MATCHING RESOURCES WITH DEMAND: A FLAWED STRATEGY?

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An organization's survival depends largely on its capacity to withstand external "reorganizing" attempts. Little research, if any, has so far been undertaken examining the survival of an entire business sector where its constituents undergo an externally dictated change and as a result it runs a risk of a thorough "jolt" or even "demise". The authors present empirical evidence that a business sector may be subjected to "unwanted" re-organizing by its "parent/controlling" entity, and may cease to exist, in its real essence, if its constituents are forced to undergo a change that will alter the very objectives upon which their existence rests.

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I. INTRODUCTION

Microfinance began during the early 1970s (Labarthe and Danel, 2011), primarily because mainstream banking was neither capable of nor disposed to serving the poor (Hudon, 2010; Luo and Rahman, 2010). This situation gave birth to microfinance organizations (MFOs), which were set up to fill the gap (Luo and Rahman, 2010; Tang, 1995). To meet the ever-increasing demand for financial services

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from the poor, the donor community, keeping in view the limited subsidized resources at its disposal, adapted policies regarding the sector's functioning and long-term survival by emphasizing the need for self-sustainability, profitability and commercialism on the part of MFOs (see, for instance, Kirchstein and Welvers, 2010; Fernando, 2006; Robinson, 2001; 2002; Baydas, Graham and Valenzuela, 1997; CGAP, 1996; Gonzalez-Vega and Schreiner, 1997; Dichter, 1996; Rogaly, 1996; Donaghue, 2004). Since the 1990s, the shift in the sector's operating and strategy focus and the resulting competition among MFOs for business (Kirchstein and Welvers, 2010) posed new challenges for MFOs around the world. Instead of looking for subsidized financial resources from international donor agencies, MFOs had to resort to profitable commercial banking practices in order to achieve self-sustainability and ensure their long-term survival. From the time it was founded in 1995, the Consultative Group to Assist the Poor (CGAP) has been a driving force behind the sector's shift to commercialism (Labarthe and Danel, 2011).

The present paper is aimed at drawing the attention of policymakers and practitioners to the following main concerns in this connection:

(a) If MFOs adopt commercialism and vigorously pursue profitability and self-sustainability motives, the sector would drift away from its founding objectives of eradicating extreme poverty and reaching the poorest of the poor;

(b) In the wake of competition for *profitable* business, under the changed operating conditions, MFOs would tend to disregard reaching out to the extremely poor, particularly in remote rural areas, and resort to *alternative* survival strategies which may be contrary to their founding mission, if forced to pursue profitability and self-sustainability.

As of December 2009, the sector was serving 67 million savings account holders and 74 million small borrowers through a network of 1,084 intermediaries – MFOs in about 100 countries around the globe (Labarthe and Danel, 2011). While the figures do depict the large scale of the sector's operations, they also point to the havoc the paradigm shift is likely to have played with the stakeholders' lives. Arguably, and perhaps ironically, the "innovation" from the donor community may pose a risk to the sector's sustainability in the long run. Empirical evidence has established that there is a negative correlation between outreach and efficiency on the part of MFOs[1] (Hermes, Lensink and Meesters, 2011), as profit motive may overtake

[1] The analysis of the pre- and post-paradigm shift performance of MFOs is beyond the scope of this study. The authors plan to conduct an empirical analysis on this aspect of the sector's operations in the near future.

the service motive if the profitability of MFOs is emphasized more than their role in outreach and poverty eradication (Woller, Dunford and Woodworth, 1999). While the pursuit of self-sustainability and profitability by MFOs might work in economically developed countries, the strategy is likely to disadvantage the poor in poorer countries.

Organizations and business sectors, as with any living organism, confront death, try to escape it and may eventually die off, either vanishing entirely or altering their identity by adopting a new appearance. A business sector may die in terms of its real essence as its constituents die, or the objectives it was instigated to pursue alter profoundly, thereby shifting the organization to a different sector. In the later case, organizations die in their essence, although they may continue to live in a different capacity, pursuing an entirely different set of objectives. Through this paper, empirical evidence is provided about the "death" of the microfinance sector in its essence, as the sector underwent a profound change in the very objectives for which it was originally conceived. Reedy and Learmonth (2011, p. 127) argued that focusing energies on understanding "death" in organizations could make an important contribution to "ethical possibilities for change" and provide "answers to the call of more critical approaches to organizational ethics".

The paper is divided into five main sections. First, the microfinance sector's response to its changed operating environment is explored; and second, theoretical support is provided for the paper's main argument through the organizational change model of Laughlin (1991), the conceptualization of "power" and "governmentality" of Foucault (1980), and the institutional theory of DiMaggio and Powell (1983). The third section briefly underscores the sector's operational and strategic shift in the Asia-Pacific region; and the fourth section contains an elaboration on the research method employed. In the final section, there is follow-up on the discussion; conclusions are drawn and future research proposed on issues vital for the sector's sustainability and identity.

II. THE MICROFINANCE SECTOR'S PARADIGM SHIFT

Microfinance and organizational change and its dynamics have remained a hot topic in the literature and many studies have covered different aspects of changes in organizations and the reasons thereof in several industries. Previous studies on organizational change have been concerned with different contexts, types of organizations and industries, such as railways (Tyrrall and Parker, 2005; Laughlin, 1991), the hospital and health-care sector (Jung and Choi, 2010; Campanale, Cinquini and Tenucci 2010), churches (Laughlin, 1991), international business ventures (Li, 2009), telecom (Shanikat, 2008; Erakovic and Wilson, 2005), sustainability issues in local governments (Joseph and Taplin, 2012), public safety networks and government operations (Williams and Fedorowicz, 2012) and privatization of State-owned enterprises (Dean, Carlisle and Baden-Fuller, 1999; Springdal and Mador, 2004). This study advances the discussion by apprising researchers, policymakers and practitioners of the implications of the sector's 1990s paradigm shift for the sector's constituents – MFOs, as well as their beneficiaries – the poor – and directs future research to areas with the highest marginal benefits for all the stakeholders.

