

**Nurturing Entrepreneurs of Microfinance Institutes: The  
Social Entrepreneurial Perspective in the Socio-Cultural  
Milieu in Sri Lanka**

**Dr. R. Senathiraja**

Department of Management and Organization Studies,  
Faculty of Management and Finance,  
University of Colombo  
laxumy@gmail.com, laxumy@mos.cmb.ac.lk

**Pradeep Uluwaduge**

Faculty of Management and Finance,  
University of Colombo  
pradeepu@lolc.com

*Received:20.08.2020*

*Accepted:01.09.2020*

*Published:07.09.2020*

---

**ABSTRACT**

The purpose of this study is to examine how Social Entrepreneurial role of profit-oriented Microfinance Institutes (MFIs) facilitates to nurture entrepreneurs in the socio-cultural milieu in Sri Lanka. The researcher used interviews, focused group discussions and documentary review to collect data. Participants in the study were Microfinance credit officers and Microfinance clients. The results of this study show that MFIs have been successful in areas such as: giving loans to low-income earners; requiring that clients become entrepreneurs; building long term mentoring relationship with entrepreneurs; providing hands-on-work training, visits meetings and workshops. Therefore, the MFIs social values enhance the development of entrepreneurship in Sri Lanka. However, a range of socio-cultural factors has limited

the nurturing entrepreneur. Such as the inability to reach the poorest; failure to address the problem of equity when distributing loans; capitalistic culture of focusing more on profit and efficiency rather than people welfare; the cultural tendency for clients to misuse loans; the culture of competition among MFIs; and cultural norms such as visiting people's homes and dealing with women. This study shows that socio-cultural factors are a mutual experience between MFIs and the entrepreneurs in the sense that while the capitalist culture of MFIs affects entrepreneurs, the culture of the entrepreneurs affects MFIs in ways that shape policies and practices of the MFIs.

### **Keywords**

*Entrepreneurship, Social entrepreneurship, Socio-cultural Environment Nurturing Entrepreneurs, Micro Finance Institutions (MFIs)*

### **1. Introduction**

Traditional banking industry did not benefit low-income people in ways that improved their living conditions and stimulated economy at the grassroots level. Over the years, a paradigm shift has taken place in the financial industry with the emergence of microfinancing, targeting marginalized low-income people in the society, who have become successful storytellers in the contemporary entrepreneurial arena. Consequently, global figures on Microfinance (MF) revealed that at the end of 2017, "MFIs were able to reach an estimated number of 139 million

low-income and underserved clients with a total estimated loan portfolio of 114 billion dollars" (Microfinance Barometer, 2018).

Schreiner and Colombet (2001) defined "MF as the attempt to improve access to small deposits and small loans for poor households neglected by banks". United Nations broadly defined "MF as the provision of small-scale financial services such as savings, credit and other basic financial services to poor and low-income people" (Moro Visconti, 2012). It was discussed in the Sri Lankan context that "MF is to provide financial services to low-income

earners and their micro-enterprises” (Premaratne, Senanayake and Warnasuriya, 2012). Further, the United Nations refers to the term "Microfinance Institution" to a broader perspective. “The range of organizations dedicated to providing above mentioned services and includes non-governmental organizations, credit unions, cooperatives, private commercial banks, non-bank financial institutions and parts of State-owned banks” (Moro Visconti, 2012). Based on the previous studies, there were many roles played by the MFIs such as alleviating poverty, women empowerment, entrepreneurial development (Simanowitz, 2001; Johnson & Rogaly, 1997; Mosedale, 2003). In addition, it is observed, “MFIs contribute for developing entrepreneurs in Sri Lanka, especially women entrepreneurs” (Bernard, Kevin & Khin, 2017).

Although this concept is seeds of MF movement in Sri Lanka and was first planted through the Corporative Societies, dated back in the early 1900s and was formalized in 1911

through the Corporative Societies Ordinance (Senanayake, 2003) still it needs massive development. Microlending without collateral is rarely available in the banking sector, except for government-sponsored programmes where that collateral requirement has been waived off. Most banks provide the state-backed subsidized MF through special projects. However, “in the recent past a large number of new entrants with different legal identities especially non-banking finance companies and even the banks through their special programmes, entered to the Sri Lankan microfinance industry creating a serious competition in the market more than ever before” (Microfinance Review, 2013). It is evidenced that numerous factors could have been affected on the above tendency of encouraging the private sector to invest in MF business. Currently, MF industry in Sri Lanka has reached to an advanced stage and the recent Microfinance Review Report of Lanka Microfinance Practitioners’ Association (LMFPA) revealed that ‘during the reporting period, most of the member MFIs of

LMFPA have paid significant attention and concentrated effort on their triple bottom line which includes economic, social and environmental effects” (Microfinance Review, 2013). In the meantime, some people argued that “Community-based entrepreneur projects have been advocated as a potential approach to alleviating extreme poverty as they provide opportunities for income generation and capacity enhancement” (Julian & Emmanuel, 2014).

Despite the profit generation, the triple bottom line approach leads to create social value, which can be found as a prominent feature in the Sri Lankan MF industry. Social value creation is identified as an inevitable component in the Social Entrepreneurship Theory, (Santos, 2012). Financially sustainable MF is defined as a dramatic application of Social Entrepreneurship (SE) to both mainstream commercial banks as well as non-governmental MFIs (Rosengard, 2004). In the contemporary MF research agenda, priority has been given to investigate

on SE and its contribution to the different segments such as on economic development (Nega & Schneider, 2014), social value creation (Abolarin, 2014), social and financial performance (Copestake, 2007), social business models (Yunus, 2009). Inceptions of non-banking companies in the MF sector have been different from one another and that itself has brought in versatile policies, practices and the ways in which they operate the business. Irrespective of the original intentions of the founders of those companies, today all of them have become profit-oriented MFIs running their business with an accelerated phase in a competitive microfinance business environment. Those contradicted goals are well articulated by Rosengard, 2004 as “private gain versus social value addition”. However, many MFIs try to nurture new entrepreneurs by providing loans at an affordable price the emergence of the successful outcome of this entire socio responsible process is not as expected. The study focuses on introducing two main factors namely, the strength of the Social entrepreneurial

characteristics of the MFIs and the societal motivation experienced by the entrepreneur, which would enhance the success rate of the new entrepreneurs. “Not only this movement in the literature and the salience of entrepreneurship, but the influence of social and cultural factors on enterprise development also remains understudied” (Thorton and Soriano, 2011).

