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The challenges of supporting necessity entrepreneurs: Understanding loan officer exit in microfinance☆

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ABSTRACT

Necessity entrepreneurship can serve as a pathway out of poverty for low-income individuals, with microfinance often providing important financial support. Yet the relational lending strategies common among microfinance institutions may influence loan officer turnover and, in turn, compromise entrepreneurs' access to credit. While there is some reason to suspect that relational lending with poor entrepreneurs will increase retention, we propose that serving the poor may make loan officers more likely to *quit*: loan officers in commercial microfinance institutions are unlikely to have strong commitments to poverty alleviation and may be taxed by the challenging fieldwork associated with lending in poor areas. Qualitative and quantitative data from a microfinance bank in Latin America support our expectations, showing that exit becomes more likely when loan officers' work involves more poor clients and that the effect is strongest when such work demands intensive fieldwork in low-income areas. Supplementary analyses of trends across the global microfinance industry demonstrate that poor clients have a stronger impact on exit in for-profits than non-profits, suggesting that prosocial motives among non-profit employees may have a buffering effect. Overall, our study reveals how providing services to necessity entrepreneurs can have negative, unexpected consequences for frontline employees.

1. Introduction

The entrepreneurship literature distinguishes between founders who are drawn to venture creation as a way to pursue innovation and wealth-creation versus those who start businesses to address their own basic needs (Dencker et al., 2021). By and large, the latter are pushed into entrepreneurship due to a lack of paid employment opportunities and seek to replicate established businesses to support themselves and their families (Brewer and Gibson, 2014). This type of "necessity entrepreneurship" is common worldwide—especially in developing nations—and plays an important role in facilitating livelihoods that allow people to escape poverty and contribute to regional economic growth (Bruton et al., 2011). Studies have further shown that the benefits of necessity

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entrepreneurship increase when economically impoverished people have access to financial resources and other supports that seek to foster entrepreneurial success (Dvoulety and Lukes, 2016; Grimm and Paffhausen, 2015).

In this paper, we focus on a particular type of support—access to microfinance—that plays a key role in the emergence and growth of necessity-based ventures (Cobb et al., 2016; Yunus and Jolis, 1999). Securing funding is a challenge for most entrepreneurs, and this is accentuated in nations with weak banking sectors (Mair and Marti, 2009) and for founders who lack the collateral and credit histories to secure traditional bank loans (Bruton et al., 2015). In these situations, access to capital is constrained by an overall lack of supply, and by the perception that the poor are high-risk borrowers (Morduch, 1999; Webb et al., 2013). To address these issues, and reduce the risk of lending to the poor, microfinance institutions (MFIs) often rely on relational lending. Loan officers to go into the field, meet with potential borrowers, learn about their ventures, and build trusting—versus purely transactional—relationships. The soft information generated through this process guides lending decisions (Doering, 2018; Petersen and Rajan, 1994), and thus enables MFIs to financially support unbanked entrepreneurs. In turn, this contributes to a "theory of change" model (Wry and Haugh, 2018) where access to credit promotes business creation (Dvoulety and Lukes, 2016), venture growth and profitability (Grimm and Paffhausen, 2015), and organizational survival (Chliova et al., 2015).

Still, there is a critical risk. The relational lending approach that makes microcredit accessible may also affect loan officer retention, particularly when officers are paired with necessity entrepreneurs. If officers find their hands-on fieldwork with these entrepreneurs enriching, they should be less likely to quit and, through their longevity, build stable, supportive lending relationships. If, however, officers do not enjoy working with the poor, they may be more likely to quit, undermining the value of an important institutional support lever (Dencker et al., 2021).

Loan officer retention is crucial for successful microcredit provision. In relational lending, soft information and trust reside with loan officers, and not the lending organization (Petersen and Rajan, 1994). An entrepreneur's access to credit may thus be threatened if their loan officer exits the organization (Udell and Berger, 2002). In this study, we investigate how relational lending affects loan officer retention—and thus the sustained provision of credit to those entrepreneurs most likely to be excluded from the traditional banking sector. Specifically, we ask: How does working with poor (versus non-poor) entrepreneurs affect the likelihood that loan officers will quit their jobs?

We answer this question with an abductive study (Behfar and Okhuysen, 2018; Mantere and Ketokivi, 2013; Pierce, 1934) of officer exit at a Latin American microfinance institution, pseudonym MicroBank. At the outset, we expected that lending to the poor would lead to improved loan officer retention. Prior research sensitized us (Timmermans and Tavory, 2012) to the notion that employees feel a sense of belonging when they connect their work to prosocial goals like poverty reduction (Bartel, 2001), leading to better job satisfaction and motivation (Carton, 2018; Grant, 2012). Since microfinance involves the joint pursuit of financial and social goals (Kent and Dacin, 2013; Zhao and Lounsbury, 2016), we reasoned that loan officers would value and identify with the prosocial aspects of their work, leading to fewer exits among those who do more work with poor entrepreneurs.

However, our fieldwork at MicroBank prompted us to consider the possibility that extant findings—most of which come from Western companies where employees engage in prosocial tasks as peripheral, discretionary endeavors—may not apply in our context. Whereas prior studies highlight "fit" as a mechanism that links prosocial work to employee retention, we found that MicroBank prioritized sales-oriented skills in their recruiting and hiring practices. As a result, loan officers did not highly value the prosocial aspects of the bank's mission. We further observed that working in low-income areas was physically uncomfortable and mentally taxing for loan officers and that these challenges were not offset by an intrinsic desire to pursue prosocial goals (i.e., poverty alleviation).

These observations led to a new hypothesis—divergent from extant theory—that exit would *increase* as loan officers performed more work with poor, necessity entrepreneurs. We tested our prediction with MicroBank's longitudinal, quantitative records. As with other Latin American MFIs, MicroBank provides working capital businesses loans to poor entrepreneurs, as well as non-poor entrepreneurs who would likely qualify for traditional bank loans if their nation had a more developed banking sector (Vanroose and D'Espallier, 2013). We were unable to observe borrowers' motives for starting a business but reason that poor clients are likely to be necessity entrepreneurs based on prior evidence for this link (Poschke, 2014), especially in Latin America (Sanguinetti et al., 2013). Loan officers at MicroBank serve poor and non-poor clients, use the same methods when lending to both, and receive equal pay for each. We leverage these similarities to test how working with poor versus non-poor clients affects the likelihood that officers will voluntarily exit the bank. Consistent with the expectation derived from our qualitative fieldwork, results show that exit became more likely when a loan officer's portfolio contained more poor borrowers.

Additional tests probe the mechanisms behind our results and the generalizability of our findings. First, our fieldwork suggested that loan officers felt taxed by traveling to and working in impoverished areas—as opposed to just interacting with poor entrepreneurs—suggesting that this might explain the increased exits in our main results. Results support this intuition and show that exit is more likely when clients are not just poor but also require more of what we term "high-touch" interactions in poor areas. Next, we explore boundary conditions with a dataset that covers the global microfinance industry. We compare exit rates at non-profit MFIs—where officers are more likely to value prosocial goals—with commercial MFIs, where loan officers are less likely to have this orientation. Serving poor clients has a weaker effect on turnover in non-profit MFIs, suggesting that prosocial motives may buffer employees against the hardship of working in poor areas. Notably, these analyses also reveal conditions where serving the poor does *not* lead to increased turnover, offering insight into potential strategies for alleviating the problematic effects we observe in our main results.

Our findings contribute to research on microfinance and necessity entrepreneurship, exposing challenges that organizations face in their efforts to support poor entrepreneurs. If business creation offers a way to alleviate poverty and promote sustainable development (Poschke, 2014), it is important to understand the experiences of frontline workers who support these efforts. Existing research has shown that conditions of poverty influence entrepreneurs (Bruton et al., 2013; Kistruck et al., 2015; Slade Shantz et al., 2018; Sutter

et al., 2019), and we show that these conditions also affect those who deliver essential support services. We thus reveal a problematic tension in commercial microfinance and clarify the challenges and opportunities that for-profit organizations face as they seek to address issues like poverty and support necessity entrepreneurs.

