BUILDING SUSTAINABLE HYBRID ORGANIZATIONS: THE CASE OF COMMERCIAL MICROFINANCE ORGANIZATIONS

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ABSTRACT

We explore how new types of hybrid organizations (organizations that combine institutional logics in unprecedented ways) can develop and maintain their hybrid nature in the absence of a "ready-to-wear" model for handling the tensions between the logics they combine. The results of our comparative study of two pioneering commercial microfinance organizations suggest that to be sustainable new types of hybrid organizations need to create a common organizational identity that strikes a balance between the logics they combine. Our evidence further suggests that the crucial early levers for developing such an organizational identity among organizational members are hiring and socialization policies.

Keywords: Hybrid organizations, institutional logics, organizational identity, social entrepreneurship

INTRODUCTION

In the early 1990s, following explosive demand for their services, a number of nongovernmental organizations (NGOs) that provided loans to the poor decided that the only way to keep up with the demand was to spin off commercial microfinance organizations. These new organizations combined two previously separate logics: a *development* logic that guided their mission to help the poor, and a *banking* logic that required profits sufficient to support ongoing operations and fulfill fiduciary obligations. Observers feared that transgressing the boundaries between providers of services to the poor and providers of financial services would jeopardize the fundamental mission of helping the poor (see, e.g., Drake & Otero, 1992). The pioneering commercial microfinance organizations thus faced the double challenge of having to survive as new ventures while striking a delicate balance between the banking and development logics they combined so as to avoid mission drift.

Founding a new venture is risky under any conditions (Stinchcombe, 1965). When the startup is a new type of hybrid organization, that is, one that combines in unprecedented ways different institutional logics, it is especially so (Scott & Meyer, 1991). A few studies have explored the challenges faced by hybrid organizations arising from tensions and potential conflicts among the logics they embody (Heimer, 1999; Glynn, 2000; Zilber, 2002). These studies, however, were of mature organizations where institutionally prescribed "archetypal" forms were well-established (Greenwood & Hinings, 1993) thereby providing models for how to handle potential conflicts among logics.

In contrast, new types of hybrid organizations cannot rely on any "ready-to-wear" model. Research has shown that in this context tensions and potential conflicts among logics might abate as one logic gains dominance over others (Selznick, 1949) thereby suggesting that new types of

hybrid organizations are highly unstable and unlikely to retain their hybrid nature over time (Scott & Meyer, 1991). This finding, echoing the fears expressed by observers of commercial microfinance, raises the question of whether, and if so how, new types of hybrid organizations can build and maintain their hybrid nature.

We explored this question through a comparative case study (Eisenhardt, 1989) of two pioneering commercial microfinance organizations: Banco Solidario (BancoSol) and Caja de Ahorro y Prestamo Los Andes (Los Andes). These two organizations, which were both created in the early nineties in Bolivia, faced the same challenge of building and maintaining their hybrid nature but they approached it differently and with varying success. They thus provided an ideal field setting for addressing our research question.

The results of our comparative study suggest that to be sustainable new types of hybrid organizations need to create a common organizational identity that strikes a balance between the logics they combine. Such an identity prevents the formation of sub-group identities within the organization. These sub-group identities, if they emerge, may exacerbate tensions between the logics thereby making their combination untenable. Our study further suggests that the crucial early levers for developing an organizational identity that supports the sustainability of novel logic combination are hiring policies, which define who can become an organizational member, and socialization policies, which teach and reinforce desired behaviors and values in hires (Van Maanen & Schein, 1979). Our study also identifies limits to the influence of hiring and socialization policies in mitigating tensions between institutional logics within organizations. Overall, it responds to calls for research bridging the intra-organizational and institutional levels of analysis (Hirsch and Lounsbury, 1997; Greenwood and Hinings, 1996).

THE CHALLENGE OF SUSTAINABLY COMBINING LOGICS FOR NOVEL HYBRIDS

Institutional logics are broader belief systems that shape cognition and guide decision making in a field (Friedland & Alford, 1991; Ocasio, 1997; Thornton, 2004; Suddaby & Greenwood 2005). They are taken-for-granted social prescriptions that represent shared understandings of what constitute legitimate goals and how they might be pursued (Scott, 1994). Over the past two decades, research in institutional theory has studied the role logics play in shaping actors' beliefs and practices as well as how these logics emerge, rise, and fall (Thornton & Ocasio, 1999; Dobbin, 1994).

Research has also shown that multiple institutional logics often co-exist within organizational fields (e.g., Reay & Hinings, 2005; Marquis & Lounsbury, 2007), and that these multiple logics might impose different, and potentially conflicting, demands on organizations (D'Aunno, Sutton, & Price, 1991; Goodrick & Salancik, 1996; Oliver, 1991). These studies have contributed to explaining variance in organizational practices within and across organizational fields (Lounsbury, 2007). They have rarely, however, examined how organizations deal internally with institutional pluralism, that is, with demands imposed by multiple institutional logics (Kraatz & Block, 2008; Pache & Santos, forthcoming).

Dealing with multiple institutional logics is challenging for organizations because it is likely to trigger internal tensions that might ultimately generate conflicts among organization members, who are ultimately the ones who enact institutional logics (Heimer, 1999; Glynn, 2000; Zilber, 2002). It is particularly challenging for new types of hybrid organizations because, in contrast with organizations that incarnate existing organizational archetypes, they can rely neither on a

"ready-to-wear" model for handling the tension between the logics they combine nor on a pool of job candidates with "ready-to-wear" experience in doing so.

What new types of hybrid organizations can do is hire candidates who have worked in organizations with archetypes that embody each of the institutional logics they combine. These individuals are likely to have capabilities that the new hybrid organization can leverage. But, because of their previous training, experience, and general exposure to the workings of organizations embodying existing archetypes, these hires are also likely to be carriers of the institutional logics that these archetypes incarnate (March & Olsen, 1976, 1989; Wheeler, Buckley, Halbesleben, Brouer, & Ferris, 2005). They will thus have preconceived notions as to what to expect and how to behave in organizations (Bourdieu, 1998; Scott, Ruef, Mendel, & Caronna, 2000; Scott, 2003). Who then should new types of hybrid organizations hire? Should commercial microfinance organizations, for example, hire carriers only of the banking or only of the development logic? Neither? Or both? And how can such hybrid organizations socialize their organizational members into a desired set of behaviors and values so as to build and maintain their hybrid nature? These are the questions that we set out to explore.

METHODS

BancoSol and Los Andes, our two research sites, had similar histories and organizational structures. Both were created at approximately the same time, in the early 1990s, as spinoffs from existing NGOs. Both had their headquarters in La Paz and a network of local offices clustered into regional centers. Both were forced to address the coordination challenges imposed by Bolivia's poor infrastructure across the imposing topography that includes the Andean Altiplano next to the Amazonian jungle. Apart from lending decisions, which by and large were made at the local office level in both organizations, they both adopted relatively centralized

decision-making processes. Critical areas such as marketing and hiring were managed from headquarters, and local branches reported daily on their operations to the central office, which in turn reported to Bolivia's banking authority. Finally, both organizations invested heavily in the development of information systems adjusted to the practice of microfinance, which, in contrast with conventional banking, demands for loan officers to assume responsibility not only for the sale, but also for the evaluation, and the collection of loans (see Churchill & Frankiewicz, 2006).

Prodem (hereafter referred to as BancoSol-NGO) began operating in 1987 with the support of Acción International, a U.S.-based NGO that created one of the most important microfinance networks in the world. Under the leadership of Francisco (Pancho) Otero, a local NGO professional, BancoSol-NGO succeeded beyond anyone's expectations. It decided to spin off BancoSol in 1992. In turn, ProCrédito (or Los Andes-NGO) began operating in 1992 with the support of International Project Consulting (IPC), a Germany-based development consulting organization which then went on to create the ProCredit network. Under the leadership of Pilar Velasco, another local development professional, Los Andes-NGO launched its commercial microfinance organization in 1995.

Data Collection

One of the authors collected data during three visits to Bolivia, in 1997 (two weeks), 1998 (four months), and 2000 (two weeks).[1] From 78 interviewees we derived knowledge not only specific to the two cases, but also about other microfinance organizations and the Bolivian national context. Preliminary conversations with key participants helped us to identify and gain access to the initial interviewees. Subsequent interviewees were identified through a "snowball"

[1] An additional interview was conducted by both authors in August 2009.

process. Interviews averaged one-and-a-half hours, were open-ended, and followed a protocol that evolved with the research project (Strauss & Corbin, 1998). Among the general questions included in the protocol were: What is the history of the organization? How and when did you become personally involved in it? How/when/why did other people become involved? Also included were specific questions adjusted to the background of the interviewee. For example, human resource managers were asked to describe human resource policies and their implementation, and loan officers to describe their jobs. All but the handful of interviews conducted in public spaces (where sound quality was poor) were taped and transcribed.

