature of loan officer work. Such understanding not only seems necessary, but also requires an approach that does not take written rules as facts but rather questions them, and treats rules and practices as endogenously inter-related as well as potentially decoupled (Ewick & Silbey 1999; Feldman 2000; Feldman & Pentland 2003; Pentland & Feldman 2005; Silbey 2005).

2.1. Microfinance in Mexico

Mexico is a particularly fertile setting to study these issues for several reasons. First, the Mexican microfinance movement is estimated to have emerged with a ten-year lag with respect to other Latin American countries (Christen 2000).⁸ As a result, when microfinance took hold in Mexico, a relatively narrow set of international best practices had already emerged and there were quite specific expectations of what a legitimate MFI should look like. Second, the financial crisis of the mid-1990s affected both liquidity levels in Mexico and the confidence of national investors. Emerging Mexican MFIs thus became especially dependent on foreign donors who exerted additional pressure to conform to international expectations (Marulanda & Otero 2005). Third, the large amount of market and regulatory uncertainty that these MFIs encountered created a discrepancy between donors' expectations, formal rules and goals, and actual organizational needs (Alpizar & Gonzalez-Vega 2006). This discrepancy put in full relief the contradictions that exist in all MFIs but that became more salient in the Mexican case (Villafani-Ibarnegaray & Gonzalez-Vega 2006). Fourth, given the relatively high market concentration, it is easy to identify market leaders and the most established players who are at the forefront of the market and who set the pace – and the normative example – for other emerging MFIs.

3. Data and methods

I performed a mixed-method analysis of three MFIs in Mexico to untangle the relationship between clients, loan officers, and MFIs. I placed particular emphasis on qualitative methodologies, following a grounded theory-building approach (Glaser & Strauss 1980). I also explicitly straddled different levels of analysis, going from organization-wide rules and policies to branches and branch managers, and to interactions between loan officers and clients. Because the article explores variance in field-level practices, the research design explores within-firm variation, or the mechanisms that explain differentials across branches and across clients of the same MFI, to later look for patterns across different MFIs. Accordingly, the choice of three organizations (listed here as FR, FC, and CG)⁹ was made to learn more about the field-level practices of different MFIs, how those practices

Table 1 Lending methodologies and geographic focus by company

	Lending methodology			Geographic focus	
	Communal banks	Solidary groups	Individual loans	Urban	Rural
FC	No	Yes	Yes	Yes	No
FR	Yes	No	No	Yes (some)	Yes
CG	Yes	Yes	No	Yes	Yes

depend on and influence structural features, and how they relate to MFI performance (Table 1). I picked these companies because, while they have different structural characteristics, they are all profitable, have been so from their origins, and have all been recognized by international organizations as leaders with orthodox practices.¹⁰

While lending methodologies vary considerably among the three companies, there are also similarities consistent with the existing literature. All companies have a lending system that gradually increases loan amounts as clients demonstrate their ability to pay; all are organized following a central office/regional office/branch structure; all have relatively similar compensation schemes for their loan officers that are variable and based on business metrics (number and amount of new loans, loan renewal and delinquency rates, etc.); all have clearly defined policies and credit manuals for lending and collecting; all leave final lending decisions to loan officers, who must first discuss them in branch-level committees; and all show a strong commitment to the poor, in both their external communications and their internal processes.

I spent more than five months collecting qualitative data within these companies, and several months doing periodic follow-up interviews. A majority of the time was spent with FC (around 60 percent of my total time), where the initial findings emerged. I repeated the methodology extensively with FR (around 30 percent of my time). Finally, CG was used as a validation case (the remaining 10 percent of my time). I divided the qualitative part of my work into two phases within each company. In the first phase I interviewed MFI employees, starting with the CEO and slowly working my way down the organization until I reached the loan-officer level. During this phase I also observed several loan officer–client interactions and sat in several internal meetings. The findings from this phase allowed me to structure the subsequent steps, which entailed interviews with branch managers and loan officers. To do this, I asked interviewees from the central office to place branches in three groups: good performers, average performers, and poor performers. The categorization was highly consistent across employees within each of the companies, and I corroborated it with company reports. I then randomly selected between one and three of the branches from each group for each of the companies. Once I reached the branches, I spent between half a day and a whole day visiting the branch, talking to the manager, attending committee meetings, and sitting in on manager–client and manager–loan officer interactions. Subsequently, at the end of the branch visit, I selected a random sample of loan officers with the assistance of the branch manager.

I spent an entire day, in some cases two days, with each of the officers, shadowing them on their route to learn how they interacted with clients, observing their lending and collecting methodologies, and asking the loan officers to narrate their actions after they had occurred. In this first phase I interviewed just over 75 employees. In the second phase of the study, I performed client interviews. To pick clients, I asked loan officers to give me

a list of their clients and I randomly selected four or five. I also asked officers to select one of their best clients and one of their worst clients to ensure variation. Moreover, I asked each officer to lead me to some program drop-outs; that is, clients who were no longer in the system.¹¹ In total, I performed just over 50 client interviews.

To complement the fieldwork, I used FC's databases, which contain detailed information on their clients, their loan officers, and loan performance. While these data are practically absent from this article, they have greatly informed my research process and it is therefore worth mentioning them briefly. The first database contains client information gathered during credit analyses between 2000 and 2003.¹² The database covers thousands of clients over several years and includes several records per client.¹³ The second is a comprehensive dataset of all the loans provided by FC between 2000 and 2009, with quarterly updates on the performance of each loan. The database contains information on more than 450,000 loans granted to more than 100,000 clients (many clients have held several loans over the years).¹⁴ The third is a dataset that contains the average yearly performance bonus paid to each loan officer between 2002 and 2008 – in the three companies that I observed, and in most MFIs, loan officers are paid through a mixture of fixed and variable compensation. The present article focuses squarely on the qualitative analyses to reveal the mechanisms behind employee practices, rather than their antecedents or consequences that might be captured through quantitative methods.

4. Discussion

4.1. Work complexity and loan officer practices

For the average client, the first contact with an MFI – and with the financial sector, for that matter – is through a loan officer. In fact, MFI employees report that 85 percent of their clients are first approached by a loan officer in the client's home or business. This includes clients who are referred to loan officers by existing clients, direct client prospecting or "cold selling" visits, as well as clients who call the company to request information and are assigned to a loan officer. This also includes clients who are added to lending groups by existing members. Only around 15 percent of new clients visit a branch as their first point of contact.¹⁵ Even in those cases, clients are assigned to a loan officer (or a lending group or both) who will initiate the credit process through a visit. During an initial client visit, the loan officer explains the characteristics of the loan products, the requisites for approval, and validates that the prospect is a viable candidate. In MFIs that lend through group loans, clients are advised to bring together a group of people they deem trustworthy and, once the group is large enough, to request a loan officer visit. If possible, the loan officer gathers all the required credit information to avoid future visits. This information typically includes all relevant business metrics (e.g. sales, cost of sales, amount of inventory, sourcing), total family income (where the business is not the sole source of income), total assets, desired uses of the loan, credit references, and credit history if available. Because prospective clients do not typically have this information at hand, the loan officer helps clients calculate it by discussing their daily sales, observing their customer traffic, reviewing their existing inventory, going over their purchase receipts, and several other means.

