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**Interrogating Microfinance Performance beyond Products,
Clients and the Environment. Insights from the work of
BRAC in Tanzania**

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4 **Products, Clients and the Environment**
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14 **Abstract**

15 *The performance of microfinance organisations can depend upon many factors. Current*
16 *research emphasizes factors pertaining to clients, products, or broader environments. But*
17 *researchers have paid less attention to the workings and internal systems of microfinance*
18 *organisations. We explore how variation in performance within an organisation can alter the*
19 *consequences of loans and their popularity among clients and potential clients. We illustrate*
20 *with data from BRAC in Tanzania, where the arrival and rapid expansion of BRAC's*
21 *microfinance programme provides an apposite case study.*

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23 **Keywords:** Microfinance; BRAC; Tanzania; Organisational performance
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32 **Introduction**
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34 We argue in this paper that more attention to the performance of staff and organisational
35 systems within microfinance institutions could improve our learning about the effectiveness
36 of microfinance. These aspects of microfinance are, we feel, under-studied. The vast majority
37 of research on microfinance concerns either the effectiveness of the *products* offered to
38 clients, or the *qualities of the clients* themselves (their poverty and needs), or focuses on the
39 make up of the broader economic and regulatory *environment*. Organisational performance,
40 i.e. the ability of microfinance institutions to achieve their objectives, is commonly
41 understood as a function of these parameters.
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48 These issues can tell us little, however, about the variable performance within microfinance
49 organisations themselves. We argue that this restricted focus limits our understanding of how
50 and why microfinance can work or fail. For microfinance is not just a product delivered to
51 poor people in particular places. The work of microfinance institutions is performed on the
52 ground and enacted by complex organisations.
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An analogy of a play may be helpful here. For we know that the audience (clients), stage (environment) and the quality of the dialogue and plot (products) are all important elements in a good performance. But so too are the actors, producers and directors (staff members). Because they have not been sufficiently prominent in debates thus far, we do not know enough about life inside these organisations As Copestake et al (2016) find, ‘throwing light on the institutional diversity of microfinance requires an exploratory and inductive approach to research that avoids imposing a deterministic and universal framework of inexorable inclusion on different country-level experiences’ (page 209-201). It is important to recognise that despite the voluminous body of research on microfinance we do not understand how well different microfinance organisations can deliver the objectives they seek because of the way they function as organisations. We know too little about the interactions between staff and their management, the interactions between staff and clients, and the way in which clients use and shape these practices to their purposes.

We address this issue through a detailed study of the work of BRAC in Tanzania. This makes a good case study because BRAC is one of the world’s largest and most eminent microfinance organisations. It has recently expanded its operations into five African countries (Liberia, Tanzania, Uganda, South Sudan and Sierra Leone). Its size and diversity make it a good place to explore the importance of internal organizational differences in microfinance delivery.

We first examine the existing literature to demonstrate the current neglect of the approach and method we are advocating. Emphasising the important of organisational systems, behaviour and heterogeneity may seem trite or banal. Unfortunately, as we will show, a sizeable element of microfinance research is in fact founded on the assumption that such issues matter less than products and client targeting tools. We then outline BRAC’s history and relevance to our argument. We demonstrate that staff performance within the organisation matters a great deal for the success of the organisation’s products and that this is reflected in varied branch performance. We conclude with reflections on the more general significance of this case study for understanding microfinance globally.

Attention to Organisational Systems and Behaviour in Microfinance Literature

The deployment of the performance framework in international development was promoted in the late 1990s by donor agencies to enhance accountability and effectiveness in the delivery of Overseas Development Assistance. Since then, a new public management approach to administration was developed to help create systems that deliver value for money donor (Minogue, 2001). Performance, as a concept and a practice has been applied to public, private and third sector organizations alike. From the upsurge in attention to results derived an increased interest in impact assessments. Logically, this provided strong incentives for organizations to consider performance a key driver for management systems and organizational structures design. As a result an ever-expanding body of research focuses on assessing microfinance institutions' performance with regards to their impact on poverty (Aoki and Pradhan, 2013; Attanasio *et al.*, 2015; Banerjee *et al.*, 2014; Copestake *et al.*, 2005; Duvendack *et al.*, 2011; Imai and Azam, 2012; Maitrot and Niño-Zarazúa, 2017; Shahriar, 2012; van Rooyen *et al.*, 2012).

Organizational performance in this literature typically refers to the things organisations achieve. Common conceptualizations of performance revolve around assessments that rely on restricted sets of indicators. The double bottom-line mission of microfinance was translated into indicators reflecting the operational and transactional costs of lending to the poor and the number and size of loans disbursed, characterising the organisations' social mission or breadth and depth of outreach (Schreiner, 2002). These indicators are often translated into targets that microfinance staff members would be incentivised to realise (Ledgerwood and Gibson, 2013; Ledgerwood and White, 2006).

Yet these approaches do not adequately scrutinise the systems that are designed to support microfinance organisations to deliver their institutional missions. Attention to organisational performance, has not, rather oddly, examined *how* these organisations actually perform their work. It has instead focussed almost exclusively on *the results* of that performance. Performance in this context has been narrowly defined to refer to achievements⁷

It is easy to see why this has occurred. The relative ease of accessing organisational level data, combined with the econometric analyses that these data lend themselves to, suffice to

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3 satisfy many of the economists who work in this field. Disciplinary divisions ensure that it is
4 possible for such studies to prosper as the insights built from these methods and sources grow
5 within particular sub-fields.
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9 However we are not satisfied with this state of affairs. This paper is motivated by the insight
10 that organisational design and dynamics can often explain a considerable amount of the
11 variance in these achievements. Organizational systems and behaviour are still largely
12 neglected in many studies and particular genres of study (Copestake *et al.*, 2016). In fact,
13 variations in internal organizational systems and functioning remain largely absent from the
14 explanatory frameworks that generally consider *products*, *client group* and *environment* as
15 key performance drivers (Agier and Szafarzy, 2010; Ahmad, 2002, 2003; Dixon *et al.*, 2007;
16 Goetz, 2001; Goetz, 1996; Labie *et al.*, 2009; Ledgerwood and Gibson, 2013; Schreiner,
17 2002; van den Berg *et al.*, 2015)
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20 Microfinance product design and services offered are commonly considered key determinants
21 of loan up-take and outreach (Ledgerwood and Gibson, 2013; Ledgerwood and White, 2006).
22 Many find that changes in the nature and terms of the financial products affect the poverty-
23 alleviation potential of microfinance. The most common variables featuring in the changeable
24 modalities of products include the size of loans, a compulsory or voluntary savings
25 component, variations in repayment schedules, trainings on financial literacy,
26 business/entrepreneurship training (Rusinà *et al.*, 2015), interest rates, individual or group-
27 based and flexibility (Meyer, 2002).
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30 A different body of research argues that it is the type of clients which microfinance
31 organisations recruit and work with that determine performance. Studies from this school
32 focus on how clients' gender, age, formal educational level, socio-economic status, level of
33 asset endowment, level of physical ability and degree of business experience determine their
34 borrowing behaviour and loan use (Banerjee *et al.*, 2015; Beisland and Mersland, 2012;
35 Boehe and Barin Cruz, 2013; Makina and Malobola, 2004).
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38 Additionally, some studies aim to assess how environmental elements can affect microfinance
39 performance. The most common variables considered important for performance here include
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3 the macro-economic context within which MFIs operate (Ahlin *et al.*, 2011), whether
4 organizations are operating in rural or urban settings, the degree of regulation and, of course,
5 competition (Cull *et al.*, 2011; Kar and Swain, 2014)
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9 An increasingly large body of literature has started considering governance as a driver of
10 performance (Galema *et al.*, 2012; Hartarska, 2005; Mersland and Strøm, 2008). Within this
11 strand of the literature the type of institution in terms of for profit/not-for-profit status
12 (Tchakoute-Tchuigoua, 2010), religious affiliation (Djan and Mersland, 2017), composition
13 of governance board (Mori *et al.*, 2015) and ownership structure (Mersland and Strøm, 2008)
14 are identified as determining elements for organizational performance.
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18 However divergent their conclusions, these works are united by the fact that they do not
19 consider the influence of the organisational systems and behaviours themselves on outreach.
20 Indeed, much of the epistemic programme of research into microfinance would find it
21 difficult to do so given current resources. The large comparative databases of different
22 microfinance institutions that are the foundations of so many studies do not capture well
23 heterogeneity within organisations.¹ Institutional characteristics drawing analysts' attention
24 are the number of office, personnel, loan officers and assets. These data cannot capture the
25 role of staff interactions and staff-client interactions, or the variety in quality and
26 consequences of these interactions, and how these shape performance.
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29 This omission would not matter if these interactions and internal variety were irrelevant. Yet
30 various debates within microfinance scholarship strongly suggest that such internal aspects
31 matter for understanding how microfinance works. A global survey (360 interviewees in 79
32 countries) of the microfinance sector suggests that internal, and client-facing relations, are
33 important (Lascelles and Mendelson, 2012). The survey listed corporate governance and
34 management quality as the second and third most significant problems facing the sector. Risk
35 management and client management were the sixth and seventh most important problems.
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38 In academic literature the need to understand organisational systems internal workings is
39 demonstrated in part by the few studies that have explored this subject directly. On social
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¹ eg www.mixmarket.org

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3 policy, the seminal work of Lipsky (1980) was among the first to consider and conceptualise
4 administrators' discretionary power. He explored the capacity for administrators' behaviours
5 to skew the distribution of resources and determine organisational performance and policy
6 outcomes as a response to resource constraints, workload pressures, policy ambiguities and
7 relations with clients. The work of Feldman and Khademian (2000), Howard-Grenville
8 (2005) and Pentland *et al.* (2012) explores how discipline, participation and routine shape
9 individual staff behaviours and their influence on results.
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15 Maitrot's (2014) comparative study of two microfinance organisations in Bangladesh
16 explored the relationships between organisational structures and systems and microfinance
17 impact. She used interviews with credit officers, managers and clients, as well as participant
18 observation and household surveys, to explore how embedded organisational practices in
19 competitive environments shaped the nature of the relationship between organisations and
20 clients, including the lending patterns of field officers, and clients' borrowing behaviour and
21 well-being (Maitrot, forthcoming). She makes analytical linkages between specific
22 management practices and organisational structures that foster processes and relations that are
23 conducive to predatory lending and encourage the exploitation of unequal gender relations
24 within households.
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33 Her findings add weight to a growing body of microfinance scholarship that, since the 2000s,
34 has started to recognise loan officers as key intermediaries between microfinance institutions
35 and their clients (Goetz, 2001; Ahmad, 2002; Siwale, 2013; Siwale and Ritchie, 2011).
36
37 Studies found that their gender, age, educational background and behaviours determine the
38 nature of microfinance's impacts on clients (Agier and Szafarzy, 2010;; 2003; Dixon *et al.*,
39 2007;; Goetz, 1996; Kar, 2013; Labie *et al.*, 2009;; van den Berg *et al.*, 2015). Staff
40 incentives and motivation are increasingly recognised as critical for quality products to fit the
41 unpredictable reality of clients' lives (Simanowitz and Knotts, 2015). Other studies explore
42 how variation in loan officer behaviour can be a determining factor for variations in branch
43 performance. Canales has observed contrasting tendencies in loan officer behaviour, with
44 some acting as rule-enforcers, and others as rule-benders (Canales, 2011, 2014). Interestingly
45 good performance of different branches within the same organisation hinges not on having
46 good rule-enforcers, but rather the right mix of both (*ibid*). This allows, Canales argues, for
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3 the tensions within microfinance - to both standardize products and respond to clients' needs
4 on the ground.
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8 Collectively these works strongly point to the need for a greater and deeper understanding of
9 the links between organisational systems and branch outreach and interaction with clients. To
10 these insights we would advocate that we need more understanding of how loan officers are
11 managed (Simanowitz and Knotts, 2015). We know that loan officer performance matters for
12 the experience of clients and consequences of the loan. It follows also that the management of
13 that performance will be important. There has been less writing on that topic, and this is part
14 of the contribution of this paper.
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18 More generally, however, in much microfinance scholarship variations in the quality and
19 performance of MFIs are rarely explained by their internal organisational performance,
20 whether this be the work of loan officers or of their managers. Yet, this internal variation may
21 be significant enough to obscure the effects of better-designed contractual or incentive
22 structures, as well as of environmental effects. We contend that it would be useful to spend
23 more time exploring the internal organisational systems and behaviour of microfinance
24 institutions. Approaching research into microfinance with the assumption that the
25 organisations and their systems are homogeneous could be a mistake.
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29 The aim of this paper is to address this analytical gap and to refine existing conceptualisation
30 of organisational performance. To make the case that internal organisational systems and
31 behaviour matter for explaining organisational practices and performance we use a study of
32 BRAC's microfinance work in Tanzania. BRAC's case is unusual, as we will document
33 below, for the rapidity of the change it has experienced and the differences between Tanzania
34 and its usual arenas in Bangladesh. This growth brings into sharper relief the importance of
35 understanding every-day practices within organisations that are continually having to cope
36 with different forms of change. We explore the implications of these perspectives for
37 understanding the efficacy and consequences of microfinance lending in our final sections.
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Methods
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This study fits well the model of an ‘exploratory and inductive approach’ that Copestake and colleagues (2016) called for, and that we mentioned above. The research we report here evolved as the nature of the problem we were exploring shifted and became more visible. We have sought, as we learnt more about the case, to glean more insights and uncover more data. But we must warn readers that the picture this generates and analysis that we can support is far from complete. We do not have enough data adequately to test all the hypotheses we would like to examine. This is normal for inductive qualitative research – it generates hypotheses that can then be tested using robust study designs and large n samples. The slightly unusual aspect of this study is that we were able to obtain a tantalising set of quantitative data that allowed us to begin testing some of the ideas we were generating. The key word here, however, is ‘tantalising’. We have more insights than one would normally expect, but still not a complete picture. In this sense this is a decidedly inductive and exploratory piece of work for which it was not possible to determine in advance the quantitative data that ought to be collected.

