



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



Eric Yanfei Zhao <sup>a,\*</sup>, Michael Lounsbury <sup>b</sup>

<sup>a</sup> Kelley School of Business, Indiana University, 1309 E. 10th Street, Bloomington, IN 47405, United States

<sup>b</sup> University of Alberta, Canada

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## ABSTRACT

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.

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## 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

\* Corresponding author.

E-mail addresses: [ericzhao@indiana.edu](mailto:ericzhao@indiana.edu) (E.Y. Zhao), [M137@ualberta.ca](mailto:M137@ualberta.ca) (M. Lounsbury).

(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

wider array of societal-level institutional influences, embedded in the logics of state, market, and religion, that may affect social entrepreneurial efforts (Besharov and Smith, 2014; Greenwood et al., 2011; Thornton et al., 2012; Zhao et al., 2016a, 2016b). We believe there is an opportunity to more richly theorize these societal institutional contexts in social entrepreneurship research.

The omission of religious logics in social entrepreneurship scholarship is particularly noteworthy. This is because religious beliefs often underpin the founding and operation of social enterprises (Tracey, 2012), and they have been shown to strongly influence important social outcomes such as poverty and inequality (Keister, 2008). Moreover, religion and economics are intertwined. As such, the logic of religion may interact with the logic of market in shaping social ventures and the dynamics of society and economy more generally (Greenwood et al., 2010). Yet, management and entrepreneurship scholars have only started to engage these insights and there are virtually no studies of religion in the social entrepreneurship literature (Tracey, 2012; Tracey et al., 2014).

Recognizing these knowledge gaps, recent reviews of the social entrepreneurship literature have repeatedly called for more research on how heterogeneous and complex institutional contexts shape resource acquisition of social ventures (Bruton et al., 2010; Dacin et al., 2011; Zahra et al., 2014; Zahra et al., 2008). Empirically, there is also a strong need for research designs that complement deep case studies and focus on more systematically assessing mechanisms helping and hindering social venture resource acquisition (Dacin et al., 2011). In addition, some have argued that more attention is needed to assembling and analyzing larger-scale, cross-national quantitative datasets in this regard (Jennings et al., 2013).

In this paper, we draw on recent developments in the social entrepreneurship and institutional logics literatures, and highlight the value of attending to both the nature of resource providers and the societal-level institutional contexts in studying social venture resource acquisition. We ground our theoretical predictions in the context of the global microfinance industry, a classic setting for studying social entrepreneurship due to its increasing prevalence and significance around the globe (Bruton et al., 2015; Martin and Osberg, 2007). In particular, we examine how two kinds of institutional logics (Thornton et al., 2012)—related to market and religion—independently and jointly shape microfinance organization (MFO) capital acquisition from two different types of funders: commercial and public. Commercial and public capital are two primary types of financial resources relied upon in microfinance, with the former focused more on financial returns and the latter more on developmental objectives. Our goal is to understand how market and religious logics, and their interactions, shape the flow of commercial versus public resource capital to microfinance organizations, and relatedly the status of the “privatization” of state development efforts in the microfinance sector. By focusing on both the nature of resource providers and the impact of societal-level institutional logics, our paper aims to contribute to a more comprehensive and comparative understanding of resource acquisition by social ventures across nations, enabling more effective transnational replication and transplant of successful social venture models (Zahra et al., 2009).

Empirically, we analyze a proprietary database of all traceable capital investments into MFOs from 2004 to 2012. We find that the dominance of the market logic in a nation, as manifested in its strength of market-supporting institutions (Meyer et al., 2009), enhances both the amount of commercial and public capital resources acquired by MFOs. By contrast, religious diversity—the existence of multiple within-country religious logics—tends to decrease the amount of commercial capital, but has no impact on public capital. We also find that religious diversity seems to mitigate the positive impact of market logic on capital flows into MFOs. We argue that this is because while the market logic fosters a healthy and stable business environment for MFOs to flourish, social and economic exclusions due to religious diversity, and associated communication and trust problems (Yenkey, 2015), will significantly increase the operational challenges of MFOs and thus deter capital investment in microfinance. More importantly, we show that these findings remain robust after controlling for the role of state strength which has been suggested to have a significant impact on MFOs' capital acquisition (Ault and Spicer, 2014). Therefore, the institutional logics of market and religion and their associated institutional complexity (interactive pressure) have important implications for the challenges of creating a robust privately funded social enterprise sector above and beyond the influence of a strong state.

In the next section, we provide a brief theoretical background that motivates our effort to draw on the institutional logics perspective (Thornton et al., 2012) to advance our understanding of resource acquisition in the context of social ventures. Following that, we discuss our empirical context—the global microfinance industry—with an emphasis on illustrating the landscape of capital investment in microfinance. Next, we develop a set of hypotheses grounded in our empirical context and the institutional logics perspective. We then test the hypotheses, present results, and run a set of robustness checks to validate our findings. We conclude this paper by discussing the implications of our findings for microfinance research and practices, the social entrepreneurship literature, and the institutional logics perspective.

### 3. Theory: an institutional logics approach to social entrepreneurship

Resource acquisition is a critical component of any entrepreneurial process (Shane and Venkataraman, 2000; Zhao et al., 2016a, 2016b). Entrepreneurial ventures need to catalyze resource support and maintain a healthy resource flow (e.g., financial capital) in various stages of their development (Cassar, 2004; Fisher et al., 2015). The nature of social ventures means that the challenges and difficulties they encounter in acquiring resources might be even more salient and complex. For instance, many social ventures operate in developing economies, where quality resources are scarce and supporting economic and political infrastructures for channeling resource flows are weak (Mair and Marti, 2009; Mair et al., 2012). This is further exacerbated by the fact that social ventures often need to balance their social missions and financial performance, further muddling the unpredictable nature of returns to potential investors (Austin et al., 2006).

In light of these challenges, increasing research has been dedicated to examining how social entrepreneurs can successfully mobilize their identities and skills to overcome resource acquisition barriers. For instance, Wry and York (2015) proposed that

social entrepreneurs with unique configurations of role and personal identities may face different opportunities and constraints in combining commercial and social welfare logics, and thus are variably enabled in designing new models and catalyzing supportive resource flows. Maguire et al. (2004) argued that it is not just social entrepreneurs' identities that matter in initiating fundamental changes, but also their structural positions in a field that enable them to bridge diverse stakeholders and access dispersed sets of resources. Baron and Markman (2000) argued that beyond relational and structural connections, social entrepreneurs may further increase their success in gaining resources if they have stronger social skills—specific competencies that help them interact effectively with resource providers. These skills include the ability to read resource providers' intentions accurately, make favorable first impressions, and adapt to a wide range of social situations. In a similar vein, both Ruebottom (2013) and Waldron et al. (2016) identified a number of rhetorical strategies that social entrepreneurs can engage in order to successfully acquire resources. Allison et al. (2013) have further suggested that by carefully managing entrepreneurial narratives, social entrepreneurs can more quickly receive funding.

Despite the insights generated by these prior studies, two important omissions have limited our understanding of resource acquisition processes. First, while resource acquisition necessarily involves two parties—acquirers and providers—existing research has primarily taken the resource acquirers' (in this case social ventures) perspective and neglected the role of different resource providers in the resource acquisition process (Shepherd, 2015; Zhao et al., 2016a, 2016b). Recent studies have started to examine how different types of resource providers may have different values and expectations, and thus favor investment targets that are most likely to help them achieve their missions. For example, Pahnke et al. (2015) argued that three types of funders—venture capitalists, corporate venture capitalists, and government agencies—are guided by distinct institutional logics and thus have very different priorities in selecting investment targets. Because of these differences, they also significantly influence subsequent innovation trajectory of their supported ventures. Similarly, Fisher et al. (2015) suggested that technology ventures need to adapt to meet the expectations of different resource providers at the various stages of their lifecycles. While both studies focused on technology ventures, their arguments can be naturally extended to social ventures. Given that social ventures attend to double bottom lines and constantly wrestle between financial and social outcomes, their appeal to funders may vary substantially depending on how funders prioritize financial versus social returns (Cobb et al., 2016).

Another omission in the extant literature on resource acquisition by social ventures is its lack of an analytical approach that is large-scale and comparative (Jennings et al., 2013). Past studies have focused primarily on individual entrepreneurs working in a single country setting (Dacin et al., 2010), and in various cases portrayed those individuals as heroic figures “changing the world” (Bornstein, 2007). While this approach allows deep-dives into the particular social problem under study, overreliance on iconic individual stories may limit the insights one can draw across contexts. It also falls short of capturing the distinctive institutional complexity across nations that result in heterogeneous forms of organizing and social agency among social ventures (Greenwood et al., 2011; Saka-Helmhout et al., 2014). Therefore, bringing in a cross-national, comparative approach to social entrepreneurship research is valuable for understanding the various institutional conditions under which social ventures emerge, operate, and perform. To this end, we believe that it is particularly fruitful to engage recent developments associated with the institutional logics perspective (Thornton et al., 2012), which have importantly shifted attention away from the study of isomorphism and cultural homogeneity (DiMaggio and Powell, 1983), to embrace a much more multiplex understanding of societal-level differences rooted in various configurations of cultural beliefs and practices.

