CHALLENGES FOR FINANCIAL INCLUSION THROUGH MICROFINANCING: THE GOAL INCONGRUENCE BETWEEN TOP MANAGEMENT AND THE LOAN OFFICERS

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Abstract

The drift of mission from social orientation to commercial orientation has created issues at the firm level as well as the social level. Foci of the study to explore the reasons for emerging issues in the microfinance field. Mainly through a qualitative approach and from the agency theory standpoint, the study attempt to answer why and how goal incongruences occurred between top management and loan officers. The thematic analysis results reveal that institutional process, agency variables and cost, and personal reasons of loan officers, including self-interest,have contributed to the goal incongruence. Notably, the inability to verify the loan officer's behaviour and manage bonding cost and monitoring cost at an optimal level due to weaknesses of the internal process can be recognised as the causes for the goal incongruence. In addition, theoretical contribution, implications, and limitation of the research are also considered and discussed.

Keywords: Microfinance, Goal Incongruence, Institutional processes, Agency theory, Loan officers, Top management

1. Introduction

Micro finance provides credit to the poor using social collateral, group guarantee, progressive lending approach, peer pressure, and peer monitoring (Thila karatna, 2005).And ithas been a significant factor of poverty alleviation, especially in developing and under-developing countries (Herath, Gunaratne, & Sandartne, 2015), and a substantial impact on society, including women empowerment(Afroze, Rahman, & Yousuf, 2014).According to Mutua et al. (1996), the top management of MFIs working closely with credit officers has deliveredthe aforementioned positive outcomes.On the contrary, microfinance has failed not only inits ability to alleviate poverty and developing sustainable community (Hermes &Lensink, 2007; Tavanti, 2013) but also in its ethical concerns such as exploitation, mismatch of financial and social goals (Hudon & Sandberg, 2013), psychological stress (Tisdell & Ahmad, 2018), pressure on loan officers and unethical practices (Sarker, 2019). In the vein of ethical concerns,Sri Lanka is not an exception. It is reported that the microfinance market is overheating and the need to address internal challenges like lack of competencies of the staff (DailyFT, 2017).

The performance of MFIs depends on factors such as institutional factors, borrows' factors, and external factors (Afonso, 2014). The first two factors are directly and indirectly within the preview of MFIs, whereas external factors are beyond the control. According to Aghion&Morduch (2005), the top management and the loan officers are recognised as the two different parties who are expected to work for the same goal. If both parties pursue the same goal,institutional and borrowers' factors can be controlled in favor of the firm, resulting in high performance. However, due to the facts that the scope and role of the top management are different fromtheloan/credit/field officers (here after use loan officer)(Afonso, 2014), lack of training and development, and poor incentives schemesfor loan officers (Kumar Jha & Singh, 2015), powerful hierarchical and structural pressure on loan officers(Sarker, 2019),the goal congruence between the top management and the loan officers is weak in many instances(Afonso, 2014). Further, non-conformity between two parties can result in an under-utilisation of organisational resources (Mumtaz, 2000).

Literature reveals that top management goals are mostly aligned with organi sational goals (Aghion & Morduch, 2005; Sarker, 2013). Based on the above facts, we argue that in instances where the goal incongruence between the top management and the loan officers is visible, the loan officers' goals seem to be poorly aligned with the organisational goals. Moreover, goals of the top management are more towards the maximisation of profit through quality loans while giving due weight to the objectives of poverty alleviation and sustainability (Koveos & Randhawa, 2004). In contrast, the loan officers' goals are to achieve targets that may hinder the portfolio's quality, dilute credit culture and long-term sustainability, obliterate the institution's image, and stimulate unethical practice (Sarker, 2019).

Further, though the goals of top management of the microfinance institution are aligned with the intended goals of microfinance, the loan officer's goals are different from the organi sational goals and have hidden agendas or self-interests. It sees that causes of this goal incongruence can evident from the side of top management that is responsible for establishing appropriate organisational processes in achieving goals of MFIs as well as from side of the loan officer who may pursue their personal goals.Therefore, to understand the reasons for the goal incongruence of the two parties, it is needed to investigate how the organisational processes are happening and why the loan officers are behaving in a conflicting manner.In answering to aforementioned research questions, three objectives are esta blished:1) to explore how the organis ational processes contribute to the goal incongruence between top management and loan officer; 2) to investigate why the loan officers have different behaviors though both parties are expected to work for the organisational goals. Findings of the study will help MFIs to mitigate the drawbacks of commercialising micro finance and financial inclusion of developing countries.

2. Literature Review

2.1. Microfinance institutions and their processes

Mission-driven microfinance institutions intensively focus on identifying and understanding the needs of the poor and delivering the services as per their requirements and function with the most effective and efficient mechanisms to provide financial services for the poor (Babajide, Taiwo, & Adetiloye, 2017). According to Anuradha & Ganesan (2010), microfinance is a powerful tool for sustainable development that contributes to the growth of the economy through creating employment and reducing gender and geographic differences.

