

**The Stranger as Friend: Loan Officers and Positive Deviance in
Microfinance**

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Abstract

This chapter explores positive deviance in the context of microfinance. 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 chapter explores the structural conditions that lead to positive deviance with productive outcomes by the organization's own criteria. The paper unveils two inherent tensions in microfinance. First, increased efforts to centralize and enforce policies in fact only increase the pressures for loan officers to work outside the organizations' regulations. Second, this type of positive deviance keeps the organizations connected to their core, social missions.

Keywords: Microfinance, street-level bureaucracy, enforcement, positive deviance, sociological citizenship, embeddedness.

Introduction

From its inception in the 1970s, microfinance –the provision of small loans to destitute populations—was envisioned as a tool to bring capitalism to marginalized groups and allow them to pull themselves out of poverty (Morduch 1999; Morduch & Armendariz de Aghion 2005). Through its early success, microfinance has increasingly captured the attention and resources of philanthropic and profit-driven investors alike. Today, the microfinance revolution has become the poster child for the notion that, in capitalism, we can do well while doing good. It is considered an indispensable tool in the fight against poverty and a tested mechanism to open social mobility to the poorest of the poor (Yunus & Jolis 2003; Sachs 2005). Yet, for all the resources devoted to microfinance and the publicity given to its success stories, there is shockingly little evidence that microfinance generates the social changes it promises. In fact, the opposite is true. The most rigorous studies increasingly suggest that the average impact of microcredit is actually zero and can often be negative (Morduch & Armendariz de Aghion 2005; Alexander-Tedeschi & Karlan 2007; Canales 2008; Banerjee *et al.* 2009). What are we to make of these conflicting images? Is microfinance best represented by the picture of the female micro-entrepreneur who pulled her family out of poverty? Or is it best captured in the oversubscribed IPO of Mexico’s Compartamos, which led microfinance’s moral leader Muhammad Yunus to claim that instead of eradicating moneylenders, microfinance institutions (MFIs) had turned into them?

At the heart of these contrasts lies a contradiction that pervades MFIs, increasingly expected to follow a market paradigm. This paradigm dictates that MFIs should generate

enough profits to cover operational costs while serving poor populations. Their stated ability to do so is precisely what has attracted unprecedented amounts of funding to microfinance. It has also increased competition among MFIs resulting in pressures for operational efficiency, automation, and standardization. But microfinance is inherently labor intensive, since destitute clients mostly live in remote areas and often face fragile circumstances. Increases in standardization, therefore, necessarily reduce an MFI's ability to attend to the special needs of the poorest clients, whose characteristics are much harder to codify. It is thus that the pursuit of operational efficiency often pushes MFIs towards safer, easier to classify clients and away from the poorest of the poor. It can bring them closer to profitability but away from poverty alleviation. It also risks transforming microfinance from a movement that brings capitalism to the poor into an additional mechanism of exploitation. The evidence suggests that both outcomes are present today; challenging the notion that microfinance necessarily constitutes a vehicle of social change. The model has demonstrated potential, but not much more. This prompts us to take a step back from the assumption that microfinance inherently alleviates poverty and, instead, explore the conditions under which it can deliver on that promise (Morduch 1999). It pushes us to look deeper at the contradictions that are spreading microfinance thin.

These contradictions are not only observed across MFIs but also within each of them. Given the nature of microfinance, the tensions created by organizational policies become most apparent on the field, where loan officers interact with clients (Lipsky 1980; Heimer 1992). Loan officers experience the contradictions between firm profitability and poverty

alleviation each time they enact a rule that pursues one goal at the expense of the other. While all loan officers are subject to similar structural pressures, each must resolve them individually: the complexity of client situations is such that no set of rules can anticipate all outcomes. Loan officers must therefore exercise discretion when enacting rules (Blau 1955; Lipsky 1980; Taylor 1993). Thus, even though organizational rules are centrally defined, there is much agency in how officers enact them (Emirbayer & Mische 1998; Feldman & Pentland 2003; Howard-Grenville 2005). Moreover, it is precisely through the varying strategies followed by rule enactors that organizational contradictions emerge, are negotiated, and are eventually resolved (Nelson & Winter 1982; Feldman 2000; Feldman & Pentland 2003; Becker, Markus C. 2004; Howard-Grenville 2005).

