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An institutional logics approach to social entrepreneurship: Market logic, religious diversity, and resource acquisition by microfinance organizations

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A B S T R A C T

Resource acquisition is critically important for social ventures to fulfill their social missions while striving to scale up and become financially sustainable. Past studies have only just begun to appreciate how institutional forces shape the acquisition of resources by social ventures. Grounded in the context of microfinance organizations (MFOs), a particular type of social venture that holds promise for addressing poverty in developing nations, this paper examines how institutional logics, related to market and religion, shape the nature and amount of capital acquired by MFOs. In particular, we study how the market logic and religious diversity independently and jointly affect flows of commercial and public capital into MFOs across countries. Using a proprietary database of all traceable lending transactions between capital providers and MFOs from 2004 to 2012, we find that strong market logic enhances both commercial and public capital acquired by MFOs, whereas religious diversity decreases the amount of commercial capital flowing to MFOs. Religious diversity also mitigates the positive impact of the market logic on capital flows into MFOs. We discuss the implications of these findings for microfinance research and practice, the social entrepreneurship literature, and the institutional logics perspective.

1. Executive summary

Resource acquisition studies feature prominently in both the entrepreneurship and management literatures. Research on social venture resource acquisition in particular has gained momentum in recent years, but its progress has been stalled by two important oversights. First, past studies tend to predominantly focus on how entrepreneurs can successfully mobilize their identities and skills to overcome resource acquisition barriers, but have paid limited attention to the role of different resource providers in the resource acquisition process. Second, past studies have focused primarily on individual entrepreneurs working in a single country setting and lack an analytical approach that is large-scale and comparative, thus falling short of capturing the distinctive institutional complexity across nations that may fundamentally shape resource flows.

To fill these two gaps and advance resource acquisition research, we build on the social entrepreneurship literature and the institutional logics perspective and examine how two institutional logics (and the associated institutional complexity) related to market and religion—the market logic and religious diversity—shape the acquisition of capital by microfinance organizations

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(MFOs) from two types of resource providers: commercial and public funders. We propose that while the market logic helps facilitate resource flows of both commercial and public capital to MFOs, religious diversity may create strong challenges to the operation of MFOs which in turn deters capital investment in microfinance, particularly by commercial funders. We also propose that when religious diversity is higher, it may mitigate the positive impact of the market logic on the amount of capital acquired by MFOs because the strong barriers to MFO operations created by high religious diversity, coupled with a strong market logic, may divert capital investment away from the microfinance sector. To test these hypotheses, we assemble and analyze a proprietary database of all traceable lending transactions between capital providers and MFOs from 2004 to 2012, and find strong support for most of our predictions.

By examining lending transactions between MFOs and their funders, our study departs from previous research on microfinance that has primarily focused on how downstream interactions of MFOs with end borrowers affect the efficacy of microfinance, and unpacks the enablers and constraints related to their upstream capital acquisition from different types of funders. This has important practical implications because which MFOs receive funds, the amount they receive, and the sources of their funding all play a sizable role in determining the overall health of the microfinance industry as well as its societal impacts. More broadly, our study contributes to the social entrepreneurship literature by highlighting how institutional forces, in particular the market and religious logics, can jointly create unique sets of challenges and opportunities for social venture resource acquisition. By simultaneously attending to the market and religious logics, our study also advances the institutional logics perspective by expanding the range of logics examined in the literature and enriches the notion of institutional complexity by introducing one untapped type of complexity at the intersection of religion and market. In addition, our study is pioneering in showing how a trans-national studies approach that examines various configurations of logics can generate important theory- and policy-relevant findings. In doing so, we open up exciting opportunities for future research at the intersection of international business, social entrepreneurship, and the institutional logics perspective.

2. Introduction

There is growing worldwide interest in entrepreneurship as a means for addressing social issues while creating economic wealth (Alvarez and Barney, 2014; Bruton et al., 2013; Dacin et al., 2011; Markman et al., 2016; McMullen, 2011; Shepherd, 2015). In particular, social entrepreneurship has been recognized by both scholars and practitioners as a powerful mechanism to address poverty (Battilana and Dorado, 2010; Cobb et al., 2016), reduce unemployment (Pache and Santos, 2013; Tracey et al., 2011), confront climate change (Jay, 2013), empower women (Zhao and Wry, 2016), rebuild disaster inflicted communities (Williams and Shepherd, 2016a, 2016b), and the like. Befitting this promise, social ventures have burgeoned around the world, especially in emerging and underdeveloped economies where many of the world's most intractable problems persist (Battilana and Lee, 2014; Bruton et al., 2015; Zahra et al., 2014).

Despite the spread of social ventures around the world, success stories are still exceptions and most social ventures face a variety of operating challenges, wrestle with real tradeoffs in balancing financial and social objectives, and are vulnerable to organizational decline (Lounsbury and Strang, 2009; Pache and Santos, 2013; Tracey et al., 2011). They are also under increasing pressure to commercialize and scale up in order to increase their social outreach and empower the large population at the bottom of the pyramid (Prahalad, 2010). In addition, social ventures are encouraged to become financially self-sustainable so as to reduce their reliance on governmental support or subsidies that are often times limited and unstable (Hoff and Stiglitz, 1990). These financial and growth mandates require social ventures to garner resources, especially financial capital, through a variety of channels (Cobb et al., 2016). There is especially acute pressure to go beyond public funding and tap into commercial sources, such as capital markets and loans from private corporations and financial institutions (Sapundzhieva, 2011).

Reflecting the importance of resource acquisition to the success of social ventures, entrepreneurship scholars have started to examine various enablers and constraints that social entrepreneurs face in gathering resources. This emerging literature has typically taken the social entrepreneurs' perspective and examined how they can successfully persuade external stakeholders to provide them with essential resources for survival and prosperity (Zhao et al., 2016a, 2016b). Various characteristics and capabilities of social entrepreneurs have been considered critical in resource acquisition, such as imagination and judgment (Battilana and D'Aunno, 2009), social skills (Baron and Markman, 2000; Baron and Markman, 2003), identities (Wry and York, 2015), compassion (Miller et al., 2012b), social capital (Maguire et al., 2004), narratives (Allison et al., 2013), storytelling (Lounsbury and Glynn, 2001; Zott and Huy, 2007), and bricolage (Baker and Nelson, 2005; Mair and Marti, 2009). Relying predominantly on case studies, this literature tends to concentrate on individual success stories grounded in idiosyncratic empirical contexts (Dacin et al., 2011).

Despite the impressive knowledge we have gained in these past studies, two major blind spots have limited the advancement of scholarship regarding resource acquisition of social ventures. First, resource acquisition implies an exchange and interaction between two parties—resource providers and acquirers. Past research has mostly focused on social entrepreneurs as resource acquirers and examined their various strategies in gaining resource access, but has neglected the role that resource providers play in the resource acquisition process (Shepherd, 2015; Zhao et al., 2016a, 2016b). Yet, different types of resource providers may embrace unique values and expectations, which in turn shape their choice of social ventures to support (Cobb et al., 2016; Fisher et al., 2015; Pahnke et al., 2015).

Second, by taking an exclusive focus on social entrepreneurs, past research has also sidestepped the study of broader institutional forces that might affect the fate of social ventures, and their efforts to obtain stable funding (Jennings et al., 2013). Some recent studies have tapped into the institutional context of social entrepreneurship, but the focus was primarily on the role of the state (e.g., Ault and Spicer, 2014; Estrin et al., 2013). The institutional logics perspective however suggest that there is a