With the mission drift, institutional sustainability has become the priority, including repayment rates, managing client numbers rather than the social consideration (Dixon, Ritchie, & Siwale, 2006). The rapid expansion and the success of microfinance have brought considerable benefit for the women, especially to the non-poor segment, and at the same time, the microfinance institutions go away from their original mission of women empowerment and poverty alleviation (Edward & Olsen, 2006). With the rapid growth and high competition, achieving and staying tuned to microfinance's original objectives is challenging (Panda et al., 2013). However, the transformation of MFIs to provide full financial services can be done by changing organisational culture with top management commitment. “With the addition of new staff and the changes to processes and procedures that accompany transformation,an institution’s culture is likely to be significantly affected by the transformation process” (Ledgerwood & White, 2006, pp 67). According to Ortolani (2006) processes of MFIs are not different from the processes of traditional financial intermediaries: Governance processes, Production activity processes, Support processes and Control processes. Revision of vission, mission and values of MFIs would lead to change theexisting processes, including the process of microcredit disbursement that determine the quality of loan portfolio and the exposure to the risk (Ledgerwood & White, 2006; Ortolani, 2006).

2.2. Performance of Loan Officers

Research studies particularly neglect the role of the loan officers (Dixon et al., 2006),who are an important part of microfinance. Loan officers are the interface between the microfinance institutions and the customers and the center of the service delivery (Goetz, 2001). If the loan officer fails, the microfinance institution also gets failed (Dixon et al., 2006). As the front line workers and the people who spend more time with the clients, they hear, see, and experience the customers' needs (Sarker, 2013). They are the responsible personnel to screen the loan applications and potential customers, continuous follow-up and monitoring of the loans, and producing reports (Holtman & Grammling, 2005).

On the other hand, loan officers are operating under continual management pressure to secure the institution's high repayment rates and financial sustain ability. At the same time, they are assessed based on credit delivery performance (Dixon et al., 2006).

According to Imhanlahimi & Idolor (2010), the performance of loan officers isrigorously constrained by the weak infrastructure and fraudulent people in the process. Therefore, loan officers are compelled to use inappropriate methods to force clients to repay the loan (Dixon et al., 2006). Moreover, the pressure for doing work could provoke unethical practices (Sarker, 2013).

Provision of insufficient time to assure the portfolio quality and asses related information may cause undue pressure on loan officers and in turn,it increases loan officers' turnoverwhich would lead top management to suffer from planning difficulties and setrealistic goals(Sarker, 2013). It is important to give more attention to the loan officers since they are the implementers of the micro finance policies and mobilizers of clients (Dixon et al., 2006). As evident, though the number of issues and problems with regard to loan officers, their role and influence on performance are adequately addressed by prior researches, organi sational influence on behavior of loan officers and reasons for their mis conductis under researched.

2.3. Goal Incongruence

As cited in Supeli & Creed (2013), goal congruence can be defined as the degree to which the needs, demands, goals and structures of one component are consistent with the needs, demands, goals, and structures of another component. Congruence is, therefore a measure of how well pairs of components fit together (Nadler & Tushman, 1992). When there is no fit between the components, the goal incongruence happens. Goal congruence is derived from the principal-agent theory literature (Karunaratna & Johnson, 2015). In other words, it is a gap between what the top management expects and what the loan officer performs. According to Goetz (2001), it was found that the loan officers were critical in communicating the policy to the client and responsible for the fit between the top-level policy initiatives and the local realities.

2.4. Agency Theory

The agency problem happens when the cooperating parties have different goals (Jensen & Meckling, 1976). The agency theory describes the relationship between two parties that one party is named as principal and other party named as an agent, to perform the task on behalf of the principal (Jensen & Meckling, 1976; Ross, 1973). The agency theory shows the basic agency structure of the principal and agent who are engaging in the organizational behavior, but having the differing goals and attitudes (Kathleen, 1989). In this relationship, the principal delegates an agent to perform the activities on behalf of the principal. Agency theory attempts to deal with two specific problems. One is how to align the goals of the principal so that they are in conflict. The second problem is that the principal and agent reconcile different tolerance for risk (Aghion & Morduch, 2005). According to Moe (1984) information asymmetries and goal conflict occurs in the agency relationship symultanioulsy (Moe, 1984).

There are two instances where the agency problem arises. The first instance, when there is a conflict between the principal and agent regarding the desires or goals, and the second problem occurs when it is difficult or expensive to verify what the agent is doing(Kathleen, 1989).Mostly, the agency problem arises when decision making is transferred to the agent by the principal, and the agent has divergent interests (Loughry & Elms, 2006).