This chapter shows how, in microfinance, certain loan officers resolve organizational contradictions by systematically bending the rules. Even though rules seek to simplify loan officer work, rule-bending officers perform better and present a more uniform distribution of impacts among their clients. They deviate from rules not driven by contempt, greed, or anomie but by their commitment to client welfare. They seek to better accomplish the organization's stated goals in spite of certain rules (Feldman 2003) and improve those rules in the process (Silbey *et al.* 2009). Ironically, it is precisely because loan officers break the rules that some MFIs are confronted with their internal contradictions and are pushed to resolve them. The chapter further explores the structural conditions that foster such positive deviance. I argue that certain loan officers tend to create deeper personal relationships with clients, which expose them to richer client information that exhibits organizational contradictions in full relief. At the same time,

both the atypical relational style and the positive deviance that results from it place loan officers in the position best described by Georg Simmel's concept of 'the Stranger' (1950). This structural position is characterized by an increased structural fragility, which also prompts loan officers to display deeper commitments to the organization's values. Loan officer deviance can thus become the vehicle through which MFIs correct course and remain true to their mission. But this requires firms to accept loan officer discretion as a natural consequence of their work and as a useful source of client information. It also requires them to embrace the complexities of managing deviance, such as creating and maintaining a more diverse workforce. MFIs that learn to do this successfully can turn organizational contradictions and the rule deviance they generate into a source of learning, exploration, and innovation to better fulfill their mission as agents of social change.

Background on Microfinance

In the past three decades, microfinance has evolved into a global industry that disburses more than \$85 Billion in loans to more than 150 million low-income families per year (Daley-Harris 2007; CGAP 2008; Daley-Harris 2009). Success stories show that, contrary to previous theory, poor households can put small loans to highly productive uses –thus affording high interest rates—and place a large value on the sustained access to liquidity –thus presenting remarkably low delinquency rates (Morduch & Armendariz de Aghion 2005; Cull *et al.* 2007, 2009). This combination of high loan productivity and low delinquency rates has turned microfinance into one of the most widely used tools to address poverty. It has also created intense competition for resources among MFIs which, coupled with an increased diversity of investors and international agencies interested in

microfinance, has resulted in the emergence of a paradigm of profitability and private investment (Cull *et al.* 2009). For donors, this paradigm offers the promise of sustainability while attracting vast, previously unavailable amounts of profit-seeking capital. For MFIs, the paradigm has generated intense pressure to seek operational efficiency and comply with best practices and benchmarks (Christen 2000; Armendariz de Aghion & Morduch 2004; CGAP 2008).ⁱ Investors and donors alike have come to rely heavily on these benchmarks to judge potential investments, and increasingly demand that MFIs comply with them across markets (Dugan & Goodwin-Groen 2005). As a result, MFIs increasingly rely on industry standard technologies that increase the reach and scope of their services while limiting operational costs (e.g. Dugan & Goodwin-Groen 2005; Morduch & Armendariz de Aghion 2005). MFIs have also favored a narrower focus on the most profitable services, such as microcredit (Dugan & Goodwin-Groen 2005; Marulanda & Otero 2005). Not surprisingly, the efforts have generated welcome and continuous improvements in efficiency.ⁱⁱ At the same time, the investments have entailed important tradeoffs coupled with structural challenges for MFIs. At the most basic level, they have brought into full relief the inherent tensions, contradictions, and limits of the marriage between a social mission—in this case, the eradication of poverty—and a commitment to profits (Christen 2000; Navajas *et al.* 2000; CGAP 2008). They have also stretched MFI organizations at their core.

Regardless of their lending model,ⁱⁱⁱ MFIs serve clients who are low income, live in remote (often rural) locations, and are unfamiliar with financial technology. As a result, MFIs are inherently labor intensive, since they rely on loan officers to access and monitor

clients (Morduch & Armendariz de Aghion 2005). Loan officers constitute the primary point of contact between MFIs and clients. They find, recruit, and evaluate clients; they make lending decisions and disburse loans; and they are in charge of loan collections and renewals. While the major dimensions of work –lending policies, incentive schemes, 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. 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). Agency, therefore, becomes an unavoidable characteristic of rule enactment (Taylor 1993; Feldman & Pentland 2003; Howard-Grenville 2005; Pentland & Feldman 2005).

At the same time, any serious reduction in MFI costs must address the relative costs of loan officer work. The most immediate way to decrease the labor cost per loan, for example, is to increase the number of clients per loan officer. Standardization and automation of decisions allow for this increase but also decrease the span of loan officer discretion. They require the codification, simplification, and filtration of contextual, complex, and strewn information.^{iv} It is thus that standardization, ironically, often increases the structural tensions between loan officer work and organizational policies. Given the central role played by loan officers, it is important to understand how they resolve these tensions, how this can impact potential and existing clients, and the implications that it can have for organizational policies. Such understanding requires an

approach that does not take written rules as facts but rather questions them and treats rules and practices as endogenously interrelated, while potentially decoupled (Ewick & Silbey 1999; Feldman 2000, 2003; Feldman & Pentland 2003; Becker, Markus C. 2004; Howard-Grenville 2005; Pentland & Feldman 2005; Silbey 2005).

