PROFIT FIRST OR OUTREACH TO POOR PEOPLE FIRST? INSTITUTIONALLY EMBEDDED VENTURES IN MICROFINANCE (INTERACTIVE PAPER)

Junyon Im
University of Missouri-Kansas City, USA, ji24d@umkc.edu

Sunny Li Sun
University of Missouri-Kansas City, USA

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Principal Topic

Although there have been increasing interests in microfinance institutions (MFIs), different behaviors of MFIs have not been well explored. Particularly, there are few empirical studies that explore MFIs’ outreach for the poor. This is a concern in the literature because helping the poor to overcome poverty through financial services is a major goal of MFIs. Based on the institutional logics perspective, this study fills the gap by examining how MFIs’ institutional logics are related to outreach of their services for the poor. Also, unlike previous studies that focus on direct effects of formal institutions on MFIs’ outreach for the poor, this article explores the interaction effect of formal institutions and institutional logics on the outreach.

Method

To test the hypotheses we collected MFIs data from the Microfinance Information Exchange, Inc. (MIX), following previous studies on MFIs. In addition, we collected data on country-level variables from Worldwide Governance Indicators and World Bank to complement the MIX data. Because of availability of variables of our interest we used data between 2003 and 2009. Our final sample has 3785 organization-year observations from 1129 MFIs across 98 countries. Since MFIs in the same country are likely to share common practices with regard to their business processes, including outreach for the poor, there can be a concern about intraclass correlation. To address this issue, we build and estimate a series of multilevel mixed models with the “xtmixed” command in Stata V.12.

Results and Implications

The results show that profitability, which indicates MFIs’ institutional logics, has an inverted U-shaped relationship with outreach for the poor. Moreover, this article finds that the relationship between profitability and outreach is influenced by societal level institution, rule of law.

This study suggests that MFIs’ outreach for the poor depends on they rely mainly on social welfare logic or commercial logic. Also, the moderating effect of rule of law implies that higher levels of institutions interact with institutional logics to influence MFIs’ outreach for the poor.

CONTACT: Junyon Im; ji24d@umkc.edu; Department of Global Entrepreneurship and Innovation Room 217, The Bloch School of Management, University of Missouri - Kansas City, 5100 Rockhill Road, Kansas City, MO 64110-2499, USA.