Our research did not begin as an exploration of organisational systems. It started off as an ethnographic study of BRAC in Tanzania with a view to explaining its successful launch and rise in the country. However, as the study progressed, a number of challenges to BRAC’s work became apparent, and its successes more qualified. Late in the study limited quantitative data on branch performance, and more limited human resources data became available which gave material insights into these problems. We have therefore combined insights from interviews with clients and staff with quantitative data in the account below, using a mixed methods approach (Scheyvens 2003).

Following Maitrot (2014) our qualitative methods use a mixture of participant observation, focus group discussions and interviews with clients and staff. That work took place over 8 months in 2012-13, as part of a longer stay (13 months) by Author 1 in Tanzania. During that time Author 1 worked on this research project on BRAC as well as joining a different, smaller, non-NGO based peer-lending group (in which members contribute to a central fund which they then loan to each other), and learning about money-lending practices in the area where s/he was living and conducting other socio-economic surveys.

To explore BRAC's work Author 1, and his/her research assistants, attended meetings of 20 microfinance groups in four regions in Tanzania with over 470 clients. Each group was visited on at least three separate occasions, with participant observation at the meetings allowing Author 1 to observe group dynamics and client-staff interactions. We then spoke to clients individually (292 of them) to learn about the history of their loans. These interviews examined what use clients had made of loans, what difference this use had made to their lives and livelihoods, the history of their businesses more generally and any alternative sources of finance available. All interviews and participant observation was conducted in Swahili in which Author 1 and his/her research assistants were fluent.

We interviewed 42 BRAC employees across the hierarchy of its microfinance operations.² These comprised 24 junior staff (8 credit officers and 18 branch monitors); four branch level staff (managers and accountants); two area managers; two regional managers; and nine senior staff working in the country office in Dar es Salaam. Interviews covered current and former roles in the organisation (all branch managers and monitors had formerly served as credit officers). We discussed the way each role needed to be performed to be done effectively, the challenges of the role, and, for Bangladeshi interviewees, the differences they noticed between microfinance operations in Tanzania and in Bangladesh. Again interviews with Tanzanian staff were conducted by Author 1 in Swahili; and with Bangladeshi staff in English.

Interviewing the 18 branch monitors was important as their worked covered all of BRAC's branches in Tanzania. This allowed us to compare findings from our study regions more broadly across the country. Interviews were not recorded or transcribed as informants were more comfortable with the interviewer writing notes as we talked. Interview notes were kept as part of a field diary that also highlighted the key themes that emerged over the course of the research. This was discussed with Author 4 at periodic intervals to guide the research progress.

² BRAC microfinance offices are composed of branches run by branch managers, with three to seven branches run by area managers, and areas clustered into regions run by regional managers.

In the final weeks of the research, after much of the ethnographic work was complete, a record of monthly branch level reports from April 2011 to April 2013 was made available to Author 1. This database provides records of borrower numbers, loan size, branch surpluses and deficits, loan write-offs and other technical information required by managers to ensure the financial health of their organisation. We have used these data to examine trends in surplus and borrower numbers. We were also able to examine human resources records for 15 months from January 2012 to April 2013 to learn of trends in staff retention, resignation and lay-off.

These data allowed us to understand how well branches were performing, in terms of their financial robustness, and to explore initial relationships between financial performance indicators and staff retention. We also used the branch level reports to undertake a cluster analysis based on seven variables: Expenditure, Income Surplus, Age, Average Loan Size, Borrower Numbers and Average Loan Write-Off. These variables were chosen because they are key indicators of a branch's financial robustness and helped us to understand the sorts of variety that different branches displayed. .

Finally an important part of this exercise has also been sharing and discussing findings with BRAC staff in Dar es Salaam and Uganda. Author 1 circulated a written report to the organisation (on which this paper is based) and presented the same in person to the country headquarters in June 2013 and at a further meeting in April 2014. We also circulated initial findings in an IDPM working paper (Brockington and Banks 2014). BRAC feedback then, and by email afterwards, has been useful in helping us to understand these data.

BRAC in Tanzania – multiple stories, not a single growth narrative

BRAC is the world's largest NGO, and one of the most successful. Formed just over forty years ago it has contributed to remarkable economic and social improvements in Bangladesh. It employs 100,000 people there in diverse programmes that include education programmes, microfinance, disaster relief, public health, a University and numerous commercial enterprises. It has, since 2002, expanded its operations, becoming an international NGO and operating development and microcredit programmes in other parts of the world, notably in Africa where it has offices in Liberia, Sierra Leone, South Sudan, Uganda and Tanzania

(Hossain and Sengupta, 2009). It has been declared to be the best NGO in the world in 2016 and 2017 by *NGO Advisor*.³

Central to this success story has been BRAC's role in the revolution of microfinance; microfinance also constitutes a key element of its operations overseas. At the time of our research BRAC offered two products in Tanzania – larger loans to small and medium sized enterprises (which we did not study), and small loans (\$50 initially, several hundred dollars after several successful loans) to women (and only women) who were organized into lending groups of about 30 clients per group. These groups were the focus of our investigation. The clients in each groups guarantee each other's loans, which are paid back over 48 weeks. Interest rates were 24% (simple interest). A small proportion of loans is retained as a security deposit by BRAC and only returned to the client when they finally leave the organisation.

BRAC initially identifies clients through a vigorous and thorough procedure of canvassing potential clients through door-to-door surveys. This process produced the microfinance client groups of women who were prepared to act as guarantors of each other's loans. As is standard in microfinance, if a group member defaulted then their loan was to be paid by their fellow group members.

There are many microfinance organisations in Tanzania but BRAC stands out for the size of its operations and the speed with which it has grown. This is simply an order of magnitude bigger than the Tanzanian norm. Most microfinance operations peak at around 25,000 members. But BRAC had established over 7,600 borrower groups with a total of over 125,000 members and nearly 100,000 active borrowers at the time of this research. More than that, however, is the speed with which it has grown. For BRAC has only been operating in Tanzania since 2005, yet had been able to rapidly establish 112 branches across the country by 2010. It had 10 branches in 2006; 41 by 2007; 68 by 2008 and 105 by 2009. Financial operations are now in surplus, that is returns from loans exceed loans made (Figure 1A). This is all the more remarkable because this growth was achieved at a time when microfinance growth was, nationally, static. Research by the Financial Sector Deepening Trust shows that

³ <http://www.brac.net/component/k2/item/1010-brac-ranked-number-one-ngo-two-years-in-a-row>

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2 access to microfinance grew from just 4.4% of the population to 4.5% between 2009 and
3 2013 (Financial Sector Deepening Trust, 2013).
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This picture of healthy growth nationally, is, however, misleading. There is not one story to tell about BRAC's history of microfinance in Tanzania, but many. The first element of this variable performance is visible by plotting the surplus of each branch against its age (Figure 1B). This shows that as branches age, they tend to become less profitable after 5 years.

To explore trends in performance with age we undertook a cluster analysis. This identified three groups of branches that we named Strong, Young, and Weak branches. Their characteristics are shown in Table 2 and can be summarized thus:

Strong branches: thriving membership. They constitute 26% of branches but account for 81% of BRAC's microfinance surplus.

Young branches: going steady. These do generally create a surplus, but do not display dramatic returns. These account for 39% of branches and 17% of surplus.

Weak branches: often making a loss and losing members. These are also, generally, the oldest branches in the organisation. These branches make up 35% all branches but account for just 2% of surplus.

We can see that these different groups demonstrated dramatically different trends in average monthly surplus and borrower numbers when plotted against the age of the branch. All branches started from similar levels of surplus, but the Strong groups rose dramatically and maintained their performance (Figure 2). The Young groups never took off in the same way, demonstrating much gentler levels of growth. They never made a loss, but their levels of surplus were much lower. Finally the performance of the Weak groups was much more erratic, and often in the red.