Focusing more on profitability than on fighting poverty and resorting to unethical loan-recovery tactics, coupled with high interest rates of up to 33 per cent on microloans (see Donaghue, 2004), are some of the steps that are tarnishing the sector's reputation as a social service enterprise (Lascelles, 2011; Mersland and Strom, 2010). Daley-Harris (2005) also expressed this concern while shedding light on the sector's paradigm shift. Keeping in view the founding premise of the sector, the social issue it is aimed at addressing its target market, commercialism is not consistent with the sector; rather, it contradicts its primary objectives. In essence, the sector's constituents, to ensure their survival, will need to adapt and reorient themselves in response to externally dictated conditions, but the sector as a whole as well as its beneficiaries pay the price. This study contains an analysis of the microfinance paradigm shift of the 1990s from the organizational change perspective, considering the microfinance sector as a single entity. The case of the Aga Khan Rural Support Programme in Pakistan is evaluated, in particular how the organization reoriented and subsequently transformed itself into an entirely different organization in response to the changed circumstances. It is argued that the external pressures for change affected MFO core values, which rendered the rest of its structural elements incompatible with its new set of core values (see Broadbent, 1992; Kikulis, Slack and Hinings, 1995). As a result, to ensure its survival it transformed itself into a new organizational set-up.[2] No organization in any industry follows the same approach though; for example, organizational players in news organizations tend to adopt both a rational economic approach, as well as institutional logic at different points in time when suddenly confronted by an "uncertain" external environment (see Lowrey and Woo, 2010).

[2] The initial public offering (IPO) of Mexico's Banco Compartamos in 2007, transforming it into a commercial set-up, is another example of the impact of the paradigm shift on the sector's core values and objectives (see Aitken, 2010). Starting off effectively in the early 1990s, 7 MFOs in India alone transformed their setup in response to the sector's paradigm shift; as of 2007, a total of about 90 MFOs worldwide underwent drastic organizational transformation to placate the external pressure for a change to embrace the principles of commercialism (see Kirchstein and Welvers, 2010).

The constituents of the microfinance sector responded by adopting commercialism. The sector as a whole bore the brunt of the shift in its overall focus and basic objectives. These new issues, in the terminology of Laughlin (1991), “disturbed” MFOs and shifted their survival strategy from being dependent on donors’ subsidized funding to self-sustainability through profitable operations and cost control.[3] Evidence depicts that the microfinance programmes are in essence not reaching the extremely poor and that their success in terms of accomplishment of their primary goal of eradicating poverty is highly questionable (Correa and Correa, 2009). This study empirically establishes that the change that microfinance organizations went through in response to the sector’s paradigm shift resulted in a deviation from their primary mission. In this paper, a thorough academic enquiry into the prospects and constraints of the paradigm shift is argued for in order to help establish a “reference framework” to be resorted to in similar situations of externally driven organizational change where stakeholders’ interests are at stake.

III. THEORETICAL UNDERPINNING

Given the peculiar settings of the case study, the authors use two sets of theoretical underpinnings. First, the theoretical constructs of “power” and “governmentality” of Foucault (1980) and the interplay between the two are used, and the institutional theory of DiMaggio and Powell (1983) is used to shed light on the overall phenomenon which the paper encompasses. Second, the organizational change model of Laughlin (1991) is deployed to explain the tangible and non-tangible changes that the Aga Khan Rural Support Programme underwent while responding to the external pressure for change. Although the model of Laughlin (1991) is not foolproof (see Fraser, 2012), it helps in visualizing organizational change in an effective and intelligible manner.

“Power”, “governmentality” and accountability

Under Foucault’s (1980) theoretical conceptualization of “power” and “governmentality”, it is maintained that a “power” source that commands the power of “knowledge” and/or “authority” plays a significant role in the establishment and eventual institutionalization of social practices at the societal level. Foucault argued that “power” is capable of constructing social truths, which in turn enables the “power source”, through the authority and knowledge vested in it as “governmentality”, to exercise power. Foucault (1980, p. 93) maintained,

[3] Although subsidized funding still flows into the sector, mainstream commercial capital has started to flow into the sector since the paradigm shift (Labarthe and Danel, 2011), which is driving services prices high for the poor.

> "Power never ceases its interrogation, its inquisition, its registration of truth: it institutionalizes, professionalizes and rewards its pursuit".

New routines imposed by the "power source" on its "dependents" eventually institutionalize across the industry if not contradicted by any opposing force (see Burns and Scapens, 2000; Laughlin, 1991). Schatzki (2002, p. 59), in his acclaimed book *The Site of the Social*, claimed that

> social orders are not self-standing or self-propagating configurations, but ... they instead exist and evolve only in some context encompassing them...

As predicted under institutional theory's various pillars (DiMaggio and Powell, 1983; Scott, 1995), social players in an industry confer the status of "legitimacy" on organizations (Bartram, 2011), and, among other reasons, organizations change, if circumstances necessitate, to achieve the status of a "legitimate" existence. In the case of mergers, Lukkari (2011) identified forces of isomorphic pressures in redefining "customer" for the new organization during the restructuring process and "deinstitutionalizing" some of the practices, the legitimacy of which is threatened in the new set-up. Martin and Hazlett-Knudsen (2012), in their empirical study on human resources firms, identified these mimetic forces operating in the industry, while in the case of social and environmental reporting in Malaysian companies, Amran and Haniffa (2011) found evidence for all three elements – coercive, mimetic and normative, according to Scott's (1995) interpretation of them.

