Politician’s Dilemma:
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By

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Abstract: Through a multiple case study covering two Indian microfinance organizations, it is demonstrated how organizations resolve the politician’s dilemma (Kraatz & Block, 2008) in a pluralistic context. The researcher elaborates on how organizations adopting a divergent institutional logic face the dilemma of attending to both the problems of commitment and conformity. He endeavours to uncover the “commitment problem” in institutional pluralism and subsequently address the issue of politician’s dilemma. He suggests that an organization maneuvers through the dilemma by constructing a new organizational identity and this is followed by complimentary organizational structure. This research is a contribution to the literature on institutional pluralism by arguing that interplay between conformity and commitment cannot be resolved merely through decoupling, and organizations need to take into account the negotiability of legitimacy sources.

Keywords: pluralism, commitment problem, politician’s dilemma

Introduction

The year 2010 was a path defining year for Indian microfinance. There were two different streams of incidents that tempted to change the course of Indian microfinance or at least changed the way the world looked at Indian microfinance. The first of these incidents was that of raising money worth US $347million in an IPO by SKS Microfinance – the largest and most recognizable microfinance organization in the country. IPO by SKS Microfinance generated mixed responses in the Indian microfinance sector. Investors were impressed with the good asset quality and disciplined model of microfinance in SKS. There was a lot of enthusiasm around the IPO and within a week of this IPO, SKS shares were oversubscribed by 13.8 times. SKS claimed that in order to finance growth so as to reach the maximum number of poor people such IPO was a necessity.

One of the strongest critiques of the IPO was from Prof. Yunus, the father of microfinance. He, like many other thought leaders was against the idea of making money from microfinance. These leaders strongly believe that an initiative like IPO symbolizes a ‘business-like’ approach to microfinance and that such ‘profiting from poverty’ (Chandran, 2010) is against the doctrine of the whole poverty alleviation movement.
Prof. Yunus raised his concern that IPOs give a wrong message to investors that there are opportunities to make a fortune at the bottom of the pyramid. He said that,

\[ \text{The concern is that when you put an IPO, you are promising your investors that there is a lot of money to be made and this is a wrong message. Poor people should not be shown as an opportunity to make money out of. If you have a new kind of IPO where you can say that you can help people get out of poverty, it is a social business and if you invest here you never get any return from this then it is good.} \]

The second stream of incidents happened within two months of the IPO, when there were reports of suicides of farmers from the state of Andhra Pradesh in India. Many of these families were clients of microfinance organization including SKS Microfinance. These suicides created furor both in the administrative and political sphere of the State which accounts for nearly 35 percent of the Indian microfinance industry. The State government came down heavily on microfinance organization and stopped all kinds of microfinance activities carried out by these MFIs. This whole episode damaged the reputation of the microfinance industry and from "magic bullet for women empowerment" (Kabir, 2005), microfinance agencies are now being called as the "modern sahukar" (EPW, 2010), and loan sharks. Once again Prof. Yunus expressed his displeasure by saying "commercialization has been a terrible wrong turn for microfinance and it indicates a worrying mission drift." During these entire crises, microfinance organizations were accused by both local and international media of "mission drifting" that is a failure of MFIs to address social and developmental issues due to commercial aspirations, but making money from the poor. These crises in Indian microfinance resuscitated the age old debate on "profit vs. development" and the tension between a developmental logic and business logic (Battilana & Dorado, 2010).

The state of Indian microfinance resonates with the gradual recognition in institutional theory literature that multiple logics can co-exist within an organization's field without any dominance of one single logic (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Kraatz & Block, 2008). Organizations operating within such fields face a situation where they need to confront multiple institutional demands originating from these divergent logics. Kraatz and Block (2008) call such a situation as that of institutional pluralism where the organization is expected to play two or more games at

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1 Money lender in Hindi.
2 Times of India, 21st February, 2011.
the same time (p. 243). The Indian microfinance organization faces a situation of such institutional pluralism where it is subjected to multiple regulatory regimes, and is also embedded within two very distinct normative orders—one originating from the development logic and the second from the banking logic.

In the later part of the paper, I elaborate on why this problem of institutional pluralism is more acute for commercial microfinance in Indian context. One of the main theoretical and practical implications of this pluralism is the problem of organizational legitimacy. The neo institutionalists looked at legitimacy as a symbolic conformity with prescription and understanding shared across the field (Meyer & Rowan, 1977). The legitimate organization under this view should act in an appropriate manner within a socially constructed system of norms, values, belief and definitions (Suchman, 1995). When the organization is situated in a pluralistic context, such a notion of legitimacy becomes problematic because, within the pluralistic context organization requires to act appropriately within not one but multiple social systems. Apart from this issue of conformity, the organization also faces a “commitment problem” (Kraatz & Block, 2008) as it is expected to exhibit cross-temporal consistency in its words and actions.

Thus an organization seeking legitimacy in a pluralistic organizational field, not only requires responding to values of multiple constituents of prevailing social systems, but also needs to demonstrate evidences of integrity and consistency in their organizational actions. Kraatz and Block call this as politician’s dilemma, which is a “conundrum which results from the interplay of the conformity and commitment problem” (2008, p.249). Theoretical progress and subsequent empirical examination on commitment problem and politician’s dilemma is almost non-existent within new institutionalism. Except classical institutional theorist like Commons (1970) and Selznick (1957), the new theorist has totally overlooked the issue of commitment problem.

