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The Role of Trust-Control Mechanisms in Operations Processes: Mitigating Mission Drift in a Microfinance Institution in Gujarat, India

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Abstract

This study explores how managers of microfinance institutions (MFIs) use trust-control mechanisms in the operation processes to mitigate the problem of mission drift arising out of the need to meet the dual goals of social development and financial self-sustainability. Using a case study methodology, purposive sampling, and replication logic, data from the operations processes of four geographically different sites of a microfinance institution in Gujarat, India were analyzed. The findings suggest that the managers of microfinance institutions balance integrity-trust, benevolence-trust, competence-trust, and control mechanisms to achieve dual goals of social development and financial self-sustainability. The conditions and contingencies under which trust-control mechanisms are most effective for mitigating mission drift are identified. The findings also indicate that managers of the microfinance institution use calculative and relational forms of trust to achieve the empowerment of women borrowers along with the fulfilment of the aims of financial self-sustainability. Finally, the study places mission drift mitigation within its ethical context by examining client vulnerability and the MFI's operational responses.

Key Words

Microfinance, Mission-drift, Social development, Financial self-sustainability, Operations processes, Trust-control mechanisms, Integrity-based effectiveness, Benevolence-based effectiveness, Competence-based effectiveness, Control-based effectiveness

List of Abbreviations

CGAP	Consultative Group to Assist the Poor
FSS	Financial Self-Sustainability
JLG	Joint Liability Group
MF	Microfinance
MFI	Microfinance Institution
POE	Positive Organizational Ethics

Introduction

Microfinance Institutions (MFIs) have two missions competing for management attention. One is the social development mission of poverty alleviation of its clients (the social goal) and the other is the increasing pressure to achieve financial self-sustainability (FSS). The need for FSS is based on the belief that earned income and profitability are a more reliable source of funding for social development compared to government subsidies and charitable contributions (Dee, 1999, p. 140). Previous research suggests that prioritizing the FSS objective over the social objective has generated accusations of mission drift (Arena, 2008; Canales, 2012; Sheldon, 2012).

The term *mission drift* in this context implies that the focus on commercialization for FSS has driven some of the MFIs to emphasise profitability at the expense of achieving impact on poverty alleviation (Arena, 2008; Canales, 2012). According to the Consultative Group to Assist the Poor (CGAP, 2012), the incentives associated with high growth and pressures to achieve lending targets can lead to banking practices where the desire for profitability can trump good banking practices and thereby undermine the social goal. Mission drift therefore also has an ethical dimension.

The widely reported microfinance crisis in the State of Andhra Pradesh in the year 2010, points to allegations of unethical lending practices causing heavy indebtedness of clients, and the use of excessive interest rates accompanied by coercive loan recovery methods. These practices indicate mission drift that negates the goals of social development. Therefore, it is critical that MFIs' daily practices help to mitigate mission drift in order to achieve the social and the FSS goals. Sheldon (2012) concurs to suggest that managers of MFIs cannot escape from having to make difficult decisions on trade-offs in balancing the attainment of profitability with delivering anti-poverty social goals. Sheldon's argument is in line with the economic analysis that centres around the necessity of trade-offs between the long-term goals of achieving financial self-sustainability for MFIs and the goals of outreach that argue for serving as many poor people as possible (Hermes & Lensink, 2007; Sheldon, 2012; Canales, 2012). The argument in favour of prioritizing outreach over profitability goals focuses on the outcomes and effectiveness of microfinance programs in relation to the breadth and depth of poverty alleviation objectives.

However, while outcomes of microfinance programs (that is, the outreach argument) are critical for the poverty alleviation goal, they overlook the critical role played by the day to day operations processes in balancing the social and FSS goals for mission drift mitigation.

Therefore, in this paper, mission drift mitigation is seen as a process ingrained in the daily practices of micro-credit operations, and is defined as simultaneous achievement of the social goals and financial self-sustainability of the MFI. Such a perspective is not only concerned with how managers of MFIs balance the imperatives of the dual goals, but it also takes into account the context in which the operations of the MFI take place.

MFIs conduct their operations in a context of desperate poverty, and lack of empowerment for women (Chakrabarty and Bass, 2014). In citing Karnani (2008), Mair et al., (2012), and Rice (2010), Chakrabarty and Bass (2014) suggest that the economic vulnerability of women stems from social conventions where gender inequality in practice could exclude women from participating in market economic activities. They further contend that gender inequality can manifest itself in aggressive, unethical, and abusive behaviours toward women. For example, in the case of MFIs, abuse against women could be perpetrated by loan agents responsible for the recovery of loans (Chakrabarty and Bass, 2014). Thus an MFI's drive for profitability could subvert the goals of social development. Therefore, the process perspective of mission drift mitigation argues for balancing the social and FSS goals in a way that protects both the clients' and the MFIs' interests.

From the perspective of the MFIs, dual organizational goals imply that the managers balance organizational coordinating mechanisms at their disposal in ways that enable them to achieve both objectives simultaneously, and avoid mission drift (Arena, 2008). Arena (2008) proposes social and governance control-based coordinating mechanisms as a key to mission drift mitigation. However, the present paper argues that governance and control mechanisms provide only a partial insight into mission drift mitigation and that sustaining trust-building mechanisms is also critical for the MFI managers' ability to meet their goals.

In adopting the perspective of trust-building mechanisms, this research does not examine trust *per se*, that is, the trust of the MFI in their clients or the clients' trust in the MFI. Rather, it examines the processes and actions of the MFI that help develop the clients' trust in the MFI. This is consistent with Shaw's (1997) contention that collective trust can best be studied through organizational processes, practices, and structures. According to Shaw (1997) collective trust is not trust in and of itself, but the processes and mechanisms that help develop trust. Thus, the central question this research explores is how managers balance trust-building and control mechanisms in the operations processes of an MFI to achieve social and FSS goals. These actions contribute to mitigating mission drift. The trust-control perspective is critical for gaining insight into how the MFI balances (a) trust-building

mechanisms to empower their clients, and (b) control mechanisms to manage loan-related activities.

The context in which MFIs achieve the trust-control balance is also pertinent in understanding the field-level activities of the MFI. As suggested by Chakrabarty and Bass (2014), the MFI operations take place in the context of poverty and women's disempowerment. Additionally, the relationship between an MFI and its clients is underpinned by a large power differential defined by the poverty and illiteracy of its clients. Such a relationship entails clients placing high levels of trust in the MFI. A trust-based relationship implies that the MFIs' actions, rules, regulations, and procedures (i.e. trust-building and control mechanisms) demonstrate that it is a trustworthy partner with whom the clients can confidently engage in loan transactions. The exploitation of clients' vulnerabilities, such as profiting through inflated interest rates would not only constitute unethical practice but would also negate the goals of social development through micro-credit. A trust-based relationship between an MFI and its clients would ensure that women are empowered by engaging in market-led economic activities, assuming leadership roles in joint liability groups (JLG), making decisions on how and where to allocate money, and acquiring credit-discipline skills. Additionally, the women's abilities to obtain cash for income-generating activities or to meet emergency needs for health and/or education needs of the family give them a certain valued and empowered position in the family. Therefore, the importance of trust-based effectiveness for client empowerment, supported by control mechanisms that achieve lending-related goals cannot be ignored.

