THE INTRA-ORGANIZATIONAL POLITICS

OF INSTITUTIONAL COMPLEXITY

A Process Study of the Rise and Fall of Microfinance in a Pakistani Commercial Bank

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ABSTRACT

We explore the role of intra-organizational political processes in shaping an organization's response to institutional complexity through an in-depth, longitudinal case study of the rise and fall of a microfinance initiative in a Pakistani commercial bank. Our analysis shows how political processes display their own intrinsic dynamics over time that can influence an organization's response to organizational complexity at any given time, over and above any determining structural factors. We argue that these structural factors, such as ownership, governance, and organizational identity, are as much an outcome of the political response to institutional complexity as they are a determining input to them.

What is the role of intra-organizational politics in shaping organizations' responses to conflicting institutional pressures, and what does this process look like?

Most of the classical new institutionalist literature has focused on the structural factors that determine an organization's response to uniform institutional pressures, such as for example their structural position in a field, or environmental uncertainty (Leblebici, Salancik, Copay, & King, 1991; e.g. Meyer & Rowan, 1977; Oliver, 1991; Tolbert & Zucker, 1983). The more recent "institutional complexity" literature (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), which takes into consideration that institutional pressures can be conflicting and contradictory, has continued this structural tradition in answer to the question how and why organizations respond to particular institutional pressures in particular ways. For example, Pache and Santos (2010) focus predominantly on the relative degree to which particular contradictory pressures are internally represented within the organization, and Greenwood et al (2011) theorize several additional field- and organization-level structural factors that shape organizational responses to conflicting pressures, such as field position, ownership, governance and organizational identity.

The *political processes* by which these structural factors can change over time in response to institutional complexity have been relatively neglected. This is despite some strong suggestions that intra-organizational political processes - as opposed to more static intra- and extra-organizational factors - play an important role in organization's responses to institutional pressures, particularly in relation to conflicting or contradictory pressures (e.g. Battilana & Dorado, 2010; Kellogg, 2009; Kraatz & Block, 2008a; Yu, 2013). Following Mohr (1982), we believe this distinction between political *processes* versus *structural factors* is important because a focus on intra-organizational politics as a *process* – with its own intrinsic dynamics that cannot be fully reduced to particular structural factors such as ownership, governance, or internal representation structures – provides an opportunity for understanding how and why organizational responses to institutional complexity can change over time, even when structural factors appear to remain stable. Process research focuses empirically on evolving phenomena, and it draws on theorizing that explicitly incorporates temporal progressions of activities as elements of explanation and understanding, as distinct from variance questions dealing with covariation among dependent and independent variables (Langley, Smallman, Tsoukas, & Van de Ven, 2013: 1). This focus enables a better understanding of how the particular sequencing of intra-organizational political moves and countermoves in response to institutional complexity can influence an organization's response to institutional complexity, over and above any enabling structural factors which – when considered over time - are as much an *output* of such political moves than a determining *input*.

In this study we take a process perspective on intra-organizational institutional complexity to explore the political processes involved in the rise and fall of a microfinance initiative in a Pakistani commercial bank. Our in-depth, longitudinal case study suggests that a social orientation – in this case a microfinance initiative – can be initiated and maintained within a predominantly commercial organization – in this case a commercial bank – regardless of ownership, governance, or internal representation structures, when political skill is deployed throughout the organization to shield this initiative from the rest of the organization. However, over time this process can lead to an accumulation of political countermoves and unintended negative consequences that can begin to undermine the initiative, even when it remains ostensibly supported by the organization. An accumulation of a series of largely invisible, and seemingly inconsequential political moves and effects can thus precede a change in the organizational climate within which the social initiative is embedded – ultimately leading to its, and its supporters', demise.

Our analysis thus extends recent theoretical work that has let go of the prior assumption of organizational uniformity in relation to institutional pressures (e.g. Greenwood et al., 2011; Kraatz & Block, 2008b; Pache & Santos, 2010) by considering some of the political processes that *underlie and produce* the intra-organizational structural factors these studies highlight as predictors of organizational responses to institutional complexity. We contribute to this literature by showing how these political processes display their own intrinsic dynamics that influence how organizations are likely to respond to institutional complexity at any given time. We also contribute to the literature on organizational politics by taking up Lepisto and Pratt's (2011) recent call for nonlinear, nondeterministic, inductive approaches to the study of organizational politics that centrally consider the role of human experience and time. We show how the attribution of political motives to certain people, particularly those at the top, as well as the perception that some people are enjoying undue benefits from their political protection, can in and of themselves lead to political counter mobilization, regardless of whether these attributions and perceptions are accurate or not. Thus the particular *meanings* attributed to (the effects of) the use of political skill in organizations are at least as important for the political dynamics that unfold over time as the nature and effectiveness of political skill itself.

We proceed as follows. First, we provide the theoretical context for our study, showing how organizational politics as a *process* has been relatively neglected both in the literature on organizational responses to institutional complexity, *and* in the literature on organizational politics. We then provide the empirical context for our study, showing how the attempt to initiate microfinance activities in a commercial bank can be considered a case of intra-organizational institutional complexity. After describing our methods we then present our key findings in the form of a chronological process narrative, followed by an analysis and discussion of these findings.

THEORETICAL CONTEXT

The Structural Static Approach to Institutional Complexity

The history of institutionalist studies that explain organizational responses to pluriform institutional pressures through a range of structural factors dates all the way back to the seminal work of Meyer and Rowan (1977: 356) who noted that "(i)nstitutional environments are often pluralistic, and societies promulgate sharply inconsistent myths. … Thus the organization must struggle to link (...) inconsistent ceremonial elements to each other." These authors argued that organizations tend to respond to such inconsistent institutional pressures by decoupling their technical core from the institutional context in their organizational structures, particularly in highly institutionalized environments. Oliver (1991) further extended this thesis by incorporating resource dependence theory into this institutionalist argument as a basis for theorizing a much broader range of organizational responses to institutional pressures. She argued that the likelihood of responses such as acquiescence, compromise, avoidance, defiance, or manipulation depends on a range of predictive structural variables, including how uniform the institutional demands are; how consistent they are with organizational goals; by what means the institutional pressures are being exerted; and environmental uncertainty and interconnectedness. An important limiting underlying assumption of these early structural approaches was that organizational goals in relation to institutional pressures are assumed to be uniform, and all organizational members uniformly adhere to them.

In more recent work, this key assumption has been relaxed based on the recognition that in pluriform institutional environments organizational coalitions that represent competing institutional demands can form, making it hard to reach organizational consensus on the appropriate response to particular institutional pressures (Pache & Santos, forthcoming). Such coalitions can give rise to political conflict over organizational goals, means, and identity in relation to a particular set of institutional pressures; the likely organizational response to such pressures is thought to be determined by the outcome of such political conflicts (Kraatz & Block, 2008b; Pache & Santos, 2010). Similar to the early structural tradition that theorized variance in organizational responses to institutional pressures based on structural factors, this recent work has proposed a number of independent structural variables that are predicted to determine organizational responses to pluriform, contradictory institutional pressures. For example, Pache and Santos (2010) build on Oliver's (1991) work to propose that the nature of conflict (goals versus means) that arises from conflicting institutional pressures, and the degree to which particular institutional demands are internally represented in the organization's power structure are important determinants of the likely organizational response to conflicting institutional pressures. They suggest that when there is conflict over organizational goals in relation to conflicting institutional demands, and when the two sides of the demands are internally represented in a balanced way, organizations may fall into a state of unproductive paralysis or even break up. More recently, these authors have shown that a process of "selective coupling" whereby organizations adopt intact elements from different institutional logics may offer a more stable alternative to stalemate and (failed) compromise (Pache & Santos, forthcoming). Battilana and Dorado (2010) suggest that the likelihood of such successful hybridization, defined as the process of incorporating competing institutional logics into an organization's practices (Pache & Santos, forthcoming), increases if organizations are able to forge a strong hybridized organizational identity; they proposed that this is more likely in organizations that recruit and socialize recent graduates rather than experienced employees who are already socialized into particular, singular institutional logics and their associated practices and beliefs and therefore less likely to accept hybridization. Finally, Greenwood et al (2011) suggest that institutional complexity is experienced differently by different organizations based on structural factors such as field position (center versus periphery), and organizational characteristics such as structure, ownership, governance, and identity, which lead to different organizational responses to institutional complexity. In short, the particular organizational response to conflicting institutional demands is thought to depend primarily on structural factors that determine the likelihood and likely outcome of intra-organizational political conflicts that arise from such conflicting institutional demands.