The presence of these different clusters means that it is not merely the age of a branch that determines its success, as Figure 1B suggests. Rather other variables must be at work. This is most clearly visible in years 3.8 - 4.9 of their existence. At that point the strong branches are

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3 maintaining healthy surpluses, the weaker branches have already begun to decline, and the
4 young branches are maintaining a steady, if small profit.
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10 The surprise of the weak branches

11 What could explain this variation? In the first instance it is important to point out that the
12 weaknesses visible in so many branches is surprising. BRAC is a good microfinance
13 organisation. It is highly experienced and its operations work at a scale few can emulate.
14 Moreover our research into clients' views of BRAC showed many positive responses to the
15 impacts that it had made. It was clear that it should succeed, and for several reasons.
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18 First, BRAC faced little competition. Most other microfinance organisations target larger
19 businesses or government employees. Interviewees we spoke to were, with two exceptions,
20 unable to name other organisations that they could have got loans of this sort from. They did
21 not earn the salaries that other companies then required, but they were operating small
22 businesses that needed the liquidity BRAC loans provided. They also mentioned that BRAC's
23 assiduous local surveys of loan needs and awareness raising of their products had helped to
24 grow demand as the organisation was establishing itself.
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27 Second, it has targeted the right people. Products have been aimed at existing businesswomen
28 who were, before BRAC arrived, excluded from the financial services they required. Of the
29 292 clients we interviewed, 272 had put their loans into an existing business of some sort
30 (such as charcoal sales, chicken rearing, clothing sales, grocery stores, tea shops, tailoring,
31 bars and vegetable shops as well as agriculture). Only 40 clients used the loans to invest in
32 entirely new businesses (and half of these already had other businesses). Selling a financial
33 product to women who were already running successful businesses reduced the risk that
34 BRAC exposed itself to.
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37 Another aspect of the healthy fit between the clients and the product is that these clients are
38 also relatively wealthy compared to most Tanzanians. We compared wealth rankings of three
39 villages where BRAC was working with wealth rankings of its clients (Table 1). This shows
40 that the poorest two groups were not represented at all in BRAC's client groups, and the
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3 wealthier asset owning groups are disproportionately represented. This quantitative survey
4 was backed up with a series of more informal conversations with clients and former clients
5 during Author 1's 13 month stay that again suggest that BRAC has been able to tap into a
6 group of more effective and relatively wealthy business women. Again, avoiding the poorest
7 Tanzanians reduced risk and should have made the business model robust.
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11 Finally BRAC should succeed because the products being offered suit clients' needs. We
12 cannot determine what difference these loans have made to levels of poverty. But we can
13 report that most clients we spoke to valued the services offered. The widespread sentiment
14 was that the loans provided a useful service that had helped to grow businesses and provide
15 liquidity. Clients repeatedly told us that '*imenisaidia sana*' (it has helped me a great deal) and
16 gave examples of growing and creating new businesses, paying school fees and coping with
17 unexpected accidents, misfortune and illness.
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21 A measure of the success of BRAC and the popularity of its loans is the penchant for multiple
22 loans that a number of clients developed. Some members of borrowing groups would 'sell'
23 their loan-taking ability to other group members. Woman A would take the loan, but will give
24 it to woman B (for a small sum). This benefits both the woman who uses the money, and her
25 colleague. It is a relatively painless way of providing a favour. For those taking the extra
26 loans this behaviour allows them to access a loan commensurate with their business needs
27 and circumvent the tiresomely small loans that BRAC's microfinance programme offers even
28 to well-established customers.
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32 Indeed in some cases these were not simple transactions. Woman B may in fact also be taking
33 loans in the name of women C, D and E. Author 1's observations suggest that this practice
34 was widespread and could account for between 10 and 25% of all loans in some groups
35 (while absent in others). It is quite possible, therefore, that multiple loans are making a
36 significant contribution to the current levels of surplus.
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40 Multiple loans increases the risk of default and it is not allowed by BRAC. However the
41 incentives to allow multiple loans reach right down to the roots of the organisation. It was
42 clear from this research that credit officers are aware of it and turn a blind eye. After all it
43 helped them to meet their targets, and they could use the prohibitions against multiple loans
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3 as a means of extracting payment (called ‘thanks’ money, on which more below). Branch
4 managers (all themselves former credit officers) will have been well aware that it could be
5 happening, but must be careful that they are not to be zealous in their attempts to expose it. For it
6 would necessitate considerable disciplinary action and make it harder for them to reach their
7 loan quotas.
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11 In summary, then, BRAC in Tanzania targeted a group of relatively wealthy and active
12 business-savvy women. BRAC loans have fed into a pre-existing economic infrastructure (i.e.
13 client businesses) that made them quickly productive. These clients, and their businesses, are
14 less vulnerable to the risks and misfortunes of poverty than the poorest Tanzanians.⁴ BRAC
15 was selling these products in the face of little, if any, competition. Significant minorities of
16 clients were likely seeking multiple loans. And BRAC has the backing of a highly
17 experienced international microfinance infrastructure. What could go wrong with such an
18 arrangement?
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21 Explaining Weakness 22 23

24 Driving the differences in surplus reported above are the borrower numbers. The health of a
25 branch is highly dependent upon the number of active borrowers. Most obviously, without
26 borrowers, there can be no returns on loans, no profit to the organisation. But there are two
27 further dynamics that make borrower numbers particularly important.
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30 On the one hand the dynamics of loan groups make borrower numbers highly sensitive to any
31 problems. If one person defaults in a group of 20 the others have to pay back that person’s
32 loan instalments. That load –(one person’s weekly repayments) can be relatively easily spread
33 around. But if three people default, or five, then the costs of staying on in the groups can
34 rapidly become excessive and it can collapse. Declines in branches can be dramatic if the
35 groups that underpin it dissipate.
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50 For BRAC staff we spoke to who had worked in Bangladesh, the vigour of women’s businesses was the main
difference between microfinance in Tanzania and Bangladesh. As one senior manager put it, in Bangladesh only
10% of clients might have their own business – the money is put into businesses operated by male relatives – but
in Tanzania all of the clients have their own businesses.

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3 On the other hand profit is much more easily sustained from larger numbers of borrowers,
4 above a certain minimum, because of the economies of scale that the branch enjoys (Figure
5 3). A group of 30 has few more financial costs than a group of 25, but could return a 20%
6 increase in revenues. Thus borrower numbers drive virtuous (and vicious) circles in
7 microfinance. Similarly a loan officer visiting three loan groups in a morning could relatively
8 easily add a fourth to her rota.
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13 The changes in borrower numbers plainly drove the variations we have reported above.
14 Figure 4 shows that the Strong groups undertook, and sustained, a healthy rise in borrower
15 numbers during the first 4.5 years of their life. Thereafter they declined, but not to an extent
16 which threatens surplus. The Young groups in contrast never took off in the same way. They
17 had, on average, just 68% of the membership numbers of the strong groups, and generally
18 fewer than 900 members. The Weak branches started well, with a rapid rise in numbers but
19 that soon began to decline quickly, and thereafter more slowly, with numbers hovering
20 around 700 in the last months of the data records.
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28 BRAC has grown therefore because it was increasing the number of borrowers, and that
29 number has grown because BRAC was opening new branches. But BRAC was not
30 necessarily keeping these borrowers in all branches. The crucial question we have to answer
31 therefore is: what could be precluding clients from taking up successful and desirable
32 products? And why could this only be happening in some branches and not others? Why do
33 some branches do so well and others so badly?
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38 It is important to note there that the traditional triptych of causes (products, clients,
39 environment) that have been used to explain microfinance institutions' performance is not
40 satisfactory here. There is no variation in the product offered between different branches; so
41 this cannot explain any difference. Nor are the clients particularly different across the
42 branches. All are Tanzanian business women seeking loans not otherwise accessible to them.
43 Almost all, in our surveys, were also relatively wealthy. Nor can geography or environment
44 explain the problems. BRAC has set up branches in the more prosperous growth poles of the
45 country, and only in urban centres of a sufficiently large size to sustain a large number of
46 potential clients. Dar es Salaam has clearly proven a difficult environment for BRAC to work
47 in, as 14 of 15 branches there are weak. Perhaps this sort of urban conglomeration might be
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3 make easier for clients to abscond and disappear. Yet other urban centres in Tanzania's other
4 large towns (Mwanza Mbeya and Arusha) are also plenty large enough for such problems,
5 and yet do not demonstrate such difficulties (only 8 of 21 are weak, and 8 are strong).
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9 The exploratory nature of this research project means we cannot, definitively, exclude these
10 mechanisms. A different study design would be required that sampled systematically across
11 the country and across different sorts of branches (weak, young and strong). We could not do
12 this because the data that produced these categories only became available at the end of our
13 time.
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18 However, in the spirit of exploratory inductive research, we contend that the variation is
19 likely to derive from a different source than the usual triptych. The causes of this variation lie
20 in the differential response of branch, area and regional managers in coping with a number of
21 challenges in administering loans. There are a number of generic issues that they have to
22 control and cope with, lest clients are deterred from renewing loans, or driven to leave the
23 organisation. Our suggestion is that the way staff, and through them the problems we list
24 below, *are managed* will be fundamental to explaining the success or failure of branches.
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27 First there are language barriers. BRAC's rapid expansion had left it with an interesting
28 demography in its employees at the time of this research. All credit officers were Tanzanian
29 women. So, too, were all monitoring staff and branch managers (both are recruited from the
30 credit officers). At the other end of the scale, almost all higher level management, including
31 all but six of the 24 area managers, were, (at the time of this research), Bangladeshi men. The
32 expansion of the client base had been faster than the training and capacity building of
33 Tanzanian staff to take on senior positions within BRAC's structure.⁵
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36 This situation meant that at the time that the research was conducted, hardly any of BRAC
37 Tanzania's Bangladeshi staff spoke Swahili well enough to talk to their clients. Instead these
38 staff - the vast majority of all area managers and all of the regional managers - were
39 dependent upon their credit officers and branch managers to understand their clients.
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5 This attribute has since been transformed by recent staff changes that took place after the field research was completed, as we will discuss later.

Bangladeshi and Tanzanian staff would talk in English, which was problematic because of the frequently low levels of English among all concerned. As a result of these language barriers, Bangladeshi area and regional managers faced significant challenges. It was difficult for them to listen to or understand their clients' needs and problems.

Second, there were widespread complaints about the behaviour of the credit officers from clients. Problems included extracting illicit 'thanks money' from clients in return for renewing loans; stealing money; taking loans out in clients' names and then running off; making it difficult for clients to take back the security deposit⁶; and, finding numerous ways of extorting funds from clients. These reflected problems of staff probity and capacity that are reported across the sector in Tanzania.⁷

Interviews with both senior and junior staff confirmed many of the problems of which their clients complained. Junior staff told Author 1 about the 'thanks money' they extracted. They could not hide the fact that their colleagues had absconded with clients' (and sometimes fellow credit officers') money. And many credit officers were quite clear that it was standard practice to make it difficult for clients to leave BRAC by making it harder for them to pick up their security deposit.⁸

Area and regional mangers we interviewed (then all Bangladeshi) also complained about the weaknesses of their junior colleagues but expressed it in a slightly different idiom. Their complaint was about the probity and quality of their junior Tanzanian colleagues, particularly in comparison to their equivalent staff in Bangladesh. Tanzanian colleagues were frequently said to be not as 'serious' about their jobs as equivalent staff in Bangladesh. Their work ethic was said to be weaker, they were not committed to BRAC as an organisation, and they were less trustworthy.

⁶ The security deposit constituted part of the loan and was returned to clients when they left the organisation.

⁷ The work of the Financial Sector Deepening Trust of Tanzania, makes plain that there are significant challenges with respect to staff quality and probity that afflict all organisations. Sosthenes pers. comm. (CEO of Financial Sector Deepening Trust) June 2013.

⁸ This used to be a major issue in BRAC's Bangladeshi programmes in the 1990s and 2000s.