1.1. Study overview

Reflective of our abductive process, the study precedes as follows. First, we situate our study in the necessity entrepreneurship literature and then discuss existing research that led us to expect that prosocial work with poor clients would be associated with reduced loan officer exit. Then, we describe our focal organization and the important role that loan officers play in credit provision. Next, we present the qualitative evidence that prompted us to consider that, at MicroBank, the theorized relationship between prosocial work and employee exit might run counter to expectations. (Appendix A describes the qualitative data collection process.) We then test this hypothesis using MicroBank's database. Finally, we explore the underlying mechanisms and boundary conditions of the relationship between loan officer exit and serving poor entrepreneurs.

1.2. Necessity entrepreneurship and microfinance

For many in the developing world, creating a small, simple business offers a pathway out of poverty that is unattainable through other means (Banerjee and Duflo, 2007; Brewer and Gibson, 2014). However, a key limitation for new ventures in emerging economies is a lack of access to start-up and growth capital (Morduch, 1999; Webb et al., 2013; Yunus and Jolis, 1999). Microfinance seeks to address this problem as part of a theory of change model where access to capital supports business-creation and the generation of incomes that help necessity entrepreneurs to escape poverty (Ebrahim and Rangan, 2014; Wry and Haugh, 2018). Indeed, there is evidence that access to credit allows the poor to pursue entrepreneurial opportunities (Dvoulety and Lukes, 2016), invest in their businesses (Banerjee et al., 2015), and absorb financial shocks that would otherwise threaten venture survival (Bradley et al., 2011). Of course, access to finance does not guarantee entrepreneurial success, and there are cases where microfinance has been found to harm the poor, particularly when MFIs promote loans to poor entrepreneurs who do not have the capacity to repay (Hulme, 2000; Mader, 2013). Still, a large body of evidence shows that microfinance loans contribute to the creation, growth, and profitability of subsistence-based ventures (Dvoulety and Lukes, 2016) and to the financial well-being of their owners (Chliova et al., 2015; Singh et al., 2021).

To achieve these outcomes, however, MFIs follow different lending models than traditional banks. Most unbanked entrepreneurs do not have credit histories or collateral, making it difficult for lenders to assess repayment risk through conventional methods. Early MFIs addressed this by lending to mutual accountability groups, and asking members to monitor one another's repayment (Armendariz de Aghion and Morduch, 2005; Morduch, 1999; Yunus and Jolis, 1999). Today, however, most commercial MFIs lend to individuals and assess creditworthiness through soft information gathered directly from potential clients (Canales and Greenberg, 2015; Doering, 2018). This approach, known as relational lending, sends loan officers into the field to meet with potential clients, build trusting relationships, and assess creditworthiness (Petersen and Rajan, 1994). The resulting insights and data help loan officers to make sound lending decisions and extend credit in response to entrepreneurs' ongoing needs (Uzzi, 1999).

For microfinance to effectively support necessity entrepreneurs, it is essential to minimize loan officer turnover and maintain lasting officer-client relationships. As economic theorists note, soft information and trust are not easily transferred, which creates problems when the relationship between a borrower and loan officer is severed (Petersen and Rajan, 1994). Personal insights about a client and the quality of their business are inherently difficult to codify, meaning that knowledge and trust need to be rebuilt when a new loan officer takes over an account. During this rebuilding period, an entrepreneur's access to credit is often constrained (Udell and Berger, 2002; Uzzi, 1999), and the replacement officer is less likely to be patient if a borrower misses payments (Doering, 2018). This creates a great deal of uncertainty for poor entrepreneurs, who often have few resources to reinvest in business growth and are unlikely to secure traditional bank loans; in turn, this heightens entrepreneurs' vulnerability to financial shocks and makes business failure more likely. Loan officer retention in microfinance is thus crucial for ensuring that necessity entrepreneurs have sustained access to capital.

1.3. Prior perspectives on prosocial work and employee exit

Before we began our fieldwork, prior research led us to expect that loan officers would be less likely to exit when they did more work with poor, necessity entrepreneurs. Studies show that social initiatives create positive employment outcomes through treatment and sorting effects (Bode et al., 2015). Treatment effects are evident when employees are proud to associate with a company based on its socially beneficial actions and become more satisfied and committed workers as a result (Brammer et al., 2007; Kim et al., 2010; Turban and Greening, 1997). Directly participating in social initiatives reinforces this causal chain by helping workers see how their efforts contribute to socially desirable outcomes and reinforcing the perception that their firm is committed to acting in the public good. In turn, this fosters a sense of belonging and increases the perception that one is doing meaningful work (Bartel, 2001), leading to higher job satisfaction and motivation (Carton, 2018; Grant, 2012). Applied to microfinance, this research suggests that loan officers who work with poor entrepreneurs should be less likely to quit because they can see how their efforts contribute to the firm's prosocial aims.

Social initiatives can also elicit favorable outcomes through sorting effects that lead to a better fit between an employee and their work (Bode et al., 2015). Research on person-job and person-organization fit has long noted that employees' interests and abilities can be variously well-aligned with the demands of their jobs (Edwards, 1991) and the values of their organization (Kristof, 1996). When perceived fit is high, employees report greater job satisfaction and commitment, as well as lower exit-intent (Bretz and Judge, 1994;

Kristof-Brown et al., 2005). Building on this logic, studies have found that workers react positively when a firm's social initiatives align with their own priorities, leading to positive human capital outcomes (Bode et al., 2015; Bode and Singh, 2018).

This type of alignment is also associated with psychological benefits that make employees resilient to uncomfortable and difficult work (Bunderson and Thompson, 2009). For example, job satisfaction and commitment in the charitable sector—where jobs often offer low pay and have high physical and mental demands—are similar to those in the private sector, so long as employees believe that their work is meaningful (Kim and Lee, 2007; Mirvis, 1992). Overall, this research suggests that employees are less likely to quit when their jobs address valued social goals, even if this entails difficult work. These findings initially encouraged us to expect that working with poor entrepreneurs would be associated with increased loan officer retention at our focal microfinance institution, described below.

2. Case setting: MicroBank and commercial microfinance

Our focal firm, MicroBank, is a commercial MFI in Latin America.[1] As with other such MFIs, MicroBank complements its focus on wealthier clients with a focus on poor entrepreneurs, defined as those living at or below the poverty line. Lending to poor entrepreneurs is a key way that MicroBank signals its legitimacy in the microfinance industry, which has traditionally prioritized supporting necessity entrepreneurs as a means of poverty reduction (Battilana and Dorado, 2010; Dencker et al., 2021). Of MicroBank's clients, 88% are non-poor (generally low- or middle-income) and have a median daily income of $15.96. The remaining 12% are poor and have a median daily income of $2.20. MicroBank classifies borrowers as poor if they fall at or below the national poverty line established by the World Bank.

Although MicroBank offers a range of financial products, the organization self-identifies as a financial institution that caters specifically to small-scale businesses. Promotional materials prominently feature entrepreneurs—a cook preparing soup, a mechanic repairing cars, a baker making bread—at work in their shops, and ads further promote that MicroBank serves "humble" entrepreneurs. We are unable to observe if individual borrowers launched their businesses out of necessity or opportunity, but assume that poor borrowers are likely to be necessity entrepreneurs based on evidence that the poor generally launch such small businesses because they lack other options—especially in Latin America (Doering, 2016; Sanguinetti et al., 2013). In comparison, higher-income people are less likely to be pushed into entrepreneurship as a way to meet basic needs (Dencker et al., 2021).