The absence of focus on commitment problem as well as on politician’s dilemma is understandable, because new institutional theorist have looked at organization situated in a culturally homogeneous field till recently and hence ignored the implication of pluralism on organizational legitimacy. We have little understanding of how organizations address the politician’s dilemma in the pluralistic field to seek legitimacy. The basic form of pluralistic field one can imagine is characterized by the presence of two divergent institutional logics. We need to understand how an organization navigates
through the politician’s dilemma in the pluralistic situation of two competing institutional logics. We also need to look into how it addresses both the commitment and conformity problem and what role the organization’s logic-based identity of the past plays in addressing the politician’s dilemma.

The researcher intends to take up the above mentioned issues through a qualitative case study of two commercial microfinance organizations which transformed from a not-for-profit entity to a for-profit Non-Banking Finance Company (NBFC) in the recent past. With the growing interest of commercial banks and private equity investors in the Indian microfinance industry, a large number of organizations have followed the ‘commercialization way’ which is the adoption of business-like principles by microfinance organizations. The SKS episode had a strong delegitimizing effect on the notion of commercial microfinance and many of these newly transformed microfinance organizations who also had a history of working as non-profit microfinance organizations found themselves facing a typical politician’s dilemma. On the one hand, they needed to defend their stand on commercialization and on the other hand they needed to convince their constituents that they had not changed their primary organizational belief of serving the poor rather than making money from the poverty alleviation movement. Within this context, the researcher selected two organizations—one from the State of Assam, located in the North Eastern part of India and other from the southern State of Karnataka. An in-depth qualitative analysis of organizational responses was conducted in defense of the said dilemma and organizational history was examined to locate their responses within a context.

**Theoretical Context: Politician’s Dilemma within Institutional Pluralism**

*Re-emergence of ‘commitment problem’*

Commitment problem is discussed in the work of economists like Williamson (1975), Schelling (1960) and is generally omitted from the work of new institutional theorists working on organizations. The rational theorist and economist views individual as a rational and self-interest seeking individual making choices that further their own interests. However, through the work of the institutional economist, it has been acknowledged that the human rationality has its limitations. Individuals are bounded by their ability to retain and process information in their pursuit of benefits and hence the rationality is bounded (Coase, 1937; Simon, 1957). The other problem in the process of
The opportunistic behaviors within a contract have been at the root of the commitment problem. Since individuals are assumed to pursue their self-interest seeking behavior, there is no reason why they should not engage in any malpractice in order to benefit from a contract. The new institutional theorists propose that individuals will not be engaged in deviant behavior as their actions are constrained by institutional norms within which the contract is also situated. They argue that institutions are given a taken-for-granted status and have interpreted institutions with a cognitive focus. However, this explanation falls flat when there are multiple social systems in which individuals are expected to respond to competing demands. The acknowledgement of institutional pluralism brings back the behavior of opportunism to the heart of new institutionalism, which is till now discussed within the realm of rational economics only. The opportunistic behavior in turn brings in the issue of 'credible commitment' that individual may or may not adhere to his or her promises in the future even when there is no enforcing authority.

Commitment problem as a serious organizational issue has not found any takers in the new institutional theory. The scholarship on new institutionalism remains silent on issue of displaying commitment to seek legitimacy because it has discussed organization within a situation where the organization and its constituents are wholly nested in a culturally homogeneous field with shared understanding. But the problem of commitment reappears when an organization is recognized to be operating in a pluralistic context. For an organization situated in a pluralistic context, the field constituents recognize the ability of the organization to change direction and reshape its values and identities. The influences of multiple institutional logic on organizational actions are functions of many factors including internal representation, nature of conflict, etc. Also within a pluralistic context, the shifting of logic from one stand to another is not a one-
time event; it may occur in a cyclical manner (Greenwood et al., 2011). So constituents are expected to trust the organizations hesitantly and would remain concerned about gauging predictability of the organization.

Politician’s dilemma: Interplay between conformity and commitment

As discussed in the previous section, organizations facing institutional pluralism need to deal with both commitment as well as conformity problem. In other words, an organization needs to conform to multiple institutional demands and at the same time it is required to demonstrate consistency in practice and talk over a period of time. This dual imperative of making sense to multiple constituents as well as making sense of self is the source of politician’s dilemma (Kraatz & Block, 2008) faced by these organizations.

Constituents often look at the organization as a ‘person’ and attribute entitativity to organizations (Hamilton & Sherman, 1996). Accordingly, while assessing organizational legitimacy, constituents often assess the ‘character’ of the organization. To grant legitimacy to organizations, constituents not only apply the ‘first order criteria’ to meet their short term expectations, but also apply ‘second order criteria’ to appraise the trustworthiness of organizational action and talk. Kraatz and Block borrow the notion of first order and second order criteria from the work of Frankfurt (1971) to assess organizational legitimacy. Frankfurt proposes that men have a first order desire as well as a second order desire (p. 7). The first-order desire simply wants to do this or that; for example ŔX wants to ŔY. In an organizational context, the first order desires of constituents may be related to some short term goal of the organization which they wanted the organization to do. First order desires may be satisfied when organization symbolizes its agreement with the values of the constituents and thereby resolve the conformity issue. The second order desire is when someone wants to have a certain desire. It is concerned with things that Ŕone wants to want. Constituents want to assess the organizational legitimacy by using the second order criteria as they look for evidences of commitment, trustworthiness, and path dependency in organizational actions over a period of time and thereby expect the organization to address the commitment problem.

