

Beisland, Leif Atle; D'Espallier, Bert; Mersland, Roy

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ORCID (Roy Mersland): 0000-0002-6683-2737

The commercialization of the microfinance industry: Is there a ‘personal mission drift’ among credit officers?

Leif Atle Beisland, School of Business and Law, University of Agder, Norway

Bert D’Espallier, Faculty of Economics and Business, KU Leuven, Belgium

Roy Mersland, School of Business and Law, University of Agder, Norway

Corresponding author: leif.a.beisland@uia.no

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Abstract

Recent research suggests that many microfinance institutions increasingly focus on financial performance at the expense of the social component of their dual objectives. Existing studies typically assume that capital providers and managers mainly drive this so-called ‘mission drift’. In this study, we investigate whether ‘personal mission drift’ at the credit officer level can further explain the reduced emphasis on poorer clients among microfinance institutions. We present both qualitative and quantitative evidence that more experienced credit officers tend to serve fewer vulnerable clients. Specifically, we show that all else being equal, credit officer experience is negatively correlated with the provision of small loans, loans to young clients, and loans to clients with disabilities. Our qualitative analysis suggests that perceived client risk and preferences for increased time efficiency mainly drive more experienced credit officers’ relative neglect of more vulnerable clients. This drift appears to be reinforced by the industry’s incentive schemes. Therefore, credit officer incentives and training should be designed to prevent this mission drift, which is *observed* at the microfinance institution level but is actually *initiated* at the credit officer level.

Introduction

Microfinance is the provision of financial services, broadly interpreted, for economically poor families and their income generating activities. The growth of the microfinance sector has been impressive, and it is expected to become the world's largest banking market in terms of the number of customers (Mersland, 2013). The provision of capital to poor entrepreneurs is generally regarded as the main advantage of microfinance. This capital can be applied to establish or expand business activities to potentially increase the standard of living of microfinance customers.

Over the past few decades, microfinance has been considered one of the most important tools for lifting people out of poverty (Armendariz et al., 2011; Postelnicu and Hermes, Forthcoming), particularly since the Nobel Peace Prize was awarded to Muhammad Yunus and Grameen Bank in 2006. Ample research has suggested that the provision of microfinance services has had positive effects at the client level (Cotler and Woodruff, 2008; Odell, 2010) and more recently at the country level (Donou-Adonsou and Sylwester, 2015; Raihan et al., 2017). However, when applying rigorous randomized evaluations, researchers struggle to identify major impacts. Banerjee et al. (2015, p. 1) summarize six such rigorous studies and find “a consistent pattern of modestly positive, but not transformative, effects.” Accessing microcredit does not necessarily empower women and other marginalized groups (Guérin and Kumar, 2017). Thus, contrary to Yunus' expectations as expressed in his Nobel Prize lecture, microfinance does not appear to be a quick fix for poverty.

Nonetheless, on a mission level, most microfinance institutions (MFIs) subscribe to dual objectives, whereby the fight against poverty constitutes one of their major goals. This social

performance goal relies on the second component of the dual objectives, financial sustainability, i.e., MFIs that are not financially sustainable cannot fight poverty in the long run. However, a major challenge for MFIs is that the simultaneous goals of financial and social performance can obviously conflict. Outreach to poor people is expensive and may, compared to focusing on other and wealthier client groups, harm MFIs' financial performance. Recent research suggests that many MFIs increasingly focus on financial performance at the expense of the social component of the dual objectives (Hermes et al., 2011). This phenomenon is referred to as the mission drift of the microfinance sector (see, e.g., Copestake, 2007). Mission drift can potentially influence the impact of microfinance services (Mersland and Strøm, 2010), and it is an ethical problem that institutions that were originally created with the aim of providing microcredit to poor and vulnerable people tend to move towards providing credit to less vulnerable clients over time. The challenge for many MFIs is to find the right balance between financial sustainability and social goals; thus, we regard research on microfinance mission drift to be important from both an ethical and a practical perspective.

Mission drift has generally been attributed to a change in the focus and strategy of stakeholders, such as owners, capital providers and managers (see, e.g., Augsburg and Foulliet, 2010; Armendariz et al., 2011). In this study, we propose that an additional stakeholder group may also be relevant when explaining such drift. We base the proposition on a study by Serrano-Cinca et al. (2016), who acknowledge the importance of credit officer experience in the granting of loans. Although their study does not focus on mission drift as such, the authors are likely among the first to suggest that credit officer experience could be a relevant explanatory variable for microfinance mission drift. However, to the best of our knowledge, this proposition has not been investigated empirically. The novel contribution of

our study thus concerns whether prior research has applied an overly narrow approach to the analysis of microfinance mission drift and whether credit officer experience offers an *additional* explanation for it.

To a large extent, MFIs delegate credit decisions to credit officers, who therefore hold the daily power to accept or reject loan clients (Labie et al., 2015; Agier and Szafarz, 2013a). Agier and Szafarz (2013a, p. 263) find that “credit officers let their subjective preferences interfere with loan granting.” Thus, their preferences can have a crucial influence on how MFIs develop over time (Dixon et al., 2007; Labie et al., 2015). The poorest clients are often perceived as having the greatest risk, and serving customers with low loan amounts entails weighty administrative work (cf. Serrano-Cinca et al., 2016; Serrano-Cinca and Gutierrez-Nieto, 2014). Our contention is that if credit officers begin to avoid serving poorer clients, we will witness an MFI-level mission drift that does not relate to a change in the preferences of owners, donors, creditors or managers. In general, we maintain that employees should not be disregarded when analysing the (possible) effects of microfinance services, and our investigation specifically responds to the call for including MFI staff in microfinance impact studies (Labie et al., 2015).

We apply a unique dataset covering credit officers in an MFI in Ecuador to study possible mission drift at the individual level in the microfinance sector. Our findings suggest that credit officer experience is negatively correlated with the provision of small loans, loans to young clients, and loans to clients with disabilities. Specifically, after controlling for gender, education, marital status, and branch affiliation, we find evidence that more experienced staff members serve fewer poor clients. Collectively, the results are consistent with the idea of

mission drift at the credit officer level. Qualitative insights from semi-structured interviews with a selection of credit officers and managers further support the conclusions drawn from statistical analyses. Based on the findings, we conclude the paper by exploring several potentially important policy implications. For instance, we argue that staff training and credit officer incentives can be used to prevent experienced credit officers from decreasing their focus on the poorest clients over time.

This paper is organized as follows. In the following section, we discuss prior studies and present the context for the empirical testing of our research question. We continue with a description of the research methodology and data sample used in the investigation. Afterwards, we discuss the empirical findings of the study. The discussion of the findings includes a presentation of policy recommendations drawn from both the quantitative and qualitative parts of our study. Finally, in the last section, we summarize and conclude the study.

A discussion of prior studies and the research context

Prior studies

Microfinance mission drift

Following Cull et al. (2007, F108), we apply a narrow definition of microfinance *mission drift*, defining the phenomenon as “(MFIs moving) away from serving their poorer clients in pursuit of commercial viability.” In prior research, several perspectives have been applied to the analysis of microfinance mission drift; however, when choosing the Cull et al. (2007) definition as the foundation for our analysis, we do not seek to address the wider debate surrounding the political economy of microfinance (Mader, 2015).