MicroBank portrays its loans to poor entrepreneurs as socially beneficial through its website, institutional reports, and press coverage. For instance, the General Manager opened the 2009 Financial Report by highlighting the bank's commitment to poverty alleviation, noting that many loans "have a significant effect on reducing poverty and advancing the process of social and economic development."[2] In less public settings, administrators portrayed lending to the poor as a socially valuable and fiscally sound strategy. For instance, the administrator quoted below explained that loans to poor entrepreneurs translate into high repayment rates:

> Some people think poor people—or people with few resources—are stupid. But that's not true. There are a lot of people trying to pull their families out of poverty. And logically they come to the bank looking for the necessary resources to make their thoughts and dreams come true [….] There is a very high repayment rate because people notice […] that they're valued by a financial institution […]. So, they feel valuable, and not just like someone from the lowest strata of society. (Branch Manager).

As this quote suggests, MicroBank treats poverty reduction as an important social goal, but one that ultimately complements its financial aims. This reflects a quintessential strategy in commercial microfinance: the bank seeks to generate social impact through its core business practices.[3] At MicroBank, loans to poor clients are expected to be profitable, and the bank charges higher interest to adjust for smaller loan sizes and the cost of sending officers into the field to gather soft information to guide their lending decisions.

Poor borrowers are indeed reliable clients for MicroBank; they miss fewer payments on average (15% among poor clients versus 19% among non-poor clients) and are less likely to default on their loans. Of the small fraction of loans sent to MicroBank's collections department, only 3% are owned by poor clients. Although MicroBank does not explicitly incentivize lending to poor entrepreneurs, loan officers are motivated to lend to these borrowers because of their tendency for reliable repayment. During qualitative observations, officers reported viewing poor clients as particularly responsible individuals with strong "repayment cultures." Combined with the literature discussed above, poor entrepreneurs' reliability in loan repayment provides another reason to expect that officers would be less likely to quit when working with the poor. Still, the qualitative observations described below led us to revisit these expectations, imagining an alternative relationship between prosocial work and exit among microfinance loan officers.

3. Insights from qualitative data

3.1. Pecuniary rather than prosocial motivations

Research shows that employees can find even demanding, uncomfortable work rewarding when it aligns with their personal goals and values (Bode et al., 2015; Bunderson and Thompson, 2009; Kim and Lee, 2007; Mirvis, 1992). Thus, loan officers might derive

[1] "MicroBank" is a pseudonym. A confidentiality agreement prohibits disclosing the bank's name or location.

[2] All quotes are translated from Spanish by the first author. The citation is withheld in accordance with the confidentiality agreement.

[3] Notably, commercial microfinance differs from the not-for-profit, group-based model of microfinance championed by Nobel Prize winner Muhammad Yunus and the Grameen Bank (Yunus and Jolis, 1999). Unlike the for-profit model, the non-profit model does not pursue profits for investors. We return to potential differences between for-profit and non-profit MFOs in an extended analysis below.

satisfaction from lending to the poor if they are intrinsically motivated to alleviate poverty even under difficult and uncomfortable conditions. Yet we found that MicroBank's recruiting practices did not prioritize prosocial commitments. Instead, the bank screened applicants based on the numeracy, literacy, and language skills considered necessary for performing basic business tasks. This is reflected in one officer's recollection of the hiring process:

> Jesús said he put his information on a jobseekers' website and [a MicroBank representative] called him the next day. The following day, he went to the bank for an interview and took a short test in mathematics. He had to get an HIV test and the bank checked out his credit score. All this began on March 3 and by March 9 he was attending the new loan officer training. (Field notes).

This competency-focused hiring strategy is consistent with other companies that operate in impoverished areas (e.g., Ansari et al., 2012; Arnould and Mohr, 2005; Kistruck et al., 2011), and led MicroBank to recruit people with varied professional backgrounds based on the belief that new hires could be trained in microfinance-specific skills. One administrator described the bank's hiring strategy in this way:

> We hire people who don't have training in this [microfinance]. We have people who have degrees in [many different areas]. I even have a marine biologist working here! So, we have different people who were doing different things before. (Recorded interview).

The diversity in officers' backgrounds is reflected in Table 1. Notably, Table 1 also shows the *absence* of officers with social-service backgrounds. This is important, as people who do not have a background in social service or other helping professions are less likely to have a strong intrinsic motivation to pursue prosocial goals, such as poverty alleviation, at work (Battilana and Dorado, 2010; Besharov, 2014; Wry and York, 2017).

Indeed, our field observations suggest that MicroBank's efforts to hire candidates with basic business skills resulted in a cadre of loan officers who were not particularly motivated by the prosocial aspect of the bank's mission. Rather, most officers valued financial rewards and a professional work environment. When asked about their motives for pursuing this line of work, officers described their jobs as a means of social mobility, an opportunity to earn a higher salary, and a way to work in a respectable organization. For example, one officer explained how working as a loan officer provided more social status and physical comforts than her previous work as a waitress:

> [My work here is] different because we're identified as working with a bank. Our uniform identifies us. We introduce ourselves to the clients as important people from a financial institution. It's different because we have an office here where we sit down and have committee meetings. When we go house to house to meet with clients, we have to look very presentable […] Working here isn't the same as working at a restaurant where you run around picking up plates, washing them, waiting on people. (Recorded interview).

This loan officer valued her work primarily for the increased comfort and status it afforded and not for the opportunity to contribute to poverty alleviation. Similarly, a recently hired officer, who previously worked in a casino, described how he anticipated that working at MicroBank would allow him to earn more money and develop financial skills:

> [During a new officer training session,] I asked Carlos why he wanted to work at MicroBank. Although we had been casually chatting before, he became very serious when answering this question, the smile vanishing from his face and his eyebrows knitting. He told me that he thought working for a bank was "the best kind of job in [this country]." He said it was a great opportunity to have steady work, earn a good salary, and learn new financial skills. (Field notes).

As these examples suggest, officers appreciated the utilitarian rewards of their jobs—status, comfort, a good salary—and were generally not motivated by a desire to serve the poor.

3.2. Fieldwork in poor areas

Next, we observed that, for loan officers, providing loans to poor entrepreneurs brings distinct challenges. Lending to the poor means traveling to neighborhoods on informal public transit systems, working without reliable cellular coverage, and attending to their own physical safety in areas with high crime rates.[4] For instance, the field note below describes an officer's experience commuting from one poor neighborhood to another on informal public transit:

> Ana and I walk for 25 min to a spot where we can catch an informal bus to [the next neighborhood]. […] Although all the windows are open, it's extremely hot and the air is stagnant. The bus is packed beyond capacity; passengers are squished together and some are standing in the aisle. When someone from the back of the bus wants to get out, those of us standing in the aisle must lean on top of the seated passengers to make space in the aisle. When we finally arrive, Ana reminds me—for the third time that morning— "This is a tiring job!"

Officers also face weak infrastructure in poor areas, which can create experiences filled with unpleasant surprises and near-misses. The following capture two such instances.

[4] Of course, not all poor areas have high levels of crime, but the correlation between poverty and crime rates in Latin America is high (Di Tella et al., 2010). Even if officers worked in poor areas with low crime rates, they are still likely to navigate informal transportation networks or less-developed infrastructure.

Table 1
Loan officer previous work experiences.

Sector	Job
Finance	Loan officer at traditional bank
	Internship at traditional bank
	Secretary at accounting firm
Retail	Sales (varied)
	Street vending
	Avon home sales
Service	Concessions at movie theater
	Casino floor work
	Childcare
	Assistant manager at McDonalds
	Server at restaurant
	Hotel receptionist
Government	Customs inspector
	HR specialist at a public hospital
Other	Recent high school graduate
	Marine biologist
	Unemployed

Note: Each position was mentioned by one or two loan officers. Some officers worked in multiple positions. The MicroBank database does not contain information about officers' previous work experiences. As such, we compiled previous employment information from loan officers via interviews and field observations.