Thus, the study is focusing on solving the puzzle of the possibility for profit-oriented non-banking financial institutes to have a positive social impact without compromising its responsibility to generate a reasonable return for its owners. On that premise, this study is to examine how Social Entrepreneurial role of profit-oriented Microfinance Institutes (MFIs) facilitates to nurture entrepreneurs in the socio-cultural milieu in Sri Lanka. Firstly, the article will discuss the literature on the nature of microfinance, the process of grooming the entrepreneurs in the context of social entrepreneurship, the socio-cultural context of the nations and the behaviour of microfinance institutes.

Then it will focus on the methodology followed in the study. After that its findings will present finally, it will provide the discussion and conclusion.

## **2. Literature Review**

### *2.1. Social Entrepreneurship (SE) and Business models*

SE is “ a process by which citizens build or transform institutions to advance solutions to social problems, such as poverty, illness, illiteracy, environmental destruction, human rights abuses and corruption, in order to make life better for many” (Bornstein & Davis, 2010). As Austin et al. (2006) describe, the driving force of social entrepreneurs is to address social problems by mobilizing the organizational resources, hence it is not required to define social entrepreneur in a legal framework, but any form of an institution can play the role of social entrepreneur whether public, business or non-governmental organizations. The explanation is given as “an explicit and central social mission that still include profit

generation and private wealth creation, but with the achievement of a social objective, is the ideal description on social entrepreneurship” (Rosengard, 2004) which is well suited for the role of profit-oriented MFIs as social entrepreneurs.

Through the Positive Theory of Social Entrepreneurship, Santos (2012) introduced concepts of value creation and value capturing. This study explained, “While commercial entrepreneurs strive hard to capitalize on opportunities where value capturing can be executed, social entrepreneurs will look for an opportunity for value creation”. It also argued that “although sustainable value capturing requires a value creation mechanism and sustainable value creation would require some value capturing”. Hence, all the entrepreneurial activities are trade-offs between those value creations and value capturing, which could be included both commercial and social values. Kaplan (2013) described “four types of business models that have their core mission the creation of

social benefit. Accordingly, the first model deals with the non-for-profit structure are called a pure model, and it is entirely focusing on a social mission. The second type is called hybrid, in which both a social and a business mission are focused in a mutually supportive relationship. The third type is named as the dual mission model which uses the normal business structure where profit can be attractive enough for external investors to participate while the company fulfils a major social need. The fourth framework is accommodating efforts of several individual small businesses that, on their own, may not be sustainable. They share many resources through creating a recognized brand; buying raw materials, try to reduce cost collectively using a common distribution network, sharing knowledge”.

## *2.2. Microfinance (MF) and Nurturing Entrepreneurs*

A plethora of literature can be found on both MF and entrepreneurship disciplines that nurturing entrepreneurs is a key tool to eradicate

poverty and to drive the economic development of the rural areas of the country. The challenge here is to entice and groom a person who has no financial resources and other skills to start and operate a small-scale business and thereby to transform him as a viable contributor to the economic development process from his initial status. According to Chandula Abeywickrema, (2010) a micro-entrepreneur requires capital to start a business and the microfinance industry developed to create access to capital for self-employment and entrepreneurship, enterprise and livelihood creation for the 'poor' or those who are at the bottom of the pyramid. It implies the importance of microfinance in nurturing the entrepreneur spirit among rural areas of Sri Lanka.

Community-based entrepreneurship projects have been advocated as a potential approach to alleviating extreme poverty as they provide opportunities for income generation and capacity enhancement.

Accordingly, “opportunity-driven entrepreneurship is more associated with different forms of innovation than necessity-driven entrepreneurship” (Lahimer, Dash, and Zaiter, 2013). MF provides opportunities to seize as potential entrepreneurial avenues and it is an utmost responsibility of the MFIs to direct their borrowers to develop community-based enterprises. In the above research, it was proved that Microfinance has a negative relationship with necessity-based entrepreneurship, but opportunity-based entrepreneurship.

Yunus 1997; Yunus, Moingeon, and Lehmann-Ortega, 2009) stated that “If we are looking for one single action which will enable the poor to overcome their poverty, I would go for credit. Money is power.” Credit invested in an income-generating enterprise as working capital or for productive assets leads to the establishment of a new enterprise or growth of an existing one. Profit from the enterprise provides income and a general strengthening of income sources”. This statement elaborates

the vitality of nurturing entrepreneurship in MF.

### 2.3. *Culture*

According to Tayeb (1988) “culture is a set of historically evolved learned values, attitudes and meanings shared by the members of a given community that influence that material and non-material way of life”. The shared values, beliefs and characteristics of the members of the community are learned through various levels of the process of the social institutions. Garrison (1996) explained, “The important institutions of social learning are family, religion, formal education, and society. Culture is a complex phenomenon and it can explain with many elements in multiple interpretations: different levels (national, regional, business, individuals; layers of society (gender, age, social class, occupation, family, religion); varying context of life (individual, group, community)”.

The Sociologists study an entrepreneur’s role in the socio-cultural aspects that includes his

family, social status, caste, religion, and other affiliations. Nanayakkara (1999) studied the Sri Lankan culture and society, discussed the institutional elements of the socio-cultural system inclusive of the family, caste, ethnicity, class, religion and education, and noted the philosophical foundations of the Sri Lankan culture and society. Accordingly “the individual and their different behavioural patterns have been found from this study include several concepts: dependence, lack of self-confidence and lack of freedom, accepting the status-quo, attitude towards work, respect for authority, loyalty, and collective human rights”.

In addition, Hofstede (1980) defined “culture as the ‘collective programming of the mind which distinguishes one group of people from another’”. Where the agreed values and beliefs of the community play an important role in the behaviour of the people and the way the people perceived the situation and their reaction on it is different among the community. In this study, he explained “the dimensions of culture



such as power distance, uncertainty avoidance, individualism and collectivism, femininity and masculinity and time orientations to measure the culture of the nations. This study proved that cultural values are different from one community to another.

#### *2.4. Socio-cultural context and entrepreneurial behaviour*

Socio-cultural environment influences individual entrepreneur as well as business organizations for pursuing their entrepreneurial objectives and operations. Since individual entrepreneur is the centre of the business organizations, the behaviours and attitudes of that individual (or group of individuals) do inevitably shape the institute as well. Thus, an entrepreneur is thinking, or the spirit lies in specific dynamic behaviour and it underlines by cultural force. Tayeb (1988) and Van der Horst (1996) expressed that “not all the individual in society necessarily to follow the dimensions of their cultures in every aspect of their lives, and there are some people may deviate from the

cultural norms”. Therefore, the person’s behaviour is only partially predetermined by their mental programmes. Therefore, “some people have a basic ability to deviate from them and react in ways that are new, creative, destructive, or unexpected” (Hofstede, 1994).