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3 However interviews with the credit officers also threw more light on why they might not
4 value their jobs with BRAC particularly highly. Credit officers complained of low levels of
5 job satisfaction, low pay and stressful conditions. Some have had to make up shortfalls in
6 loan repayments from their own salary – and it was frequently reported that their salary is
7 forcibly deducted to cover overdue payments. They are shouted at in public and before clients
8 by managers, which is not culturally acceptable in Tanzania; it offended all Tanzanians,
9 clients and staff alike. Author 1 has witnessed clients comforting their (corrupt) credit officers
10 after they had been shouted at.
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17 These two problems, of language and staff management, compounded each other in ways that
18 impaired dealings with clients, as two incidents illustrate. One was related by a monitoring
19 officer who described an area manager speaking to a group of clients, with the credit officer
20 translating. When the clients asked the credit officer what the manager had been saying she
21 replied that he was saying that clients were not to delay when paying ‘thanks money’. The
22 second case reported was that of a client who repeatedly tried, and failed, to leave BRAC and
23 have her security deposit returned to her. In the end she disappeared for some time, leaving
24 her security deposit. On her return she was asked (in Swahili) by the credit officer whether
25 she wanted to take out a new loan. ‘No’, she replied (in English) ‘I have been improving my
26 English. I want to speak to the Area Manager so that I can get my security deposit back’.⁹
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35 But these difficulties are not just the source of awkward anecdotes. Our contention is that
36 they represent a key human resource management problem that appears to be driving some of
37 the reasons of failure and success. This is visible in the quantitative data.
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41 Managing staff well such to limit dismissals and boost retention is important for branch
42 achievements (Figure 5). Higher rates of dismissal and lower rates of retention are associated
43 with poor branch performance, both in terms of surplus and borrower numbers.¹⁰ It is also
44 plain that there is a positive correlation between branches where credit officers perform well,
45 and borrower numbers (Figure 6). This figure shows that it is not just that strong branches
46 have more borrowers (which is already established) but also that credit officers from stronger
47 branches tend to have higher retention rates.
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53 ⁹ This was relayed to Author 1 by the credit officer who had been obstructing the client’s attempts to regain the
54 security deposit.
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56 ¹⁰ Retention rates appear to us relatively low, and dismissal rates rather high.
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3 branches are more likely to improve their borrower numbers over time than those from
4 weaker and younger branches. Indeed those at weaker branches see their borrower numbers
5 decline despite increasing collective loan officer experience across the branch.
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9 The final indication of the role of staff management and language barriers in branch
10 performance is that there is an intriguing difference in the performance of the few Tanzanian
11 Area Managers, and their Bangladeshi counterparts. We divided the three groups of branches
12 (Strong, Weak and Young) by the nationality of the area manager to produce five subgroups
13 (Figure 10).
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16 The Strong group can be split into two: a really strong collection run by Bangladeshi
17 managers which slightly outperforms another strong group of branches run by
18 Tanzanian area managers.
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21 The Weak group also divides into two, with a Tanzanian area manager doing better in
22 terms of numbers but worse in terms of surplus than the Bangladeshi Area Managers.
23 Note that there is only one Tanzanian area manager in this group.
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26 The Young group remains unchanged. All are supervised by Bangladeshi area
27 managers.
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30 Most of the good branches were in fact run in areas managed by Tanzanian managers (16 of
31 the 29) and, nearly 75% of branches in areas run by Tanzanian managers were Strong (Table
32 2 final columns). This suggests that staff performance at the branch level is not merely a
33 function of the branch manager and her loan officers alone but also of higher-level structures
34 and oversight and the *management* of the performance of these junior officers.
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37 **Unpacking performance research**

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39 The design of our study prohibits a more robust testing of the importance of human resource
40 management for branch performance. We began this research as an exploration of BRAC's
41 apparent success. The quantitative data showing the variation in branch achievements were
42 only revealed as fieldwork concluded. The serendipitous nature of this research precludes us
43 from offering definitive explanations as to the variation in BRAC's performance. A different
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3 study design, which explores differences between a sample of branches selected across
4 different varieties of performance would be required robustly to test the contention we have
5 just made. Nevertheless on the balance of evidence present here we argue that locating the
6 explanation in staff performance - and management of that performance - is much more likely
7 to explain the variation we have reported than differences in products, clients or environment.
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12 But the more important point is that our findings suggest that the factors used to understand
13 and measure performance in microfinance need to be revised. Without re-considering how
14 organisational systems shape performance we might be missing an important opportunity to
15 make microfinance work better and for more people. The design of the product offered to
16 clients, the qualities of the clients themselves, and the environments in which microfinance
17 organisations operate are not the only variables that matter when understanding the
18 consequences of microfinance.
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23 Much research on microfinance tends not to focus on the organisational behaviour of the
24 institutions providing the loans. To use an analogy, much current analyses liken loans to
25 products delivered by post. They are merely delivered, and hence it is logical to see what
26 clients do with the product and the environments in which they work. Who the postwoman is,
27 and how she is managed, is immaterial to most people's enjoyment of their post. But we do
28 not feel that this strategy of making the postwoman disappear is helpful. This is why we
29 prefer the analogy of a play. Every actor will tell you that the audience (clients), stage
30 (environment) and the quality of the dialogue and plot (products) are all important elements
31 in any good performance. But the same actor is also likely to insist that the actors' work, as
32 well as their stage direction and production, also matter a great deal. They have been not been
33 sufficiently prominent in debates thus far. We do not think that BRAC's experience in
34 Tanzania can be properly understood without appreciating the varied performance within the
35 organisation and the role of middle management in directing that performance. We suggest
36 that this may be true in numerous other microfinance organisations.
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41 The relative lack of attention to organisational heterogeneity could be an important weakness
42 in microfinance research. The current swathe of randomized controlled trials (RCTs) hinge on
43 robust designs that can construct sufficiently large samples to explore the impact of
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3 explanatory variables. However if important explanatory variables are omitted then RCTs
4 may be poorly designed. It follows that, if organisational heterogeneity has not been
5 adequately factored into RCTs, so therefore their power will be reduced. It also means that, in
6 order properly to cope with organisational variety, RCTs will become larger and yet more
7 expensive.
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12 Research into microfinance will become more useful to the microfinance organisations
13 themselves if it engages with the realities of life and work inside these organisations.
14 Research which engages with the working practices and cultures of microfinance institutions
15 is likely to be more useful and practical than work which does not. If organisations are to
16 learn from themselves (Korten, 1980), then this will require some appreciation of their
17 internal variety.
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21 Changes in the composition of the staff presents an opportunity to re-examine the influence of
22 staffing on organisational systems. In August 2013, just as this research was completing,
23 there was a change in the country leadership of BRAC. This was quickly followed by a
24 restructuring of the microfinance programme, the 24 areas were re-organised into 28, the 8
25 regions into 10, (the number of branches remained unchanged). Thereafter a much more rapid
26 programme of appointing Tanzanian area managers was put into place. Whereas in mid 2013,
27 6 of 24 area managers were Tanzanian (25%), 24 out of 28 (86%) were Tanzanian by July
28 2014. A further 20 new area managers are trained up ready to fill vacancies should they arise.
29 Whereas there were once no regional managers who were Tanzanian, now two out of ten are.
30 Moreover five of the ten regional accountants are Tanzanian (up from zero). There are also
31 new Swahili language learning requirements and courses in place for Bangladeshi staff.
32 These might have implications for branches' financial performance and outreach.
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35 Conclusion

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37 The growth of BRAC's microfinance programme has been remarkably fast and has reached
38 several times as many women in a few years as most other, if not all other, microfinance
39 programmes in Tanzania. Moreover, our data suggest that the products it is offering are
40 welcomed by most of the clients it recruits. BRAC's loans have enabled the women we
41 interviewed to grow businesses, educate their children and cope with unexpected misfortune.
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4 However, it is not simply a story of straightforward growth. One cannot understand BRAC's
5 microfinance programme in Tanzania unless one appreciates the diversity of performance
6 displayed across different branches and in different regions. BRAC has not just been
7 unleashing economic opportunities for Tanzanian women (although it has been doing that). It
8 is also learning how to operate microfinance programmes in Tanzania and how to manage
9 Tanzanian staff in the procedures and systems of its organisation.
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15 The broader implication of this process is that many other microfinance organisations and
16 institutions are also in the process of learning about how to learn from and respond to their
17 changing environments. As suggested by Simanowitz and Knotts (2015, p. 10) organisations
18 need to critically reflect on the 'reality gaps' between the hard scalable systems put in place
19 and the realities of their interaction with clients' lives. 'Standing still' and ignoring the need
20 for adaptation can presents real dangers for microfinance organisations and for their clients
21 (Simanowitz and Knotts, 2015). Moreover we should expect that all microfinance
22 organisations are coping with some sorts of change all the time. At the very least, if they
23 succeed, then their clients should be getting richer, which will introduce new sets of demands.
24 And this is before we consider changes to the economic environment, legislation, competition
25 and the myriad other elements at work (Cull *et al.*, 2011).
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35 BRAC provides a dramatic example of such learning. Other organisations may be well placed
36 to learn from its experience and adaptive culture. It set up an entire organisation delivering
37 services developed in Bangladesh in a new country where the operating environments, and
38 language, were different from its previous experience. In doing so, it has rapidly become the
39 largest microfinance provider in Tanzania, and alongside its other programmes reaches
40 hundreds of thousands of families. Our findings here may highlight the problems this
41 institutional transfer has faced culturally and linguistically, but also emphasise the steps in
42 reorganisation and staff deployment that BRAC have taken to try to remedy these. Without a
43 culture of institutional learning, the potential for identifying and responding to such problems
44 in a timely fashion is much less likely.
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We believe that it is important for scholarship about microfinance to address the deficit of research into the character and variety of behaviours *within* microfinance organisations. As our study finds, internal patterns of behaviours, and the management of that behaviour, have an important bearing on the success of the products offered to clients by determining the use and the potential impact of these products on their lives. We have sought to demonstrate that understanding this variety can be crucial to understanding the conditions and performance of microfinance programmes. The challenge now is how systematically to incorporate organizational variety into publically accessible databases so researchers can explore organisational performance in relation to subtle aspects of management systems and processes. Failing to address this knowledge deficit, resulting from multiple silo-ed disciplinary interests in microfinance, risks keeping the means of ensuring and enhancing social and financial performance concealed.

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5 **Table 1: Wealth Groups of BRAC clients in Tanzania**
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Wealth Group	Wealth Group Characteristics	Clients (%) N = 428	Comparator Villages (%) N = 1,315
1	Immensely Rich; Knows no barriers; has cars, lorries etc	0	2
2	Very Rich; Many cattle and much land; may own a tractor but not a lorry. Has businesses and land in towns	0	3
3	Rich; Employs casual labour. Has several businesses and land.	10	3
4	Owns their own house and business, some land, can employ casual labour occasionally.	72	44
5	Some income earning assets (house / shop / business); does not employ labourers; rarely performs casual labour	18	31
6	Poor; depends on casual labour work for daily needs; few if any livestock or assets.	0	10
7	Extremely poor; Unable to get work easily; suffering from alcoholism and / or illness.	0	6