Developing an institutional logics approach to social entrepreneurship is particularly valuable for extending recent efforts in theorizing the complex institutional context of social entrepreneurship. This is consistent with the overall trend of entrepreneurship research which has started to pay more attention to the role of different types of institutions. For instance, Bruton et al. (2009) examined how differences in distinct institutional clusters of countries impact on the entrepreneurial activity of venture capital and found different institutional settings result in significant differences in industry practices across regions. Estrin et al. (2013) explored how national level institutions such as property rights and levels of corruption affect individual entrepreneurs' growth aspirations. Still, the conceptualization of institutions in these studies is based on the classic three-pillars approach—cognitive, normative, and regulative—and has insufficiently engaged more contemporary approaches to institutions where society is constituted by multiple distinct yet related institutional orders of the state, family, community, market, religion, corporation, and profession (Bruton et al., 2010; Jennings et al., 2013; Thornton et al., 2012).

Research on the role of institutions in social venture resource acquisition is even more nascent. Some of the most notable studies in this area have primarily focused on the institutional order of the state. For instance, Ault and Spicer (2014) examined how state fragility shapes the commercial funding of MFOs. According to Ault and Spicer (2014: 1822), in a fragile state “the inability of the government to maintain a monopoly over the use of violence leads to high levels of conflict and instability in political and economic life, and the lack of basic bureaucratic capacities to effectively implement rules, regulations, or programs leads to a fundamental disregard for the rule of law and a lack of public services.” The implication is that state fragility shapes institutional hazards which in turn significantly influence cross-national variation in MFOs' ability to grow its client base, control costs, and attract commercial capital. Consistent with these arguments, they found that the strength of a state plays a powerful role in the success of business-led efforts to combat global poverty. Cobb et al. (2016) also focused on the role of state and showed that the political and financial uncertainty of a nation significantly shapes the funding practices of different types of capital providers.

Compared with the institutional order of the state, other institutional orders such as religion might be equally influential in social venture resource acquisition. Indeed, a lot of social ventures are faith-based and established on the basis of certain religious beliefs and values. For example, Islamic microfinance combines the logics of religion, market and social welfare, and operate on principles derived from the Quran and Sunna (Tracey, 2012). In addition, religion has been found to have material consequences in terms of asset accumulation, wealth ownership, and inequality (Keister, 2008). This is because different religious affiliation and



beliefs may lead to heterogeneous sets of opportunities and obstacles that variably influence education attainment, fertility, and female labor force participation, all of which contribute to the reduction or perpetuation of poverty (Keister and Sherkat, 2014). As such, social ventures that aim to address poverty will need to attend to the various logics of religion. This is especially true given that religion and the market are intertwined, and “it is impossible to understand the religious dimension of social life as separate from the economic” (Tracey, 2012: 90). These kinds of cultural entanglements are central to theory and empirical research associated with the institutional logics perspective (Thornton et al., 2012).

Despite the profound role that religion continues to play in contemporary economy and society, studies at the intersection of religion and organizations are surprisingly rare (Tracey et al., 2014). In a recent review, Tracey (2012) found that there is only a limited number of studies on religion in the broad management literature. None of these studies have considered competing institutional demands with respect to the logic of religion. Therefore, the logic of religion barely figured in the growing interest in institutional complexity—the existence of multiple competing logics—among institutional theorists (but see Greenwood et al., 2010). In addition, there are only three studies related to entrepreneurship according to Tracey's review, and none of them were published in the flagship entrepreneurship journal *Journal of Business Venturing*. We view this as an important knowledge gap and aim to account for the logic of religion in studying social ventures' resource acquisition. We pay particular attention to the heterogeneous configurations of market and religious logics across nation-states and examine their independent and joint effects on funding decisions of different types of resource providers.

This more complex conceptualization of national differences goes beyond more limited and abstract approaches to cultural types (e.g., Hofstede, 2001) to examine how institutional configurations of varied logics differentially influence organizational behavior across national settings (e.g., Chung and Luo, 2008; Luo et al., 2009; Luo, 2007). Rather than putting an exclusive emphasis on nation-state culture, each of these institutional orders is conceptualized to generate a set of beliefs and material practices that concretely take shape in different yet related ways across countries (Zhao and Wry, 2016). Thus, for example, the salience of market logic may differ from the U.S. to Greece to Zimbabwe, and its impact will also be affected by the salience and nature of other institutional logics, such as religion, which also differs across countries. The institutional logics perspective thus characterizes nation-states as constituted by configurations of heterogeneous logics that cooperate and conflict, which significantly departs from previous comparative institutional approaches such as varieties of capitalism (Hall and Soskice, 2001) that tends to emphasize the complementarity and coherence across economic and political institutions but downplay heterogeneity within nations and background the importance of cultural forces (Witt and Jackson, 2016).

#### 4. Empirical setting: Microfinance capital acquisition

In the past decades, microfinance has gained increasing attention as an innovative financial tool that promises to solve the chronic problem of poverty that still persists in the developing world (Yunus, 1999). Early MFOs lend to the poor without requiring collateral while securing repayment and reducing default through group lending mechanisms and special repayment schemes (Armendariz and Morduch, 2010). Microfinance is thus vital for providing capital access to the poor who are typically neglected by traditional lenders such as commercial banks (Ledgerwood et al., 2013; Moss et al., 2015). Perhaps more importantly, MFOs pioneered the model of poverty alleviation based on private ownership and exemplified the power of entrepreneurship and market-oriented commercial models at the bottom of the pyramid (Bruton et al., 2015; Prahalad, 2010; Yunus, 2007). While recent studies based on randomized trials have shown that microfinance is not a magic bullet in addressing poverty (e.g., Angelucci et al., 2012; Banerjee et al., 2015), some evidence suggests that neoliberal notions of self-help, individualism, and entrepreneurship for the poor are attainable, and microfinance can be helpful in enabling the poor to launch their own businesses, manage cash flows and consumption, and invest in the future (Armendariz and Morduch, 2010).

In spite of the potential benefits MFOs bring to the poor, they face significant difficulties in their operations, and the fulfillment of their social missions through commercial means is challenging (Ault, 2016). In fact, most MFOs are operating at a small scale and face strong pressures to scale up in order to increase social outreach. The World Bank recently reported that only in eight countries do microfinance borrowers account for >2% of the population (World Bank, 2009). Moreover, the same report revealed that among a sample of 124 major MFOs in 49 countries, less than half were profitable and self-sustainable. One key barrier to MFO growth and financial sustainability is access to resources, particularly capital resources (Bruton et al., 2015). Since MFOs only just started to offer deposits and other related financial services, they have difficulty in amassing a meaningful capital base through internal sources (Morduch, 2000). Instead, MFOs depend heavily on external funders for the capital required to

**Table 1**  
Different types of microfinance capital providers.

Funder type	Sub-types	# of Lenders <sup>a</sup>	(%) of all loans	Avg loan size (\$US)	Primary funding priorities and objectives
Public	Government Programs and Aid Agencies Development Finance Institutions	244	25.20%	\$ 1,085,163	Establish infrastructure, build capacity, nurture emerging MFOs
Commercial	Financial Institutions Private Corporations Microfinance Investment Funds	990	71.40%	\$ 1,212,751	Generate financial returns while at the same time being socially conscious
Charitable	Foundations Non-Governmental Organizations Individual/Peer-to-Peer Lenders	219	3.40%	\$ 401,283	Provide donations and subsidies to MFOs mainly as charitable support

<sup>a</sup> 37 of the funders in our data are unknown types.

make loans and grow operations (Luminis, 2012). Among various types of external funding, debt financing is the most prominent, outpacing other funding forms such as grants and equity (Cobb et al., 2016; Lahaye et al., 2012).

Traditionally, MFOs, especially in their early stages of development, rely on public debt (e.g., lending from sources like local government or multi- or bi-lateral development agencies) to cover start-up costs, establish infrastructure, and build capacity (Ledgerwood et al., 2013). Over time, as MFOs mature, they often seek more capital to finance their portfolio growth, expanded outreach, development of new products and channels, as well as entry into new markets and regions (Ledgerwood et al., 2013). As a result, many MFOs try to acquire commercially-oriented capital funding from financial institutions, private corporations, and microfinance investment funds (Luminis, 2013). Commercial and public funders constitute the two primary types of capital sources for MFOs, jointly accounting for about 97% of all loans borrowed by MFOs (based on our data). The remaining 3% of MFOs' debt funding comes from charitable sources such as foundations, non-governmental organizations, and individual or peer-to-peer lenders. Table 1 summarizes the three types of capital providers in microfinance. In this paper, we focus on commercial and public capital acquired by MFOs since they are the predominant capital sources in microfinance (Cobb et al., 2016).