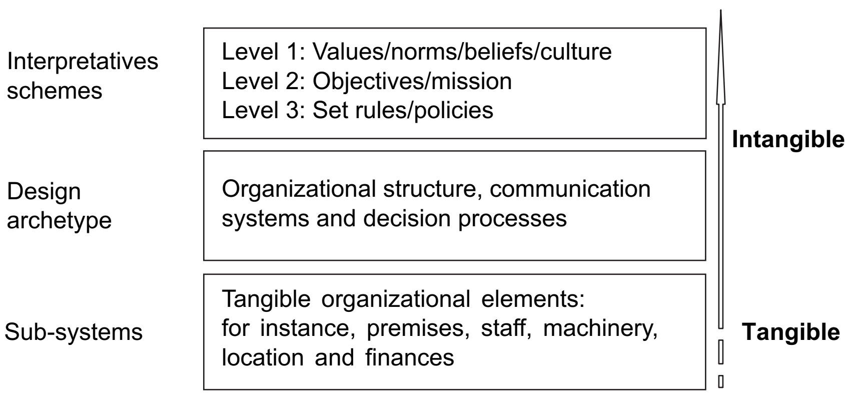
In the context of this study and the theoretical framework it employs, the international donor community represents the "power source", commanding "authority" and "governmentality" to construct, change or implement a new social practice – the changed working paradigm for the microfinance sector. As predicted under the institutional theory's pillars, the sector's constitutions had to passively submit to their "parent" entity's dictation and adapt, reorient and, in some cases, eventually transform their organizational elements to an entirely new social setup, to placate the demand of their "sustainers" – the donor community, on which they are "dependent" for financial and non-financial support (see, for example, Khan, 2011). The Microfinance Division of the Aga Khan Rural Support Programme underwent a similar transformational phase and eventually had to abandon its microfinance function altogether and transform it into the more compatible "First Microfinance Bank" to cope with the changed external conditions. The "new" social practice – the sector's functioning under the new paradigm – will eventually spread across all players in the industry and become institutionalized at a wider level, if not contradicted by a replacement paradigm.

In the context of the literature on “accountability”, the “power source”, in addition to being accountable to external entities, has a high responsibility for evaluating its own actions before imposing them upon its “dependents”. “Accountability” is a notion widely used in the context of social settings, which requires people to explain and take responsibility for their actions (Sinclair, 1995, p. 221), and to give and demand reasons for their conduct (Roberts and Scapens, 1985), and/or provide “an account or reckoning of those actions for which one is held responsible” (Gray, Owen and Adams, 1996, p. 39). The authors argue for an intervention by an independent authority, more powerful than the “power source” imposing a change on its dependents, to appropriate the capacity and thrust of the “power source” to protect the interest of the “dependent” organization(s), a phenomenon referred to as “control of control” by Power (1994, p. 300).

Laughlin model of organizational change

The external environment, if it gets turbulent, exerts pressure on an organization to “adjust” its policies, practices, rules, norms, objectives, goals and overall structure and harmonize them with the changed external circumstances. Laughlin (1991) argued that the pressure for change penetrates into an organization and disturbs its existing “balance”. The change shifts the organization’s “Design Archetypes”, “Interpretative Schemes” and “Sub-systems”; however, the extent of change depends upon how strong the external force is and how uncertain the affected organization’s organizational elements are at the time of the “impact”. This terminology is explained in figure 1.

Figure 1. Organizational elements in Laughlin’s terminology



Source: Adapted from Laughlin (1991).

Levels of organizational responses

Major changes in a country's economic and political scenario, the overall functioning of markets, improvements/new developments in different aspects of an industry, interrelationships among organizations in a particular industry, Government policies and regulations, and the policies and practices of parent organizations, all constitute significant changes for a typical organization.

Depending on how and to what extent an organization is affected, it has to adapt and reorient its policies, procedures, rules and overall organizational culture in response to the external turbulences (see Tushman, Newman and Romanelli, 1986; Tushman and O'Reilly III, 1996; and see also Campanale, Cinquini and Tenucci, 2010, for details on the dynamics of organizational response to changed external conditions). An organization may respond to external changed circumstances in several ways: "inertia", or no change (see Gray and others, 1995; Miller and Friesen, 1984); "rebuttal" – little changes to only some organizational elements (see Larrinaga-Gonzalez and others, 2001); and "reorientation" – noticeable, but not significant change to only some organizational elements (see Greenwood and Hinings, 1993; Gray and others, 1995). These are low-magnitude changes where organizational response is mostly nominal. "Colonization" and "transformation" are high-magnitude organizational responses that are more relevant to this study, and are briefly discussed below.

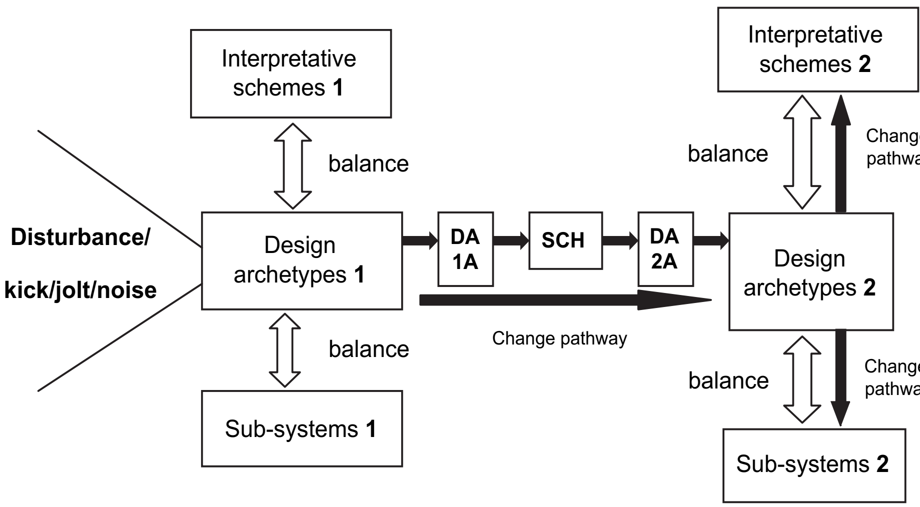
Colonization

When an organization fails to satisfy the external "power source" seeking change with meager changes only to its design archetypes and sub-systems, the organization will consider implementing changes also in its basic coherence – the "interpretative schemes" in the terminology of Laughlin (1991). Larrinaga-Gonzalez and others (2001) termed these types of changes as non-elected, depicting discontent from some organizational members. The resulting change would seem to be partial in magnitude. In its stronger form, which may bring about revolutionary changes within the organization, it may be referred to as a change in the nature of "reorientation". Laughlin (1991) maintained that the resulting changes are of a more permanent nature. The environmental disturbance proceeds through the change pathway (from design archetype 1 to DA 1A, to SCH, to DA 2A, and finally to DA2[4]).

