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APPLICATION OF INSTITUTIONAL THEORY VARIABLES IN MICROFINANCE INSTITUTIONS STUDIES: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT
The study employed a systematic literature review to assess the application of institution theory variables in microfinance institution studies. Using the keywords "institutional theory" and "microfinance institutions," 39 articles were extracted from Google Scholar, Emerald Insights, Taylor & Francis Online, and Sage databases. The paper used a manual search technique and content analysis to ensure relevant studies were identified. The study reveals that most microfinance scholars agree that institutional theory is essential for promoting microfinance institution variables, but few disagree. The findings indicate that scholars researched some variables more than others because of their importance to microfinance institutions. The analysis demonstrates that several microfinance scholars have linked institution theory and loan repayment because it is a major problem threatening microfinance institution operations. The findings indicate that few studies have applied institutional theory to assess microfinance institution performance. The results further reveal that microfinance service variables such as savings and deposits, microinsurance and remittances are rarely researched. Furthermore, the findings indicate that institutional theory partially covers sustainability, interest rate, efficiency, profitability, outreach, and credit risk management. Applying institutional theory to diverse MFI variables will enable exhaustive policy recommendations and overcome microfinance institutions' challenges.

Keywords: *Institutional Theory, Microfinance institutions, systematic literature review*

INTRODUCTION

The Role of Microfinance and Microfinance Institutions

Microfinance has become popular since the civilization of human beings. According to Sayankar and Mali (2022), microfinance encompasses a wide variety of financial services provided to poor clients. These services include savings, microcredit, money transfers, and microinsurance. Microcredit is considered a vital microfinance service because it stimulates clients to realize the impacts of microfinance institutions (MFIs). Microcredit lending in MFIs uses individual and group lending models. However, a group lending practice named Grameen Bank, established by

Muhammad Yunus in 1976 is considered the precursor of modern microfinance (Gutiérrez-Nieto & Serrano-Cinca, 2019).

Malhotra and Baag (2021) reported that nearly 1.7 billion people worldwide lack access to formal financial services. But are served by MFIs, which provide mostly informal financial services. Robert et al. (2013) asserted that developing countries benefit significantly from MFIs, which provide financial services and employment opportunities. Through their financial services, MFIs contribute significantly to improved livelihoods and poverty alleviation of their clients (Hasan & Hoque, 2021). Besides promoting economic development, MFIs enhance purchasing power, access to education and health services for low-income people (Shifa & Fuller, 2022).

Microfinance scholars mention several factors hindering the microfinance sector, such as poor loan repayment (Pamuk et al.,2021), high competition (Kono & Takahashi, 2010), corruption and low integrity of staff and leaders (Haule & Magali, 2020). According to TCDC (2022), none traceability, inadequate skills, poor leadership and poor performance are the challenges as well. These challenges portray institutional problems for MFIs. The institutional theory explains how the social and cultural contexts improve the performance of MFIs. Institutional theory specifically delineates how organizational norms, values, and institutional environment (legal and regulatory frameworks) shape MFIs (Bhanot & Bapat, 2015).

The role of microfinance in improving livelihoods and empowering disadvantaged groups has been questioned by some microfinance scholars. For instance, according to Busingye and Kazooba (2018), MFIs did not affect domestic purchases and clients' income increases at Bushenyi-Ishaka town in Uganda. Furthermore, Awaworyi (2014), using worldwide meta-analysis studies, revealed that MFIs sometimes lack the power to alleviate poverty and promote asset purchases. Haule and Magali (2020) asserted that 'clients of Savings and Credit Cooperative Societies (SACCOS) in Mbeya City Tanzania realized little impacts because of lack of leaders' integrity, loan repayment difficulties and corruption.