Commercial and public funders tend to have different motives and expectations in funding MFOs (Cobb et al., 2016). Public funders typically have a philanthropic or developmental orientation (Luminis, 2012). They are publicly accountable for the use of their funds and consider microfinance as a tool to achieve social goals, such as poverty alleviation, financial inclusion, women's empowerment, children's health, and broader economic and societal development (CGAP, 2011). As one public funder stated in its mission statement, its goal is to have "a focused approach to the development of the micro enterprise sector by providing the critical inputs necessary for growth and sustainability." To this end, public funders offer subsidized loans to MFOs, often with attractive terms.

Compared with public funders, commercial funders care more about financial returns and private interests drive funding decisions although some of them may also simultaneously attend to social outcomes. Commercial funders thus consider microfinance more as an opportunity to diversify their investment portfolio and earn profits (CGAP, 2011). The radically different orientations between public versus commercially-oriented funders create challenges for MFOs who have difficulty managing the competing goals of different funders, and successfully shifting the nature of their operations to please commercial capital providers. We argue that these significant challenges can be magnified or mitigated by the prevalence and configuration of market and religious logics in a country.

## 5. Hypothesis development

### 5.1. The market logic and MFO capital acquisition

Research on institutional logics has documented the rise and effects of the market logic across many industries and fields, including healthcare (Scott et al., 2000), higher education publishing (Thornton and Ocasio, 1999), finance (Lounsbury, 2007), and the arts (Glynn and Lounsbury, 2005). The prevalence of the market logic is a worldwide phenomenon, linked to the rise of neo-liberal thought, privatization of industry and capital markets, and the general restructuring of socio-economic life (Thornton et al., 2012). Thus, the market logic can be understood as an institution comprising a core set of ideas, practices, and policy prescriptions that protect the liberty of individuals to pursue their economic interests and embrace free-market solutions to economic and social problems (Campbell and Pedersen, 2001). The market logic is believed to contribute to economic and social prosperity with minimal government coercion and constraint, free movement of labor and goods, and absolute right of property ownership (Albert, 1993; Campbell and Pedersen, 2001; Przeworski, 1995).

The existence of a fully elaborated market logic is particularly important in microfinance because it encourages both domestic and international capital flows, potentially alleviating capital constraints faced by MFOs (Ledgerwood et al., 2013). It is especially important for the development of a more privatized, commercially-oriented social enterprise sector that helps to at least partially shift the burden of development away from the state—one of the promises of the social enterprise movement (Dees, 2008). Reflecting this, arguments about how to best foster the development of MFOs in a country have focused primarily on the implementation of neoliberal economic policies (Ledgerwood, 1999).

Countries with a stronger market logic impose fewer constraints on the flow of capital investment. Funders have more freedom in moving their resources into and out of specific activities, both internally and across a country's borders. In addition, a stronger market logic may also help reduce transaction costs, facilitate business formation and trade, and promote entrepreneurship (Busenitz et al., 2000; Kelley et al., 2012; Rastin, 2003). With individual property rights protected and the rule of law strengthened, private enterprises and entrepreneurial initiatives can flourish as key paths to individual success, innovation, and wealth creation (Harvey, 2005), which in turn help attract investors.

Furthermore, more lenient labor regulations, less corruption, strong infrastructure, and a stable polity, are often associated with a stronger market logic, and can also provide a favorable investment environment and ensure the rights of funders. That is, a strong market logic often goes hand-in-hand with stable, well developed polities and public sectors (Ault and Spicer, 2014), meaning that capital formation in the private sphere usually dovetails with public forms of redistribution (Stiglitz, 1993; Streeck and Schmitter, 1985). Accordingly, we expect that a stronger market logic will encourage inflows of capital of both public and commercial nature into a country's microfinance organizations.

**Hypothesis 1a.** The strength of the market logic in a country will be positively associated with the amount of commercial capital acquired by MFOs in that country.

**Hypothesis 1b.** The strength of the market logic in a country will be positively associated with the amount of public capital acquired by MFOs in that country.

Yet, the differences between commercial and public funders in terms of return expectations, mandates, and the importance of social vis-à-vis financial outcomes may influence the degree to which they are attracted to countries with differentially strong, and well developed, market logics. In general, commercial funders appreciate microfinance more as an investment opportunity than a developmental tool. Even if commercial funders have a strong social orientation, they may still be more likely to put money into MFOs operating in countries with a stronger market logic. In such countries, financial returns are less uncertain or risky (Ault and Spicer, 2014; Cobb et al., 2016). Due to a more stable and healthy business environment, MFOs in these countries are also likely to operate more efficiently, making profitability a more achievable goal. Conversely, public funders may have a different mandate and focus on achieving developmental goals despite the potential costs and risks they may bear in countries with less favorable market conditions. Given these differences, we predict:

**Hypothesis 2.** The strength of the market logic in a country will be more positively associated with the amount of commercial capital than the amount of public capital acquired by MFOs.

### 5.2. Religious logics and MFO capital acquisition

From an institutional logics perspective, the market logic is more appropriately analyzed in the context of other key institutional logics in a country. That is, the effects of the market logic can be enhanced or attenuated based on how they are configured with other institutional logics (Lee and Lounsbury, 2015). In situations where there are multiple, competing or incompatible logics, institutional complexity is created for organizations, leading to more ambiguity and uncertainty with respect to assessing costs and benefits (Greenwood et al., 2011).

Indeed, certain institutions such as religion (Tracey, 2012; Tracey et al., 2014) might erect significant barriers to the pursuit of MFO social goals with commercial means, implying an institutional complexity due to the coexistence of market and religious logics. In addition, many challenging social problems like poverty have their roots in deeply ingrained religious differences that unfairly marginalize people based on group membership and hinder cross-group communications and interactions (Reskin and McBrier, 2000; Ridgeway, 2011; Thornton et al., 2012; Yenkey, 2015). Thus, two different types of institutional complexity might arise related to religion—one due to religious diversity and the other because of the coexistence of market and religious logics—both of which can pose serious challenges to MFO operations and increase their cost of serving the poor, making it more difficult for MFOs to achieve their financial and social goals. This will in turn shape funders' investment decisions in microfinance. In this section, we discuss how religious diversity affects MFO funding. In the next section, we turn to the joint influence of market and religious logics.

Past studies have suggested that religious diversity—the existence of multiple religious logics (e.g., Islam, Catholicism, Judaism)—may play an important role shaping investors' funding decisions. Robust evidence exists demonstrating that religious diversity has a significant influence on inter-group dynamics. It has been shown to lead to discrimination and domination of minority groups, inter-group antagonism, reduced inter-group communication and trust, and lack of public good provision and wealth distribution (Alesina et al., 1999; Alesina et al., 2001; Baldwin and Huber, 2010; Fearon, 2003; Fearon and Laitin, 2003; Lind, 2007). This is because in countries with higher religious diversity, there are more differentiated preferences and tastes across groups (Alesina et al., 1999), strong antagonism to mixing with members of other groups (Alesina and Ferrara, 2000), and as a result lack of social capital and more social conflict (Knack and Keefer, 1997; Rodrik, 1999). Different culture, beliefs, and social networks put up barriers for people from different religious groups to read each other's intentions and assess each other's trustworthiness (Baldwin and Huber, 2010). Resonating with these arguments, a recent study found that within-country diversity of religion is an important source of behavioral uncertainty and information asymmetry in a foreign firm's evaluation of an acquisition target in that country (Dow et al., 2016; but see Gomez-Mejia and Palich, 1997).

Therefore, religious diversity makes it difficult for inter-group communication and collaboration, which is particularly germane to the microfinance context. Successful microfinance lending transactions require mutual understanding and collaboration between loan officers and end borrowers. Loan officers and poor clients generally come from different social groups. This is especially true in countries where there is high religious diversity. In such contexts, members from marginalized religious groups face more social biases, discrimination, and stronger barriers to upward mobility (Fearon and Laitin, 2003), excluding them from professional training and education required to gain skills as loan officers. As a result, MFOs typically recruit college graduates from dominant groups to work at the field level as loan officers (Karim, 2011), and the success of lending transactions between MFOs and borrowers depends to a large extent on the collaboration between urban, educated loan officers and the rural minority poor. However, transactional friction is more likely between the two parties with different social background, status and religious affiliations. This could be caused by either active discrimination (Hossein, 2014) or subconscious biases (Fong and Luttmmer, 2011) of loan officers against poor borrowers from a different religious group. No matter whether the discrimination is overt or subtle, the greater perceived uncertainty and reduced trust associated with it may lengthen the loan approval process and require more time and effort invested in communicating lending and repayment terms (Rugh and Massey, 2010). It may also make the dispute resolution more challenging when conflicts emerge between loan officers and clients because of the lack of understanding and trust between the two parties.