Hayton et al. (2002) also stated that “the national culture plays an important role in national innovation, individual characteristics, and corporate entrepreneurship of the organization”. Since “the culture is socially transmitted knowledge and behaviour” (Peoples and Bailey 1994). It involves all the manifestations of social habits of a community, the reactions of the individual as affected by the habits of the group in which he/she lives, and the products of human activities as determined by these habits (Kroeber and Kluckhohn 1952; Hofstede 2001; Bada 2003). Therefore, that, any individuals could be trained with the entrepreneurial mindset. In addition, the entrepreneurship process involves changing attitudes and way of doing

businesses of the members of the society to capture the real opportunity.

### *2.5. Socio-Cultural Context and Entrepreneurial behaviour in Sri Lanka*

In fact, The few researchers have discussed on the cultural aspects in entrepreneurial behaviour of independent firms in Sri Lanka For example, De Alwis and Senathiraja, (2012) stated: “ entrepreneurs past experimental learning of entrepreneurs emerge from their socio-cultural context and it influences on the entrepreneurial mindset”. Further, Travis Perera (1996) explained that ‘entrepreneurship like other types of management behaviour is culture-bound, and the culture changes in overtime require changes in entrepreneurial behaviour pattern and persistence if the entrepreneur has to be encouraged and developed in Sri Lanka’. Meanwhile, Navaratne (1987) stated that “many characteristics of among Sri Lankan such as the absence of commitment, an absence of total involvement that

enables one to carry a task from start to finish through, and tribulations and feeling of autonomy. He also highlighted some of the behavioural patterns of South Asians including Sri Lankan have difficulties in expressing intense feelings, especially of aggression and anxiety. Further, the study shows that an individual does not believe in the value of time, lack of emphasis on skills, knowledge, and ability”. These are some behavioural outcome of the cultural elements in the Sri Lankan context.

### **3. Methodology**

Herath, Guneratne, and Sanderatne, N., (2015) studied on how women are empowered by microfinance based on the case study and it is a qualitative inquiry. This study focused on MFIs that are non-banking finance institutes (NBFIs) who are predominantly dealing with microfinance business in their operations, maintaining the largest microfinance portfolio and the client base in the country. The study is questioning how MFIs develop entrepreneurs under the socio-cultural context in Sri Lanka. According to Vaivi (2008), the way the social

experience is created, and the meaning is given is answered through qualitative researchers. While capturing an individual's perspective, qualitative investigators aim at capturing an actor's perspective by detailed interviewing and observations (Qu and Dumay, 2011). Further, Lillis (2008) stated that qualitative research focuses on "how" and "why" research questions explored in a real organizational setting. So that the researchers decided to follow the qualitative methodology to illustrate bring a deep understanding of how the social entrepreneurial role of MFIs manages to develop entrepreneurs in the Sri Lankan socio-cultural context. The researchers' case study methods which are recognised and well-accepted research strategy to collect data (Yin, 2009) because it brings multiple pieces of evidence from context. Moreover, documentary evidence was utilized as a part of the evidence which facilitated data triangulation to ensure validity and reliability.

The researchers used interviews, focused group discussions and documentary review to collect data. Participants in the study were Microfinance officers dealing with credit, field operation officers, and MFIs' clients. Participants were requested to participate in the interview prior to the time of the study. Interviews and focused group discussions were recorded after the researcher obtained the consent of the participants (Flick, 2014). Data transcripts were written by listening repeatedly to the audio recordings guided by interview questions and focus group discussion guide. Transcripts were read repeatedly, analyzed according to the interview questions, and focused group discussion guide. The themes were reviewed to identify and understand similar themes while analysing relationships among different themes. After reviewing these themes, they were related to the social entrepreneurial behaviour, socio-cultural elements and entrepreneurial development. After all, the exposed arguments based on the study were

developed and the analysis was concluded.

#### **4. Results of the Study**

##### *4.1. Social Entrepreneurial Characteristics of MFIs in Sri Lanka (Dual Orientation)*

Previous studies show that microfinance institutes have been commercialized because of the following three things: (1) Adopting a profit-oriented administration and operations; (2) relying on market-based financial resources; and (3) pursuit of financial stability and self-sufficiency. These characteristics show that micro-finance institutes tend to be profit-oriented, yet they are intended to initiate programs that raise and nurture social entrepreneurship. At the beginning of the study, the researcher had doubts as to whether microfinance institutions were nurturing social entrepreneurship in Sri Lanka. The results of the study show that apart from being profit-oriented, relying on market-based financial resources, adopting business management systems, and pursuing

financial stability and self-sufficiency; MFIs in Sri Lanka also exhibited other characteristics as below.

##### *4.1.1. MFIs in Sri Lanka help low-income earners but not those with extreme cases of poverty and risks*

All kind of borrowers such as entrepreneurs, borrowers for consumption purposes, housing needs are there in the MFIs' portfolio. However, those who are having a formal fixed income also will not fall within the borrower category of the MFI since Banks are catering them. Some segments are reluctant to go to banks even if they have a solid income that can be proved. May be due to literacy issue they cannot fill in banks slips, or maybe they do not want to walk into formal banking set up, tend to approach MFIs. These are the segments catered by the MFI. Those who do not have National Identity Cards (NICs) are also reluctant to go to a bank. Sometime back, MFI carried out a campaign to issue NICs. Some people fear dealing with banks. They think that it is too posh and

sophisticated for them to deal with. Therefore, they choose MFIs.

There are some established businessmen dealing with banks but still, they keep on dealing with MFI to maintain their rapport with MFI due to multiple reasons. Some businessmen initially developed their business from the financial facilities received from MFI and due to that gratitude; they want to continue their relationship with the MFI even after reaching a developed stage in their business and started dealing with banks. There are some segments that they continue to keep the status as a borrower by taking a small loan at a comparative a higher interest rate because they can retain their position as a central leader of a microfinance centre. Those people value that leadership position in the village than the higher interest portion they pay. This is a case of pure social status issue.

The following examples of clients studied show that those MFIs help are not the poorest, but those who have at least something in their hand to start with.