Two options are available to the principals to control the agency conflict: behavior-based contracts and outcome-based contracts (Eisenhardt, 1989). If the principal chooses to control the agent by using the behaviour-based option, the principal has to monitor the behaviour of the agent and reward his behaviour. On the other hand, if the principal chooses the outcome-based contracts, the agent should be rewarded once he achieves stipulated outcomes (Kivisto, 2008). Monitoring minimises the opportunity of the agent to act against the principal's interest that would result in limiting agent's discretion. By using an incentive mechanism, the principal attempts to minimise the agent's desire to behave in a contradictory manner with the desires of the principal. Through this,

The principal expects to align agent's interest with those of the principal's (Loughry & Elms, 2006), by implementing the behaviour-based or the outcome-based contracts. The selection of the type of contact is guided by two concepts of the agency theory: agency cost and the agency variables. Agency variables explain the different conditions where internal or external factors are connected to the principal-agent relationship that influences the agency cost and the contract choice. The agency cost is the aggregation of monitoring cost, bonding cost and residual loss (Jensen & Meckling, 1976). Monitoring cost occurs when the principal keeps track of the agent and assesses agent's performance. In addition, the recruitment, training and development costs are also included (Panda & Leepsa, 2017). Principle incurs bonding cost in setting up and operating functions for a defined system(Jensen & Meckling, 1976) and the bonding cost is inversely associated with monitoring cost (Panda & Leepsa, 2017).

In the field of microfinance, the top management of MFIs appoints loan officers,particularly to disburse the loan to the clients by fulfilling microfinance goals. However, the consumption-based lending approach of MFIs is attributed to various internal challenges like target setting and movement of loan officers(DailyFT, 2017), which may likely result in week performances. Such internal challenges can occur due to transformations in the internal processes (consumption- based lending) or misalignment of loan officers' goals with the principals' goals.

To address the two specific problems raised in the study, why and how does the conflict of interest happen between the top management and the loan officers, the study explores two different phenomena through the agency theory lens. In accordance with the theory, loan officerscan operate in their self-interest rather than in the best interest of the MFI. Therefore, there is an apparent goal incongruence between the top manage ment and the loan officers of the micro finance institutions. The following conceptual map (Figure 1) illustrates the research problem and the theoretical background of the study.

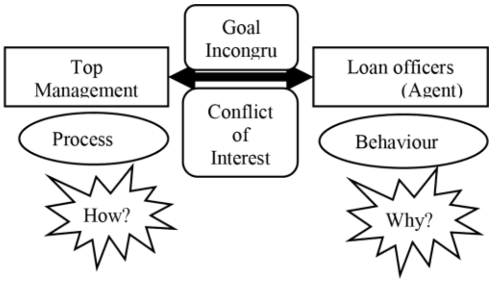

Figure 1:Conceptual Map

3. Research Design

This research study uses a mixed-method that combines quantitative and quali tative approaches (primary approach). The first step of this study was to identify the goal congruent and incongruent companies to compare and explore why and how this difference occurs. For this purpose,first, two organisations were selected as cases based on the company performance (high and low), and the evidence collected through a preliminary investigation (interviews with micro finance industry experts and clients). Second, a quantitative approach was applied to investigate the extent to which selected companies loan officers are different interms of the level of goal congruence (i.e. goal congruence and incongruence firms). A survey was conducted across two companies by administrating a questionnaireas a means of collecting data.

The second step of the study was to explore how the organisational process is happening and why the loan officer (agent) is not congruent to the top management's (principal's) goal, for this the qualitative approach was used.

The questionnaire was developed using the perceived goal congruence scale developed by Supeli and Creed (2013). According to them,the degree of goal congruence can be measured by exploring how people fits with the organisation. Since the top management is involving in the formulating the goals, the objectives of MFIs and goal incongruence occurs mostly from loan officers' side (Sarker, 2013), the level of goal congruence was investigated from the loan officer's perspective. The questionnaire initially developed in English was translated into Sinhala anddistributed among 50 loan officers in two companies(25 from each company). The convenient sampling technique was applied to select the sample. The data was analysed using the independent sample t-test.

The interviews with the top management and loan officers were conducted using an interview guide, and the same interview guide was used for both organisations. With regard to the top management, few interviews were conducted in Sinhala, while other interviews were conducted in English. Ten participants were interviewed for the study, five from each company. Concerning loan officers, all the interviews were conducted in Sinhala, and the interviews were translated into English after transcribing. In all eight loan officers were interviewed (four from each company). The interviews were terminated at the saturation point.

Two interviews were conducted with clients, as a data triangulation method, to ensure the behaviours of loan officers.