Instead, our somewhat narrow theoretical starting point is that the direct stakeholders of MFIs, such as owners, lenders, managers, and employees, and the interactions among these stakeholders are what cause MFIs to drift away from serving poorer clients. Empirically, several studies have analysed possible mission drift at the MFI level; see, for example, Mersland and Strøm (2010) and Serrano-Cinka and Gutierrez-Nieto (2014) for comprehensive discussions of the existing research. The results of this research have been ambiguous (Kar, 2013). Empirical studies covering large samples have not necessarily found strong evidence of mission drift in the microfinance sector as a whole (Mersland and Strøm, 2010; Cull et al., 2007), although few would disagree that the concept of mission drift applies to many MFIs operating in the market (Serrano-Cinka and Gutierrez-Nieto, 2014; Copestake, 2007; Cull et al., 2009). In particular, NGO-MFIs that are transforming into regulated banks have been criticized for drifting away from their original mission of reaching out to poorer clients. In a recent study, D'Espallier et al. (2017) find that the average loan size significantly increases in transformed MFIs; the authors do not conclude that this increase is necessarily a sign of mission drift, but they do perceive it as a sign of mission expansion and cross-subsidization. Notably, measuring mission drift is a challenge in itself (Armendariz and Szafarz, 2011).

It should also be noted that from a development perspective, microfinance mission drift might have positive effects in addition to the negative consequences that are often highlighted. Although studies such as that of Hermes et al. (2011) find that commercialization may result in less focus on poor clients, other studies have argued that the efficiency improvements and scale economies caused by commercialization may actually improve the microfinance industry's ability to serve the poor (see the discussion in Mersland and Strøm, 2010; Tavanti,

2013). For instance, increased access to commercial funding (cf. Krauss and Walter, 2009) and improved efficiency due to a more commercialized microfinance industry might lay the groundwork for lower interest rates. In addition, profit motives may increase MFIs' willingness to seek out new markets for their loan products. Furthermore, diversifying loan portfolios by servicing richer clients alongside poorer clients allows MFIs to cross-subsidize smaller and costlier loans with larger and more profitable ones (Armendariz and Szafarz, 2011).

Thus far, the implicit assumption of most microfinance research has been that mission drift is caused by investors, donors or managers at a strategic level. For instance, Augsburg and Foullet (2010) indicate that lenders and donors push MFIs to become financially self-sustainable. Armendariz et al. (2011) report that the supply of subsidies encourages MFIs to fail to meet their dual objectives. The current trend of commercialization, the transformation of NGO-MFIs into regulated banks (D'Espallier et al., 2017), and the push for scale economies and product standardization, including credit scoring systems (Hartarska et al., 2013), are other explanatory factors that previous studies have highlighted when discussing mission drift.

Credit officers in microfinance

Unfortunately, few academic studies researching the effects of microfinance services focus on the MFI's staff. One exception is Labie et al. (2015), who find that credit officers are biased against microfinance clients with disabilities. Their study illustrates the importance of credit officers' preferences and attitudes in microlending. Another relevant investigation for our study is a choice experiment in Burundi examining microfinance credit officers' possible preferences for client wealth; Sagamba et al. (2013) find that client wealth, *ceteris paribus*, has a small influence on credit officers' client selection. Notably, the importance of credit

officer *experience* – the key variable in our examination – is not investigated in any of these studies.

In general, studies applying institutional theory to the role of credit officers in hybrid organizations, i.e., organizations with both social and financial objectives such as MFIs, have been scarce. The few papers that do exist have positioned the relationship between credit officers and the MFI within an agency-type framework (Labie et al. 2015; Aubert et al., 2009). In this setting, the credit *agent* is supposed to act in the best interest of the MFI *principals* (managers and capital providers), thereby maximizing the dual goals of the MFI. The lending decision is fully delegated to the credit officers, who have superior income- and cash flow-related information about potential clients. The principals typically ensure that the hybrid goals are maximized by monitoring and incentivizing and/or establishing a proper organizational identity that reflects the hybrid nature of the enterprise (Battilana and Dorado, 2010).

Aubert et al. (2009) state that most MFIs have introduced incentive wages for credit officers to address internal agency conflicts. However, whether incentive schemes succeed in controlling credit officer behaviour remains unclear because including all the facets of an MFI's objectives in the scheme and taking into account the complicated web of motives and obligations that shape credit officers' behaviours is particularly challenging (also see Sagamba et al., 2013). Thus, in practice, incentive schemes typically end up rewarding what is easiest to measure: portfolio size and high repayment rates. Since repayment and the wealth of clients is positively correlated (Aubert et al., 2009), poor clients typically end up being considered riskier, not only for the MFIs but also for credit officers on an individual level.

The negative association between risk and incentive wages logically leads to the exclusion of poor clients. However, this risk-related argument might not be the only reason that credit officers avoid the most vulnerable clients. The administrative workload related to a small loan is likely almost as substantial as that for a large loan. If incentive structures encourage credit officers to maximize total repayments or aggregate loan portfolios (see the discussion in Aubert et al., 2009), they might prefer larger (wealthier) clients from a cost-benefit perspective, even if no risk differences exist among customers. Labie et al. (2015) state that the first incentive scheme applied by most MFIs is based on a single criterion, typically the growth of loan portfolios, which is another incentive mechanism that possibly leads to a drift towards more wealthy clients.

Research question development: the link between credit officer experience and mission drift

In general, MFIs might adopt incentive schemes from traditional banking without deliberately intending to move away from their social mission (Copestake, 2007). Thus, our proposition of a credit officer-driven mission drift is possible even for MFIs that do not have strategic intentions to decrease their focus on poverty alleviation in favour of financial performance.¹ Nonetheless, if the implementation of incentive wages is to blame for MFIs' mission drift, a relatively immediate change in portfolio composition would be expected when incentive schemes are introduced. From the time of implementation, credit officers should start prioritizing wealthier clients at the expense of the poorest. However, implicit in the microfinance literature is the assumption that mission drift is a much more gradual process. Could a personal mission drift story extend beyond mere bonus schemes? As stated above, in

this study, we focus on credit officer *experience* as a potential key explanatory variable for MFIs' mission drift.

Serrano-Cinca et al. (2016) design a social and environmental credit scoring model for microfinance that acknowledges the importance of credit officer experience in loan granting. The authors document that credit officers drift towards financial performance goals when MFI credit scoring systems are strictly financial, thereby suggesting that credit officer experience could be a relevant explanatory variable for mission drift.

The influence of experience on decision making has been studied in behavioural decision research (Andersson, 2004). For instance, in comparing the judgement of experts and non-experts (cf. the experienced vs. non-experienced dimension), research indicates that experts perform better than novices but that once novices receive training, their judgement does not differ significantly from that of experts (Camerer and Johnson, 1991; Garb, 1998). In a study of small business loans, Andersson (2004) documents that experienced loan officers are more biased towards rejecting loan applications. Similar evidence is reported by Beaulieu (1994). In a previous microfinance study, Schreiner (2000) finds that staff experience is associated with lower portfolio risk (holding incentive schemes constant). According to Schreiner (2000), lower risk is associated with a learning effect for credit officers, who learn to avoid risky clients as they become more experienced.