*Case1: MB was doing sewing related work and she decided to develop that business by investing money initially borrowed from the MFI. She believes that it is the right decision she made when she looks back on the progress she has made.*

*Case 2: WSS's family decided to start a restaurant since no similar outlet was not there in the vicinity and her son had the knowledge of cooking Chinese food. The eldest son who studied in a hotel school and did a cookery course is married and living separately now. However, his younger brothers (WSS's younger sons have learnt cooking from his elder brother and are running the business now).*

*Case3: YTG initially took a loan of RS. 10k and invested in her husband's welding business since they were extremely comfortable with the running business and didn't want to take any risk of trying out something new and strange. Today she has made significant progress and has taken 130K loan, which is her 11<sup>th</sup> loan cycle with the MFI. She can take more, but she does not want to take more*

*depending on the repayment capacity. Earlier husband had an assistant after he went abroad, she is working alone. Son and YTG support him.*

*Case 4: Since SM and her husband had some idea of the business couple decided to take over, her sister's business which was already running smoothly for fifteen years (due to her sister's family's migration to Colombo they decided to sell the business). Hence, they decided to develop the same business. Initially, she took a loan of 25k from LOMC to develop the business. Just after purchasing her sister's business at market price, she took the first loan.*

#### *4.1.2. MFIs require clients to become entrepreneurs*

The requirement that clients become entrepreneurs is effective and powerful, especially when the MFI is making it mandatory for all customers to become entrepreneurs if they are to borrow loans from the MFI. Since they have hardly any alternative they agree with conditions and such compulsion has been extremely fruitful for both parties, especially for the customer. It

seems that due to acute competition in the microfinance market in Sri Lanka, this sort of customer-centric compulsion or long-term vision cannot be seen among MFIs operating in the market who are merely focused on their market share.

Case 5: BHG got into entrepreneurship due to financial difficulties. She had to do something, so she decided to do some sort of business to earn a living. Since initial MFI she dealt with i.e. BRAC was very specific that borrowing money requires that one should start a business with the loan they take, she had no choice but to start a business. That is how she and her family got into entrepreneurship. Even though they had some other priorities such as building the house, those MFIs did not give them loans for those purposes.

#### *4.1.3. MFIs are organic- they adapt to and sometimes are affected by socio-cultural circumstances*

MFIs do not just strictly stick on their capitalistic and profit-oriented culture, but also adjust to local socio-cultural

circumstances, especially when it is necessary for the survival of the MFI. In some cases, Microfinance officers working in the field adjusted their visiting hours to people's homes according to the cultural norms of the community they worked, as well as whether clients especially women get support from their families. One microfinance officer was quoted saying:

*Normally two (2) out of twenty (20) customers will come out of poverty and will start doing well in their lives. Financial support of one aspect. There are many other factors also that affect their success. One is their dedication and commitment. Another thing is the support those women are getting from husband and other family members. I agree that the success rate is very low.*

*4.1.4. MFIs tend to focus on the ability to pay than equity when considering granting loans*

While MFIs market themselves as agents of social-economic change seeking to alleviate poverty, their criteria to grant loans do not consider

distributing loans in ways that reduce the gap between the most low-income earners and middle-class sector. The disparity in granting loans can disadvantage the most low-income earners because while encountering business competition, most low-income earners have fewer financial resources. One microfinance officer was quoted saying:

*...But sometimes I see an unfair treatment in the flow of loans. Not only that, but it also brings in discussions and problematic situations when both the financially sound and very and poor people are granted the same amount of money. If we give the same amount ex- seventy thousand Sri Lankan rupees to both financially sound and poor customer, it makes a problematic situation. At centre meetings, some customers compelled to question about this disparity. In most of the cases, that poorest person comes on time to the meetings; and arrange desk and chairs even for officers to sit and conduct the meeting. In the same time, customers with sound financial situation tend to*

*participate late by making the whole meeting delay.*

#### *4.2. MFIs Nurturing Entrepreneurs*

The process of nurturing entrepreneurs focuses on a couple of key and inter-related components. Imparting necessary training and skills, providing required knowledge, re-orientation and guidance is imperative at the initial stage of entrepreneurial nurturing. Nonetheless, it is often found in the literature related to entrepreneurial research uses the term “entrepreneurial development” instead of “nurturing entrepreneurs”. However, the Cambridge Dictionary defines the term “nurturing” as “to help a plan or a person to develop and be successful” vis-à-vis the definition of the term “development” states as “the process in which someone or something grows or changes and becomes more advance”. Among key initiatives, MFIs are adopting, conducting awareness sessions on entrepreneurship, conducting

entrepreneurship-related training, looking into the purpose of the loan as a criterion as a compulsion to start micro-businesses by the borrowers, providing guidance and advises as and when either required or requested by the clients on their existing micro-enterprises are among more prominent entrepreneurial nurturing efforts MFIs are exercising.

##### *4.2.1. While MFIs are doing good work to nurture entrepreneurs, they spend more time on the competition*

Micro Finance Officers (MFOs) are playing a much more significant role than we anticipate and more than what MFIs assign them to perform. However, with the intense competition hardly MFIs will push MFOs to spend time on customers to advise them on various other aspects. This is a notable negative factor in the competition. Amidst of the high competition and comparatively limited time available to focus on loan disbursement and recoveries and with less compulsion from MFIs end, some MFOs still have voluntarily decided to play their social entrepreneurial role



having understood its vitality. Such MFOs should be given more training that is thorough on the wider role of an MFO. More than any other marketer, MFOs must play the role of a counsellor, coach, and mentor apart from the core-marketing role. It is doubtful whether MFIs have understood this, and they pay enough focus on the development and grooming of MFOs to perform this role.

*4.2.2. MFIs have regular meetings, workshops, and training sessions with clients*

Some MFIs, for instance, HNB Grameen organize training and workshops where clients nurtured to become entrepreneurs meet with their mentors to learn and discuss challenges arising from the work of entrepreneurship. This kind of training considers the individual entrepreneurial experiences of the clients. A microfinance officer observed:

*Another important point to realize in HNB Grameen is we had weekly*

*centre meetings and recovering of loans to happen at these weekly meetings. As a practice, each weekly meeting all MFOs were educated of a topic by the Head office to talk about and educate their customers. MFOs used to take it very seriously those days and got prepared with extensive reading for those topics. Invariably they also became conversant of many vital aspects and contemporary issues. Apart from that, customers were also very enthusiastic to get some knowledge on various topics. Some customers wanted to continue a loan of a small value merely to maintain the membership mainly due to companionship and the knowledge they can get from MFOs. This culture has gradually gone away from HNBG too.*

*4.2.3. Nurturing entrepreneurs involve negotiations to strike a balance between the desires of the client and the goals of the MFIs*

Part of nurturing entrepreneurs occurs informally during initial or ongoing encounters between the microfinance officers and potential or real clients.