The author who went into the field also visited local offices of both organizations in Bolivia's largest cities (La Paz, Santa Cruz, and Cochabamba) and accompanied loan officers on lending trips. She also visited the offices and went into the field with loan officers of two microfinance NGOs (FIE and ProMujer) and one commercial lender (Crediagil).

Data Analysis

We approached our analysis of how BancoSol and Los Andes dealt with the challenge of building organizations with unprecedented logic combinations through an in-depth comparative analysis of differences and similarities in their approach (Eisenhardt, 1989). We identified the questions relevant to how they built and maintained their hybrid nature through an exploration of patterns in the data collected (Strauss & Corbin, 1998). This exploration included four separate steps designed to facilitate understanding of ambiguous information while avoiding premature analytical biases. In the first step, we balanced loyalty to the data collected with avoidance of "data asphyxiation" (Pettigrew, 1990) by focusing first on a reduced number of interviews selected on the basis of wealth of information and potential for variance (Strauss & Corbin, 1998). This reduced sample included four interviews with BancoSol staff and seven with Los

Andes staff. Oversampling of Los Andes' interviews was important because less archival information was available about this organization. The line-by-line analysis of this sample of interviews focused on extracting interviewees' meaning with as little analysis as possible.

The second step involved a detailed analysis of this reduced set of interviews to cluster information that addressed primary questions such as what, why, who, how, and when (Lofland, 1976). This clustering allowed us to identify emergent themes in the interviewees' comments without introducing premature analytical biases. In the third step we shifted our focus to a dialogue between theory and data (Ragin, 1994). Our focus on how BancoSol and Los Andes dealt with the challenges of building and maintaining their hybrid nature emerged after observing the dominance, both in the interviews and in the case studies (see e.g. Drake & Otero, 1992; Glosser, 1994; Schmidt & Zeitinger, 1994), of discussions about how challenging it was for both organizations to handle tensions between the development and banking logics. Our analysis of the interviews and archival data revealed that organizational identity, which entails the central, distinctive, and enduring organizational attributes that define how organization members answer the question "Who are we?" (Albert & Whetten, 1985; Whetten, 2006), played a crucial role in handling these tensions in both organizations. This observation resonated with findings from the identity literature on the relevance of organizational identity for organizations to incorporate multiplicity (Albert & Whetten, 1985; Pratt & Foreman, 2000; Pratt & Kraatz, 2009) as well as with findings from the institutional literature on the role of organizational factors in how actors handle tensions between institutional logics (Fine, 1995; Binder, 2007).

The analysis of the interviews also revealed that hiring policies, which define who can become an organizational member, and socialization policies, which teach and reinforce desired behaviors and values in hires (Van Maanen & Schein, 1979) were the key levers used to

influence the formation of BancoSol's and Los Andes' organizational identities. Echoing findings from research on socialization (Feldman, 1976, 2002; Gomez, 2009; Jones, 1986; Saks & Ashforth, 1997), we identified training, promotion and incentive systems as the key design factors that were leveraged in both organizations to teach and reinforce desired behaviors and values in organization members. This observation coincided with those from the literature on organizational identity (Alvesson & Kärreman, 2007; Ashforth & Mael, 1989, 1996; Wang & Pratt, 2008), the old institutionalism (Selznick, 1949, 1957), and startups (Aldrich & Ruef, 2006; Burton, 1995; Baron, Hannan, & Burton, 2001; Aldrich, 1999), which identify hiring and socialization as primary levers for imprinting organizational attributes at the time of organizational founding.

The final step of the pattern analysis of the evidence was to confirm our preliminary findings in the larger set of interviews conducted and the field notes taken during site visits and lending trips with loan officers. In the interviews, this confirmatory analysis was abetted by a search, using qualitative research software (NUD*IST), for relevant keywords including "attract," "contract," "hire," "training," "employment," "job," "career," and "incentives." This simple search served to assure that we were not missing alternative views of the hiring and socialization policies employed by BancoSol and Los Andes, thereby helping us to complete the narrative.

In the sections that follow, we offer background information on the rise of microfinance and then focus on BancoSol and Los Andes to introduce the results of our analysis. Following Lincoln & Guba (1985), we divide the presentation of our results into first-order interpretations, those closer to our interview data, archival materials, and field notes, and second-order interpretations in which we proceed to answer our research question.

THE RISE OF MICROFINANCE

The origin of microfinance is generally traced to the Grameen Bank, founded in Bangladesh in 1975 by Professor Mohamed Yunus, who characterizes the mission of microfinance organizations as to provide to the poor, whom he describes as "natural entrepreneurs," working capital with which to realize their entrepreneurial instincts (Bruck, 2006). "Market vendors [buy] on the days the big trucks come—Wednesdays and Fridays. They [sell] over the weekend. On Mondays they have money" (Rhyne, 2001). By way of example, a $100 loan enables a market vendor to buy merchandise during the week, sell it at retail over the weekend at a healthy markup, and, after repaying the loan, still take home a healthy profit on Monday. Before the advent of microfinance, such small size loans were only available from informal lenders (e.g., loansharks, pawnshops) at annual rates well over 100 percent because conventional formal financial institutions were skewed towards serving wealthy borrowers.

Microfinance was initially regarded as a purely not-for-profit endeavor undertaken mainly by NGOs and reliant on donations for financing. Microfinance NGOs departed from traditional NGOs in claiming that lending to the poor could be managed as a self-sustaining endeavor by charging interest rates sufficiently high to cover the cost of lending, and insisting on loan repayment, which was previously largely considered desirable, but not required of the poor (see Adams & Von Pischke, 1992). The departure from the NGO archetype became more extreme in the early 1990s, after BancoSol-NGO and Los Andes-NGO spun off their lending operations into regulated commercial organizations (BancoSol and Los Andes) in an effort to gain access to commercial funds needed to keep pace with the burgeoning demand from the poor for loans.

The newly created commercial microfinance organizations continued to provide loans to low-income entrepreneurs in the manner of NGOs through targeting individuals disenfranchised

from the financial sector, but by becoming financial intermediaries, incurred fiduciary responsibilities to depositors and investors (Otero & Rhyne, 1994; Drake & Otero, 1992). BancoSol and Los Andes were subject to regulations and supervision and, correspondingly, to the thinking of conventional financial institutions (Drake & Otero, 1992). They did not, however, embrace exclusively the banking archetype. Instead, they became a new type of hybrid combining the development and banking logics in an unprecedented way. The development logic pressed them to retain their mission of providing access to financial services to those disenfranchised from the conventional financial sector, while the banking logic simultaneously pressed them to fulfill the fiduciary obligations of commercial financial institutions. To respond to these two mandates, commercial microfinance organizations had to bridge the development and banking logics, and in doing so, they contributed to the construction of an emergent commercial microfinance logic. Table 1 summarizes the goals, clients, and management principles that characterize the banking, development, and the emerging commercial microfinance logics.

Insert table 1 about here

Commercial microfinance organizations faced the risk of mission drift, a credible possibility because of the relative ease with which circumstances may divert organizations to prioritize the banking logic over the development one. What circumstances? One is the cost of making loans, which is about the same whether $500 or $5,000 is loaned, but the latter yields ten times more revenue. Another is that, in order to offset the boom and bust cycle-type activities in which

poorer entrepreneurs are often engaged,[2] organizations might broaden their portfolio to include a growing number of clients with access to conventional banks.

THE HYBRIDIZATION CHALLENGES AT BANCOSOL AND LOS ANDES

BancoSol and Los Andes pioneered commercial microfinance (see Navajas, Schreiner, Meyer, Gonzalez-Vega, & Rodriguez, 2000) and thus had to face the challenge of combining the development and the banking logics in the absence of institutional scripts for how to deal with the tensions between these logics. The initial challenge for both organizations was to hire senior leaders. With no organizations engaged in commercial microfinance activities, they had to identify management candidates who would be both able to handle the tensions between the banking and the development logics and willing to assume the career risk of joining an organization that did not match any existing organizational archetypes.

Another challenge was to find individuals who could serve as loan officers. As mentioned earlier, microfinance differs from conventional lending in that loan officers are expected to not only sell loans to potential borrowers, but also to evaluate these borrowers' repayment capacity, define (with the borrower) the size of the loan requested, frequently approve the loan (as part of lending committees), and collect loans in arrears (see Churchill & Frankiewicz, 2006; Roodman & Qureshi, 2006). This unprecedented combination of responsibilities required from loan officers is considered crucial to guarantee that the organizations will reach their target population and will not give loans to borrowers who cannot repay them.[3] Loan officers thus had to possess

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[2] For example, a heavy storm can flood an entire neighborhood, making it difficult for poor entrepreneurs to bring their goods to market and thus repay their loans.