Diverse scholars such as Akanga (2017), Mwafise and Stapleton (2012), Estapé-Dubreuil and Torreguitart-Mirada (2013), Muhammad (2014), Ul-Haq (2015), Aideyan and Omoruyi (2016), Akanga (2017), Siwale et al. (2019), Bitok et al. (2020), Parvin and Birner (2021), Abdulrauf and Hassan (2022) and Ashraf et al. (2022) have linked institutional theory with diverse MFI variables. These variables are loan repayment, performance, sustainability, interest, portfolio, operating costs, risks, the mobile money system, gender equity, reporting, profitability, audit practices, the behaviour of MFIs, corruption, interest rates, the behaviour of borrowers and entrepreneurship. This study assessed how institutional theory overcomes MFI challenges. Also, the researcher was motivated to examine how MFIs and institutional theory variables are applied in the literature.

To the best of the researcher's knowledge, no comprehensive systematic study reckons the extent to which the institutional theory is applied in MFI studies. Such a study could expose how MFI operations conform with institutional variables to promote empowerment, financial inclusion, performance, sustainability, and poverty alleviation objectives. Therefore, this study assessed how institutional theory is applied in MFI studies. The study identifies the variables of the theory preferred mostly by microfinance scholars and recommends further studies. The study has been designed to answer the following research questions: What is the power of institution theory in overcoming the MFIs challenges? What are the variables preferred by microfinance scholars who use the institutional theory? Why most of the variables are mostly preferred by microfinance scholars over others?

Institutional theory: Its strengths and weaknesses

The old institutional theory also called traditional institutional theory, emerged in the early 20th century as a theoretical framework in sociology. The theory was developed by scholars such as Max Weber, Emile Durkheim and Talcott Parsons (Turner, 2006). Scott (2001) asserted that a social structure which has achieved a high level of resilience could be described as an institution. Old institutional theory (OIE) explains the reasons for structures and behaviours and how to holistically sustain them. Old institution theory was developed in the 1920s and 1930s by American economists. They regarded institutions as a way through which thoughts and actions determine people's behaviour (Hamilton, 1932). According to the OIE, individual habits and routines become institutions after being formalized by groups of people. Consistent with the old institutional theory, organizations are formal structures that exist independently of their members. In order to maintain these structures, rules, norms, and values should be rooted deeply in the history and culture of the organization. Organizational structures contribute to the stability and resilience of organizations. Thus, properly formulated institutions contribute to the economy, the legal system, the political system and ultimately, organizational decision-making (Lownpes, 1996). The weaknesses of OIE theory include: it lacks a clear knowledge base because it is treated as a methodology rather than a theory. Moreover, OIE scholars failed to propose alternative theories to overcome its shortcomings (Hodgson, 1993). The weaknesses of OIE paved the way for the emergence of a New Institution Theory (NIT).

NIT's history can be traced back to the 1970s when educational scientists started to study educational institutions and their corporate characteristics (Meyer, 1977; Meyer & Scott, 1983). According to Currie and Swanson (2009), the institutional theory was formally established between 1983 and 1991 by a group of scholars such as Meyer and Rowan (1977), Dimaggio and Powell (1983:1991), Meyer and Scott (1983) and Meyer et al. (1991). Based on the theory, firms' behaviour is shaped by policies, rules, and regulations. Meyer and Rowan (1977) concluded that appropriate institutions' practices, norms and standards promote organizational accountability and transparency. Many researchers built the theory by relating the NIT and corporate governance structure, heterogeneous policies and accounting standards of big institutions operated in the USA and European Union (Powell, 2005). According to NIT, managerial decisions are influenced by societal, political, external policies and internal pressures (Alam et al., 2021).

The institutional condition has a profound effect on the improvement of organizational structures. DiMaggio and Powell (1983) asserted that the organization maintains a competitive structure because of three kinds of weights. The weight that originates from laws and orders is called coercive. The weight generated to maintain the structure during vulnerability is regarded as mimetic. Expert thinking and approaches contribute to normative weight and thus influence professionalization. Coercive isomorphism relates to cultural and institutional expectations from society (DiMaggio & Powell, 1983). Cognitive and normative institutions are informal, while regulative institutions are formal (Boehe & Cruz, 2013). The organizational belief and rules systems are structured to reduce ambiguity and uncertainty and enhance organizational effectiveness and reporting (Kabuye et al., 2021). The three forces maintain organizational homogeneity.