[4] "DA" stands for "design archetypes" and "SCH" for "Schizoid"; these terms describe the gradual shift the organization's "design archetypes" go through, from "design archetypes 1" to "DA 1A", to "SCH", to "DA 2A", and finally to "design archetype 2", where the organizational element "settles" at a "balanced" state. The dark black arrows depict the "change path".

Design archetypes DA2 then necessitates changes to the organizations interpretative schemes and sub-systems (shifting them from positions 1 to 2). As illustrated in figure 2, "colonization" changes are of a substantive type.

Figure 2. "Colonization" changes in an organization



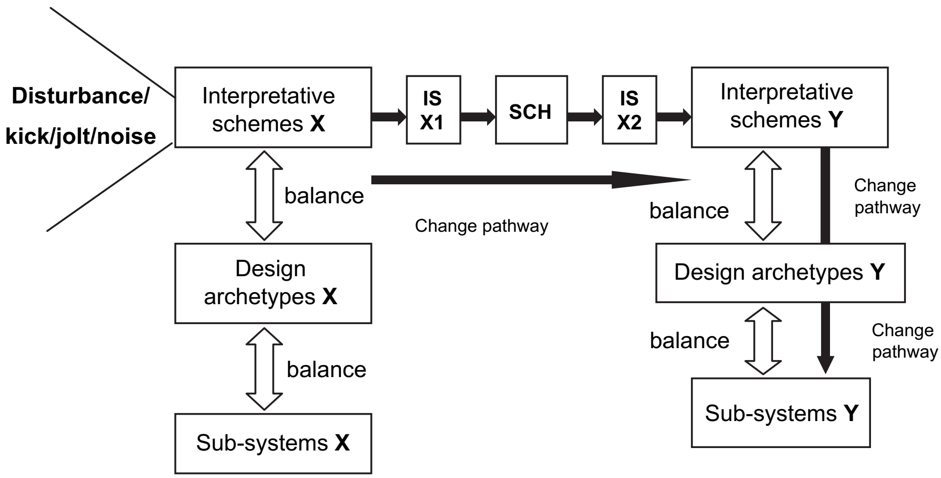
Source: Adapted from Laughlin (1991).

Transformation

Evolution or transformation is the extreme level of change that affects all organizational elements, tangible as well as intangible. Widespread changes in all the organizational elements are registered with a view to renew the organization's efficacy under the changed conditions, and are referred to as radical or punctuated responses on the part of an organization (Miller, 1982; Miller and Friesen, 1984). Organizations passively choose to undergo changes of an evolutionary or transformational type in a bid to cope with the changed external circumstances (Nadler and Tushman, 1989; Greenwood and Hinings, 1993). Many studies in the field of organizations and organizational change (see, for example, Wilmott, 2000; Kikulis, Slack and Hinings, 1995) have found "interpretative schemes" to be the most stringent of all organizational elements. They found them to be the most difficult to disintegrate in the face of external disturbances. This change pathway is demonstrated in figure 3 below.

Environmental disturbances first stir the organization's basic coherence, that is, its "interpretative schemes" (Laughlin, 1991). This leads to a new organizational ethos in the form of new set of "interpretative schemes" (see also, Larrinaga-Gonzalez

Figure 3. "Evolution" or "transformation" changes in an organization[5]



Source: Adapted from Laughlin (1991).

and others, 2001), which, in turn, render the existing sets of the organization's "design archetypes" and the "sub-systems" incompatible with the new set of "interpretative schemes" (Broadbent, 1992; Kikulis, Slack and Hinings, 1995; see also Tyrrall and Parker, 2005). This leaves the organization in a halcyon state and necessitates changes in the organization's "design archetypes" and the "sub-systems" (Laughlin, 1991). Thus, the final "balance" of all the three organizational elements is initially caused and then dominated by the changed "interpretative schemes". The environmental disturbance travels through the organization following the change pathway (from interpretative schemes X to IS XI, to SCH, to IS X2, and finally to IS Y, which, in turn, bring about changes in the remaining two elements, as the dark black arrows indicate).

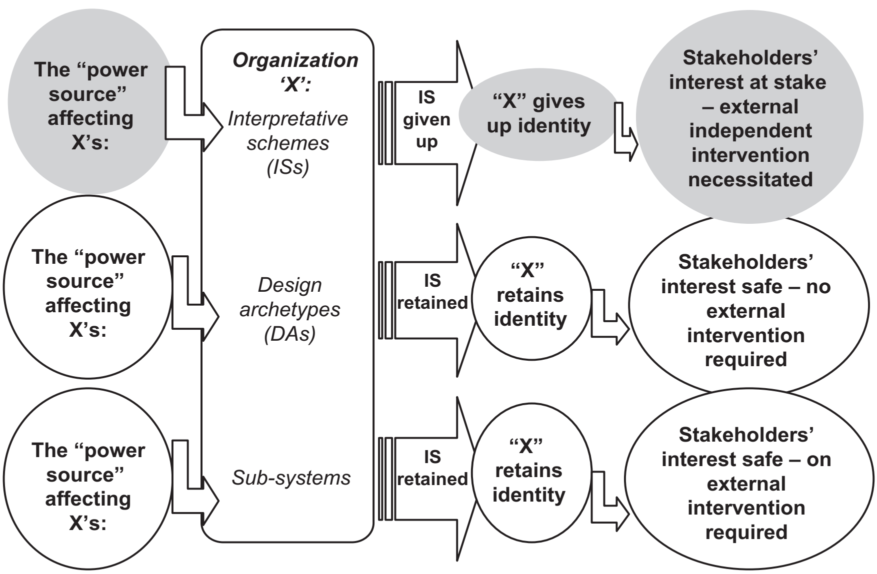
This type of change is what the empirical data collected for the study has depicted for the Aga Khan Rural Support Programme – the subject of this study, and is elaborated on below in the peculiar contexts of this study. Using Laughlin's (1991) organizational change model as a platform, the authors investigate the internal "adjustments" of the Programme's Microfinance Division in response to the sector's paradigm shift. They examine the process of transformation of the subject as it

[5] "IS" stands for "interpretative schemes" and "SCH" for "Schizoid"; these terms describe the gradual shift the organization's "interpretative schemes" go through, in a similar fashion as footnote 4 describes for "design archetypes" changes.

changed from a donor-dependent organization to a self-sustainable, commercial organization – the First Microfinance Bank Limited.