However, we believe that far more trivial learning effects might also explain changes in credit officers' portfolio compositions over time. If new credit officers start learning that serving clients with small loan amounts involves ample administrative 'fuzz' (cf. Serrano-Cinca and

Gutierrez-Nieto, 2014), this knowledge might explain a move towards wealthier – and probably more ‘formal’ – clients.

Although her article is unrelated to the mission drift discussion, Agier (2012) shows that experience in general might cause microfinance credit officers to change their behaviour by illustrating how experience-related learning effects can influence credit officers’ client selection. Specifically, she constructs a measure of credit officer ability and finds this measure to be positively associated with experience. Interestingly, when studying how behaviour can change as a function of experience, Agier (2012) finds that experience with the MFI in which the credit officer is currently employed is more relevant than general microfinance experience. Hence, the amount of experience (if any) with other MFIs is of secondary importance.

Learning effects might not be the only reason that experience potentially influences credit officer behaviour. A change in enthusiasm might also be a valid explanation. Credit officers are generally motivated by a genuine desire to ‘do good’ (Labie et al., 2015), and most newly employed credit officers will have attended training programmes in which poverty reduction and other social performance issues are discussed. Thus, credit officers’ enthusiasm for contributing to development and poverty reduction will likely peak early in their career. Later, more practical issues such as limiting the administrative workload related to each customer might be of greater importance to credit officers.

Overall, we recognize that experience is potentially only one among many factors in the complicated web of motives and obligations shaping credit officers’ behaviours. Moreover,

we do not refute past findings that owners, lenders and managers can be important drivers of microfinance mission drift. However, if credit officers change their portfolio compositions as they become more experienced, such changes may serve as an *additional* explanation for the drift – at least on an individual MFI level.

Therefore, based on the suggestions of prior research that staff characteristics can affect credit officers' portfolio compositions, the unique contribution of our study is that it relates staff characteristics to the mission drift discussion within the microfinance industry. Given the novelty of our research, we do not propose clear-cut hypotheses. Instead, in this explorative study focusing on experience as a staff characteristic, we ask whether credit officers partly substitute financial objectives for social objectives as they become more experienced. Given that credit officers mobilize, select and monitor clients, we deem this possible effect to be highly important: if MFIs are to stay true to their mission, they need credit officers who stay true to the same mission.

The research context

Ecuador

Ecuador is a middle-income country in Latin America. In 2012, it ranked 89th out of 187 countries on the UNDP Human Development Index. Ecuador has experienced decreasing income inequality in recent years, although its Gini coefficient is still approximately 50, placing the country among the most unequal countries worldwide (Ponce and Vos, 2012). Overall, Ecuador's macroeconomic context – with a high level of inequality, a large informal economy and relatively steady economic growth – is a conducive environment for providers of

microfinance (Ahlin et al., 2011), and Ecuador is currently one of the most developed microfinance markets in the world (Demirguc-Kunt et al., 2014).

The Ecuadorian microfinance market is divided among four main types of service providers: commercial banks, specialized microfinance banks, cooperatives and non-governmental organizations (NGOs). The national network 'Red Financiera Rural' lists 50 microfinance players, including 4 support organizations, which together constitute most of Ecuador's microfinance market (RFR, 2013). Together, as of the end of 2013, the members of Red Financiera Rural had a total microcredit portfolio of 3.3 billion USD. Three commercial banks, Banco Solidario, Banco Pichincha and Procredit, held 18%, 16% and 10% of the market, respectively, which demonstrates that strictly commercial players are increasingly focusing on providing microfinance services. Thus, Ecuador is also characterized by the transformation of the microfinance industry described by D'Espallier et al. (2017). In total, commercial banks, specialized microfinance banks, cooperatives and NGOs account for 44%, 3.5%, 45% and 4.5% of the market, respectively.

Table 1 presents average indicators for the four different types of microfinance service providers in Ecuador. For comparison, we also include our case of Banco D-MIRO, which is a specialized microfinance bank (see the next sub-section). The comparison shows that Banco D-MIRO is a typical player in the Ecuadorian microfinance market. Its profit level (ROA 2.02%) and default level (PaR 5.05%) are slightly above the market averages, while its average loan size (1395 USD) is slightly below the market average. In terms of both size and mission, Banco FINCA is the player that best mirrors Banco D-MIRO, and indicators for this bank are also included in Table 1.

< Table 1 >

We follow Cull et al. (2007) and define social performance as the serving of ‘poorer clients’. We use three proxy variables for ‘poorer clients’: the proportion of small loans in a given portfolio (Hermes et al., 2011; Mersland and Strøm, 2010); the proportion of young clients (Aubert et al., 2009); and the proportion of clients with disabilities (Beisland and Mersland, 2014b). Some Ecuadorian statistics illustrate the heightened vulnerability of the young and the disabled population: 19% of Ecuador’s population is between 15 and 24 years old (Ecuador, 2013), which is considerably higher than the OECD average of 12% (stats.oecd.org). However, according to the World Bank’s 2011 Global Financial Inclusion Index (Findex), only 10.6% of young people in Ecuador (younger than 24) took out a loan from a financial institution, and only 33% had a savings account (compared to an average of 58% in upper-middle income countries).

Regarding disability, according to the Organization of American States (OEA), 12.8% of the Ecuadorian population has a disability, which is above the regional average of 11.4% (Diario El Universo, 22 January 2009). In 2004, only 18.2% of persons with disabilities (PWDs) in Ecuador were employed, although more than 70% were physically and mentally fit to work (Berg Pedersen, 2013). Likewise, in 2004, almost 40% of disabled children did not receive an education, and only 10% finished high school (compared to a 26% completion rate among the non-disabled population) (Berg Pedersen, 2013).

To test our proposition of a credit officer-induced mission drift, we use data from the MFI Banco D-MIRO. Banco D-MIRO is fully owned by the faith-based Norwegian Mission Alliance. In microfinance, having an international – oftentimes Christian – initiator is common (Mersland et al., 2013). Banco D-MIRO began as a small credit project in 1997, but it grew rapidly until transforming into a regulated bank in 2011. The MFI has been profitable since this transformation. In 2012, Banco D-MIRO obtained 3.5 stars (out of 5) on the social rating conducted by the international microfinance rating agency Microrate, which places it among the top 30% of social performers in the Microrate global universe (Microrate, 2012). Thus, Banco D-MIRO can be regarded as an example of what many would regard as a typical (and probably also preferable; see Morduch, 1999) type of MFI, namely, an MFI that is simultaneously socially oriented and financially sustainable. However, although all these specific characteristics of Banco D-MIRO are clearly important when interpreting our findings, the reader should be aware that when Sagamba et al. (2013, p. 182) study the relationship between lending and client wealth, they find “very little difference between the preferences of microloan officers of non-profit and for-profit MFIs.”

Nonetheless, with approximately 40,000 clients and an outstanding loan portfolio of approximately 57 million USD, Banco D-MIRO is a medium- to large-sized player in the Ecuadorian market. The owners of Banco D-MIRO view the MFI as a “development bank”, and their vision is for it to be the best bank in terms of contributing to poverty reduction in Ecuador.² Managers at Banco D-MIRO therefore maintain that the aim to reach out to vulnerable customers is not principally a market strategy but a mission-driven motivation. However, sound financial results are considered a prerequisite for ‘social success’, and, as a

publicly regulated bank, Banco D-MIRO must maintain healthy financial indicators to retain its banking license.