Data and Methods

This chapter and the papers that have preceded it (Canales 2009, Forthcoming) are based on several years of data collection with three MFIs in Mexico. Throughout the process, I have placed particular emphasis on qualitative methodologies, following a grounded theory-building approach (Glaser & Strauss 1980). I also explicitly straddle different levels of analysis, going from organization-wide rules and policies, to branches and branch managers, to interactions between loan officers and clients. Because the project explores how field-level practices vary, the research design seeks 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)^y was made to learn more about the field-level practices of different MFIs, how those practices depend on and influence structural features, and how they relate to MFI performance (see table 1).

INSERT TABLE 1 ABOUT HERE

I spent over five months collecting qualitative data within these companies, and several months doing periodic follow-up interviews. 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. I also observed several loan officer-client interactions and sat in internal meetings. Next, I interviewed branch managers and loan officers. 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 randomly selected between one and three of the branches from each group for each of the companies. I spent between half a day and a whole day visiting each branch, talking to the manager, attending committee meetings, and observing manager-client and manager-loan officer interactions. 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. In total, I performed just over 50 client interviews. I have performed over fifty follow up interviews with MFI employees of different levels.

Work Complexity, Goal Strain, and Positive Deviance in Microcredit

Work Complexity and Loan Officer Practices^{vi}

The average loan officer must serve around 250 clients. For most of these clients, the loan officer was the first contact with the MFI –and with the financial sector, for that matter. During an initial client visit, the loan officer explains the characteristics of the loan, the requisites for approval, and validates that the prospect is a viable candidate. 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, supplier references), total family income, total family assets, desired uses of the loan, credit references, and credit history when available. Since prospective clients have not typically calculated this information, the loan officer helps clients by discussing daily sales, observing customer traffic, reviewing existing inventory, going over purchase receipts, and other means.

The loan officer is expected to perform an initial credit analysis and produce a credit recommendation. She then presents the case to a branch-level credit committee (typically composed of the branch manager and other loan officers). Should the loan approval require additional information, cosigners, or other modifications the loan officer is responsible for obtaining them. Once a final decision is reached, the loan officer informs the client and provides all the necessary information for the disbursement of the loan.^{vii} A significant part of an officer's subsequent work entails educating first-time clients on how

to manage a loan. Once a loan is approved and disbursed, the loan officer supervises its performance. This includes periodically visiting clients and reminding them of upcoming payments. Should a client miss a payment, loan officers decide the course of action. For the first 30 to 90 days of delinquency (depending on the MFI), loan officers are solely responsible for collections. During that time, loan officers can decide to collect directly from clients, collect from co-signers –or from other members of group loans—or even seize a client’s assets. They can also choose to restructure a loan, send to the legal department for a more aggressive collection, or suggest writing the loan off as unrecoverable. As a loan reaches its maturity, the loan officer is expected to retain clients who exhibited good payment behavior and, ideally, increase their loan amounts. In addition, in many MFIs the loan officer is increasingly expected to offer other products to the client –like home improvement loans, savings accounts, or insurance policies. On top of these client management activities, loan officers must attend all credit committees (and actively participate in them), keep all client information current in the MFIs’ databases, and train incoming loan officers. 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)

This description seeks to present a picture of the complexity, intensity, and importance of loan officer work. Loan officers not only bear a heavy responsibility for the welfare of their organization and its clients, but also carry that responsibility with increasing constraints from a heavy workload, low professional status, and structural limitations. Consider, for example, that loan officers perform all these activities in remote, difficult to reach areas with no transportation or logistic support from their organization. Thus, the average loan officer spends more than 4 hours a day commuting to work and between clients.

Investors who increasingly expect MFIs to perform according to international benchmarks of profitability –and operational efficiency—only compound these pressures. As mentioned above, MFIs have developed an array of tools to help (and control) loan officers in almost every task. There are detailed credit manuals with specific instructions for most imaginable eventualities. Most MFIs have developed complex parametric credit models to 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. 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. Moreover, loan officers, like many street-level bureaucrats (police officers, teachers, labor inspectors, social workers), 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 administrative officials are expected to shape policy accordingly (Wilson 1968; Lipsky 1980; Thompson & Hoggett 1996). Yet, the uncertainty of the situations faced by loan officers (and other street-level bureaucrats) is such that rules cannot possibly anticipate all of them and in fact often offer conflicting prescriptions. As a result, employees in such work settings exercise a great amount of discretion in how they enact policies, while managers must support—and often encourage—such discretion (Blau 1955; Lipsky 1980; Silbey 1981; Silbey & Bittner 1982; Hawkins & Thomas 1989; Taylor 1993; Feldman 2000).