With client information in hand, the loan officer is expected to perform an initial credit analysis and produce a recommendation on the approval of the loan and, if

applicable, its amount. The loan officer then presents the case to a branch-level credit committee (typically composed of the branch manager and other loan officers), where she or he must suggest and defend a recommendation. Should the loan approval require additional information, the commitment of co-signers, or other modifications, the loan officer must visit the client again to obtain them. Once a final decision is reached, the loan officer informs the client (or group) and provides all the necessary information for the disbursement and operation of the loan. A significant part of an officer's subsequent work entails educating clients on how to manage a loan.

Loan amounts typically range from the equivalent of US\$50 to US\$2,000 and are granted for periods from four months to a year. Depending on client needs and MFI preferences, the loans are repaid in weekly, biweekly, or monthly installments. Once a loan is approved and disbursed, the loan officer supervises its performance. For group loans, this entails scheduling weekly or biweekly meetings with the entire group. For individual loans, it entails keeping track of repayment behavior and visiting clients periodically to check on them. Most loan officers call each client a day or two before their initial payments are due to remind them and to emphasize the importance of payment regularity.¹⁶ Should a client miss a payment, loan officers are solely responsible for the first 30 to 90 days of delinquency (depending on the MFI). During that time, loan officers are expected to attempt collection of the loan with increasingly aggressive strategies. Loan officers can collect from clients directly, clients' co-signers, or other members of the clients' group loans, or they can seize a client's assets. They can also choose to restructure a loan, ask the legal department to carry out a more aggressive collection, or suggest the firm to write the loan off as unrecoverable. Ideally, missed payments are anticipated – loan officers who are close to their clients know when things are not going well – so a strategy can be devised before the payment is actually missed. As a loan reaches its maturity, the loan officer is expected to re-enroll clients who exhibited good payment behavior and, ideally, increase their loan amount.¹⁷ In addition, the loan officer is expected to offer other financial services to the client, such as home improvement loans, savings accounts, and insurance policies. The loan officer becomes a marketer for the MFI's financial products. But this entails deciding how much of the client's cash flow to take up with the new amount and products to avoid excessive indebtedness. On top of these client management activities, loan officers must attend all credit committee meetings (and participate in them), keep all client information current in the MFIs' databases, and train incoming loan officers. They perform these activities in remote, difficult to reach areas with little transportation or logistic support from their organization:

You cannot overstate the role of loan officers. [The company] owes its growth entirely to them. They generate the need for our services. They prospect new clients and develop the client bases that justify new branches. . . . They are our eyes and ears, they are our analytic team, they are our risk filters. . . . [They] are in charge of supervising that clients meet credit obligations. . . . Our clients, most likely, have never had access to any financial service, they don't understand the magnitude of their commitment, so officers must inculcate a credit culture, they must teach them to manage their loan. . . . They must keep close track of clients, their needs, and their payment capability, which means that they have to keep their hearts, their ears, and their noses on the ground, close to our clients. (Credit manager, FC)

It is a complex job that demands a complex set of skills:

Loan officers must be analytic, not just in their credit analysis, but also in creating needs for the client. For example, if a client complains about the interest rate, the officer can show that the loan is much more productive than the actual cost of the loan. They help us break paradigms that clients have. They must also be open. Things are constantly changing on the field, so loan officers must learn *everything*. They must be flexible to adapt to these changes. . . . Some officers think: “my job is just to present the loan, get it approved, and presto!” but no, you must finish the entire cycle. (Branch manager, FR)

The scope of loan officers’ responsibilities exists in stark contrast with the constraints of the heavy workload, low status, and economic limitations of the job. This presents some hiring challenges:

Most loan officers are just kids. For most of them this is their first job. If they get promoted, it will be the first time they are ever in charge of other people. It is ironic that we have to let them solve so many problems for us that we don’t have an answer to. We end up relying too much on people that are just too young; they have no way of knowing enough to solve these complex problems. But then again, who does? (HR manager, FC)

MFIs therefore endure pressure from different fronts. First, loan officers – a central part of the business model – are overstretched, mostly underprepared, and work with insufficient resources. Second, investors increasingly expect MFIs to perform according to international benchmarks of profitability, which entails minimizing costs and maximizing employee productivity. Because labor is one of MFIs’ most significant costs, improving loan officer productivity is a priority. This creates yet additional pressures for the firm and its loan officers.¹⁸ Third, and related, MFIs must keep a tight control on their lending practices, both for bottom line business purposes and to meet the demands of increasingly informed investors:

Every month, as soon as MixMarket updates its metrics [on all the MFIs that report their results], I start getting calls . . . It was a nightmare when Compartamos issued its IPO prospectus [with their cost information], we spent weeks justifying the cost differentials . . . [Our constituents] expect us to be the leaders, to have the best technology, both to reduce costs and track our clients. (CEO, FC)

As a result, as mentioned above, MFIs have developed an array of tools to help (and simultaneously control) loan officers in almost every task they perform. There are detailed credit manuals with specific instructions on every imaginable eventuality. Most MFIs have developed complex parametric credit models to partially automate lending decisions. Many have also equipped loan officers with hand-held computers that allow them to capture client information and access company databases in real time. They have installed Customer Relationship Management software to help track clients and automate client related tasks. Credit committee presentations are automatically prepared as soon as loan officers enter a client’s data. Each MFI has developed detailed training methodologies to orient and guide instructor loan officers. To coordinate the array of responsibilities and tools, there is an exhaustive set of policies that define the use of each, the specific decisions that should follow any eventuality, and the limits within which decisions are to be made.

The pressures for cost reduction, standardization, and automation are not the only reasons for detailed policies. Loan officers, like many street-level bureaucrats (police officers, teachers, immigration officials, social workers, and housing officials), routinely make decisions that directly and dramatically affect their clients' life chances. As a result, claims to impartiality are especially important, accountability to the public is ever present, and upper managers are expected to shape policies accordingly. However, as I mentioned above, loan officers share other job characteristics with street-level bureaucrats that complicate standardization. Loan officers work with expectations from their employer that are often ambiguous or even conflicting (e.g. profitability versus poverty reduction), with demands that exceed the supply of services, and with performance measures that are difficult to quantify. In addition, the uncertainty of the situations faced by street-level bureaucrats and their clients is such that no set of rules could possibly anticipate all of them (Blau 1955; Wittgenstein 1968; Taylor 1993). As a result, employees exercise a great amount of discretion in the enactment of policies while managers tend to support – and often encourage – such discretion (Lipsky 1980; Silbey 1981; Silbey & Bittner 1982; Hawkins & Thomas 1989; Feldman & Pentland 2003; Howard-Grenville 2005).