Organizations failing to resolve the politician’s dilemma may have the same delegitimizing effect as that of demonstrating opportunism in a contract. Institutional
theorists have recognized that constituents look for evidence of integrity and self-consistency in their action. (Selznick, 1957; Stinchcombe, 1997). Organizations operating under a pluralistic environment need to make sense to multiple constituents including organizational-self. Constituents not only evaluate organizations in terms of meeting their own expectation but also as a social actor in itself. But like commitment problem, politician’s dilemma in a pluralistic context largely remained unaddressed. Although in recent years, institutional theorists have deliberated on how organizations respond to competing institutional demands (Greenwood et al, 2011; Kraatz & Block, 2008; Santos & Pasche, 2010; Purdy & Gray, 2010; Oliver, 1991; Pratt & Foreman, 2000), none of these cited works has addressed the issue of politician’s dilemma. These works on organizational response to pluralistic demand focus on the nature of pluralistic demand, the response strategy of organizations, and factors influencing the organizational strategies (both internal as well as field level). These works mainly focus on the issue of conformity with multiple demands but overlooked the problem of commitment and hence the politician’s dilemma.

In this paper, the researcher aims to explore how the organization addresses both the commitment as well as the conformity issue when faced with competing institutional demands. The issue becomes more complicated when the demands for consistency and conformity are not compatible in nature. Through a multiple case study of two microfinance organizations embedded within a development logic-based identity, it is explored as to how they address the conformity issue with constructing a new organizational identity and resolve the commitment problem through change in organization structure and governance in alignment with the newly developed identity. In the next section of this paper, the politician’s dilemma faced by transforming microfinance organizations is described in view of the recent development in the Indian microfinance sector. The description of empirical setting is followed by an account of the methodology adopted in this study and presentation of major findings. The paper concludes with some interesting implications of the findings.

**Empirical Setting**

The microfinance operation in India can be traced back to Integrated Rural Development Programme (IRDP) launched by Government of India during the early eighties. IRDP was followed by a successful experiment on group-based lending conducted by National
Bank for Agriculture and Rural Development (NABARD) with support from some non-profit organizations. Inspired by the success of these experiments, NABARD launched the SHG Bank Linkage Programme (SBLP) in 1992. In SBLP, NGOs played a major role in promotion of SHGs across the country. Towards the end of 1990-2000, some of the NGOs exposed to the SHG model, experimented with a different model of microfinance. This model commonly termed as a Joint Liability Group (JLG), is a modified version of the *Grameen* model of Bangladesh. During the period 1998-2000, some of these NGOs also shifted from non-profit to for-profit structure by registering themselves as NBFC. This was the beginning of commercialization in Indian microfinance. Soon, Indian microfinance had a dual structure comprising of NGOs with SBLP and other comprising of NBFCs mainly with JLG model.

Self Help Groups (SHGs) are defined as a group of women whose primary interest is to save and then to take loans, initially from their own funds but eventually from a bank (Harper, 2002). These are mainly saving-led groups depending on subsidized loans from the government. SHGs are manifestation of development logic of microfinance focusing on the agendas of poverty alleviation and women empowerment. Under SBLP, the idea is to link the SHGs with a bank where the members can deposit their savings. But in many parts of the country, banks were not forthcoming and hence many NGOs collected the savings from the group. However, since non-profit organizations are not allowed to collect deposits from public, many of these NGOs with a large base of SHG operation were finding it difficult to manage the savings collected from SHGs. So some of them decided to opt for the JLG based model which is a credit-led model with microfinance organizations playing the role of financial intermediaries. JLGs are five member groups, where members from different background come together to access microloan. Unlike, SHGs, JLG does not have any larger development agenda and looks at microfinance as an end in itself. JLGs are manifestations of banking logic and lays great emphasis on financial sustainability. Because of its minimalistic approach, JLGs are quickly replicable and hence considered as a fast growth model.

With the expansion of microfinance operation, many of these NGOs decided to focus exclusively on microfinance and worked aggressively with the JLG model. These are commonly termed as NGO-MFI, that is NGOs exclusively focused on microfinance. Most of these NGOs are either registered as Trust or as Society which are not equipped to carry financial activity. With the arrival of equity investors, and growing interest of
commercial banks in microfinance, many of these NGO-MFIs decided to opt for the more suitable legal format of NBFC. Thus, the transformation of NGO-MFIs into NBFC-MFIs started by 2000 and SKS microfinance is one of the first NGO-MFIs to be transformed into NBFC-MFI. The emergence of NBFC-MFIs or MFIs created a distinct dual structure in Indian microfinance with two different organizational sub-communities. One sub-community is dominated by development logic propagated by NGOs promoting SHGs and the other one is primarily guided by banking logic with NBFC-MFIs as one of the propagating constituents.