Although this structural, static approach is perfectly sensible for developing a theoretical framework that aims to make systematic predictions about the way organizations respond to conflicting institutional demands, the main weakness of such an approach is that it ignores how the outcomes of political processes in organizations need not be fully structurally determined. Indeed, organizational characteristics such as organizational identity, structure, ownership, and governance are as much *determined by* ongoing political processes, as they are *determinants of* them. Yet despite acknowledgment of the importance of political concepts such as "legitimacy politics" (Kraatz & Block, 2008b), "coalitions" and "power balance" (Pache & Santos, 2010), and "group interests, motivations and political skills" (Greenwood et al., 2011) in shaping organizational responses to institutional complexity, the role of political processes in influencing the power balance in, and the structural characteristics of, organizations, has been relatively neglected. As Yu (2013: 108, emphasis added) points out "little is known about *how* group contests construct negotiated orders and what propels [structural] settlements to change *over time.*"

Toward a Political Process Approach to Institutional Complexity

Yu's (2013) work shows that the intra-organizational political processes involved in determining an organization's response to institutional complexity can unfold over a number of decades, and can thus be far from statically determined at any one particular point in time. Indeed, in her case study the organizational response changed from "uneasy truces" between two competing logics, to wholesale adoption of one of these logics at the cost of the other. Her analysis shows that this eventual outcome was shaped by the political skills of proponents of the triumphant logic, who made changes to organizational structure, rules, and financial flows to increase their power and thus overcome resistance. They also used political skill to shape organizational identity: "(O)rganizational identity was politically constructed, through proponents' actions that silenced or muffled opponents' attempts to frame and advance alternative realities, ratification of events, rituals and symbols that upheld a particular organizational legacy, and careful editing of organizational history" (Yu, 2013: 124-125). Thus, the outcome of a particular political conflict that arises from conflicting institutional demands on organizations is not easily reducible to static structural factors such as organizational structure and identity because these factors can themselves be subject to political contestation and therefore change over time.

In order to better understand how politics as an ongoing organizational process can influence organizational responses to institutional complexity, it is necessary to study this process directly and analyse the role of its own, intrinsic dynamics in shaping organizational responses to institutional complexity. Yu (2013) has taken an important first step in this direction, but her case study still allows for a more structural explanation of the final organizational outcome she describes: it was the particular governance structure of the union that allowed national union executives to build a strong center and hire new recruits centrally who were sympathetic to the social movement logic of unionism; this, combined with the passion and political skill of these new recruits, as well as increasing external validation of the superiority of this logic, ultimately tipped the power balance in their favour, thus producing the final outcome. The fact that this outcome took a long time to be produced could be reducible to a prolonged lag effect.

These kinds of structural explanations only lose some of their explanatory power vis-a-vis process explanations when we can show that the intrinsic dynamics of the political process itself produces independent response effects that are not reducible to structural factors. Unfortunately, and perhaps surprisingly, the literature on organizational politics has not really focused on the role of time in organizational politics. This is because this literature has predominantly focused on determining the effectiveness of different influence tactics and impression management strategies; on studying individuals' perceptions of politics in their work environment; and on political skill (Ferris & Treadway, 2011). Due to this predominant micro-focus, combined with a structural variance approach to theorizing, models that trace multilevel political activity over time have yet to be developed. Yet by removing time from the study of organizational politics the temporal flow of much of organizational life is abstracted away: "The temporal structure of social practices and the uncertainty and urgencies that are inherently involved in them are passed over in the search for empirical regularities" (Langley et al., 2013: 4). This is why Lepisto and Pratt (2011: 91-92) suggest the need for a more process versus a more variance approach to the study of organizational politics: "(T)his research should consider (1) nonlinear nondeterministic approaches; (2) the role of experience; (3) more relational ontologies; and (4) the role of time, especially as it relates to unfolding processes. In particular, it would be interesting to see how actors (...) in different positions relate to each other as the political process of *organizational politicking* unfolds."

In this paper we take up this challenge by exploring the political processes involved in the rise and fall of a microfinance initiative in a Pakistani commercial bank. Through this case study we aim to increase understanding of the role of intra-organizational political processes in shaping organizations' responses to conflicting institutional pressures, including their relation to structural factors that are more commonly proposed to determine these responses.

METHODS

Research Design and Data Sources

We adopt a qualitative inductive case study approach (Yin, 1994), and investigate an anonymous Pakistani commercial bank – ComBank (CB) - which introduced microfinance as a product line. Our case study organization is an example of a 'polar type' organization (Eisenhardt, 1989), which has theoretical significance for the phenomena under investigation. It is an extreme case of intra-organizational complexity, with a clash between two different institutional logics – commercial banking versus development - that impinge on the bank particularly salient. The case study offers rare, deep access into a failed initiative to hybridize commercial and social goals in organizations, which enables us to explore the role of political processes in such failures. It is also practically significant to the microfinance field because it is increasingly common to embed microfinance activities in commercial organizations, and research into the reasons for success or failure of this strategy is still nascent.

In this study we adopt a process based research strategy so as to investigate how intra-organisational political processes temporally evolved in the case study organisation in relation to institutional complexity, and how events were interlinked at multiple levels of analysis including interpersonal interactions, organisational processes and broader societal and field level happenings (Langley, 1999; Van de Van & Huber, 1990). The time period chosen for analysis starts when the microfinance programme was initiated in 1995 to 2008 when microfinance related lending was officially stopped.

Insert Table 1 about here

Data includes 18 semi-structured open ended interviews with 15 officials related to the microfinance programme of the bank representing almost 70% of the staff of the microfinance operations. Table 1 lists interviewees and their profiles. The interview duration spanned from 30 to 60 minutes; three of the interviews were repeat interviews of approximately 45 minutes each to gain further clarification on previous discussions with the interviewees and to triangulate information obtained from other interviewees. In some instances, further clarification was also sought through quick follow up calls and short email exchanges. Interviewees were identified on the basis of their role in the development and maintenance of the microfinance programme at the bank. The interviewees include key senior officials who were present during the founding of the microfinance programme, and who took an active part in defending the microfinance programme against those who opposed microfinance in the bank. Microfinance staff mostly working at the field level in branches were also included in the sample as these staff members also played a pivotal role in maintaining the programme against opposition at the branch level.

In addition to this interview data, other data sources comprised ComBank's official documents, including annual reports, memos, minutes of meetings, and documents related to donor funded projects in which the bank was a partner. We also analysed documents related to the Pakistani and global microfinance field to place Combank's microfinance programme in the broader field context. Literature on the cultural characteristics of Pakistan was also reviewed, in order to understand the social milieu in which Combank operated. To facilitate such cultural understanding we also drew on the personal experience of one of the authors who has over 8 years of experience in the Pakistani microfinance and development fields.

Data Analysis

Our data analysis started with a line by line review of interview transcripts in order to identify both first order interpretations (closer to interview data and archival materials) and second order abstract interpretations that were closer to the theoretical questions (Lincon & Guba, 1985). Following a process research strategy both first order and second order interpretations were placed on a time line starting from the founding of the microfinance programme up to its paralysis in 2008. Analysis of interview transcripts went on in parallel with analysis of archival material in order to explore relationships between events happening at three levels – interpersonal branch level, organisational and external - in order to "understand how and why events play out over time" (Langley, 1999: : 692). Using the data analysis strategy of 'temporal bracketing' (Langley, 1999), interview snippets and quotes from archival material were placed in table grids in order to observe the relationships between events at multiple levels, and to see how those relationships evolved over time. In this process, we continued to engage in a dialogue between the data and the relevant theoretical literature so as to induce theoretical insights (Regin, 1994). Our analysis focused particularly on exploring the role of structural factors, such as governance and organizational structure, organizational identity, etc, in the rise of and fall of microfinance at the bank, in relation to the political processes that played out at different levels of analysis and their (unintended) consequences. Our final coding scheme consisted of a categorization of the different politics tactics at top management and branch levels for each of the temporal brackets. Table 2 and 3 show this coding scheme with examples from our data. We then overlayed both the key events involved in each temporal bracket, relating these to the intended and unintended consequences of particular political tactics. Table 4 provides a basic overview of the chronology of key events within CB and in the field. Taken together, these analyses produced the processual understanding of CB's response to institutional complexity, which we will discuss in the discussion section.

Insert Table 2 about here

Insert Table 3 about here

Insert Table 4 about here

Empirical Context: CB Bank in Institutional Context

During the early 1990s, the Pakistani financial sector was undergoing a series of donor funded 'market liberalization' reform programmes whereby government shareholding in public sector commercial banks was being divested and the market entry of private banks was encouraged (e.g. ADB, 2005; World Bank, 1994). Paradoxically, amidst this ascendance of free market capitalism, CB was established through a Parliamentary Act of a regional government in Pakistan. CB bank was to focus on resource mobilization aimed at socio-economic development in an underdeveloped region of Pakistan – giving rise to the so called 'development mandate' of the bank which would be invoked later in almost every document that justified the bank's entry into microfinance. The goals of CB were reminiscent of the then defunct and discredited Development Finance Institutions (DFI) which were established by governments during the 1970s and 1980 with similar lofty objectives but which, according to the pro-market proponents, perished due to their politically motivated lending decisions and organizational inefficiencies (Adams, Graham, & Pischke, 1984).

