

ABSTRACT

Introduction: The rapid growth witnessed by the microfinance sector in the last two decades has brought into focus two opposing views: that Microfinance Institutions (MFIs) should attain sustainability with market-led practices (Institutionist approach) or that MFIs should focus on poverty alleviation through depth of outreach (Welfarist approach). A third view based on social entrepreneurship proposes that MFIs should be both sustainable as well as achieve their social objectives. The purpose of this study is to understand the debate on these conflicting approaches in microfinance at an organizational level by studying the strategic orientation of the MFIs as reflected in their organizational characteristics.

Research Gap: Though there have been many studies on the divergent approaches in microfinance, few studies look at MFIs as organizations and examine their characteristics with respect to the approaches adopted by them. The approach adopted (whether Welfarist or Institutionist) is a function of the context in which the MFI is operating and / or the strategic orientation of the MFI itself. This research traces the evolution of strategic orientation as the MFIs try to achieve the seemingly dichotomous goals of poverty alleviation and long-term sustainability.

Context: The model selected for the study is the Classical Grameen model. This is a very standardized model with clearly defined procedures and has been widely replicated all over the world. The context for the study is the MFIs in India and Bangladesh that have replicated the Grameen model. Bangladesh has been chosen for the study as the Grameen model originated there. India is one of the largest replicators of the Grameen model. Hence a comparison of Grameen replicators between India and Bangladesh would offer insights into the orientation of MFIs in different contexts.

Methodology: An explorative case study methodology with multiple holistic case studies was adopted as there was no prior research in this area. The unit of analysis in the study is the MFI. Three MFIs in India and two MFIs in Bangladesh, that reflect a range of legal forms, goals, products and services offered and areas of operation, were selected. Both primary and secondary data sources such as interviews, documentation and archival records were used to build comprehensive case studies of each MFI.

Synthesis and Analysis: A synthesis of the five case studies led to the development of three distinct ideal types labeled as *development orientation*, *social banking orientation* and *business orientation*. A rich description of each of the organizational practices of the three ideal types is built. A relationship between the growth of the MFI and its orientation is observed and it is seen that a shift in orientation could occur over the life cycle of the MFI, depending on its initial orientation. MFIs with development orientation tend to move from one stage of the life cycle to the other at a slower pace as compared to MFIs with other two orientations. On the other hand, MFIs that have begun with business or social banking orientations, or those that have shifted to these orientations, attain the stages in the life cycle faster. The shift in orientation is slow and gradual and typically occurs in development oriented MFIs towards business or social banking orientation. The reasons for this shift, which is seen in the Indian microfinance sector in particular, can be ascribed to the lack of adequate donor funds, entry of profit driven private sector banks into the microfinance sector and the increasing commercialization of the Indian microfinance sector. The shift is also observed to be unidirectional - that is from development to business or social banking but does not occur in the reverse direction. This observation corroborates the finding from the literature that microfinance is moving towards market-led practices. It is concluded that the MFIs with social banking orientation are likely to handle the pressures of double bottom line better than MFIs with other orientations.

Implications: This study will aid policy makers in gaining a better understanding of microfinance sector and its key drivers and can help in formulating better policies for the sector. The study contributes to the adoption of policy objectives that encourage social banking orientation and framing of appropriate frameworks for regulation based on the orientation and scale of operations of the MFI. Given the transformation and the commercialization of the MFIs, the study can aid the regulatory authorities in developing appropriate safe guards and regulations so that the transforming MFIs do not deviate from their social intent.

The study can be used as a template by the MFI practitioners to identify a suitable orientation and promptly adopt appropriate organizational practices that are best suited to that orientation. The study identifies the conditions under which a shift in orientation can occur and offers insight to existing MFIs particularly those with a predominant development orientation or a business orientation wanting to move towards a social banking orientation.

The study also facilitates identification and development of best practices in microfinance sector. It outlines the importance of social banking orientation and can help donors and venture capitalists identify MFIs that match their own priorities. The study contributes to better understanding of the process of CEO and Board selection and to the process of consolidation in the microfinance industry.

The study takes a closer look at replication as a process and subsequent adaptation in the microfinance sector and then provides rich conceptual and theoretical development in the field of microfinance, strategy and organization literature. The study contributes to the limited literature on life cycle of MFIs and enhances the understanding of the orientation adopted by MFIs, at various stages in the life cycle.

This study can provide pointers to theory development, policy framework and practice in other sectors such as health care and education where similar conflicting missions exist.