To explore the role of trust-control activities in the operations processes of the MFI in this paper, the key trust-control concepts that constitute trustworthiness are first identified through a literature review, followed by methodological explanations. Then, the findings followed by a discussion of the research are presented using tables and diagrams under the five headings of (a) integrity-based effectiveness, (b) benevolence-based effectiveness, (c) competence-based effectiveness, (d) control-based effectiveness, and (e) overall trust-control balance effectiveness. Mission drift mitigation is subsequently discussed to establish it within its ethical context. Thereafter, a diagrammatic model is proposed which outlines key categories that conceptually integrate operations processes with the balance of trust-control approaches, and mitigation of mission drift.

Trust-Control Defined

Trust in organizational contexts has held an abiding interest among scholars (Desteno, 2014; Kramer, 2010; Soren, 2010; Costa and Frankema, 2007; Cofta, 2007, Das and Teng, 2001). However, a definition of trust has proven illusive. Much of the academic literature indicates that trust has been conceptualized in many different ways, and thus has become rather complicated to define (Banerjee et al., 2006; McEvily et al. 2003). One of the reasons for this definitional difficulty is that trust has multiple dimensions. It is discussed by scholars in economic terms as ingrained in self-interested behaviours (Bromiley and Harris, 2006), in sociological terms as governed by societal norms (Van de Ven and Ring, 2006), and in ethical terms as a principle of fairness (Banerjee et al., 2006) that ought to be pursued for its own sake.

McEvily and Zaheer (2006, p. 287) suggest that "Despite the heterogeneity in theoretical orientations, many agree that at its core trust is the willingness to be vulnerable based on positive expectations about another's intentions or behaviours." The implication of this definition is that there are three necessary conditions of a trust-based relationship: interdependence, vulnerability, and risk (Banerjee et al, 2006, p. 308). Such a definition has direct relevance to MFI clients and their trust in microfinance institutions (MFIs). The inequality in the power equation and the information asymmetry between the MFI and its clients who are not literate in many cases suggest that in placing their trust in the MFI, clients open themselves up to the risks inherent in financial transactions with the MFI. At the same time, the clients would have an implicit expectation that the MFI would not opportunistically exploit their trust-based vulnerability. Kramer (2006, p. 74) discusses asymmetries in hierarchical power-dependence to suggest that "from the standpoint of those in a position of greater dependence and lower power, concerns about the motives, intentions, and concealed actions of those decision-makers who control their fate are likely to be consequential." Thus, the MFI's actions that demonstrate trustworthiness are central in building strong ties with the clients for achieving the MFI's goals.

According to Casson and Giusta (2006, p. 346) "trustworthiness is an objective characteristic [that] cannot be directly observed." Nooteboom (2006, p. 249) suggest that trust in organizations is behavioural trust which constitutes intentions, honesty, resource-availability, robustness, and competence-trust. Thus, behavioural trust implies a combination of trust and control mechanisms. In the case of the MFI, its intentions and honesty (i.e. integrity-trust) for sustaining trust, its resource availability and robustness to achieve

financial self sustainability (FSS), and its competence are critical in achieving its FSS and social goals. Therefore, the question that arises is about those observable trust-control based behaviours or actions that indicate that the MFI is adequately focussed on (a) sustaining trust with their clients and (b) achieving financial self sustainability at the same time.

Dirk (2006, p. 22) cites Whitener et al. (1998) to suggest that behavioural consistency, behavioural integrity, participative decision-making, communication, and demonstrating concern are among many other behaviours that indicate trustworthiness. However, the three most salient characteristics that define trustworthiness, and which more often appear in the literature, are integrity, benevolence, and competence (Mayer et al., 1995; Post et al., 2002). This paper, thus, defines trustworthiness as *a set of behaviours and actions that demonstrate organizational integrity, benevolence (i.e. calculative trust, and relational trust), competence, and control-based effectiveness*.

The notion of trust as having extrinsic value to achieve economic as well as social goals (Nooteboom, 2006, p. 252) is useful in understanding the MFI and its dual goals. The economic analysis of trust rests on the assumption of rational economic actors acting on the basis of self-interest; they use calculative forms of trust to deter the opportunism inherent in trust-based relationships (Lewicki and Bunker, 1996, p. 251). However, Nooteboom (2006) acknowledges that "[trust] can also have intrinsic value, as a dimension of relations that is valued for itself" (p. 252). This is consistent with Bromiley and Harris's (2006, p. 125) contention that a person's behaviour can be assumed to be based on two different sets of assumptions, namely, either calculative self-interest belief or non-calculative belief. They further suggest that "This means that trust and calculativeness are not necessarily mutually exclusive; rather, [we argue simply that] they are qualitatively different constructs and each is potentially influential in different ways" (p. 125).

In the case of the MFI, lending money could possibly be open to opportunism by a client, and thus calculative trust such as incentives, community networking, and joint-liability groups play an important role in providing subtle forms of control. However, at the same time, the MFI has a social goal of poverty alleviation necessitating building trust with clients that go beyond calculative forms of trust. Such trust (referred to as relational forms of trust in this paper) is what Nooteboom (2006) refers to as intrinsic value of trust: trust-based relations that are valued for its own sake.

Trust valued for itself can be equated with integrity trust and benevolence or goodwill trust. Nooteboom (2006, p. 249) defines benevolence as absence of strong opportunism such as "lying, stealing, and cheating to expropriate advantage from a partner." However, such a

conceptualization of benevolence trust can easily be confused with integrity-trust that implies honesty. This paper, therefore, defines benevolence-trust as *the behaviours and actions that empower the clients through relational-trust and calculative-trust*. For example, providing training in tailoring to the clients for generating self-employment is relational trust that empowers the clients, without benefit to the institution. Whereas, calculative trust is demonstrated by, for example, allowing the clients to form their own joint-liability groups that empower the clients, and at the same time, provide the MFI with an effective means of securing loan recovery.

Also, integrity-trust is defined as the *behaviours and actions that demonstrate consistency between the claims (words) and actions of the trustee* (Mayer et al., 1995), *and the extent to which the trustee is able to keep the explicit and implicit promises made to the trustor*. For example, the claim by the MFI that it does not use coercive methods for loan recovery has to be demonstrated in its actions when dealing with an actual credit default by a client.

In the literature on trust, ability, competence, and expertise are used interchangeably as factors that affect trust. Mayer et al. (1995) reiterate that ability is an essential element of trust. They argue that competence connotes ability (p. 92). According to Zand (1972), trust is domain specific. Mayer et al., (1995, p. 91) concur in suggesting that skills and competencies are domain specific and those skills and competencies should be able to bear influence on that domain. Thus, competence, in this paper, is defined as *those actions which demonstrate skills and expertise that impact the achievement of financial as well as social organizational goals*.