Meyer et al. (1991) argued that institutional theory explains how organizations become legitimate and sustainable through compliance with regulations, rules, and policies. Therefore, the institutional theory articulates how normative, regulative, cultural and cognitive attributes influence the financial and economic activities of the organization (Lusweti & Mwasiaji, 2020; Ayadago, 2021). According to Muithya and Muathe (2020), regulations guide individual action, while social behaviour guides structures.

The institutional theory is widely accepted as the best theory for studying organizations because it incorporates organizational variables well (Mohamed, 2017). The institutional theory offers the foundation and systematic analysis of institutions. The theory does not only distinguish informal and formal institutions but also delineates how proper regulation, norms and culture promote the achievement of organizational goals (Geels, 2010). However, the theory is criticized by most scholars because it is static and mainly used to explain agency variables rather than social variables (Mohamed, 2017). According to Marquis and Tilcsik (2016), NIT does not provide practical solutions for maneuvering practices, resolutions, or structures but instead recommends how to replicate them.

The theory does not explain satisfactorily whether the firm will continue to maximize profit after it has achieved it. Moreover, NIE has failed to explain whether the characteristics of the past firm can be transferred to the succeeding firm (Hodgson, 1989). The theory is also flawed by a positive organizational assumption and does not explain how strategic behaviour can be promoted (Ayadago, 2021). Furthermore, according to Cai and Mehari (2015), institutional theory focuses on dynamics or changes occurring in an organization and does not consider the importance of power and individual interests. Specifically, the theory does not value the human being as an agent for change and ignores the technological resources' role. It also ignores the changes brought about by geographical distance. As a result, the theory cannot explain all aspects of an organization. Despite its weaknesses, most MFI scholars perceive it as the right theory because it enlightens the context in which MFIs operate. Moreover, this is the only best theory that explains how formal and informal social values, norms, regulations, cultural and economic conditions shape MFIs operations (Bhanot & Bapat, 2015).

METHODS

The search keywords used were "Institutional theory and microfinance", "Institutional theory and "Microfinance institutions", and "Institutional theory" and microcredit. The articles were searched from four databases: Google Scholar, Emerald Insights, Taylor & Francis Online and Sage. Google Scholar is a database that contains a wide range of articles. The database is mostly used by scholars who conduct systematic review analyses. Sage database publishes microfinance articles consistently (Gupta & Sharma, 2021). Emerald database contains a friendly interface and detailed articles (Levinson & Amar, 1999). The Taylor & Francis Online database is among the reputable databases used by diverse scholars who conduct systematic literature review studies. For instance, Zafra et al. (2017) systematically used the Taylor & Francis Online database to study the determinants of heavy metal accumulation on road surfaces during dry weather. Moreover, Emerald and Taylor & Francis Online are reputable databases that regularly publish microfinance articles.

The retrieval process involved three phases. In phase one, the researcher typed the key search words "Institutional theory” and microfinance, "Institutional theory” and "Microfinance institutions", and "Institutional theory and microcredit”. To avoid skipping articles, the researcher replaced the term "microfinance institutions" with the acronym "MFIs" in the search process. Initial searches generated a maximum of 1,420 results from Google Scholar. Emerald insights database produced 27 results. Tylor & Francis Online yielded 15 results while the Sage database yielded 12.