[3] In contrast with traditional (e.g. loan sharks, pawnshops) and consumption (e.g. credit cards) lenders, BancoSol's and Los Andes' goal was not to maximize profits. While the profitability of traditional and consumption lenders frequently hinges on borrowers' inability to repay their loans on time, commercial microfinance organizations aim for low default rates.

a variety of skills never before requested from a single individual. "Not just anyone can do the job," explained Los Andes' operations manager. "You have to have…human sensitivity and you have to be firm. You have to like working in the field and be okay working with the profile of people we work with" (interview, April 1997). The required profile of loan officers is "subtly contradictory and not always found in the same person" (Roodman & Qureshi, 2006).

In Bolivia, loan officers had to be able to speak Aymara and Quechua—Spanish is typically a second language among the poor. The job was also physically and emotionally demanding, requiring candidates willing to work rain or shine, mornings in crowded street markets promoting loans, and afternoons in the urban sprawl evaluating businesses' and families' wealth in order to gauge borrowers' creditworthiness. Also, the loan officers of BancoSol and Los Andes needed to spend their evenings performing what was perhaps the most difficult part of their job, visiting delinquent borrowers (those with loans in arrears). With largely not fungible collaterals (i.e., not easily converted to cash for repayment) both because of their nature and because of the lack of a reliable system of contract enforcement, loan officers had to be able and willing to negotiate, cajole, and engage in outright conflict with delinquent borrowers.

Up until 1997, BancoSol provided exclusively group loans to individuals and thus relied on group members' promise of repayment of each members' loans as collateral, while Los Andes provided individual loans relying on individuals' personal property (e.g. household furniture, appliances, or farm animals) as collateral.[4] Since both forms of collateral were similarly not

[4] In both group and individual lending, loans are made to people individually. The difference is the collateral. In group loans the joint and several commitment of all members to repay each member's loan is accepted as secure collateral of the loan based on the assumption that borrowers will only join a group when they are certain that all its members will be willing and able to repay their loans. In individual lending, the lender accepts any good as collateral assuming that individuals do not want to part with their few possessions; contrary to pawnshops, these possessions are not in the lenders' possession for the duration of the loan.

fungible in the context of an overburdened and weak judicial system, the loan officers of both organizations made every effort to collect payments from delinquent borrowers before attempting to claim the collateral. Both organizations used practices such as visiting defaulted borrowers and trying to embarrass or convincingly threaten them into paying. For example, one embarrassing practice was the placing of bright orange stickers on the door of defaulted borrowers. In another example, a loan officer from BancoSol explained how she had befriended a local policeman and convinced him (although not in his official capacity) to accompany her when visiting particularly reticent defaulted borrowers (a practice also used by Los Andes' loan officers).

In interviews, loan officers from both organizations described collections as the worst part of the job. As a Los Andes' loan officer noted, "it is very hard when you are collecting on a loan and they have put the family sofas and the TV as warranty and you come to pick them up and the kids are crying" (field notes). Loan officers confessed to being particularly afraid of the dogs that seemed to be in the possession of every delinquent borrower. "You do not see the dogs when you give them the loan," observed a loan officer, a petite woman about 4 feet 9 inches tall, "but they are there and come out barking when you come to collect" (field notes, March 1998). She explained that loan officers often helped each other, frequently working in pairs when making collections.

At the time BancoSol and Los Andes were hiring, few candidates were likely to have all the skills required to be loan officers. Those who spoke the language and felt comfortable with the poor tended to have little background in financial analysis and to find it difficult to collect late payments and defaulted loans. Those with the skills needed to analyze creditworthiness had never ventured into the urban sprawl or imagined their job to be collecting loans in the face of

snarling dogs and crying children. The two organizations used remarkably different strategies to respond to this challenge.

COMBINING DEVELOPMENT AND BANKING LOGICS: BANCOSOL'S APPROACH

BancoSol-NGO's first CEO, Francisco "Pancho" Otero, was a charismatic Bolivian social activist who had been educated in the United States and built an organization, BancoSol-NGO, which had succeeded beyond anyone's expectations. BancoSol-NGO possessed what organization members and observers described as "la mística" (a Spanish term used to describe organization members' sense of ownership and commitment to the mission of the organization) (Fidler, 1998). Otero's biggest challenge soon became to keep up with BancoSol-NGO's explosive rate of growth. Donor funds were hopelessly insufficient, and access to bank funds was inadequate. A top manager at BancoSol-NGO explained that when banks declined to accept the organization's loan portfolio as collateral, recourse had to be taken to the personal wealth of Otero, his staff, and the board.

It was this situation that inspired BancoSol-NGO to spin off a commercial microfinance organization. Otero believed that the transition to a commercial microfinance organization did not entail a radical change of mission. "Yes," he conceded, "the back office changed radically, and the Superintendence [local banking regulatory authority] required us to obtain signed loan contracts and promissory notes. It is true that we did not have to do that before, but our mission was the same" (interview, March 24, 1998). Nevertheless the transition had consequences for the organization's ability to retain its hybrid nature and remain competitive in Bolivia's burgeoning microfinance sector.

Hiring: Prioritizing Individuals' Capabilities in Selection Decisions

Otero drew BancoSol's initial staff of approximately 96 from BancoSol-NGO. They were "social workers, teachers, sociologists, graduates from the school of life, ex-nuns and priests, Trostkyites and theologians" (Rhyne, 2001). Otero's reasoning when he hired these individuals was that they would be the most willing to work with the target population. "Very few people would be willing to sit in the street…next to a lady selling tomatoes and ask her information sitting on the floor" (interview April 23, 1998). Among the 96 individuals who transitioned from BancoSol-NGO to BancoSol were early hires Otero had identified using the "incubator technique," that is, asking hires with a good profile to identify others like them (Frankiewicz, 2001). Later, BancoSol adopted a formal hiring system. All candidates went through the hiring process described by a middle manager in human resources as follows:

> *From 400 applications, BancoSol hires four, five, or six people. First, we go through the applications and ask some to take a test, then we check whether they have the "social mentality" (willingness to work with street vendors). They have an interview with a psychologist, and finally an interview with the group they are going to be working with. Once selected, new hires spend a three-month testing period after which they are hired permanently (field notes, April 11, 1997).*

Whereas BancoSol-NGO hired almost exclusively individuals with backgrounds in development areas, BancoSol's hiring system resulted in the words of one interviewee, in the hiring of "individuals with backgrounds in finance, auditing, economics, social work, law, and lots and lots of anthropologists and sociologists" (interview, April 11, 1997). Those with backgrounds in social work, anthropology and sociology had capabilities more suited to working

with the poor, while those with backgrounds in finance, auditing, law and economics had capabilities more suited to lending.

This hiring system was not used to select managers, but selection decisions for managers also ended up prioritizing candidates' capabilities. Internal promotion was the favored system for filling middle manager positions (i.e., managers of regional and local offices). This preference reflected the lack of external candidates, BancoSol's faith in its own training system, and a desire to exploit its potential to gain the commitment of the staff. Positions up the career ladder were publicized within the organizations, and all employees could apply. Decisions on whom to promote to manager positions were mainly based on interpersonal assessments of individuals' capabilities and readiness to move to the next level. A middle manager in human resources explained:

> *There could be CVs sent from anywhere within Bolivia for a manager position in an agency here in La Paz. We decide based on their CV and on conversations with their coworkers. Still, there is so much interaction among employees [through the training and annual retreats] that many times we know, beforehand, who is going to be promoted (interview, April 11, 1997).*

For headquarters' management positions, BancoSol retained by and large the cadre groomed in BancoSol-NGO. In 1992, BancoSol's first year of operation, five of the seven individuals in senior leadership positions were early hires who had joined BancoSol-NGO at its founding and worked as loan officers for the first three months of operation. The other two, who were new, had backgrounds and experience in conventional banking. They were hired to assume senior positions, namely liability management and internal control, for which there was no trained

inside candidate. The decision to hire these two outsiders was consistent with BancoSol's selection approach, which ended up prioritizing individual capabilities.

The following year (1993), because BancoSol was having difficulty complying with demands from Bolivia's regulatory authorities, the board decided to recruit a deputy general manager to support Otero. A banker with more than 20 years' experience working in Citibank Canada was hired to fill the position. Subsequently, more managers with conventional banking backgrounds were hired into BancoSol's headquarters. Whereas in 1992, four of the six managers at BancoSol headquarters had come from BancoSol-NGO and had social worker backgrounds, by 1996 the ratio had dropped to one out of five, and all but the marketing director had work experience in conventional banks.