> At an outdoor fish market, Angela talks with a lady selling ceviche who has never had a bank loan. She tells her not to think of the loan as a "debt," but as an "opportunity." Just then, a young man dumps a trashcan of used fish water onto the concrete where Angela stands. She politely—if non-discretely—jumps out of the way, careful not to let her shoes come in contact with the fishy tide.
>
> Javier makes his way under the highway overpass. Vendors selling plastic bags of fruits and vegetables and Styrofoam boxes of prepared meals are crammed along the sidewalk. Although it's cooler under the shade of the overpass, there is a constant rumble of noise from the traffic above. Javier strains to talk with the street vendors above the noise. Cars whiz by the vendors' stands, leaving just a few inches between Javier and the speeding automobiles.

As these examples suggest, recruiting and evaluating poor clients involves a unique set of challenges. Because loan officers generally do not have strong prosocial motivations for their work, these challenges are not offset by the intrinsic rewards of poverty alleviation.

Naturally, the literature on social initiatives in traditional firms does not anticipate such challenges since these initiatives rarely demand intensive and unpleasant fieldwork. Our observations are consistent, however, with research that shows reaching clients at the base of the world's economic pyramid requires employees to work in low-income areas with less developed infrastructure and added security risks (Anderson et al., 2010; Chilova and Ringov, 2017).

Together, these qualitative observations led us to anticipate that the positive relationship between prosocial work and employee retention theorized in prior research may not hold in our setting. Like many commercial MFIs, MicroBank does not hire employees with a strong affinity for prosocial goals, resulting in a cadre of loan officers who are less likely to be motivated by poverty alleviation. Without the buffering effects of such prosocial commitments, officers tended to experience working in poor areas as taxing since it involved navigating areas that felt unsafe and uncomfortable. These observations prompted us to turn to our quantitative data to test a new, revised hypothesis; namely:

Hypothesis 1. *Loan officers are more likely to quit as they increasingly serve poor entrepreneurs.*

Our prediction focuses on the overall relationship between serving the poor and the likelihood of employee exit. Supplementary models examine how this relationship is shaped by 1) the intensity of officer-client interactions and 2) an MFI's status as a for-profit versus non-profit entity. These analyses clarify underlying mechanisms, demonstrate the generalizability of our findings in the microfinance industry, and identify boundary conditions where serving poor entrepreneurs does *not* lead to increased exit.

4. Quantitative methods

4.1. Data and analysis

We use MicroBank's proprietary employee database to examine how working with poor clients affects the likelihood of voluntary exit among loan officers. Our data includes information about all loan portfolios for officers who worked at MicroBank between April 2009 and September 2012—52 of whom voluntarily exited the bank. We analyze data at the officer-month level. Officers voluntarily exited the bank at an average rate of 10% per year[5] and had a median tenure of approximately 2 years.

In an ideal experiment, loan officers and poor clients would be randomly assigned, thereby allowing clear inferences about the causal effect that working with the poor has on employee retention. However, our data are observational, not experimental. Our contribution thus lies in estimating, as opposed to experimentally demonstrating, our relationship of interest. To do this, our main models use logistic regression to measure the relationship between client poverty and voluntary officer exits. We address potential unobserved variables that may bias these estimates in a series of robustness checks.

Our analysis focuses on officers who exit the bank voluntarily. However, the boundary between the voluntary and involuntary exits is notoriously difficult to establish, and MicroBank does not specify why officers left the bank. To address this, we focus our analysis on months in which officers demonstrated high performance. We assume that officer exits are more likely to be voluntary if they occur when officers are meeting or exceeding expectations. Our measure of high performance is based on MicroBank's key performance indicators: an officer's ability to recruit new clients and collect payments from existing clients. We code officer-months as high performing when officers have a three-month running average of new loan approvals that exceeds the bank's monthly average (5.36 loans) or have a three-month running average of missed payments that falls below the bank's monthly average (15.85%).[6] While it is possible that officers may recruit new clients and keep repayments high through heavy-handed tactics that are undesirable from the borrower's perspective, it is unlikely that MicroBank would fire officers who perform well on these metrics.

This analytic approach treats every officer as "at risk" of voluntary exit in any month when they were high performing. Of the 214 loan officers, 209 had at least one high-performing month and are included in the main model, which captures 3142 officer-months. Nevertheless, our results are robust to including all officer-month observations, as well as restricting analyses to monthly observations from only those officers who exited in a high-performing month (available upon request).

At MicroBank, officers serve two types of clients: those that they personally approve (i.e., original clients), and those that are assigned to them when a fellow officer leaves the bank and their clients are dispersed to remaining loan officers (i.e., inherited clients). One concern is that officers who select, or are assigned to, poor clients may have unobservable characteristics that also make them more likely to quit. To account for this, we run a robustness check that includes loan officer fixed effects (Maclure, 1991; Marshall and Jackson, 1993). This approach uses conditional logistic regression to compare within-individual differences, thus eliminating the confounding effects of time-invariant, individual-level heterogeneity (Allison and Christakis, 2006). Because characteristics such as financial acumen and interpersonal ability are relatively fixed across monthly observations, this approach controls for stable characteristics that might affect both exit and the amount of work that officers perform with poor entrepreneurs.

We also present models including branch and tenure fixed effects. Branch fixed effects address variation in opportunities or organizational cultures across MicroBank branches. Monthly exit rates across branches range from 1% to 3%. We include quarterly tenure fixed effects to account for the fact that officers with different amounts of experience may have unique exit propensities. For each monthly observation, we classify officers as being in their first quarter (i.e., first 3 months on the job), second quarter, etc., and include fixed effects based on these values. We also include year fixed effects in all models to account for fluctuating unemployment rates and other macroeconomic changes. In a further check (available upon request), we used a hierarchical modeling strategy with officers nested within branches and found consistent results when accounting simultaneously for officer- and branch-level effects. All models throughout the paper report two-tailed significance tests.

4.2. Independent variable

We hypothesized that officers will be more likely to exit as they do more work with poor, necessity entrepreneurs. To test this, our main predictor is *poor clients* (%), which captures the portion of poor clients in an officer's portfolio each month. For example, if an officer has 100 loans in their portfolio and 10 belong to poor clients, then *poor clients* = 10% that month. We follow MicroBank's approach for classifying borrowers as poor versus non-poor. To wit, we calculate average individual income by dividing clients' total household income by the number of individuals in the household. Any borrower whose average individual income falls at or below the national poverty line established by the World Bank is identified as poor and contributes to the proportion of poor clients in the officer's portfolio. Although studies routinely link poverty to necessity entrepreneurship (Dencker et al., 2021; Poschke, 2014; Sanguinetti

[5] This rate is consistent with the broader microfinance industry. For example, turnover among permanent employees at Bangladesh's major microfinance institutions falls between 10 and 14% annually (Alam, 2015). Our analyses of the Microfinance Information Exchange reveal that, across the global microfinance industry, the mean staff turnover rate is 19%, and the median is 15%. These values include both voluntary and involuntary exits whereas our measure captures voluntary exits only.

[6] Results are robust to alternative definitions of high-performing months. For example, we find consistent results when we define high-performing months as occurring when officers' rates surpass bank-wide moving averages leading up to the focal observation, rather than averages based on the total observation set.

et al., 2013), we cannot discount that some less-poor borrowers may also start businesses out of necessity. To address this, we ran additional models that included borrowers with incomes 1.5 and two times the national poverty line: results are robust to these specifications (available upon request). These additional checks demonstrate that our findings hold under a range of poverty definitions and are not unique to a particular specification.

4.3. Dependent variable

To examine whether working with the poor contributes to officer exits, our dependent variable should capture voluntary, and not involuntary, exits. As discussed above, the boundary between the two is difficult to establish. Thus, we limit our dependent variable to exits that occurred during high-performing officer-months (1 = exit). In total, 52 of the 214 loan officers exited the bank in a high-performing month. Additionally, we ran the analyses including all loan officer exits, not just those that occurred during high-performing months. These models contain exits from all 102 officers who left the bank for any reason. As presented in Appendix B, results are consistent—though somewhat attenuated—when we use this more expansive measure of officer exits.