In Indian microfinance, commercialization and subsequent rise of banking logic has happened mainly through "transformation" (Ledgerwood & White, 2006). There are two distinct categories of organizations who have transformed into commercial microfinance organization. In the first category are those organizations which have a long history of working on various developmental issues along with promotion of SHGs. This category of organizations transformed into commercial organizations due to legal restriction in a non-profit format. The second category of organization is inclined towards benefitting from the upcoming field of microfinance while doing well to the society. They generally have a very brief period of working as non-profit NGOs (2-3 years) and that too because they lacked the initial capital to transform into a commercial organization.

The politician's dilemma and commitment problem that we intend to explore in this paper are mainly faced by the first category of organization. For this set of transforming commercial organization, the dominant logic of the organization shifted from development to banking logic. The pluralistic pressure of development and banking logic make conformity an issue for these transformed organization. They need to conform to two different sets of demands coming from different schools of microfinance. While the banking logic expects the organization to run in a "business like" manner, the development logic suggests addressing poverty alleviation agenda. Since these organizations have a history rooted in development logic, they also face a commitment problem with the shift. The commitment problem appears as many constituents allege of mission drift and organizations of losing its primary focus of serving the poor with commercialization. These microfinance organizations need to assure their constituents both within as well as outside the organizations that they have not changed from the core; their character is still the same as that of the development organization. In this paper, we have selected two microfinance organizations corresponding to the first
category of transformed organization facing a commitment and conformity problem. The dilemma faced by these organizations is how to demonstrate that they are committed to development logic (their previous logic) while conforming to the pressure of banking logic.

**Method**

In this research we have adopted a multiple case study research design (Yin, 2009). We have selected two microfinance organizations who have a history of working with SHGs and started as development organizations. In recent years, they spin-off their microfinance operation into a separate for-profit entity. First organization, NEMFI, is based in the North eastern part of India, while the second organization, SMFI is based in Southern part of India.

NEMFI, based in the state of Assam, started as a grant-giving organization to local NGOs in 1990. It was registered as a non-profit organization under the Societies Registration Act. It started with a mandate to support small NGOs which were otherwise not funded by any donor agencies to promote livelihood generation activities in North Eastern part of India. NEMFI funded several projects across various states of North East and helped in capacity building of local organizations. It is promoted by a group of individuals working in public sector banks. In 1995, NEMFI started its microfinance operation with a SHG based programme on a pilot basis. By 2010 it spin-off the microfinance project into full-fledged commercial organization by shifting the microfinance operation under an NBFC format.

SMFI is based in the state of Karnataka, in southern India. The parent organization of SMFI was registered as Trust under the Indian Trust Act by a group of bankers with an aim to build a resource organization for enterprise development. In the initial years, they conducted training for microenterprises and provided training for SHG promotion. In 2005, SMFI got into direct implementation of microfinance programme to provide credit support to SHGs. With expansion of its operation, they shifted the microfinance programme under a for-profit structure in the year 2010. SMFI is offering its microfinance product at the lowest rate of interest in the state of Karnataka and currently working in all the districts of Karnataka.
Data Collection

Research for this study builds on 30 interviews, archival materials, and fieldwork notes based on on-site observations in two microfinance organizations. Interviewees included members of Governing Boards as well as senior managers and employees of these two organizations. The recorded interviews were transcribed for analysis. Archival materials are the multiple reports compiled during the data collections. This included annual reports of these organizations since their inceptions, meeting minutes, Business Plan, etc. and other documents relevant to the process of transformation. It also included material available on the web and studies done by other researcher on these organizations. Apart from the documents and reports directly concerned with SMFI and NEMFI, reports on the microfinance industry were collected to get an overview of the sector. Diaries were maintained during the field work to note queries while conducting interviews, and followed the queries once the interview was over or in the next meeting with the respondents. These diaries were used extensively while visiting the clients of these two organizations, and attending their group meetings. Observations regarding various practices followed by the organizations were recorded and other interesting point that came out during informal chat with field staff.

Data Analysis

We did coding analysis to generate categories to address the central research question (Strauss & Corbin, 1998; Miles & Huberman, 2004). The coding is done in two cycles. In the first cycle, a descriptive coding process is followed. In the second cycle of coding, we arranged the interview data according to their categories and used a coding paradigm (Strauss, 1990). The process of coding is accompanied by writing memos (Glaser, 1978). The information collected under the second cycle of coding are grouped under two broad areas—conformity to the pressure of competing logic and commitment towards previous logic. Taking cue from propositions of Kraatz and Block (2008) on organizational responses to institutional pluralism through identity work, we collated all the information on identity work. This has helped us to elaborate on the first aspect of the politician’s dilemma that is conformity to pluralistic pressures.

For the second aspect of the dilemma on the issue of commitment, we looked at visible demonstrations of commitment towards past logic-based identity of the organization. This grouping of information showed that the data collected during the fieldwork
included enough information to permit identification of commonalities and variations across each of the organizations. However, the variances noticed across the two organizations are only in terms of the stress given for various reasons within a broader argument.

Findings

Conformity problem: Response to pluralism through identity work

The biggest challenge for commercial microfinance post the fiasco of SKS Microfinance was to legitimize their approach before the critique of commercialization. In order to meet the challenges of legitimacy criteria in a pluralistic field of microfinance these organizations have compartmentalized their identities (Kraatz & Block, 2008). They tried to relate to two different logics independently. They have attended to these logics through separate initiatives and separate structural units. The demand from banking logic to operate as for-profit organization is also a legal requirement under the Indian regulatory regime. So both these organizations conform to the demand of banking logic by adopting an acceptable legal structure (that of NBFC). This for-profit identity is strictly used to communicate with financial resource providers like Bank, and investors.