Through the close observation of their daily work, it became evident that loan officers had varying ways of relating to company policies. Certain loan officers – labeled “spirit of the law” (SL) officers in Table 2 – see policies as imperfect, incomplete, and narrow. They see policies as tools to facilitate their work that can and should be interpreted with discretion. They often choose to bend policies or apply them partially. In contrast, other loan officers – labeled “letter of the law” (LL) officers – see policies as binding constraints; as prescriptions and recipes that must be followed closely. They make decisions based solely on policies and in so doing renounce their discretionary power. They choose to be bound by the rules – not because they don't think there is room for legitimate maneuver within them, but because rules reduce the uncertainty of decisions that have uncertain consequences. These LL officers assume rules are there for a reason and were made by people with experience, so they don't feel the need or that they have the authority to question them. In that sense, it is important to highlight that both types of loan officers are exercising agency in their enactment of policies – what Feldman and Pentland call the performative aspect (Feldman & Pentland 2003). Both types use their past experiences, the situations they presently face, and their thoughts on the future implications of their actions to recognize, locate, and implement the policies that they deem relevant in the way they deem appropriate (Emirbayer & Mische 1998). What is different is how that agency is actually exercised. The typology presented in Table 2 was developed inductively by observing the loan officers in my sample. The table shows different rules and guidelines that are designed to shape loan officer interactions and the ways in which the two types of officers apply them.¹⁹ It is not the case that *all* officers can be perfectly characterized by one type. Rather, each category can be thought of as one of two extremes in a continuum, with each officer placed somewhere within it.²⁰

These differences are not just expressions of work styles that may nonetheless produce similar outcomes. The work style can have deeper implications for company performance, loan impacts, and client loyalty (May & Winter 2000; May & Wood 2003; Canales 2009). It is important to note, however, that although styles can lead to different outcomes, both types of loan officers voice similar intentions. Both behaviors are driven by

Table 2 A typology of loan officers (LOs)

Rule	Spirit of the law	Letter of the law
LO should maintain an institutional relationship with clients. Clients should see the LO as the institution, not as the person.	Relationships with clients at a personal level. Emphasizes personal character of relationship with client while constantly referring back to the company as “the boss” or “company policies.”	Relationships with clients at an institutional level. Emphasizes professional character of relationship with client, constantly highlighting the fact that she or he only represents the company and its investors.
LO should know the status of the client’s business in terms of its profitability.	Close follow-up of business as well as personal activities, family issues, friendships, etc.	Interaction mostly on a transactional basis; limits interaction to credit-related issues and business liquidity.
LO should know whether a client’s referrals and guarantors exist and are trustworthy.	Knows a client’s business and personal network and often refers clients to other clients, building wider networks.	Does not like to “get involved” with clients; prefers to maintain arms-length relationship and checks on client’s network only to ensure potential pressure for repayment.
LO should not give business advice to clients due to liability issues.	Open to provide advice on business issues.	Afraid to provide advice on business issue with a “we could be liable” argument.
If a client is in trouble, negotiated agreements can be reached, but it is the LO’s discretion.	Engages in joint problem solving with client, especially in times of trouble.	No joint problem solving; interacts only on contractual terms.
Loans must be collected: this is one of the most important measurement metrics.	Emphasizes trustworthiness of clients – “most clients want to pay.”	Emphasizes that clients can be devious – “most clients want to shirk.”

the pressure to perform under extreme uncertainty. Both types of loan officers, quite simply, seek to do their work well. While it is true that, especially in light of the process followed by SL officers, *anybody* could become justifiably deviant from an organizational perspective, *nobody* has to (e.g. Becker, Howard S. 1953; Matza 1969). What is different therefore is the loan officers’ understanding of what it entails to perform well under the uncertainty of microfinance. SL officers manage this uncertainty by gathering as much information about their clients as possible. To complement what they see as imperfect policies, they develop personalized relationships with clients as a source of information that enhances their judgment. Similar to accounts of government officials who are embedded in the contexts in which they provide services (e.g. Evans 1995, 1996a,b; Ostrom 1996; Lam 1996), these officers are embedded in their environment, have built personal

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connections with their clients, speak their language, and have developed a stake in their welfare. This is not out of altruism, but because as officers, they believe that relationships allow them to perform better. They use these “embedded” ties to access higher quality information, engage in joint problem solving with clients, enhance mutual learning, establish stronger reciprocity ties, and create the trust that can support these more complex interactions (Sabel 1993, 1994; Uzzi 1996, 1999; Berger & Udell 2002). In contrast, LL officers manage the uncertainty by deferring to policies and hierarchy. Because the rules are products of years of experience and analysis of thousands of outcomes, LL officers believe they will be better off, on average, strictly applying the company algorithms. Policies are created to reduce uncertainty, make decisions easier, and reduce the biases of subjective judgment. LL officers choose to trust actuarial over personal judgment (Dawes 1979; cf. Simon 1988; Dawes *et al.* 1989).

If company policies are designed to reduce costs, homogenize the quality of service, and make life easier for field agents, then why do some loan officers systematically resist them? And, more pointedly, why does management tolerate this kind of behavior?

4.2. Rule bending as performance improvement

The most basic answer is that policy bending works. To look for systematic differences in loan officer performance and to validate my typology, I presented it to the three regional managers who are in charge of supervising branch managers and loan officers at FC. These managers interact with loan officers intensely, and know all of them well. I asked each manager to code each officer as SL, LL, or undefined. Managers performed their coding independent of each other. To prime this exercise, I showed the managers Table 2, stressing the typology had nothing to do with performance, only with operating work-style. After familiarizing them with the typology, I would read a name from the full list of loan officers and they would place that name in a category, without consultation with each other or with me.²¹ When an officer could not be easily placed, she or he was coded as “undefined.” Inter-rater reliability was just below 80 percent. There was no instance where one manager coded an officer as SL while another coded her or him as LL. There were only several discrepancies where one manager coded an officer as one type while another coded the same officer as undefined. Where discrepancies were found, the officers were coded as undefined. In that sense, the distribution of loan officers is a conservative estimate of their behavior, which explains the apparently high proportion of “undefined” loan officers in the population.