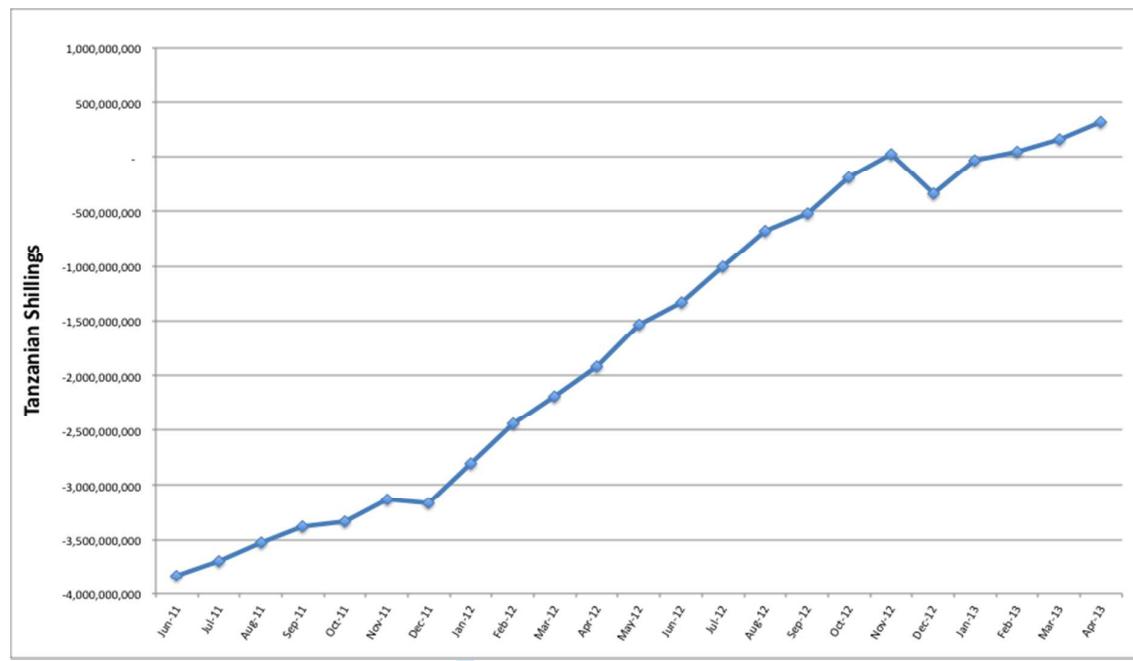
21
22 Wealth categorisations follow Loiske (1995). The villages are located in the district where the bulk (12) of the
23 microfinance groups came from. Rankings were conducted through participatory ranking exercises with village
24 officials backed up by selected home visits.
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28 **Table 2: Summary Statistics of Branch Cluster Performances**
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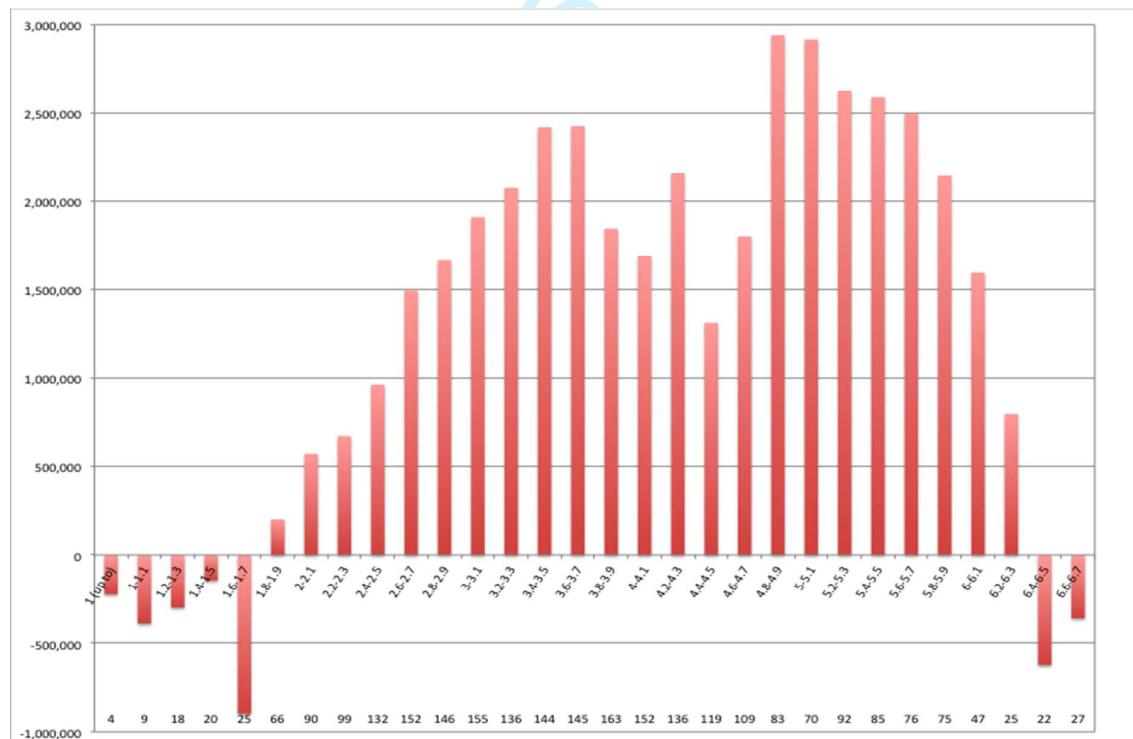
Group	Mean Age	Mean Monthly Surplus	Mean no. of Borrowers	No of Branches	Bangaldeshi Area Managers	Tanzanian Area Managers
Weak	4.8	12,215,576	816	28	26	2
Strong	4.0	145,924,254	1,374	32	12	20
Young	3.0	26,670,395	843	45	45	0
Total			105	83	23	

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31 The exchange rate at the time of the research was approximately \$US1: 1,700 Tanzanian Shillings.
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Figure 1: Surplus from BRAC microfinance loans: A Cumulative over time across
3 **BRAC as a whole and B: Average per branch according to branch age.**

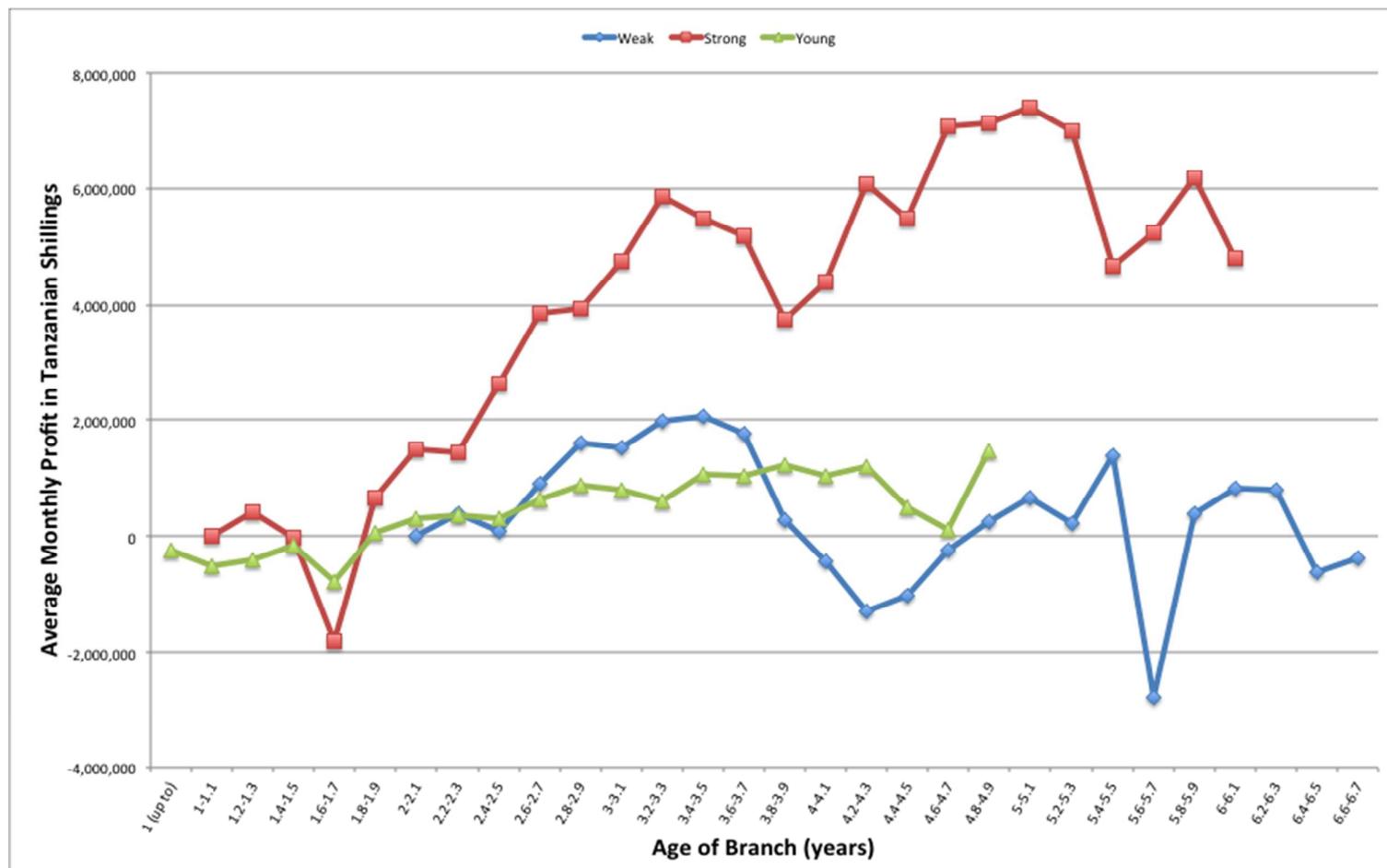


26 The dips in surplus every December reflecting the annual write-off of bad debts that can accrue. The exchange
27 rate at the time of the research was approximately \$US1: 1,700 Tanzanian Shillings.
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52 Note this graph excludes Zanzibar whose data are unusual because of a large write off of bad debt.
53 The x axis shows branch age in years, the numbers along the base of the graph shows the number of data points
54 in each category.

Figure 2: Average Monthly Surplus of Weak, Strong and Young Branches



The dip in surplus in Weak groups at 5.6 years is due to a write-off of bad debt in the Zanzibar branches.

Figure 3: Monthly administrative costs per borrower for each branch plotted against the number of borrowers