Because officers can only exit the bank once at the end of their tenure (mean tenure = 23.4 months), the voluntary exit rate is 2% across all high-performing monthly observations. This figure may seem low, but it is important to remember that it reflects exits across all officers during each month of their tenure. By definition, the frequency of positive outcomes (exits) will be low compared to the frequency of non-positive outcomes (non-exits), and our rates are similar to prior studies that have examined exit or promotion using panel data (e.g., Özcan and Reichstein, 2009). Still, as a check, we ran rare event logistic regression to correct coefficient estimates and standard errors for systematic bias attributable to the low unconditional mean of the dependent variable (King and Zeng, 2001). Results are consistent, suggesting that the infrequency of the exit event does not systematically bias our estimates.

4.4. Control variables

We account for personal and environmental factors that may influence officer exit. This includes a variable for *caseload size*, as large caseloads imply more responsibility and potentially greater stress.[7] Caseloads contain clients whom officers personally approved and clients assigned to them by a branch manager. We control for this with a variable tracking the monthly portion of *original clients* (versus inherited clients) in an officer's portfolio. In addition, we control for the monthly portion of *rural clients* in an officer's portfolio, as traveling to distant areas may encourage exit.

We also control for two key factors that affect officers' compensation: the proportion of clients in their portfolios who *missed payments* and the number of *new loans* approved each month. Officers should be less likely to exit when they approve more loans and their clients miss fewer payments, which indicates success on key performance metrics. We control for each in the focal month, but our analyses are robust to three- and six-month moving averages. Still, there is a potential concern that including these variables might systematically bias our results, as they are also used to construct our dependent variable (i.e., voluntary exit). To address this possibility, we include a model without controls for *missed payments* and *new loans* and find consistent results.

We also control for personal characteristics that may affect exit. We account for officer *age* and *age squared* since employment opportunities may vary among younger and older officers. We also control for *gender* (female = 1), as women may experience discrimination in the labor market and be less inclined to exit. We control for *officer tenure*, as experience may affect exit decisions. Table 2 reports summary statistics.

A few figures in Table 2 are noteworthy. In an average high-performing month, 10.07% of an officer's portfolio is made up of poor clients; 7.86% are original clients and 2.08% are inherited clients. Naturally, officers who approve more loans also have larger caseloads ($r = 0.49$). The correlation between officer tenure and age ($r = 0.35$) reflects the fact that older officers tend to have more experience at MicroBank. Finally, the negative correlation between original clients and missed payments ($r = -0.20$) reflects the fact that original clients tend to be more reliable borrowers.

5. Results

5.1. Client poverty and loan officer exits

We find strong and consistent support for our prediction that working with poor entrepreneurs is associated with increased loan officer exit. Descriptive analyses suggest that officers have a significantly higher proportion of poor clients in their portfolios in the month that they exit. In the 52 voluntary-exit months, officers have 17% poor clients in their portfolios. In all other high-performing months, officers have an average of 10% poor clientele ($p < .01$), showing that exit is more likely when officers' portfolios comprise more poor clients.

In Table 3, we test our expectation formally. Model 1 shows that officers are significantly more likely to exit MicroBank when they serve a greater proportion of poor clients: an officer's odds of exit are 1.03 times greater ($\beta = 0.03$, $e^{0.03} = 1.03$, $p < .001$) with each 1% increase in poor clients. The control variables in model 1 also reveal interesting trends. For instance, there is a positive association between exit and the percentage of rural clients in an officer's portfolio ($\beta = 0.01$, $p < .01$). This aligns with previous studies showing

[7] As a robustness check, we included quadratic effects for caseload. Including this term did not influence the significance or directionality of the results, so we exclude it in the interest of parsimony.

Table 2
Means, *SDs,* and correlations.

Variables	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12
1. Voluntary Exit	0.02	0.13	0.00	1.00	1.00											
2. Poor clients (%)	10.07	15.05	0.00	100.00	0.06	1.00										
3. Poor original clients (%)	7.86	12.68	0.00	100.00	0.04	0.92	1.00									
4. Poor inherited clients (%)	2.08	5.77	0.00	47.00	0.05	0.56	0.20	1.00								
5. Caseload size	80.43	68.69	1.00	368.00	−0.03	0.06	0.02	0.09	1.00							
6. New loans	6.65	4.91	0.00	23.00	−0.10	0.08	0.08	0.03	0.49	1.00						
7. Missed payments (%)	8.98	7.65	0.00	43.00	0.01	0.02	−0.03	0.09	0.42	0.08	1.00					
8. Rural clients (%)	24.66	24.42	0.00	100.00	0.03	0.32	0.30	0.18	0.15	0.11	−0.09	1.00				
9. Original clients (%)	84.30	25.42	0.00	100.00	−0.06	−0.25	−0.01	−0.60	−0.09	0.02	−0.20	−0.18	1.00			
10. Officer age	30.57	6.36	18.79	55.06	−0.03	0.05	0.08	−0.05	0.07	−0.02	0.06	0.11	0.09	1.00		
11. Female officer	0.58	0.49	0.00	1.00	−0.01	−0.05	−0.03	−0.07	0.05	0.01	0.12	−0.13	0.04	0.02	1.00	
12. Officer tenure (months)	23.40	18.62	0.00	73.31	−0.05	−0.13	−0.08	−0.16	0.46	0.12	0.21	0.08	0.22	0.35	0.17	1.00

Note: $N = 3142$ officer-month observations.

Table 3
Predicting voluntary loan officer exits.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Logistic regression	Logistic regression	Rare event logistic regression	Logistic regression, with branch fixed effects	Logistic regression, with tenure fixed effects	Logistic regression, with officer fixed effects
Poor clients (%)	0.03***	0.02**	0.03***	0.03***	0.03***	0.20+
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.10)
Caseload size	−0.00	−0.01**	−0.00	−0.00	−0.00	0.14***
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.04)
New loans	−0.23***		−0.23***	−0.23**	−0.24***	−0.41***
	(0.05)		(0.05)	(0.08)	(0.05)	(0.09)
Missed payments (%)	0.02		0.02	0.03	0.01	0.14
	(0.02)		(0.02)	(0.03)	(0.02)	(0.10)
Rural clients (%)	0.01**	0.01*	0.01**	0.01***	0.01**	0.15***
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.04)
Original clients (%)	−0.00	−0.01	−0.00	−0.00	−0.00	0.13
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.08)
Officer age	−0.46***	−0.45***	−0.47***	−0.48***	−0.45**	
	(0.13)	(0.12)	(0.13)	(0.14)	(0.14)	
Officer age^2	0.01***	0.01***	0.01***	0.01***	0.01***	
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	
Female officer	−0.11	−0.07	−0.10	−0.17	−0.15	
	(0.30)	(0.28)	(0.29)	(0.33)	(0.30)	
Officer tenure	−0.02	−0.01	−0.01	−0.02	−0.02	
	(0.01)	(0.01)	(0.01)	(0.02)	(0.17)	
N	3142	3142	3142	3142	2605	558

Note: All models include year fixed effects. Standard errors are clustered by officers in models 1–3.
+ $p < .10$.
* $p < .05$.
** $p < .01$.
*** $p < .001$.

that frontline workers can find it difficult to engage with rural clients due to travel challenges and cultural differences (Kistruck et al., 2013; Venugopal and Viswanathan, 2015).

In model 2, we remove *new loans* and *missed payments* because, as discussed, including these controls may bias our results. The effect of poor clients on exit remains positive and significant ($\beta = 0.02$, $p < .01$). Model 3 demonstrates that the results are consistent ($\beta = 0.03$, $p < .001$) when we use rare event logistic regression, which accounts for potential estimation biases associated with the relative infrequency of officer exits in our monthly, panel data.