Table 01:Sample/Respondents

Company Name	Goal Congruent / Not	Respondents	Data Collection Method
Quantitative Approach			
ABC	Incongruent	25 - Loan Officers	Questionnaire
XYZ	Congruent	25 - Loan Officers	Questionnaire
Qualitative Approach			
ABC	Incongruent	5 – Top Management	Face to Face Interviews
		4 – Loan Officers	Face to Face Interviews
XYZ	Congruent	5 – Top Management	Face to Face Interviews
		4 – Loan Officers	Face to Face Interviews
Data Triangulation			
ABC / XYZ		2 - Customers	Face to Face Interviews

Source: Author's own construction

3.1. Analysing the data

First, to identify the level of goal congruence across two organisations, an independent sample t-test (SPSS) was executedusingdatagathered through the questionnaire.The degree of goal congruency was measured using 5 pointsLikert scale. ABC and XYZ Companies were regarded as indepen dent groups. Based on the results of the analysis, the companies were labelled as goalcongruent organisationand goal incongruent organisation.

Next to analyse the qualitative data gathered through the interviews by using the thematic analysis. The tape-recorded 20 interviews were word to word transcribed (verbatim) and the interviews conducted in Sinhala were translated to English. Concise and meaningful codes were derived from the data and the patterns were identified as per the codes. The codes were semantic codes that reflect the semantic content derived from the data. The codes were concise and meaningful for the chunk of data as well one code captures one idea. The codes were in the form of phrases. After identifying the codes, the data from all the interviews were collated under each code. The themes were created based on the codes and then identified the relationship between the themes to produce the data story and the theoretical story. This study contains the overar ching theme and four themes that were created to address the research questions. The themes are representing the patterned responses that give the meanings of the data. The themes are distinctive and fit together when describing the overall analysis. The themes were created with the best combination of the codes. In identifying the themes, the collated data and patterns were carefully analysed. The themes consist of the central organising concept. The credibility and the dependability of this study are assured through the time spent for interviews, quality data collection methods reconfirmed by data triangulation methods, obtaining the data from the respondents who have rich data, and through assuring the accuracy of transcribing, translating, and interpre tation of the data. Through this study, the weaknesses of the processes, why the loan officers are behaving in goal incongruent manner and the alternative processes that can be applied to theMFIs are revealed.

4. Findings and Discussion

According to the results of the independent sample t-test,mean value of ABC Company ($M=2.75$, $SD= 0.88$)is significantly different from XYZ Company ($M=3.54$, $SD=0.54$.; $t(39.8)=-3.80$,$p=0.02$).Therefore, the ABC

Company was identified as the goal incongruent company whereas XYZ Company was identified as the goal congruent company. In other terms, the level of goal congruence between top management and loan officers is a week in ABC whereas it is strong in XYZ. The results indicate that the difference in financial performance reported in financial statements is partly due to poor goal congruence. To further investigate why and how it is happening, qualitative data gathered through in- depth interviews were discussed through the lenses of agency theory.

4.1. The goal conflict between the top management and the loan officer

In this section, we attempt to answer why the loan officers have different beha viours though both parties are expected to work towards the organisational goals.The goal incongruence happens when loan officers have hidden agendas and the self-interest of the loan officers that are different from the top manage ment's interest. Some factors affectthe loan officers to have hidden agendas and put more weight on self-interest, reflected in their behaviours and conduct. According to the findings of the study, salary and incentive issues, previous experiences, poor expense management, lower education level, mentality or personal problems, lack of loyalty to the company, pressure from the manage ment, background, stimulation from the customer, no proper guidelines, carele ssness and dealing with unedu cated clients are identified as the reasons for the loan officers to misbehave and misconduct.

The salary and the incentive schemes have influenced the ABC company's loan officers to behave conflictingly and misconduct, leading to the goal incongruence. In line with the agency theory, there are two options for the principals to control the conflict of the salary and incentive scheme(Kivisto, 2008). One option is the behaviour-based contract, and other one is the outcome-based contract (Eisenhardt, 1989). If the principal chooses to control using the behaviour-basedcontract, the principal has to monitor the behaviour of the agent and reinforce such behaviours. On the other hand, if the principal chooses the outcome-basedcontract, the rewarding should be done on the basis of achieving the outcomes (Kivisto, 2008). According to Oxfam (1997), a staff incentive scheme is also beneficial for recruiting and maintaining the company staff. Through an incentive mechanism, the principal tries to minimise the agent's desire to behave in a contradictory manner and match the principal's desires. In such a way, principal expects to align agent's interest with those of the principal (Loughry & Elms, 2006). XYZ company offers salaries, incentives and bonuses twice in a year according to the loan officers' performance. Also, XYZ Company organises awarding cere monies to reward the best performers based on the key performing indicators such as a target achievement, the introduction of the number of new customers, collection, qulity of the loan portfolio, and behaviours, etc. As such XYZ company augments loan officers based on their both behaviour and the outcome results. However, such rewording systems are not apparent in the ABC company. For instance, bonuses are offered as declared by the ABC company, not according to the perfor mance or the loan officers' behaviour. These facts prove that the XYZ company's incentive system has led loan officers to be happy and congruent with the firm's goals.