My in-depth observation of loan officer work revealed that loan officers relate to company policies in varying ways. Certain loan officers – labeled “Spirit of the Law” officers (SL) 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 some discretion. They often choose to bend policies or apply them partially. In contrast, other loan officers – labeled “Letter of the Law” officers (LL)—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 authority—to question them. The typology presented in table 2 was developed inductively by observing all 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. 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.^{viii}

INSERT TABLE 2 ABOUT HERE

These differences are not just expressions of work styles that may produce similar outcomes. They reflect how different loan officers develop a work style that helps them manage the tensions and incongruity of their work. 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 client outcomes, both types of loan officers voice similar intentions. Both behaviors are driven by the pressure to perform under extreme uncertainty. Both types of loan officers simply seek to do their work well. What is different is their 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, 1996; Ostrom 1996; Lam 1997), these officers are embedded in their environment, have built personal connections with their clients, speak their language, and have developed a stake in their welfare. In

contrast, LL officers manage the uncertainty by deferring to policies and hierarchy. Since the rules are products of years of experience and thorough analyses, LL officers believe they will be better off, on average, strictly applying the algorithms. Policies are, after all, 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; c.f. Simon 1988; Dawes *et al.* 1989).

Goal Strain and Deviance

The different styles observed in loan officers should not be conceptualized without considering the tensions created by the nature of their work. At the heart of those tensions lies a contradiction that increasingly pervades microcredit. The adoption of a market-centered paradigm has unquestionably brought desirable outcomes like managerial discipline, increased accountability, a more responsible credit culture among both lenders and borrowers, a more efficient use of funds, and a wealth of resources previously unseen in poverty relief efforts. It also has intensified the tensions between efficiency and fairness that are inherent in all service organizations (Spitzer 1975; Heimer 1992; Canales 2009), but are especially present in those that provide life-altering services to the destitute (Lipsky 1980). This is because any rule that categorizes clients makes it easier to classify them, but also rests on a set of assumptions that don't apply equally to all (Heimer 1992). In microfinance, the increased efficiency translates to quicker, cheaper, and more reliable services to many –maybe most—clients, but must also entail a reduced level of responsiveness or attention to others:

Every time they give us new tools, they basically ask us to spend less time with our clients. (...) Take loan renewals, for example. In most cases, they are automatic now. As

long as the clients paid the first loan they are issued a second loan, no questions asked. (But) that second loan used to be when officers could really learn how the loans were working out for their clients. (SL Officer, FC)

In a setting like microfinance, where a stated goal is to bring opportunities to the poorest of the poor, such a tradeoff has direct consequences:

For some people, the loans are incredibly productive. (...) But you need a certain level of stability and infrastructure to be able to make and manage those investments. The poorer you are, the less likely you will be to have those basic conditions and the harder it will be for you to make productive investments on your own on a consistent basis (Operations Manager, FR).

This may appear counter-intuitive: microfinance programs are supposed to be designed to help the poorest and poorer people who start from a smaller economic base should be able to increase that base more rapidly than others who start from a higher base. The same manager, however, explained why this paradox exists:

Poorer people have many problems beyond the lack of access to financial services. When you fix one of their issues by lending them money, they still have many other problems to deal with which are not solved by a loan. Sure, some people use the loans as a springboard, but you can't really use a springboard when it is under water, you know?

For some MFI administrators, these barriers have proven larger than the scope of their organizations:

From the early days of CG, I have been skeptical about actually helping the really poor, even though that was the claim. (...) Their problems are very complex. To really help

them you need to provide a broader support structure, access to opportunities, access to business information, access to better networks, and some sort of cushion for difficult moments. All of this was the initial dream of microfinance, at least the way we understood it. But reality catches up. (...) It is impossible to provide all that to our poorest clients and still come out with black ink on our books. (Regional manager, CG).

Most loan officers agree with this claim, with different levels of resignation. More so in light of the rules and workload that constrain them. SL officers, however, view their roles differently:

My biggest commitment is to my poorest clients. They are the ones who need me the most. Other clients can do well without me. (...) As an officer I have access to a lot of information. I know all my clients, and I know their families and their friends. (...) I also see hundreds of similar businesses and situations. (...) I know who does what and who knows who. So, I choose to use all that information to give my customers advice (and extra support. (SL officer, FR)

We are not just offering loans. We are offering life-long support, life-long opportunities. (...) You have to keep track of what your clients are doing, you have to stay on top of their needs. If you realize that your client is in a bad situation, you must give her a solution (...) even if that means working outside the written rules. (SL officer, FC)

For SL officers, their work goes beyond the manuals, the policies, and the algorithms:

Policies are good, they are useful, but you also need to give them a personal touch. (...) (...) For example, when you visit a prospect's grocery store, you could just begin asking questions following the policies. (...) 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. (...) Or like putting her in contact with my other client who can be a better supplier. That's what helping my clients is about. (SL officer, FC)

This stands in stark contrast with LL officers, and more importantly, the companies' rules:

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. (LL Officer, CG)

As shown in table 2, SL officers relate to most of the companies' rules loosely. They often break, bend, or reify policies. In that sense –and from the LL officer's and some managers' perspective—SL officers could be seen as deviants (Canales Forthcoming). SL officers, however, 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. They deviate from policies not out of contempt or disrespect, but because their deeper knowledge of clients allows them to identify instances where policies might lead to undesirable outcomes (Canales 2009). They see themselves as *more*, rather than less, identified with their organization and what it stands for:

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)

It is precisely this higher level of identification that creates high levels of strain, as loan officers experience the tension between stated goals and the means provided to achieve them (Merton 1968; Matza 1969). In that sense, 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 p. 151; Silbey & Bittner 1982; Wrzesniewski *et al.* 1997; Wrzesniewski & Dutton 2001). They see deviations from policy as a costly defense of their commitment to the company's mission, to their professional values:

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, or what we stand for as a company (...) there is too much at stake for my clients. (SL Officer, FC)

SL officers consistently step beyond the boundaries of MFI policies. But what are we to make of the fact that, through their deviance, they are more effectively pursuing the organization's goals? In that sense, SL deviance cannot be understood in isolation. SL officers do not seek to be deviants; they *find themselves* as deviants in relation to a set of defined rules. We can only understand their relationship to rules by observing *the process* through which they became deviant; the day-to-day interactions with clients, managers, and other loan officers that gradually led to their position in relation to the rules as defined by others (Becker, Howard S. 1953; Goffman 1959, 1961, 1967; Matza 1969; Spitzer 1975; Becker, Howard S. 1991). For, as will be seen below, SL officers don't set

out to break rules. Rather, they learn through experience that the relationships they have established with their clients, the information they have gathered through those relationships, and the activities they see as *necessary* to perform their work with the quality that they aspire to happen to lie outside the written rules (Matza 1969; Becker, Howard S. 1991). With every new rule that automates an activity or creates a new classification for clients, a new set of SL behaviors is fenced out.

The Relational Origins of Positive Deviance

SL officers question organizational policies based on the information, trust, and commitment that they have obtained through deeper relationships with their clients (Heimer 1992; Canales 2009). In most cases, those relationships develop from a higher level of initial identification with clients. Often, SL officers were drawn to microfinance because they were once clients themselves or those close to them are past, current, or potential clients. In contrast, typical LL officers—as well as most other MFI employees, including managers—are normally hired out of college from economics-oriented majors or from more traditional financial firms, like commercial banks. These differences in background translate to differences in the loan officers' cultural toolkits, cultural 'dialects', and perceptions of the clients' environment (Piaget 1965; Swidler 1986, 2001; Elfenbein & Ambady 2003; Marsh *et al.* 2003; Ambady & Bharucha 2009). They also translate to different understandings of the relative value and appropriateness of personal connections. Thus, from the initial moments of their interaction, SL officers establish, consciously and unconsciously, a different type of relationship with their clients.

LL officers typically see a personal relationship with a client as problematic, since it can lead to subjectivity in credit analyses, conflicts of interest should a loan become delinquent, and an overall devaluation of the MFI's institutional image. They basically code relationships with clients with a traditional view of particularism (Parsons & Shils 1951). Thus, it is important to highlight that LL officers do not avoid establishing deeper relationships with clients out of contempt. Rather, they believe maintaining a 'professional distance' from clients is necessary to ensure the quality of their work (See Canales (Forthcoming) for more detail).

In stark contrast, SL officers learn to see personal relationships as indispensable work tools (McGinn 2007). Ironically, they arrive at this conclusion not by disagreeing with LL officers on the core issues of their work, but rather by identifying exactly the same issues while disagreeing on the best means to address them. Where LL officers worry that a personal attachment might bring subjective information into already complex credit analyses; SL officers believe that by collecting rich ("soft") information that can only be gathered through a personal relationship they can parse through the messy, unstructured data presented by micro enterprises that, on paper, might all look the same (Berger *et al.* 2001; Berger & Udell 2002). Where LL officers worry that a personal relationship might create a conflict of interest for collection efforts; SL officers see the relationship as the best mechanism to keep track of their clients, generate additional commitments for payment, and establish the kind of trust that can support creative problem-solving if something goes wrong (Sabel 1993, 1994; Uzzi 1996). Where LL officers worry that a personal relationship might devalue the professionalism of their work, SL officers see it

as the only way to ensure that they provide a professional, customized service (Bearman 2005; Canales Forthcoming). They use the relationship as a source of information about client needs and challenges so they can best use their own networks and knowledge to address them:

My branch manager worries when I give business advice to my clients, he says if they listen to me and things go wrong they could blame CG (...) This woman (who owns a small grocery store), for example. She is buying all her dairy products at the most expensive place. She is leaving so much money on the table and she does not know it. This other client of mine has a wholesale dairy business and gets amazing prices, so it only makes sense for me to put them in contact; they are both good people and they can help each other out. I know *all* these people, how could I not use these connections to help my clients help each other? (...) I know from seeing very successful stores that putting the dairy products where they are most visible is good for business, but she had them all the way at the back, so I tell her that and she will try it. (...) Precisely because I help them more than other (loan officers from other) companies would, they feel somehow indebted to me, in a good way, they value their relationship with me and so they are always on time with their payments (SL officer, CG).