Long and Sitkin (2006, p. 90) suggest that control is used by managers as a coordinating mechanism "so that resources will be obtained and optimally allocated in order to achieve the organization's goals." They further suggest that managers may use controls that enhance subordinate trust (in the managers and/or the organization). Such an understanding of control mechanisms is consistent with Nooteboom's (2006, p. 249) contention that behavioural trust, among other factors, constitutes resource availability and robustness. This research, therefore, defines control mechanisms in its narrow sense as *those mechanisms and actions that enable an organization to ensure that it meets its financial goals*. This definition implies a substitutive relationship between trust and control mechanisms in the sense that financial-related control mechanisms would ensure that the organization meets its financial responsibilities (to itself and its clients) which would help

sustain client and/or investor trust in the organization, and at the same time, empower the clients through provision of credit.

The Trust-Control Relationship

The relationship between trust and control mechanisms is complex in nature. It is widely debated by scholars but has not been definitively concluded (Soren, 2010; Costa and Frankema, 2007; Cofta, 2007; Long and Sitkin, 2006; Dekkar, 2004; Das and Teng, 1998; Bradach and Eccles, 1989). The trust and control linkage is conceptualized by various scholars as substitutive (Bradach and Eccles 1989; Dekkar 2004; Cofta, 2007) and/or complementary (Costa and Frankema, 2007; Das and Teng, 1998). The trust and control relationship in the context of microfinance operations is explored in this research to understand how managers use those mechanisms to address the needs of FSS versus clients' social development needs. Thus, it is pertinent to ask if the trust-control relationship in MFI operations processes is substitutive or complimentary.

The substitutive approach assumes a relationship between trust and control in which an increase in trust reduces the need for control, and an increase in control reduces trust. The complementary approach assumes co-existence of the two. According to Costa and Frankema (2007), trust and control can reinforce one another and contribute to increased co-operation in a relationship. Soren (2010) proposes trust and control as a process, but suggests that the relationship is nevertheless complementary as far as both trust and control seek to balance and rebalance in an interactive cycle. The balancing and calibration view of trust control mechanisms as a process is consistent with Sutcliffe et al.'s (2000) model adapted by Long and Sitkin (2006, p. 93). The process model illustrates balancing processes among antithetical, orthogonal, and synergistic relationships between trust-building and task-control in organizations.

An antithetical relationship is demonstrated by managers when they use either trust-building or task-control as a preferred method and as a consequence reduce their focus on alternate activities (Long and Sitkin, 2006). Such a view has direct relevance to the problem of mission drift. MFI mangers' over-emphasis on task-controls for achieving financial self-sustainability (and even profitability in some cases) at the expense of trust-building activities for enhancing client relationships would indicate mission drift. The orthogonal relationship is characterised by a combination of unrelated trust-building and task-control activities indicating a propensity toward mission drift. A synergistic relationship would constitute a combination of mutually reinforcing trust-building and task-control activities (Long and Sitkin, 2006, p. 93) indicating no mission drift.

Methodology

This study uses case-study methodology as described by Yin (1994). Two essential features of that methodology, namely (a) purposive sampling, and (b) replication logic defined the research design of this study. Purposive sampling in case selection was essential for availing full and unhindered access to a microfinance institution and for ensuring that the sites afforded maximum learning opportunity. The geographical location of the MFI within India was also a critical deciding factor, as the researcher's fluency in the local language was required to follow field-level operations.

The application of replication logic meant that the process of purposive sampling required selection of a microfinance institution with multiple sites. Confirming the findings in multiple sites helps increase the reliability of the results. Thus, four different sites in two different regions of the state of Gujarat in India were selected as the basis of the study. Literal replication (Yin, 1994) was aimed at achieving analytical generalization. Similarity in the operations processes was expected and predicted on the basis that the operations of the MFI at different sites were closely monitored by the head office.

The unit of analysis was the operations processes of the MFI. Observations of the operations processes were crucial for understanding the MFI-client interactions at the field level. Both deductive and inductive logic were employed (Audet and Amboise, 2001) to first derive trust-control categories and later to analyze the findings respectively. Trust constructs were derived from scholarly literature; this was conceived of as a necessary way to come to grips with a complex phenomenon such as trust. That was also considered an important step in achieving focus on the field-level observations. Data was inductively coded through different levels of categorization and then linked to defined categories.

All the operations processes were observed in the MFI's day to day operations. In a few instances, such as loan-product strategy formation process and grievance redress process, where direct observations were not possible, the processes were discussed in detail with the managers of each site. Additionally, focus groups involving the managers and the staff were used as a discussion forum to clarify observations that needed further explanations, and/or to confirm observations made in the field.

Findings

The overall findings suggest that integrity, benevolence, and competence based trust supported by financial control mechanisms in the operations processes of the MFI play a key role in achieving social and financial goals of the MFI, thus mitigating mission drift. The context, conditions, contingencies, interactions, and client vulnerabilities under each of the trust-control based effectiveness are identified below. They are also summarized in Table 8.

Integrity-based Effectiveness

The analysis suggests that integrity-based effectiveness was supported by transparency of information, accessibility to operations processes for the employees and researchers, and consistency between the claims made by the managers about their financial products and the information relayed to the clients. Within the context of the illiteracy of the borrowers, the repeated oral transfer of information and the group test play a critical role in ensuring that the borrowers understand the nature of the product, the obligations, the responsibilities, and the rules related to entering into a financial transaction with the MFI. Many of the borrowers may not have had any previous experience of credit-discipline, and therefore processes such loan training and group tests are a key to reducing information asymmetry that exist between the MFI and the clients. Within the context of poverty and the lack of women's empowerment (Chakrabarty and Bass, 2014), these processes are also initial steps in the empowerment of women. Table 1 summarizes some of the operations processes of the MFI that contribute to achieving integrity-based effectiveness.

Table 1

Summary of integrity-based trust indicators in the operations processes

Operations Processes	Integrity-based observations
Compulsory Group Training 2	Repeated reiteration of information during compulsory group training ensures that the borrowers fully comprehend the nature of the transaction they are entering into with the MFI. Information exchange as indicator of integrity.
Business Feasibility Survey	The business feasibility survey ensures that prospective clients understand the purpose of the survey without raising their hopes or giving false promises. Information exchange as indicator of integrity.
Promotional Meeting (w/ General Manager)	Giving full and accurate product information to clients during the promotional meeting demonstrated transparency through information exchange.
Group Test	The purpose of the Group Test is to ensure that clients have understood information about the nature of the transaction (the contract) they are entering into. Information asymmetries are reduced through repeated information exchange and ensuring that the borrowers comprehend that information.
Open Forum	The purpose of the open forum is to enable MFI clients and staff to raise issues of concern directly with higher management including the director of the MFI. This process indicates information exchange and transparency as important indicators of integrity.

Benevolence-based Effectiveness

The findings suggest that benevolence-based actions of the MFI play a central role in achieving empowerment of the borrowers. It is constituted by both the calculative and relational forms of trust. The data indicate that while the calculative form of trust is used by the MFI to reduce risks arising out of moral hazard (i.e. the borrows failing to honour their side of the bargain), many of those actions, however, also achieve the goal of empowerment of women (see Figure 1 below). The relational-trust based actions are employed in micro-lending activities such as seeking family and community support for the borrowers to engage in a relationship with the MFI. The relational form of trust used by the MFI empowers women, and at the same time, it indicates that the MFI goes beyond its minimum micro-lending obligations to ensure that the women receive skills-development training for generating self-employment. Table 2 gives a summary of the benevolence-based indicators in the operations processes of the MFI.