Within the above context, it was the presence of a set of international donor funded projects in the region aimed at providing training, business advisory services and small scale finance to skill-based small enterprises, which introduced CB to microfinance. In some cases, CB also acted as a banker, as well as an advisory board member, for donor funded projects aimed at regional economic development in the bank's place of domicile. The executive dealing with microfinance at that time commented as follows regarding the need to collaborate for accessing resources and expertise: "*...in the mid-90s this whole thing about* [small enterprise finance] *started gaining a lot of momentum, and money was being made available by multilateral and bilateral institutions...and that is how we were... spotted by various institutions who felt that* [funding CB] *was a very innovative way of reaching out to those segments of businesses which were not touched by traditional banking systems...*"

In this way, CB's microfinance programme became embedded in multiple institutional logics related to commercial banking, government, and international development projects including microfinance. Commercial banking required a strict adherence to the highly conservative traditions focused on risk minimisation and profit maximisation; Government brought in intent of 'public good' nature, aimed at regional socio-economic development; and contradictory pressures were embodied in donor funded microfinance projects, both calling for poverty alleviation in remote, inaccessible regions of Pakistan as well as seeking sustainable financial intermediation through conservative commercial banking players such as CB. This institutional complexity triggered a number of significant events and political processes that are the focus of our empirical analysis.

FINDINGS

Early days: Shielding Microfinance at CB through Formal Power *(1993-1996)*

Founding and legitimation. CB's inclination towards development finance can be traced to its founding principles as laid down by the sponsoring regional government that was sensitive to the developmental needs of the region. CB was established as a commercial bank but it was also envisioned to be a financial intermediary with the goal of promoting economic development through intermediating financial resources within its region of domicile. The people instrumental in launching and sustaining microfinance in CB highlighted the identity of the bank more as a development-promoting organisation and less as a commercial bank.

Receptive to a developmental identity for the bank, the government sponsors of the bank appointed the founding MD, who had development finance experience rather than a commercial banking background. The MD was a well-known personality in the international development circles because he had served as a senior official in a major global development finance entity. The MD had also headed up several leading national and regional Development Finance Institutions (DFIs) – government owned financing entities, which were established to provide financing to industrial and commercial projects in lesser developed regions of developing countries, and which were often funded by international donors. He was a powerful and dominant personality within the bank but also in the echelons of power in regional government and the bureaucracy (the latter constituted the majority of the bank's board members). He brought people with DFI experience into his management team at CB, and, under his direct guidance, DFI practices were adopted as default templates for CB's microfinance programme.

In this way, CB acquired a development oriented perspective on finance, as well as strong connections in the international donor's circle active in Pakistan, which clearly differentiated it from other commercial banks at that time.

In order to position itself as a viable delivery channel for donor funded projects, CB established an in-house microfinance department, and introduced appropriate microfinance product lines along with its commercial products. Seeing new donor projects coming on the horizon that were particularly focussed on rural development, the bank also incorporated 'rural development' in the nomenclature and mission of the microfinance department to give it an inclusive developmental flavour. However, at this early stage microfinance operations were still formally part of the commercial banking operations of the bank, particularly at the branch level, with only executive oversight differentiated at the head office level.

Shielding microfinance from internal opposition. Straight from the beginning commercial bankers in the top management voiced opposition to the introduction of small enterprise finance in the bank. In addition to legitimating microfinance based on CB's founding charter, the MD used his formal authority to quash any opposition coming from commercial banking circles, as exemplified in Table 2.

Some of the resentment at the top against the dilution of the commercial banking identity of the bank also emerged at the branch level. This was because branch managers found it difficult to reconcile commercial banking with the altruistic intent of small enterprise finance after the bank hired a small group of microfinance practitioners to work in selected branches. In such cases top-down formal authority was again used to shield microfinance from commercial opposition at the branch level, as a memo issued by the head of microfinance to branch managers in 1996 clearly shows:

> *"…there is a need for closer collaboration and understanding between the branch managers and the [microfinance officers]...one thing should be very clear: though placed under the administrative control of the managers, [microfinance officers] have been entrusted with a specific responsibility and that is, the development of micro businesses. Managers should ensure that [the work of microfinance officers] does not suffer, due to administrative reasons".*

Thus microfinance was able to take hold in CB's commercial banking environment because the bank's top management used their formal authority to shield microfinance from the rest of the bank by giving microfinance operations a de facto autonomous, shielded status in the bank.

Growth phase: Shielding and Fuelling Microfinance through External Funding and Branch Manager Conversions *(1997 – 1999)*

Reducing microfinance's dependency on commercial funding. In addition to the use of formal authority to shield microfinance activities at CB from commercial banking opposition, top management also shielded microfinance through its funding structure by not relying too much on the bank's commercially generated deposit base. Thanks to the MD's strong connections in the global development field, early microfinance projects in the bank tended to be funded from the credit lines provided by a leading European development finance entity. Alternatively, the bank's own funds were occasionally used by invoking a law which allowed commercial banks to finance medium to long term projects (spanning 3 to 5 years) with the maximum cap of 5% of the bank's deposits, hence comprising a relatively small share of the bank's resource pool. However, when small enterprise lending of the bank began growing steadily it required a larger resource base.

In 1997, the bank succeeded in becoming an integral part of two donor projects in quick succession. These donor projects aimed to facilitate the provision of financial services in some of the most economically backward and geographically inaccessible parts of the province. CB was entrusted with the task of channelling financial services to the poor in these regions. As a result of these growing activities the bank began hiring staff with no commercial banking experience whatsoever to support its microfinance activities. The bank also introduced the renowned Grameen bank Group Lending Methodology in its rural lending operations. Thus CB's microfinance programme was getting fully immersed in the practices of the development finance field in general, and microfinance in particular: there were 'review missions', comprising of international microfinance consultants who were fielded by the donors; and there were 'capacity building' components of projects under which CB staff and management visited leading international microfinance organizations in Bangladesh, including Grameen Bank. As a result of the rising external profile of CB's microfinance activities, some in CB's commercial banking camp began to recognize and endorse the social emancipation aspects of microfinance, if only in terms of the 'good will' it created in society for CB, particularly in government circles. The microfinance practitioner literature has also identified such external 'image building' as an important way for commercial banks to justify their microfinance programmes (Bayadas, Graham, & Velenzuela, 1997; Velenzuela, 2002). The political strategy for sustaining microfinance at the bank therefore revolved around building a positive image and building scale:

"…we were not interested in making a lot of money… more important thing…is to attain size …you attain a level of operations which justifies your existence and mitigates your risk [of being closed down by the commercial banking operations]…"

Throughout this growth phase, CB's microfinance initiative was actively supported by top management; shielded from the demands of commercial funding through a significant flow of financial resources from donors; and boosted by a rising positive profile in an external policy environment that recognized the benefits of microfinance.

Conversions to the microfinance cause at the branch level. The shielding of microfinance from the pressures of commercial banking was also enabled by some successful attempts by microfinance officers to convert their branch managers to the microfinance cause by tapping into their social sensibilities and actively involving them in microfinance operations. :

"... [The branch manager] used to question me 'why give loans to the riff raff of society?'... I personally involved him in [microfinance operations], and made him come out of the bank branch. I showed him how those people [i.e. microfinance clients] were running their businesses...that basically changed his [branch manager's] approach..."

The educational profile and commercial banking experience of commercial bankers seems to have also played a role in their receptivity to microfinance.

"*...I had good relationship with the manager, in [another branch] the manager, who had an economics degree, understood [microfinance] so he used to motivate us [help the poor]. Junior people [in commercial banking]...educated people were easier to handle...*"

Microfinance field staff also used their personal rapport with branch managers to divert branch manager's attention from the aspects of microfinance that were incompatible with commercial banking (i.e. cost and revenue features), towards the nature of the target market for microfinance, as the following quote makes clear:.