Officers don't only disagree on the instrumental value of personal relationships. They also hold differing views on what determines client success and, more importantly, on the extent to which relationships can play a role in that success. As described in Canales (Forthcoming), LL officers believe that their most important work lies in the proper selection of clients, where actuarial models can best predict the probability that a client with a given set of observable characteristics will display good repayment behavior. This, naturally, reinforces the need to keep relationships 'institutional'. SL officers, on the other

hand, believe models too often obscure reality, *especially* for clients with the lowest income. Thus, they believe their most important work lies in client *management* and in the *transformative* power that a positive relationship between the client and the MFI can have. For SL officers, most clients have the potential to become good clients, but some can only reach this potential if their special needs are met:

Whenever my poorer clients tell me they can't make a payment because something bad happened to them, I have a policy of always trusting them (...) Sure, some of my clients end up not being morally solvent, but I can tell you that of every ten clients I have helped, nine have made it and eight have become long-term clients. A restructuring is a great opportunity because then you develop a double commitment with your client (SL Officer, FR).

In that sense, SL officers are not simply using relationships instrumentally. Rather, they are able to *generate* new resources, opportunities, repertoires, and meaning through them (Dutton & Ragins 2007; Ragins & Verbos 2007). They see relationships not only as information-gathering tools, but also as sources of new value that can put clients – especially the most vulnerable—on entirely different development paths (e.g. Rosenthal & Jacobson 1968). Moreover, SL officers worry that such self-fulfilling expectations cannot be coded into rules and that excluding these possibilities can create negative expectations that are equally self-fulfilling (Lipsky 1980; Heimer 1992):

This officer is treating me as if I were a criminal, as if I were missing payments by choice. (...) I have missed some payments because I really have no money right now. (The officer) figures that by trying to scare me with legal threats I will pay my loan. (...) but tell me something: here is my neighbor who lent me money now that I was in trouble

and here is (the officer) who has threatened me and insulted me. I am going to pay my debts to both of them eventually, as things improve, but which do you think I will repay first? (Client)

As described above, SL officers cannot relate to all their clients with equal levels of depth –they simply lack the time. They thus choose to develop and nurture relationships according to their own assessment of client needs and to the potential value they see in each relationship. Often, clients with 'standard' needs can 'take care of themselves'. At the same time, while SL officers often have a preference for establishing relationships with clients, many times they do not seek such relationships, they simply find themselves in them. For it remains the case that SL officers are socially close to clients. From the language they choose to the subtle, involuntary nonverbal cues they send when they initiate a conversation, SL officers present an image that is familiar to and immediately interpretable by clients (Ambady *et al.* 2000; Heaphy 2007). They also bring a cultural toolkit that allows them to better interpret clients' reactions (Swidler 2001; Elfenbein & Ambady 2003). From the very first interactions, then, a relational style is established between client and loan officer (both SL and LL) that defines not only those initial interactions but also how the client learns to relate to the firm in general (Bearman 2005; Canales 2009). Especially for poorer clients, this can have dramatic, long-lasting consequences:

I had spent an entire morning visiting a client. She was the embodiment of a microcredit success case. She had no formal schooling beyond primary school and began working as a seamstress at a young age. She learned the trade successfully and saved until she was able to buy a single sewing machine (...). She obtained a first microloan and purchased a

second sewing machine. This pattern continued until the time of my interview with her, when she managed dozens of employees. (...) Both in her conversations with me and in the interactions I observed with her employees she came across as an extremely able, secure, and strong-willed woman who knew exactly what she was doing and had a firm sense of authority to back it. (She needed) to go to the MFI branch to discuss her loan (now a significant amount) with the branch manager. As we entered the branch, the strong, articulate, secure woman I had observed all morning suddenly became a quiet, stuttering, insecure client who cringed at every question posed by the manager. Only an actual loss in physical height would have been more dramatic to observe. It is not that she had things to hide –she was a good client, in good standing. She was simply intimidated by the formality of the MFI branch and the language the manager was using to address her; she was out of her element. The branch manager seemed completely oblivious to this. It struck me that all manager had ever observed was this “version” of the woman, which surely affected both his image of her as a client and how future interactions were constructed (Canales 2008: Epilogue).

As each client relationship reveals additional information to SL officers and as they gain additional experience with company policies, they find increasing numbers of instances where policies do not seem to match reality well. The deeper perspective gained through interacting with clients reveals an entire layer of information that is not –cannot be– coded into existing rules. Each additional instance increases the desire and the sense of legitimacy to question, bend, or break rules when deemed necessary. This desire, however, only increases already high levels of structural strain.

The Stranger as Friend

The backgrounds, relational styles, and experience of SL officers combine in mutually reinforcing ways to place them in a position best characterized by Simmel as that of a ‘stranger’ (1950: p.185).