Table 3 summarizes the average yearly bonus payments earned by each type of loan officer between 2003 and 2007.²² During that period, there were 711 loan officer-year observations. The bonus metric is measured in base salary units. Thus, SL officers earned, on average, 1.25 times their base salary as a bonus. The table shows that, on average, SL officers tend to outperform their peers, at least when it comes to earning a higher bonus.²³ We can see in the table that both mean and median bonuses are significantly higher for SL than for their peers, while the performance of LL and undefined officers is not statistically different. It is important, however, to note that all types are represented in the top and bottom percentiles. The top LL officers, for example, perform above the 95th percentile, while the bottom SL officers perform below the first percentile. It is also worth noting that the higher average bonus performance of SL officers is partly explained by their higher variance in performance. In that sense, it would be wrong and incomplete to suggest that LL officers are underperformers, as many of them are top performers, and

Table 3 Bonus performance by loan officer type (2003–2007)

Officer type	Mean	Median	Min.	Max.	SD	N†
Spirit of the law	1.25	1.24	0.12	2.75	0.55	235
Letter of the law	1.02	1.06	0.10	2.47	0.47	233
Undefined	0.98	0.95	0.17	2.77	0.49	243
All officers	1.11	1.11	0.14	2.77	0.51	711

A *t*-test for the difference in means (two-tailed test) was performed:

Spirit ! = *Letter*: *t* = 4.2

Spirit ! = *Undefined*: *t* = 5.3

Letter ! = *Undefined*: *t* = 0.9

†Numbers calculated based on the population of loan officers coded by managers.

close to half of them are above-average performers (compared to around 60 percent of SL officers).²⁴

4.3. Rule bending as sociological citizenship

A second and related reason behind the persistence of SL behavior is that, as described above, no set of policies could possibly anticipate all the situations faced by loan officers. Organizational rules and routines reside beyond codified, written, or documented policies. These ostensive aspects of rules are certainly important, but less as complete prescriptions than as backgrounds against which actors enact them (Feldman 2003; Feldman & Pentland 2003). No set of rules can ever be complete, as each possible interpretation of a rule would require an additional set of rules to describe it (Blau 1955; Wittgenstein 1968; Lipsky 1980; Taylor 1993). In addition, the creation of any policy entails a set of (stated and unstated) assumptions about the categories to which the policy applies, and how actors fit into those categories (Heimer 1992; Spicker 1994; Habermas 1995; Thompson & Hoggett 1996). Especially in a setting such as microfinance, where the environment changes constantly and there is much unobserved variation across actors, there will be many situations where the rules may fail to capture relevant sources of variation. In such instances, a blind application of a policy may result in unfair, unethical, or unproductive results (Heimer 1992). In line with this, SL officers are not simply bending rules to cut corners or make an extra buck. They are also not simply ignoring or neglecting the rules. Rather, as SL officers become more embedded in their markets and as they deepen their understanding of clients, they become increasingly aware of situations where the rules seem to lead to counterproductive outcomes. Their histories, past experiences, and understandings of what microfinance is and should do lead them to interpret company rules in a different light (Feldman 2000; Howard-Grenville 2005). The discrepancies found lead them to examine not only the letter of the policies, but also the assumptions, the objectives, and the general context that produced them:

At the beginning, I had to reject many clients whom I knew were good because they did not meet a silly requirement. For example, some clients did not have enough appliances in their home or business to cover the amount of the loan. After a string of rejections, I asked [the managers] what the idea behind listing the appliances was. They said it was as potential collateral. Although legally we cannot seize personal assets when a client misses a payment, there was the belief that clients are unaware

of this and feel additional commitment. But I knew two things. First, most of my clients already knew that we could not seize their things, so in fact it only pissed them off when somebody said we could. Second, I had never seen collateral cover a loan successfully, even when clients agreed to give up their appliances in payment. . . . Part of the issue was that, by then, other policies, like capital reserves, now depended on what we list as collateral for a loan. But it is absurd. It is a set of rules that are based on false ideas. . . . And most loan officers don't question [the rules], they just affect clients unfairly. This is the type of thing where you have to use your open mind. You must find ways to meet the rule without really meeting it, if you know what I mean. (SL Loan Officer, FC)

Spirit of the law officers become practiced, expert interpreters of their mandates (Silbey and Bittner 1982), diverging from company policies quite consciously. They deviate from the formal rules not by ignorance, negligence, or accident but by choice. They are deviants, but of a very specific type. They channel the strain that prompts deviance to engage in the positive alternative of Merton's "innovative" deviance, namely, norm entrepreneurship (Merton 1968). They violate the written policy not because of a predisposition against rules, but because, in their experience, the very practices that allow them to perform their work well have been labeled as deviant by existing policies (Becker, Howard S. 1991). They became deviant not because they disagreed with the motives, goals, or self-conceptions of their organization, but precisely because they agreed with them fully (Matza 1969; Silbey & Bittner 1982; Feldman 2000). For SL officers, the process of becoming deviants is much more important than the act of deviance itself. It starts with the appreciation, gained early in their tenure by all loan officers, of the discrepancy between the complexity of the work and the resources available to perform it. The same uncertainty that leads SL officers to learn more about their clients also empowers them to use that knowledge to question and eventually bend the rules. The act of questioning a rule, however, brings with it two additional implications. The first is that, as loan officers seek ways around a particular rule, they must learn more about its details, implications, and sources. They become aware of the complex interdependency of rules (Cohendet & Llerena 2003; Feldman 2003; Becker, Markus C. 2004; Howard-Grenville 2005). They must therefore learn more about other policies that relate to it and that might provide a loophole, an alternative, or a source of resistance:

The tension [between policies and client needs] is always there. The first step is to learn and *understand* the policies clearly. . . . If the policies are too rigid, we need to be able to provide our clients with different options, we need to find alternative solutions. . . . I can't just go directly against a policy, but I can combine different policies creatively and present my client with options to solve her problem. But this entails knowing all the policies well, especially knowing where there are gray areas that you can play with. (SL officer, CG)

A second implication of questioning a rule is that loan officers learn more about the assumptions behind that policy, the organizational restrictions that generated it, and the context that defined it. As a result, loan officers develop a broader understanding of the *entire* organization and the role they play in it. This process provides a richer, more contextualized perspective on their work and, more important, on the potential importance of their role for the organization:

When rules are screwing a set of clients I have two duties. One is to my clients, I must find a fair solution for them, I must make sure that we are keeping the good ones, that we are helping them. . . . But then I have to let [the managers] know. I have to make it clear to them that the rules are wrong and I have to push to improve them. . . . Of course, it is not automatic. I have to tell my boss, convince him to go together to see his boss, and convince them to look at the issue more closely. . . . I can't just sit around and not do nothing when I see that there is something wrong *with the structure*. (SL officer, FR) (Emphasis mine.)

This process soon becomes self-reinforcing. The more a loan officers questions firm policies, sees the organization as a whole, and understands the role she or he plays in it, the more she or he will see deviance from rules as legitimate, desirable, and productive. SL officers are not behaving as deviants in the traditional understanding of the word. Rather, they are behaving as sociological citizens:

(i) the sociological citizen apprehends the relational interdependence that constitute her lifeworld; and (ii) uses this systemic perspective to meet occupational and professional obligations. Apprehending what seems like inescapable, inevitable interconnectedness, the sociological citizen realizes that whatever the current configuration of that world, it is the outcome of human actions, connections, links among persons and things. As a consequence, the sociological citizens experience a sense of freedom to try things, experiment, intervene in organizations and arrangements where others would hesitate. They do not ask for permission to do the things they do. . . . In other words, by recognizing one's location in an extended network of associations (e.g. Latour 2005), a sociological citizen has an extended, rather than constricted set of opportunities (resources, schemas, persons) with which to fashion solutions to local problems (Silbey *et al.* 2009, p. 215).