In so far as both forms of benevolence-trust support the empowerment of women, they contribute to reducing the risks to women arising out of poverty and lack of empowerment (Chakrabarty and Bass, 2014). Table 3 summarizes the factors that constitute calculative and relational forms of trust mechanisms in the operations processes of the MFI.

Table 2

Summary of the benevolence-based trust indicators in the operations processes

Operations Processes	Benevolence-based Observations
Pre-Lending	The Joint Liability Group (JLG) model of microcredit delivery entails empowering credit-clients: The members are empowered to select the members of their group, and thus participate in decision-making for group formation.
Lending-Savings	Self-Help Groups (SHG) are empowered through creating awareness about the benefits of savings and connecting the SHGs to banks for opening accounts and receiving bank loans.
Lending 1 (Defaults) (sub-process)	Involvement/participation of JLG members in resolving default issues (decision-making) points to the empowerment of members. If unable to make good the default amount, members are not pressurized to make payments on behalf of the defaulting member (no coercion of members is part of the MFI rules & regulations).
Lending 2 (sub-process)	The JLG members graduate to higher loan-amounts based upon past credit discipline performance. This indicates empowerment of the members by providing incentive through maintaining and learning about credit-discipline.
Compulsory Group Training 1	Training (through information exchange) about the product/JLG operations/responsibilities of clients is provided. This indicates empowerment of members through information exchange/training.
Compulsory Group Training 2	Making clients grasp the loan transaction intricacies through repeated information reiterations. This indicates member empowerment through repeated information exchange.
Business Feasibility Survey	The MFI engages various community organizations and potential members for survey information through information exchange (without raising false hopes or expectations of the community regarding potential microcredit start-up): These are first steps in building community networks.

Promotional Meeting	Microcredit (Loans) information disbursement involving high engagement of potential clients through use of proverbs, role-playing, and stories. No microcredit jargon is used. Different client interaction methods are used to hold audience interest, and make them feel comfortable. The methods (high client engagement methods) are used indicate benevolence with an aim to raise awareness of microcredit in potential clients.
Group Formation	Engagement with clients in recognition of the importance of building relationships with clients; emphasis on learning from clients about local conditions (building relationships through information exchange).
Loan Appraisal	Engagement with client's family to ensure that the family supports client's JLG membership. This process attempts to avoid future family pressures/problems that may occur owing to the client's JLG membership. This indicates creating external support mechanisms through engagement and consultation.
Grievance Redress Process	Two levels (local and head office) procedures for effective grievance resolution are explained to the clients.

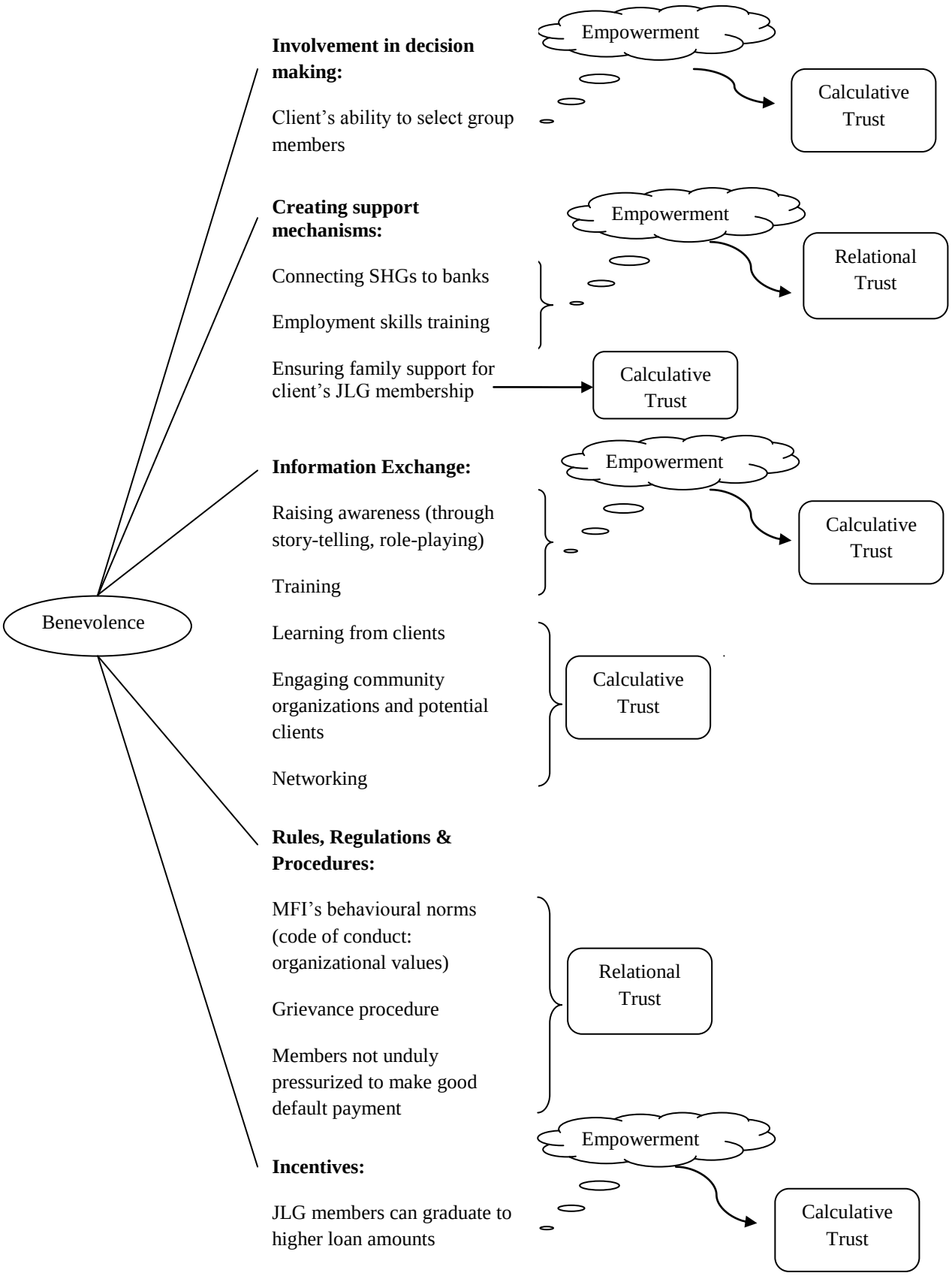

Figure 1 Analysis of benevolence trust into calculative and relational forms of trust

Table 3

Summary of indicators showing use of calculative and relational forms of trust actions

Calculative Trust	Relational Trust
• Clients' ability to select group members • Ensuring family-support for client membership • Raising awareness (through story-telling, role-playing, use of proverbs) • Loans Training • Learning from Clients about local conditions • Engaging community organizations and potential clients through networking • JLG members can potentially graduate to higher loan amounts (incentives offered) • Repayment collection facility within JLG members' residence location	• Connecting SHGs to banks • Employment Skills Training • MFI's behavioural norms (code of conduct; organizational values) • Grievance redress procedure • Members not pressurized to make good default payment

Note: *From data analysis of benevolence trust*

Competence-based Effectiveness

Table 4 illustrates that the MFI's functional roles and responsibilities indicate competencies in micro-credit lending and networking skills for building community ties. The roles, responsibilities, and skills of MFI employees play a vital role in the empowerment of women, and the everyday functioning of the MFI.