The previous experiences of the loan officers affect their conduct. Though the top management of ABC Company is unwilling to recruit loan officers from small scale MFIs s since they are unlikely to fit with the organisational culture due to lack of professionalism, they still recruit loan officers from such firms due to poor screening process.These loan officers may haveprior experiences involving misappropriations and thus challenging to align their goals with the company goals. In contrast, the XYZ company recruits loan officers through proper screening, including background investigation and experience utilisation.

Another factor that affects the behaviours and the conduct of the loan officers is the poor personal financial management. When the loan officer's expenses are higher than that of their income, they tend to misappropriate or roll out money. This situation is minimised in XYZ company since they have a proper incentive scheme and educational t raining for the loan officers. Nevertheless, the situation of the ABC company seems to be unfavorable due to the weaknesses in the incentive and training development systems.

Lower education level is another factor that has caused to create the goal incongruence in MFIs. In the interviews it was revealed that since the loan officers are just after the advanced level examination, their ability to work in the office and work with people in the society is very poor. The XYZ Company provides the loan officers with proper and need-based training. Therefore, loan officers are educated on working and handling customers. Whereas, though the top management of the ABC

Company mentioned that they provide enough training and education to the loan officers it is not evident. Thus, one of the reasons leads the agency problem in ABC company is education level and training.

Personal problems and background are some other factors that make the people to involve in certain type of misbe haviours or the misconducts. If the loan officer has a problematic situation at home, like a sickness or a need for money, they tend to choose undesired paths to fulfil personal needs. In the presence ofdecent salary scales and incentive schemes, the XYZ company could manage this situation favourably. However, because of poor salary scales and incentive schemes as well as unfair distributing facilities among loan officers, ABC company has been unable to help personal level problems. Such practices lead to creating less loyal loan officers to the company but loyal to immediate supervisors who may allow them to achieve their personal goals through misconduct. Hence, if the boss leaves the company, loan officers also leave the company with him, or the top management faces difficulty handling such loan officers.

The pressure for doing work could create unethical practices (Sarker, 2013). The unnecessary pressure reduces the quality of micro finance operations. If loan officers are not given enough time to assure the portfolio quality, they tend to hide the information. Sometimes excessive pressure which may dilute the planning capacity of loan officers will result in high turn over. On the other hand, the way of target setting also puts pressure on loan officers. In the target setting, since the XYZ company follows the bottom-up approach that includes participatory target setting, targets are bearable for the loan officers. Nevertheless, since the management of ABC company sets targets without taking feedback from loan officers, such targets have become unrealistic while putting undue pressure on loan officers. The stimulation from the customers to be involved in misbehaviour or misconduct is another factor affecting loan officer behaviours. The presence of a proper code of conduct in dealing with clients may prevent loan officers from engaging with clients unnecessarily. If such code of conduct is available, even when connecting loan officers with clients through social media, they should try to adhere to the code of conduct. Though the XYZ Company has a proper code of conduct for the loan officers on how to behave with the customers, ABC company lacks a proper code of conduct. The carelessness of managing cash is another factor that affects the loan officers to become goal incongruent. It was revealed that controlling and monitoring mechanisms are week in ABC company compared to XYZ company. If the management does not pay due attention to managing cash properly, loan officers are indirectly induced to play with money collections, and such practices could be inbred as the organisation culture.The seriousness of this issue would be high when loan officers handle poor literal people in terms of education and finance. In addition, since clients have anenormous trust in loan officers, they can be easily manipulated for their self-interest.

In accordance with the first version of the agency problem, a conflict between the principal and agent occursregarding goals of two parties. The XYZ company has managed this conflict through their process by focusing on the loan officers and their goals. However, the ABC company has failed to manage this problem because the existing processes are not designed to align the loan officers' desires and goals with organisational goals.

4.2. The difficulty/high cost of verifying the loan officer behaviours

The second problem happens when it is difficult or expensive to verify what the agent is doing and whether the agent behaved appropriately. To verify the appropriateness of the agent’s behavior, the organisational process should be substantially reliable. The above discussion unveiled that the ABC Company is unlikely to govern the first agency problem properly compared to XYZ Company, due to the weaknesses of the organisational process. This section aims to answer how the organisational processes contribute to the goal inco ngruence between top management and loan officer. In answering the above question, we could explore a substantial number of drawbacks in the process of ABC company than the XYZ company. Lack of proper information system is a major constrain for the microfinance sector (Senanayake, 2002). When there is a proper information system in place, the organisational procedure becomes convenient and supports minimising fraudulent activities. It was reported that theinformation system of the ABC company is week. Therefore it is not capable enough to provide needful information for preparing reports, analyse data, reteview information on disbursement of loan and collection of instalment, and calculate the arrears. In comparison, the information system of the XYZ company is efficient and supportivein providing up-to-date and needful information.