Spirit of the law officers have gained a level of perspective that, combined with their experience, results in a deeper understanding of the *systemic* implications of their actions. It allows them to see the organization *as is* and compare it to what it *could be*; it prompts them to strive for better policies (Feldman 2000, 2003). This understanding translates into a sociological imagination that prompts them to improve the entire system through norm experimentation (Mills 1967):

There is a sense of almost desperation when the policies are leading your client down a bad path. So, loan officers look around, they become creative, they develop a broader vision. This helps them explain things to clients in a more nuanced manner and it helps them make better decisions. . . . As they find new solutions, they make suggestions to [managers]. . . . Don't get me wrong, changing the policies is very hard. But it starts with the exceptions that loan officers make. . . . I used to be one of those loan officers who made exceptions all the time and pressed for changes. I learned so much about [the firm] that way. That's the experience that allowed me to become a regional manager. . . . Since then I have changed my mind about policies, because now I'm supposed to make sure they are implemented [laughs]. But I still like the loan officers who don't accept things. I want them to challenge the policies, to always ask if new things can be done. (Regional manager, FC)

Spirit of the law officers may be breaking rules with the right intentions and they may achieve better results in the process, but this does not come without a cost for the organization and for the loan officer. The rules are not perfect, but they are there for a reason.²⁵ Every policy has a good rationale for its existence. Rules that were designed solely to serve external constituencies are naturally seen less favorably than those that seek to create operational improvements (Meyer & Rowan 1977), but both are seen as important and as central elements to the firm's success. Deviant acts, regardless of the motivation behind them, challenge the very things that have allowed the firm to succeed (March 1991; Sull 1999). Any divergence from rules, but especially routine divergence, carries with it a host of implications. At the most basic level, visible deviance – *especially* if it produces desirable results – undermines the legitimacy of the rule. A loan officer might clearly see why an exception is necessary in a particular situation, but each additional exception makes the rule harder to enforce. This is particularly problematic for SL officers, for whom the line between exceptions and rules is extremely difficult to locate. It requires an additional level of supervisory control:

When loan officers are very close to their customers, it becomes very hard to know when an exception is going too far. The line becomes too blurry, they can become renegades. Many of them believe that the customer should trump everything else, but you cannot run a bank like that. . . . Many times, the right answer from the organization's point of view is that the rule should stand and it might mean overruling a loan officer's decision so that exceptions don't become the only rule. . . . You risk pushing your loan officers away, so if they do things for the right reasons and you had to enforce a rule over their judgment, you have to work with them so they feel the organization is doing something to improve the rule. (Branch manager, FR)

In most cases, as I have discussed, managers do turn a blind eye because they agree with the loan officer's assessment, they think over-ruling a loan officer's judgment is not worth the "enforcement gain," or they are curious about the potential result. However, it is recognized that a rule is being broken. It is clear to both the loan officer and the manager (and in many cases to the client) that policies prescribe a different course of action. This creates a complex "gray zone," where complicity, reciprocity, and appreciation are mixed with a sense of vulnerability, of ever-present potential punishment, and of strain (Gouldner 1964; Lipsky 1980; Certeau 1984; Rousseau 2004; Anteby 2008). For the managers who must supervise SL officers it is a constant source of tension, as they recognize the benefits of SL behavior but must manage its administrative (and sometimes emotional) costs:

Do you know how many loan officers I have to manage? And how many clients that translates to? I just don't have time for this shit (every loan officer asking for an exception on every client). This is not a Montessori school. Unless you have a damn good reason not to, just follow the fucking rule. Don't create unnecessary bullshit. . . . The trick is that I wish they could all just follow the rules so that our lives became easier. But at the same time . . . I need them to try new things when the policies don't match reality well!

Breaking a rule, however noble the intention, creates "bullshit" for the loan officer and her or his manager. It requires a justification. It requires going outside of the

routines created by the rule. It is inherently inefficient and potentially risky. It subverts the ideal of a smooth operation. It is an act of rebellion that can range from very mild to overt. It puts loan officers on a path fraught with vulnerability. There were several instances during my observation period, for example, of high performing SL officers who were terminated by their branch or regional managers for being “too disruptive” or “too loose with the policies” even though they were “great with clients” or were “the best performer in the region.”

For the most part, however, SL officers do not see themselves as deviants or outsiders to the firm. Their identity is defined by a broader understanding of the organization, its goals, and its constraints rather than by their relationship to its policies. SL officer experimentation helps MFIs improve how they measure relevant client attributes, add categories to their client classification system to make it more accurate, and understand the adjustments that need to be made when the environment – or the distribution of clients – changes (Canales 2009). At the same time, although SL behavior is a reasonable, pragmatic consequence of the circumstances of microfinance – clientele, firm organization, and resource allocations – not all officers engage in it. And not all officers engage in similar types of rule breaking. Thus it is important to clarify that, naturally, not all deviance in MFIs is the same, nor is all of it productive. The same structural conditions that create the incentives to engage in SL behavior also allow other officers to engage in corrupt, unethical, or dishonest practices (Merton 1936).²⁶ But, in the eyes of the organization, that type of deviance belongs in an *entirely different category* from SL officers and, as such, can emerge within the ranks of any of the types described here. It is also important to remember that SL officers represent only about a third of the loan officer population. This means that, in fact, other loan officers have dramatically different ways of thinking about their work and its implications:

My job is to recruit the new loan groups, train them on the methodology, do the credit analysis, and make sure that the whole process runs smoothly. It basically consists of applying the methodology strictly and making sure that the groups adhere closely to the policies. Part of this is keeping a tight supervision on payments and taking the appropriate measures when delinquency occurs. . . . It is difficult because there are so many things to keep track of, but the policies are very detailed, so that makes it easier. (LL officer, CG)

Contrast this with the more expansive SL view:

I am the eyes, the ears, the hands of the organization. We are the ambassadors of FR. To the clients, we *are* FR. And to FR, we *are* the clients. Yes, we promote and place loans, but that almost takes care of itself [through client referrals]. . . . We also have to make sure that the company is doing the right thing, that it is truly helping our clients, and that our clients are being heard. . . . We have so much responsibility. (SL officer, FR)

4.4. Rule bending as organizational contestation

These differing interpretations of loan officer work suggest a third hypothesis concerning the persistence of SL practices. Loan officer work is hard, both physically and intellectually. Microfinance stretches loan officers, and increasing pressures for cost reduction, standardization, and centralization stretches them even more. Advances in technology for collecting, handling, and analyzing data have only boosted the trend, with several implications for

loan officers. First, they literally have more work to do. A central metric for comparing MFIs is the number of clients per employee. Loan officers have seen the number of clients they must supervise increase dramatically and they expect it can only keep increasing. For all loan officers, this translates directly into less time spent with each client. For some of them, it translates into an unwelcome decrease in the quality of their work:

Every time they change the bonus structure, they basically ask us to spend less time with our clients. . . . Take loan renewals, for example. In many cases, they are automatic now. As long as the client paid the first loan, they are issued a second loan, no questions asked. But this leads most loan officers to lose contact with their clients. That second loan used to be when officers learned whether clients were putting loans to the best use. Me? I still visit my clients periodically, but it only means less free time, more work, and more stress. . . . I do it because I will not sacrifice the quality of my work . . . there is too much at stake for my clients. (SL officer, FC)

For SL officers, then, creating exceptions for a portion of their clientele is the only way to salvage the ideal conception of what their job should be (Lipsky 1980; Silbey & Bittner 1982; Wrzesniewski *et al.* 1997; Wrzesniewski & Dutton 2001). The drive to create exceptions is compounded by the routinization brought in with the increasing reliance in actuarial judgment. Loan officers are thus caught in a complex paradox. Their activity is central to the firm and they are well aware of it, yet their status within the firm – and in the labor market more broadly – is quite low. They are not professionals – they have not received specific training, there are no “loan officer professional standards,” there are no loan officer associations – yet they must often exercise the kind of discretion and judgment expected of professionals. To the extent that they can exercise such discretion based on specialized, scarce knowledge, they can carve and defend their standing within the organization. The more decisions that are automated, however, the more the standing of loan officers is challenged within the firm.²⁷ With increased caseloads, the discrepancy that already exists between the time loan officers devote to relatively trivial activities and the time they devote to activities that allow them to claim professionalism also grows. Table 4 shows a list of the most common responsibilities of a loan officer. In the first column, activities are sorted according to the extent to which specialized – and scarce –

Table 4 Loan officer activities, professionalism, and compensation

Claim to professionalism	Claim on time (% of time)†	Bonus metrics
Credit analysis	Commuting (26)	Delinquency
Credit decisions	Administrative work (21)	New client acquisition
Client recovery (lost clients)	Delinquency collection (14)	Client retention
Client retention and cross-selling	Credit decisions (committee meetings) (10)	Total portfolio
New client acquisition	New client acquisition (8)	Cross-selling
Loan supervision	Credit analysis (6)	
Delinquency collection	Client retention and cross-selling (6)	
Administrative work	Loan supervision (5)	
Commuting	Client recovery (4)	

†Source: Company's internal, in-depth process analysis.

knowledge, training, and experience is required to perform them – or the extent to which they can support claims to professional status (e.g. Bearman 2005). In the second column, the activities are sorted by the amount of time loan officers devote to them. Finally, the third column sorts the main metrics used to determine a loan officer's bonus. It is immediately apparent that loan officers spend most of their time performing trivial activities that hinder their claims to professional status. To add to this, the compensation structure pushes them further toward the standardization of their work.

Loan officers have always grappled with the relatively low status of their activity. They know their role is essential to the operation, yet they are also aware of their relative disposability and fragility. They are aware of both the insignificance and the centrality of their activity. Recent trends threaten their status even further. With the increased reliance on technology, the automation of decisions, and the standardization of practices there has been a decrease in the loan officer decision span, a drop in training budgets, and a push for hiring less expensive (younger, less experienced) officers. Moreover, as certain areas of the organization grow (e.g. information technology, financial analysis, investor relations), they demand a higher proportion of resources that imply further reductions in field agent budgets.

The idea is to eventually eliminate loan officers. . . . As we perfect our scoring models and as we improve our technology, we should rely less on the judgment of individuals and more on the knowledge of what has actually worked in our experience. . . . We may always need some form of field agent, especially given that many of our clients don't feel comfortable visiting branches, but the skill, responsibility, and cost of that field agent can be dramatically reduced, many more decisions can *be made for them*. (Risk assessment manager, CG) (Emphasis mine.)

All loan officers experience this threat and the accompanying urge to claim professional status to defend their organizational standing. However, there are differences in how officers interpret the threat that relate to their differential assessments of the value of their work. In particular, claims to organizational value align with loan officers' beliefs about the sources of their specialized knowledge and the outlook of their career path. They also align with the area or community within the organization that they identify with the most (Cohendet & Llerena 2003).

Letter of the law officers, as described above, view themselves as the enforcers of company policies on the ground. In particular, they see their value in gathering, interpreting, and quantifying the information that the organization's tools require to operate properly. They pride themselves in their ability to perform rigorous credit analysis, properly estimate a client's cash flow from limited or patchy information, or accurately estimate the financial ratios that define the terms of a loan. For LL officers, the main challenge is analytic. The most important aspect of their job is *client selection*, as determined by the organization's algorithms. In general, they believe the firm should be *more* restrictive in accepting clients. The policies are designed to keep bad clients out of the firm and to quickly root out clients who don't perform well. For LL officers, the proper application of policies and the development of rigorous analytic skills is the quickest path to promotion. They seek to advance to more analytic (and distant from clients) areas, such as risk assessment, where, incidentally, employees have similar views on policies. An important mechanism for LL officers to manage the paradoxes of their role is to detach from clients; to establish a "professional distance."

Did you notice how many buyers walked in while we interviewed the client? And did you see how much she had in inventory? That is nowhere near what she told us when we asked her, it is much less. . . . It took me a long time to learn how to evaluate inventory just by looking at it. Now I can estimate it with 90 percent accuracy, the first time people see me do it they think I am a wizard or something. . . . If you just listen to the clients' stories, it's like listening to the mermaids. . . . For me, this is the difficult puzzle: how much is this client really worth? How much can she really afford? Can we make her pay or can we cover the loan if things go bad? (LL officer, FC)

In contrast, SL officers see themselves as the sole link between the MFI and its clients, who would otherwise be worlds apart. They see their value as translators between two different languages, cultures, and strata. For SL officers, claims to professional status come from making sure the organization meets its broader goals, especially that of helping clients. Given that the organization has a limited understanding of client realities, its policies are necessarily flawed or incomplete. SL officers must interpret these policies for individual clients and must inform the organization of the inadequacies in the organizational protocols. They pride themselves in their ability to relate to clients, to create information and enforcement networks, and to understand the nuances of the market. They seek, above all, to provide each client with a customized service that fulfills her or his needs. Professionalism is found in the personalization of the service provided (cf. Bearman 2005). For SL officers, the main challenge is relational. The most important aspect of their job is *client management*, especially when the policies are unclear. In general, they believe the firm should be *less* restrictive in accepting clients. The policies often "make bad clients out of good ones" because they overlook relevant information. Any client who is properly (closely) managed can be a good client. For SL officers, the deep knowledge of the market, the nuanced understanding of the organization's goals, and the broader view is the right path to development. They want to advance through commercial areas, where the focus is on the client – and policies are also seen with skepticism.