MFI clients borrow for trade as well as emergency needs and other social needs such as meeting wedding expenses. Thus, expertise in understanding the client needs and devising the right loan product as specified in Table 4 is critical. Gaining family and community support for borrowers' engagement with the MFI, providing training to the clients, spreading micro-credit awareness through story-telling are some of the examples that indicate competence in networking and building trust-based relationships. Loan recovery processes, and default management not only require micro-credit (i.e. financial) skills, but also need strong people-oriented skills. Thus, the roles, and responsibilities assigned to various functional personnel play a critical role in demonstrating skills that contribute to achieving the dual goals of microfinance.

Table 4

Competence-based indicators in the operations processes

Operations Processes	Competence Indicators
Loan Product Planning	The process of loan-planning includes the type of credit-product, the price (interest rates), the process and place of loan disbursement, the process and place of loan collection, and the parameters of the purpose of loans. This indicates organizational core-competency in the loans and credit business.
Roles and Responsibilities (Organizational Structure)	The core-team of managers of the MFI are responsible for planning day-to-day operations to achieve objectives such as financial planning, monitoring, and controlling of microfinance operations. The task-expertise (based on the objectives of the managers) suggests focus on microcredit.
Organizational Functions	The following positions within the functional aspects of the MFI point to credit and relational task expertise in the microfinance business: • Operations Manager (deals with all aspects of loan operations) • Finance Manager • MIS Manager (deals with loans/financial reporting) • Area Manager • Unit Manager • Credit Officer } Relational abilities critical to accomplish field level tasks

Control-based Effectiveness

Control-based effectiveness was demonstrated mainly in the operations processes that directly impacted financial transactions (see Table 5). Those processes were supported by administrative control processes such as ensuring that clients' information and documents were in place. Also, a loan processing fee, insurance fee, and promissory note had to be in place before a loan was disbursed. The borrowers were photographed when receiving the loan, a process considered as a necessary part of documenting the receipt of a loan.

However, more importantly are the recordkeeping and cash-based transactions controls that impact the process of empowerment of the clients. The clients lack of literacy necessitates that accurate records of what borrowers owe and repay be kept. Cash-based loan recovery processes are open to potential misplacement of funds, and therefore appropriate controls are necessary to ensure that clients do not suffer any negative impact due to a lack of appropriate control processes.

Table 5
Summary of Control-based indicators in the operations processes

Operations Processes	Control Indicators
Pre-Lending	Discretionary power with management to reject JLG membership decided by the joint liability group (JLG). Verification of five potential clients (a maximum of 5 members form a JLG group) according to MFI criteria: for example, not more than two persons from the same family can belong to a JLG, a client should own their own home (or the husband should own the house) and if accommodation is rented, the client should have resided at the same address for a minimum of 2 years. The verification is conducted according to the rules and regulations of the MFI credit-granting process.
Lending 2 (sub-process)	The MFI ensures that the clients live in a certain vicinity of a geographical location where the MFI conducts its operations. This is based on the rules and regulations of the credit-granting process.
Compulsory Group Training 2	Clients do not have a choice whether to attend compulsory group training or not. Clients are also required to submit requisite documents such as KYC (know your client); insurance receipt, loan processing fee, and promissory note. These are also mandatory aspects of the rules and regulations related to the loan-granting process.
Loan Product Strategy	The nature of the credit product, interest rates charged, fees charged, and insurance requirements are entirely under MFI management discretion.
Group Test	The group test (about knowledge of rules and loan process) is mandatory; clients do not have a choice. This is part of the rules and regulations related to the MFI credit-granting process.
Loan Appraisal	The Unit Manager checks the locations/existence of the homes of prospective clients. Verification checks are made on prospective client's assets and income activities as noted on the loan application form. This process is conducted in line with the rules and regulations of the MFI credit-granting process.

Loan Sanction	Based upon the appraisal done by Unit Manager, he or she will make a recommendation for the loan. This will be sent to the Operations Manager and Area Manager for verification. Here past loan history and other details according to loan granting criteria will be checked and the loan will be sanctioned by the Area Manager. The loan sanction process is highly structured through rules, regulations, and procedural requirements.
Loan Disbursement	The MFI has strict rules and regulations regarding the disbursement process. For example, a loan can be disbursed only in the office in the presence of Unit Manager, Finance Officer, and Cluster Co-ordinator; disbursement will happen only in the presence of all the JLG members; requisite documents need to be collected before a loan is disbursed (loan processing fees, insurance fees/receipts, promissory note)
Loan Utilization	Verification of loan utilization is done according to the rules and regulations prescribed by MFI management. The loan utilization verification takes place at least three times a year.
Loan Collection	The days, times, and places of repayment collection are decided by management. This process is fixed at the time of area approval. This process is part of the rules and regulations regarding the loan management process.
Loan Pre-Closures	There are rules and regulations regarding the pre-closure of loans. Pre-closures are allowed only in a few exceptional circumstances.
Default Management	A process for default management is in place according to the rules and regulations of the MFI. While members are not forced to make up for the default (if the members decline to repay), the act of not paying may have implications on potential future loans. The members are also asked if they could make good the default amount through other means.
Cash Management	Purely administrative task: the process is in MFI staff-management control.
Record Keeping and Monitoring	Purely administrative task: the process is in MFI staff-management control.

Trust-Control Balance Effectiveness

The overall percentages for each category of trust-control observations are summarized in Table 6, and diagrammatically represented in Figure 2. The observations indicate that the managers of the MFI, in order to achieve empowerment of clients and financial self-sustainability, focus on trust-sustaining actions complimented by control mechanisms, albeit with different emphasis on each of the trust-control categories. The differences in emphasis do not reflect managerial preference of one mechanism over another, but they indicate actions within specific MFI operations processes that respond to the needs of meeting the FSS goal and the social goal of empowerment of clients. Table 7 summarizes some of the factors that suggest trust-based effectiveness, control based effectiveness, and the combined trust-control effectiveness in the operations processes of the MFI. The combined trust-control based effectiveness is derived from treating calculative-trust based actions as subtle forms of control (Sydow, 2006).