The HRM process of the microfinance institution plays a remarkable role in recruiting suitable personnel, distributing the facilities to the loan officers and streamlining the succession plan. However, the HRM procedures of the ABC company are not supportive enough toimplement the microfinance process of the company. The HRM personnel are expected to have a proper sense about the job description and specification of the loan officers whom thery are going recruit.However, HRM personnel ofABC Company demonstrated poor knowledge about the recruitment process of the loan officers. Moreover, it was evident that all the loan officers are not treated equitable manner, and thus some loan officers are demotivated.

Furthermore, it was revealed that the ABC Company has no proper succession planning, particularly sourcing of loan officers for a vacant post. For instance, if a loan officer left the company, the vacancy is not filled soon, so thatother loan officers are overburdened. However, the XYZ Company has a proper recruitment procedure that starts with the initial screening to the final interview. The loan officer has to go through several interviews with HRM personnel as well as micro finance personnel. Moreover, since remuration and other facilities of the XYZ are attractive and the workload of the loan officers is fairly distributed, they are comfortable with the succession planning of the company.

A proper governance system can minimise this agency problem (Eisenhardt, 1989) where the principal is aware of the all the information about the agent and his actions (Panda, Panda , & Das, 2013).Both XYZ and ABC Companies are trying to track the behaviours of the loan officers through various means. Even though both companies use field visits and follow-ups as the monitoring and controlling mechanisms, two firms are different in terms of their practices. The risk management department and the audit team are responsible for field visits in ABC company. However, because the two visiting teams poorly interact with other departments and each other, monitoring and controlling mechanisms seems less efficient and effective. In contrast, XYZ Company deploys, in addition to the audit team, a field monitoring team which comprises of experienced personnel who have worked for long years in the microfinance industry. Therefore, XYZ company has been able efficiently to treatthe root causes ofproblematic behaviour of loan officers.

The performance of MFIs has become uneven and problematic due to the lack of adequate guidelines (Mwenda & Muuka, 2004). Adopting self-control mecha nisms by issuing a code of conduct and guidelines plays a vital role in aligning loan officers' objectives with the firm's objectives. The ABC company, which was identified as goal incongruence in the above, has no proper code of conduct that gives the loan officers a guideline to do their operations, whereas in the goal congruent company (XYZ) has a proper code of conduct that provides guidelines to loan officers in relation to micro finance operations, maintenance of relations with the customers etc.

From the organisational perspective, much attention needs to be drawn to the lending process. The portfolio at risk (PAR) level is a good indicator of the performance of MFIs. Because of the high PAR level in the ABC Company, all areas loan has been written off in 2017 and started transactions from the beginning. However still, their PAR rate is very high. In contrast, XYZ company has been managingits PAR levelwell above the ABC company.

MFIs are expected to provide consu ltancy services and training to the borrowers to improve their level of financial discipline(Mpogle, Mwaungulu, Mlasu, & Lunawa, 2012). People who are not financially disciplined tend to borrow from multiple sources and struggle to repay the loans (Afroze, Rahman, & Yousuf, 2014). In Sri Lanka, the multiple borrowing issue is looming up during the recent past, and its repercussions are apparent in the social penomina in various degrees. The ABC company is not attentive to this issue in disbursing loans, whereas XYZ is concerned about the issue. The XYZ company educate clientsabout multiple borrowing andits negative conse quences.

Time taken to disburse loans is another aspect of understanding the efficiency of the lending process. The ABC Company takes much more time in the process of granting loans compared to XYZ company. Because micro finance customers are more time-bound in grabbing opportunities like seasonal businesses etc., it is crucial to disburse loans in time. Moreover, the presence of proper systems at XYZ, has facilitated disburse the loans quickly. On the other hand, in the case of loan disbursement, the selection of the physical area of operation is paramount. However, ABC company does not have proper proce dures to select the area of operation and open new centers, whereas the XYZ company open new centers by analysing the viability of the area through Sampath

Pathikada information System. The XYZ company is capable of deciding on their strategiesfocusing on their target market and conducted training for the customers to improve them and retain them since XYZ company has information about customers gathered through own information system.

Lack of training or no proper training is another significant weakness in the ABC company. Though the top management of the ABC company is confident about the efficiency of the training programs of the company, loan officers are of the view that they do not get enough opportunities and not catering to their requirements. As per the top management of the XYZ Company training programs are appropriately designed by identifying the training needs of the loan officers. Loan officers are of the view that they are receiving required training with fair opportunities.