Policies are good, they are useful, but you also need to give them a personal touch. . . . Each environment is different and each client is different. FC is like a restaurant, where you go in and you eat really well, and you get amazing service. . . . We do not sell loans, we create new opportunities for our clients. . . . But . . . you need to have the relationship with the client where they trust you enough to believe what you tell them. For example, when you visit a prospect's grocery store, you could just begin asking questions following the policies, but that is not going to get you very far. . . . It is much better to spend that time learning about the client, about her relationships, and selling her on opportunities, like the purchase of a ham slicer and how much more money she can make with that and how productive the loan would be. . . . This is where a true partnership is established. (SL officer, FC)

The different understandings of work obviously clash when loan officers interact, especially when they must jointly approve credit decisions:

When all the loan officers are very analytic, the committees become like pissing contests, officers just try to prove to each other who knows the policies better. . . . This can become counterproductive because then very few proposals are

approved. [But] if all the loan officers are only thinking about pleasing clients, then the committees become like love fests, where everything is approved, and then the branch starts taking risks that it should not. Ideally, you have voices that push everyone to be rigorous in their analysis . . . , but you also want voices that put faces on to the files being presented. (Branch manager, CG)

An important consequence of SL officers' customization of service is that clients learn to demand it. For microfinance clients, as mentioned above, the loan is the first contact with the financial sector. Clients think they want a loan, but they don't know what kind of relationship to expect from the MFI. They have no explicit preference for the kind of service they should receive. As a result, a central aspect of a loan officer's work is to train clients on how to be clients (cf. Lipsky 1980; Wrzesniewski & Dutton 2001; Bearman 2005). During this training, clients are taught an expectation, which they internalize and learn to demand of MFIs. But this expectation, believed by clients to be for the type of service provided by the MFI, is actually for the type of service provided by *the loan officer*.²⁸ In this way, intentionally or inadvertently, SL officers carve additional space for their activity through the clients' demands for a particular type of service. In training their clients to expect a personalized service, SL officers often emphasize that they are going beyond the company's rules or policies to better serve client needs:

One of the biggest surprises I had from . . . client focus groups, was the number of clients who thought our biggest strength was our ability to provide them with a customized service. . . . Here we are, nodding to our clients in agreement when in fact we know that we have one product. One. With very specific characteristics. But many of our clients believe they are getting something uniquely designed for them. (General manager, FC)

Finally, nothing vindicates SL officer practices or highlights the limits of actuarial predictions like a sudden shock to the environment. When the H1N1 flu struck Mexico in 2009:

It caught us all [MFIs] off guard, and it was cataclysmic. We [FC] immediately tapped our officers for information and for ideas. They tapped our clients to learn what was happening and within days we created a new program called "Together when you need it the most." . . . It has worked well, it got us past the critical point. But in the past three weeks five large firms have come to offer us their loan portfolio, because they went bankrupt. . . . All of them belong to large banks and they bought into the whole credit-scoring method of lending,²⁹ so they had no way to react . . . It only makes it harder for me to believe that some board members keep asking why we don't rely more on credit scores to reduce our costs. . . . How do you explain the value of that knowledge? (CEO, FC)

5. Conclusion

It is not clear what puts loan officers on one path or the other. Once they do start down a particular path, however, most of their interactions seem to confirm their expectations, solidifying their style (e.g. Hardin 1993). Clients not only live up (or down) to loan officer expectations, but they also learn to demand a particular style. Moreover, each style brings a distinct and important asset to the MFI. In fact, the presence of each style reinforces and

complements the other (Kadish & Kadish 1973; Silbey & Bittner 1982; Hawkins & Thomas 1989). An organization that relied solely on LL officers would be less connected to its market, would be less responsive to environmental changes, and would find it hard to improve on existing policies (March 1991; Canales 2009).³⁰ An organization that relied solely on SL officers would necessarily have higher costs, would probably take higher risks, and would find it hard to compete with others in the market for funding.³¹ In fact, it has been shown empirically that branches that contain a balance between different types of loan officers outperform others (Canales 2009). This fact is easy to overlook for a manager struggling to meet the narrow expectations of an increasingly isomorphic market. The need to create economies of scale is urgent. The pressure to standardize organizational practices to the international template is real. The technologies that promise to reduce the need for human labor by an order of magnitude are appealing. As MFIs – and client-oriented organizations more broadly – seek to narrow the scope of loan officers' work through additional policies and technologies, they should consider the elements of an officer's work that cannot be incorporated within formalized schemes and algorithms. Especially in a context as complex as microfinance, "there is no absolute visibility, and illuminating one corner may throw another into darkness" (Star & Strauss 1999, p. 24).

For managers (rightfully) seeking to improve company policies, especially if they are involved in risk analysis, operational efficiency, or cost control, it is easy to see SL officer practices as mere deviance that must be eradicated – they often do see these practices this way. Even commercial managers who see the value of SL behavior acknowledge the "bullshit" it creates. However, such an approach overlooks two important facts. The first is that discretion is unavoidable, especially in MFIs and other street-level bureaucracies. No amount or quality of policies could ever anticipate all situations. Employees will be stretched, the policies will eventually contradict themselves, and decisions will have to be made on the spot. Regardless of the quality of a rule and the clarity with which it is written, the fact remains that it will be enacted by individuals who will bring their backgrounds, understanding of the present situation, and images of potential future implications to its enactment. Human agency is therefore inseparable from the nature of organizational rules (Heimer 1992; Taylor 1993; March 1997; Feldman 2000, 2003). The second fact is that not all types of deviance are the same. What may be interpreted as mere deviance by an organization could in fact constitute productive sociological citizenship (cf. Merton 1936). This difference might achieve existential proportions when, for example, a crisis hits. Moreover, for better or for worse, complex organizations depend on their field agents – often more than managers like to acknowledge. As the scope of the agents' work is squeezed, the meanings, significance, and value they attach to their work as well the claims they can make to its value for the organization will be challenged. This only exacerbates the inevitability of discretion and agency in the enactment of rules.³²

Harnessing field agent discretion as both inevitable and potentially productive can be fruitful, but it is also difficult. It is unclear, *ex ante*, what productive deviance looks like, where to look for it, and how to achieve the necessary balance between deviance and compliance. What is clear, however, is that it is context-specific. In microfinance, some managers have come to appreciate the diversity in their loan officer body as an asset. By recognizing the productive potential of sociological citizenship some MFIs have in fact turned themselves into laboratories where experimentation with new policies generates a competitive advantage (cf. March 1991). The results of these experiments may come to

demonstrate, with time, that others who have focused blindly on the power of actuarial judgment and have sought to eliminate agent discretion may have thrown out the baby with the bath water. What this calls for therefore is a renewed effort to clarify the deep interdependence that exists between organizational policies, the nature of work, and individual discretion.