NEMFI and SMFI do not identify themselves as profit-seeking microfinance organization rather they prefer to believe that they offer a social banking service which is commercially viable. These organizations identify themselves more with development organizations and claim that since microfinance is considered as commercial activity in the books of law, they need respect the constituencies of banking logic. The CEO of NEMFI puts it in the following way

“...doing microfinance under Societies Act is illegal. We transformed into NBFC so as to do microfinance in a legal way”.

A similar explanation focusing on the nature of microfinance as an intervening activity, the Head of HR at SMFI explains in the following way

“Microfinance involves finance and all financial activities require separate handling. They can’t be managed along with other development activity.....banks are commercial but not exploitative. We want to be commercial organizations (like banks) with responsibility”.
The other identity that these organizations have created for themselves is that of a ‘community based microfinance organization’. This identity has aligned the organization with other non-profit microfinance organizations because of its explicit focus on community defined in terms of its borrower. This identity of the community based microfinance organization is used by these two organizations in all their promotional materials, websites etc. The essential message is that these are voluntary organizations committed to a developmental goal – for SMFI the goal is the financial empowerment of women, and for NEMFI, it is the livelihood promotion and better living standard.

Both the organizations have translated their dual identities in practices as well. They have adopted all the practices propagating the banking logic which is non-negotiable in nature. As commercial organizations registered with the Reserve Bank of India (RBI), they have adopted a structure which is compatible for a for-profit venture. NEMFI and SMFI have created many departments like HR, Accounts, Audit, etc., and have formulated working policies in accordance with the labor law. Rating agencies like CRISIL have rated both these organizations very high on their systems and procedures and thereby granted them legitimacy from the view point of funders and commercial banks. Their official documents, especially those related to fundraising like proposals to Banks, etc., are carefully drafted to highlight the professional approach practiced by these organizations.

On the other hand, these organizations have also advocated for ideas propagating development logic apart from meeting the legal requirement of commercial microfinance. Both the organizations are active members of Sa-Dhan, a network of microfinance organization. Sa-Dhan is also an institutional gate keeper of development logic and has been a constant critique of practices in microfinance which encourage profiteering from the poor. While NEMFI is one of the founding members of Sa-Dhan, both NEMFI and SMFI are office bearers of the same. SMFI is also an active member of a forum called Alternative Microfinance Summit, which is an advocate of community owned microfinance organizations. Such association with the ambassador of developmental logic helps these organizations to relate to constituents of this logic.

Commitment problem: development vs. banking logic

As mentioned earlier, the commercial microfinance has faced severe threat of delegitimization in 2010 after the IPO by SKS and subsequent suicides of clients of some
of the largest commercial microfinance organization like SKS, Spandana etc. So the challenge before the newly transformed microfinance organizations was to offset these delegitimizing effects by demonstrating their commitment towards the agenda of poverty alleviation. For SMFI and NEMFI, which already have logic-based identity (development logic), the challenge is to demonstrate that despite shifting their orientation from a not-for profit to a commercial microfinance, they are still committed to development logic as much as they are to banking logic.

There are three major findings related to the commitment problem. First, the transformed organizations differentiated themselves deliberately from the typical commercial microfinance organization like SKS Microfinance, Spandana etc. Second, these organizations have strengthened their past logic-based identity by extending the same to a new identity of community based microfinance. They have opted for a governance structure as well as microfinance model resonating with the identity. Third, findings reveal that in order to demonstrate commitment and avoid opportunistic behavior, SMFI and NEMFI attempted to address those issues which are being critiqued by the opponent of commercial microfinance.

**Differentiating with commercial microfinance**

Since commercial microfinance is heavily criticized for making money from the poor to serve personal needs, SMFI and NEMFI clearly focus on protecting the interest of the community. These organizations have a clear mandate for investment and do not encourage individual investors holding maximum shares of capital. Profit is not the sole goal of microfinance operation; rather profit is considered as a necessary condition to survive so that the organizations can attract investors/lenders to support the operations. SMFI started microfinance with an aim of offering credit at the cheapest rate possible and organizational policies reflect the same ñ SMFI lends at a margin of 6-7%. Their focus on offering credit at the lowest interest rate in Karnataka makes them distinct from the other commercial microfinance organizations. The statement from one of the executives explain the point,

“I don’t think we are falling into that trap of commercial microfinance. You can look at the rate of interest we charge. We are in the limit of the RBI cap. These all depend upon the institutional policy. These (high exploitative interest rate) differ from one to another organization. But, I don’t think we are in the same line of SKS and Spandana.”
Similarly, the strong focus of NEMFI on livelihood promotion along with health and education builds up to the image of a development organization. In Annual Report, it claims that,

“With the expertise of the experienced professional and dedicated field personnel, the organization is able to extend credit along with the credit-plus services especially in the field of health, education, and livelihood opportunities to the clients under its fold.”