Overall, in countries with multiple religious logics that generate high religious diversity, we expect that MFOs face more difficult operating challenges including barriers to fulfill their financial and social missions; this will deter funders from entering the market and investing in microfinance. Indeed, past studies have suggested that lower levels of trust between clients and loan officers from different religious backgrounds contribute to higher operating costs, lower repayment rates, and more defaults (van Bastelaer, 2000). While religious diversity tends to decrease the amount of capital acquired by MFOs from both commercial and public sources, we also expect public funders, given their mandate and objective of being developmental, to be more resilient in funding MFOs despite the operating challenges and lower financial returns in highly religiously diverse countries. Accordingly, we predict:

**Hypothesis 3a.** The religious diversity of a country is negatively associated with the amount of commercial capital acquired by MFOs in that country.

**Hypothesis 3b.** The religious diversity of a country is negatively associated with the amount of public capital acquired by MFOs in that country.

**Hypothesis 4.** The religious diversity has a less negative impact on the amount of public capital than the amount of commercial capital acquired by MFOs.

### 5.3. The joint influence of market and religious logics

Beyond the independent, negative effect of religious diversity on MFO capital acquisition, we also expect that religious diversity may mitigate the positive influence of the market logic on capital inflows into microfinance. The effect of the market logic has been theorized to operate through two mechanisms—capital supply and efficient capital allocation—which are thought to work in tandem to enable resource flows (Babb, 2005; Campbell, 2004; Cohen and Centeno, 2006). While a stronger market logic in general facilitates capital supply into a nation, the efficient allocation of capital may tend to push capital flow into the most financially worthy organizations in that nation. When religious diversity creates barriers to MFO operations, and challenges their financial and social performance prospects, capital investments (particularly from commercial funders) may be diverted away from the microfinance sector. Therefore, we expect:

**Hypothesis 5.** Religious diversity will mitigate the positive impact of the market logic on the amount of capital acquired by MFOs, particularly from commercial sources.

## 6. Data and methods

Our primary data source is the Microfinance Information Exchange (MIX). The MIX is a non-profit organization that acts as a business information provider in the microfinance sector, with the goal of promoting financial transparency in the industry, building information infrastructure in developing countries, and offering those involved in microfinance (practitioners, funders, policy makers, academia) a way to gain a better understanding of MFO operations, challenges, and performance trends. Its data have been considered objective and comparable across nations, and widely used in past scholarly work on microfinance (e.g., Armendariz and Morduch, 2010; Ault and Spicer, 2014; Cull et al., 2009). As part of its data collection effort, the MIX began to systematically track MFO funding data starting from 2004 (Cobb et al., 2016). For each lending transaction, the MIX records the funder's name, type, country of origin, and amount of capital lent to a MFO in U.S. dollars. Since the majority of funders are either commercial or public types, we focused on these two primary categories of funders in our analysis.

Our dataset for the analysis of this paper consists of 891 MFOs, 244 public funders, and 990 commercial funders. Public funders in total account for around 25% of the loans provided to MFOs, with an average loan size of \$1,085,163. Commercial funders account for 72% of the loans, with an average loan size of \$1,212,751. The remaining, insignificant 3% of the loans come from charitable funders, which is not the primary focus in this paper.

Compared with other sources that also collect data on microfinance funding, our data has several advantages. First, data constraint is a general problem in microfinance research and has plagued previous empirical studies on MFO capital acquisition, explaining why there has been little systematic analysis of microfinance funding in the literature. For example, some organizations like the Consultative Group to Assist the Poor (CGAP) collects funding data, but does not publicly disclose raw figures. We were able to overcome this data constraint by working directly with the MIX and negotiating access to the raw MFO funding data it collected.<sup>1</sup> Second, our data has a more extensive coverage of geographic scope and time span compared with past studies. For instance, the few extant studies that examined how nation-state institutions impact microfinance funding have either taken a cross-section design and focused on a one-year snapshot of capital flows (e.g., Ault and Spicer, 2014) or used data from rating agencies (e.g., MicroRate) that covers only a limited number of Latin American MFOs (e.g., Garmaise and Natividad, 2010,

<sup>1</sup> Our investigation of the data and consultation with the MIX executives suggest that there is unlikely any reporting pattern that would systematically bias our predictions around the effects of the market logic and religious diversity.



2013; Tchuigoua, 2014). In comparison, our data includes MFOs and funders from nine regions,<sup>2</sup> over a period of nine years (2004–2012).

### 6.1. Dependent variables

Based on our theoretical predictions, we constructed two outcome variables—*commercial* and *public capital*—that respectively capture the amount of capital (logged) acquired by a focal MFO from commercial and public funders in a specific year. For those MFOs that did not receive any loan from either a commercial or public funder, we set the value of both outcome variables to 1 prior to the log transformation.

### 6.2. Independent variables

We have two key independent variables: market logic and religious diversity. Following the literature, we capture a country's *market logic* by the strength of market-supporting institutions (Meyer et al., 2009). It is measured by an average of five items developed as part of the Heritage Foundation's Index of Economic Freedom (Meyer et al., 2009; Miller et al., 2012a): business freedom, trade freedom, property rights, investment freedom, and financial freedom. The variable constructed based on these five items focuses on measuring institutions that support market efficiency and is thus consistent with how the institutional logics perspective has conceptualized the market logic (Thornton et al., 2012). It has been suggested as a distinct construct from variables that capture the strength of a state, e.g., state fragility (Ault and Spicer, 2014, 2016). By excluding other components of the Index of Economic Freedom such as fiscal freedom and government size, it also avoids being confounded with other constructs like government activism, which has been suggested to reflect a government's ability to address social issues and provide public good (Stephan et al., 2016). Statistically, the market logic of a country ranges between 0 and 100, with a higher score reflecting a stronger and healthier business environment and a more favorable investment climate (Dobson and Hufbauer, 2001).

We capture a country's level of *religious diversity* using a variable created by Alesina et al. (2003) which has been used and tested extensively in the literature. Through a painstaking data gathering effort covering various cross-national data sources, Alesina and colleagues collected information covering 294 different religions across about 200 countries.<sup>3</sup> Using these data, they constructed a variable that captures the religious heterogeneity of a nation—or the prevalence of multiple, religious logics. Empirically, this religious diversity variable was computed as one minus the Herfindahl index of religious group shares, and reflected the probability that two randomly selected individuals of a nation belonged to two different religious groups.

While there have been criticisms of such diversity variables because of the potential ambiguity in defining different groups across countries (Fearon, 2003) and their lack of nuance in capturing substantive differences across groups (Baldwin and Huber, 2010), the measure used in this paper has been shown to be extremely robust. Different versions of the religious diversity variable calculated based on different data sources are highly correlated (Baldwin and Huber, 2010; Lind, 2007). They have also been shown to be exogenous to other political, economic, and social forces (Fearon, 2003), very stable over time (Casey and Owen, 2014), and durable under politico-economic changes (Kaufmann, 2015). Notably, the religious diversity construct has been widely used in different literatures and published in leading economics, sociology, and political science journals.

### 6.3. Control variables

We included a number of control variables in our models estimating the amount of commercial and public funding. At the national level, *GDP* per capita (logged) represents the overall wealth of a nation and may influence capital investment in its microfinance sector. In addition, other forms of aid received by a country may affect the level of capital investment in microfinance, so we controlled for net official development assistance (*Net ODA*) as a percentage of gross national income (Lacalle and Alfonso, 2011).

We also controlled for the potential influence of ethnic and linguistic diversity of a nation (Alesina et al., 2003; Dow et al., 2016). As part of the same project in which they collected data on religious diversity, Alesina et al. (2003) also gathered data on ethnic and linguistic diversities, covering 650 distinct ethnic groups and 1055 major linguistic groups across 200 countries. Note that although efforts were made to distinguish between ethnic and linguistic diversities, the two are highly correlated (0.70) because language is often part of the criteria used by ethnologists and anthropologists to define the concept of ethnicity. In fact, past studies have typically lumped together the ethnic and linguistic diversities as part of one “ethnolinguistic” variable (e.g., the widely used ethnolinguistic fractionalization variable published by Atlas Narodov Mira). Given this, we used the *ethnic diversity* variable as a control in our analysis. The inclusion of this variable ensures a more conservative test of our arguments about religious logics.

<sup>2</sup> MFOs are from six regions—Africa, East Asia and the Pacific, Eastern Europe and Central Asia, Latin America the Caribbean, Middle East and North Africa, and South Asia. Funders are from these six regions as well as North America, Oceania, and Western Europe.

<sup>3</sup> Dow et al. (2016) used a different religious diversity variable which covers only 120 countries. Using this alternate measure would reduce the final sample size of our analysis by half and therefore is not appealing. However, the two religious diversity measures are correlated at about 0.60, adding to our confidence in the Alesina et al. (2003) variable. Based on the data we used, examples of countries with high religious diversity include Chad, Guyana, and Ghana, and examples of countries with low religious diversity include Jordan, Colombia, Egypt, and Peru.