Moreover, the comminucation gap and the power distance of ABC company can be seen as another obstacle that leads to difficulty observing agent's behaviours. In other words, top management decisions and other information do not flow from the top layers to the bottom. Concurrently, information flow between top management personal is also at a poor stage. For instance, top management personnel have different about the same procedures. At the same time employees at each level attempt to maintain power distance between individuals as well as departments. Therefore, even for urgent matters, the priory is given. As a result, clients and employees' problems are not promptly addressed. In contrast, the XYZ company properly manage the communication process through the meetings, emails, memos etc.Hence, the top management,as well as the bottom level employees, have the same under standing and knowledge about similar procedures. Moreover, it is observed that the organisation culture is supportive and power distance between top management and lower-level employees is minimum. For instance, loan officers can call upon the CEO with short notice.

The agency problem becomes serious when the goals conflict goes together with information asymmetries (Moe, 1984). In the following section information, the asymmetry issue is discussed in detailed.

4.3. Information asymmetries in microfinance institutions

In the presence of goal conflict and information asymmetry issue in an agency relationship, the opportunistic behaviour of the agent is visible, and that leads to work against the interest of the principal (Barney & Hesterly, 1996). In the case of the microfinance industry, the loan officer directly deals with clients in the field. Therefore the information that the top management/principle processes areminimal. As the mediator between the customer and the company, the loan officer has enormous opportunitiesto manipulate and hide the information withoutproper monitoring mechanisms. The XYZ company has managed the information asymmetry problem by maintaining a proper information system that includes maintaining all the information about the customers and using the field monitoring team. However, due to the absence of proper information system, the ABC company cannot get the required details about clients. Moreover, since the top manage ment maintains the power distance, the loan officer has built a rapport with the immediate supervisor/ manager, and thus loan officers have become loyal to supervisors than the company. As such, the flow of information to top manage ment is further constrained. However, since XYZ company maintains an open-door culture where the loan officer can directly meet the CEO, information asymmetries are minimal.

In governing the agency problem, the microfinance institution incurs the agency cost and should focus on the agency variables.

4.4. Agency variables and agency cost in microfinance institutions

Agency variables explain the different internal or external conditions connected to the principal-agent relationship that influence the agency cost and reward choice. The study identifies week regulations conditions in the Sri Lankan microfinance industry as the external connection that influence sagency relationship. Senanayake (2002) mentioned that the deficiencies in the legal and regulatory framework impactthe MFIs. Further, the absence of a suitable regulatory framework in some countries is problematic (Mwenda & Muuka, 2004). The ultimate objective of regulating the MFIs is to protect the public from the risk and let only the most trustworthy institutions to operate for the betterment of the community (Mwenda & Muuka, 2004). In the Sri Lankan context, though many firms are involved in microfinance businesses, only four companies registered under the Micro finance Act as of 30th March 2020 (Central Bank of Sri Lank, 2020). This indicates that many companies operate as an informal manner and the enforcement of the regulatory framework by the monitory authority of Sri Lanka is negligible. Poor regulatory enforcement, together with excessive competition, have forced loan officers partly to invol ving malpractices by putting the micro finance industry in the risk of sustainability.

The agency cost is the aggregation of monitoring cost, bonding cost and residual loss (Jensen & Meckling, 1976).Monitoring cost consists of watching, compensating, and evaluating the agent's behaviours and training and developing the agent (Panda & Leepsa, 2017). The presence of proper internal controlssuch as frequent branch and field visits and monitoring teams, especially making it compulsory for issuing a receipt to the client to confirm their repayments, would result in high monitoring costs of MFIs. Moreover, educating clients about the importance of collecting evidence regarding loan instalment payments (receipts) and keeping them until the loan is settled, MFIs have to make additional cost and effort. However, such monitoringand educational efforts would minimise the opportunity for the loan officers to act against the principal's interest and limit their discretion. Moreover, detecting misbehaviour of loan officers (Loughry & Elms, 2006) and taking disciplinary actions against them would also be possible.

The top management of the XYZ company has appointed a separate field monitoring team to assess the behaviours and the performance of the loan officers. Additionally, the loan officers are monitored through complaint handling. Despite the fact that a team monitors the behaviour of loan officers on behalf of the top management, due to a conflict between personal in the operations and the monitoring, the effectiveness of monitoring cost is questionable.

According to the agency cost, the cost involved with training and development is considered part of the monitoring cost. Provision of need-based training for the loan officers includes developing competency and soft skills in dealing with hazardous clients, time manage ment and stress management, and especially introducing mentoring pro grams for the new and existing staff which would help provide proper guidance for the loan officers (Sarker, 2013). Whereas the XYZ company provides training and development opportunities for the loan officers adequately by doing a training needs assessment, the ABC company does not provide need-based training that may intern develop a negative perception in loan officers toward the company's training development programmes.