"*I had a cordial relationship with the branch manager…over time I convinced the manager that [microfinance] was useful… as we were dealing with poor people…*"

Simmering jealousy and irritation. Yet, to others at the branch level the growing profile of microfinance officers in the bank became a growing source of resentment. As an increasing stream of small entrepreneurs visited them, either asking for loans, making repayments or discussing their businesses, the microfinance field staff became widely known in the local community. Due to their linkages with other donor funded development projects, microfinance field officers thus enjoyed a higher public profile in the community than the commercial bank manager. With most of the branches that operated microfinance activities located in relatively smaller towns, mostly populated by small enterprises rather than large industries, branch managers in these towns would often not be able to find enough medium or large scale enterprises as clients for the bank's corporate lending activities. The level of operational autonomy as well as bank assets such as cars that were provided to all microfinance field managers irrespective of profitability of their operations was comparable to a branch manager whose responsibilities spanned all aspects of branch level operations. Thus it appeared to them that most customer inflow and attention was going to microfinance rather than commercial banking product lines:

> *" ...initially branch managers were confused...they saw our facilities like cars... professional rivalry with branch manager hence started...there used to be a stream of clients and other people visiting microfinance field offices not the branch manager...branch manager used to think: 'microfinance operations are in my branch but all the attention is going to microfinance officers.'"*

This situation resulted in a simmering jealousy among commercial bank managers which persisted throughout the total lifespan of CB's microfinance activities. The internal "untouchable" status of microfinance officers at CB also caused irritation, as a former internal auditor at CB explains:

> *"...as [an auditor] I conducted a branch inspection....we checked attendance also...we marked late the [microfinance] officers... in my report to [the MD], I reported them late...on the same day [a senior microfinance executive] called me and said: 'you are wasting your time and MD's time'... for me this kind of attitude was irritating...these situations used to create rivalry [between commercial banking and microfinance]...when branch manager was late, we used to report.... but [a microfinance officer] could not be touched because the boss was strong...".*

This perception of imbalance between the resource access and power of microfinance officers appeared to irk commercial bankers even more than the lack of technical fit between the social intent of microfinance and commercial imperative of commercial banking. The perception of unjust power differentials at the branch level, enabled and shielded by top management, thus became an increasingly important source of resentment and resistance. Muted murmurs of disapproval, with strong hints of jealousy, could be sensed in the corridors and offices of the bank's commercial banking operations, which continued to question the bank's foray into an area alien to commercial banking, with no prospects of financial returns apart from the feel-good effect and goodwill generated in certain government quarters.

Changes at the Top: Financial Sustainability Objectives for Microfinance at CB Through Restructuring *(2000-2001)*

Intrigues against microfinance following the forced departure of the MD. After several meetings between CB's MD and the Chief Minister that ended in tensions and disagreements, the founding MD was forced to resign in 2000, six months before the expiry of his contractual terms, because the Chief Minister wanted his own handpicked man in the job. Immediately following this forced resignation several top executives moved against microfinance in the bank, isolating the operations head of microfinance at CB:

"...when [the founding MD] left the bank, I was left alone to fight all the battles."

In addition to a general lack of understanding of what microfinance was about and why the bank should be involved in it, CB's microfinance activities were also seen as a means of personal aggrandisement for the deposed MD and his supporters. For example, one of the top executives of the bank who was instrumental in launching microfinance and managing it for many years belonged to an influential political family; this political background of a key player in CB's microfinance operations strengthened perceptions in the bank that microfinance in the bank was nothing but a tool for furthering the political self-interest of some of the bank’s executives. Whether in politics or in business, in Pakistan, the boundaries between the personal and the official role often get blurred so that controversial official actions are often seen as attempts at self-aggrandisement and illegitimate access to resources (Prakash, 1957). This cognitive frame is common in Pakistan, a country characterized by endemic corruption and misuse of official power and resources for personal benefit (Islam, 2004). The new MD appeared to agree:

“*[The new MD] thought that [microfinance] was ... ‘a bank within a bank’ and that that is how we [i.e. the pro-microfinance top management] have carved out our own little domain which has nothing to do with commercial banking...”*

Restructuring CB microfinance to expose it to financial discipline. Soon after the departure of CB’s first MD, the bank announced the reorganization of CB’s microfinance operations from a department of the bank to a separate operational unit “*in order to manage the microfinance activities on commercially viable lines.*” Rather allowing microfinance to legitimate itself based on the social imperatives that were included in CB’s founding charter, this reorganization signalled the need for microfinance to justify its existence in financial terms. It was during this phase that the words ‘sustainability’, ‘efficiency’ and ‘profitability’ began cropping up in official correspondence and staff meetings on microfinance. An internal staff newsletter published in 2000, reiterated that: *“…(c)ommercial viability is the ultimate objective…”* And a memo issued to the branches by top management in 2000 stated:

"It needs to be emphasised that the sound banking principles of profitability and efficiency are as much applicable to microfinance as it is to normal commercial banking. In fact microfinance requires stricter controls."

It has to be noted that CB’s new push towards microfinance profitability did not just come about through internal politicking. International donors also pushed microfinance to achieve ‘financial self-sufficiency’. For example, a leading European donor engaged an international microfinance consultant for ‘capacity building’ of CB’s microfinance operations.

The consultant developed an operations manual *"…aimed towards achieving operational and financial sustainability… [which are] the ultimate objective[s].*" As part of this consultancy project, a senior executive of an internationally renowned Bangladeshi MFO was engaged to help streamline the microfinance operations. The Bangladeshi MFO was famous for its rapid achievement of financial self-sufficiency through standardization and cost cutting.

As a result of this new emphasis on financial sustainability microfinance did achieve a small profit by mid-2001. Marking this achievement, the MD of the bank announced, in an official memo circulated to all bank staff:

> *"…the objective behind establishing a separate unit was to ascertain the operational and commercial viability of microfinance and I am pleased to inform you that this development endeavour of ours has attained an encouraging level of self-sufficiency. We have made a sound beginning which has given us immense confidence to go ahead and build further on the foundations laid five back."*

Beginning of the End: Sustaining Microfinance in an Increasingly Hostile Environment *(2002-2003)*

Restructuring to address rising arrears. However, in December 2001, in a special meeting with microfinance staff, the MD *" ...showed immediate concern over ...rising arrears and mentioned it the only undermining factor in [CB's] microfinance endeavours*." Over time, rising arrears in microfinance had become a critical problem, prompting top management to withdraw the autonomous organizational status of microfinance operations in 2002, demoting the microfinance business unit to the level of a department working under the bank's overall lending operations. Accordingly, all microfinance staff, who had thitherto enjoyed an autonomous operational status at the branch level, were made answerable to the branch manager. The memo announcing the demotion of microfinance justified this reorganization as having a positive effect on profitability:

> *"...through the present restructuring exercise, broader team effort is being sought, especially from branches. With good knowledge of the local markets and banking*

operations, the branch managers shall prove to be more effective team leaders for field level [microfinance] operations...healthy microfinance portfolio would also have a positive effect on profitability."

Soon after the withdrawal of the autonomous business unit status of microfinance, the only original pro-microfinance member of the top management team, the founding head of microfinance operations, left the bank on long leave and ultimately resigned, reportedly due to his personal differences with the new MD and the political dynamics at the government level. He explains:

"…we had achieved sustainability around 2000-2001. We were covering our costs and earned a surplus… I think they [i.e. commercial bankers] acted with mala fide intention…so something which was [earlier] termed success (was stopped)."

Another top executive who helped set up microfinance at CB noted the important role of changes at board level in this development:

"... no matter what you do, the buy-in at the top governance level starting from the board to the top management level is vital... the [pro-microfinance founding] MD of the bank was unceremoniously removed... people who came [later] on the board had absolutely no idea, absolutely no appreciation for what had been done [in microfinance]."

Empowerment of branch managers. These political dynamics at the top of the bank percolated to the bottom very quickly. In the words of a senior microfinance manager, "*...when the top management says 'what is this microfinance... this is rubbish. We don't want to do microfinance'...then everything is lost!*"

Fundamental differences between branch managers and loan officers remained salient, fuelled by the jealousy and resentment that had accumulated over previous years, which translated into relational problems. Many branch managers did not appreciate the operational challenges and special context of microfinance, often overreacting to delayed microfinance loan repayments. Class differences between corporate and microfinance borrowers were also experienced as increasingly problematic as microfinance clients came from the poorer segments of the society but commercial banking clients were mostly well to do business people. Of course these issues were also present during the hay days of microfinance at CB, but during this period these tensions were resolved through the top-down shielding activities by top management who were no longer in charge.

As a result of their increased power over microfinance activities, some branch managers began to divert these activities away from microfinance to service their own personal ends. In Pakistan the notion of *sifarish* (literally meaning recommendation) plays an important role in getting things done within organisations: public services can be accessed more quickly if a recommendation is made through an influential person, especially a government official; jobs are arranged, and bank loans are approved. (Haque, 1997; Prakash, 1957). It is considered to be the prevalent method of distributing patronage and resources among family and friends. Microfinance loans were used by branch managers to exchange favours among different parties at the branch level. A senior microfinance manager comments:

> *"…if a branch manager could not accommodate a loan request of a client, if that loan request was too small for corporate lending, we used to accommodate that loan request…a tit for tat situation."*

In some instances, microfinance staff, instead of being out 'in the field' managing clients and expanding portfolio, would even be sitting in branches and performing desk based operational roles related to commercial banking. In a 2004 report to CB's top management, the head of microfinance head complained to banking operations: *"[A microfinance officer] is working in General Banking [i.e. commercial banking operations at a branch] for the last two weeks without written permission of the management*."