To isolate the influences of market and religious logics and make sure we capture their distinct effects on MFO funding above and beyond the influence of the state logic, we controlled for the strength of a state. Following [Ault and Spicer \(2014\)](#), we operationalized *state strength* as an index that captures six individual dimensions of state capability—voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption—using [Kaufmann et al.'s \(2009\)](#) *World Governance Indicators* database.

At the industry level, we included two variables measuring the composition of a country's microfinance sector that might affect a focal MFO's capital acquisition. To control for sector size and growth, we included the *number of active MFOs* as well as the *number of new MFOs* founded per country-year. The two variables reflect how many MFOs are actively seeking funding and the vibrancy of a country's microfinance sector.

We also included a number of MFO-level controls. *MFO age* is calculated by counting the years since the founding of an MFO. *MFO size* is a factor score based on confirmatory factor analysis of three size indicators<sup>4</sup>: an MFO's number of employees, total assets, and number of offices ([MicroRate, 2013](#)). We also controlled for whether an MFO is a *non-profit* (coded as "1" for non-profit).

In addition, we measured an MFO's efficiency by *number of borrowers served per loan officer* (logged), to control for the possibility that more efficient MFOs attract more capital investment. Beyond efficiency, an MFO's transparency and sustainability might also be influential in its capital acquisition. We controlled for *MFO transparency* by a factor score based on a confirmatory factor analysis of two indicators: the MIX's diamond score which is a 5-point rating scale evaluating the transparency and quality of an MFO's financial reporting, and a regulated dummy indicating whether an MFO is regulated by a state banking supervisory agency ([MicroRate, 2013](#)). We controlled for *MFO sustainability* by a factor score based on a confirmatory factor analysis of an MFO's return on assets, operational self-sufficiency (the degree to which an MFO's operating revenue are sufficient to cover its operating cost), and write-off ratio ([MicroRate, 2013](#)). All independent and control variables are lagged by one year and updated annually. Finally, we also included year fixed effects to control for any unobserved macro-level environmental changes that might affect capital acquisition of MFOs.

#### 6.4. Estimation strategy

The unit of analysis of this study is the MFO, and the unit of observation is the MFO-year. The two dependent variables are the amount of commercial and public capital per MFO-year. To account for any contemporaneous correlation of errors in the equations estimating the two dependent variables, we fit seemingly unrelated regressions (SUR) using Stata's *sureg* command. SUR models provide the joint estimation from multiple regression models, each with their own error term. When these error terms are correlated, SUR models yield more efficient results than does the traditional ordinary least squares regressions ([Zellner and Huang, 1962](#)).

Given our theoretical interest in a cross-national comparative analysis, we use country-level random effects in our estimations. While fixed-effects estimators can capture unobserved country-level time-invariant heterogeneity, the fixed-effects approach is not appealing in our case. It uses only within-country differences, essentially discarding information about difference between countries which is vital given our theoretical interest in cross-national comparison. Furthermore, when variables of interest vary greatly across countries but are constant or slowly changing over time for each country (as in our case for the religious diversity variable), fixed-effects estimators are also less precise and produce large standard errors ([Beck, 2001](#); [Plumper and Troeger, 2007](#)).

## 7. Results

We present descriptive statistics and correlation matrix of key variables in [Table 2](#). We ran variance inflation factor (VIF) analysis to confirm there are no multicollinearity concerns in our analysis (mean VIF = 2.28; max VIF = 5.81). In [Table 3](#), we report the results of our SUR analyses of the amount of commercial and public capital acquired by MFOs. Model 1 included only control variables. A few findings are notable and worth mentioning. For instance, bigger, more transparent, and more sustainable MFOs tend to attract more commercial capital. Countries with higher GDP per capita, net ODA, and number of active MFOs seem to have more public capital flowing into MFOs. Non-profit MFOs on average seem to acquire less capital of both a commercial and public nature, compared with for-profit MFOs. Consistent with [Ault and Spicer \(2014\)](#), a strong state facilitates MFO acquisition of commercial capital, but has no impact on public capital.

In model 2, we add the market logic variable and find that the strength of a country's market logic has a positive impact on both commercial and public capital, consistent with [Hypotheses 1a and 1b](#). A Wald test suggests that the difference between the coefficients of the market logic in the commercial and public capital equations is statistically significant ( $\chi^2 = 13.97, p < 0.001$ ). Interestingly, the market logic seems to have a more positive impact on public capital than on commercial capital, rejecting [Hypothesis 2](#). While this is not what we expected, it is consistent with the view that a strong market logic goes hand-in-hand with a robust polity and public funding for supporting a country's social ventures ([Stiglitz, 1993](#); [Streeck and Schmitter, 1985](#)).

In model 3, we include the religious diversity variable. The results show that religious diversity significantly reduces the amount of commercial capital acquired by MFOs, but it does not affect the amount of public capital; this supports [Hypotheses](#)

<sup>4</sup> Confirmatory factor analyses of MFO size and another two controls we discuss below (transparency and sustainability) all show excellent goodness-of-fit.

**Table 2**

Descriptive statistics and correlation matrix of key variables.

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 GDP per capita	7.300	0.867	1.000														
2 Net ODA	3.229	4.946	−0.530	1.000													
3 Ethnic diversity	0.493	0.207	−0.140	0.210	1.000												
4 State strength	−2.976	2.083	0.430	−0.300	−0.140	1.000											
5 Number of active MFOs	38.904	34.234	−0.040	−0.390	−0.100	0.180	1.000										
6 Number of new MFO founded	1.505	2.844	−0.110	−0.170	−0.070	0.120	0.490	1.000									
7 MFO age	13.733	8.895	0.090	−0.150	−0.060	−0.010	0.010	−0.180	1.000								
8 MFO size	0.145	0.966	−0.120	−0.080	−0.130	0.000	0.220	0.100	0.160	1.000							
9 Nonprofit	0.518	0.500	0.140	0.030	0.060	0.000	−0.160	−0.130	0.140	−0.080	1.000						
10 Borrowers per loan officer	5.642	0.601	−0.080	−0.170	0.040	0.100	0.300	0.140	0.180	0.150	0.050	1.000					
11 Transparency	0.039	0.089	−0.130	−0.100	−0.120	−0.050	0.180	0.100	0.130	0.760	−0.300	0.130	1.000				
12 Sustainability	0.098	0.425	0.050	−0.100	−0.040	−0.030	0.000	0.030	0.080	0.020	0.000	0.120	0.410	1.000			
13 Market logic	50.838	8.430	0.490	−0.040	0.050	0.540	−0.270	−0.220	0.050	−0.170	−0.030	−0.130	−0.150	0.000	1.000		
14 Religious diversity	0.332	0.190	−0.100	0.200	0.120	0.100	−0.140	0.090	−0.170	−0.040	0.020	−0.120	−0.070	−0.060	0.030	1.000	
15 Market logic × religious diversity	0.245	7.781	−0.240	0.120	0.010	−0.040	−0.070	−0.080	0.020	0.040	−0.040	−0.010	0.060	−0.040	−0.130	0.210	1.000

Note: The interaction term is calculated based on mean-centered variables.

**Table 3**

Seemingly unrelated regressions estimating the amount of commercial and public capital acquired by MFOs.

	(1)		(2)		(3)		(4)	
	Commercial	Public	Commercial	Public	Commercial	Public	Commercial	Public
GDP per capita	−0.553*** (0.158)	2.346*** (0.269)	−0.004 (0.210)	1.090** (0.364)	−0.026 (0.209)	1.082** (0.364)	−0.041 (0.209)	1.048** (0.363)
Net ODA	−0.142*** (0.026)	0.259*** (0.045)	0.117** (0.045)	0.078 (0.077)	0.129** (0.045)	0.082 (0.078)	0.138** (0.045)	0.102 (0.078)
Ethnic diversity	0.901* (0.435)	−0.435 (0.744)	0.509 (0.427)	−0.360 (0.741)	0.610 (0.428)	−0.323 (0.744)	0.518 (0.430)	−0.529 (0.747)
State strength	0.485*** (0.058)	−0.054 (0.099)	0.123 + (0.068)	−0.427*** (0.118)	0.143* (0.068)	−0.419*** (0.119)	0.149* (0.068)	−0.406*** (0.119)
Number of active MFOs	−0.020*** (0.004)	0.040*** (0.006)	0.001 (0.004)	0.049*** (0.007)	−0.000 (0.004)	0.049*** (0.007)	−0.000 (0.004)	0.048*** (0.007)
Number of new MFO founded	0.073 + (0.039)	−0.029 (0.067)	0.143*** (0.039)	−0.014 (0.067)	0.164*** (0.039)	−0.007 (0.069)	0.152*** (0.040)	−0.033 (0.069)
MFO age	0.017 (0.011)	0.136*** (0.019)	0.019 + (0.011)	0.129*** (0.019)	0.017 (0.011)	0.128*** (0.019)	0.019 + (0.011)	0.132*** (0.019)
MFO size	0.616** (0.197)	0.669* (0.337)	0.654*** (0.195)	0.495 (0.338)	0.656*** (0.194)	0.496 (0.338)	0.639** (0.194)	0.459 (0.337)
Nonprofit	−1.272*** (0.206)	−1.819*** (0.353)	−1.052*** (0.208)	−1.174** (0.360)	−1.044*** (0.207)	−1.172** (0.360)	−1.060*** (0.207)	−1.208*** (0.360)
Borrowers per loan officer	−0.014 (0.167)	0.717* (0.285)	−0.044 (0.163)	0.838** (0.283)	−0.098 (0.164)	0.818** (0.285)	−0.104 (0.164)	0.806** (0.285)
Transparency	7.053** (2.346)	2.971 (4.011)	7.935*** (2.322)	5.469 (4.028)	8.202*** (2.320)	5.568 (4.031)	8.302*** (2.319)	5.793 (4.025)
Sustainability	1.281*** (0.344)	−0.049 (0.588)	1.239*** (0.336)	−0.251 (0.583)	1.192*** (0.336)	−0.268 (0.584)	1.179*** (0.336)	−0.299 (0.583)
Market logic			0.084*** (0.015)	0.194*** (0.027)	0.086*** (0.015)	0.195*** (0.027)	0.077*** (0.016)	0.174*** (0.028)
Religious diversity					−1.420** (0.504)	−0.528 (0.876)	−0.956* (0.553)	0.516 (0.960)
Market logic × religious diversity							−0.027* (0.013)	−0.061** (0.023)
N	2261	2261	2248	2248	2248	2248	2248	2248
Wald test (df)			29.90(1)***	53.17(1)***	7.94(1)**	0.36(1)	4.13(1)*	6.92(1)**