As part of its strategy to reach economically poor customers, disabled people and people under 25 years of age are specifically targeted as potential clients. To monitor its outreach to younger customers, Banco D-MIRO considers client age, and it has introduced a loan product called CREER (“believe” in Spanish) to track its outreach to disabled customers. The terms and conditions of this product are the same as those for the bank’s regular microcredit product. However, in developing a special product, Banco D-MIRO seeks to monitor its performance in this market segment.

The specific focus on young and disabled people is attributed to perceptions of these groups’ particular vulnerability; see the statistics presented in the previous sub-section. According to Cramm and Finkenflugel (2008), PWDs are probably *the most* excluded and ill-treated group of people within the microfinance sector; they are generally unable to access microfinance services. Managers at Banco D-MIRO contend that they do not know of other Ecuadorian MFIs that specifically target PWDs. Because Banco D-MIRO monitors its outreach to disabled customers with a special loan product, we can study the effects of disability, which is also an under-researched area in general development research (Mitra et al., 2013).

Data and research design

We investigate whether experience causes credit officers to focus less on social performance over time, and as explained above, we use the proportion of small loans, the proportion of young clients and the proportion of clients with disabilities as social performance indicators.

However, Agier (2012) documents that substantial heterogeneity exists among credit officers in the microfinance industry, and possible systematic differences between credit officers may influence the relationship between experience and social performance. Therefore, in the empirical analysis, we control for the gender, marital status and education level of the credit officer.

Regarding gender, Agier and Szafarz (2013a) find that client selection and loan allocations are influenced by credit officers' subjective preferences, which have led to gender bias: female entrepreneurs receive smaller loans than male entrepreneurs. In another study, Agier and Szafarz (2013b) further document the 'glass ceiling' that female clients appear to face with respect to loan size in the microfinance industry. Here, the authors conclude that "these findings are insensitive to the loan officer's gender" (Agier and Szafarz, 2013b, p. 166). These two studies suggest that gender is important at the client level but not at the credit officer level. Consistent with these results, in their study of attitudes towards microfinance clients with disabilities, Beisland and Mersland (2014a) do not find any staff differences related to gender. Nonetheless, we cannot ignore the possibility that gender may be a relevant variable in our personal mission drift story, and we thus choose to include a binary gender variable as a control variable in the analysis. Similarly, because we cannot rule out the possibility that marital status may affect credit officers' portfolio compositions, we follow Agier (2012) and control for marital status through a binary indicator variable.

Regarding our next control variable, education, reasoning in opposite directions is possible a priori. Prior research has suggested that a specific client might appear to be more appealing to a staff member if the client belongs to the same social network as the staff member or

belongs to a social network with which the staff member is familiar (see the discussion in Labie et al., 2015); thus, more educated credit officers might have more educated and well-off clients. By contrast, better educated staff might be more aware of the importance of the social performance of MFIs.

Possible mission drift is obviously MFI-dependent; therefore, to avoid complex controls for the differences among MFIs, all credit officers studied here are from the same MFI. Nonetheless, a potential influential variable for the degree of social performance is the management at the branch where the credit officer is employed. If the management has a particularly high or low focus on poverty alleviation, this focus will probably be reflected in the portfolio composition of the staff at that branch. We do not have information on the management of the staff covered in our study, but we use indicator variables for each branch to control for possible inter-branch differences.

We have access to unique credit officer data from Banco D-MIRO's core banking system: TOPAZ.³ Specifically, we collected information on the personal characteristics and loan portfolio compositions of all 101 credit officers. The same information was registered on a quarterly basis between December 2011 and December 2013, leading to a panel dataset of 909 observations. However, not all credit officers were active during the entire timeframe of the panel, causing the panel dataset to be unbalanced.

We were informed that Banco D-MIRO did not make major changes to its loan officer incentive system during the panel period. Banco D-MIRO applies a traditional system that is typical for the microfinance industry, with a major emphasis on the size of the loan portfolio, the growth

of the portfolio and loan repayment. On average, incentives account for approximately half of the credit officers' salaries at Banco D-MIRO.

Table 2 provides summary statistics for the main personal and portfolio characteristics of the credit officers, with particular attention on the proportion of the portfolio reserved for more vulnerable people, i.e., those taking out *small loans*, *young clients* and *disabled clients*. This table provides insight into the characteristics of the people who work at Banco D-MIRO, which we believe do not differ significantly from other MFIs and the characteristics of the clients whom they serve. Work experience is the key variable in our study. We focus the analysis on the credit officers' work experience with the current employer, i.e., Banco D-MIRO, consistent with the findings of Agier (2012) that experience with the MFI in which the credit officer is currently employed is the main driver of learning effects.

First, we observe that the credit officers are quite young, which is a typical characteristic of the microfinance industry (Beisland and Mersland, 2014a). The average credit officer is 31 years old, has 2.9 years of prior work experience at D-MIRO, and has 3.4 years of higher education (after high school). Forty-eight percent of all credit officers are female, and 49% are married. Interestingly, the loan portfolios that they manage are quite large. The average lending portfolio administered by a credit officer amounts to 469,139 USD, and the values reach as high as 1.2 million USD. The credit officers serve, on average, 425 clients, and the mean loan size is 1,209 USD over the sample period.

Regarding the age of the clients, we observe that the clientele whom the credit officers serve is substantially older than the credit officers themselves. The share of clients younger than 25

years old is approximately 10%, and the share of clients younger than 35 years old is approximately 36%. The small loans inherent to microfinance activities are clearly reflected in the proportion of loans less than 3,000 USD, which are considered 'Minorista' – the lowest loan size category according to the Ecuadorian banking authorities and thus an important indicator monitored by Banco D-MIRO. On average, 65% of all loans issued have an outstanding value of less than 3,000 USD. Finally, the proportion of disabled clients remains low. On average, 2.1% of the clients served have a disability, which is substantially lower than the proportion of PWDs in society. Examining the data more closely, the proportion of disabled clients served is less than half of one percent for the median credit officer. The average reflects the high proportions of disabled clients for a few credit officers, who we are told specifically maintain contact with networks for disabled people and similar organizations, resulting in a higher-than-normal percentage of disabled clients in their loan portfolios. We disregard these obvious outliers in the empirical investigation. After omitting the outliers, the proportion of disabled clients decreases to less than 1%. Nonetheless, this share is higher than those in most MFIs because most MFIs rarely have any disabled clients in their portfolios (Beisland and Mersland, 2014b). With the exception of the few outliers regarding the proportion of disabled clients, no other data points have been disregarded in the analyses.

< Table 2 >

In the empirical section, we investigate whether the proportion of vulnerable people served is statistically related to the credit officer's work experience. A negative relationship between work experience and the proportion of vulnerable clients can be regarded as an indication of 'personal mission drift' at the credit officer level. First, we investigate this relationship through

correlations as well as *t-statistics* and *X² statistics* by testing the differences in the mean and median values of the proportion of vulnerable people served in different work-experience classes. Next, we investigate multivariate relationships through pooled OLS and random-effects regressions with robust standard errors, in which the share of vulnerable clients is regressed on the work experience of the credit officer, controlling for the marital status, gender, education and branch membership of the credit officer.