The study is aimed at analysing a microfinance organization's passive submission to externally dictated unavoidable conditions for change and to portray results in terms of the consequences of such a pressure for change from a parent organization(s) upon its dependent organization(s) for the sector's primary mission or main objectives upon which the sector's very identification rests. In addition to filling the void in the literature in evaluating the sector's paradigm shift and its implications for the sector's founding constitution, in the light of an established theoretical foundation, this empirical paper proposes the following "organizational change framework" to guide policymakers and practitioners on organizational change initiatives in such situations.[6] This is demonstrated diagrammatically in figure 4.

Figure 4. Diagrammatic representation of our proposed organizational change framework, applicable to not-for-profit and "public-good" sector organizations, and situations where "parent-dependent" relationship exists between the "power source" and the "dependent" organization



[6] Authors intend to undertake a comparative study on the achievement of the Aga Khan Rural Support Programme's Microfinance Division in terms of reaching the poorest of the poor, according to the sector's founding objectives, before and after its transformation into the "First Microfinance Bank Limited" under phase II of this study.

IV. THE PARADIGM SHIFT – THE ASIA-PACIFIC REGION[7]

Pakistan

The rate of poverty in Pakistan[8] was reported at around 22 per cent of the population for 2005/06 (Ghalib, 2011; Chaudhry, Faridi and Hanif, 2012). This has increased to approximately 40 per cent by 2009 (Ghalib, 2011). The magnitude of poverty in the country necessitates retention of the sector's past paradigm – provision of subsidized financial and non-financial resources – with no emphasis on earning profits from the already vulnerable poor.

The magnitude of work expected of the country's microfinance sector is demonstrated in table 1. The authors argue that the sector's original promise, under its founding principles, of providing the poor with subsidized financial resources, with no expectation of a market rate of return on investment[9] as modern capitalism dictates, is crucial to move the poor out of the poverty web. Ever since the sector's paradigm shifted, most of the country's microfinance services, in their drive towards self-sustainability and profitability, have been covering the urban poor – the "not so poor" segment – rather than the rural poor who comprise the sector's objective target population (see Rauf and Mahmood, 2009).

Table 1. Percentage increase in income required to move people out of poverty

Income category	Percentage population in the category	Percentage increase in income required to move the poor out of poverty
Rs 4 000 to 5 000	14.65	5 to 30
Rs 3 000 to 4 000	16.95	30 to 75
Rs 2 000 to 3 000	14.73	75 to 162
Rs 1 000 to 2 000	5.47	152 to 424
Less than Rs 1 000	0.71	More than 425

Source: Hussein and Hussain (2003, p. 36).

7 Given the study's primary focus and scope, the authors have avoided a detailed evaluation of the sector's performance across the region. Policy implications for Pakistan, in the peculiar context of the study, can be generalized across other countries in the region with similar socio-economic circumstances.

8 In the case of Pakistan, the Millennium Development Goals are aimed at bringing down the level of poverty (headcounts) to 13 per cent – a huge task, when compared with the 2009 level of about 40 per cent (see Ghalib, 2011).

9 Ever since the paradigm shift, the return on microfinance investments as well as MFIs' assets have shown a steady rise, which depicts the sector's push towards modern capitalism (see Kirchstein and Welvers, 2010).

Table 2 below shows segments of the population living in different “poverty brackets”. The country’s microfinance ought to focus on the “extreme poor” and the “ultra poor” segments of the citizenry, which would entail venturing into the costlier remote rural areas and sacrificing profitability and economic self-sustainability (see Cull, Demirguc-Kunt and Morduch, 2011), which are the notions emphasized under the new paradigm.

Table 2. Percentage of population living below the official poverty line, 1987-2009

Poverty band	Ranking range of “poverty line” (percentage)	Percentage of poverty increase (+)/ decrease (-) from 2001/02 to 2005/06	Estimated headcount (in millions)
Extremely poor	<50	1.1 to 0.5 (-0.6)	0.81
Ultra poor	>50 and <75	10.8 to 5.4 (-5.4)	8.69
Poor	>75 and <100	22.5 to 16.4 (-6.1)	26.39
Vulnerable	>100 and <125	22.5 to 20.5 (-2)	32.99
Quasi non-poor	>125 and <200	30.1 to 36.3 (+6.2)	58.41
Non-poor	> 200	13.0 to 20.9 (+7.9)	33.63
Total population		Not applicable	160.90

Source: Adapted from Ghalib (2011).

Rest of the region

When Millennium Development Goal 1, to “eradicate extreme poverty and hunger”, is considered in the light of Target 1.C to “halve, between 1990 and 2015, the population of people who suffer from hunger”, it does not seem to be realistic in view of the current state of poverty around the region and the meager effect microfinance has had so far in alleviating it. Given the effects that the sector’s paradigm shift has had on the sector’s founding objectives, the social enterprise’s situation in the rest of the countries in the Asia-Pacific region is not different to that of Pakistan. Microfinance was initiated in Asia in response to the mainstream banking sector’s failure to serve the poor, and it spread across the region at a rapid pace (see Hartarska and others, 2010).