Negotiation and appeasement tactics at the branch level to sustain microfinance. To microfinance field officers, agreeing to perform extra duties and other favours for the branch staff, as exemplified in Table 3, formed part of a political strategy to appease the branch manager through the exchange of favours.

Through these tactics microfinance officers were able to continue expanding the loan portfolio in an increasingly difficult environment for them.

The behaviour involving exchange of favours in conjunction with official work is consistent with the societal notion of *biraderi*, a term representing common descent based on family, tribe or caste (Nauman, 1990), which microfinance officers used to transcend the differences between commercial and microfinance orientations at the branch level.

In addition to agreeing to favours, microfinance officers also tried to modify their messages to conform to the branch manager's world view and play to different galleries, making their jobs particularly demanding. Table 3 provides examples of this behaviour.

Similarly, microfinance officers played to the perceived need to manage risk better by highlighting the risk management aspects of a diversified portfolio of small loans:

> *"...if one commercial banking loan defaults, it is a huge loss to the bank, but in our small loans, if a single loan defaults, there is not much effect on the portfolio [of small loans]".*

The fact that microfinance officers were increasingly neglecting their microfinance work and pandering to the wishes of the branch manager was an open secret at that time of which management was well aware. Thus the organizational strategy for addressing a growing arrears problem in microfinance ended up exacerbating the problem, because it enabled branch managers to divert microfinance officers' time away from microfinance activities, which also had adverse effects on their morale. There was no letup in the rise of portfolio arrears so that the issue ultimately came to the notice of the board of directors of the bank in 2003. In response to the queries put up by the board regarding the rising arrear rate, microfinance managers cited staff shortage, and the imprudent lending decisions under the politically motivated government mandated lending programmes forced on the bank as the main culprits. Increased post-restructuring workload at the branch level following the 2002 restructure was also emphasized in official interactions. In this way, a vicious circle of uncertainties and tensions triggered by the loss of favourable leadership and operational issues put microfinance in a tailspin with no respite in sight.

Exacerbating circumstances at the societal level. At the societal level, the regional elections in 2002 brought an Islamist coalition of religious parties in power. The departure of the founding operations head, part of the politically well-connected local secular elite, was also partially blamed on this rise to power by the Islamists. A founding executive explained the relevance of this external political climate:

> *"…there were various... stakeholders, business community, politicians, bureaucrats... all those people pounced on you for their own vested interest…somebody wanted to get a loan, bureaucrats wanted more control, a politician wanted to get credit for what is happening out there [in microfinance] …"*

The new political situation changed the official discourse on development finance so that 'Islamic finance' became a favoured policy objective of the regional government, which was CB's majority shareholder. Thus, microfinance's external political importance was reduced when priorities changed in favour of Islamic finance, weakening external political support as a source of legitimacy for microfinance within CB.

Microfinance's Demise: A Spiral of Decline *(2003-2008)*

Termination of donor projects. By 2003, partnership with donor projects, which the bank had joined with great fanfare, also floundered as there was no one at the top who had a personal stake in microfinance, and who could negotiate on the bank's behalf and keep microfinance afloat despite its problems. The initial terms of contract established in 1997, between the government (which had obtained financing from international donors) and CB, under which funds were provided to the latter for onward lending as microfinance loans, were no longer attractive for CB in 2003. Commercial bank cost of funds had dropped by 2002, so that donor funding was relatively more expensive for the bank as compared to customer deposits. Furthermore, in the initial haste of capturing partnerships with prestigious international donors, the bank did not worry too much about the operating margins between the cost of funding paid on projects, and microfinance interest rates to cover the cost of intensive microfinance operations. Donor funding contracts did allow flexibility to CB to adjust its pricing structures to cover cost of operations.

Official missions of the partner international donors during this phase called for solving this problem through mutual understanding between the government and CB. International donors also highlighted the clauses of the project contracts that envisaged market based pricing structure of microfinance based on the principal of financial viability of lending operations of CB. But the government, the conduit for the donor funding and CB's shareholder, refused to allow CB to increase microfinance interest rates charged to the poor, and when reminded of the relatively high cost of microfinance operations retorted:

> *"...since the government desires that the [microfinance] component should benefit the poor communities and make them able to start their own income generating activities they should not be overburdened…[CB] has been implementing the microfinance component for a long time, therefore, it was important that they had by now acquired considerable administrative competency and efficiency to implement the component at a fairly low rate."*

As a result, in 2005 CB terminated its contracts under all donor projects.

All loan approval powers transferred to branch managers. This followed events in mid-2004 when all loan approval powers of microfinance field staff were taken away and transferred to branch managers. Yet, the use of microfinance by branch managers to accommodate commercial banking clients continued unabated, worsening the arrears problem, as evidenced in a memo to the branches:

> *"…it has been observed that sanctioning powers delegated to designated branches have not been used for prudent lending…the rate of default in fresh lending has been on the rise persistently…"*

Furthermore, in response to concerns over rising loan defaults in donor funded projects the head of microfinance states in a memo:

> *"...though the branch managers are administratively held responsible for microfinance operations... there is little ownership of [microfinance] and the manager's practical involvement is minimal."*

Funding for these projects was coming from donors, and the bank's own resources were not involved. So there was little reason for branch managers to participate in a cumbersome activity like microfinance that did not contribute significantly to branch level performance objectives.

Microfinance lending operations ceased. In 2005, with project funding from international donors gone and mounting loan defaults, particularly in donor funded projects, the bank panicked and stopped all microfinance lending to new clients. Without access to external financial resources, the bank could not risk depositor's money on microfinance, a product line which had lost its legitimacy, both in terms of its clout with the top management and in terms of its financial health, to lay claim to bank resources. With no portfolio growth during this time period but loan arrears accumulating, the performance metrics of the microfinance portfolio began to show an even more alarming picture with the passage of time. Finally, in 2008, all lending microfinance operations ceased, apart from a rapidly expanding consumer finance product that had nothing to do with microfinance both in terms of its intent and target market. The focus of core microfinance operations shifted to the recovery of bad loans.

Commercial bankers rejoiced over the decline of microfinance not just for technical reasons. A microfinance officer who came from commercial banking but later moved back states:

> *"...the commercial banking people were really happy that microfinance operations had been stopped... the facilities [cars etc.] that we [microfinance field officers] got were a big source of uneasiness for the commercial bank guys....it was not lack of profitability that they used to claim as the main problem with microfinance..."*

DISCUSSION

Our aim of this study was to explore the role of intra-organizational political processes in shaping an organization's response to institutional complexity over time. Our findings indicate not only that political tactics such as the shielding activities by top management were of crucial importance for the establishment and initial success of microfinance in CB; they also show that these tactics caused an accumulation of resentment and jealousy over time which led to political counter-moves at politically opportune moments in time. For example, when the founding MD was replaced for external political reasons, commercial bankers at the top management level moved against microfinance, and politically isolated its operational manager under the new MD. Similarly at the branch level, branch managers moved against microfinance officers by demanding their time for other activities and misappropriating microfinance for their own interests when microfinance officers no longer enjoyed the political protection that top management's shielding tactics had offered them under the first MD. Thus, although the initial power balance in CB favored and protected microfinance, producing a hybrid bank that successfully offered both commercial finance and socially oriented microfinance, the unintended long-term consequence of the political shielding tactics deployed by top management in support of microfinance was that they contributed to an organizational climate in which microfinance itself was seen as a political tool that served to promote the political interests of its supporters both at the top management level as well as in the branches. At the top management level commercial bankers saw microfinance as serving the self-aggrandizing personal interests of its supporters, and at the branch level microfinance was seen by them to unfairly reward loan officers in the field who enjoyed benefits that were similar to those of a branch manager despite microfinance's low profitability. Thus the perception of microfinance's initial protection in the bank as politically motivated in and of itself became an important factor in the process of political counter-mobilization that followed its initial success.

Table 5 summarizes a number of additional unintended consequences of the political tactics that were used in the bank to protect microfinance at CB, which ultimately contributed to microfinance's demise in the bank over time. At the top management level the rush to grow microfinance to increase its legitimacy based on external sources of funding, which reduced its dependence on the commercial banking arm of the bank, led to rigid deals that ended up contributing to microfinance's poor financial performance in the long run, especially when costs of funding began to drop and the government refused to allow the bank to increase its interest rates for microfinance activities. This refusal was symbolic of a general shift in the regional political climate from encouraging development activities such as microfinance – which microfinance supporters in the bank had used to prop up the legitimacy of microfinance in the bank – to a climate that favored Islamic finance and appeared less interested in actively supporting microfinance activities.

At the branch level the appeasement and negotiation tactics used by microfinance officers to sustain their activities also produced unintended negative consequences over time. Even though these appeasement and negotiation tactics at first helped overcome resistance based on a lack of understanding and alternative identifications by branch managers, they also enabled branch managers to claim more and more of their time, and to misappropriate microfinance for their own political self-interests. Further, the attempts to translate microfinance in commercial language in order to overcome a cognitive lack of understanding left microfinance open to evaluation based on the rules of commercial banking, ultimately sealing its fate in the bank. This understanding of the negative unintended consequences of particular political tactics that were used to shield and sustain a hybrid organizational form enables us to make two main theoretical contributions to the literatures on organizational responses to institutional complexity, and organizational politics. We discuss these next.