We complement the empirical data with qualitative insights from focus group sessions with all credit officers working in two of Banco D-MIRO's 14 branches. The two visits were set up by an area manager with the bank who was asked to select two typical branches in the bank and to invite all credit officers to discuss our findings. The visits occurred in May 2015. In addition to the focus groups, we also met with the CEO and the heads of the HR and commercial departments. The qualitative investigation should be regarded as a complementary means of further explaining and understanding the underlying processes driving the numbers (Roa and Woolcock, 2003).

In the two focus groups, we met alone with all the credit officers at the branch (eight at each branch) for approximately an hour and a half. The credit officers were presented with the econometric findings and were informed that we would anonymize all their inputs and use them for research purposes, to which they gave their consent. Similarly, the CEO and the heads of the HR and commercial departments were informed about the purpose of the interviews (which occurred after concluding the focus groups with the credit officers).

In addition to helping us better understand the econometric findings, one goal of our return visit to the bank was to share with management the findings in an area where they had an interest in improving the bank's operations. Thus, our research was practical and more relevant for Banco D-MIRO (cf. Denscombe, 2010).

Empirical findings and policy recommendations

Econometric analysis

We start the empirical investigation by studying the portfolio characteristics of credit officer quartiles, which are constructed based on years of work experience. Table 3 suggests that as credit officers gain more work experience, the proportion of young clients decreases. For instance, the 25% least experienced credit officers serve, on average, 11.8% of clients younger than 25 years old, whereas the percentage decreases to 7.3% for the 25% most experienced credit officers. A similar result emerges when examining the proportion of clients younger than 35 years old, which is considerably lower for credit officers with more work experience. Table 3 suggests that the proportion of older clients increases with credit officer experience, but we note that the differences are smaller and that the significance levels are lower for older clients than for young clients (see further discussion of this issue below).

For the proportion of small loans, we observe a similar tendency. The longer the credit officers work for Banco M-MIRO, the larger the loans are that they issue. For instance, the proportion of loans of less than 3,000 USD is 68% for the 25% least experienced credit officers, whereas it decreases to 58% for the 25% most experienced credit officers. Turning to the proportion of disabled clients served, we see that the more experienced a credit officer becomes, the fewer disabled clients he/she serves in his/her lending portfolio. The percentage of disabled clients

served decreases from 0.78% for the least experienced credit officers to 0.39% for the most experienced, thus showing a statistically significant effect at conventional significance levels.

< Table 3 >

Table 4 provides a similar analysis that now considers only the most recent observation period ending in December 2013. By cross-sectionally examining these data for the last available year⁴, we account for any serial correlation induced by the 9 consecutive observations for each credit officer, which might enforce any differences observed in the previous table. As a second change, we now compare *low* and *high* experience credit officers, thus testing whether the arbitrary cut-off in quartiles in the previous table influences the results. Notably, the relationship between experience and the proportion of older clients is now insignificant. All other relationships remain the same. The more experienced a credit officer becomes, the fewer young and disabled clients he/she serves and the fewer small loans he/she grants, with the differences being highly significant according to conventional significance levels. Finally, Table 5 reports the pairwise correlations and significance levels between work experience and the proportion of vulnerable people served. The correlations confirm the relationships observed above.

< Table 4 >

< Table 5 >

In Table 6, the proportion of young clients, disabled clients, and clients seeking small loans is regressed against credit officer work experience, controlling for the marital status, education, gender and branch membership of the credit officer. We perform both pooled OLS analysis, with all observations treated as independent observations, and RE analysis, which applies an individual time-invariant credit officer effect. The latter analysis can be argued to better control for the panel structure of the data by accounting for unobserved time-invariant differences between the credit officers in the panel. Significance levels based on robust standard errors are reported in the table.

Overall, the joint model statistics indicate that the regression model has decent quality. All of the models are jointly significant according to the F-statistics. Additionally, the R^2 statistics indicate that the credit officer characteristics used here explain a reasonable portion of the variability in the proportion of vulnerable clients. The results confirm the importance of credit officers' work experience in explaining the proportion of vulnerable clients. Controlling for gender, marital status, education and branch affiliation, the proportion of young clients, the proportion of small loans and the proportion of clients with disabilities are all significantly negatively related with credit officer experience. Moreover, our analysis reveals that the branch controls are significant and that they contribute substantially to the overall regression quality. This finding indicates that the number of vulnerable people served does vary substantially between branches – for example, because of differences in management preferences and characteristics – thus suggesting that middle management also plays a pivotal role with regard to mission drift in microfinance.

< Table 6 >

A new credit officer typically inherits parts of his/her portfolio from other credit officers. This ‘inherited proportion’ decreases over time. We test the robustness of the results by excluding observations with large ‘inherited proportions’. Different thresholds have been investigated (unreported), but the additional tests do not alter any of the findings. In addition, we also include the squared value of experience in the regressions (unreported) to investigate possible non-linearity of the experience effect, but we do not find any significant results.

Collectively, our results show that credit officers’ work experience at Banco D-MIRO is negatively related to the proportion of vulnerable clients in their loan portfolios, as measured by loan size, client age, and the existence of clients with disabilities. Therefore, the data support the idea of mission drift on a personal level, i.e., credit officers serve increasingly fewer vulnerable clients as they become more experienced.

An obvious question that arises is whether other factors can explain the findings. Based on the finding that more experienced – and thus likely older – credit officers serve fewer young clients, one might ask whether an “aging with the client” effect causes our results. We cannot reject that such an effect reinforces our findings, but we do not believe that the results should be primarily attributed to this phenomenon. First, inconsistent with the “aging with the client” phenomenon, we find a much stronger statistical association between the proportion of young clients and experience than between the proportion of older clients and experience. If an “aging with the client” effect causes the results, the latter relationship would have been equally strong. Second, our results show that the average increase in client age is consistently much larger than the change in credit officer experience. Third, new credit officers inherit

most of their starting portfolios from retiring credit officers. Therefore, if the “aging with the client” effect were pronounced, we would expect to have a U-shaped relationship between experience and client age, which is not what we observe. Finally, our conclusions are also based on the PWD sample and the proportion of smaller loans, and an “aging with the client” effect does not explain the findings related to these samples.

Discussion of results and supplementary qualitative analyses

In general, although our analyses suggest that experience is negatively related to the proportion of vulnerable clients in credit officers’ portfolios, the data do not provide clear *reasons* for these findings. Therefore, to further understand the logic underlying the numbers, we returned to Banco D-MIRO and discussed our findings with key personnel, as outlined in the data section above.

From our discussions with key personnel, we first learnt that the over-time development in the proportion of low loan amounts should be considered with some caution. To gain economies of scale and to sustain increasing regulatory costs, Banco D-MIRO had to grow its portfolio over the past few years. This growth has mainly been accomplished through growth in dollar amounts rather than in the number of clients. However, we should not dismiss the proportion of small loans as an indicator of possible ‘personal mission drift’; increased loan amounts will increase the average loan size of all credit officers. Notably, at *any specific* point in time, our results suggest that the least and most experienced staff members differ in terms of their proportions of small loans. The change in Banco D-MIRO’s strategy therefore cannot explain this difference.