Two-tailed tests for controls, and one-tailed tests for directional variables.

Standard errors in parentheses. Significance levels: +0.10, \*0.05, \*\*0.01 and \*\*\*0.001

3a and 4 and rejects Hypothesis 3b. Therefore, public capital does seem to be more resilient to institutional complexity—the existence of multiple, competing logics (Greenwood et al., 2011)—than commercial capital in funding microfinance.

We further include the interaction term between market logic and religious diversity in model 4. We find that, consistent with Hypothesis 5, religious diversity significantly mitigates the positive impact of the market logic on the amount of both commercial and public capital acquired by MFOs. And the difference between the interaction coefficients of the two equations is not statistically significant ( $\chi^2 = 1.74, p > 0.10$ ). Thus, even if a country has a strong, well-developed market logic, the existence of multiple religious logics may deter the flow of commercial and public capital into MFOs. This has important policy implications for efforts to build more robust social venture sectors that we discuss below.

## 8. Robustness checks

While seemingly unrelated regressions produce more efficient results than OLS regressions, as a robustness check we also ran separate OLS regressions estimating commercial and public capital respectively. Unreported results based on OLS regressions are consistent with those reported in this paper.

We also explored whether there are some systematic differences across different forms of MFOs in terms of the influences of market logic and religious diversity on their acquisition of commercial and public capital. We followed conventional practices and categorized MFOs into *for-profit* and *non-profit* forms based on the MIX data. We then examined how the effects of market logic and religious diversity differ across the subsamples of for-profit and non-profit MFOs. Results of this supplementary analysis are presented in Table 4. We find in models 1 and 2 that stronger market logic facilitates capital acquisition from both commercial and public sources by both for-profit and non-profit MFOs. Results in models 3 and 4 suggest that religious diversity seems to decrease commercial capital acquired by for-profit MFOs, but increase (marginally) public capital acquired by non-profit MFOs. Finally, our results in models 5 and 6 suggest that in countries with a strong market logic and high religious diversity, commercial capital tends to flow primarily into for-profit MFOs, whereas public capital focuses more on funding non-profit MFOs than for-profit ones. Given this is what one might expect, it enhances our confidence in our data, analyses, and core findings.

While the MFOs in our data are local operations embedded in a single country, some of them might be part of a global organization that has branches in multiple countries. For example, the Foundation for International Community Assistance (FINCA



**Table 4**  
Comparing influences of market logic and religious diversity on capital acquisition by for-profit versus non-profit MFOs.

	(1) For-Profit		(2) Nonprofit		(3) For-profit		(4) Nonprofit		(5) For-profit		(6) Nonprofit	
	Commercial	Public	Commercial	Public	Commercial	Public	Commercial	Public	Commercial	Public	Commercial	Public
GDP per capita	−0.154 (0.243)	0.161 (0.526)	0.848* (0.356)	1.777*** (0.526)	−0.238 (0.244)	0.083 (0.529)	0.852* (0.357)	1.717** (0.527)	−0.090 (0.245)	−0.430 (0.528)	0.912* (0.355)	1.709** (0.528)
Net ODA	−0.011 (0.055)	−0.135 (0.119)	0.279*** (0.070)	0.228* (0.104)	−0.008 (0.055)	−0.132 (0.119)	0.282*** (0.073)	0.190+ (0.107)	−0.024 (0.055)	−0.074 (0.118)	0.309*** (0.072)	0.186+ (0.108)
Ethnic diversity	0.051 (0.465)	−2.422* (1.006)	1.015 (0.757)	2.960** (1.118)	0.497 (0.485)	−2.008+ (1.053)	0.994 (0.769)	3.241** (1.135)	0.859+ (0.492)	−3.269** (1.057)	0.956 (0.764)	3.247** (1.135)
State strength	−0.003 (0.099)	−0.022 (0.215)	−0.054 (0.099)	−0.728*** (0.146)	0.052 (0.100)	0.029 (0.218)	−0.054 (0.099)	−0.726*** (0.146)	0.003 (0.101)	0.200 (0.216)	−0.032 (0.099)	−0.729*** (0.146)
Number of active MFOs	0.008+ (0.005)	0.038*** (0.008)	−0.022** (0.008)	0.038** (0.012)	0.007 (0.005)	0.036*** (0.010)	−0.022** (0.008)	0.038** (0.012)	0.009+ (0.005)	0.028** (0.010)	−0.019* (0.008)	0.038** (0.012)
Number of new MFO founded	0.003 (0.037)	−0.074 (0.080)	0.415*** (0.089)	0.168 (0.132)	0.028 (0.038)	−0.051 (0.082)	0.417*** (0.091)	0.134 (0.134)	0.052 (0.038)	−0.137+ (0.082)	0.360*** (0.091)	0.142 (0.136)
MFO age	0.000 (0.014)	0.080** (0.030)	0.015 (0.017)	0.124*** (0.025)	0.004 (0.014)	0.083** (0.030)	0.014 (0.017)	0.130** (0.025)	0.005 (0.014)	0.080** (0.030)	0.020 (0.017)	0.129*** (0.026)
MFO size	−0.523* (0.238)	−0.534 (0.516)	3.028*** (0.387)	2.921*** (0.572)	−0.397+ (0.241)	−0.417 (0.523)	3.025*** (0.388)	2.962*** (0.572)	−0.302 (0.241)	−0.747 (0.517)	2.973*** (0.385)	2.969*** (0.573)
Borrowers per loan officer	0.029 (0.185)	0.757+ (0.400)	−0.317 (0.276)	0.877* (0.408)	−0.013 (0.185)	0.718+ (0.401)	−0.323 (0.278)	0.946* (0.410)	−0.000 (0.183)	0.673+ (0.394)	−0.321 (0.276)	0.945* (0.410)
Transparency	18.636*** (3.248)	14.360* (7.029)	3.457 (3.360)	3.941 (4.963)	17.127*** (3.271)	12.957+ (7.103)	3.513 (3.380)	3.191 (4.989)	15.777*** (3.271)	17.651* (7.031)	4.010 (3.358)	3.117 (4.992)
Sustainability	−0.110 (0.397)	−2.100* (0.859)	1.802*** (0.538)	1.498+ (0.794)	0.007 (0.397)	−1.990* (0.862)	1.790*** (0.543)	1.658* (0.802)	0.059 (0.395)	−2.170* (0.849)	1.699** (0.540)	1.671* (0.802)
Market logic	0.059** (0.020)	0.260*** (0.042)	0.104*** (0.023)	0.126*** (0.034)	0.065*** (0.020)	0.265*** (0.042)	0.104*** (0.023)	0.125*** (0.034)	0.082*** (0.020)	0.204*** (0.043)	0.069** (0.024)	0.130*** (0.036)
Religious diversity					−1.838*** (0.594)	−1.709+ (1.291)	−0.135 (0.875)	1.794+ (1.291)	−3.055*** (0.674)	2.527* (1.449)	1.261+ (0.934)	1.589 (1.389)
Market logic × religious diversity									0.063*** (0.017)	−0.221*** (0.036)	−0.080*** (0.020)	0.012 (0.029)
N	1119	1119	1129	1129	1119	1119	1129	1129	1119	1119	1129	1129
Wald test (df)					9.56(1)**	1.75(1)	0.02(1)	1.93(1)	14.06(1)***	36.81(1)***	16.41(1)***	0.16(1)

Two-tailed tests for controls, and one-tailed tests for directional variables Standard errors in parentheses. Significance levels: +0.10, \*0.05, \*\*0.01 and \*\*\*0.001.