Table 6

Overall trust-control indicators identified in the Operations Processes of the MFI

	Integrity-based indicators	Benevolence-based indicators	Competence-based indicators	Control-based indicators
Pre-Lending Operation Processes	17%	41%	25%	17%
Lending Operations Processes	10%	11%	16%	63%
Auxiliary Operations Processes	20%	40%	40%	0%

Table 7

Operations Processes and Activities Signifying Control-based Effectiveness, Trust-based Effectiveness, and Combined Trust-Control-based Effectiveness

Control-based Effectiveness	Trust-based Effectiveness	Combined Trust & Control-based Effectiveness
Formulating operational loan strategies: interest rates, loan disbursements and collection points, group training rules etc.	Providing support mechanisms such as helping to connect self-help-groups to banks; providing training for developing employability skills to MFI clients and potential clients	Forming JLG groups: Clients are empowered to select their own members in the group; however, MFI retains veto power to reject a member.
Conducting loan appraisals	Undertaking business feasibility surveys in the community	Ensuring family support for the clients (a socio-cultural necessity); facilitates lending
Sanctioning loans	Informing community about the benefits and responsibilities associated with undertaking microfinance loans (with gaining access to credit)	Raising awareness among clients about microfinance through story-telling and/or proverb-using; promotes lending
Disbursing loans	Redressing grievances through transparent processes	Providing training to the clients about the loan-product, and making clients understand the responsibilities of both parties in entering into a loan contract; instils loan-discipline
Utilizing loans	Creating awareness among employees and clients of the importance of the employee code of conduct	Learning from clients about their current circumstances that helps strengthen relationships, and at the same time ensure that the MFI is aware of any potential problems that may lead to defaults (networking skills are essential in this process).
Collections/Repayments Acting on loan pre-closures		Engaging community organizations and potential
Managing defaults		
Managing cash		
Record keeping, accounting processes, and monitoring activities		

clients through networking to achieve critical microfinance objectives such as loan sanctioning, loan repayments, and loan utilizations.

Demonstration of credit-discipline by clients used as an incentive to graduate to higher loan entitlements.

Discussion

The main features of the discussion that follows are summarized below in Table 8. A model that connects the overall linkages among the MFI's operations processes, trust-control mechanisms, mission drift, and clients' trust-based vulnerabilities is illustrated in Figure 2.

Integrity-based Effectiveness

Integrity-based effectiveness in the operations processes of the MFI requires that the MFIs' actions demonstrate commitment to the implicit and explicit promises made to their clients. In the case of the MFI under study, such consistency is maintained by demonstrating that interest rates charged to the clients are fair, training is provided as stipulated in the procedural documents, and accurate loan-records are kept in order that clients who cannot read or write can confidently engage in loan transactions with the MFI. The MFI also ensures that clients do not fall into an unsustainable debt-trap and that coercive methods are not used for loan repayments.

The basic conditions under which the integrity-based approach is maximized is through maintaining transparency, and monitoring information-exchange processes in its operations. The maintenance of those conditions is contingent upon top management remaining committed to integrity-based effectiveness. Information exchange therefore plays a vital role in calibrating information-asymmetry between the MFI and its clients, and demonstrating consistency between the claims made by the managers and the implementation of those claims in the field-level operations.

Interactions of integrity with other categories of trust-control effectiveness such as benevolence, competence, and control point to the centrality of an integrity-based approach to the MFI's operations. For example, benevolent actions based in calculative trust such as loan-related training for the clients, and engaging community members to seek support for the clients could be negatively impacted without management's commitment to implement those processes to achieve the empowerment of the clients. Similarly, relational-trust would be impacted negatively if managers did not show commitment to support services such as training for generating self-employment or did not seek family support for the clients. Competence in networking skills to build strong community ties, and good skills in carrying out micro-credit activities without commitment to keeping its promises would make the MFI an unreliable partner. Similarly, well-maintained records and related control mechanisms would help clients engage confidently with the MFI. However, if the MFI is seen as not being

able to keep its promises, it would soon lose its credibility as a reliable partner. Therefore, the impact of integrity-based approach is pervasive in all other trust-control related categories and thus has an effect all operations process.

Proposition 1

Integrity-trust based effectiveness depends upon MFI managers' commitment to maintain transparency in the operations processes, monitor information exchange processes, and reduce information asymmetry between the MFI and the borrowers.

Benevolence-based Effectiveness

Benevolence effectiveness requires that operations processes of MFI indicate that the client-oriented relational-trust sustaining mechanisms are in place such that the operations processes are not exclusively focussed only on achieving financial targets. The condition under which benevolence is most effective is when the MFI demonstrates effective networking capabilities that enable it to build a strong client-orientation and community ties. The provisions of extra support services that go beyond the minimal requirements of micro-credit lending empower the clients. Some examples of extra support services include ensuring family support for the client, engaging community organizations, and providing training such as tailoring and henna-painting for weddings to generate self-employment. Equally, procedures for addressing grievance need to be in place. Figure 1 summarizes the analysis of benevolence based trust in the operations processes of the MFI. However, the effectiveness of networking capabilities is contingent upon effective implementation of rules, regulations, and procedures that ensure that parameters of specified behavioural expectations are observed when engaging with the clients. The benevolence based approach is also contingent upon effective information exchange (e.g. provision of training, and obtaining community and family support for the client), and monitoring of the processes that sustain benevolence effect.

Interactions of benevolence with other trust-control categories such as integrity, competence, and control are instructive. Lack of empowerment of the clients through calculative and relational based trust would negatively impact the good intentions and management commitment to integrity-based approach. Management's competence would also come under scrutiny if relational-based outcomes are ineffective. Equally, the effectiveness of monitoring mechanisms would be questioned if benevolence-based actions fail to build strong relationships with the clients.

Proposition 2

The benevolence effectiveness of the MFI depends upon managers' ability to calibrate calculative and relational forms of trust in order to empower the borrowers.

Competence-based Effectiveness

The conditions under which competence-based trust is most effective is when MFI personnel are able to competently carry out micro-credit activities such as credit-distribution, collection, training, and default management. At the same time, networking skills that demonstrate competences in securing family support and community support for the clients are critical in micro-lending activities.

However, the success of competence-related activities is contingent upon devising appropriate loan-product strategy, effective information exchange, and monitoring procedures. To avoid clients going into debt-trap, the loan-product has to be such that it fits the purpose for which the client intends to use the loan, and it takes account of the client's ability to repay the loan. Monitoring loan schedules and the client's performance (i.e. trade performance or other emergency uses of the loan) is also contingent upon an ongoing information-exchange between the MFI and the clients.

Interactions of competence with integrity, benevolence, and control-based effectiveness points to competence as a critical factor in achieving the dual goals of the MFI. An integrity-based approach without competence would make the operations processes ineffective, impacting client-confidence in the MFI. The execution of benevolence-based actions such as provision of training and/or networking capacity could be undermined by the lack of competence. Equally, incompetence in maintaining appropriate financial controls could negatively impact clients' trust and confidence in the MFI.

Proposition 3

The competence-based effectiveness of the MFI depends upon managers' capabilities that demonstrate financial skills which understand micro-lending tasks, and networking skills that forge strong relationships with the clients and the community.

Control-based Effectiveness

Control-based effectiveness in the MFIs' operations processes necessitates that appropriate financial administrative controls are in place so that the clients' records and loan schedules accurately reflect the current status of their commitments. Financial controls are also necessary so that the MFI can, at any given time, know the current status of its own FSS

performance. The condition under which the control mechanisms are most effective is when managers and other employees of the MFI are committed to upholding the rules, regulations, and procedures devised for lending and related activities. Those conditions are contingent upon monitoring lending activities of the MFI. Achievement of social goals, on the other hand, is underpinned by calculative-trust based mechanisms that provide subtle forms of control. Monitoring is contingent upon adhering to rules, regulations and procedures devised for lending and related activities. The other contingency factors impacting monitoring activities are good quality information systems and effective information-exchange so as to enable the MFI to keep accurate and timely records of its financial activities.