Socialization: Socializing Members Through Commitment to the Organization's End Goal

Otero described the secret of BancoSol's success as "converting social workers into bankers and bankers into social workers." He believed that it was the only way for commercial microfinance organizations to succeed in sustaining their hybrid nature. To do so, he relied on socialization processes and systems designed to develop commitment to the end pursued by the organization (i.e., its mission). The training programs, promotion processes, and incentive systems used to socialize BancoSol's employees were inspired by a variety of management ideas to which BancoSol leadership had been exposed, including Deming's TQM principles, Maslow's pyramid of needs, and Paolo Freire's ideas on learning. Although the cost was substantial, Otero saw training and communication programs as crucial.

BancoSol adopted the system developed in BancoSol-NGO whereby all employees received training at the time of joining and, to round out their skill set, throughout their careers. Initial training, the most intensive, was delivered during a two-week orientation upon being hired.

During the first week, new hires received, in a classroom setting, not only technical training in loan promotion, evaluation, and collection, but also cultural training aimed at gaining their commitment to the organization's mission. During the second week, they received hands-on training in the office in which they were to work. Employees who completed the orientation attended a follow-up seminar each year for the next five years, and were offered at least one additional training opportunity each year in an area defined in conversations with the department of organizational development. The follow up training programs enabled BancoSol to address hires' different needs; "For those coming from the 'social areas,' the emphasis was on the technical aspects of lending, and for those with backgrounds in the 'economic area,' the emphasis was on the social aspects of the job" explained a human resources middle manager (interview, April 11, 1997).

Otero complemented these training programs with his tireless personal efforts to communicate to all staff members, from those performing the most menial jobs to those with managerial responsibilities, that "they were doing the most important work in the country" (Rhyne, 2001). To overcome some of the prejudices employees with a social background brought to their work for a lending institution, Otero emphasized how BancoSol differed from and was better than (in terms of its social change agenda) conventional commercial financial institutions. He developed and posted a list of 30 things a bank did that BancoSol did not (Rhyne, 2001). For example, if conventional banks kept unwashed people out of their offices, BancoSol would welcome them; if only Spanish was spoken in conventional banks, Aymara would also be spoken at BancoSol.

In addition, BancoSol's promotion policy afforded opportunities for employees to progress to middle manager positions. A human resource middle manager described the progression of a typical career within the organization:

> *The career ladder is different depending on the profile of employees. A cashier has the opportunity to become cashier manager within the branch, but will not progress to headquarters because there is only one treasurer. The other option is for this cashier to become a credit assessor [BancoSol's term for loan officers]. Credit assessors progress from 3, 2, 1, and then they can become agency [branch] deputies and then agency managers. Who progresses depends on annual personal evaluations and, of course, on the growth of the organization (interview, April 11, 1997).*

BancoSol's top managers found it important to align employee career paths and incentive systems with the mission of affording clients (regardless of income or ethnicity) opportunities to better themselves. Until 1996, BancoSol did not use any performance-based incentives, relying instead on its lofty mission to generate motivation and commitment among its employees. In 1995 the average starting annual salary among BancoSol loan officers was US$3,120 a year (about US$260 a month), which is 4.1 times the Bolivian GDP per capita (Fidler, 1998). A paid incentives system was adopted in 1996 but this new incentive system was related to the collective performance of the branches and not to individual performance. In 1997, only 10 percent of the employees' compensation was dependent on the performance of the branch where they worked (Private Sector Initiatives, 1998).

Dueling Logics and Identity Schisms

BancoSol's mission-based approach succeeded in garnering commitment to the mission of the organization, but did little to alleviate a growing identity schism between carriers of the development and the banking logics. Although they worked side by side, the two groups began

to polarize as they steeped in their respective logics of reference, thus exacerbating the differences between them.

Throughout the organization, staff with social worker backgrounds blamed staff with banking backgrounds for the increasing number of control procedures being adopted, which they saw as unduly constraining their work. (In one example, new rules prevented a staff member from stepping in as teller when the regular teller took the day off or left to run an errand.) Employees with a social worker background argued that employees with a banking background were obsessed with administrative procedures and did not understand the nature of microfinance. In turn, staff members with banking backgrounds labeled those with social worker backgrounds "dangerous idealists" who did not understand the functioning of financial institutions and whose practices threatened BancoSol's survival. "I constantly disagreed with the new hires from BBA [a conventional banking establishment]," recalled a manager with a social work background. "I would tell them: 'You do not understand this business; you just arrived.' And they would tell me: 'You know nothing about banking, and they are going to send you to jail for your sheer stupidity'" (interview, April 23, 1998). Another area of friction between the dueling logics arose in internal discussions regarding the idea of staff uniforms, proposed by people with banking backgrounds and resisted by those with social worker backgrounds.

Between 1992 and 1996, the rift between carriers of the banking and the development logics assumed the proportions that organizational demographists characterize as a fault line, a division between organization members exacerbated by the alignment of basic socio-demographic and cultural attributes (Lau & Murnighan, 1998; Pfeffer, 1983). BancoSol employees divided like oil and water (Glosser, 1994) along concerns that BancoSol's procedures, whether strict division of labor between loan officers and cashiers or the need to wear uniforms, would impede the

organization's ability to serve its development mission while fulfilling its fiduciary obligations. BancoSol had thus not managed to create an organizational identity that enabled it to handle the tensions between the development and banking logics. Instead, it experienced an intractable identity conflict which reached crisis proportions in mid-1996 when the impasse made it impossible to operate effectively. At that time, the board asked Otero to resign and the deputy general manager, who had a banking background, assumed the leadership role. Employees with development backgrounds, in particular, many of the ex-BancoSol-NGO staff, began to be pruned from the organization. Some left voluntarily. Others left after being transferred to remote parts of the country. By 1998, only a handful of ex-BancoSol-NGO employees continued to work for BancoSol.

The organization was thus forced to change most of its staff, which led to the loss of valuable knowhow and significantly slowed its growth (see table 2). Between 1999 and 2002, the number of active borrowers decreased by 30 percent and the annual gross portfolio dropped by 9 percent. The crisis also hindered decision making in critical areas, such as changes to the performance based incentive system for loan officers and to the type of loan product offerings at a time critical in the development of microfinance in Bolivia (interview, August 2009). The rift between carriers of the banking and the development logics disappeared only after a complete revamping when a new leader, a native of La Paz who had experience as a manager in private banking in Bolivia, was hired in 2001.

Insert Table 2 about here

COMBINING DEVELOPMENT AND BANKING LOGICS: LOS ANDES' APPROACH

The 1995 launch of Los Andes followed that of BancoSol by about three years. When establishing Los Andes-NGO in 1992, the founders had already planned to spin off a commercial

microfinance organization within one or two years. Los Andes was thus able to use BancoSol's experience as a benchmark for its own decision making, which might explain, at least in part, why Los Andes avoided some of the problems BancoSol experienced. The vision for Los Andes to strike a sustainable balance between the development and the banking logic was a focus on long-term operational success that would enable the organization "to reconcile its social goals with deriving an economic yield" (see Annual Report 1998: 4). Its hiring and socialization policies were consistent with this long-run approach to balancing the development and banking logics.

Hiring: Prioritizing Individuals' Socializability in Selection Decisions

Los Andes, like BancoSol, needed to hire individuals educated enough to be able to accomplish the tasks performed by a commercial microfinance organization. But it adopted a very different approach, prioritizing hiring individuals without working experience and thus not steeped in either the banking or the development logic. The rationale being that these individuals would be socialized with less difficulty into an organizational identity that balanced the two logics. Los Andes' leadership thus decided to hire recent university graduates with the basic technical background required for loan evaluation (e.g., auditing, accounting, and business). One manager explained the need to "hire people directly from the university.… [I]t is easier to acclimate them to the characteristics of the organization. It is harder when they come and they try to frame our work within their working mental schemes" (interview, March 31, 1998).

In May 1995, Los Andes-NGO transferred most of its personnel, about 50 individuals, into Los Andes for the launch. Like BancoSol, Los Andes continued to use the hiring system developed for its original NGO. But unlike BancoSol, its selection criteria did not prioritize hires' capabilities, but rather their socializabilitiy. The willingness to sacrifice capabilities for

socializability derived from top management's belief that preconceived notions would present the biggest obstacle in developing the behaviors required to strike the desired balance between the development and banking logics. The increasingly visible problems at BancoSol helped reinforce Los Andes' emphasis on hiring inexperienced people, as did the experience of IPC, the international development organization that was advising Los Andes, in its efforts to change organizations in other countries. These efforts had convinced IPC's staff that it was easier to groom individuals with little professional experience than to change the views of those who had previously worked in other organizations. "You need to hire people you can manage," remarked a member of Los Andes' board of directors. "I believe it is one of the organization's strengths. Not in the bad sense, instead thinking that you can condition them to the criteria, you can guide them" (interview March 27, 1998).