The next three models include fixed effects. Model 4 adds branch fixed effects and shows that the coefficient of *poor clients* remains positive and significant ($\beta = 0.03$, $p < .001$). Model 5 includes quarterly tenure fixed effects and shows consistent results ($\beta = 0.03$, $p < .001$). The observation count drops in model 5 because some tenure quarters do not contain any officer exits and thus cannot be included in the analyses. Finally, model 6 includes loan officer fixed effects, thereby accounting for time-invariant characteristics (e.g., prior work experience, personal preferences for working with poor clients) that might influence exit.[8] Results show that each 1% increase in the proportion of poor clients an officer's portfolio increases their odds of exiting the bank by 1.22 times ($\beta = 0.20$, $e^{0.20} = 1.20$, $p = .056$). Thus, even when accounting for stable individual characteristics that may affect preferences for working with the poor, officers are more likely to exit MicroBank when more of their work involves poor clientele. Additional analyses (available upon request) show similar results using random intercept models with officer observations nested in branches. The findings are also robust to alternative definitions of client poverty. Our main models operationalize clients as poor if their income falls at or below the national poverty line, but results are consistent when we classify clients as poor when their incomes fall at or below 1.5 and two times the national poverty line. Together, these models demonstrate a consistent and robust pattern whereby loan officers become more likely to quit as they increasingly work with poor clients.

[8] The limitation of the officer fixed effect model is that only employees who experience the event of interest can be included (Allison, 2009). As such, this model captures the 52 officers (with 558 officer-month observations) who voluntarily exited the bank. We do not control for gender or branch location in these models because neither varies over time. Officers work at a single branch and do not transfer between branches, as each province contains only one branch. We also do not control for officer age or tenure, as these variables increase monotonically with each monthly observation and are thus highly correlated with exits, leading to a "complete separation problem" that prevents model convergence (Menard, 2010).

6. Extended analyses

6.1. What types of poor clients affect officer exits?

Our main analyses model the relationship between working with poor entrepreneurs and the likelihood of loan officer exit. In this section, we work to better understand the factors that contribute to exit while acknowledging that our observational data limit our capacity to isolate mechanisms precisely. In our theory, we anticipate that lending to the poor is challenging, in part because employees must perform intensive fieldwork in low-income areas. Yet not all work with poor clients demands such fieldwork. As described above, loan officers obtain clients in two ways. In one route, officers work within an assigned geographic zone to recruit both poor and non-poor "original clients." This is an intense, interactive process that we term "high-touch" fieldwork and involves visiting homes and businesses and spending time in clients' communities. In a second route, officers inherit clients with whom they are unlikely to interact unless there is a need for further credit or a problem arises. For inherited clients, high-touch fieldwork is generally unnecessary.

We anticipate that officers' likelihood of exit will be shaped by the portion of *poor original clients* in their portfolios and less so by the proportion of *poor inherited clients*.[9] This expectation stems from the different types of interaction that original and inherited clients demand. Officers engage in high-touch fieldwork in low-income areas when they recruit and evaluate *poor original clients*. As discussed, loan officers—who tend to not have strong social motives or social service backgrounds—find such fieldwork taxing, as it often involves security concerns, unreliable transport, and infrastructure challenges. For example, the field note below describes one officer's motivation for becoming a loan officer, followed by a snapshot of his fieldwork with a poor original client:

> [During officer training], Ronald said he was grateful to have the job with MicroBank. Previously, he worked for three companies selling goods and services (like cell phones) on the street. He became tired of that work because it was physically exhausting and also very dangerous. He explained that people in that line of work carry lots of goods and cash and that he had been robbed on multiple occasions. (Field notes, March 2011).

> Our next stop is to a street vendor who sells oils and coconut products [from a stall on a busy road.] Alana takes the lead, greeting the man and beginning to fill out the evaluation forms. Ronald begins to photograph the stall. An extremely drunk man sits on the sidewalk a few feet away. When Ronald starts snapping photos, the man mumbles repeatedly in a low, raspy voice, "Hey, friend." Ronald notices the man and, when he has finished taking photos, stands between the man and Alana, his arms crossed and his feet hip-width apart. Ronald furrows his brow as he watches the drunk man, occasionally glancing at other pedestrians who walk nearby. He stands between the man and Alana for the full 45 min it takes her to complete the report. (Field notes, March 2011)

Although officers like Ronald pursue jobs at MicroBank because they want comfortable and secure work, they often find that the high-touch fieldwork associated with original clients in poor areas is *un*comfortable and *in*secure. We anticipate that this lack of fit between officers' preferences and the nature of high-touch fieldwork with poor original clients will increase their likelihood of exit.

By comparison, working with poor *inherited* clients does not demand the same level of high-touch interaction. Officers manage upward of 100 clients and generally do not contact inherited clients unless a problem arises. If it does, officers generally call the inherited client from the office—a space that is quiet, clean, and air-conditioned. The following field note provides an example of how officers interact with inherited clients.

> Enrique looks over a list of clients, two or three pages stapled together. He explains that he inherited these clients from other loan officers who had quit or been fired. […] On a phone call to one of the clients, who was three or four days late in making her payment, he says, "I was just calling to remind you about your loan payment…. So, you're going to make the payment on the 30th?" He told her he would put that date in the system. After the call, I ask what the client said. "She's not working at her business because she's pregnant." Enrique seems entirely unperturbed. His facial expression is blank and, after hanging up the phone, he quietly returns to his list. (Field notes, March 2011).

As this example suggests, officers tend to engage with inherited clients from the comfort of their cubicles. Such interactions generally require little more than a phone call and logging the conversation in the client's digital file. Although reminding inherited clients to make payments is not always pleasant, these interactions do not impose the physical demands and stressors of high-touch fieldwork. Thus, we expect that the presence of poor inherited clients in an officers' portfolio will have less of an impact on their propensity to quit since inherited clients do not require officers to engage in high-touch fieldwork in low-income areas unless further loan approvals are necessary.

To test this expectation, we ran models that divided our variable for *poor clients* into *poor original clients* and *poor inherited clients*. Parsing the variable this way lets us estimate the unique effect of each type of client on an officer's likelihood of exit. In any given high-performing month, an officer's portfolio contains an average of 7.86% *poor original clients* and 2.08% *poor inherited clients*. The

[9] At first glance, one might expect the opposite: when officers select more of their own poor clients, this might reflect a better fit between their own preferences and their clientele, leading to reduced exit. However, MicroBank selects employees based on business skills, not prosocial values, and does not highlight the socially beneficial aspects of lending to the poor during loan officer training. Rather, poor entrepreneurs are portrayed as potentially lucrative clients with high repayment rates. As such, the decision to recruit poor clients is generally motivated by an officer's desire to secure reliable borrowers rather than a desire to pursue personally valued social goals.

correlation between these variables is 0.20. Importantly, when running models with these variables, we continue to account for an officer's overall level of work with original versus inherited clients (both poor and non-poor) by controlling for the total portion of *original clients* in an officer's portfolio. Including this variable ensures that we control for the challenges of fieldwork and client selection associated with all original clients.[10] Table 4 presents the results.

Across models 1–5, we find that *poor original clients* significantly predicts loan officer exit, but *poor inherited clients* does not. For example, model 1 demonstrates that each 1% increase in the proportion of *poor original clients* in an officer's portfolio is associated with 1.03 times greater odds of exit ($\beta = 0.03$, $e^{0.03} = 1.03$, $p < .001$). In contrast, each 1% increase in the proportion of *poor inherited clients* has no significant effect on exit. In model 6, which includes officer fixed effects, we find that *poor original clients* has a positive effect on exit ($\beta = 0.26$, $p < .01$), whereas *poor inherited clients* has a negative effect ($\beta = -0.65$, $p < .001$). The negative effect of *poor inherited clients* on exit is consistent with the notion that inherited clients do not require high-touch fieldwork from officers. As such, it is reasonable that having more *poor inherited clients*—who demand little of the work that officers find taxing, but may be reliable in making repayments—would be associated with a lower likelihood of exit.

These findings highlight the impact of high-touch fieldwork on the propensity to exit. Officers in our setting generally lack the social service backgrounds that might make working in poor areas enjoyable or rewarding. Instead, they report finding such work challenging. Indeed, the nature of high-touch fieldwork appears to clash with officers' stated motivations for working at MicroBank, as well as their task preferences on the job. We suspect that these factors make officers more likely to exit as their portfolios contain more *poor original clients*.