Ineffective financial control mechanisms would lead the MFI in not being able to meet its financial commitments and thus negatively impact integrity-based approaches. A similar impact could be expected from an MFI not being able to deliver on its benevolence-related activities. The MFI's competence would also come under question if its financial commitments are not honoured.

Proposition 4

The control-based effectiveness of the MFI depends upon MFI managers' and employees commitment to upholding the rules, regulations, and procedures for lending activities within the context of poverty of the borrowers, and monitoring those processes.

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Table 8

Trust-control analysis

	Context	Conditions	Contingencies	Interactions	Client Vulnerabilities
Integrity-Trust	Operations processes	Transparency, Accessibility, Monitoring, Information exchange	Management commitment, Consistency between claims and field-level operations' actions	Benevolence, Competence and Control-based effectiveness	Breaking Promises, lack of transparency, and weak monitoring systems could initiate mission drift
Benevolence -Trust	Operations processes	Networking, Support Services	Rules, regulations & procedures, Monitoring, Information exchange	Integrity, Competence, and Control-based effectiveness	Indebtedness, undue pressure for debt collections, lack of support services would dilute relational trust and create mission drift
Competence -Trust	Operations processes	Micro-credit lending skills, Networking (strong community ties)	Loan-product strategy (product fit for clients), Monitoring, Information exchange	Integrity, Benevolence, and Control-based effectiveness	Lack of competence in meeting either the financial goal or client oriented relational goal resulting in mission drift
Control	Operations processes	Rules/regulations Quality of information (systems & exchange)	Monitoring lending activities	Integrity, Benevolence, and Competence-based effectiveness	Lack of monitoring could create loans-related information inaccuracies that short-change the clients' interests

Locating mission drift mitigation in an ethical context

Trust-building and control mechanisms are used by the managers of the microfinance institution (MFI) to achieve the dual goals of social development and financial self sustainability in order to mitigate mission drift. Those mechanisms help develop and sustain trustworthiness of the MFI. According to Flores and Solomon (1997, p. 53) trustworthiness depends on collective acceptance because it is dependent upon interpretation by those who care to trust. In balancing trust-control mechanisms, the MFI, through transparency and integrity-based approaches attempt to signal that it is a trustworthy entity. For example, the MFI's code of conduct, grievance address procedures, open-forums where clients are able to interact directly with the senior managers and measures to build relational trust by empowering clients through training are indicators of attempts to establish its trustworthiness. Those measures are put forward for collective acceptance by the clients, and they are also a declaration of intent for fair treatment of the clients. The norms of fairness in such measures as code of conduct, and open-forums are necessary to protect client-vulnerabilities in a trust-based relationship with the MFI. According to Banerjee et al. (2006, p. 311), "Unethical behaviour is proving you are untrustworthy by reneging on or deceiving the trustor of the fairness norms being applied to his or her vulnerability in this situation."

Additionally, the power differential and information asymmetry that exist between an MFI and its clients potentially create a high client dependency on an MFI. The poverty and illiteracy of the clients (i.e. the negative context suggested by Chakrabarty and Bass, 2014) necessitate them to place high level of trust in a MFI. The ethical dimension of mission drift mitigation becomes crucial when the process of mitigating mission drift is perceived within the context of achieving social and FSS goals, and protecting clients' vulnerabilities in their trust relationship with the MFI. According to Banerjee et al. (2006):

> A trustworthy party is one that will not unfairly exploit vulnerabilities of the other parties in the relationship. Ethics enter into the picture when we need to decide what counts as an unjust or unfair exploitation of the vulnerability of one of the parties in the trust relationship. What counts as an example of excessive opportunism in that context? The non-vulnerable parties in the relationship have a moral obligation not to unfairly exploit the vulnerable parties (p. 308).

In the case of a MFI, a goal of profitability which drives clients into incurring unsustainable indebtedness, uses coercive collection practices, fails to get family and

community support for the clients, and does not attempt to bridge critical information asymmetries between itself and its clients, would count as unjust exploitation of clients' vulnerabilities. Such exploitation would constitute mission drift in the context of a MFIs' social mission. Boatright (2002), in writing on finance ethics, suggests that when financial institutions sell financial products such as loans "ordinary standards for ethical sales practices apply" (p. 157). Boatright further argues that "[Thus], the financial service industry, like any business, has an obligation to refrain from deception and to make adequate disclosure of material information" (p. 157).

In case of an MFI, the pertinent questions are what is the interest-rate threshold that could be considered to be fair within the context of micro-credit? What specific actions could be considered as coercive practice in collection of loan repayments? What level of information sharing with the clients should be considered as meeting the fairness principle?

Banerjee et al. (2006) make a strong case for applying mutually agreed norms of fairness through transparency as an ethical principle to decide what counts as ethical or not. They argue that those norms should be publicly advocated and adopted by all parties to be considered as fair (p. 309). They contend:

> In situations of trust, the key is to eliminate information asymmetries regarding norms of fairness. If a vulnerable party enters into trusting relationship with a different understanding from the stronger party of what constitutes exploitation of trust, he or she will be deceived. Deception regarding norms of fairness is morally wrong (p. 310).

Table 9 illustrates the methods used by the MFI in this research to reduce information asymmetry between itself and the borrowers.

Table 9

Methods used by the MFI to bridge information asymmetry

Repeated training of the clients in the functions, operations, and the financial aspects of the loan	The code of conduct is explicitly posted in offices at all sites of the MFI
Group test to ensure that the clients fully grasp the content of the training	The grievance procedure is made explicit during training and is documented
The rules of loan defaults are clearly explained and documented	The open forum allows the clients to directly interact with the senior managers of the MFI
	Financial information is made publicly available in the offices and on the internet

Integrity and Mission Drift Mitigation

The integrity-based effectiveness in this study is seen as the MFI managers' ability to demonstrate consistency between the claims they make and the actions they perform in their operations processes. Thus, an integrity-based approach in this study expects that the managers of the MFI are able to keep the explicit and implicit promises they make to their clients in their attempts to mitigate mission drift. According to De George (1993), acting with integrity is synonymous with acting ethically and morally. He further argues that acting with integrity involves more than the bare minimum required by the self-imposed norms of an organization. He contends that it is not possible to prescribe how much more than the bare minimum is required. However, he goes on to suggest that:

> But beyond what is required exists a sphere of actions that are morally praiseworthy though not required. This sphere, which we might call the ideal, challenges the person or firm of integrity to do more than minimum. And those with integrity will rise in to that sphere at least to some extent (p. 7).

In the context of De George's (1993) definition of integrity, the integrity-based effectiveness of the MFI can be said to go beyond the bare minimum required in fulfilling its promises. The rising into the sphere that goes beyond the bare minimum is evidenced in the

case of the MFI in its benevolence-based effectiveness that includes offering skills development training for self-employment, and offering an HIV-AIDS prevention program at the Gandhidham site of the MFI. These examples point to the integrity-based approach that goes beyond the bare minimum required of the MFI.