Consistent with this approach, Los Andes' advertisements for positions targeted individuals without working experience. To get the job, respondents had to go successfully through the highly formalized and selective hiring system that had been developed within Los Andes-NGO. The process included an initial screening of CVs, an exam, a training course, and a test period in the field. A top manager described it as follows:

> *We get about 300 applications. We have 11 openings. First, we make them take an exam. Then they take a one-month course, and then we have an evaluation… Then we make them work as the shadow of another officer for about another month, and then they have three months to build their own portfolio (interview, April 1997).*

This process was time consuming and expensive, but it was highly effective. Individuals selected had a sense of being the best among the applicants; only a few of those hired left, and only when first exposed to the hardships of selling, evaluating, and collecting loans in the urban

sprawl. The system had some similarities with BancoSol's, with two crucial differences: (1) Los Andes' prioritization of the socializability of individuals over their capabilities, and (2) its almost exclusive reliance on exams rather than interviews and inter-personal evaluations for selecting candidates. Los Andes' employees praised the transparency brought to the selection process by its reliance on exams, which they valued because it limited the opportunity for nepotism and discrimination. Many had indigenous backgrounds and were accustomed to their ethnicity as an obstacle to their professional progression. At the time the interviews were conducted, a story circulating in the organization was that of the unexpected and immediate firing of a trusted manager who was discovered to have hired a relative for an administrative assistant position. This firing became symbolic of Los Andes' commitment to a merit-based system of hiring, which stood out in the Bolivian context where nepotism was rampant and career advancement depended more on last name and personal connections than on individual merits.

Los Andes' long run perspective, its concern with socializability and thus its preference for junior hires also extended to managerial positions. Like BancoSol, it chose to rely on internal promotion to fill middle manager positions (i.e., managers of regional and local offices). It also anticipated a continuation of the organization's top management, but general manager and co-founder Pilar Velasco decided for personal reasons to retire from day-to-day operations and assume a position on the board of directors when Los Andes was created. For the replacement of Velasco, IPC consultants (the founding partners) successfully advocated the creation of a German-styled joint general management committee made of three managers. Consistent with Los Andes' prioritizing of candidates' socializability, the individuals hired for the positions had to be relatively junior. One manager would assume responsibility for investor relations. The person hired was a woman who had been employed as a part-time accountant in Los Andes-

NGO and whose experience in working with investors was limited to her work in a program that provided donor-funded development loans to banks. Another manager would assume responsibility for the area of loans. The woman hired had worked in a financial institution but had never held a managerial position. The third manager was to assume responsibilities in the area of general administration. The man hired had but four years of working experience in Bolivia's Superintendence of Banks (the country's banking supervisory body) as an auditor of financial institutions. A special training program was developed to groom all three managers, which included a lengthy stay (about three months) in an IPC-connected organization in Peru.

The resulting three-person committee was thought to have the potential to assume leadership for the organization in the long run. In the meantime they could benefit from IPC's technical assistance through the presence of an onsite IPC consultant, Pedro Bonjour Arriola, who would shadow these junior managers until they had grown into their positions. Ultimately, this did not happen; Los Andes abandoned the three-person committee model in 1998 and hired the consultant as general manager. Born and trained as an auditor in Uruguay, he had spent the largest part of his career with IPC. This was his first managerial position, and his first job running a financial institution.

Los Andes' commitment to hiring individuals with little or no work experience was not without cost, most notably, for its pace of geographic expansion. Its delayed entrance in the Santa Cruz market is symptomatic. (In 1998, the branches of financial institutions located in the department of Santa Cruz provided 44% of the funds loaned in Bolivia; the second largest was the department of La Paz with 34%). While BancoSol opened an office in Santa Cruz as early as 1992, Los Andes arrived only in 1999. Los Andes's leadership was willing to sacrifice part of the growth because of its commitment to its philosophy of hiring junior workers and managers.

Facing demand for loans as explosive as that faced by BancoSol, it consciously limited the speed of opening new offices and entering new regions to ensure that its junior workforce and leadership would be able to handle the expansion.

Socialization: Socializing Members Through Commitment to the Means

Like BancoSol, Los Andes devoted considerable resources to socialization, but with a markedly different approach. Its leadership believed that only a long term perspective would enable them "to reconcile its social goals with deriving an economic yield" (see Annual Report 1998: 4). With the mission as an end only achievable in the long run, operational excellence emerged as the means to achieve this longer term end. Accordingly, Los Andes' socialization strategy aimed at creating a shared sense of organizational identity based on commitment to operational excellence. Instead of relying on commitment to the end pursued by the organization (i.e., its mission), Los Andes' approach to socialization thus relied on commitment to the means used to achieve this end.

Like BancoSol, Los Andes devoted substantial resources to training, but its programs, which were technical in nature, aimed at developing loan officers by complementing the knowledge hires had acquired at local universities. Said one of the members of Los Andes' board:

> *Well, I tell you, the personnel policy is very interesting in Los Andes. They consider human resources the most important thing that the institution has. They spend the required money to train people. We are speaking of a loan officer that is the heart of the institution. You give them a lot of training time both theoretical and practical. In such manner we make sure that the person has adequate capacity. We do not save any efforts (interview, March 31, 1998).*

Los Andes' transparent promotion and performance incentive systems fostered individual merit and commitment to operational excellence as central attributes of the organization. In

contrast to BancoSol's largely interpersonal evaluation-based approach to filling middle management positions, Los Andes employed a highly formalized and transparent system to identify candidates for promotion. As in BancoSol, managerial positions were advertised internally and open to any individual who had been employed for at least one year. But to avoid any perception that an individual might be promoted or judged favorably for reasons other than job performance, candidates for internal jobs were required to take a written exam as well as a role-playing test in which they were presented with an administrative problem and had to decide upon a course of action.

Consistent with the focus on operational excellence, the incentive system, which applied exclusively to loan officers, tied pay to the number and quality of the loans in officers' portfolios. A carefully designed and continuously improved bonus system that rewarded loan officers' individual performance (high number of loans but low delinquency) dramatically affected their total compensation. In 1997, Los Andes' loan officers could double their pay depending on their level of performance; they could receive up to 105% of their base salary as additional compensation for excellence in job performance (Private Sector Initiatives, 1998). "For example," explained one interviewee, "E. and J. were here at the beginning. They began with a monthly salary of about $150 (1992) and now they are making about $1,500 (1998). Loan officers are making about $1,100" (interview, March 1998). Despite its potential to generate substantial differences between the pay levels of loan officers and other employees including top management, the system was considered necessary to assure that Los Andes would not deviate from its mission of serving the poor by gravitating to larger loans or incurring higher loan delinquency (considered a sign that borrowers were being unduly over-indebted).

Creation of a Common Organizational Identity

Los Andes' highly selective hiring system, exam- and test-based competitive internal promotion system, and incentive-based reward system contributed to the creation of a common identity among organization members based on operational excellence. Its employees, who valued the transparency of selection, promotion and incentive systems, especially in the Bolivian context, developed a sense of personal excellence and *esprit de corps* in accomplishing the work. Their enthusiasm for the transparency and meritocratic nature of the organizations' internal processes is reflected in the following comment by a middle manager who joined Los Andes as a loan officer:

> *[Los Andes] offers a good alternative. Everyone wants to work in an organization that excels, that is recognized, and has prestige, and Los Andes has these qualities. . . . [It] offers good wages and good perspectives of career progression (interview, March 1998).*

As it continued to grow, Los Andes lost few of its trained employees. "There are very few cases," offered one interviewee, "in which there has been a job offer to a staff member and this person has left for another institution" (interview, March 1998). The same interviewee, when pressed by the interviewer to explain why this was so considering the hardships of the job, responded that most personnel losses occurred during the first week in the field, when hires realized the difficulties the job involved, at which point 30 to 40 percent of hires could be lost. After that, people stayed because the organization offered an excellent employment option in the Bolivian context.