Some of it emerges out of observations that the microfinance officers make during visits or interactions and questions potential clients or clients ask from microfinance officers while they are in the field. However, at times clients' desire is not aligned with our objectives. One of the microfinance officers observed:

*First, I visited microfinance centre to promote the leasing products because there are sporadic demands among microfinance customers for three-wheelers, motorbikes, and other small vehicles. Even though we were given an opportunity to talk about our leasing products, the peoples' desire was to take the loan and use that money in some other work. In that, discussions they become friendly with us and those who wanted leasing facilities were helped by us to fill up their forms.*

4.2.4. *Nurturing entrepreneurs involve relationship building and mentoring entrepreneurs in deeper tissues such as behaviour change practices*

Nurturing entrepreneurs often take a long time and is built around the relationship between a microfinance officer and the entrepreneur. The process involves learning the entrepreneurial behaviours of the client and working with the clients over time to address such behaviour challenges. One microfinance officer observed the following concerns where they have been able to change the behaviour of clients over a period.

*Though the MFI just send out topics to microfinance officers to speak on at centre meetings, some important points are not embedded in that. When we think through that point and when we use our own experience eventually, we can memorize the important points to be highlighted. For instance, we worked hard to inculcate saving habit among borrowers. These borrowers did not have the saving habit at all. However, we launched a campaign to attract more savings by collecting very small amounts such as SLR 50, 100 from people. Therefore, we train them to save at least SLR100per week, which ends up them saving Rs.400 at the month-end. Though they are not*

able, to have fixed deposits, those collections of hundreds enabled them to have a fixed deposit of Rs40,000 or more in two to three years which is a significant achievement in their life. It is a great thing to use their own saved money rather than taking a loan of 100,000 for a family emergency. In the first loan, MFI has not made it mandatory to make a saving but from the second loan stage, it is required to save 10 per cent of the loan amount even as a compulsion, enforcing savings habit, has taken them a long way.

4.2.5. MFIs are more successful in granting loans but not so effective in monitoring the way the loan is used

Like in many other training programs, there are clients who borrow money under the pretence that they will use it for business but then they use it or some of it on other things rather than the original intention. MFIs tend to compromise when this happens out of fear that clients may leave and join the competing MFI. One microfinance officer observed:

*It is not 100% successful. In addition, the company is aware of it too. When we start a Centre for the MFI, just after hearing the word they come and request a loan saying they need to start up a sewing business. Knowing all the prerequisites, they at times try to mislead us saying that loan is taken for business. They know that thereafter we will not follow-up. That is a significant lapse from our end. With the present workload, we are not able to make such follow-ups. Unless MFI recruits a new group of people dedicated for that mission, it will not be successful. On the other hand, there are any MFIs just lend money without looking at anything. With such a competition, if we push them too much to start a business, they will leave us and take loans from other MFIs.*

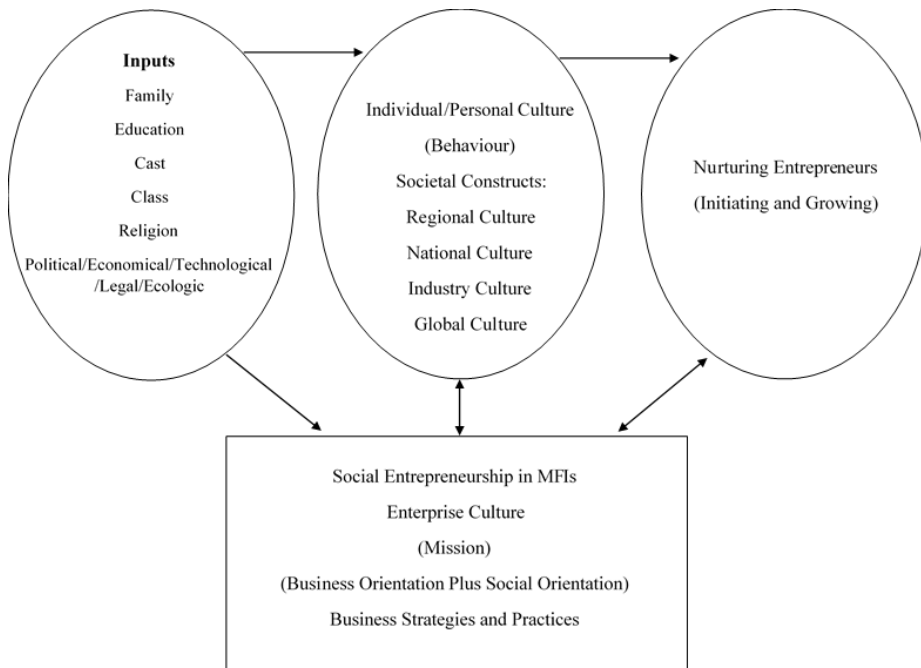
Social Entrepreneurial Role of MFIs in Nurturing Entrepreneurs: The Socio-Cultural Milieu

Figure 1 compress above data and illustrates the role of MFIS as a social entrepreneur in developing entrepreneurs under the socio-economic environment. As the

overhead data recommends, the MFIs of Sri Lanka play a vital role as a

social entrepreneur in developing entrepreneurs in society.

Figure 1: The Social Entrepreneurship role of MFIs in developing an Entrepreneur in Socio-Cultural milieu



Source: Author Constructed

The influential socio-cultural institutions such as family, caste, ethnicity, class, religion and education were examined in relation to their specific roles and impact on personality and behaviour. The entrepreneur and the other social actors involved in the process of entrepreneurship are products of this institutional system, so this analysis

provides an insight into the understanding of the socio-cultural realities of entrepreneurship development. The Sri Lankan cultural values are rooted from the traditional political, economic, religious activities of the kingdom (De Silva et al. 1973; De Silva 1981; Gamege & Wickramasingha 2012).

## 5. Discussion and Conclusions

### *5.1. The role of Social entrepreneurship of MFIs*

The study on a social entrepreneurship of MFIs reveals that the social values of the MFIs play a significant effect on the process of inculcating an entrepreneurial mindset within the Sri Lankan context. Especially women entrepreneurs in Sri Lanka playing an important role in running of micro and small enterprises. Women in developing countries empowered through microcredits to reduce the poverty of the nation (Yonus, 2004). Moreover, verni Ismail (2014) also stated that the microcredits play a significant role in developing women entrepreneurs in the scale of micro, small and medium enterprises in developing countries. Accordingly, MFIs engaged as a social entrepreneur has given the opportunity for reducing poverty among rural and urban poor people. Especially women, by supporting them with small loans to expand their businesses, generate income and build up their assets and it enhances their welfare of the family.