Nonetheless, as a further test of the over-time development in the proportion of vulnerable clients served, we group the first four observations and test mean and median differences in the percentage of 'poorer clients' with the group of the last four observations in the dataset. The results (unreported) show that the proportion of poorer clients has not significantly changed and that it is actually remarkably stable (even for small loans). As mentioned in the theory section, observers fear that the current focus on scale economies and the transformations of NGOs into regulated banks may lead to mission drift (Hartarska et al., 2013; D'Espallier et al., 2017). However, despite Banco D-MIRO's recent transformation into a regulated bank and its economies of scale strategy, it has been able to maintain its exposure among the most vulnerable client groups. As illustrated in Figure 1, young people and those with disabilities consistently constitute approximately 6% and 1%, respectively, of the overall portfolio, which are high levels compared to those of most microfinance banks.⁵

Overall, the additional tests suggest that, for Banco D-MIRO as a whole – that is, for all credit officers combined – the bank has been able to maintain its focus on poorer clients throughout the sample period. As such, our finding that credit officers focus less on poorer clients as they gain experience is even more interesting. This finding suggests that MFIs that aim to maintain their social focus will have to either introduce incentives to keep more experienced staff focused on vulnerable clients or constantly hire new staff to replace more experienced credit officers. Banco D-MIRO appears to be actively using its natural staff turnover rate to maintain its social focus. We return to a more thorough discussion of the policy implications in the next sub-section.

< Figure 1 >

When we presented our main findings to the key informants in the qualitative study, the interviewees provided solid support for the idea of a relationship between experience and the proportion of 'poorer clients' served. Both the credit officers and the managers initially focused mainly on the increased risk of taking on poorer clients as the major explanation for the drift. Thus, at first glance, the risk-related argument for credit officer-induced mission drift discussed in the theory section appears to be vitally important (Serrano-Cinca et al., 2016). However, the risk of different customer groups can be calculated objectively, and Banco D-MIRO supplied us with additional, more detailed portfolio risk data during our second investigation.

The hard facts do not fully support the repayment challenge hypothesis. Figure 2 illustrates the risk levels of the disabled and youth segments and the overall risk level in the bank, which are measured as the defaulted percentage – specifically, the percentage of loans more than 1 day in arrears (% of portfolio at risk >1). As seen in the graph, the risk associated with the CREER (disability) product appears to be similar to that associated with the total sample. However, the youth segment involves more risk than the average bank client. Nevertheless, the difference from the total sample is not dramatic, and overall, this risk analysis supports the view that *actual* risk alone does not adequately explain experienced credit officers' reduced outreach to poorer clients. However, if the credit officers *perceive* the risk of PWDs and other vulnerable groups to be substantially greater than that of other groups, the risk argument might still be relevant (Beisland and Mersland, 2014a). According to Beisland and Mersland (2014a), such an overestimation of risk might be somewhat unconscious and not the result of malice or deliberate discrimination.

< Figure 2 >

Given the relatively minor differences in actual risk between poorer clients and other client groups that we presented to the credit officers in the focus groups and to the HR and commercial managers, we asked our informants to offer alternative explanations for the decreased proportions of poorer clients in experienced credit officers' portfolios. Several interesting issues arose. In particular, the credit officers noted that when they started working at Banco D-MIRO, they attended several training courses that focused on the bank's mission to serve poor market segments. As one participant noted, "we all started with an ambitious dream." However, as they gained experience, the credit officers learned that servicing more vulnerable customers is, on average, more troublesome. Such customers might lack some legal documents, and they require more time to understand the credit conditions and other issues. To explain why the proportion of vulnerable customers decreased over time, one interviewee remarked that "they 'steal' too much of my time." Another interviewee said that, over time, loan officers tended "to lose their first love" (cf. Labie et al., 2015). The head of the HR department, who is also a trained psychologist, also emphasized this change: "New hires always put in their best effort and attempt to satisfy the employer as much as possible. Later, when they have gained experience and secured their positions in the bank, they do not have to focus as much on the issue of attending to the most vulnerable customer segments."

Prior research in traditional finance suggests that more experienced loan officers apply more efficient information-processing strategies because they make decisions based on more relevant and often fewer cues than novices do (see Andersson, 2004, and the references

therein). The credit officers also noted this aspect. One credit officer expressed this perspective as follows: “When I started, I trusted my clients, but with experience, I developed what we call the sixth sense of a credit officer; that is, the sense that can smell risk and time-consuming work.” As credit officers become more experienced, they focus on regular, less “troublesome” clients who can secure them the best possible monthly income. The credit officers also admitted that they tend to “forget” the most vulnerable clients when they are not constantly reminded of them. Thus, the findings from Banco D-MIRO mirror those reported in other studies: experience affects credit officer behaviour (Agier, 2012; Serrano-Cinca et al., 2016).

When we asked the interviewees what could be done to avoid ‘personal mission drift’, all of them pointed to the incentive system. Approximately half of each credit officer’s salary is based on incentives, and according to the credit officers, the existing system does not incorporate the elements needed to motivate an increased and continued focus on vulnerable customers. To some extent, the managers also admitted that the incentive system does not sufficiently compensate for the importance of reaching out to vulnerable customers. The incentive system combines portfolio size, portfolio quality and the number of clients. Because vulnerable customers take out smaller loans, they do not contribute much to the size of portfolios; in addition, because portfolio size is more important than the number of clients, credit officers are more interested in servicing larger clients than many clients.

The managers of Banco D-MIRO had several ideas with regard to improving the incentive system to increase outreach to vulnerable customers. Among the measures discussed were reducing penalties for loan defaults among vulnerable customers and allowing smaller

portfolios for credit officers with larger proportions of vulnerable customers in their credit portfolios. However, in addition to focusing on the incentive system, managers emphasized the importance of constantly reminding credit officers and branch managers about the type of bank that Banco D-MIRO aspires to be.

Recently, Banco D-MIRO established a new ‘vulnerable customer department’. The bank contends that this department is an important measure to keep this vulnerable customer segment from “drowning in the ocean” of clients in a large bank that has a need to steadily grow its portfolio to gain economies of scale.

Implications and policy recommendations

We believe that the quantitative analysis, combined with interviews with key personnel at Banco D-MIRO, suggest that mission drift at the credit officer level has potentially important policy implications. We conclude this section by summarizing the most important recommendations that can be drawn based on this study. In general, if credit officers’ increased focus on financial performance at the expense of outreach to the most vulnerable clients conflicts with the preferences of the stakeholders of the MFI, counterweighing actions are needed.

First, our analyses suggest a gap between the ‘perceived’ and ‘actual’ credit risk associated with vulnerable clients. Indeed, the portfolio-at-risk from CREER loans is on par with the overall loan portfolio, and the portfolio-at-risk for young clients, although somewhat larger than the overall portfolio, does not appear to reach problematic levels. This finding mimics several studies that show that credit risk in microfinance as measured by the part of the

portfolio that is in distress or written off is typically low (D'Espallier et al., 2011). As a recommendation, MFIs could therefore put more effort into making their credit risk figures transparent. By documenting the credit risk figures for various lending classes of their portfolio and analysing the drivers of credit risk, MFIs could ease staff uncertainty related to lending to vulnerable clients.