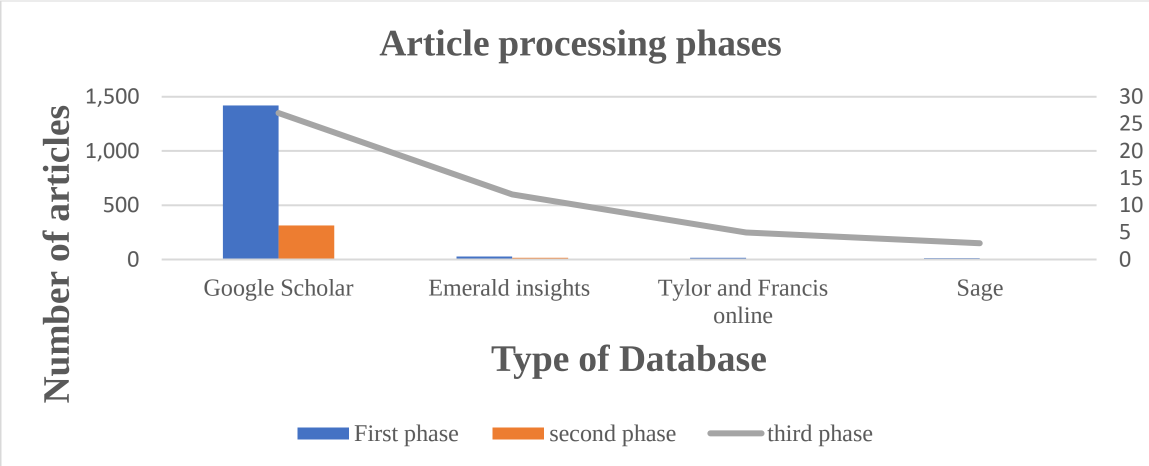
In the second phase, articles not published in English were excluded. Website articles, essays and reports were also not considered. This criterion yielded 314 results from Google Scholar, 15 from Emerald, 5 from Taylor & Francis Online and 7 from Sage databases. The final phase excluded books and book chapters from non-reputable publishers, theses, dissertations and conference papers. In this stage, the researcher considered only articles that contained the keywords "Microfinance institutions" and "institutional theory". The final search yielded 27 articles from Google Scholar, 4 from Emerald, 3 from Taylor & Francis Online and 5 from Sage. Thus, 39 articles were used in this study.

Table 1 and Figure 1 depict the search process. This process was also used by Zafra et al. (2017) and Gupta and Sharma (2021). Table 1 and Figure 1 show that many articles were retrieved from the Google Scholar, and other databases comprised few articles. The figure confirms that most systematic literature review authors use Google Scholar (Gupta & Sharma, 2021). The manual search process assisted the researcher in extracting the variables of the institutional theory and its application in microfinance institutions. The systematic review exercise commenced in October 2022 and ended in March 2023.

Table 1: The search process

Database	First phase	Second phase	Third phase
Google Scholar	1,420	314	27
Emerald	27	15	12
Taylor and Francis online	15	5	5
Sage	12	7	3

Figure 1: Article processing phases



RESULTS AND DISCUSSION

Institutional theory application in MFI Studies

Being challenged by internal and external factors, Covin and Miller (2014) argued that microfinance is a social institution that requires regular monitoring. Hence, institution theory moderates healthy behaviour, minimizes risk and enhances firm sustainability (Nair & Bhattacharyya, 2019; Brower & Dacin, 2020). Chakrabarty and Bass (2014) asserted that institutional theory describes the existence of institutional voids such as lack of accountability, useless legislatures, government interference, lack of property rights and corruption. Zulfiqar (2017) asserted that microfinance institutions are hybrid organizations that face challenges in adopting value systems, multiple logic and paradigms. Hence institutional theory can be applied to shape MFIs. Informal and formal organizational isomorphism influences the application of rules and MFI operations (Simo et al., 2022).