As the studies of Kaplan (2010) reveals that dual model of social entrepreneurship focuses on both social and business values, MFIs have taken significant steps to incorporate the concept of social entrepreneurship into its vision and mission (Mandatory to make customers become entrepreneurs: Seeking to create entrepreneurs out of the ‘unbankable’ across our nation) and embedding it in the culture of MFIs. The mission of LOLC is “Our mission is to help set the industry standard in Non-Bank Financial Services. We reach out to all Small and Medium Enterprises and provide them with affordable and convenient Financial Services tailored to their specific needs” directly linked with our study, highlights the key role of MFIs and their MFOs in building and strengthening the network with the clients. For e.g., at present, the selected MFIs has provided unparalleled services to nearly 400,000 active borrowers.

Microfinance is paying an important role in economic empowerment of women (Shahee, Sajid and Batool (2013); Herath, Guneratne and

Sanderatne, (2015) and it enhances the contribution from women entrepreneurs to the economic development of the country (Wijeyeratnam and Perera, (2013). Therefore, women entrepreneurs have a substantial role as a driving force to the Sri Lankan economy in general and especially improving the welfare of the family. We experiment to cover how the MFIs and MFOs stimulate the development of the entrepreneur through playing as a social entrepreneur who reinforces the relations among the MFIs, industry, and entrepreneurs. As suggested by Kaplan (2010), the MFIs falls into the model which combines both social and business values names as the dual model in which the MFIs build entrepreneurs through microfinance schemes. However, the dual model is still emerging in the context of Sri Lanka due to the socio-cultural issues. MFIs need well-trained employees, industry joins hands with the governments, and other educational institutes continue their entrepreneurial development rather than involving in nurturing entrepreneurs independently.

As revealed in our case study, the MFIs acts as a social entrepreneur which enables human capital, poverty reduction, family welfare, women empowerment and while facilitating entrepreneurial development (Ismail 2014). Accordingly, the MFOs link with Credit Borrowers (Entrepreneurs) through the intervention of the heads of MFIs. Accordingly, the MFIs nurture the entrepreneurs through strengthening training programmes for clients, maintain a close relationship with clients, motivating entrepreneurs enforcing saving habits, and establishing centres for Micro Finance. Therefore, it is obvious that MFIs has given importance for developing entrepreneurs through the microfinance while bringing profit into one platform, nurturing entrepreneurs via the exchange of microfinance and related non-finical benefits (knowledge and facilitation of social interaction). However, entrepreneurs to start a business or to improve business performance they may need more support. Therefore, the entrepreneurship education should be given not before or at the time to start

the business phase, and at the same time education of dynamic entrepreneurship to improve dynamics entrepreneurship behaviour, provided when the business has operated. MFIs should provide continuous entrepreneurship education to make sure the improvement of entrepreneurial qualities of the entrepreneurs.

### *5.2. Socio-cultural environment and nurturing Entrepreneurs*

The social perspective on entrepreneurial behaviour explains that human constructs the society and social order of a group of people develop a way of shape the individual behaviour of the society (Berger and Luckman, 1966). Therefore, people enact rather than simply react to their surroundings (Weick, 1979). The entrepreneurial behaviour is explained as socially constructed and embedded (Lavoie, 1991; Granovettes 2000; Lipset 2000; Jansson 2002; Morrison 2006). Accordingly, the above model explains the lives of entrepreneurs in Sri Lanka influenced by the socio-cultural factors to their household and

businesses. As the culture of the society is the conductor (Berger 1993) and the entrepreneurs are the catalyst of entrepreneurial activity, MFIs involve in entrepreneurial activities for fulfilling both basic requirements of profit and social values of the context in a society, which is evident from their activities. For example, MFIs support not only for fixed income earners but for also the low-income group as well. Further, they have identified the needy people, people with a lack in literacy level and people with documentary issues to get resources to start something their own.

As revealed in our case studies, the values, and beliefs of both MFIs (Employees) and their customers (becoming entrepreneurs). For example, some of the values such as they nurture two categories of people the first is people are coming from most deprived background second is people are not poorest and having something in their hands to start-ups. However, the treatments and facilities are given in the same manner for their clients. This shows the equal treatment behaviour of MFIs and their openness

and honesty in sharing information among the clients. These values are the outcome of the religious value of the people (Alwis, 2010).

Another important evidence shows that the changes in the role of women in society. The value of the social culture has been shifted and the female has given the recognition to initiate the business as their career, so the leader's role equally shared by both male and female. Most of the cases proved that female is so responsible and enterprising well. Therefore, the social entrepreneurial role of MFIs as an institution playing an important role in the transformation of the societal values in Sri Lanka. This implies as one of the global cultural value changes in gender egalitarianism: gender discrimination and role inequalities are minimized (Hofstede 1990) in Sri Lanka through enterprising through social entrepreneurship of MFIs.

Our Study reveals the commitment of the client in developing business. Most of the cases, the success of businesses is contributed by the

commitment and hard work of the family members. The motivation of the family members is influenced by the MFIs financial and non – financial support system and the family culture. The individual's socialization process within the family system. Accordingly, Micro Finance facilities as an external factor positively influence on business development of families in Sri Lanka. Further, our case studies reveal that family members working in the business create family ties and cohesion that are very important for the sustainability and the endurance of the firm. "When family members are working for the firm, they exhibit shared norms and values with a positive impact on the firm's performance as it brings consistency and unity of purpose (Kets de Vries 1993; Westhead, et al., 2001)". Therefore, this is the social institution of the family is making a significant influence on nurturing entrepreneurs in the socio-economic environment.

However, the study shows that there are many challenges faced by the MFIs in nurturing entrepreneurs due to



the socio-cultural factors in Sri Lanka. For example, at some point in time, the MFIs had difficulties in getting back payments from borrowers and it was noticed that the borrowers did not utilize the real purpose of the lending money. Further, some of the borrowers/entrepreneurs are not attending the meetings on time, which shows that the members are not disciplined and lack professionalism/systematic way of doing things. Meantime, it is also questioned on their belief in planning and future orientation. Further, the attitude on work and time management is extremely poor. The work is considered as work for life due to an attitude on the future and their career development is not focused. These findings are consistent with findings of previous researches (Nanakkara, 1999; De Alwis, 2010; De Alwis and Senathiraja; 2003; Gamage 2012) and they highlighted that the traditional kinship of the family system might have created self-confidence in planning due to the dependence; most of the people did not get the opportunity to get a formal education and are not in middle/upper

classes to maintain the professionalism. Hence, it is observed the poverty is one of the reasons for people to misbehave as unprofessional. Therefore, the MFIs face problems in monitoring and controlling the lending facilities and get back money on time. However, it also noted that in some cases, the socio-cultural values of the family system and values created by the society in Sri Lanka make some barriers for the development of businesses. Therefore, the proper training and attitudinal changes required entrepreneurs to cope up the changing values in the global world.