Both these transformed organizations project themselves as different from the other NBFCs working in microfinance, as exemplified in the following quotes,

“There are many microfinance companies, but there are very few MFI who are community based. This is the first community based organization in North East. In another sense, this is the first NBFC-MFI in North East.” (Executive, NEMFI)

“It is the largest community based Non-Banking Financial Company (NBFC) in Karnataka.” (SMFI website)

**Strengthening the past logic-based identity**

As reported earlier, SMFI and NEMFI have a logic-based identity centered around the development logic. Through the construction of the new identity of the community based microfinance organization, they have extended the past identity and strengthened it further. The parent organization of SEMFI promotes itself as a “resource organization in the third sector. It is constituted to carry out people’s development programme in developing countries.” Similarly, the motto of the parent organization of NEMFI is “reaching the unreached” and it was incorporated “to give fund support to the poor, so that they have access to viable livelihood options (it recognizes that microfinance is an extremely important tool for livelihood intervention.”

Essentially both the organizations have been focusing on livelihood activities as their focus area of intervention. In case of SMFI, it is engaged in capacity building of micro enterprises and SHGs. In order to extend support to these entrepreneurs, they started offering microfinance services and eventually turned into a large microfinance NBFC.
NEMFI is focused on capacity building of small NGOs in livelihood activities, and as a part of their livelihood promotion activities, they started the microfinance programme. In both the cases, the transformed microfinance organizations retained their parent name and there are overlapping of members in Governing Board of parents and the transformed microfinance organizations.

Both these organizations demonstrated their commitment towards the prescription of development logics with the rhetoric used in public documents like Annual Reports, Advertisement for recruitments, etc. For example, SMFI consider itself as an organization which,

“(…) envisages a democratically-governed, transparent administrative structure, run by the SHG women with minimal NGO input. (…) is in the process of establishing a multi-tier SHG federation that would oversee the SHGs and further empower the women to take charge of their lives.” (Advertisement for Indicorp-fellow)

The recruitment advertisement for the post of COO and CFO for NEMFI also highlights the developmental characteristics of the organization as they asked for,

“…… Dynamic professionals from the development sector; having exposure of working in a responsible position and with panache for working for the upliftment of the disadvantaged sections of the society.”

These two organizations have strengthened their past logic-based identity by continuing focus on SHG model of microfinance. SMFI claims to offer the lowest rate of interest in Karnataka and focuses only on SHG model. They consider the JLG model as a restrictive model for development as it focuses only on the financial aspect. SHGs are more holistic in nature and emphasize on the strength of people’s collective. Similarly, NEMFI also focuses on SHG model especially in rural areas. However, in recent years they have also started promoting JLGs in order to handle the competition from other MFIs.
In this way, these two organizations have demonstrated that although they have changed their legal status, they are still committed to the organizational goal of poverty alleviation and women empowerment and view microfinance as only an input in this process.

**Balancing the commercialization**

Both the selected organizations have addressed those issues where the commitment of commercial microfinance is doubted. They have taken sufficient care to place the community at the core of the decision-making process for microfinance. SMFI and NEMFI formed Federation of SHG members and registered them as a Mutual Benefit Trust (MBT). These MBTs have an initial contribution towards capital formation in these organizations and thus making the community one of the largest shareholders in both the organizations. However, unlike SMFI, the community does not have direct representation on the Governing Board of NEMFI. But through MBT formation and their shareholding in the initial capital, gives them a role to play in organizational governance and thereby help them in formulating organizational policies to protect their interest and resist mission drift. The role of community contribution through MBTs can be exemplified from the following quote,

“There are two main purposes behind the MBT formation. First one is that we wanted to give a major portion of share capital to the clients. We don’t want to get pressurized from outside investors who will be investing in share capital. If the community has 20-25% share in the capital, whether we continue in the future or not, at least they will have 2 crore of deposit with us. If we continue then they will have better value of the deposit money in the form of share capital. Also when the community will have a good share of total capital, then there will be a balance among the investors, so there will not be any pressure as such. So the community will get a benefit and also there will not be any pressure as such from investors to make more profit or any other sort of decisions.”

(Senior Executive, NEMFI)
“We are a client centric organization. We want our clients to derive maximum benefits from us” (Board Member, NEMFI)

The governance structures of both the MFIs encourage participation of community in the management of the organization. The MBTs are formed to give the community a sense of ownership and also enable them to get hold of easy finance. In case of SMFI, the representative from SHGs sits on the Board, while in case of NEMFI; there is a policy of bringing in community members to governing board in near future. The following statements reflect the operating philosophy of these organizations,

“We are a community based organization. In a community based organization, community takes active part in the decision-making process regarding lending, saving and other activities”. (CEO, SMFI)

“We are working with the community for a long time and wanted to involve community in the new company (NBFC). Any benefits from the formation of the company should go to community first” (Branch Manager, NEMFI)

Commercial microfinance organizations are accused of protecting the interest of investors more than that of clients. To counter such allegations, apart from ensuring participation of clients in organizational governance through MBTs, these organizations have also formulated management guidelines to promote the interest of clients on a priority basis. The guidelines clearly focus on issues like exploitative interest rates, targeting non-poor as clients, avoiding profit-seeking behavior etc., which are reported as the weaknesses of a for-profit microfinance organization. These management guidelines (Table 1) also make NEMFI and SMFI different from the stereotyped images of commercial microfinance.