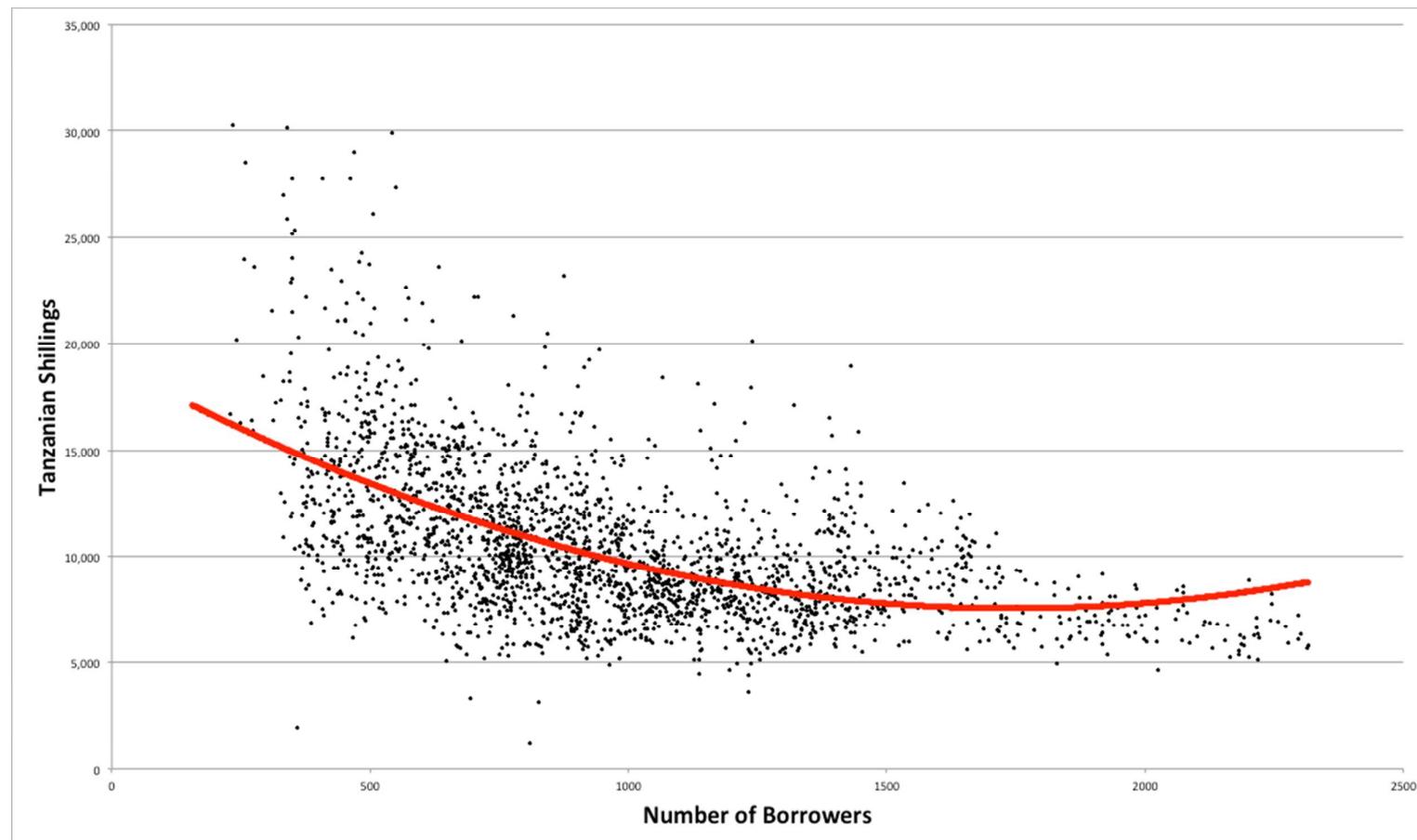
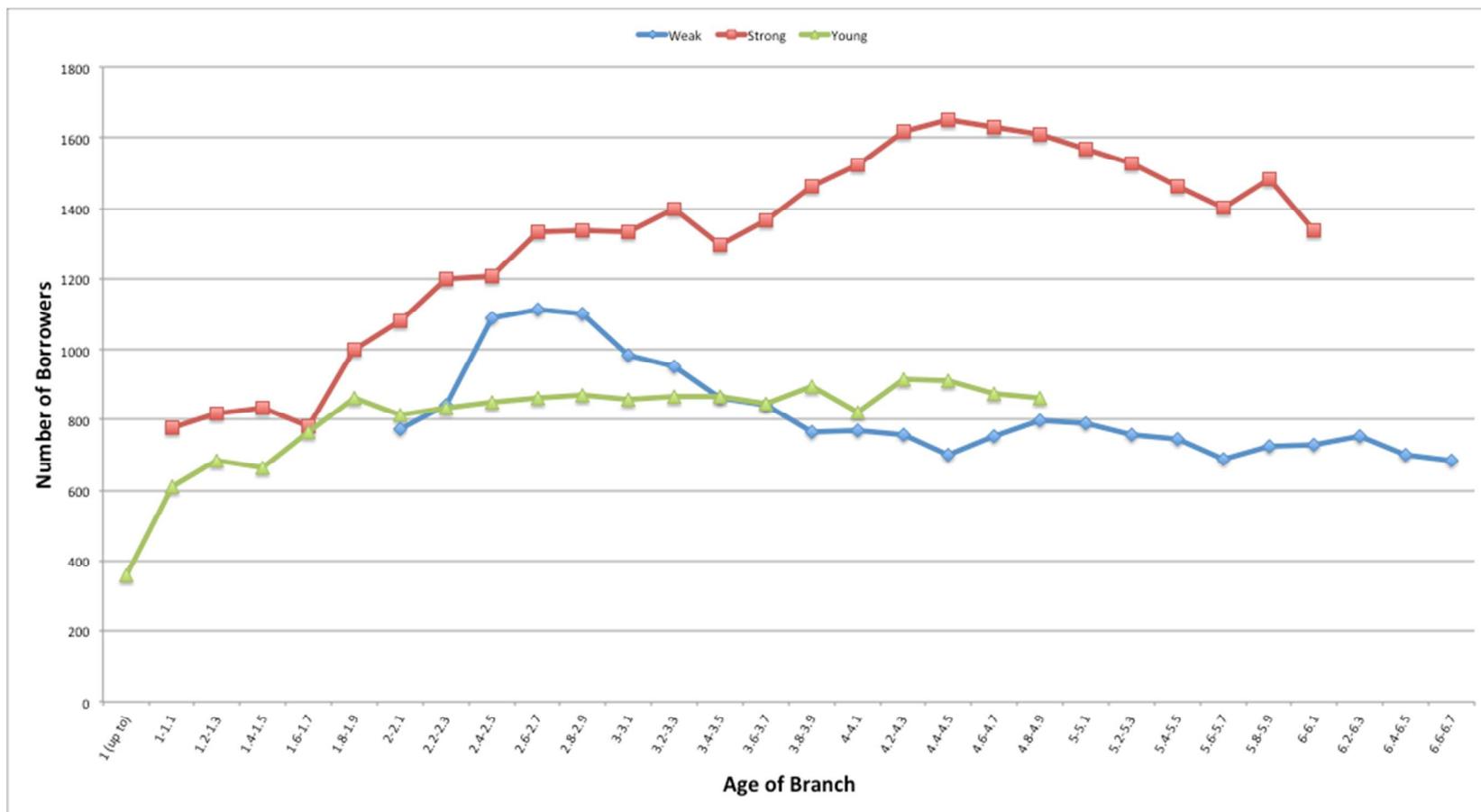
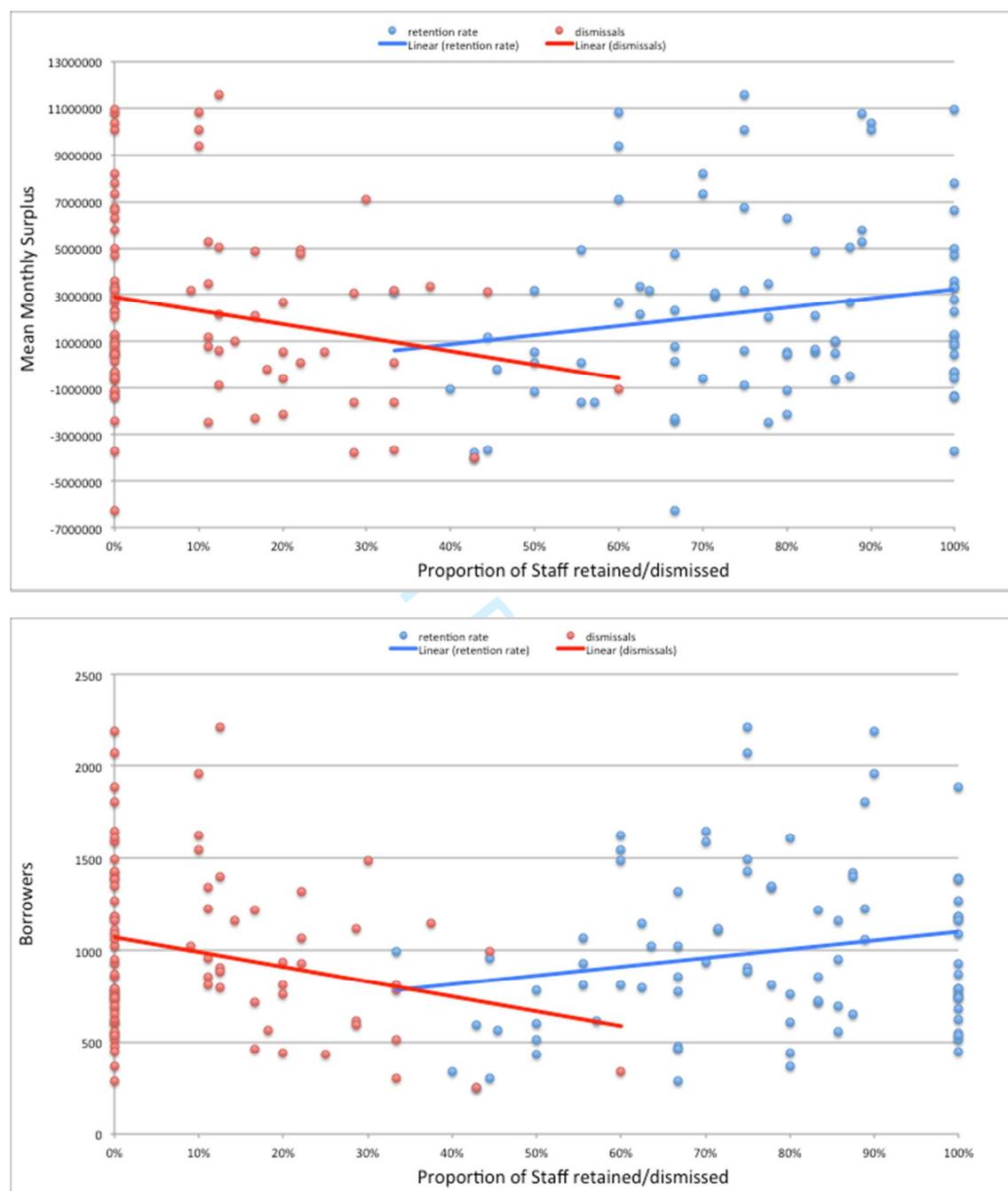


Figure 4: Average Monthly Borrower numbers in Branch Groups



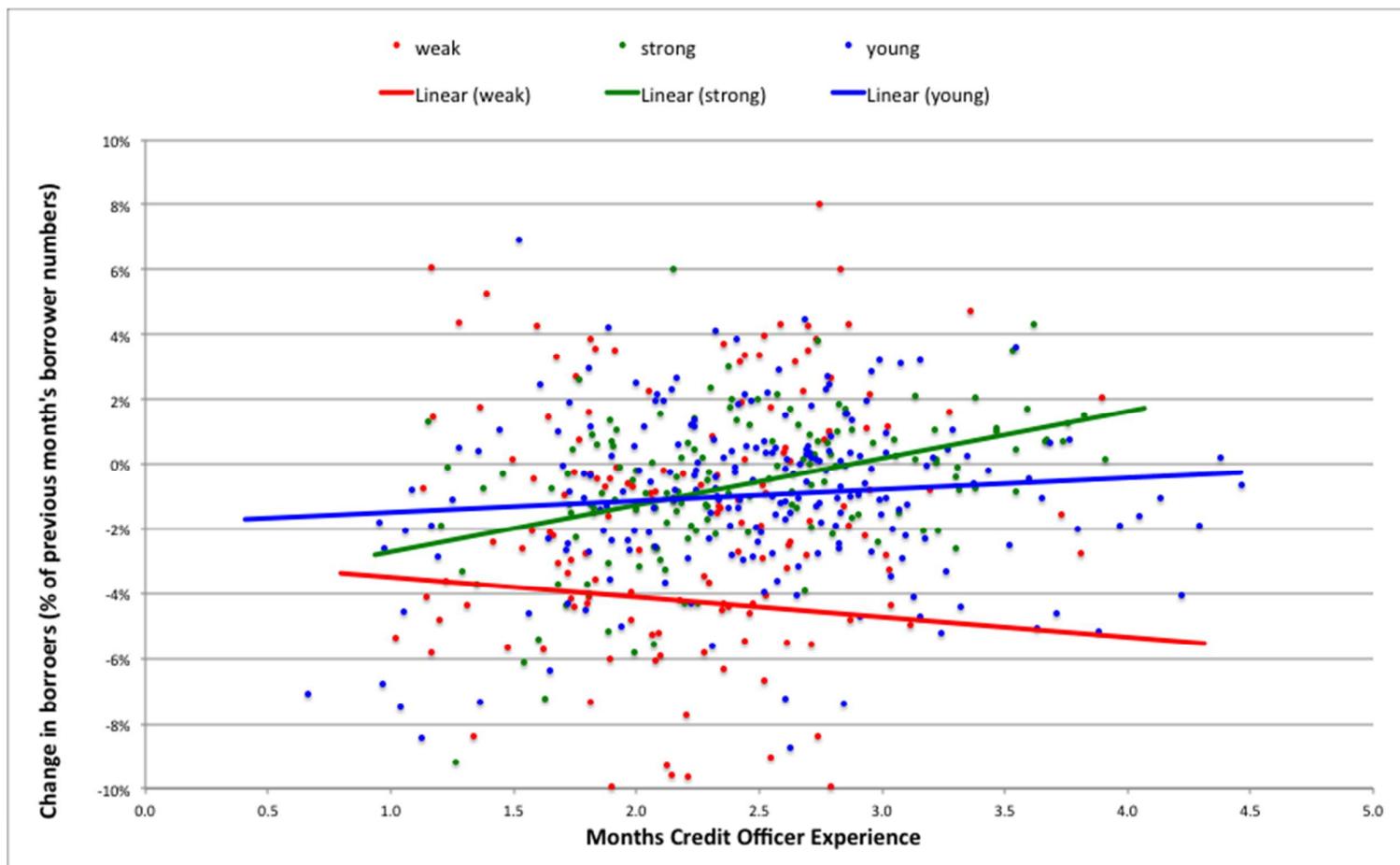
An ANOVA regression analysis found that the number of borrowers explains 84% of the variance in surplus over time ($p<0.001$; $df = 111$; $F = 473.478$).