The education system in Sri Lanka is lacking in promoting entrepreneurial behaviour (Gamage and Wickremasinghe 2012). However, the evidence shows that the young generations those who have completed some professional courses also benefited through Microfinance facilities. Therefore, the MFIs also encourage not only family-based businesses but also educated young generations. Mainly nurturing entrepreneur is bounded by the family

values like cooperation, trust, commitment, caring and hard work and the requirements for their future survival.

In addition, some established entrepreneurs wanted to keep the accounts and facilities due to different reasons. One reason is to maintain their relationship with the institutions and to maintain their leadership role and status in society. It implies that the need for hierarchical authoritarianism: the pattern of relationship is power centred, leads to power distance and respect for authority. However, there are situations explained from the cases that emphasize the requirements of the entrepreneurs where they may need more mentoring and continuous guidance for handling finance and making decisions in investing money for the purpose of the enterprise development. The results also stated that mentoring programs, continuous monitoring and controlling always needed for Sri Lankans as the special socio-cultural environment bound them and the behavioural aspects and collectivism work well than individualism.

### 5.3. Conclusion

In recent years, non-banking finance companies have entered the microfinance industry in Sri Lanka along with banks through special programs. Recently increased microfinance activities in Sri Lanka have focused on social, economic, and environmental activities. While microfinance institutions were initially intended to focus on lifting low-income people, and improving the economy at the grassroots, recent reviews show that they tend to be more profit-oriented. Therefore, the purpose of this study is to explore whether this profit-oriented microfinance help develops entrepreneurs. The understanding of micro-finance includes a range of things like Improve access to small deposits and loans to the poor who have been neglected by the banks; helping the poor meet basic needs and protect against risks; improve household economic welfare; increase the number of women participating in the economy in ways that enable them to earn income; alleviating poverty and nurture entrepreneurs.

The research objective of our study is to explore how the social entrepreneurial role of MFIs build entrepreneurs in the socio-economic environment of Sri Lanka. MFIs contribute in building an entrepreneur in several ways: Giving loans to low-income earners; requiring that clients become entrepreneurs; building long term mentoring relationship with entrepreneurs; providing hand-on-work training, visits meetings and workshops. Moreover, many ways the socio-cultural context are supported for entrepreneurial development in Sri Lanka. For example family values such as a collectivistic, active commitment, loyalty to the family, respect to the authority and power, reduced discriminating gender and empowering women in families. Although the present education system is not much encouraging the entrepreneurial development of the society that has issues in unemployment MFIs is one of the options for them to do something for their lives. Economic well-being is one vital factor for everyone, the capitalism has created opportunity and MFIs is the main platform for lower-

and middle-income people to grow further. Although society is not discussing the caste structure, the basic occupations have been developed throughout the root of caste. MFIs is not discriminatory to anyone based on the background of individuals. Therefore, with our discriminating the caste, class, education level or religion and ethnicity MFIs open the gate for the entrepreneurial development for the society. However, this nurturing entrepreneurs has been limited by a range of socio-cultural factors such as Inability to reach the poorest; Inability to address the problem of equity when distributing loans; capitalistic culture of focusing more on profit and efficiency rather than people welfare; the cultural tendency for clients to misuse loans; the culture of competition among MFIs; and cultural norms such as norms about visiting people's homes and relating to women. This study shows that socio-cultural factors are a mutual experience between MFIs and the entrepreneurs in the sense that while the capitalist culture of MFIs affects entrepreneurs, the culture of the

entrepreneurs affects MFIs in ways that shape policies and practices of the MFIs.

## References

Abeywickrema, C. 2010. Microfinance nurturing the entrepreneur spirit, *Business Today* (online): <https://www.businesstoday.lk/article.php?article=2838> available at: (accessed 28th Sep 2020)

Abolarin, M.E., 2014. Social entrepreneurs: A phenomenological study of social value (Doctoral dissertation, Capella University).

Austin, J., Stevenson, H. and Wei-Skillern, J., 2006. Social and commercial entrepreneurship: same, different, or both? *Entrepreneurship theory and practice*, 30(1), pp.1-22.

Bada M., 2003, Culture and Social Structures, presented at the 44th Annual Meeting of the International Studies Association, Portland, OR, February 27-1 st March, 2003.

Barometers, C., 2018. Microfinance Barometer 2018. Convergences: Paris, France.

Berger, P. and Luckman, T., 1966. *The social construction of knowledge*. New York: Doubleday. Blase, J. (1986). Socialization as humanization: One side of becoming a teacher. *Sociology of Education*, 59, pp.100-111, 1966).

Bernard, D.K., Kevin, L.L.T. and Khin, A.A., 2017. Influence of microfinance services on entrepreneurial success of women in Sri Lanka. *African Journal of Business Management*, 11(14), pp.337-346.

Bornstein, D. and Davis, S., 2010. *Social entrepreneurship: What everyone needs to know*. Oxford University Press.

Berger 1993. *Esprit d'entreprise, culture at societies*, Paris: Maxima

Burns Paul, 2016. "Entrepreneurship and Small Businesses". Palgrave Macmillan Limited

Copestake, J., 2007. Mainstreaming microfinance: Social performance management or mission drift? *World development*, 35(10), pp.1721-1738.

De Alwis, W.D. and Senathiraja, R., 2003, November. The Impact of socio-cultural background of the entrepreneur on management and business practices of selected small and medium scale businesses in Sri Lanka. In 9th International conference on Sri Lanka (pp. 28-30).

De Alwis, W.P.G. and Senathiraja, R., 2012. The impact of socio-cultural background on management and business practices of selected small and medium scale business in Sri Lanka.

De Alwis, W.P.G. and Senathiraja, R., 2005, The Entrepreneurial cultural patterns and business practices of small and medium enterprises in Sri Lanka: Based on selected case studies, *Journal of Management*, 3(1), Oct 2005, PP 20-25.

De Alwis, W.P.G. 2010. The influence of ethnic and religious values on corporate culture of Small and Medium Enterprises (SMEs) in Sri Lanka, unpublished PhD dissertation.

De Silva, K.M. and de Silva, K.M., 1981. A history of Sri Lanka. Univ of California Press.

Flick, U., 2014. Mapping the field. *The SAGE handbook of qualitative data analysis*, pp.1-18.

Flick, U.W.E. (2014). *Introduction to Qualitative Research*, Sage, LA.

Gamage, H.R. and Wickramasinghe, A., 2012. Culture of social institutions and behavioural manifestations in entrepreneurship development: a South-Asian case.