Next, credit officers work under great pressure, and keeping their “first love” for the MFI’s mission alive is of vital importance. Staff training, which should continue over time, is an obvious recommendation. In addition, MFIs could strengthen and re-emphasize their organizational identity and mission statement. The management literature highlights that tensions between the social and financial logic in hybrid organizations can be counteracted by developing a common organizational identity that recognizes the hybrid nature of the business (Battilana and Dorado, 2010). Studies also underscore that refocusing on the mission statement can positively influence firm behaviour (Kenneth and Baetz, 1998). This relates to the issue of ‘accountability to the mission’. The research of Ebrahim et al. (2014) and Sherratt (2016) discusses the challenges in ‘accountability’ that hybrid organizations face resulting from possibly differing goals for multiple stakeholders. One suggested solution is transparency for the common social goal combined with a tailor-made governance structure that aligns individual and firm objectives to counteract mission drift. Overall, by re-identifying and re-enforcing firm identity and the mission statement, MFIs can better align the interests of credit officers with firm goals, which could lead to a sustained focus on vulnerable people.

Moreover, our finding that some branches show better social performance than others indicates the importance of middle managers. Thus, we recommend that MFIs monitor social

performance at the branch level and constantly motivate their branch managers to comply with the MFI's social mission. Additionally, we recommend that researchers investigate how middle managers influence mission drift in MFIs.

Another recommendation is that if an MFI uses salary incentives, such incentives must at least include social performance measurements if mission drift is to be avoided. Because incentives in the microfinance industry have typically been copied from traditional banking, this aspect has received little attention. An obvious avenue for further research would involve studying how salary incentives can be applied in hybrid organizations with multiple and often conflicting objectives. However, this task will be challenging because previous research has shown that employee performance is increasingly difficult to measure adequately (O'Donnell, 1998), and incentive contracts only rarely correspond to the underlying firm's logic (Baker, 2000). The alternative option is to deliberately choose to not use salary incentives. Indeed, not having an incentive system at all might be a better option than having a single-logic scheme that is not in line with the dual mission and will therefore naturally distort the balance between different logics. In this regard, researchers should be aware of Procredit Holding, which has stopped using such performance incentives for credit officers (Procredit, 2015).

Conclusions

From an ethical perspective, microfinance mission drift can be a severe challenge because particularly poor and vulnerable groups of people are barred from accessing services that may improve their livelihoods. The drift can be driven by capital providers, boards and managers when these stakeholders demand an increased focus on wealthier clients to improve the financial performance of MFIs. In this study, however, we propose and explore an additional

internal reason for MFIs' mission drift; we suggest that changing credit officer behaviour over time might explain why MFIs drift from social motivations towards financial motivations. "It is crucial to understand under what conditions MFIs are able to reduce poverty" (Postelnicu and Hermes, Forthcoming, p. 1) but the role of employees has often been ignored. We present evidence that more experienced credit officers serve fewer poor clients. Specifically, we show that credit officer experience is negatively correlated with the provision of small loans, loans to young clients, and loans to clients with disabilities.

Our econometric results fit well with the existing research. Whereas Andersson (2004) documents how staff experience might affect lending in the traditional financial industry, Schreiner (2000) shows that portfolio risk is related to experience in the microfinance industry. Moreover, using Brazilian data, Agier (2012) shows that experience can affect credit officer behaviour in more general terms in the microfinance industry, and Serrano-Cinca et al. (2016) contend that MFIs' credit assessments are often based on credit officers' experience and intuition in their Colombian study. Finally, in a study from Uganda, Beisland and Mersland (2014a) apply survey data to document that attitudes towards vulnerable clients – in their study, PWDs – are related to credit officer age, which is strongly correlated with experience. In all these studies, a common pattern supports the notion of the credit officer mission drift proposed in this analysis.

After conducting the statistical analyses, we returned to Banco D-MIRO and organized two focus groups with credit officers as well as interviews with the CEO and HR and commercial managers. These interviews further support our ideas that learning effects related to risk, the administrative workload and 'hassle' for different customer segments may cause what we

refer to as ‘personal mission drift’ in this study. This drift can be reinforced by fewer training programmes and less focus on the importance of serving vulnerable groups for experienced staff members than for inexperienced staff members. Such an asymmetric focus on vulnerable clients can reduce staff members’ enthusiasm for contributing to the bank’s social performance over time.

Thus far, research on these issues has been scarce, and we regard our study as a preliminary step towards understanding the role of credit officers in the mission drift debate. Notably, given that becoming cost efficient is considered one of the main challenges in the microfinance industry (Hermes et al., 2011), we repeat that mission drift is not always negative. Whereas the business models of most MFIs have been similar over time, we acknowledge that different MFI types might have different roles to play in the future. The entry of large commercial players into the microfinance industry could require NGOs and development organizations to place greater emphasis on reaching the most vulnerable of potential microfinance clients. However, this change in emphasis will require continued donor support to MFIs with the strongest social foci.

We recognize that we study mission drift within a somewhat narrow theoretical stakeholder framework. We recommend that future studies apply wider theoretical frameworks that better consider the political economy in which MFIs operate and the complicated web of obligations and motives that shape credit officers’ behaviours (Mader, 2015). Likewise, it is necessary to study the relationship between competition levels and mission drift in microfinance markets. Finally, although our hypothesis is that increased experience among credit officers may lead to mission drift in microfinance, we do not want to downplay the

potential upsides of experience, such as improved client selection, client monitoring and efficiency levels. Since not only costs but also several benefits can be associated with operating with experienced credit officers, we recommend that researchers study the various consequences of staff turnover rates in MFIs. For instance, understanding how staff turnover in organizations with multiple bottom lines influences the organization's culture, working climate and staff satisfaction would be interesting.

Compliance with Ethical Standards

All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

Informed consent was obtained from all individual participants included in the qualitative study. Additional informed consent was obtained from all individual participants for whom identifying information is included in this article.

This article does not contain any studies with animals performed by any of the authors.

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Tables

Table 1: Average indicators for microfinance service providers in Ecuador as of the end of 2013

	Commercial banks	Specialized microfinance banks	Cooperatives	NGOs	Banco D-MIRO	Banco FINCA
Number of players	3	3	29	11	1	1
Total microcredit portfolio (million USD)	1472	122	1514	154	56	42
Number of clients (thousands)	576	111	374	162	40	41
Average loan size (USD)	2555	1099	4048	950	1395	1016
Portfolio at risk (PaR30)	3.55%	3.09%	5.09%	3.05%	5.05%	3.88%
Return on assets (ROA)	1.18%	-1.69%	1.31%	2.84%	2.02%	-7.9%

Table 2. Summary statistics

<i>Variable</i>	<i>Definition</i>	<i>n</i>	<i>Mean</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
CO's characteristics						
dumFEMALE	1 if female	890	0.48	0	0	1
Work experience	# of years employed as CO	786	2.85	2.55	0.01	7.09
Age	CO's age	890	30.98	30.31	20.10	50.60
Education	# of years education	800	3.39	4	0.5	8
dumMARRIED	1 if 'married' or 'united'	890	0.49	0	0	1
Portfolio characteristics						
Outstanding portfolio	Outstanding loan portfolio in USD	778	469,139	483,169	0	1,203,110
Clients	Total number of clients	755	425	430	7	1,039
Average loan size	Outstanding loan portfolio divided by total number of clients	755	1209.94	1126.95	607.15	5638.23
Share of young clients < 25	Proportion of clients younger than age 25	764	0.095	0.090	0.00	0.50
Share young clients < 35	Proportion of clients younger than age 35	764	0.358	0.358	0.00	1.00
Share of older clients > 55	Proportion of clients older than age 55	764	0.117	0.105	0.00	0.50
Share of small loans < 3000	Proportion of loans less than 3,000 USD	762	0.643	0.706	0	1
Share of disabled clients	Proportion of disabled clients	647	0.021	0.004	0	1