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Figure 5: Dismissals and Retention Rate (Jan 2012-Apr 2013) plotted against A.
3 **Surplus and B. Borrowers**
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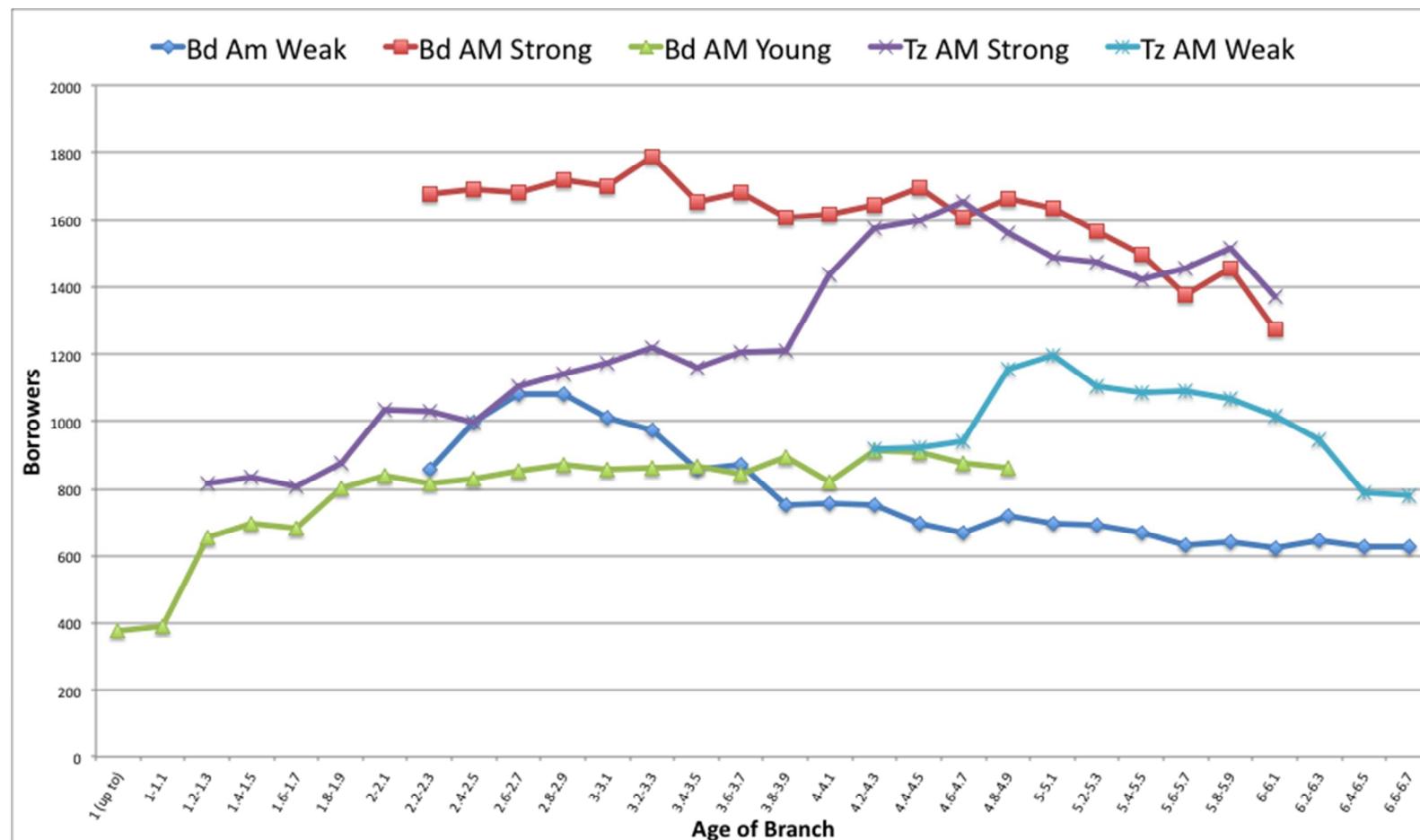
Each data point represents one month's data for one branch.

Figure 6: Average Borrower Numbers by Branch Grouping and Area Manager



Each data point represents one months data from one branch for branches aged between 3.8 and 4.9 years.

Figure 7: Average Borrower Numbers by Branch Grouping and Area Manager



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1	Comments from reviewers
2	Reviewer 1
3	The paper argues that research into internal management processes and culture within microfinance institutions has been neglected as a driver of performance outcomes, particularly when compared to research that focuses on context, products and client types. It is not clear how and how systematically the literature has been searched in order support this argument (see below), but I accept that there is some truth to this argument, and that the point they are making is important.
4	A second strength of the paper is that the case study it develops of BRAC in Tanzania is an important and one that does lend support to the argument above. One reason for a dearth of publications on internal management of MFIs is that gaining access to staff and data is not easy, and they have done well to overcome this.
5	First, there is a somewhat larger literature on internal performance in microfinance than the paper suggests. Particularly relevant are papers on gender (e.g. going back to an early paper by Anne-Marie Goetz), governance and performance related pay (e.g. see the new microfinance handbook edited by Joanna Ledgerwood, and microfinance as an exemplar of social enterprise (e.g. see Anton Simanowitz). Much of the literature (e.g. in Journals like Microfinance and Enterprise Development or Development in Practice) may not be of the highest quality, or it may be buried in doctoral studies, and it is not necessary for the paper to produce a full literature review. But I think it should elaborate on how and how systematically the literature was researched, and emphasise that the gap exists particularly in the field of international development. A recent paper in the Canadian Journal of Development Studies by Copestake et al. may also be useful in locating the gap in relation to contrasting traditions within which microfinance research has been framed.
6	Second, having done more to substantiate the deficit of research into internal microfinance processes, the paper could usefully speculate further (e.g. as part of the conclusion) into why this might be so. Clearly convenience of access to public (especially MiX data) has been a factor as has been disciplinary interest – e.g. with the two combining to promote data envelope analysis of organisational efficiency in a way that avoids having to engage with more subtle aspects of management process.
7	Third, the Methods section reviews qualitative data collected, but this creates a disjuncture because much of the subsequent paper is based on a series of quantitative diagrams. This can be corrected by discussing the quant data also in the Methods section, as well as adding a defence of mixed methods research that combines quant (with a focus on numbers and facts) with qual (with its focus on words and meaning).
8	Fourth, given the prominence with which it features in the empirical analysis the findings of the cluster analysis should I think also be presented more fully – e.g. listing all the variables that it handled, and critically reflecting on how these were obtained and how comprehensive they were.
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3 Fifth, I was not fully convinced with the quick rejection of products, clients and environment as sources of
4 variation in branch performance over time. Human resources could also be dismissed on the grounds that
5 staff shared similar training and were deployed and redeployed Oendogenously¹ in response to branch
6 characteristics. This point arises later when discussion of the correlation between area staff nationality and
7 performance is discussed rather mechanistically, without reference to churning in postings and overlapping
8 roles and responsibilities. Lastly, environment can affect branch performance at a very local level e.g. it is
9 not implausible that market and neighbourhood characteristics of Arusha East and West could contribute
10 (partly through interaction with management factors) in explaining different performance outcomes.

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13 Sixth, the paper currently includes an unnecessarily large number of figures and tables. Table 1 is important.
14 Tables 2 and 3 could be merged. Table 4 could be substituted by including a few summary statistics in the
15 text. Figure 2 is not needed because Figure 3 presents covers a similar issue in more detail (although it
16 needs a footnote explaining how monthly surplus is defined and measured). Figure 4 is not needed can be
17 captured in the text, as the correlation it depicts is rather obvious. Figures 5 and 6 are useful. Figures 7 and 8
18 are interesting, but the statistical significance of the trend lines look limited.

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21 Finally, there is scope to at least flag up the potential relevance of the case study to wider debates within
22 microfinance and international development more generally about scope for institutional transfer from one
23 country context to another.

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30 Reviewer 2

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34 ## On the Introduction and Framing:

35 This paper uses rich data from BRAC's microfinance program in Tanzania to make the argument that
36 organizational factors should be explored more systematically and given much more prominence in the study
37 of microfinance in particular and development programs in general. I am sympathetic to the authors¹
38 argument. They have clearly invested enormous time and effort in the collection of very high quality data. I
39 think there is a clear contribution to be made here, but my biggest concern is that the authors are clearly
40 under exploiting the amount and quality of data and are thus falling short of making as compelling (and
41 useful) an argument as they could.

42 I list a series of observations and suggestions below with the hope that they will help the authors in the
43 further development of the paper.

44
45 * On page 2 the authors argue that most research is in ³fact founded on the assumption that [organizational]
46 diversity does not matter.² This is not entirely fair. It is not that the assumption is that they don't matter, it is
47 that net-net, they should matter less across organizations than contractual structures or client incentives, so
48 getting the contracts right and understanding the clients was deemed more important.

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* The authors then cite a renewed focus on evaluating impact on poverty alleviation - I have a few suggestions here. First, this has actually been a central focus from the origins of microfinance. Second, the research in general has traditionally suffered from a lot of problems, most recently addressed in CGAP's Graduation Program. Third, in general, one of the most important contributions of the second wave of more rigorous work on impact evaluation has been to determine that, on average, the impact of microfinance is basically zero and sometimes negative (this is mostly driven by an abundance of negative outcomes, there are obviously many individuals who benefit from the added liquidity of microfinance. My main point here is that there is no need to delve into the impact debate. From the perspective of the authors all they need to argue is that there is enormous variation in the quality and performance of MFIs across organizations that share structural, contractual, and geographic characteristics. There is also enormous variation *within* MFIs across their branches, even those that are geographically proximate. Often, these two sources of variation (which are often attributable to organizational factors) can be large enough to obscure the effects of better designed contractual or incentive structures, as well as of environmental effects.

* The authors on page 3 argue that we have not examined *how* organizations perform their work, rather we have only focused on *the results* - I think this is a problematic criticism because ultimately the only reason why we should care about the how is precisely because it can have a large effect on the ultimate results, correct? So, as mentioned above, I would rather motivate the paper on the grounds that organizational design and dynamics can often explain a larger variance in performance than other things.

* On page 5 the authors argue that we need a deeper understanding of the links between organizational systems and branch outreach. I would argue that it is more than that. One of the biggest questions of microfinance impact is to ensure that the downsides are limited while the upsides are realized. Most of the contracting work does not at all look at that<as it only seeks to limit the downsides *for the organization* and not for clients. Organizations MUST have the systems that allow them to collect the right data, look at the right things, and balance the right tensions.

* I agree with the authors that (page 6) the "the consequences of competition on staff behaviour is suggested in the literature, but has not yet been properly explored." The problem is that the paper does not then look at this interaction. I think the authors have some data to look at this question. If this is not the case, then they should not raise the expectation.

* In that same paragraph, the authors then move to the issue of mission drift. Again, the paper does not truly address it in any way, so I would not raise it as a formal question unless they plan to actually explore it in the data. it just sets expectations for the reader that are then not met.

* One of the most important points to be made is that one reason to go beyond contracts is because the authors are talking about the difference between written rules and standards and the actual enactment of those rules and standards on the ground (e.g. look at Martha Feldman's work or Michael Lipsky's ³Street Level Bureaucracy²). It is worth emphasizing, as this difference can generate important variance in outcomes.

* Overall, I was slightly uncomfortable with the open recognition of the organization. As a general question, should the name of the organization be obscured?

* At the same time, the authors could do more to explain the credit process of the organization - how are clients selected? How are loans granted and amounts determined? What happens when there is a delinquency or a default? Etc.