Applications of the old and new branches of institutional economics make MFI sustainability studies more comprehensive (Bhanot & Bapat, 2015). Both Old and New institutional theories define holistically the factors affecting MFIs. Institutional theory depicts how power, politics, rules, habits, routines, norms, knowledge and technological advancement determine the sustainability of MFIs (Hoque, 2006). According to Haldar (2015), MFI corporate governance, credit risk management, and monetary motivation are all linked to the old institutional economic theory. The new institutional theory describes how transaction costs minimization enhances the efficiency and sustainability of MFIs. Although MFIs were formed to solve existing problems, they still face challenges threatening their sustainability. However, the challenges are overcome by establishing formal laws or practices (Haldar, 2015). Thus, this study examined how institutional theory is applied to overcome MFIs' challenges.

Variables Targeted by Microfinance Scholars

According to the findings, some variables were investigated more than others because they were more crucial for MFIs. Approximately 42 percent of the studies integrated the institutional theory with loan repayment. Pamuk et al. (2021) and Magali (2022) confirmed that most MFIs face loan repayment challenges. As a result, the scholars establish a link between loan repayment and institutional theory. Loan repayment variables that are linked with institutional theory include setting the shorter repayment period and use of collateral (Bitok et al., 2020), repayment charges

(Atiase et al., 2019), and use of a guarantor in loan repayment (Bitok et al., 2020). Ul-Haq (2015) reported that politicians interfered with loan repayment procedures by asking loan officers to write off borrowers' loans illegally. Akanga (2017) related the institutional theory to overdue loan recovery in Cameroon. Bruton et al. (2015) combined the theory with interest reduction. The study focused on risky borrowers with insurance premiums.

The lending values, norms and regulations enabled Grameen Banks to attain a repayment rate of 94-98% (Agrawal, 2013). Similarly, Abdul Zalim (2022) reported that compulsory savings, mandatory attendance at meetings, e-payment loan collection, and rewarding loan repayment officers enabled Islamic financial institutions to achieve a 98% repayment rate. Consequently, the institution theory promotes the role of credit officers, the size of portfolio loans, and the rate at which loans are repayable (Beisland et al., 2019). Aideyan and Omoruyi (2016) and Parvin and Birner (2021) assessed how institutional theory influenced loan repayment for African MFIs and village banks in Bangladesh, respectively. Ashraf et al. (2022) reported that institutional theory application in MFIs overcomes ethical problems related to lending activities.

Some scholars revealed that institutional theory does not influence loan repayment and lending activities in MFIs. For instance, Abdulrauf and Hassan (2022) exposed that credit collection policies did not influence loan repayment performance for microfinance banks in Kwara State, Nigeria. Moreover, weak institutional structures in Spanish MFIs did not contribute to timely loan repayment (Estapé-Dubreuil & Torreguitart-Mirada, 2013). According to Siwale et al. (2019), institutional theory has not been applied adequately to explain the behaviour of borrowers' entrepreneurs in Sub-Saharan African MFIs.

Other variables covered by microfinance scholars who used the institution theory include interest, portfolio, operating costs, credit deficiencies and risks (Muhammad, 2014). Mia and Tabet (2016) and Ashraf et al. (2022) linked the institutional theory with savings practices. MFIs achieve better results by integrating professions, policies, products, and services. Nevertheless, it may be impossible for MFIs to achieve their intended results due to environmental factors (Bitok et al., 2020).

MFIs achieve sustainability and poverty alleviation objectives by supporting conducive institutions (Abuga, 2008). Institutional theory directed Amanah Ikhtiar Malaysia MFIs to adopt structures, policies and management practices that enhance service provision, loan disbursement, repayment and debt collection, ultimately promoted its accountability and sustainability (Bakar et al., 2019). Mwafise and Stapleton (2012) indicated that institutional and socio-technical factors slowed the use of mobile money systems for MFIs in developing countries. Zulfiqar (2017) found that MFIs in Pakistan did not manage to achieve gender equity in the provision of services because of poor institutions. Normative isomorphism enhances proper MFI reporting (Kabuye et al., 2021). Said et al. (2019) found that poor institutions, which were manifested by a lack of responsible staff members, periodic review of financial rules, poor education of clients, lack of staff-management cooperation and inadequate training, threatened the sustainability of Islamic Savings and Credit Cooperative Society (SACCOS) MFIs in Tanzania. Bitok et al. (2020) revealed that institutional theory promoted the quality of portfolios, which positively fostered the financial sustainability of MFIs in Kenya.