Creating a shared identity based on operational excellence seems to have enabled Los Andes to strike a sustainable balance between the development and banking logics and avoid mission drift. Los Andes, which has remained competitive and profitable, has continued to expand its hybrid mission of increasing the access of the disenfranchised to financial services while

fulfilling fiduciary obligations (see table 1). Comparing tables 2 and 3, we see that at the turn of the century, Los Andes had lower average loans and a lower percentage of delinquent loans than BancoSol. Higher levels in either measure are considered indicators of mission drift (Mersland & Strøm, forthcoming). Los Andes' average loan had grown but it was still around $1,000 and well under the average loan for Bolivia's formal financial institutions (US$17,043). Los Andes had also lowered its interest rates at a faster pace than BancoSol (Cipame & Finrural, 1997, 1998, 1999) [5] and its percentage of delinquent loans, while it spiked in later years because of increasing competition and the harsh impact in Bolivia of the Asian crisis, was on average below 5 percent and, as of December 2008, it has only just topped over 7 percent (peaking at 7.03 in 2002). In this same period BancoSol's average delinquency rate was 5.53 percent and it passed the 10% threshold in 2001. [6]

Insert table 3 about here

Another interesting indicator of Los Andes' sustained commitment to its hybrid mission is the introduction and continued growth of a new lending program targeted at farmers (see table 3). Because of their high concentration and rapid business cycle, retail and services borrowers are easier to reach (i.e., more highly concentrated) and thus relatively more profitable. Farmers are among the most difficult to reach populations and this, together with long production cycles and dependence on weather conditions, translates into higher costs and higher risk of defaults. As

[5] Lending to the poor is labor intensive. The interest rates commercial microfinance organizations need to charge to recover their costs and remain profitable are quite high. In 1998, BancoSol charged interest rates ranging from 25.5 percent to 48 percent, while Los Andes charged interest rates ranging from 16 percent to 42 percent (sources: Asofin and electronic communication with Los Andes).

[6] Its default rate fell consistently after that, and as of December 2008, 10.16 percent was the highest default rate that BancoSol had ever experienced (Mixmarket, 2009a, www.mixmarket.org).

of 1999, the farm lending program had yet to turn any profit; nevertheless Los Andes had expanded its portfolio to reach a vast and sorely underserved population.

While sustaining its social mission, Los Andes also remained a profitable financial intermediary able to fulfill its fiduciary obligations, with most of its profitability deriving from its growth and operational efficiency. Between 1997 and 2002, Los Andes operational costs per borrower (which includes personnel, depreciation and administrative costs) remained below those of BancoSol (168 versus 170 US$ per borrower in 2002) and its return on equity was either similar to or much higher than BancoSol's in the later years (18.3 versus 1.8 percent in 2002).

Overall, by 1999, Los Andes had managed to create a common organizational identity based on operational excellence, which enabled organizational members to strike a balance between the development and the banking logics and avoid mission drift. BancoSol's efforts, in contrast, translated into an intractable identity conflict between carriers of the development logic and carriers of the banking logic, which hindered BancoSol's operations until 2002 when BancoSol began once again to grow, reduced its default rate, and noticeably improved its operations (Chu, 2007). This change followed from the hiring of new leadership who alleviated the rift between carriers of the development and the banking logics by stopping the intake of candidates with a social work background, firing or letting go BancoSol's old guard, and adopting hiring and socialization policies similar to those of Los Andes (interview, August 26, 2009). As of December 2008, both Los Andes and BancoSol had expanded their operations and were considered to be among the best commercial microfinance organizations in the world (see Fernando, 2004).

THE IMPACT OF HIRING AND SOCIALIZATION ON ORGANIZATIONAL IDENTITY BUILDING IN NEW TYPES OF HYBRIDS

This study examined how two novel hybrids, BancoSol and Los Andes, met the challenge of building and maintaining their hybrid nature. Our findings suggested that crucial to the sustainability of novel combinations of logics was the building of an organizational identity that stroke a balance between the combined logics. Our first-order interpretations revealed that in both organizations, hiring and socialization strategies were crucial levers in the process of identity formation but that BancoSol and Los Andes adopted very different hiring and socialization approaches.

Hiring

Both organizations were highly selective about hiring at all levels of the organization, particularly managers and loan officers. But their emphases, as summarized in table 4, differed substantially. BancoSol's hiring system prioritized candidates' capabilities (i.e., working with the poor capabilities or lending capabilities) over socializability, disregarding whether hires were steeped in the development or banking logics. This emphasis on candidates' capabilities eventually exacerbated the tensions between the development and banking logics across organizational ranks, as carriers of the two logics polarized around what set them apart instead of what they shared. In contrast, Los Andes' decision to prioritize socializability in its hiring decisions facilitated the building of a common organizational identity based on operational excellence, which enabled the organization to strike a balance between the development and banking logics.

Insert Table 4 about here

In light of this evidence we can speculate that new types of hybrid organizations might adopt two different hiring approaches: a “mix and match” approach and a “tabula rasa” approach. The “mix and match” approach prioritizes individual capabilities and therefore hires people who are carriers of the logics the organization is attempting to combine; the “tabula rasa” approach emphasizes socializability above all, thereby prioritizing individuals not steeped in either of the logics being combined. The “mix and match” approach might enable a new organization to grow faster, but as seen in the case of BancoSol, it might also generate paralyzing tensions between sub-groups who define themselves in opposition to each other (Dukerich, Kramer, & Pars, 1998; Elsbach, 1999) and it is thus likely to produce intractable identity conflicts (Fiol, Pratt, & O‘Connor, 2009). The “tabula rasa” approach may facilitate the development of a common identity among organization members, enabling them to strike a balance between the combined logics, but it might necessitate controlling growth, which can be difficult when, as in the cases studied, demand is quite high.

Socialization

It is hard for any organization to socialize individuals into a desired set of behaviors and values (Goffman, 1961), but especially so for novel hybrid startups which have no access to “ready-to-wear” socialization processes and systems (Wolfe Morrison, 2002) and in the absence of already socialized insiders or recruits with a “ready-to-wear” job experience (Adkins, 1995). In this context, both organizations devoted substantial resources and attention to communication as well as training, promotion and incentive systems, which are the key design factors that can be leveraged to teach and reinforce desired behaviors and values in organization members (Feldman, 1976, 2002; Gomez, 2009; Jones, 1986; Saks & Ashforth, 1997). But differences in their hiring decisions implied somewhat different challenges for each organization with respect

to socializing organization members into a desired set of behaviors and values so as to build and maintain their hybrid nature. Table 5 summarizes BancoSol's and Los Andes' different socialization approaches.

Insert Table 5 about here

Less concerned about the dominant logic that defined its hires' potential preconceptions (whether development or banking) than about the capabilities they brought, BancoSol tailored its training to address lack of expertise in how to "provide loans" or "serve the poor." Otero was confident that organizational members would develop a shared identity, independent of their background, through socialization processes and systems that focused organization members' attention on the end pursued by the organization. This approach worked well to the extent that employees did buy into the mission wholeheartedly, but it failed to prevent the emergence of an intractable identity conflict between carriers of the development and banking logics as they grew into sub-groups increasingly intolerant of their differences over what they saw as appropriate means to serve this mission. Even though hires steeped in the development logic had accepted and adopted many conventional banking practices in the past, as the differences between the two sub-groups grew starker, those with development backgrounds began to reject any new controls championed by hires steeped in the banking logic. Eventually the conflict froze BancoSol into inaction during a time critical to its growth and competitive development. It is not possible to pinpoint whether the emergence of this intractable identity conflict was due to an intrinsic problem with its prioritization of capabilities over socializability at the time of hiring, its end-focused approach to socialization, or both. But our findings show that adopting an end-focused socialization approach was not effective at overcoming the tensions between individuals steeped in the different logics BancoSol was attempting to combine.

Los Andes approached socialization very differently. In contrast to BancoSol's gap-based approach to training, Los Andes adopted a fairly standardized approach, which is not surprising considering that its hires were all relatively inexperienced and thereby not assumed to possess any of the desired capabilities. Moreover, Los Andes' long term view of the end being pursued by the organization resulted on its focusing, in the short run, on the means used to achieve that end. Consistently, its socialization processes and systems, which focused on fostering commitment to the means used to accomplish the mission, resulted in the creation of a common organizational identity based on operational excellence. By focusing members' attention on excellence in the accomplishment of the work at hand in the hybrid organization, this common organizational identity prevented the emergence of sub-groups with identities that emphasize the tensions between the logics combined.

As in the case of BancoSol, it is difficult to say whether Los Andes managed to avoid the emergence of an intractable identity conflict because of the profile of the people it hired, its means-focused socialization approach, or both. Still, as explained earlier, it is interesting to notice that, after a new leader took over in 2001, BancoSol adopted many of the hiring and socialization policies developed by Los Andes; so have other microfinance organizations in Bolivia (see e.g. ASOFIN, 2005) and worldwide since (see Churchill & Frankiewicz, 2006; Roodman & Qureshi, 2006).