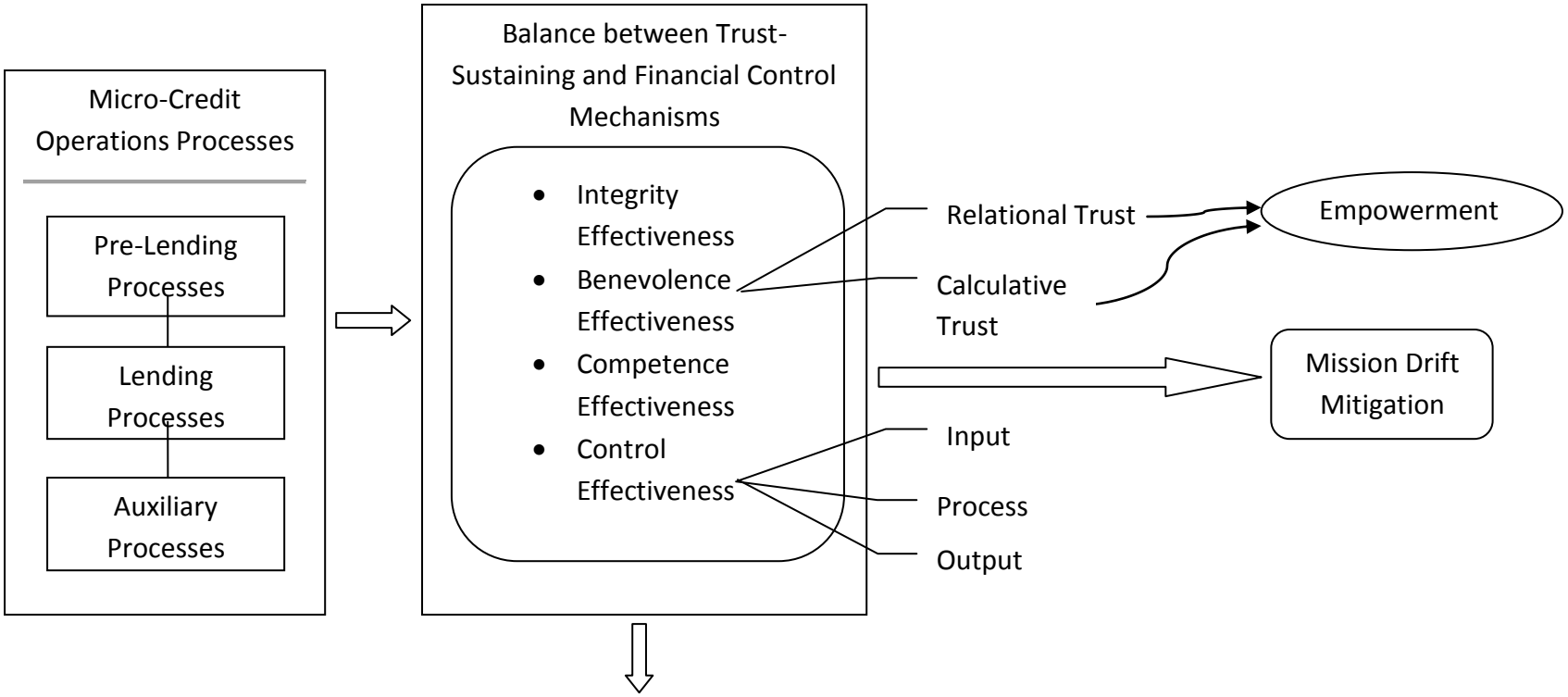

Figure 2. Linkages Among Operations Processes, Trust-Control Mechanisms, Client Vulnerabilities, and Mission Drift Mitigation

Trust-Control Mechanisms	Client Vulnerability (risks) in Trust Relationship with MFI
Integrity based:	MFI not keeping promises such as: charging exploitative interest rates, employing coercive collection methods, creating debt-trap.
Benevolence based:	Training not provided , family and community support for the clients not obtained
Competence based:	Lack of micro-lending experience/expertise could make a MFI less sensitive to clients' emergency financial needs versus their entrepreneurial financial needs. Networking skills could be used to bring undue pressure on defaulting client.
Control based:	Weak financial control administration can be vulnerable to inaccurate loan-records. Funds could be misappropriated from cash-based lending and collection practices.

Conclusion

Mission-drift mitigation in MFIs necessitates building strong trust-based relationships with the clients complemented by effective control mechanisms to achieve financial self-sustainability. Thus, a framework of trust-control mechanisms was adopted to explore how the MFI's operations processes respond to the needs of fulfilling the FSS and the social goal. Such a view has been supported by field data derived from the MFI's operations on the ground in four different sites. The observations were supplemented by focus group discussions and annual reports of the MFI. Four branches of the MFI in two different parts of the state of Gujarat in India were explored to achieve replication of the results. The data indicated that managers of the MFI use various combinations of integrity, benevolence, and competence-based trust mechanisms, complemented by control-based mechanisms in a variety of operations processes to achieve social and FSS goals. Those findings were further discussed to present four propositions which indicate (a) the centrality of integrity, benevolence and competence-based trust in achieving the MFI's dual goals, and (b) the importance of balancing trust-control mechanisms to mitigate mission-drift. The results of the data were used to construct a model that shows the linkages among the MFI's operations processes, trust-control mechanisms, mission drift, and clients' trust based vulnerabilities.

The findings are limited by the context of multi-site embedded case study approach adopted in this study. First, the implication of studying trust-control mechanisms in the operations processes is that it necessarily excludes other organizational domains such as strategic policy-making, governance processes, and/or human resource processes. Locating trust in the operations processes necessarily excludes cross-level organizational trust (Currall and Inkpen, 2006) within the MFI thereby constricting internal generalizability. This is consistent with Kramer's (2010, p. 85) contention that studying trust in a collective organizational sense, and its understanding is complicated by the fact that there are many trustors, many trustees, and many organizational domains in which trust can be situated. Second, the limitations of employing the most widely used trust constructs in this study are that the use of a specific conceptual framework necessarily subordinates and/or excludes other concepts that indicate trustworthiness such as justice, fairness, reputation, and value-congruence. Also, in adopting a trust-control framework, this study takes a managerial and organizational perspective, and thereby excludes the perceptions of the clients regarding the trustworthiness of the MFI. Third, generalizability of the findings is limited by use of one

multi-site case study. However, in this study, literal replication was aimed at achieving analytical generalization as opposed to statistical generalization (Yin, 1994, p. 46).

More future studies through case study methodology can explore trust-control dynamics in other organizational domains helping to build a holistic view of coordination activities in organizations. A longitudinal research design could also explore how trust dynamics in one domain impacts other organizational domains. Additionally, a survey method through questionnaires, within the case study, could also give insights into the nuanced perspectives of managers on trust-control linkages within organizations.

The purpose of this research was not to discount the importance of traditional corporate and social governing mechanisms as an instrument of mission drift mitigation. Rather, the point was to demonstrate that building and sustaining trust with the clients of MFIs accompanied by appropriate control mechanisms offers a more nuanced understanding of the day to day challenges which managers of the MFI face in achieving the social and FSS goals.

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