Institutional factors influence gender roles and microfinance performance (Boehe & Cruz, 2013). Muithya et al. (2022) revealed that the regulatory framework moderated the behaviour of MFIs. Shifa and Fuller (2022) indicated that MFIs could achieve social responsibility without compromising profitability. An institutional theory describes transparency and governance in the design of financial products and the selection of borrowers and clients for MFIs. Thus, institutions are a panacea for improving the livelihood of people with low incomes (Aideyan & Omoruyi, 2016). Gassama and Sudaryati (2022) reported that institutional theory guided audit practices and decreased the risk of MFIs. Irhoumah et al. (2020) unveiled that high-interest rates, poor finance access, insufficient loan sizes, lack of training, irregular loan repayment patterns and norms did not contribute to women's empowerment in Egypt.

The rules and laws guided the provision of financial services to youths in Tanzania (Stanslaus & Mmari, 2021). Self-Help Groups in India performed poorly because of poor institutions (Panda, 2019). Institutional theory articulated that the provision of startup capital was more reliable for profit than nonprofit MFIs (Shahriar et al., 2016). Farooq et al. (2022) revealed that the institutional environment affected the MFI's financial performance of non-banking microfinance institutions in Asia. MFIs in Zambia performed poorly due to insufficient regulatory and institutional changes (Siwale et al., 2019). Atiase et al. (2019) argued that the institutional theory framework promoted MFI clients to achieve poverty reduction objectives. Lusweti and Mwasiaji (2020) linked microfinance services, the performance of women businesses and institution theory in Kenya.

Afrifa et al. (2022) argued that the absence of institutional support culminates in the existence of corruptive practices in MFIs. Augustine (2012) affirmed that the level of transparency influenced the performance of MFIs. Naegels et al. (2017) revealed that the norms of requirements for collateral, personal guarantee and high-interest rates restrained loan access for women entrepreneurs in Tanzania. Siqueira et al. (2014) linked institutional theory, MFIs and entrepreneurship. Assisting entrepreneurs and disadvantaged groups in MFIs mitigate institutional voids (Ukanwa et al., 2022).

The findings indicate that most scholars linked loan repayment to institution theory variables. Thus, MFI variables such as savings and deposits, microinsurance and remittances are not adequately studied. The findings show that 4 scholars have examined the role of institutional theory in promoting MFI performance, while 3 scholars focused on sustainability. Savings, interest, portfolio, operating costs, risks, the mobile money system, gender equity, reporting, profitability, audit practices, the behaviour of MFIs, profitability, corruption, interest rates, the behaviour of borrowers and entrepreneurship each fascinated one scholar. The findings generally assert that there are no other variables that have attracted so many MFI scholars besides loan repayment.

Therefore, most MFI variables are not widely linked with institutional theory, except for loan repayment, which has attracted many scholars. A literature review also manifests the absence of systematic review studies conducted to assess the application of institution theory in MFI studies. Rasel and Win (2020) used a systematic review to assess microfinance governance. In their study, they outlined theories related to MFIs. These were governance, institutional resource dependency, agency, stewardship, legitimacy and stakeholder theory. A mixture of theories, however, prevented them from explaining how institutional theory variables were applied to MFI research. Parwez and Patel (2022), in their systematic review, assessed the relationship between MFIs and women's empowerment and not the application of institutional theory in MFIs.

Table 2 further shows that the use of institution theory in assessing the MFI performance, savings and sustainability variables were manifested in 4(10%), 3(7%) and 2(5%) studies respectively. However, one scholar, equivalent to 3%, applied the institutional theory to assess the relationship between MFI services and women's business performance. Similarly, one scholar, in each case, used the institutional theory to analyze how its variables influenced interest, portfolio, operating costs, the mobile money system, gender equity, proper reporting, gender roles, audit practices, risks, and how the regulatory framework moderates the behaviour of MFIs. The findings show that the loan repayment variable attracted more scholars than other variables.