<table>
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<th>Table 1: Management Guidelines of NEMFI and SMFI</th>
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<td>NEMFI</td>
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Politi
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lemma by Sushanta Sarma

| Purpose | Shall deal with low income people including the very poor | Assist organizing the poor in SHGs and building capacity of SHGs through training and non-training interventions |
| Governance | The organization shall be part-owned by clients | Build a financially inclusive model with a social face that is commercially viable for the poor |
| Services | In addition to credit, the organization is committed to offer other related technical and financial services | Assist SHG Federation to provide ‘Credit plus’ services |
| | Keeping the return on asset low, the organization shall try to bring down service charges proportionate to the business volume and profitability of the organization | To charge lowest possible rate of interest to SHGs and operate within a profit margin of 6-7% |
| | Insulate from giving multiple loans | Build the capacity of SHG Federations towards participation in governance of SMFI |

Apart from bringing in the community in the governance of the organization, both the organizations do not promote individual shareholding beyond a certain percentage. In case of SMFI, the community holds more than 60% of the stake, while in NEMFI, no individual holders are allowed to have more than 25% stake in the company. SMFI has shown their consistency on commitment towards development logic while meeting the demands of banking logic, through sticking to the slow growth SHG model despite being transformed into a for-profit entity. Similarly, in case of NEMFI, they tried to resolve the commitment problem and cleared doubts about their inclination towards development logic through practicing work ethics like not putting pressure on individuals for loan repayment and relying on peer pressure of group for the same.

“In case of any default we do not believe that the client is bad or he has done it intentionally. We generally try to understand his problem and try to help his problem so that he can repay us back. We do not insult the client for not repaying as we believe most of the clients are good people.” (Branch Manager, NEMFI).
As mentioned in the data analysis section, the differences between the two selected organizations are minor in terms of their identity constructions. This is because both the organizations have modeled their organizational structure and governance on the lines of Sarvodaya Nano Finance, the first community owned NBFC in India. However, while in the case of Sarvodaya Nano Finance, the organization is literally owned by SHGs, in these two cases, the SHGs do not own but occupy a central position within the organization.

In SMFI, the identity of community based microfinance is more deeply rooted as compared to that of NEMFI. SMFI is totally focused on SHG-based model and SHGs have direct representation in the Governing Board. While in case of NEMFI, the microfinance model is a combination of both SHGs and JLGs with SHGs mainly existing in rural areas. Also the federation of SHGs registered as MBTs are more active and thriving in case of SMFI as compared to NEMFI, where some of the MBTs are dormant. Moreover, SMFI has a more focused future plan to develop these MBTs into a sustainable community managed organization and some actions have already been taken towards that direction. Although, NEMFI also has plans to activate the MBTs but these are existing at the idea level only.

Our analysis also reveals an interesting aspect of organizational response to pluralism—about the stability of responses (Greenwood et al, 2011). The organizations studied in this research have very recently experienced the competing pressure from two different logics, mainly after their transformation in 2010. Hence the current response to these competing pressures need not be the one time and the only response that these organizations will make. In fact, with the growing pressure of financialization in Indian microfinance, there are indications that these organizations may adopt many practices based on the banking logic. Currently, SMFI have modified some of their practices.
related to SHG promotion. They have reduced the time spent in hand-holding support given to SHGs in order to make them eligible for a loan faster. Similarly in NEMFI, there is a growing tendency to support more and more not-so-poor people in order to ensure substantial disbursement and quick repayment. Thus, in coming years, there are possibilities of growing differences between organizational talk and practices in order to manage the institutional pressure of financialization (Lok & Gupta, 2012).

**Discussion**

The objective of this study was to understand how an organization resolves the politician’s dilemma arising out of the interplay between commitment and conformity problem. The findings showed that the organization can handle commitment and conformity problem by strategizing organizational identities along with organizational actions. In case of SMFI and NEMFI, we found that conformity problem was handled through compartmentalizing organizational responses relating to multiple institutional constituencies. This is consistent with proposition of Kraatz and Block (2008) that legitimacy-seeking organization responds to pluralistic pressure through the compartmentalization of their identity. Although both SMFI and NEMFI, apparently built and strengthened the identity of ‘community based microfinance organization’ but they also carefully nurtured the identity of a professionally managed for-profit microfinance organization in all their official communication targeting at the investors. These organizations have derived their status as for-profit professional organization from legal sources and hence it is beyond any manipulation (Pache & Santos, 2010). Endorsements by rating agencies like CRISIL and capacity building agencies like MicroSave for practices followed in SMFI and NEMFI, have helped these organizations to relate to the baking logic in microfinance.
The commitment problem for NEMFI and SMFI is to demonstrate their affiliation towards development logic despite facing institutional pressure from banking logic. SMFI and NEMFI have done it by adopting a mix of organizational strategies and organizational structures (Greenwood et al, 2011). In terms of strategies, both the organizations of have extended their past logic-based identity, and disassociated themselves from the stereotyped commercial microfinance organization. In terms of organizational structure, they have addressed issues of organizational governance (formation of MBTs), products (microfinance model) etc. to protect the right of their clients. Based on these findings we can report a few implications for the extant scholarship on the politician’s dilemma.