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Notes

- 1 Daley-Harris estimates that, in 2006, there were 133 million microfinance customers. By 2009 the number had grown to 155 million. He also estimates that, all things remaining equal, the number should grow to 175 million by 2015.
- 2 MixMarket (<http://www.mixmarket.org>) estimates an average loan balance per borrower of US\$557.
- 3 There are three basic lending methodologies in microfinance: communal banks, solidary groups, and individual loans. Communal banks are by far the most widespread of the three and were promoted by the inventor of microfinance and founder of the Grameen Bank in Bangladesh, Muhammad Yunus. Communal banks comprise joint-liability groups of twenty to fifty clients. The groups are self-regulating, self-enforcing, and responsible for the distribution of loans and the collection of payments within the group. Solidary groups are smaller (from three to five clients, sometimes a few more) and are also jointly liable, but the loans are given directly to the individuals as opposed to the group, and the groups are not self-regulating; that is, each client in a solidary group undergoes a separate credit analysis and the interaction between the bank and the client is at the individual level. Individual loans are self-explanatory.
- 4 Microfinance refers to a broad array of services including savings, different types of insurance, and credit. In reality, however, credit is the only service that has been provided widely. In general terms, microloans are given for relatively small amounts (more on this later), with maturities that tend to go from four months to a year, and with very small but frequent amortizations, usually every two weeks.
- 5 Feldman and Pentland (1986) incorporate Latour's distinction between power in principle (ostensive) and power in practice (performative) to the analysis of organizational routines. This distinction incorporates both structure and agency, where the ostensive aspect of rules creates the structure within which actors exercise agency in their enactment or performance.
- 6 Note that sustainability here refers to a lack of dependence on donors for financial subsistence. It is different from other notions of sustainability, such as environmental or social.
- 7 See <http://www.mixmarket.org> and <http://www.accion.org> as two prominent examples of agencies that gather operational information and prescribe the now ubiquitous paradigm.
- 8 This lag is tied to the institutional constraints that affected the financial sector as a whole, as well as the macroeconomic instability that plagued the country during its "lost decade" of the 1990s and that coincided with the microfinance revolution in other countries. See Alpizar and Gonzalez-Vega (2006).
- 9 Organization names are omitted to retain confidentiality.

- 10 Note that the mixture of companies allows for the comparison across individual and group lending methodologies, as well as across urban and rural environments.
- 11 This is important because existing studies tend to neglect clients who terminated their relationship with the bank. This is problematic because it is impossible to determine whether a client dropped out because she or he “graduated” out of microfinance, decided she or he did not want an additional loan, or she or he experienced difficulties and was kicked out. This censoring is potentially significant, as it might grossly underestimate negative impacts of loans and only measure results based on the clients who have chosen to stay in the program.
- 12 It contains information on family income, type and quality of housing arrangements, available services, family characteristics (number, age, and education of children), and several other socioeconomic indicators. This information was gathered when clients applied for a first loan, when they renewed their loan for the first and second times (i.e. before the second and third loans), and then every time an increase greater than 30 percent was requested on a loan amount.
- 13 The data stop in 2003 given that the company changed reporting systems and the credit analysis data are no longer available in usable format.
- 14 It contains information on loan size and characteristics, the responsible loan officer, interest rate, and payment behavior as well as individual information on each client and her or his business (assets, sector, etc.).
- 15 These numbers represent the averages of all the client sources cited by loan officers and managers during interviews. They are consistent with the proportions observed when interviewing clients.
- 16 Many MFIs have also established call centers to remind clients before a payment is due throughout the life of the loan.
- 17 Many mechanisms have been proposed to explain the high repayment rates observed in microfinance. The best documented and proven of these is the promise that larger loans will follow a well repaid one.
- 18 Note that the average number of clients per MFI employee (not per loan officer) is around 189. This means that the number of clients per loan officer is significantly higher than that. For the firms I studied, the average was around 250 clients per loan officer (<http://www.mixmarket.com>).
- 19 Note that, when I describe rule-bending or rule-breaking behavior, I refer to behaviors that are tolerated (indeed, sometimes encouraged) by management. There is a second type of rule breaking that is not tolerated and is not described in this article. For example, loan officers who are caught stealing, giving information away to competitors, or engaging in corruption with clients or government officials are immediately terminated.
- 20 For more information on the typology and characteristics of SL versus LL officers, see Canales (2009).
- 21 Two things are worth mentioning from this exercise. The first is how intuitive the typology seemed to the managers and how much they agreed with it. The managers expressed that, even though they had never separated loan officers in this particular way, it made perfect sense to them. The second is the speed with which the managers could code the officers. It typically took them less than one second to place an officer.
- 22 The data covering 2002 and 2008 did not cover the entire year, so I dropped them from the analyses to ensure consistency.
- 23 This is a useful metric to use for two reasons. First, the bonus system has been developed by each MFI to reflect the behavior expected of loan officers. Accordingly, the monthly bonus represents a significant portion of their salary (up to 230 percent of their base salary) and is calculated through a point system that includes delinquency rates, total amount lent, client renewal rate, and new client acquisitions. Note that this is a mathematical formula, exempt of

- subjective judgment. Second, bonus systems are remarkably similar across the three MFIs I studied, which further validates their legitimacy as a performance metric.
- 24 In fact, the relationship between rule bending and performance is more complex. In Canales (2009) I show that, while it is true that on average SL officers are better performers (and clients are better off when they are assigned to such an officer), the relationship between rule bending and performance is not linear. Rather, if too many SL officers are grouped together, the performance of the entire branch suffers. For SL officers to be productive, LL officers who “keep them honest” must balance them. In that article, I also explore the mechanisms behind performance differentials.
- 25 I will not go into all the good things that come from routines, rules, and policies. The literature is vast and clear. For a good review on the benefits of organizational routines, see Becker (2004). For a good discussion on the benefits of universal rules in general, see Heimer (1992).
- 26 Not surprisingly, there is a zero-tolerance policy on more traditional types of deviance and it does occur. Examples are loan officers who demand side payments for preferential treatment, sell client databases to competitors, or partner with a moneylender to target clients who have trouble repaying their loans.
- 27 It is generally accepted that, across professions, status is gained by simplifying or solving complex human situations. Within professions, status is gained by having less contact with “the impurities” of life (see Abbott 1981).
- 28 In Canales (2009), for example, I show that the likelihood of delinquency increases for clients who are transferred to another officer, but only if that officer is of a different type. It also explains the interesting result that loan officers with no clear type (undefined) are the worst performers.
- 29 He was referring to the fact that these MFIs use only credit scoring to make lending decisions and rely much less on loan officers.
- 30 This is more than a theoretical point. As the quote from the CEO of FC explains, many large commercial banks entered the microfinance space with some success. At the heart of their strategy was the search for efficiency through actuarial judgment – credit-score lending. The strategy proved successful until the market shifted abruptly during the swine flu crisis.
- 31 Again, this is not merely a theoretical point. It can be argued that all MFIs started with an SL model. The evolution described above explains the emergence of increasingly sophisticated policies.
- 32 Star and Strauss (1999) provide vivid examples of employee discretion in situations of extreme disempowerment.

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