Different Hybridization approaches

The findings from our analysis do not enable us to identify either the best combination, or all possible combinations, of hiring and socialization policies for identity building in new types of hybrid organizations. They do, however, enable us to define two different approaches to hybridization, which are associated with different risks and advantages for developing an

organizational identity that can ensure the sustainability of novel combinations of logics. The first approach, apprenticeship, which was adopted by Los Andes, combines a "tabula rasa" hiring approach with a means-focused socialization approach. We refer to this as an apprenticeship approach because it focuses on helping inexperienced hires learn a new occupation. As in the case of Los Andes, the success of this model in developing an organizational identity that can ensure the sustainability of unprecedented combinations of logics may derive from its ability to minimize the risk of tensions and conflicts by first hiring people with few preconceptions regarding the functioning of organizations and then focusing their attention on operational excellence. Its downside is that it may require disciplined control of organizational growth to allow staff members to learn the necessary skills to accomplish the work at hand. It may also need continued vigilance to assure that, as foreseen by Weber (1922), in the long run, operational excellence does not become an end in itself thereby possibly superseding the original hybrid end of the organization.

The second approach, integration, which was adopted by BancoSol, combines a "mix and match" hiring approach with an end-focused socialization approach. It focuses on bringing together carriers of different logics to form a single integrated group committed to the same superordinate goal, i.e., the hybrid end pursued by the organization. This integration approach may enable new types of hybrid organizations to be operational fast but, as suggested by the experience of BancoSol, organizations that adopt this approach still run the risk of members polarizing into sub-groups whose different identities emphasize the tensions between the logics combined. Novel hybrid startups that adopt this approach to develop an organizational identity that supports novel combinations of logics must pay close attention to the potentially harmful

emergence of these sub-group identities or, at least, find ways to tone down inter-group tensions and thereby avoid intractable identity conflicts (Fiol, Pratt, & O'Connor 2009).

CONCLUSION

This paper reports on a comparative inductive study examining how new types of hybrid organizations can build and maintain their hybrid nature. Our results first suggest that, to be sustainable, novel hybrid organizations need to develop a common organizational identity that strikes a balance between the combined logics. Such a common identity will prevent the emergence of sub-groups whose different identities emphasize the tensions between the logics combined. The evidence further suggests that a "tabula rasa" hiring approach may help the organization to reduce the influence of the institutional environment and thereby provide more degrees of freedom for socialization policies to influence the process of identity building. Considering, in turn, the influence of socialization strategies, our evidence suggests that a socialization approach that is end-focused, even when successful in developing commitment to the end pursued by the organization, might be insufficient to prevent the emergence of intractable identity conflicts among actors with pre-existing mental schemas as to the practices appropriate to serve organizational goals. Finally, our findings suggest that a socialization approach that focuses hires' attention on operational excellence may be more effective in developing an organizational identity that strikes a balance between the logics combined.

Contributions

Our findings, although they require testing and further exploration, contribute to current efforts to further our understanding of how actors enact multiple institutional logics within the boundaries of organizations (Binder, 2007; Hallett, forthcoming; Fine, 1995). In contrast to early institutional studies (Selznick, 1949; Gouldner, 1954), institutional research conducted over

the past two decades has largely neglected the intra-organizational level of analysis in favor of what is happening in and between organizational fields (Greenwood & Hinings, 1996; Hirsch & Lounsbury, 1997; Rao, Morrill, & Zald, 2000). In most of these studies, organizations are viewed as unitary actors without regard to the frequency of, and internal tensions generated by, multiple logics within them (Kraatz & Block, 2008). Our study bridges the intra-organizational and institutional levels of analysis by accounting not only for logic plurality within organizations but also for how organizational factors can influence the way actors handle the tensions generated by such plurality. In bridging these different levels of analysis, our study answers the numerous calls for cross-level research in institutional theory (e.g., Chreim, Williams, & Hinings, 2007; Powell & Colyvas, 2008).

More specifically, our findings highlight that in the absence of institutional scripts to handle logic plurality, new types of hybrids need to develop a common organizational identity that enables organization members to strike a balance between the combined logics. Our results identify two sets of hiring and socialization approaches that new types of hybrid organizations may use to influence the process of identity formation. Our study further highlights both the potential and limitations of hiring and socialization when it comes to developing an organizational identity that can ensure the sustainability of unprecedented combinations of logics. Our evidence shows that an ideographic organizational identity (Albert & Whetten, 1985), in which different identities are associated with different sub-groups within the organization, may generate intractable identity conflicts in new types of hybrids, thereby hindering their sustainability.

Finally, in highlighting the importance of organizational identity for ensuring the sustainability of new types of hybrid organizations, our study contributes to bridging the

institutional theory with the organizational identity literatures. These two central streams of research in organization studies while highly complementary have so far evolved largely along separate tracks (Pederson & Dobbin, 2006; Glynn, 2008). Institutional studies have accounted for organizations' embeddedness in institutional environments characterized by logic plurality, while barely accounting for how organizations manage internally such plurality. In contrast, studies of organizational identity have examined how organizations handle plurality, while barely accounting for the influence of the institutional context on how actors handle it.

A few studies have begun to explore the link between institutions and collective identities by showing organizational identities to be embedded in institutional contexts (Baron, 2004; Glynn & Abzug, 2002). Researchers have recently called for further exploration of this link (Corley, Harquail, Pratt, Glynn, Fiol, & Hatch, 2006; Glynn, 2008; Pederson & Dobbin, 2006). Our study contributes to this body of work by focusing on the relationship between organizational identities and logics in the absence of organizational archetypes. It emphasizes that the generation of new identities does not occur in an institutional vacuum (Weber & Glynn, 2006) but builds on, or is hindered by, the tensions, overlaps, and cracks among the logics it incorporates. As Selznick (1949) suggested, organizations that succeed in curbing outside institutional pressures by forging identities that support novel logic combinations might subsequently contribute to creating a new organizational archetype, thereby effectively acting as institutional entrepreneurs (Dorado, 2005; Battilana, Leca & Boxenbaum, 2009).

Limitations and Future Research Directions

Based on our findings, it would be tempting to conclude that the apprenticeship approach is particularly effective at producing a common organizational identity that sustains the unprecedented combination of development and banking logics in commercial microfinance. It

will be interesting, however, to continue observing BancoSol, Los Andes, and other commercial microfinance organizations, to identify whether relying on a socialization approach that focuses attention on operational excellence creates the risk, as suggested by Weber (1922), of making the means they have adopted supersede their original mission, thereby possibly preventing these organizations from retaining their hybrid nature in the long run.

Future research also needs to examine the influence of the degree of divergence between logics on the development of organizational identities able to ensure the sustainability of unprecedented combinations of logics. It might be that the apprenticeship approach is best fitted when there is a high degree of divergence between the logics combined, as was the case for the banking and development logics. But hybridization approaches that rely on a "mix and match" hiring approach may work better when new types of hybrid organizations combine logics that are less divergent. Moreover, it is possible that an end-focused socialization approach, which failed to prevent the emergence of an intractable identity conflict within BancoSol, is more effective when the logics being combined are only mildly divergent.

Similarly, there is a need for research exploring the generalizability of our results to mature hybrids. Previous research suggests that mature hybrids may have ideographic organizational identities without necessarily facing intractable identity conflicts (Albert & Whetten, 1985; Pratt & Foreman, 2000). It may thus be that once they have become established, hybrid organizations can afford to have ideographic organizational identities without jeopardizing their stability. Accordingly, future research should explore whether when novel hybrids grow in maturity and gain legitimacy, they can change their hiring and socialization strategies without jeopardizing the delicate balance between the logics that they combine. For example, they may be able to adopt

an “integration” approach, which was the one adopted by BancoSol, without risking the emergence of intractable identity conflicts.

Moreover, as new types of hybrids attain maturity, organizational processes and systems other than those explored in this paper may crucially influence organizational identity. The influence of factors, such as the backgrounds of the founders--already shown to influence organizational identity in the case of organizations that embody established archetypes (Baron, Hannan, & Burton, 2001)—and the pace of organizational growth, on the process of identity building in hybrid organizations needs to be further examined. Overall, more comparative studies are needed to gain a more fine-grained understanding of the influence of organizational factors on the process of identity construction within hybrid organizations as they become more mature.