The results also highlight the fact that officers *can* engage effectively with certain types of poor clients without becoming more likely to quit. The overall lack of association between *poor inherited clients* and officer exit suggests that poverty in and of itself need not make the job less enjoyable or sustainable. Instead, when officers engage with poor clients in a way that aligns with their preferences and motivations (i.e., making phone calls from an air-conditioned office), such work does not increase their likelihood of exit. This observation offers promising insights into how organizations might provide services to clients in low-income areas without the damaging effects of turnover. We return to these possibilities in the Discussion.

Overall, these results further support our argument that loan officers are more likely to exit due to the on-the-ground, interactive challenges associated with serving poor clients. Nevertheless, we acknowledge that our data do not allow us to differentiate between officers' agency in selecting poor original clients and the experiential challenges they face when performing this work. For example, an increasing proportion of poor original clients may suggest that an officer is developing a more prosocial orientation towards their work, which in turn might decrease their fit at MicroBank and increase their likelihood of exit. Our data do not support this interpretation, but we cannot rule it out. Future research should examine how hiring employees with strong prosocial commitments might remedy the high exit rates we observe among those performing the high-touch fieldwork associated with supporting poor entrepreneurs.

6.2. *Client poverty and turnover across the microfinance industry*

Our last analysis examines how serving poor clients affects employee retention across the microfinance industry. This analysis serves a dual purpose. First, it allows us to account for a key alternate explanation: namely, that working with the poor is difficult (Kalleberg, 1977) and would similarly shape exit in *any* organizational context. If true, we should see similar turnover trends across both for-profit and non-profit MFIs. Second, this analysis allows us to test the generalizability—and boundary conditions—of the trends we observed at MicroBank within the broader microfinance industry.

Our analysis uses data from the Microfinance Information Exchange (MIX), a widely-used clearinghouse for microfinance data (for a detailed discussion of this data, see Wry and Zhao, 2018, p. 515). This data allows us to estimate how a firm's overall focus on serving poor clients shapes turnover among non-managerial staff. Our measure of client poverty is consistent with previous microfinance studies, and we detail the data, variables, methods, and tabular results in Appendix C.

Our theoretical framework and empirical results suggest that turnover patterns should differ at for-profit MFIs (like MicroBank) and non-profits. Although the distinction between non-profit and for-profit MFIs is not as stark as in other contexts—and there can be considerable overlap in culture and focus among the MFIs that fit into these categories—non-profits generally tend to have a stronger prosocial orientation than commercially focused MFIs (Cull et al., 2009; Wry and Zhao, 2018; Zhao and Wry, 2016). Because of this, we expect that exit rates will be blunted for non-profit MFIs that serve progressively more poor clients, since employees are more likely to have the type of prosocial orientation that makes working with the poor intrinsically meaningful (Battilana and Lee, 2014; Kim and Lee, 2007; Wry and York, 2017). In comparison, we expect that turnover will increase among for-profit MFIs, mirroring our findings from MicroBank. Results (Appendix table C2) show a significant, negative coefficient ($\beta = -0{,}09$, $p < .10$) for the interaction of *non-profit MFI* and *client poverty*. We use this to graph predicted turnover in Fig. 1, with all controls held constant at their mean.

As with our main findings, results show that turnover increases as for-profit MFIs place a greater focus on poor clients. Yet in non-profits, predicted turnover is relatively flat under the same conditions. Post-estimation analyses suggest that the differences in turnover rates between for-profits and non-profits are most pronounced at the highest levels of client poverty. This finding has implications for the generalizability and boundary conditions of our study. Specifically, the trends we observed at MicroBank seem applicable to for-profit MFIs but not non-profits, perhaps because non-profits are more likely to attract and select workers with prosocial motives. This

[10] We also ran the models without *original clients (%)* and found consistent results (available upon request.)

TABLE 4
Predicting voluntary loan officer exits with *poor original clients* and *poor inherited clients*.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Logistic regression	Logistic regression	Rare event logistic regression	Logistic regression, with branch fixed effects	Logistic regression, with tenure fixed effects	Logistic regression, with officer fixed effects
Poor original clients (%)	0.03***	0.02*	0.03***	0.03***	0.03***	0.26**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.09)
Poor inherited clients (%)	0.02	0.02	0.02	0.02	0.01	−0.65***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.16)
Caseload size	−0.00	−0.01**	−0.00	−0.00	−0.00	0.16***
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.03)
New loans	−0.23***		−0.23***	−0.23**	−0.24***	−0.59***
	(0.05)		(0.05)	(0.08)	(0.05)	(0.18)
Missed payments (%)	0.02		0.02	0.03	0.01	0.14
	(0.01)		(0.01)	(0.03)	(0.02)	(0.12)
Rural clients (%)	0.01**	0.01*	0.01**	0.01***	0.01**	0.23***
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.05)
Original clients (total) (%)	−0.00	−0.01	−0.00	−0.00	−0.00	0.06
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.06)
Officer age	−0.46***	−0.45***	−0.47***	−0.48***	−0.45***	
	(0.13)	(0.12)	(0.13)	(0.14)	(0.14)	
Officer age^2	0.01***	0.01***	0.01***	0.01**	0.01***	
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	
Female officer	−0.13	−0.08	−0.12	−0.19	−0.18	
	(0.30)	(0.28)	(0.30)	(0.36)	(0.31)	
Officer tenure	−0.02	−0.01	−0.02	−0.02	−0.02	
	(0.01)	(0.01)	(0.01)	(0.02)	(0.17)	
N	3142	3142	3142	3142	2605	558

Note: All models include year fixed effects. Standard errors are clustered by officers in models 1–3.
* $p < .05$.
** $p < .01$.
*** $p < .001$.

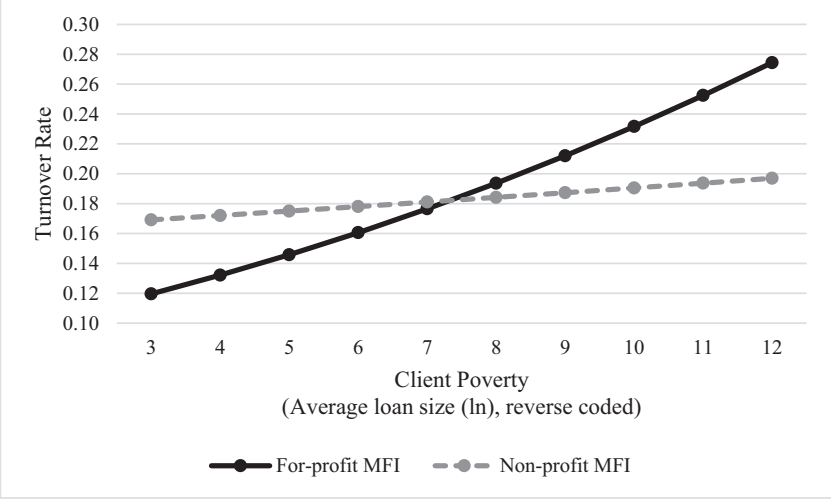

Fig. 1. Predicted staff turnover at for-profit and non-profit MFIs.

distinction has implications for how for-profit MFIs might address the problematic link between serving the poor and employee exit, a possibility we return to in the Discussion.

Nevertheless, other factors may contribute to differential turnover trends at for- and non-profit MFIs. For instance, for-profits may attract and select loan officers who not only lack prosocial motivations but actively prefer the financial analytic aspects of their work. Such a preference might make the fieldwork associated with serving the poor less appealing to for-profit employees. Additionally, both for- and non-profit MFIs may be drawing from a limited pool of potential employees. It is possible that, facing employee constraints,

non-profits are less able to select on prosocial orientations, thus blunting the magnitude of the effect. Of course, we cannot say with certainty which precise mechanisms generate the differences we observe, but we view this as a promising avenue for future exploration.