He is fixed within a certain (group boundary) but his position within it is fundamentally affected by the fact that he does not belong in it initially and that he brings qualities into it that are not, and cannot be, indigenous to it.

Put differently, while all loan officers are situated at the complex (cultural, social, and economic) boundary that separates MFIs from their clients, SL officers face the additional complexity of operating on one side while retaining a strong presence on the other (Lamont & Molnar 2002). It is precisely the relative objectivity provided by this position as ‘strangers’ that allows SL officers to question MFI policies with the understanding of an insider but the detachment and skepticism of an outsider. It allows them to challenge policies seeking to improve them (Silbey *et al.* 2009; Canales Forthcoming):

What am I supposed to do here? This client has been growing her business doing all the right things, she has followed every piece of advice I have given her and she has made incredible progress. Finally, after two years of steady work, she has a big opportunity, a big break. *(A new supplier is offering her a radically better price, but it requires her to buy a much larger volume than she usually does, which requires a substantial increase in working capital)*. I know she can sell the merchandise and she can make better margins. (...) Yet, the rule says I can only increase her loan by fifteen percent. (...) If we don’t give her the full amount, it is like giving her nothing. So we are either pushing her to go

to another MFI or, worse, to get an outside loan (*from a moneylender*). So I *have* to find a way around the rules. (...) We just need to come up with a better rule. (SL officer, FC).

It is also this position that creates a deeper commitment to the organization and its values, for several reasons. First, the very fact that they are ‘strangers’ to the organization signals that these loan officers do not come from the traditional paths that other loan officers do. It also signals that they are not following the traditional path of individuals with similar backgrounds. In this sense, a match between the organization and the individual on criteria other than traditional or superficial elements has already occurred. Second, while a loan officer job may be a starting point of relatively low status and questionable appeal for a middle-class college graduate, it represents a rare path to social mobility for a community-bred microentrepreneur. In this light, the relative weight that loan officers from different backgrounds will place on their affiliation with the organization can be appreciated.

More profoundly, however, the same characteristics that allow SL officers to challenge MFI policies—their deep knowledge about clients, their embedded ties to the community, their relative objectivity—also put them in a position of constant fragility. For just like the policies—flaws and contradictions included—that others take for granted are more conspicuous to the ‘stranger’, so the ‘stranger’—and any faults she may commit—can be more visible to others. In addition, since allegiance to the group cannot be claimed on the mere basis of identity, the ‘stranger’ must demonstrate it more visibly and more frequently. Finally, while a SL officer can have a deeper understanding of the community she operates in and can build stronger ties in it than other loan officers, she can no longer

claim to be a part of it. This combination of visibility, disputed identity, and dependence require SL officers to show unquestionable commitment to the organization (Simmel 1950; Coser 1974). Accordingly, while SL officers may bend, question, or challenge the policies they tend to do so with full knowledge of their branch managers and with a strong rationale for how it can benefit the organization. Anything less would put their permanence in the organization at risk.

The skeptical reader might have questioned, at several points of this chapter, why more traditional forms of deviance—corruption, theft, graft—are absent from my description. In particular, there may be a concern that the findings are driven by selection bias on the loan officers in my sample. A first response is that, as described above, the loan officers I observed were selected at random. A second and important clarification is that I did observe and document instances of destructive deviance. However—and contrary to SL behavior—it was rarely observed, it was severely punished (often with dismissal) when discovered by the organization, and it was not systematically linked to other patterns of behavior. In that sense, there is indeed a bias in my sample of loan officers, but it is a survival bias inherent in the organization. Put differently, and in light of the previous discussion, it is not surprising that the SL officers *who remain* in the firm exercise a style of deviance that is deeply rooted in the organization's values. It is also unsurprising that these SL officers tend to work longer hours and be better performers, especially on metrics that relate to loan impacts or client retention. It is thus that, conditional on remaining in the firm, SL officers become an asset to the MFI. SL officers can help prevent negative outcomes for poorer clients, they can push their clients to perform better

through higher expectations that clients live up to, they can generate tighter client retentions through reciprocity ties, and they can help the organization improve its rules by constantly challenging them (Canales 2008, Forthcoming). These benefits, however, come at a cost.

First, MFIs do not create rules on a whim. There are good reasons, external and internal, behind each new rule. It is hard enough to design, write, explain, and enforce a new rule without the constant pushback from a set of officers. Second, and not surprisingly, there are limits to SL effectiveness and it is not always clear where those limits lie. It is for branch and regional managers to discover and enforce them:

In some branches, all the loan officers are very analytic, so the (credit) 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. (Regional Manager, FC –in Canales 2009).