Finally, in reporting on a study of two Bolivian organizations, this paper responds to calls for research in contexts other than North America (see Scott, 2005, Greenwood, Diaz, Li, & Lorente, forthcoming). Studies now need to be conducted in other contexts in order to draw comparisons and explore the extent to which our results apply across institutional contexts. At a time when social enterprises that combine social welfare and commercial logics are spreading across sectors all over the world (Bosma & Levie, 2010), the need for further research that addresses the role of organizational factors in the context of hybrids, both inside and outside of North America, is pressing. Many observers are skeptical about the sustainability of such hybrid organizations because of the risk of mission drift. Our in-depth exploration of how pioneering commercial microfinance organizations retain their hybrid nature opens the door to research that explores how organizations might prevent such a drift.

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TABLE 1

Comparison of the banking, development and emerging commercial microfinance logics

	Banking logic	**Development logic**	**Emerging commercial microfinance logic**
Goals	Deriving a rent or profit	Development and poverty alleviation	Increasing the access of the disenfranchised to financial services while fulfilling fiduciary obligations towards depositors and investors
Target population	Clients are customers and seen as more or less risky sources of income	Clients are beneficiaries and seen as more or less "deserving"* of support	Clients are customers and seen as micro-entrepreneurs
Management principles	Maximizing profit while fulfilling fiduciary obligations not only to investors but also depositors	Maximizing the impact of donor funds on development and poverty alleviation	Striking a balance between maximizing access of the disenfranchised to financial services and fulfilling fiduciary obligations to depositors and investors

* The notion of "deserving" derives from the fact that there is a limited supply of funds, and thus monies should be directed either to those individuals in most need or, in the case of economic activities, those with the highest multiplication effect.

Source: Authors' elaboration based on Otero and Rhyne (1994),and analysis of interviews conducted with Los Andes and BancoSol organization members and individuals working for providers of services to the poor (NGOs) and providers of financial services (consumer lenders targeting micro-entrepreneurs).

TABLE 2

Operational Evolution of BancoSol (1996 to 2002)

	1996	1997	1998	1999	2000	2001	2002
Gross portfolio (US$ mill.)	48.7	66.5	74.1	82.3	77.5	74.4	75.7
Active borrowers (000)	71.8	76.2	81.6	73.1	67.1	61.3	50.9
N. of branches	33	35	40	42	37	35	34
N. of employees	473	490	630	629	554	506	503
Loans per employee	152	156	130	116	121	121	101
Average loan	$678	$873	$908	$1,126	$1,155	$1,214	$1,487
Portfolio at risk > 30 days+	2.60%	1.23%	3.03%	5.48%	9.58%	10.16%	6.61%
Gross Port. retail & services++	99%	99%	99%	92%	87%	78%	81%
Gross Port. on agric. & livestock++	0%	0%	0%	1%	1%	8%	4%
Gross Port. on manuf. & other++	1%	1%	1%	7%	12%	14%	15%
Cost per borrower (US$)	N.A.	N.A	149	164	174	166	170
Return on Equity	15.0%	29.5%	29.0%	9.7%	3.9%	0.4%	1.8%

Source: Authors' elaboration building on information from Bolivia's government (ASSF, 2009)) and Mixmarket (2009a, www.mixmarket.org), and Chu (2007).

[+] BancoSol's and Los Andes' portfolio at risk >30 days fell after 2002 (in Dec. 2008 it was 0.99% for BancoSol and 1.65 for Los Andes).

[+ +] These percentages were calculated using information provided by Bolivia's SBEF about the destination of loans (in years 1996 to 1998 this ratio was not available, as proxy we used information on loans depending on the economic activity of clients).

TABLE 3

Operational Evolution of Los Andes (1996 to 2002)

	1996	1997	1998	1999	2000	2001	2002
Gross portfolio (US$ mill.)	11.9	20.5	28.6	36.2	46.7	50.3	62.1
Active borrowers (000)	22.8	27.9	32.5	36.8	41.7	43.5	47.0
N. of branches(*)	9	11	15	16	17	20	26
N. of employees	110	143	213	270	313	377	457
Loans per employee	207	195	153	136	133	115	103
Average loan	$522	$735	$880	$984	$1,120	$1,156	$1,321
Portfolio at risk > 30 days+	4.11%	3.55%	6.18%	4.16%	5.44%	6.26%	7.03%
Gross Port. retail & services++	N.A.	74%	65%	69%	72%	71%	76%
Gross Port. on agric. & livestock++	N.A.	1%	6%	6%	5%	9%	7%
Gross Port. on manuf. & other++	N.A.	25%	29%	26%	23%	20%	18%
Cost per borrower (US$)	N.A.	93	109	128	138	147	168
Return on Equity	15.0%	36.0%	27.5%	13.6%	13.9%	14.7%	18.3%

Source: Authors' elaboration building on information from Bolivia's government (ASSF, 2009), Mixmarket (2009b) and Los Andes' annual reports (several years).

[+] BancoSol and Los Andes' portfolio at risk >30 days fell after 2002 (in Dec. 2008 it was 0.99% for BancoSol and 1.65 for Los Andes). [+ +] These percentages were calculated using information provided by Bolivia's SBEF about the destination of loans (in years 1996 to 1998 this ratio was not available, as proxy we used information on loans depending on the economic activity of clients).

TABLE 4

BancoSol's and Los Andes' Hiring Approaches

	BancoSol	Los Andes
	Hiring approach: Prioritizing capabilities • Hiring of individuals with required capabilities regardless of whether they were steeped in the development or banking logics	**Hiring approach: Prioritizing socializability** • Hiring of individuals with little or no work experience to avoid bringing in individuals steeped in the development or banking logics
HIRING POLICIES	**Employees** • Advertising in newspapers. • Preliminary selection based on the capabilities criterion: selection of candidates likely to have the desired capabilities • Preliminary exams testing (2 or 3 exams). First exam tested abilities in the areas of spatial, mechanical and numeric reasoning, verbal logic, and comprehension. Second exam tested abilities to work in teams, interact with others, and exercise leadership. If relevant, a third exam tested for the technical knowledge needed to carry out the responsibilities of the particular position. • About three candidates per position were interviewed to assess their ability to do the job and their affinity with BancoSol's culture. • Interview with the group with which they will be working. • Three -month testing period after initial training seminar (see table 5), after which they are hired permanently. (New hires were most likely to leave during this period) **Managers:** • Managers of regional and local agencies: Preference for internal promotion. • Top management: Preference for internal promotion but willingness to hire outsiders with the required capabilities when internal candidates did not have them.	**Employees** • Advertising in newspapers. • Preliminary selection based on the socializability criterion: selection of candidates with little or no work experience. • Preliminary exam testing of abilities in the areas of spatial, mechanical and numeric reasoning, verbal logic, and comprehension. • Exam testing on content covered during an initial training seminar (see table 5). • No further interviewing considered necessary. • Three-month testing period, after which they are hired permanently. During the first month, they work as "shadows" to a loan officer. (New hires were most likely to leave during this period) **Managers:** • Managers of regional and local agencies: Preference for internal promotion. • Top management: Preference for internal promotion but willingness to hire junior outsiders to be groomed internally for top management positions.

TABLE 5

BancoSol's and Los Andes' Socialization Approaches

		BancoSol	Los Andes
		Socialization approach: Focusing organization members' attention on the end pursued by the organization	**Socialization approach:** Focusing organization members' attention on the means used by the organization to achieve its end
SOCIALIZATION POLICIES	Training	• Initial training prior to hiring decision: One week of training in the classroom and one week of hands on training. • Gap- based continuous training programs involving classroom presentations and group activities. Training programs considered differences in background. For employees with a social work background, the emphasis was on technical training; for employees with a banking background, the emphasis was on the social aspects of the job. • Annual two-day retreats included all members of the organization. • Otero tirelessly and personally communicated the mission to all staff members.	• Initial training prior to hiring decision: Intensive training program. Initially one month, later reduced to two weeks. • Continuous training programs involving classroom presentations and activities for all individuals as well as specific seminars for individuals seeking promotion. • No recurrent annual retreats. The first annual retreat was organized in 1999.
	Incentives	• Performance-based incentives first introduced in 1997. Incentives were connected to the collective performance of the branches, not to the performance of individuals. In 1997, only 10 percent of the loan officers' total compensation was dependent on the performance of the agency where they worked.	• Introduced at the outset a carefully designed and continually revised system of individual performance-based incentives. In 1997, loan officers could get as much as 105 percent of their base pay as incentives based on individual job performance.
	Promotion	Best candidates identified through interpersonal evaluations • Loan officers could expect to progress to regional manager positions as the organization continued to grow and expand. • Promotion was based on annual evaluations of performance and on an internal application process in which candidates were evaluated based on their CVs and conversations with co-workers.	Best candidates identified through exams and role playing tests. • Loan officers could expect to progress to regional manager positions as the organization continued to grow and expand. • Promotion was based exclusively on exams. Candidates were asked to define solutions to potential situations they might face as managers.