Gallardo, J. and Raufflet, E., 2014. Extreme poverty alleviation through community-based entrepreneurship: PRODECO in Paraguay. *Development in Practice*, 24(1), pp.140-146.

Garrison, T., 1996. *International Business Culture*, Huntingdon, E.L.M. Publication.

Gasteyger, S., 2001. *Entrepreneurship in the Indian Economy*, Indian Institute of Management, Bangalore.

Hayton, J.C., George, G. and Zahra, S.A., 2002. National culture and entrepreneurship: A review of behavioral research. *Entrepreneurship theory and practice*, 26(4), pp.33-52.

Herath, H.M.W.A., Guneratne, L.H.P. and Sanderatne, N., 2015. Impact of microfinance on women's empowerment: a case study on two microfinance institutions in Sri Lanka. *Sri Lanka Journal of Social Sciences*, 38(1), pp.51-61.

Hofstede, G., 1994. Defining culture as four dimensions', *European Forum for management Development: Focus Cross Cultural Management*, Forum 94/1, 4.

Hofstede, G., 2003. What is culture? A reply to Baskerville. *Accounting, Organizations and Society*, 28(7-8), pp.811-813.

Hofstede, G., 2011. National cultures, organizational cultures, and the role of management. *Values and Ethics for the 21st Century*, pp.385-403.

Hofstede, G., 1993. Cultural Constraints in Management Theories ', *Academy of Management Executive* 7(1): 81-94

Hofstede, G., (2001) *Culture 's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Thousand Oaks, CA: Sage

Ismail, V.Y., 2014. The comparison of entrepreneurial competency in woman micro-, small-, and medium-scale entrepreneurs. *Procedia-Social and Behavioral Sciences*, 115(1), pp.175-187.

Jansson, A., 2002. Spatial phantasmagoria: The mediatization of tourism experience. *European Journal of Communication*, 17(4), pp.429-443.

Johnson, S. and Rogaly, B., 1997. *Microfinance and poverty reduction*.

Oxfam.Kaplan, J.M. and Warren, A.C., 2013. *Patterns of entrepreneurship*. Chaudhary Press, Delhi.

Kroeber, A.L. and Kluckhohn, C., 1952. *Culture: A critical review of concepts and definitions*. Papers. Peabody Museum of Archaeology & Ethnology, Harvard University.

Lahimer, N., Dash, S. and Zaiter, M., 2013. Does microfinance promote entrepreneurship and innovation? A macro analysis. *African Journal of Science, Technology, Innovation and Development*, 5(1), pp.19-29.

Lavoie, B. and Parent, A., 1991. Dopaminergic neurons expressing calbindin in normal and parkinsonian monkeys. *Neuroreport*, 2(10), pp.601-604.

Lillis, A., 2008. Qualitative management accounting research: rationale, pitfalls and potential. *Qualitative Research in Accounting & Management*.

Lipset, S.M. and Lenz, G.S., 2000. Corruption, culture, and markets. *Culture matters: How values shape human progress*, 112, p.112.

Microfinance Review- Sri Lanka, Performance & Analysis Report – 2013; Lanka Microfinance Practitioners' Association

Moro Visconti, R., 2012. Inflation risk management in project finance investments. *International Journal of Finance and Accounting*, 1(6).

Morrison, K., 2006. Marx, Durkheim, Weber: Formations of modern social thought. Sage.

Mosedale, S., 2003. Towards a framework for assessing empowerment (No. 1652-2016-136010).

Nanayakkara, G., 1999. Culture and management in Sri Lanka. Colombo- Sri Lanka, Postgraduate Institute of Management, University of Sri Jayawardenapura.

Navaratne, V.T., 1987. The Work ethnic in Sri Lanka. *Sri Lanka Journal of Development Administration*, (01), pp.1-8.

Nega, B. and Schneider, G., 2014. NGOs, the state, and development in Africa. *Review of Social Economy*, 72(4), pp.485-503.

Peoples, J. and Bailey, G., 1994. *Humanity. An introduction to cultural anthropology* (3rd ed.). St Paul, MN: West.

Perera, T., 1996. The Need for Affiliation as a Moderator in the Behaviour of Entrepreneurs. *Sri Lankan Journal of Management*, 1(3), pp.252-61.

Premaratne, S.P., Senanayake, S.M.P. and Warnasuriya, M., 2012. Empowerment of Women through Self Help Groups (SHGs): A Study of a SHG Microfinance Project in Sri Lanka.

Qu, S.Q. and Dumay, J., 2011. The qualitative research interview. *Qualitative research in accounting & management*.

Rosengard, J.K., 2004. Banking on social entrepreneurship: the commercialization of microfinance. *Mondes en développement*, (2), pp.25-36.

Santos, F.M., 2012. A positive theory of social entrepreneurship. *Journal of business ethics*, 111(3), pp.335-351.

Schreiner, M. and Colombet, H.H., 2001. From urban to rural: Lessons for microfinance from Argentina. *Development policy review*, 19(3), pp.339-354.

Senanayake, S. M. P. (2003), "Some critical issues relating to the commercialization of micro finance institutions in Sri Lanka", *Savings and Development*, Vol. 27, No. 1, pp. 79-95.

senanayake, s.m.p. & premaratne, S.P. (2006). micro-finance for accelerated development source: *savings and development*, 30(2), 143-168.

Shaheen, I., Sajid, M. and Batool, Q., 2013. Role of microenterprises with regard to economic empowerment of women. *International Journal of Management Sciences and Business Research*, 2(8).

Simanowitz, A., 2001. From event to process current trends in microfinance impact assessment. *Small Enterprise Development*, 12(4), pp.11-21.

Tayeb, M. 1988. *Organizations and National Culture*, London: Sage.

Thornton, P.H., Ribeiro-Soriano, D. and Urbano, D., 2011. Socio-cultural factors and entrepreneurial activity: An overview. *International small business journal*, 29(2), pp.105-118.

Van der Horst, H. 1996. *The Law Sky: Understanding the Dutch*, Den Haag: Scriptum.



Yin, R. K. (2003). *Case study research: Design and methods* (3rd ed.). Thousand Oaks, CA: Sage.

Yunus, M., 2004. Grameen Bank, microcredit and millennium development goals. *Economic and Political Weekly*, pp.4077-4080.

Yunus, M., 2009. *Creating a world without poverty: Social business and the future of capitalism*. Public Affairs.

Yunus, M., Moingeon, B. and Lehmann-Ortega, L., 2009. *Building social business models: lessons from the grameen experience*. Groupe HEC