International) is an organization that has MFO affiliates in 23 host countries in various regions. We created a dummy variable *MNE* (multinational enterprise) to control for the potential impact such global operation may have on a subsidiary MFO's acquisition of capital.

At the industry level, in addition to the number of new MFOs founded and number of active MFOs per country-year, we also included a measure of microfinance *industry concentration* of each nation. We calculated this variable as a Herfindahl index based on each MFO's share of assets. This variable captures the degree of consolidation of the microfinance sector, which may affect capital flows to the focal MFO (Cobb et al., 2016).

At the country level, past research has suggested that cross-country differences may affect microfinance funding flows (Cobb et al., 2016; Dow et al., 2016). To account for this, we controlled for three types of lender-MFO country distance: economic (differences in economic development and macroeconomic characteristics), financial (differences in financial sector development), and political (differences in political stability, democracy, and trade-bloc membership). Following previous research (Berry et al., 2010; Cobb et al., 2016), we first calculated the average of each distance between the MFO country and all its lender countries, which generated an average score for country distance for each of the three dimensions. Given that the three distance variables are highly correlated ( $p = 0.52$ – $0.74$ ), we then took an overall average across all three and denoted it as *country distance*. Our findings hold after we include the three additional control variables—country distance, industry concentration, and MNE—in our models. We present these results in Table 5.

## 9. Discussion

Social ventures have emerged as an important tool for combatting some of the world's most chronic and wicked problems. However, resource constraints represent one key barrier to the success and sustainability of social ventures. In this paper, we focused on the microfinance industry and examined how two prominent institutional logics—market and religion—fundamentally shaped the patterns of commercial and public capital flows into microfinance organizations across developing nations.

**Table 5**  
Models further controlling for country distance, industry concentration, and MNE status.

	(1)	(2)	(3)	(4)				
GDP per capita	−0.577*** (0.164)	2.514*** (0.285)	−0.311 (0.215)	1.187** (0.374)	−0.423 + (0.216)	1.144** (0.377)	−0.443* (0.216)	1.088** (0.377)
Net ODA	−0.109*** (0.027)	0.323*** (0.047)	0.077 + (0.046)	0.150 + (0.081)	0.094* (0.046)	0.157 + (0.081)	0.096* (0.046)	0.161* (0.081)
Ethnic diversity	1.959*** (0.474)	−2.032* (0.822)	1.615*** (0.472)	−1.703* (0.820)	1.776*** (0.472)	−1.642* (0.823)	1.670*** (0.475)	−1.932* (0.828)
State strength	0.576*** (0.063)	−0.278* (0.109)	0.256*** (0.074)	−0.699*** (0.128)	0.294*** (0.074)	−0.684*** (0.129)	0.298*** (0.074)	−0.673*** (0.129)
Country distance	0.026*** (0.004)	0.005 (0.006)	0.018*** (0.004)	−0.001 (0.007)	0.022*** (0.004)	0.001 (0.007)	0.023*** (0.004)	0.006 (0.007)
Number of active MFOs	−0.005 (0.005)	0.047*** (0.008)	0.011* (0.005)	0.056*** (0.009)	0.010* (0.005)	0.056*** (0.009)	0.010* (0.005)	0.055*** (0.009)
Number of new MFO founded	0.071 + (0.039)	−0.022 (0.068)	0.120** (0.039)	0.008 (0.068)	0.150*** (0.040)	0.019 (0.069)	0.139*** (0.040)	−0.010 (0.070)
Industry concentration	−2.465*** (0.602)	−2.499* (1.045)	−2.472*** (0.594)	−2.151* (1.033)	−2.490*** (0.592)	−2.158* (1.032)	−2.502*** (0.591)	−2.192* (1.031)
MFO age	0.040*** (0.011)	0.120*** (0.020)	0.038*** (0.011)	0.110*** (0.020)	0.038*** (0.011)	0.111*** (0.020)	0.040*** (0.011)	0.116*** (0.020)
MFO size	0.664*** (0.196)	0.241 (0.340)	0.676*** (0.195)	0.100 (0.339)	0.695*** (0.194)	0.107 (0.339)	0.663*** (0.195)	0.021 (0.340)
Nonprofit	−1.154*** (0.215)	−1.458*** (0.373)	−0.991*** (0.218)	−0.784* (0.378)	−1.022*** (0.217)	−0.796* (0.379)	−1.012*** (0.217)	−0.769* (0.378)
Borrowers per loan officer	0.194 (0.177)	1.084*** (0.307)	0.101 (0.176)	1.172*** (0.305)	0.014 (0.176)	1.139*** (0.307)	0.008 (0.176)	1.123*** (0.307)
Transparency	5.686* (2.378)	8.100* (4.128)	6.210** (2.376)	10.106* (4.128)	6.273** (2.365)	10.130* (4.127)	6.635** (2.372)	11.123** (4.135)
Sustainability	0.647 + (0.362)	−1.235* (0.628)	0.740* (0.358)	−1.500* (0.623)	0.690 + (0.357)	−1.519* (0.623)	0.652 + (0.358)	−1.624** (0.623)
MNE	−2.496*** (0.467)	−4.044*** (0.811)	−1.986*** (0.470)	−4.362*** (0.816)	−1.919*** (0.468)	−4.336*** (0.816)	−1.942*** (0.468)	−4.400*** (0.815)
Market logic			0.084*** (0.016)	0.216*** (0.027)	0.087*** (0.016)	0.217*** (0.027)	0.075*** (0.017)	0.187*** (0.029)
Religious diversity					−2.315*** (0.553)	−0.891 (0.965)	−1.875*** (0.606)	0.317 (1.057)
Market logic × religious diversity							−0.025* (0.014)	−0.069** (0.025)
N	2028	2028	2018	2018	2018	2018	2018	2018
Wald test (df)			28.45(1)***	62.07(1)***	17.55(1)***	0.85(1)	3.11(1)*	7.70(1)**

Two-tailed tests for controls, and one-tailed tests for directional variables.

Standard errors in parentheses. Significance levels: +0.10, \*0.05, \*\*0.01 and \*\*\*0.001.

By leveraging the most comprehensive and systematic microfinance funding database compiled to date, we are among the first to analyze the cross-national funding patterns of microfinance organizations (also see Cobb et al., 2016). Our results suggest that while a strong market logic encourages both commercial and public investment in microfinance, religious diversity deters commercial funding flows into MFOs. When a strong market logic and religious diversity coexist, the flow of both commercial and public capital is stunted. These findings have important implications for microfinance research and practices, the social entrepreneurship literature, and the institutional logics perspective.

## 9.1. Contributions

### 9.1.1. Implications for microfinance research and practices

Scholars studying microfinance have mainly focused on the interface between microfinance organizations and end borrowers. The goal was to evaluate the extent to which MFOs fulfill their promise of alleviating poverty and empowering women (Armendariz and Morduch, 2010; Yunus, 1999; Zhao and Wry, 2016). Some studies have found microfinance as a powerful tool for business creation among the poor (Yunus, 1999). Others have suggested that microfinance also has income-smoothing effects, allowing poor households to manage cash flows, deal with emergencies, and invest in the future (Collins et al., 2009). A robust microfinance and social enterprise sector are also expected to lead to positive spillover effects through their lending to poor women, such as more investment in health and education especially for girls (Blumberg, 1989; Duflo, 2012), more contraceptive usage (Rahman and DaVanzo, 1997), and higher social capital and perceptions of self-efficacy among female clients (Sanyal, 2009; Swain and Wallentin, 2009).

Despite the various potential benefits brought by microfinance, it is not without detractors and empirical results are more equivocal for other social outcomes (Banerjee et al., 2015). For instance, predatory lending and high interest rates have contributed to the No Pago (I won't pay) movement in Nicaragua and suicides in Andhra Pradesh, India. Randomized experiments also suggest that microfinance is not the magic bullet that many of its proponents would like to believe (Angelucci et al., 2012; Karlan and Zinman, 2010), and it seems most effective when complemented by other supporting programs like training and education (Drexler et al., 2014; Karlan and Valdivia, 2010).

While these studies are useful in uncovering both the potential benefits and pitfalls of microfinance, the ultimate ability for microfinance to effectively combat poverty and gender inequality depends, in large part, on its ability to reach markets where individuals who need capital can obtain it. To this end, the microfinance funding function becomes critical because only when equipped with sufficient capital can MFOs expand to the large, untapped market at the bottom of the pyramid and serve the most impoverished people. Our study highlights that in addition to understanding how downstream interactions with end borrowers affect the efficacy of microfinance, it is also useful to understand the challenges and opportunities related to upstream capital acquisition. Which MFOs receive funds, the amount they receive, and the sources of their funding all play a sizeable role in determining the overall health of the microfinance industry as well as its societal impacts (Cobb et al., 2016).