In a recent report (Microfinance Information Exchange, 2010), it is claimed that microfinance services grew in all Asian countries except Afghanistan. Bedson (2009) asserted that the region’s microfinance grew to cover 47 million borrowing clients, with an outstanding loan portfolio amounting to approximately $10.2 billion and client deposits of $7 billion. Although the sector has received commendation for its service to the poor and bridging the gap left by the mainstream banking sector (Hudon, 2010; Epstein and Yuthas, 2010), in most countries in the Asia-Pacific region (see Donaghue, 2004, in the case of Bangladesh, Cambodia, India, Indonesia, Philippines, Thailand and Viet Nam, and some other countries in the East and South-East Asia) it is argued that the sector's real aim was not to become profitable and self-sustainable through charging high interest rates, but to reach out to the extremely poor and the maximum number of them, in all countries, even if it is commercially unprofitable to do so[10] (see Khan, 2011; 2008). Through the primary stance of the present paper, the authors inform policymakers that, given the wide differences in the socioeconomic state of the countries across the region, different paradigms would work best for different countries. The sector ought to deploy different paradigms for different countries/groups of countries in the region. Thus, if the post-paradigm shift era suits the situation, for instance, in Australia, Canada, New Zealand, Singapore and the like, the pre-paradigm shift era would work best for Bangladesh, Bhutan, Cambodia, India, Indonesia, Malaysia, Pakistan, Papua New Guinea, the Philippines and the like. In a nutshell, country-specific appropriate policies should be adopted to drive the sector's mission effectively.

The sector's so-called achievements in the region's most populous countries, including Bangladesh, Cambodia, China, India, Indonesia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka and Viet Nam, need to be empirically ascertained. The sector's paradigm shift towards self-sustainability and profitability (Bedson, 2009; Ayayi and Sene, 2010) evidently would benefit MFOs and the donor community but not the poor (see Bee, 2011). The region's MFOs boast an annual return on their investment of more than 9 per cent (Becchetti and Pisani, 2010), with more and more joining in as "self-sustainable" and "profitable" microfinance players (see Kirchstein and Welvers, 2010; Rauf and Mahmood, 2009), which clearly is an indication of the sector's drift from its founding objectives. The claims concerning the sector's success need to be weighed and scrupulously checked against its founding objectives of serving the poorest of the poor, and in high numbers, giving "costs" and "profitability" last priority. In the case of Malaysia also, the sector's outreach to the poorest of the poor is in doubt (see Hamdan, Othman and Hussin, 2012).

[10] Mohen and Potnis (2010) asserted that establishing and operating financial services in rural areas are 80 per cent costlier than in urban areas.

In the *State of the Microfinance Summit Campaign Report 2005*, concern was expressed over the apparent failure of the sector to close the gap and reach out to the most deserving poor (see Daley-Harris, 2005). In the report, it is indicated that about 400 million poor families, representing about 80 per cent of potential microfinance clients, still have no access to the sector's services, despite approximately 30 years of the sector's operations. It is warned that the gap would remain for decades to come if relevant issues are not addressed objectively. The authors of the report objected to the size of most MFOs, as indicated in table 3 below. As far the sector's coverage of the poorest families goes, Asia stands at a weak 38 per cent only, as at the end of 2004 (Daley-Harris, 2005).

Table 3. Poverty coverage, by microfinance organizations

Percentage of MFOs	Number of MFOs	Coverage (clients served)
2	49	100 000 to 1 000 000
9	276	10 000 to 100 000
16	515	2 500 to 10 000
73	2 321	2 500

Source: Adapted from Daley-Harris (2005, p. 25).

V. RESEARCH METHOD

In this paper, the "case study" approach was adopted and secondary data were collected from annual reports and policy and procedure-specific documents, newspapers and other secondary sources. Primary data were collected through interviews with the middle- and top-management team members of the organizations involved.[11] Yin (1998) identified three dominant modes of analysis for case study data, namely pattern matching, explanation building and time series analysis. This study used "pattern matching" and "explanation building" approaches to deduce conclusions. Laughlin's (1991) organizational change model was used to provide a theoretical base for the "organizational change" aspect of the study, and Trochim's (1989, p. 356) model was used in comparing "theoretical patterns", as predicted by Laughlin's (1991) model, with the "observed patterns" developed using the empirical data collected for the study.[12]

[11] Keeping in view the objectives of the study, only the organizational members at the top- and middle-level management were interviewed at the Aga Khan Rural Support Programme and the First Microfinance Bank Limited. A total of 16 interviews were conducted.

[12] Laughlin's model covers organizational adaptation to changed external circumstances from three angles: interpretative schemes; design archetypes; and sub-systems. According to the intended scope of this study, only the "interpretative schemes" part of the empirical data is included in this paper.

"Interpretative schemes" of the Aga Khan Rural Support Programme

In this section, the authors developed a set of "observed patterns" and then compared them with the "theoretical pattern" suggested by Laughlin's (1991) Model of Organizational Change. As the study concludes, the "theoretical patterns" endorse the "observed patterns" developed from the empirical data collected for the study.

Theoretical pattern – set 1τ

As discussed above, if an organization opts for "morphogenetic evolution", Laughlin (1991) argued that the organization will opt for changes in all its organizational components. The evolution or transformation is initiated and then driven across the organization by the new set of "interpretative schemes" that would be developed after the initial reorientation of the organization to changed environmental conditions. This stage is characterized by a general consensus of all the organization's members, which facilitates adoption of a new common vision of the organization. The organization then achieves "balance" at a new position of its organizational elements (Laughlin, 1991) and then keeps functioning at this new position until again "disturbed/kicked" by another new environmental "turbulence" necessitating another change.

Observed patterns – set 1o

In the case of the Aga Khan Rural Support Programme, after its initial adaptation and reorientation in response to the environmental "disturbances", it ultimately was transformed into a new independent commercial set-up, namely the First Microfinance Bank Limited. The new position of the Programme's "interpretative schemes" after its transformation into the First Microfinance Bank Limited is discussed below.