* CO = credit officer

Table 3. Proportion of vulnerable people in different classes of CO work experience

		CO's work experience				t-stat/chi ²
		Q1	Q2	Q3	Q4	
Share of young clients <25	Mean	0.118	0.107	0.084	0.073	8.56***
	Median	0.105	0.1	0.081	0.075	63.19***
Share of young clients <35	Mean	0.392	0.384	0.349	0.311	8.33***
	Median	0.401	0.386	0.36	0.299	84.57***
Share of older clients >55	Mean	0.109	0.107	0.116	0.136	-4.32***
	Median	0.097	0.098	0.109	0.124	16.87***
Share of small loans <3000	Mean	0.675	0.723	0.595	0.582	3.73***
	Median	0.759	0.768	0.684	0.6	42.38***
Share of disabled clients	Mean	0.0078	0.0075	0.0056	0.0039	6.08***
	Median	0.0065	0.0062	0.0044	0.0029	15.21***

* Proportion of disabled clients of > 2.5% omitted (because of some obvious outliers in the data sample) in this table (and in subsequent tables and figures).

* Q1 = work experience less than 1.03; Q2 = work experience between 1.03 and 2.5; Q3 = work experience between 2.5 and 4.65; Q4 = work experience greater than 4.65.

* t-stat is the independent samples t-test, and Chi² is the Pearson's chi-square test asserting the null of the same distribution. Both tests assert differences between HIGH and LOW.

* One (*), two (**) and three (***) asterisks denote the conventional 10%, 5% and 1% significance levels, respectively.

Table 4. Univariate differences: cross-sectional, December 2013

		<i>CO's work experience</i>		<i>t-stat/chi²</i>
		<i>Less than median</i>	<i>Greater than median</i>	
Share of young clients <25	<i>Mean</i>	0.101	0.077	3.80***
	<i>Median</i>	0.100	0.076	8.01***
Share of young clients <35	<i>Mean</i>	0.371	0.320	3.471***
	<i>Median</i>	0.384	0.303	8.01***
Share of older clients >55	<i>Mean</i>	0.114	0.136	-1.74*
	<i>Median</i>	0.110	0.121	1.47
Share of small loans <3000	<i>Mean</i>	0.717	0.599	3.07***
	<i>Median</i>	0.751	0.607	8.01***
Share of disabled clients	<i>Mean</i>	0.0065	0.0033	2.87***
	<i>Median</i>	0.0041	0.0026	0.223

Table 5. Pairwise correlations

	correlation	n	p-value
Share of young clients <25	-0.404	786	0.001
Share of young clients <35	-0.360	786	0.001
Share of small loans <3000	-0.202	756	0.001
Share of disabled clients	-0.279	786	0.001

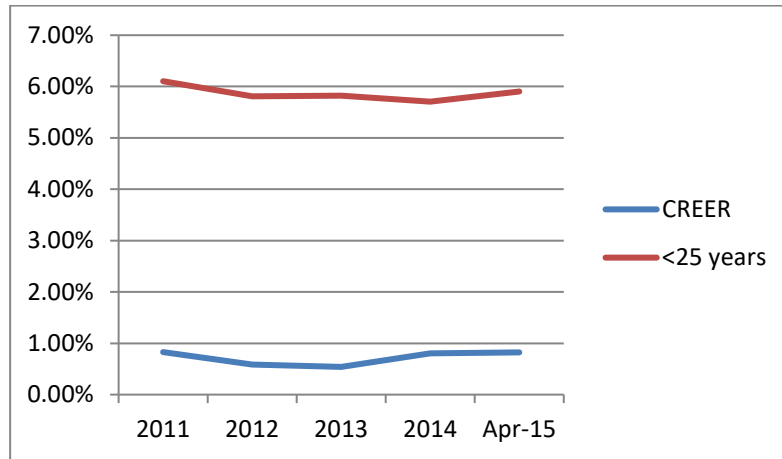
* Pairwise correlations between CO work experience and the proportion of vulnerable people served.

Table 6. OLS and RE regressions

Dependent	Share of young clients < 25		Share of small loans < 3000		Share of disabled clients	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Work experience</i>	-0.082***	-0.083***	-0.209***	-0.067*	-0.006***	-0.008***
<i>dumFEMALE</i>	0.003	0.002	-0.002	-0.004	0.001**	0.001
<i>Education</i>	0.001	-0.001	0.009	0.011	-0.001	-0.001
<i>dumMARRIED</i>	0.004	0.005	0.004	-0.103	0.001	0.001
<i>Branch controls</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>N</i>	683	683	681	681	564	564
<i>F-stat/Wald chi²</i>	27.70***	236.12***	10.07***	143.16***	11.94***	78.75***
<i>R²</i>	0.33	0.32	0.16	0.14	0.25	0.25
<i>method</i>	<i>pooled OLS</i>	<i>RE</i>	<i>pooled OLS</i>	<i>RE</i>	<i>pooled OLS</i>	<i>RE</i>

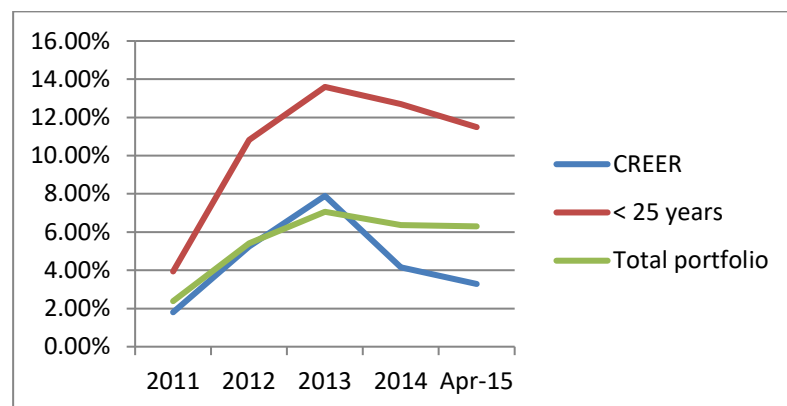
* Multivariate analysis of the relationship between CO work experience and the proportion of vulnerable clients. Significance levels based on robust standard errors.

Figure 1. Proportion of young clients and clients with disabilities



* Percentage of PWD clients ('CREER') and clients younger than 25 years old.

Figure 2. Loan portfolio risks



* Percentage of loans more than 1 day in arrears of the total loan portfolio, loans to PWDs ('CREER') and loans to clients younger than 25 years old.

¹ Interestingly, Procredit, a holding company operating 15 microfinance banks worldwide, does not include performance-based incentives in its remuneration policy because doing so may “negatively impact the performance of responsible and sustainable banking-specific activities” (Procredit, 2015, p. 58).

² “Ser la institución financiera que más contribuye a la superación de la pobreza” (“To be the financial institution that contributes most to the overcoming of poverty”).

³ With the consent of the CEO of Banco D-MIRO, an officer in the IT department facilitated the data output, which was delivered in Excel format to the authors.

⁴ The same analysis was also performed for the very first observation period (December 2011), yielding similar results with a smaller number of observations.

⁵ The new data were collected at the time of the interviews (May 2015).