Practically, our findings suggest that channeling robust funding from both commercial and public resource providers requires a country to build a more stable and business friendly environment. At the same time, MFOs need to be mindful of the potential communication and trust problems that might arise between loan officers and end borrowers from different religious groups. Overcoming these challenges are essential for MFOs to reduce operating cost and become more financially appealing investment targets.

### 9.1.2. Implications for social entrepreneurship research

More generally, we believe our study reinforces recent efforts in the social entrepreneurship literature to emphasize the importance of institutional contexts (Dacin et al., 2011; Zahra et al., 2008). We seek to add to this literature by highlighting how recent developments in the institutional theory literature, specifically the development of the institutional logics perspective (Thornton et al., 2012), can enhance our understanding of social entrepreneurship. Going beyond the conceptualization of nation-state cultures as unitary (Hofstede, 2001) and subject to isomorphism (DiMaggio and Powell, 1983; Kostova and Roth, 2002), the institutional logics perspective provides an approach to nation-state culture that appreciates how it is influenced by the dynamic interaction of various institutional orders (Thornton et al., 2012; Zhao and Wry, 2016). Research on institutional logics has demonstrated that the configuration of beliefs and practices across various logics importantly shape key organizational outcomes across space and time (Zhao et al., 2016a, 2016b).

In particular, our study suggests that a strong market logic that creates a more favorable business environment and investment climate in a country can facilitate greater commercial and public capital flows into MFOs. To increase and sustain capital supply, it is also important to attend to and solve the operating challenges faced by MFOs rooted in institutional complexity—in our study, the existence of religious diversity and its interplay with the market logic; such institutional complexity can render MFOs less appealing investment targets, even in country contexts with a strong and well developed market logic. The potential downside of such institutional complexity (Greenwood et al., 2011) has important policy implications for those interested in building a robust social venture sector.

While social ventures is lauded for its emphasis on market-based solutions for social problems, solely focusing on implementing neoliberal policies and building strong markets without due attention to the social fabric of a country can backfire. Markets themselves are social institutions and need to be understood as fundamentally intertwined with a variety of other social institutions such as religion (Granovetter, 1985; Thornton et al., 2012). Unless economic policy solutions are adequately contextualized and appreciate the need to dovetail with appropriate and complementary social policies, mechanisms such as

microfinance might even do more harm than good (Polanyi, 1944). To this end, our study is pioneering in showing how a transnational studies approach that examines various configurations of logics can generate important policy-relevant findings.

Of course, we focused on the institutional logics of the market and religion that have been suggested to be particularly important for microfinance; however, other contexts may require the study of more complex logic configurations. Given the findings of our study, an open question is what logics are most relevant in a specific context and whether multiple logics are complementary or compete. It would also be useful to know how countries are able to overcome potential problems related to the institutional complexity to enable robust social venture sectors to emerge—especially those that unleash the availability of private capital. We believe that this is a key empirical issue that calls for further research and opens up exciting opportunities for future studies at the intersection of social entrepreneurship, international business, and the institutional logics perspective (see also Zhao and Wry, 2016).

### 9.1.3. *Implications for the institutional logics perspective*

Attending to the intersection of market and religion also advances the institutional logics perspective and enriches the notion of institutional complexity. Despite the burgeoning research in institutional logics and growing interest in institutional complexity, there have been few studies to date dedicated to the logic of religion (Tracey, 2012). This is surprising because religious affiliations and beliefs often underpin the founding and operation of social ventures. They have also been suggested to have strong influences on important social outcomes such as poverty and inequality. Moreover, religion and market are intertwined and the intersection of the two introduces a unique type of institutional complexity that may have profound impact on organizations. By directly theorizing and testing the logic of religion and its interaction with the market logic, our study helps expand the range of logics examined in the institutional logics literature. It also helps extend the institutional complexity notion by introducing one untapped type of complexity at the intersection of religion and market. In directly and explicitly theorizing and testing this unique type of complexity, we join others who have studied institutional complexity at the interface of market and profession (Jones et al., 2012; Suddaby and Greenwood, 2005; Thornton and Ocasio, 1999), market and state (Greenwood et al., 2010), market and family (Aldrich and Cliff, 2003; Miller et al., 2013), and market and community (Lee and Lounsbury, 2015; Marquis and Lounsbury, 2007).

Furthermore, our study is among the first to extend the institutional logics perspective's analytical focus from the field to national level (also see Cobb et al., 2016; Ocasio et al., 2016; Zhao and Wry, 2016). The majority of institutional logics studies to date have focused on how different institutional logics manifested at the field level (e.g., health care, mutual fund, higher education publishing etc.) shape individual and organizational cognitions, identities and actions (e.g., Dunn and Jones, 2010; Lounsbury, 2007; Thornton and Ocasio, 1999). Ostensibly a theory of society, the institutional logic perspective is well positioned to contribute to comparative institutional analysis that has been primarily dominated by the world society and varieties of capitalism approaches. Compared with the world society theory that emphasizes the sweeping effects of cultural frames with strong western roots (Finnermore, 1996; Meyer et al., 1997), the institutional logics perspective stress the heterogeneous configurations of institutional logics across nations and attends to their contributions to the cross-country differences in organizational outcomes (Thornton et al., 2012). In contrast to the varieties of capitalism approach that focuses mainly on the materiality of economic and political institutions (Whitley, 2007), the institutional logics perspective points to the importance of attending to the interweaving of symbolic and material aspects of different institutional orders.

Moreover, while different branches of the varieties of capitalism perspective propose different types of institutional configurations (e.g., Amable, 2003; Hall and Soskice, 2001; Whitley, 2007), they all tend to posit strong complementarities among relatively coherent sets of institutions (Witt and Jackson, 2016). Accordingly, different institutional domains of the society are supposed to follow similar logics, and the coexistence of multiple competing logics and the associated institutional complexity have not been a theoretical or empirical focus of the varieties of capitalism research (Saka-Helmhout et al., 2014). In addition, while the variety of capitalism perspective has proven useful in explaining systemic institutional variations in developed countries, they are often not well-suited in characterizing developing and emerging economies (Fainshmidt et al., 2016). The institutional logics perspective, in comparison, is particularly well suited to studying social ventures whose operation and performance are deeply embedded in and influenced by both economic and cultural institutional forces that may have divergent impacts on organizational outcomes (Greenwood et al., 2011; Lounsbury, 2007). Recent developments of the institutional logics perspective have also demonstrated its applicability to theorizing institutional heterogeneity among developing countries (Cobb et al., 2016; Zhao and Wry, 2016). In this paper, we highlight two different layers of institutional complexity—respectively due to the religious diversity and the joint influence of market and religious logics—and show the value of applying a comparative institutional approach to social entrepreneurship by adopting the institutional logics perspective. Conversely, we demonstrate that the burgeoning of social ventures cross-nationally, especially among developing countries, helps elevate the institutional logics studies to the national level and thus expand its analytical scope beyond organizational fields.

## 9.2. *Limitations*

Like other cross-national comparative studies, our paper focuses on macro-level variables and theorize the effects of societal level institutional logics on organizational outcomes. The nature of such studies implies an emphasis on generality over detail (Henisz et al., 2005). As a result, we are forced to infer, rather than directly observe and test, some of the underlying mechanisms linking the market logic and religious diversity to MFO capital acquisition. Future research should take some deep-dives and probe the nuanced channels through which institutional logics shape capital investment in microfinance and social ventures more



generally. Relatedly, the cross-national comparative focus also means that some within-country heterogeneity might not have been fully captured by our study. For instance, the distribution of religions might vary significantly across regions within the same nation. As a result, MFOs operating in different regions may face different levels of religious diversity and thus operating challenges. To fully account for these geographic differences, more nuanced data need to be collected within each nation. We see this as an exciting future research direction which may generate important theoretical and practical insights.

In addition to the amount of capital, it would also be interesting to study more detailed terms of the loans acquired by MFOs from commercial and public sources. For instance, interest rate and the length of the loan are both signals reflecting funders' investment mandates and priorities as well as the degree to which they consider different types of MFOs as appealing. Unfortunately, these data are not complete in our database. Collective efforts among scholars, microfinance practitioners, and policy makers are essential in compiling such information on an ongoing basis. This leaves ample opportunities for future research.

### 9.3. Conclusion

Our paper proposes a comparative institutional approach, rooted in the institutional logics perspective, to the study of resource acquisition by social ventures. By drawing attention to market and religious logics and the nature of different resource providers, we leveraged insights from the contemporary institutional logics perspective and social entrepreneurship literature, and applied them to the context of microfinance in developing countries. We showed how cross-fertilization of these scholarly areas can be productive in studying how institutional processes fundamentally shape the nature of capital acquisition to address pressing social problems. Such integration is also helpful in revealing the various enabling and constraining forces that social ventures face in their pursuit of both financial and social goals. Overall, we believe that our approach has the potential to provide policy makers as well as social entrepreneurs with insights on how the institutional embeddedness of social ventures matters, and help them better understand the various factors that facilitate or inhibit the creation and performance of those ventures in different national settings.

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