Insert Table 5 about here

Structural Factors as Effects of Politics as a Process

The structural static approach to the question of organizational responses to institutional complexity has emphasized the importance of a number of structural factors for determining an organization's likely response to contradictory institutional pressure. Specifically, ownership, governance, organizational identity, and organizational structure are thought to play an important role in determining an organization's response to institutional complexity as these structural factors act as interpretation "filters" and reflect the power balance that can favor one particular logic over another (Greenwood et al., 2011; Pache & Santos, 2010). Without denying that these structural factors can play an important role in influencing how an organization is likely to respond to institutional complexity at any given point in time, our findings show that these factors are themselves subject to change as a result of political processes that can have unintended consequences. They are therefore as much an effect of political processes in response to institutional complexity, as they are a determining input to such political responses.

The role of ownership and governance over time. In CB's case the regional government founded the bank with the intention of combining a commercial bank with a development component. As a result of this intention the government appointed an MD with a background in development who had the political connections and clout to ensure that the bank's development activities would be successful. The support of government as the bank's primary owner, combined with the early success of the bank's microfinance activities, appeared to skew the power balance in such a way that the bank's social mission could be combined with its commercial focus in a sustainable way. Yet, one of the unintended consequences of this external political support was the perception that the MD was using microfinance for his own political purposes, fueling resentment and political countermobilization at the top management level. When the external political environment changed and became less favorable to the MD, leading to his premature resignation, this countermobilization isolated microfinance in the bank by influencing both how the new MD perceived microfinance, and influencing the board composition of the bank in favor of its commercial arm. However, even though the first MD was removed in 2000, the bank's board, its owners, and the new MD formally continued to support its microfinance activities for 5 more years until 2005. Although the shift in power balance as a result of a change in the external political environmen may have contributed to an organizational climate that was less favorable to microfinance over time, ownership and governance structure did not fully determine the bank's response to organizational complexity because it continued to support microfinance for 5 years after the power balance had shifted against it.

The role of organizational structure over time. The role of organizational structure in the demise of microfinance at CB appears to be counterintuitive if it is simply seen as a reflection of the power balance in the organization and, thus, as a determining factor in the organization's response to institutional complexity. This is because the formalization of microfinance as a legitimate activity in the bank as reflected in the decision to turn it into an independent Business Unit ended up contributing to its demise instead of bolstering its position in the bank. The structural decision to turn microfinance into a separate Business Unit exposed microfinance to the same financial discipline as the rest of the bank, privileging the need for profitability over social impact. Once microfinance was put on par with the bank's commercial activities through this restructuring decision, sustaining microfinance in the bank became an uphill battle because it could never match the profitability of the other Business Units.

Yet the reversal of this structural decision – following the growing arrears problem microfinance was facing – did not return microfinance to the protected "under the radar" status that it had enjoyed under the same organizational structure in its early success years. During these early years top-down power was used to informally shield microfinance from commercial pressures; in 2002 not only was this top-down shielding power no longer available, the decision to formally expose microfinance to financial discipline through its

Business Unit status was irreversible. As a result the very same organizational structure that had helped protect microfinance in its early success years, now worked against it because it empowered branch managers to take full control over it. As we have shown, these branch managers were not inclined to continue supporting microfinance for reasons ranging from accumulated resentment and jealousy, lack of understanding, and lower financial returns, to political self-interests that pushed them to misappropriate microfinance and its officers' time.

The determining role of organizational structure in CB's response to institutional complexity is therefore far from clear because the very act of formally acknowledging microfinance's legitimacy in the form of an independent Business Unit – which was perfectly aligned with institutional pressures from microfinance experts to make microfinance financially sustainable – ended up contributing to its demise over time by making it primarily accountable for financial performance rather than social impact.

The role of organizational identity over time. Organizational identity was informally contested from the very beginning even though the bank's hybrid identity was formally embedded in its founding charter, and was formally acknowledged and supported by the bank throughout the 15-year lifespan of its development activities. The language of microfinance's early supporters at the top management level of the bank in terms of political "battles", "war", and "struggle", suggests that the bank's hybrid identity was never really accepted by its commercial bankers. It was only when microfinance begin to have clear, positive reputational effects for the bank that some commercial bankers could see why it might be a useful part of the bank's organizational identity. Despite the occasional conversion experience to microfinance's social mission, the branch managers' responses to microfinance officers also reflect a general lack of acceptance of the bank's hybrid identity, based not only on a lack of understanding, but also on the accumulation of jealousy and resentment.

Yet within the bank’s microfinance unit the bank’s hybrid identity was seen as perfectly clear and legitimate. Microfinance itself therefore did not suffer from some of the possible problems Battilana and Dorado (2010) highlighted with microfinance as a hybrid activity, possibly – as Battilana and Dorado show - because CB’s microfinance unit hired people who did not have a background in commercial banking and fully identified with microfinance’s social mission. The problem therefore was neither the sustainability of microfinance as a hybrid activity in and of itself, nor its lack of embeddedness in the bank’s formal identity. Rather, it was the inability and unwillingness of the commercial bankers who were not involved in microfinance themselves to accept microfinance as a legitimate part of the bank’s organizational identity. Although they initially tolerated microfinance for its positive reputational effects, their resentment ultimately grew to the point where they were happy to see microfinance and its supporters go, and to actively facilitate this process, even when microfinance did not negatively affect the commercial activities of the bank.

Just as the determining role of organizational structure in CB’s response to institutional complexity over time was unclear due to the temporal dynamics involved, the determining role of organizational identity as a “filter” (Greenwood et al., 2011) for institutional complexity is therefore also not as clear as the structural static approach to institutional complexity suggests. This is because CB’s organizational identity was multi-facetted involving formal and informal components that were affected by the political processes involved in legitimating and sustaining microfinance in the bank. Whereas at first there was an acceptance or tolerance for microfinance in the bank based on the bank’s founding charter and microfinance’s positive reputational effects, despite informal misgivings, this acceptance and tolerance quickly changed to hostility when resentment and jealousy continued to accumulate, and top-down, formal support for microfinance declined as a result of the removal of its supporters and its weakening financial performance.

In sum, rather than being structurally determined by a delimited number of structural factors, our analysis suggests that the political processes involved in an organization's struggle to respond to multiple, contradictory institutional pressures can have their own intrinsic dynamics that influence how it is likely to respond to these pressures at any given time. These dynamics *produce* some of the structural factors that are thought to determine the organization's response and thus form an integral part of the political process itself rather than being extrinsic determinants of this process. Moreover, our analysis suggests that in evaluating an organization's response to institutional complexity it is important to differentiate between an organization's formal response, and the informal processes that affect this formal response over time, as these are not necessarily aligned. Whilst the organization's formal response to institutional complexity might indicate that its attempt at hybridity is sustainable and formally embedded and supported, informal processes can slowly undermine the sustainability of this hybridity over time, triggering a negative spiral from which it is impossible to recover, regardless of the structural factors that continue to point to the viability and sustainability of hybridity. Our study shows that social initiatives launched from within commercial organizations are likely to be subjected to significant internal political pressures that are informed by radically different world views, even when the organization is ostensibly committed to social objectives. We have shown that the particular political processes through which these pressures play themselves out can have a significant impact on the possibility of a stable form of hybridity, shaping structural factors such as governance, structure, and identity, instead of being determined by them.

The Nonlinear, Nondeterministic Nature of Organizational Politics Over Time

Lepisto and Pratt (2011) argue that there is a need to consider the central role of human experience and time in research on organizational politics. Our analysis has shown that the particular *meanings* attributed to (the effects of) the use of political skill in organizations over time can be at least as important for the political dynamics that unfold as the nature and effectiveness of political skill itself. In our case study the commercial bankers' attributions of self-interested political motives to the first MD's attempt to shield microfinance from commercial pressures became a major factor in the political process itself because it contributed to the resentful view that microfinance had become a "bank within a bank" with a protected status that was unjustified. This in itself triggered political countermobilization even though microfinance was quite independent from the commercial banking arm; its existence could be justified based on the founding charter of the bank; and its success had positive reputational effects for the bank as a whole. Thus the human experience of jealousy and resentment triggered by political tactics that served to successfully shield microfinance from commercial pressures in its early days, played a significant role in the way the political process unfolded over time. In our case the attribution of political motives to certain people, particularly those at the top, as well as the perception that some people were enjoying undue benefits from their political protection, in and of themselves led to political countermobilization, regardless of whether these attributions and perceptions were accurate or not. This made the political process nondeterministic in the sense that its outcome cannot be adequately explained by the success of the political tactics that were deployed; this outcome was affected by accumulation of jealousy and resentment as the unintended consequence of the initial success of microfinance's early supporters in the bank.