Objectives, values and missions

The Aga Khan Rural Support Programme, after evolving from a not-for-profit non-governmental organization into a for-profit commercial microfinance bank, now pursues a different set of objectives. Being a commercial microfinance organization in the private sector, the core objectives of the First Microfinance Bank Limited are: first, to ensure its outreach to the extremely and moderately poor populations residing in Pakistan's urban and rural areas, particularly women, who normally are not able to access financial services from the traditional/mainstream financial institutions; second, to ensure its own long-term sustainability, covering all its inflation-adjusted costs (FMFBL, 2003). To pursue the goal of achieving financial self-sustainability effectively, the bank is authorized to implement appropriate pricing policies, which would ensure access to affordable financial services for the poor as well as operational and financial self-sustainability (SBP, 2002).[13]

To achieve this two-fold objective, the First Microfinance Bank Limited has been empowered, under the Microfinance Institutions Ordinance, 2001, and the State Bank of Pakistan's prudential regulations, 2002, to mobilize public savings, and perform the majority of the functions of the traditional commercial banks (FMFBL, 2003; AKRSP, 2002). The senior operations associate at the First Microfinance Bank also hinted at the shift in the Aga Khan Rural Support Programme's objectives after its conversion into the Bank and at the disconnection between the Bank's operational focus and its social service objectives. Daley-Harris (2005) also signaled this aspect of the paradigm shift. An officer in the Marketing and Product Innovation Department said in this context, "...now we have dual objectives", not only do "we have to be self-sustaining but we also have our social development objective of eradicating poverty". The regional manager of the Rural Support Program Network went even further and said that the objective of "self-sustainability" was more dominating than the objective of poverty eradication.

Policies and rules

Policies and rules at the First Microfinance Bank Limited reflect its shrewd professionalism and strong desire to achieve the much-needed financial self-sustainability. The bank's policy for branch opening, for instance, reflects upon the professional staff at the top level. Another respondent remarked in this context, "we do considerable research before we establish our branch in a particular locality. We make and analyse a proper demographic profile of the locality we are moving into. In addition, considering the cost factor, our profitability and business opportunities, we analyse the tentative locations for our new branches". While discussing the bank's policy about its branches, the participant added that the bank had set a standard size for its branches in different localities and ensured standardization in all its branches; every branch has blue chairs, grey tables and almost similar furniture and interior setting. Concerning the bank's policy regarding new product development, the respondent asserted that, whenever thought was given to promulgating any new bank product policy or to developing a new product, the prospective market for the product would first be analysed and then the policy finalized and implemented and the product launched.

[13] The State Bank of Pakistan's Prudential Regulations for Microfinance Banks were designed and implemented specifically for the country's microfinance sector; a separate set of regulations governs the mainstream commercial banks and other financial institutions in the country.

With regard to credit policies, the bank had to observe another policy-cum-rule restricting the bank from extending loans exceeding Rs 100,000 to a single borrower (SBP, 2002). The bank's staff recruitment policies have also been reformed. The Chief Operating Officer of the Pakistan Microfinance Network said in this connection that the bank hired professional staff and paid them well. The bank has been able to recruit a balanced blend of microfinance practitioners and commercial bankers who build upon each other's wealth of experience and thus is able to provide its clients with a superior level of service (FMFBL, 2003).

Regarding any financial commitment from the Aga Khan Rural Support Programme, a rule was set at the board of directors meeting on 26 May 2001 that the Programme would not be obliged to keep any deposits with the bank. In addition, to prevent criminal use of its channels for the purpose of money laundering and other unlawful trade, the bank was obliged to make all reasonable efforts to determine the true identity of its clients (SBP, 2002). To ensure the privacy of its clients, the bank, in following its prudential regulations, must not remove any of its records and documents relating to its business, either physically or electronically, from a specified area to a place outside that specified area, without the prior permission, in writing, of the State Bank of Pakistan. These rules and policies were not in place at the Aga Khan Rural Support Programme.

Internal procedures and communications

The Aga Khan Rural Support Programme was not under the supervision of the central bank of the country, the State Bank of Pakistan; hence, its internal procedures were adopted and tailored by its management according to its will. As soon as the Programme was transformed into the First Microfinance Bank, it came under the direct supervision of the State Bank. Its policies and procedures, although developed and implemented by the bank's management, became subject to the central bank's scrutiny. The bank is required under law to develop and implement effective procedures and methods for the purpose of preventing any misuse of its channels by criminals and money launderers (SBP, 2002).

The First Microfinance Bank Limited is a formal commercial bank and operates under the direct supervision of the State Bank of Pakistan. Therefore, it is crucial for the bank to adhere to the requirements of the State Bank of Pakistan in all its operations. In cases of non-compliance, the State Bank of Pakistan is authorized to impose heavy penalties on the bank (SBP, 2002, respondent No. 11). Various procedural restrictions have been placed upon the bank. For instance, it is not allowed to extend any financial facilities for speculative purposes, or any loan exceeding Rs 100,000 to a single borrower (SBP, 2002). The regional manager of the

Rural Support Programmes Network said in this context that all the State Bank of Pakistan's regulations for all the commercial banks of the country were applicable to the bank. The only exception was in the case of regulations for foreign exchange and foreign trade transactions, as the bank was not authorized to deal in foreign exchange and foreign trade matters (SBP, 2002).

Market research and new product development are prominent and regular features of the First Microfinance Bank Limited's internal operations. An officer in the Marketing and Product Innovation department remarked, "we have developed new products, such as small education loans, housing improvements loans, loans for working capital and fixed assets for small businesses, and loans for emergencies". The respondent further added that the bank also offered some non-financial services which were unique to the bank. For instance, it occasionally ran health camps for its poor borrowers with the help of the Aga Khan Development Network, offered business support services for poor entrepreneurs and arranged special training programmes for its female borrowers. One of the pioneering initiatives undertaken by the bank was to offer microinsurance cover to all of the borrowers to insure the amount of loans outstanding, at a nominal premium, as well as exploring the possibility of providing its clients with some other microinsurance services (FMFBL, 2003).