Bonding cost is incurred to operate and setup the functionality of a defined system (Jensen & Meckling, 1976). A severe challenge that the microfinance institutions face is recruiting the staff since it is needed for the staff to identify and monitor the customer properly (Koveos & Randhawa, 2004). According to Hirschland (2003), when the loan officers are recruited from the same geographical area of business operations, they quickly get to know about the client's character and cash flows of the business, andfinally,the evaluation can be done correctly. At every possible time, the XYZ company attempt to recruit loan officers from the same area where the branches are located and educate them properly through training and mentoring programmes. Further, the management does required documentation and arrange the process flexiblyon behalf of the loan officers, whereas such recruitment policies and flexibilities can't be observed in the ABC company. Another aspect of the bonding cost is the HRM cost. Due to poorly design training and development and little guidance of the ethical orientation, the loan officers tend to violate the ethical concerns to recover the non-repayments (Sarker, 2013). Some organisations put mecha nisms to govern the agents but not use them properly (Loughry & Elms, 2006). As mentioned before, good HRM management policies and fair resource allocation keep the loan officers bonded with the XYZ company compared to ABC company.

5. Concluding remarks

5.1. Theoretical contribution and managerial contribution

This study contributes to the existing body of agency theory knowledge in relation to top management and loan officers of MFIs.Less prior research examined the relational behaviour of top management and loan officers (Dixon, Ritchie, & Siwale, 2006). Moreover, though a few research attempted to establish goal incongruence between principle and agent at a different level of MFIs, they have been unable to explore why and how the agency issue occurs (Armendáriz & Morduch, 2010). Especially the study explains the reasons for agency issue from anorganisational processes perspective, without consider ing a few components of the agency cost into account. This organisational process perspective of agency theory is more suitable for firms where the entire process is interconnected to deliver the service (i.e. the purpose of the organisation is directly linked with its deliverable).

Moreover, the finding of this study can be utilised to deliver the service as stipulated in the mission statement of MFIs by sensing possible issues that can exist at any level of agency relationship of the firm. In this regard, the study paves the path to identify the loopholes of the existing processes that lead loan officers to dilute bond with the firm and understandthe potential issues that can be emerged while loan officers deal with clients in the field. Further responding to identified areas of issues in a timely and adequate manner, MFIscould mitigate agency issue.

This research highlights the imple mentational issues in the regulatory framework of microfine partly reflected on week check and balances and controlling system, resulting in the exploitation of clients by the loan officers. Hence, the study stresses the requirement of drawing attention by the financial authorities of the country to closely monitor the activities carried out by financial companies (formal and semiformal) and introduce required regulation to financial firms operate as informal manner. Such actions would attenuate the social (sexual abusements and family conflicts) and economic (multiple and overborrowing) vulner abilities of microfinance clients.

This study highlights the customers' requirement to be more aware of the misbehaviours of the loan officers and take necessary actions against such unethical behaviours.

5.2. Limitations and future direction

As this study is mainly influenced by qualitative approach, it possesses inherited limitation like generalizability of research findings. Since only two MFIs are selected as case studies, multiple case study approach can be utilised to increase the reliability of the findings in future research.

As evident, multiple borrowing, over borrowing, and exploiting clients are consequences of goals incongruence top management and loan officers. Hence, it is required to investigate the social and psychological impact of multiple and overborrowing on microfinance clients as reported few deaths related to microcredit (Tilakaratna& Hulme, 2015).

Grameen microfinance model replaced the social collateral with physical collateral by introducing group lending and delivering positive outcomes(Yunus, 2007). However, with the mission drift, a trend can be seen in MFIs (including XYZ company) to introduce individual loans clients (instead of group lending). Thus, it is worth exploring reasons for the reversed trend, how successful it is, and whether commercialisation has let the MFIs behave more or less similar to conventualcommercialfinancecompanies.

5.3. Conclusion

The present study is conducted to answer why and how the goal incongruence between the top management and the loan officers of the microfinance institution happens through the lenses of agency theory. The study found that the goal incongruence between the top management and the loan officers happens due to the self-interest rein forced by internal (process) and external factors. Internal processes that lead to goal incongruence are characterised by difficulty of monitoring and verifying the loan officers behaviour due to the absence of sound check and balance systems (and inefficiency of existing systems), unsound HRM policies (recruitment, training and development, incentives and recognition), manage ment pressure to achieve unrealistic targets and information gap and power distance between top management and loan officers. As for as agency variables and cost is concerned, weakness in enforcing regulatory framework by the financial authorities, undue completion, high cost of surveilling loan officers, ignorance of bonding cost (recruit and training and development policies) as a mean of reducing monitoring cost and effort can be identified as the reasons that lead to inefficient internal processes in MFIs. On the other hand, goal incongruence has occurred at the personal level of the loan officers due to misbehaviours and misconducts that is influenced by salary and incentive issues, experience, poor expense management, lower education level, personal pro blems, lack of loyalty to the company, stimulation from the customer, lack of proper guidance, carelessness, and dealing with the uneducated client. Because process issues and some of loan officer’s personal level issues are within the preview of MFIs, they can mitigate negative influence on the society at large.

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