First, the politician’s dilemma can’t be resolved through mere decoupling (Meyer & Rowan, 1977). The legitimacy seeking organizations need to address the problem of conformity and commitment with substance. This is because, in a pluralistic context, there are multiple organizational core and the periphery is not clearly defined. The organizational periphery for one institutional constituent may be the core for another. In this case, the for-profit status of these commercial organizations can’t be treated as the periphery or superficial. It is bounded by legal provision and cannot be manipulated. But for certain constituents, this status seems to make very little sense as long as the organization is committed to the development agenda. Similarly, for a commercial bank, what matters more in SMFI or NEMFI is their legal documents, credit management systems, capital adequacy and portfolio quality. For them, the ‘community based microfinance’ makes not much of a sense. But both SMFI and NEMFI have taken utmost care not to demonstrate any opportunistic behavior through their commercial approach and remained stuck to their community centric identity. This is because constituencies
within the organization as well as from their past logic-based identity give high merit to these community oriented actions.

Thus, the merit of the issues at hand decides the importance of the rituals. The more important the issues at stake, the more important will be those rituals that are carefully justified as serving the value (Stinchcombe, 1997 p. 10). The merit of the issue depends on the organizational core; with multiple core the merit also varies from constituents to constituents. Hence, treating organizational decoupling as a strategy to resolve the politician’s dilemma may not be apt in a pluralistic context. In institutional pluralism, decoupling without any substance may have delegitimizing effect.

Second, legitimacy seeking organization addressing conformity and commitment problem needs to consider the nature of sources of legitimacy. Our analysis showed that this non-negotiability of legitimacy sources varies for commitment and conformity problem; in other words organizations dealing with the politician’s dilemma may need to deal with more than one non-negotiable legitimacy criteria and accordingly can play around the notion of appropriateness. For SMFI and NEMFI, in case of conformity problem, the non-negotiable source of legitimacy is legal. Organizations engaged in microfinance are bound to be registered with the RBI if they want to operate on a larger scale and to access capital from commercial banks. There is no way this demand for conformity is negotiable. On the other hand, the model of microfinance, organization structure, profile of management, operational policies etc. are negotiable for a commercial microfinance organization. So, SMFI and NEMFI did not conform completely to the demand of banking logic and devised an organizational arrangement to conform to expectations of development logic.
In case of the commitment issue, both SMFI and NEMFI are concerned about the delegitimizing effect due to demonstration of deviant behavior from their past that is from development logic. Here the source of non-negotiable logic is cognitive in nature. For a development organization, the community centric orientation with a developmental agenda of women empowerment, livelihood generation, etc., are considered as taken-for-granted objectives. Although, as a commercially viable organization, SMFI and NEMFI should have highlighted their financial performance in all their communication to the outside world; but they preferred to communicate those aspects of organization which establish their commitment to development logic. The newly formed identity of community based microfinance organization is an extension of development logic and for both SMFI and NEMFI, this is a non-negotiable source of legitimacy.

Finally, the study offers empirical support to the proposition that politician’s dilemma carries the seed of its own solution (Kraatz & Block, 2008). SMFI and NEMFI have identified the commitment issues that arise after transformation into NBFC and accordingly worked on these issues so as to avoid any opportunistic behavior. The structure of community based microfinance addresses most of the issues that were criticized heavily by proponents of development logic. Protecting the interest of the investors only, the exploitative rate of interest, lack of clients’ control in organizational governance, private investors making money from poor people etc., are some of the issues which are put under scrutiny and commitment of organizations are questioned based on these. Both SMFI and NEMFI have taken adequate measures to specifically address these issues as they built the identity of the community based microfinance organization.
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Professional Activities
Prof. Sarma holds a doctoral degree (FPRM) from Institute of Rural Management Anand (Res topic: Theorization of Competing Logics in Emerging Organizational Field). Prior to joining the Fellow Programme, he has worked for five years in non-profit sector with organizations of national repute like CAPART, SEWA-Lucknow and PRADAN

Research
Competing Institutional logics, Institutional work, Organizational identity as theorization strategy, Microfinance.

Publications


Book Reviews:


Cases


Sarma, Sushanta Kumar and Madhavi Mehta (2010), “People’s Education and Development Organization”- a case on organization culture. Used as a teaching case in the course “Understanding Organization” at IRMA.

Consultancy Assignments:

Conducted training need assessment for SEWA, Ahmedabad as a part of IRMA team for the project, “Assessing and Enhancing Managerial Effectiveness of Selected SEWA Bank Functionaries” in August, 2010.

Worked as a Sociologist and Gender Specialist in formulation mission of “Women’s Empowerment and Livelihood Programme in mid-Gangetic plains of Uttar Pradesh and Bihar (Priyadarshini)” for International Fund for Agricultural Development (IFAD), from 17th June to 31st July, 2006.

“Reconfiguring SGSY: A Limited Scope Study” was conducted and presented jointly with Trust Consulting, Lucknow in state level workshop on “Empowering Livelihoods: State Policy, Private Initiative & Civil Society Action” at Lucknow from 22nd-23rd September, 2005.

Conference Presentations:


Awards:

Selected for travel grant under Young Professional Award by International Development Research Centre (IDRC) to participate in the 13th Biennial Conference of the International Association for the Study of the Commons (IASC) 2011 at Hyderabad, India on January 10-14, 2011.

His case study 'Weaving Strength with Suta' was selected as the third best entry for publication in the compendium of top 10 case studies under Sitaram Rao Livelihoods India - Case Study Competition, 2010. The event was organized under the aegis of India Livelihood Summit, November 17-18, 2010 and was hosted by Access Development Services.