In fact, while the three firms I worked with acknowledge the value of SL behavior, managers in two of them expressed that they had to learn how to harness and manage that value. In these two firms, managers expressed previous frustration as they often lost some of their best loan officers because they could not find a way to “contain their energy” or “channel their disagreements” productively. Part of that learning came from finding

managers who understood and related to SL officers. All three firms continuously struggle to find the right balance between company policies and service quality for all those clients that don't neatly fit into them, even as they acknowledge that SL officers are an invaluable source of information. They also believe firms who have "entered microfinance from the outside", such as large commercial banks who attempt to open microcredit arms, fail to see this value and tend to rely too blindly in the actuarial models that have proven successful for more traditional consumer credit models:

The microfinance market is more complex, more uncertain. If you don't have eyes and ears on the ground, you miss out on environmental shifts and you fail to learn how the market is evolving. (...) There is something very appealing about a model that tells you that, based on thousands of observations, you have a risk lower than three percent. But we must remember that each element of those models is based on assumptions and incomplete data. Even if each assumption seems reasonable, we must be willing to question them based on new market information. (...) The fact is that our officers on the ground are the only source of that information. (Risk Analyst, FC).

Conclusion

Microfinance –and indeed all poverty alleviation work—is a complex setting where it is unreasonable to expect organizational policies to anticipate all contingencies. In such settings, actors must exercise high levels of discretion in the enactment of rules. This is especially true for policies that seek to categorize clients, since the creation of a rule entails a set of assumptions about clients that do not apply equally well to all. In microfinance, where there is increasing pressure to comply with a paradigm of profitability, rules that seek to reduce operational costs through standardization often

result in unintended discrimination against the poorest; a direct contradiction to MFIs' stated mission. This chapter has shown that, consistent with other street-level bureaucracies, certain loan officers resolve contradictions inherent in MFIs through positive deviance in the enactment of organizational rules. These loan officers generate new organizational repertoires and resources through the positive relationships they establish with clients. In addition, they use their structural position as 'strangers' and the deviance that results from it to improve organizational rules.

The chapter thus suggests that, rather than simply pursue standardization; MFIs should embrace the individual agency inherent in the nature of their loan officers' work. This perspective allows MFIs to channel the energy of positive deviance, capture the information and repertoires generated by it, and use them to better respond to client needs. It highlights the importance of hiring, retaining, and encouraging loan officers who are 'strangers' to MFIs in their deep connectedness to the clients' world. It also hints at the difficulties of managing a more diverse workforce. Since not *all* loan officers can be expected to be positive deviants –the system would become untenable—then it is more reasonable to seek a degree of diversity in the loan officer population that incorporates more traditional, analytic, actuarial types of loan officers together with the socially embedded types. Such diversity can allow MFIs to balance exploration and exploitation simultaneously, but at the cost of increasing managerial complexity.

There is, of course, an alternative. MFIs could choose to continue on the path of standardization to further reduce operational costs without paying much attention to the

conflicting information of the impacts this is having on their destitute clients. The argument can be (and often is) made that providing a more efficient service to the 'middle' poor creates enormous social value and that, if this comes at the expense of not serving the poorest of the poor then new poverty alleviation efforts should step in to fill that void. They could choose to increasingly rely on actuarial models to focus only on the most profitable clients. They could assume that these complex actuarial systems present a true picture of client risk and a full assessment of all relevant client traits. As actuarial models push them towards only the safest credit risks, however, MFIs should accept that, rather than a social mission of bringing capitalism to the destitute, they have now embraced the mission of learning how to best profit from the poor.

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Tables

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

Table 2 – A Typology of Loan Officers

Rule	“Spirit of the law”	“Letter of the law”
- Loan officers 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 company as “the boss” or “company policies”	- Relationships with client at an institutional level - Emphasizes professional character of relationship, constantly highlighting the fact that he/she 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 only checks on client’s network 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, only interacts on contractual terms
- Loans must be collected upon and it 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”

Endnotes

ⁱ See www.mixmarket.org and www.accion.org as two prominent examples of organizations that track such benchmarks.

ⁱⁱ According to MixMarket, average global return on equity (ROE) between 2003 and 2008 increased from 9% to 13% in for-profit MFIs and from 5% to 9% in non-profits. Operational expenses were reduced by 15%.

ⁱⁱⁱ There are three basic lending methodologies in microcredit: communal banks, solidary groups, and individual loans. See Morduch and Armendariz de Aghion (2005).

^{iv} For example, a credit-scoring model may ask a loan officer to input the client's total household incomes. Low-income households, however, rely on a multiplicity of activities with different levels of variability. In most cases, clients can only offer verbal estimations of income sources. The loan officer must provide a point estimate, knowing that it will determine all loan outcomes.

^v Organization and individual names are omitted to retain confidentiality.

^{vi} This section relies heavily on (Canales Forthcoming).

^{vii} Loan amounts typically range from the equivalent of US\$50 to US\$2,000 (with an average of around \$400) and are granted for periods from four months to a year. Depending on client needs loans are repaid in weekly, biweekly, or monthly installments.

^{viii} For more information on the typology and characteristics of SL vs. LL officers, see (Canales 2009).