On the Data and Analyses

* As mentioned in the opening comments, I was impressed by the amount of richness of the data collected by the authors. At the same time, I believe the authors could do much more to describe and exploit the data.

* On the description front, regarding qualitative data, there could be a much better description of what the observations and interviews focused on, how long the interviews tended to be, how many pages of data were collected and, most important, how the data were coded and analyzed. It is not at all clear to the reader how the authors handled, codified, and learned from the qualitative data and how systematic this effort was.

* On the quantitative side, the authors should provide a much more careful description of the data they obtained. I could only get some glimpses of what the data actually allow for by looking at the figures at the end. It seems critical to explain the contents and details of the dataset.

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* I am not sure that the data on surplus is necessary the most useful - it seems too far removed from the client experience and impact and in essence accepts as true the same assumptions that the authors criticize in the front end of the paper (e.g. that profits are a good measure of microfinance performance for clients). I would suggest that the authors look for additional measures of organizational performance that are better aligned with customer experience.

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* That said, it is worth emphasizing that the data on branch surplus vs. age follows a more complex pattern than what table 2 and the text would suggest. It is also worth emphasizing that there seem to be a couple of outlier branches that are probably impacting the averages significantly.

* Would it be possible to look at drop outs, people who defaulted, or who did not do well in the program?

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* On page 11, the authors describe one of the many common "grey areas" in microfinance. It was not clear what it was adding to their argument as they only describe the practice but then do not much with it. If it is a critical issue then it deserves further exploration. For example, if the reason it is happening is that there are certain clients that "outgrow" lending limits, then why has BRAC not simply created a second class of loans for these (excellent) clients, as so many other MFIs do?

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* The authors on page 13 ask "what could be precluding clients from taking up successful and desirable products? And why could this only be happening in some branches and not others?" < The right wording seems to be about growing and retaining lending groups, correct? If that is the focus, then maybe state more explicitly and focus the analysis on this more clearly?

* I found the dismissal of geographic and environmental factors to be too broad and unwarranted - the authors do not support this with any analysis, and in fact the little data that show geographic factors would in fact support the hypothesis that geography matters. It seems easy enough to show whether branches that are close to each other (but maybe managed by different people) perform similarly or not. One easy way would be to show that branches that are in the same "territory" and are subject to similar economic fluctuations in the local economy nonetheless perform very differently.

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* I found the argument for the nationality and gender of managers to be interesting but not at all supported by the data. Once again, there is much that the authors could do to both rigorously test the hypothesis on the data in a much more systematic way.

* If there is a systematic relationship between these factors and important performance/client relations metrics like the ³thanks money² the authors describe, then it is critical to describe this in more detail and, especially, explore variance across branches on the prevalence of this in a much more rigorous and systematic way. In addition, this probably passes through recruitment practices: are these centralized or localized? How about promotions? Can we observe employee trajectories in the firm?

* Throughout the paper, the authors should keep in mind that the power of the research design comes mostly from all within-organization variation. In that sense, organization-wide assertions like that on page 14 (³Credit officers complained of low levels of job satisfaction, low pay and stressful conditions²) actually move away from this empirical traction.

It would be much more powerful to explore (through rigorous analysis and in the text) variations within the organization on things like employee motivation, retention, promotion, etc. < based on some of the figures it seems like the authors do have the data to explore some of these dynamics, but they are currently only showing some variance in some of the figures, not exploring it systematically, and certainly not explaining it in the text.

* In other microfinance work on organizational factors, loan officer rotations have proven to be a particularly useful source of empirical traction - can the authors explore it more systematically?

* When the authors look at the distribution of managers by ethnicity, etc. across branches they hint at a causal story but they do not explore the data nearly as rigorously as they could. For example, one simple alternative explanation is that better branches allow for quicker learning and therefore quicker promotion of local talent to become managers < so the causality would be reversed.

* As mentioned earlier, when exploring the figures at the end I was struck by the amount of data that are not explored and discussed in the paper and that could give much more information about organizational factors. These could include % retention of clients, average tenure of clients, average tenure of loan officers, loan officer trajectory, etc.

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* In addition, figure 7 would suggest that the authors also have data on voluntary departures and loan officer tenure.

* I am not sure what figure 8 is trying to communicate. A more rigorous exploration of those data could lead to a more interesting causal hypothesis.

* In figure 9, do the authors mean years of credit experience for loan officers?

1	Response from the authors
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3	Thank you for this comment, we have strengthened the literature review as per the suggestions below
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5	Many thanks for this comment
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7	We thank the reviewer for suggesting this change.
8	Statements about the 'gap' in the literature have
9	been nuanced and key scholarship analysing the
10	importance of understanding the behaviour of
11	actors for internal performance have been
12	acknowledged (Goetz, 1996, 2001; Ahmad 2002,
13	2003, Dixon et al, 2007, Labie et al. 2009 Siwale,
14	2013 and Lensink et al. 2015) and references to the
15	work of Copestake and Ledgerwood have been
16	added in. Changes have been made in the
17	introduction and literature review (p. 2, 3 and 5).
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32	We would like to thank the reviewer for this
33	comment which, we think, raises a valid point
34	about the nature of the research enquiry in
35	microfinance. As suggested, the conclusion now
36	raises this issue of data gathering, management
37	and access and the apparent lack of engagement
38	with questions of organisational systems of
39	performance. (pp. 21-22)
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43	We have completely rewritten the Methods
44	section to address these points.
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48	We have listed the variables and explained why
49	they were chosen
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We have rewritten this so that we do not so much reject this triptych as question why they alone should be the go to points. The reviewer's comments about HR and training being similar nationally are well taken, and we have refined our argument to make it clear that we are talking about the differential management of lower level HR issues that can negatively affect client experience.

15 We have followed almost all of these suggestins.
16 We have merged Tables 2 and 3, and we have
17 removed figure 4. However we have kept figure 2,
18 as its purpose is to re-interpret the graph shown in
19 figure 1. This material is now presented in a
20 different way and we have merged figures 1 and 2
21 together. We have kept figures 7 and 8 (now
22 merged) because they were interesting and made
23 clear their limited statistical significance
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27 Thank you, this is a good point. Please see the
28 second last paragraph of the conclusions where we
29 highlight that BRAC can offer a relevant case for
30 contributing to wider debates on such institutional
31 transfers.
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38 This is wonderful praise that we were delighted to
39 read - the project certainly became ever more
40 absprbing as more aspects about BRAC's work and
41 condition became clearer. Our only concern is that
42 the data we have may not, in fact yield the insights
43 you are looking for because they are not complete
44 enough. We have tried to manage readers'
45 expectations in the revised version.
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48 Thanks, a good point and we have rewritten this
49 text to reflect this point.
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3 Thanks for these suggestions we have re-written
4 the text here to take on these arguments
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18 We used the useful wording of suggested by the
19 reviewer and re-phrased as follows: 'What
20 motivates the paper is that organizational design
21 and dynamics can often explain a larger variance in
22 how performance is enforced by actors and why
23 than other things . Organizational systems and
24 behaviour are still largely neglected in many
25 studies and particular genres of study (Copestake
26 et al., 2016). In fact, variations in internal
27 organizational systems and functioning remain
28 largely absent from the explanatory impact
29 framework, which generally consider products,
30 client group and environment as key 'performance'
31 (aka results) drivers.'

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37 This is an excellent point but one we feel may be
38 beyond the scope of our paper. This point is about
39 the empirical data that branches collect to monitor
40 their performance and remain focussed on their
41 social objectives. It takes us into territory that we
42 cannot really cover in a paper which is about the
43 importance of understanding how middle level
44 management affects the internal variation of an
45 organisation's performance.
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49 The mention of how commercialisation affects
50 staff behaviour has been deleted
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54 References to the mission drift have been deleted.
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3 We found this suggestion really useful and have
4 written in both the authors suggested
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9 This issue had been raised by the editor when the
10 paper was first submitted and before it was
11 reviewed. This paper derives from a working paper
12 which is in the public domain and which has been
13 shared with the organisation concerned. It would
14 be difficult to conceal the organisation at this
15 stage. Moreover there is a great deal within this
16 paper that puts BRAC in a good light, specifically
17 the welcome consequences of its loans for its
18 clients and its rapid transformation of the senior
19 and middle management after 2013.
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23 We have added a paragraph which explains this
24 information.
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31 These requests matched those of the first reviewer
32 and we have substantially re-written the methods.
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36 We have provided more detail such that any figure
37 or table we present uses information that has
38 already been signalled in the methods.
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3 We looked for information about clients leaving
4 BRAC - which is the best record of dissatisfaction,
5 but found these were kept in long-hand at branch
6 level which made collecting systematic data
7 difficult. The reviewer is quite right that surplus is a
8 poor way of capturing client experience, but it is a
9 good indicator of whether clients are coming back
10 for more loans, or choosing to leave (often by
11 defaulting). Moreover our point in this paper is not
12 necessarily to capture all of client experience but
13 to demonstrate that within organisational
14 performance needs to be examined more carefully.
15 Surplus suffices to make this point
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We have redone this analysis to exclude the
Zanzibar outliers

As per the last comment but one we tried to do
this, but it was not possible to gather systematic
data about drop outs. Information on returned
security deposits is problematic because of the
practices of delaying and making it difficult to
return these deposits.

We cannot explain why BRAC has not been more
adventurous in the loans it has offered clients, but
our point in mentioning these multiple loans is
simply to say that BRAC has found a way of tapping
a ready market. It is, for obvious reasons, difficult
to research multiple loan taking, but we would like
to keep this detail in because it shows how clients
are responding to BRAC's presence and rules.

Thanks - a good point and we have changed the
wording accordingly.

Reviewer 1 also raised this point and we have re-
written this section to be narrower and more
warranted.

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3 The reviewer is right that this hypothesis could be
4 tested more systematically, but it was beyond the
5 scope of this exploratory research to do so. Indeed
6 it should be possible to test multiple hypotheses
7 about loan officer performance, management,
8 geography, clients and products, but, remarkably,
9 we do not know of many studies which have tried
10 to do so. The purpose of this paper is to say this
11 must be done - and this reviewer's eagerness that
12 we do so is in that sense really pleasing. They get
13 it! But please do not ask us to do so in this paper
14 because, much to our frustration, we cannot and it
15 would be a shame to fault the paper for making
16 too compelling a case
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22 Again the reviewer is absolutely correct, but this is
23 beyond the scope of this paper. We do not have
24 promotions data or employee trajectories. Thanks
25 money is a shady practice and very difficult to
26 investigate systematically.
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29 This was a really useful point and helped us to
30 highlight that we are focussing on the *differential*
31 *management* of generic problems. As we
32 explained above we do not have the detailed HR
33 data to explore employee motivation and
34 promotion. Our retention data cover only a 15
35 month period, and, as reviewer 1 observed this is
36 interesting but weak statistically.
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41 Unfortunately the HR database just has joining and
42 leaving data, not change in postings
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45 Again, rigorous testing of this hypothesis is not
46 possible for us and we have made that clear in the
47 text. The reviewers suggested mechanism would
48 not apply as area managers are not appointed
49 from within their area, but allocated to postings as
50 they become available.
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53 Unfortunately we do not have much of these data.
54 We don't have information on loan officer
55 trajectories, or on percentage retention of clients
56 or their average tenure.
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3 There is some information on the number of
4 microfinance employees leaving of their own
5 accord (76) as opposed to 21 who were sacked.
6 But there are also 17 employees for whom this
7 sacking/choice is unclear and 55 of those who left
8 gave no communication. Or, to put this a different
9 way, there is not much more robust data we can
10 glean from this. Our point is simply that levels of
11 employee satisfaction appear low and this is
12 associated with poor branch performance. We
13 think the data we have presented suffice to make
14 the point we are trying to here.

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19 We have merged this figure with figure 7

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22 Yes loan officers not credit officers we have
23 changed the title of this figure