This accumulated resentment and jealousy also made the political process nonlinear in the sense that they acted as an accelerant at particular, critical points in time. For example, both the removal of the first MD in 2000, and the decision to subordinate microfinance to the authority of branch managers in 2004, created the conditions of possibility for the resentment and jealousy that had accumulated in the background to suddenly come to the foreground, producing political behaviours that served to isolate microfinance supporters at the bank both at the top and branch levels of the bank. Commercial bankers thus used politically opportune moments in time to channel their growing jealousy and resentment into political actions that contributed to the ultimate demise of microfinance in the bank. Neither this outcome, nor the timeline along which this process played itself out, could have been predicted by the nature and success of the political tactics that were used to shield and sustain microfinance in the bank in its early success period. In order to fully understand the effects of organizational politics and particular political skills and tactics on organizational decisions and outcomes, it is therefore very important to consider organizational politics as a nonlinear, nondeterministic process over time.

By taking this process seriously in future research not only can we expose some of the limits of structural explanations of organizational responses to institutional complexity, we can also begin to better understand why and how some social initiatives in commercial organizations survive, whereas others don't. In this way we can continue to contribute to the goal of making institutional research not only more rigorous, but also more relevant.

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Table 1 Individuals interviewed		
	Person interviewed	Position in the microfinance programme of the case study bank
1	Founding senior executive	A close confidante of the pro-microfinance Managing Director. Executive in-charge of microfinance operations, he played an instrumental role in establishing the microfinance programme. A development banker with experience in rural finance.
2	Founding manager	As a consultant representing the company hired to assess viability of microfinance in the bank, he was hired as the first operational head of microfinance. A management consultant with background in reviewing development project funded by donors such as the World Bank.
3	Commercial banker	A commercial bank branch officer who also served microfinance clients in the branch. A commercial banker with no microfinance or related experience.
4	Senior manager 1	One of the first field managers hired by the microfinance programme. A mechanical engineer with extensive small enterprise development experience with projects funded by international donors in Pakistan.
5	Senior manager 2	A commercial bank manager transferred to microfinance as operational head. Remained operational head during the days when microfinance was in decline.
6	Senior manager 3	A commercial bank manager transferred to microfinance as operational head.
7	Field manager 1	A mechanical engineer with extensive small enterprise development experience with projects funded by international donors in Pakistan.
8	Field manager 2	He was responsible for a major donor funded microfinance project, entrusted to the bank, in a backward region. An experienced development practitioner with stints at various development projects funded by donors.
9	Field manager 3	One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.
10	Field manager 4	One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.
11	Field manager 5	One of the senior field managers hired during the early days of microfinance at the bank. An experienced development practitioner with stints at various development projects funded by donors.
12	Field manager 6	A field manager who was transferred to commercial banking as a branch manager. A rarity in microfinance. An experienced development practitioner with stints at various development projects funded by donors.
13	Field officer 1	A commercial banker transferred to microfinance at the time of rapid growth. He later opted out of microfinance and returned to his commercial banking position.
14	Field officer 2	A relatively young and inexperienced field officer.
15	Manager MIS	A head office based microfinance officer. An experienced development practitioner with stints at various development projects funded by donors.

Table 2 Shielding of microfinance at the top management level – Tactics and their consequences

Early days (1993-1996)		Growth phase (1997 – 1999)			Changes at the Top (2000-2001)	Beginning of the End (2002-2003)	Microfinance’s Demise (2003-2008)
Support Tactics: Forming a powerful coalition based on internal and external support “The [MD] was a powerful and charismatic personality...he would send out signals [in favour of microfinance] to the government... and get things done” **Short-term positive effects for microfinance at CB:** Ability to overcome resistance from top level commercial bankers and carve a space for microfinance in the bank **“**...there were devil’s advocates...but once we established a convincing proposal for	**Support Tactics** Appeal to founding charter as a source of internal legitimacy: “...the bank was supposed to help unleash development in agricultural and rural livelihood ... industrialisation ... it was not created to add another commercial bank...” **Short-term positive effects for microfinance at CB** Helped legitimate the initiation of microfinance at CB and helped overcome resistance from commercial bankers “[Microfinance officers] have been entrusted with ... the development of micro businesses. Managers should ensure that [the work of	**Support Tactics** Reduce dependency by tapping into external funding “...the negative perception held by commercial bankers forced us to begin to look for alternative sources of funding.... it was suggested that [that an international donor] provide [funding]...[that international donor] gladly obliged...”.` **Short-term positive effects for microfinance at CB** Shields microfinance from the funding rules that apply to commercial banking “...commercial bankers... were not comfortable with using depositors’ money for microfinance...[the central bank] had guidelines restricting such funding...so we accessed alternative sources of funding...”	**Support Tactics** Protect loan officers in the branches: “…on a few occasions I complained to [the executive head of microfinance] because the branch manager was not cooperating…the branch manager immediately started cooperating...” **Short-term positive effects for microfinance at CB** Enabled microfinance loan officers to get on with their jobs with the resources they needed, without interference from branch managers **Longer term unintended negative consequences for microfinance at CB** Created jealousy and resentment at branch level in relation to the preferential treatment	**Support Tactics**: Appeal to external legitimacy based on more visible, positive profile of the bank “...how many [commercial banks] can boast about the kind of comments and appreciation that we got from major international donors...?” **Short-term positive effects for microfinance at CB** Helped legitimate microfinance and overcome internal resistance: “…seasoned [commercial banking] managers …have accepted that [microfinance] was the only product which actually boosted bank’s goodwill…” **Longer term**	**Support Tactics** Justifying and translating microfinance in commercial banking terms by a operational restructuring "It needs to be emphasised that sound banking principals of profitability and efficiency are as much applicable to microfinance as it is to normal commercial banking. In fact microfinance requires stricter controls" (office memo) **Short-term positive effects for microfinance at CB** Helped appease hostile top management “…I am pleased to inform you that [microfinance] has attained an encouraging level of self-sufficiency. …[this] has given us immense confidence to go ahead and build further on the	**Support Tactics** Restructuring to address rising arrears by delegating power to the branch managers “...through the present restructuring exercise, broader team effort is being sought, especially from branches...healthy microfinance portfolio would also have a positive effect on profitability.” **Longer term unintended negative consequences for microfinance at CB** Misuse of powers by branch managers; vicious cycle of portfolio deterioration and staff demoralisation “…it has been observed that sanctioning powers delegated to designated branches have not been used for prudent lending…the rate of	**Support Tactics** Renegotiate terms with external resource providers to allow for higher interest rates on microfinance lending “…it is not commercially viable for [CB} to extend its outreach…because the interest rate spread …is not sufficient to cover…cost of operations…” (Funder memo) **Longer term unintended negative consequences for microfinance at CB** Stalemate in negotiations and termination of donor funding contracts resulted in further slowdown in portfolio expansion and deterioration in portfolio health “Reasons for default…loans disbursed in far-flung areas…after termination of the

microfinance [for the MD]...the system was opened to work for us..." **Longer term unintended negative consequences for microfinance at CB** <ins>Increased resentment amongst top level commercial bankers based on the attribution of personal aggrandisement and self-interested power motives</ins> "[The successor to the pro-microfinance MD] thought that [microfinance] was ... 'a bank within a bank'...and that the microfinance people have carved a little domain for themselves in the bank"	microfinance officers] does not suffer, due to administrative reasons". [office memo] **Longer term unintended negative consequences for microfinance at CB** CB, clearly a commercial bank per founding charter, but the nature of its development focus not specified, leaving this form of legitimation open to counter arguments "The bankers at CB did not care about social concerns...they thought giving any type of loans would have social impact... they did not have microfinance in their plans..."	**Longer term unintended negative consequences for microfinance at CB** External funding deals ultimately contributed to the demise of microfinance because these were inflexible and became relatively expensive, contributing to microfinance's poor performance "The pricing structure of [donor funded project] credit lines [has] inadequate spread… the cost of micro lending…exceed its returns…" (office memo) "CB was making losses in its [donor funded] micro lending operations particularly due to subsidised lending rates…the cost of operation was quite high.." (office memo)	given to microfinance loan officers "[As an auditor] I conducted a branch inspection and marked a microfinance officer late...[the executive head of microfinance] called me on the same day and said 'you are wasting your and MD's time'...this created rivalries as branch managers' late office used to be reported late but not the microfinance officers..."	**unintended negative consequences for microfinance at CB** <ins>Microfinance's legitimacy based on its contribution to the CB brand became questionable when such brand perception became less important at societal or governance levels.</ins> "...there was a time when people used to recognise CB due to its pioneering work in microfinance but over the years CB management could not see the benefits in microfinance..."	foundations laid five back" (MD's memo) **Longer term unintended negative consequences for microfinance at CB** <ins>Translating microfinance in commercial terms meant that it became subject to the rules of commercial banking hence difficult to justify due to its lower profitability and perceived higher risk</ins> "…[microfinance] market segment is considered too risky and costly by the bankers…portfolio size considered too small relative to the effort required to manage it"	default in fresh lending has been on the rise persistently…" "[frequent restructuring] not only created doubts about the future of microfinance but also resulted in demoralization of the staff, shrinking of loan portfolio and deterioration of repayment ratio" (official memo)	[donor funded] projects there was no support available [to monitor loans] and rate of default started growing tremendously…" (office memo)