Table 2: Summary of Institution Theory Variables in MFIs

S/N	Variable	Authors	Frequency	%
1	Loan repayment, lending and demand	(Agrawal, 2013; Estapé-Dubreuil and Torreguitart-Mirada, 2013; Muhammad, 2014; Bruton et al. 2015; Ul-Haq, 2015; Shahriar et al., 2016; Akanga, 2017; Naegels et al., 2017; Atiase et al., 2019; Bakar et al., 2019; Aideyan & Omoruyi, 2016; Beisland et al., 2019; Irhoumah et al., 2020; Parvin & Birner, 2021; Ashraf et al., 2022; Abdulrauf and Hassan, 2022; Abdul Zalim, 2022).	17	44
2	MFI performance	(Augustine, 2012; Stanslaus & Mmari, 2021; Panda, 2019; Farooq et al., 2022).	4	10
3	Sustainability	Said et al., 2019; Bitok et al., 2020; Abuga, 2008).	3	7
4	Savings behaviour	(Mia, & Tabet, 2016).	1	3
5	MFI services and Women's Business performance	Lusweti and Mwasiaji, 2020).	1	3
6	Interest, portfolio, operating costs, and risks	(Muhammad, 2014).	1	3
7	Mobile money system	(Mwafise & Stapleton, 2012).	1	3
8	Gender equity in MFIs	(Zulfiqar, 2017).	1	3
9	Proper MFIs reporting	(Kabuye et al., 2021).	1	3
10	Gender roles	(Boehe & Cruz, 2013).	1	3
11	Audit practices and MFI risks	(Kabuye et al., 2021).	1	3
12	How the behaviour of MFIs was moderated by the regulatory framework	(Muithya et al., 2022).	1	3
13	MFI profitability	(Shifa & Fuller, 2022).	1	3
14	Corruption in MFIs	(Afrifa et al., 2022).	1	3
15	Reduction of interest rates and regulations	(Bruton et al., 2015)	1	3
16	The Behaviour of Borrowers and poor performance of MFIs in Zambia	(Siwale et al., 2019).	1	3

17	MFIs and entrepreneurship (innovation)	(Siqueira et al., 2014).	1	3
18	Livelihood improvement of Women MFI entrepreneurs	(Ukanwa et al., 2022).	1	3

CONCLUSION

The study reveals that most microfinance scholars agreed that the institutional theory variables of normative, regulatory and cultural cognitive isomorphism are essential for promoting MFI variables, but few scholars disagreed. The analysis shows that some variables are more thoroughly studied than others because they are more pertinent to MFIs. The study exposed that most studies link institution theory with loan repayment because of poor repayment, which threatens MFI performance and sustainability. The analysis discloses that performance and sustainability studies were prioritized after loan repayment. Apparently, there have been few studies that link institutional theory with savings and deposits despite their substantial contribution to MFI capital. The findings further indicate that microinsurance and remittance have received scant attention.

Furthermore, the findings designated that variables of performance, sustainability, interest, portfolio management, operating costs, risks, the mobile money system, gender equity, reporting, profitability, audit practices, MFIs' behaviour, profitability, corruption, interest rates, borrowers' behaviour and entrepreneurship are rarely researched. Therefore, there are fewer studies that link variables of MFIs with theory. This study contributes to the microfinance literature by examining systematically and comprehensively institutional theory variables in MFI studies. The study reveals the power of institutional theory in overcoming MFI challenges and variables preferred by microfinance scholars. The study also elucidates why most microfinance scholars concentrate only on some MFI variables. The study recommends applying institutional theory to diverse MFI variables to generate policies that overcome microfinance institutions' challenges. The study's major limitation is using a systematic literature review approach, which might allow researchers to skip relevant articles.

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