In referring to the loan approval procedures, the Chief Operating Officer of the Pakistan Microfinance Network said that, unlike the Aga Khan Rural Support Programme where approvals for loans used to be given on the telephone and later on followed up by someone to make approvals in writing, the approval procedure at the First Microfinance Bank Limited was very formal and everything had to be well documented before loans were sanctioned. It was resolved in the Programme's board of directors meeting on 26 May 2001 that the bank would take on all of the Aga Khan Rural Support Programme's microfinance-related responsibilities, including the recovery of the Programme's outstanding loans. Unlike in the Programme, where most things were done on an informal basis, according to a respondent, procedures at the First Microfinance Bank Limited in respect of branch opening became very tough because of the restrictions imposed by the bank's supervising body, the State Bank of Pakistan. The First Microfinance Bank Limited can open a branch only after obtaining permission from the State Bank of Pakistan, which can be obtained only after making a complete feasibility report about the potential location of the branch. The regional manager of the Rural Support Programmes Network remarked in this context that achieving procedural consolidation of the existing branches was another requirement to be met by the bank before opening any new branch.

Organizational philosophy and overall culture

The First Microfinance Bank Limited operates on the principles of long-term sustainability and a broad outreach in terms of services and geographical coverage in order to attain maximum impact (FMFBL, 2003). *The Banker* quoted the bank's president as saying: "You are the bank for the poor so you have to have that ingrained in your philosophy. Keep your expenses down and you would survive and also be of service to the poor" (Loan lifeline, 2005). The bank's management believes in professionalism in its operations; proper governance and transparency systems have been put in place to achieve its goals, noted a respondent. The First Microfinance Bank Limited has the privilege of being the youngest organization worldwide that has been awarded "Honorable Mention" in the international 2004 Financial Transparency Award by the Consultative Group to Assist the Poor, a subsidiary of the World Bank (FMFBL, 2003).

As far as management style is concerned, currently a "consultative" or "democratic" management style is prevalent in the organizational culture under which every staff member has the liberty to communicate directly with any other staff member, whether his/her senior or junior. The president of the bank communicates directly with the heads of departments and their officers, according to a respondent. The bank is highly service-driven, and customer service is emphasized by the bank's management as one of the prominent features of its organizational philosophy and culture (FMFBL, 2003, respondent No. 13).

VI. CONCLUSION, POLICY IMPLICATIONS AND FUTURE RESEARCH DIRECTION

The literature equates the sector's paradigm shift to a shift in the sector's objectives. For instance, the change in the sector's average loan size since the paradigm shift has been cited as equivalent to switching to a new customer segment, which constitutes deviation from the original mission (Mersland and Strom, 2010; Kirchstein and Welvers, 2010; also see Khan, 2008). The primary concern we raise is that the emphasis on commercialism in operations on the part of MFOs, under the vacuous new paradigm, will undermine the sector's commitment to the extremely poor, which will be tantamount to adopting an entirely new set of objectives (see Labarthe and Danel, 2011; Rauf and Mahmood, 2009). In their study of organizational change in the British Railways, Tyrrall and Parker (2005) found that a major change in the "interpretative schemes" translated into changes in the remaining organizational elements. The Aga Khan Rural Support Programme's management realized that its microfinance wing would work best under the changed set of circumstances if "transformed" into an independent set-up (AKRSP, 2000). In its meeting in September

2001, the Programme's board of directors finalized the shape and structure of the Programme's Microfinance Division in terms of its future structural and operational shape. The division eventually was transformed into the First Microfinance Bank Limited in March 2002.

Evidence shows that the impact of the paradigm shift was global. Compartamos Banco's transformation into a commercial bank in 2006 is another example of such a change. MFOs have been subjected to similar criticism, that is, that they would compromise on fighting poverty in their efforts to maximize profits (see Labarthe and Danel, 2011). Other organizations that made use of the new paradigm to fuel their growth include SKS Microfinance of India in the Asia-Pacific region; Mi Banco of Peru and BancoSol in Bolivia in the Latin American and Caribbean region; and Women's World Banking in the United States. The extreme poverty prevalent in the Asia-Pacific region always tends to overshadow microfinance's accomplishments elsewhere in the world.

In the light of the study's outcomes, we would like to draw the attention of policymakers to the era following the paradigm shift and to argue that stress on self-sustainability and profitability on the part of MFOs will shift the pressure to the region's already vulnerable poor. As indicated above, to achieve a better balance between the supply of and demand for microfinance services, the pre-paradigm shift working model needs to be re-implemented in the region's poorest countries, while the relatively affluent countries should be entrusted with the post-paradigm shift commercial model.

At a more general level, the authors assert that, in the case of the not-for-profit sector and in situations where a parent-subsidiary relationship exists, high-magnitude organizational change initiatives, where the sector's "interpretative schemes" (primary objectives, values, norms, policies and existence philosophy, on which the sector's very identity is based) face danger from the pressure for change, need to be implemented prudently. In such situations, the "power source" has an ethical responsibility to stop exerting further pressure for change, lest the sector end up having a completely different set of all three organizational elements and the ultimate beneficiaries would have to absorb the ensuing burden. We urge policymakers that, instead of compromising on quality through sub-optimum trade-offs, it would be better to reduce quantity when faced with resource constraints. The sector was initiated to help the poor emerge from poverty, and commercial models do not suit its objectives. Just as Reedy and Learmonth (2011, p. 127) claimed in their work, we, too, expect that our work will open up a debate "...about how we might make choices about our relations..." to organizations and/or business sectors with a peculiar set of characteristics. We have thus put forth a new "organizational change framework", deduced from some established theoretical constructs in the field, to guide policymakers and practitioners on organizational change initiatives in such situations, and thereby contribute to safeguarding stakeholders' interests.

We would like to urge readers to exercise caution when generalizing the study's findings given its "case study" stance. Although we have used empirical data, we do not claim unrestricted generalizability of the study's findings. The study draws the attention of policymakers, researchers and practitioners to implications of the sector's paradigm shift for its true identity and legitimacy in the sight of society (see Kirchstein and Welvers, 2010; Khan, 2008). Additionally, the study can be used to identify future research focus towards evaluating the real success of MFOs in terms of depth and breadth of outreach. A comparison between the sector's pre- and post-paradigm shift performance in terms of its founding "social service-based" objectives would shed light on the real consequences of the sector's paradigm shift in terms of the impact on the poor and on poverty.

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