Table 3 Appeasement and negotiation at branch level – Tactics and consequences

Early days (1993-1996)	Growth phase (1997 – 1999)	Changes at the Top (2000-2001)	Beginning of the End (2002-2003)	Microfinance's Demise (2003-2008)
Support Tactics Converting branch managers to the microfinance cause "... [The branch manager] used to question me 'why give loans to the riff raff of society?'... I personally involved him in [microfinance operations] … I showed him how those people [i.e. microfinance clients] were running their businesses…" **Short-term positive effects for microfinance at CB** Helped overcome commercial banking identity as a source of resistance at the branch level "In the start, I was against [microfinance]…but I achieved job satisfaction as I started helping the poor [through microfinance]…" (commercial banker turned microfinance manager)	**Support Tactics** Building friendly relations through favours "...I had developed personal rapport with branch managers; this personal relationship was beyond our work... so it [support to microfinance operations by the branch manager] was like a personal favour...it was friendship..." **Short-term positive effects for microfinance at CB** Transcended any resistance at the branch level through an appeal to the logic of 'pukhto' and 'biraderi' "... we were not accepted as [bank] employees... but …after spending some time in my branch ...it was a matter of 'Pukhto' [i.e. Pashtun tribal code of honour between men]... so lots of things [about microfinance] were overlooked [by branch staff]..." **Longer term unintended negative consequences for microfinance at CB** Branch requests to accommodate commercial borrowers in microfinance as a tit for tat resulting in loan defaults. "…loans have been disbursed either on the recommendation or guarantees of fellow [branch] colleagues … [microfinance officers] are advised to issue notices to all such staff members to contact the delinquent borrowers…" (office memo)	**Support Tactics** Translating and justifying microfinance in commercial banking terms "...to the branch manager interested in deposits, we used to say 'Mr Manager, you will get a new deposit client soon as [a potential client] is a friend of mine and he will open his account soon' ...I used to highlight a different aspect of my work, in line with the perspectives of those people" **Short-term positive effects for microfinance at CB** Helped overcome cognitive lack of understanding as a source of resistance at the branch level " Commercial bankers did become aware that one commercial loan default was a huge loss to the bank, but in [microfinance] loans if a single loan defaulted that did not affect the portfolio that much…" **Longer term unintended negative consequences for microfinance at CB** Difficult to justify microfinance in commercial terms due to its lower profitability and perceived higher risk "Returns in microfinance are mostly intangible… Employment generation, poverty alleviation etc. but a branch is concerned with a monetary return on investment…although [interest rates] are high in microfinance but..expenses are high as well…"	**Support Tactics** Building friendly relations through favours "...we contributed to [commercial banking] branch operations of our branch in addition to our microfinance work..." **Short-term positive effects for microfinance at CB** Avoid branch level resistance "…due to [engaging in commercial branch work] our relationship with the branch was better..." **Longer term unintended negative consequences for microfinance at CB** Growth and quality of microfinance portfolio suffered as staff informally diverted to branch operations "Reasons for increase in non-performing loans [in microfinance] … [Microfinance] field staff remain busy at deskwork…in the branches and… monitoring and follow up thus could not continue"	

Table 4 Chronology of Key Events			
Year(s)	**CB Phases**	**Intra-organisational events**	**Field events**
1991	Founding of CB	CB founded by a regional government as a commercial bank with a developmental mission Pro-microfinance top management team	Microcredit emerging as a poverty alleviation tool; Donor funded, mostly government run, microcredit projects proliferate in Pakistan. 1995: "Micro and small enterprise finance: Guiding principles for selecting and supporting intermediaries" developed and endorsed by international donors to promote financially sustainable microfinance organisations.
1993-1996	Early days of microfinance	1995: CB launches small enterprise and rural finance programme	
1997-1999	Growth	1997:'Microfinance' department established; funding for microfinance operations obtained from international donors. Rapid growth through participation in donor funded multi-sectoral Area Development Projects including microfinance as a component. Microfinance field staff hired from the local development sector.	1995: Pro-commercialisation global microfinance standard setter CGAP established by international donors. 1996: KASHF Foundation. the first 'microfinance only' specialised NGO, and a Grameen replication, established in Pakistan. 1997: The Grameen Bank inspired annual Microcredit Summit Campaign launched at the global level to promote microfinance as a poverty focussed development tool.
2000-2001	Changes at the top	Departure of the pro-microfinance MD Microfinance department restructured as an independent business unit; briefly achieves profitability Consumer lending to salaried customers launched.	2000: Federal government establishes donor funded Pakistan Poverty Alleviation Fund that provides highly subsidised funding to microfinance organisations that predominantly include NGOs. 2000: Khushhali Bank, a donor funded and government initiated microfinance bank established.
2002-2003	Beginning of the end	Frequent restructuring of the microfinance operations to stem escalating portfolio arrear rates. 2002: Microfinance operations head, from a well known secular political family, quits CB. 2003: CB's board, comprising of government officials, takes notice of the deteriorating portfolio health of microfinance.	2002: Regional elections bring a coalition of Islamist parties to power in CB's place of domicile.
2003-2008	Microfinance's demise	CB asks for revision of microfinance interest rates in donor projects due to increasing operational costs of microfinance operations and reduced cost of funds in the financial market; The regional government, the conduit of the donor funding, refuses to agree. 2005: all donor funding contracts terminated, funding returned to the government, donor funded projects stopped. 2008: Microfinance operations cease, except consumer lending.	2007: CGAP's review of Pakistani microfinance notes (Duflos et al 2007): "...lack of strong sustainable..." microfinance organisations (p.1) and "...sustainability is not a major focus..." in the sector (p.13). 2008: A review of Pakistani microfinance sector reveals consistently negative aggregate profitability ratios over the years; over 66% of the aggregate microfinance portfolio of the sector held by non-profit organisations (Pakistan Microfinance Network, 2008).

TABLE 5: The Unintended Consequences of Political Tactics in Support of Microfinance at CB

Political work by hierarchy level	Political tactics to support microfinance	Short-term positive effects for microfinance at CB	Longer term unintended negative consequences for microfinance at CB
Top management: ***SHIELDING***	Forming a powerful coalition based on internal and external support	Ability to overcome resistance from commercial bankers at the top level and carve a space for microfinance in the bank	Increased resentment amongst top level commercial bankers based on the attribution of personal aggrandisement and self-interested power motives, instead of social motives to the MD as leader of the microfinance coalition
	Protect loan officers in the branches	Enabled microfinance loan officers to get on with their jobs with the resources they needed, without interference from branch managers	Created jealousy and resentment at branch level in relation to the preferential treatment given to microfinance loan officers, ultimately causing a backlash
	Reduce dependency by tapping into external funding	Shields microfinance from the funding rules that apply to commercial banking	External funding deals ultimately contributed to the demise of microfinance because these were inflexible and became relatively expensive, contributing to microfinance's poor performance
	Appeal to founding charter as a source of internal legitimacy for microfinance	Helped legitimate the initiation of microfinance at CB and helped overcome resistance from commercial bankers	The founding charter also clearly refers to CB as a commercial bank and the nature of its development focus is not specified, leaving this form of legitimation open to politically motivated counter arguments
	Appeal to external legitimacy based on more visible, positive profile of the bank	Helped legitimate microfinance and overcome internal resistance	Microfinance's external importance was reduced when external political priorities changed in favour of Islamic finance, thus weakening this source of external legitimacy
Branch level: ***APPEASEMENT AND NEGOTIATION***	Converting branch managers to the microfinance cause	Helped overcome commercial banking identity as a source of resistance at the branch level	Some branch managers began misappropriating microfinance, providing microfinance loans to their commercial banking acquaintances and/or clients instead of the poor
	Translating and justifying microfinance in commercial banking terms	Helped overcome cognitive lack of understanding as a source of resistance at the branch level	Translating microfinance in commercial terms meant that it became subject to the rules of commercial banking through which microfinance was difficult to justify due to its lower profitability and perceived higher risk
	Building friendly relations through favours	Transcended resistance at the branch level through an appeal to the logic of 'pukhto' and 'biraderi'	Took time away from microfinance officers who had to spend more time in the branch to appease branch managers, contributing to poor microfinance performance