Additionally, there are many reasons why a firm might experience fluctuations in its client portfolio—from exogenous economic changes to a shift in strategic focus. Our data do not allow us to examine why such changes occurred, but they do allow us to test how even minor changes in client poverty affect turnover. Also, because the MIX data have limited information about employee and client characteristics, they do not allow the same fine-grained, employee-level analyses afforded by our MicroBank data. Still, these models show that turnover trends in for-profit MFIs align with our theory and main results, and that such trends differ in non-profit MFIs in ways that also align with our theoretical argument.

7. Discussion

Necessity entrepreneurship research emphasizes that business creation offers a pathway out of poverty for those who lack other options and that the viability of this pathway is enhanced through financial supports (Brewer and Gibson, 2014; Bruton et al., 2011; Dencker et al., 2021). Microfinance, in particular, offers a model where access to credit is a key link in a causal chain that can lead to the creation, growth, and profitability of necessity-based ventures (Dvoulety and Lukes, 2016; Grimm and Paffhausen, 2015) and contribute to founders' wellbeing (Chliova et al., 2015; Singh et al., 2021). It is hard to overstate the practical importance of this theory of change (Wry and Haugh, 2018). Necessity entrepreneurship accounts for almost half of all venture creation in non-OECD countries (Poschke, 2013), and MFIs collectively account for an estimated US$60–100 billion in yearly loans (Cobb et al., 2016). However, extending microcredit requires a different lending model than that of traditional banks. Rather than gathering hard, quantitative data and securing loans with collateral, many MFIs rely on relational lending, whereby loan officers gather soft information gathered though close, personal interactions with potential borrowers (Doering, 2018; Godfroid, 2019; Rhyne, 2001). This allows MFIs to minimize the risk of providing credit to entrepreneurs who lack collateral and formal credit histories; however, it also makes loan officers the primary repository for data on each borrower and puts the officer-borrower relationship at the center of lending decisions (Petersen and Rajan, 1994). If a loan officer leaves the MFI, so too does their knowledge of and relationship with each borrower, potentially limiting entrepreneurs' future access to capital (Godfroid, 2019; Uzzi, 1999).

Surprisingly, the literature on relational lending—both in microfinance and traditional banking—has paid little attention to loan officer turnover. It is clear that trusting relationships and the use of soft data allow banks to overcome information asymmetries and reduce the risk of providing capital to early-stage entrepreneurs (Howorth and Moro, 2006; Petersen and Rajan, 1994; Udell and Berger, 2002). We also know that personal relationships between loan officers and borrowers foster positive outcomes in microfinance (Canales and Greenberg, 2015; Doering, 2018; Godfroid, 2019; Wry and Zhao, 2018). Still, our study is the first to show that relationship lending can be taxing for loan officers, creating tensions that can interfere with microfinance as a reliable support for necessity entrepreneurs.

Based on prior research, we initially expected that loan officers would be less likely to exit an MFI when they performed more work with the poor. However, our fieldwork suggested the possibility that extant findings may not apply in our context. Noting this discrepancy, our results more acutely capture the relationship between prosocial work and employee exit in developing-country organizations that support necessity entrepreneurs and other low-income consumers. Existing studies that have examined the human capital outcomes of corporate social initiatives have focused almost exclusively on the experiences of workers in Western firms who participate in initiatives that are obviously prosocial, discretionary, and peripheral to their main jobs. This is very different from using local workers to sell valued goods and services to the poor (e.g., Ansari et al., 2012; Arnould and Mohr, 2005; Kistruck et al., 2011). Our case company, MicroBank, did not promote the socially beneficial nature of lending to the poor to its employees; instead, its recruitment and hiring practices focused on finding employees with basic business skills who were motivated to work in a stable, well-paying, and comfortable job. As a result, loan officers saw lending to poor entrepreneurs as a financial boon and placed little intrinsic value on the poverty alleviation aspects of their work.

Based on this, we tested the alternate hypothesis that exit would increase when loan officers' work involved a greater proportion of poor entrepreneurs. Results show consistent support for this prediction, and extended analyses suggest that our findings are attributable to the taxing nature of interacting with clients in economically impoverished communities. As such, the same environmental features that make it physically and mentally challenging for entrepreneurs to create ventures in poor areas (Bruton et al., 2013; Kistruck et al., 2015; Slade Shantz et al., 2018; Sutter et al., 2019) are also sources of strain for those who support such founders. Our results thus suggest that it is important to attend to the embeddedness of entrepreneurs and support-organizations in the same cultural and physical environments and recognize that this can create challenges for both. Indeed, looking beyond MicroBank, it is clear that addressing issues like poverty involves difficult work, regardless of whether the solution being advanced is commercial or charitable. Companies that fail to recognize and account for this do so at their own peril.

Importantly, our extended analyses offer insight into how organizations seeking to support necessity entrepreneurs might avoid the turnover challenges that we see in our main findings. One promising option is to consider how frontline employees might support poor entrepreneurs without spending a great deal of time in impoverished areas. Indeed, our results show that serving "inherited" poor clients did not contribute to loan officer exit at MicroBank since this primarily involved remote repayment monitoring. While it may not be feasible to build trusting relationships and gather soft information without in-person contact, our results suggest that there may be opportunities for MFIs and other such initiatives to use digital technologies to nurture relationships and provide meaningful support to necessity entrepreneurs without taxing frontline employees. MFIs that offer educational as well as financial support to the poor, in particular, might benefit from this approach. There is evidence that financial literacy has a positive influence on micro-enterprise

success, and that MFIs can play an important role in delivering the training that builds these competencies (Engström and McKelvie, 2017). While loan officers may find it challenging to offer ongoing trainings in-person, remote training offers a potentially effective substitute that might also help an MFI to retain key employees. Indeed, research shows that digital communication between loan officers and borrowers helps sustain relationships and promote timely loan repayment (Karlan et al., 2015). Our study thus suggests that increased digitization may be a way to foster the positive impacts of global microfinance, in line with trends towards digitization that have been observed in the industry (Milana and Ashta, 2020).

Our second set of supplementary models found that an increase in poor clients led to greater turnover in for-profit MFIs, but not in non-profit MFIs. This suggests that our main findings may extend to other commercial MFIs, but that serving the poor is less of an issue for non-profits. While our data cannot speak directly to the mechanisms behind these patterns, they are consistent with the argument that employees feel a "warm glow" from working in organizations, like most non-profits, that have a clear prosocial focus (Brammer et al., 2007; Kim et al., 2010). Thus, rather than acting like MicroBank and focusing on the business-case for prosocial efforts, for-profit MFIs might do well to highlight the societal benefits of employees' work.

Insights from our study, combined with research on the non-profit sector, also suggest that firms might avoid the negative outcomes we observed by prioritizing social impact "fit" in their hiring decisions. Research shows that organizations can overcome the challenges associated with social impact work by being clear about the difficulties that a job entails, and actively recruiting employees who value social mission pursuits (Cunningham, 2008; Kim and Lee, 2007). Indeed, there is evidence that workers accept low pay and uncomfortable work to pursue valued goals, thus mitigating turnover (Mirvis, 1992). This does not mean that commercial MFIs, or other such organizations, need to exclusively hire "true believers" who advocate for social impact and bristle at profit-seeking behavior (c.f., Battilana et al., 2015; Battilana and Dorado, 2010). Rather, our results suggest that commercial MFIs may be able to reduce turnover if they recruit workers with basic business skills who *also* value the prosocial aspects of the job. In taking such actions, MFIs could better maintain relationships between loan officers and the most vulnerable borrowers, ultimately making access to credit more sustainable for necessity entrepreneurs.

Looking beyond microfinance, we urge caution in generalizing our results to other types of organizations. Still, our findings suggest that unique challenges may arise when companies try to attack social problems with commercial solutions. In this way, our findings may also be germane to research on social entrepreneurship, particularly for studies considering the challenges that these ventures face as they grow beyond their founding teams and begin to hire employees to fill non-leadership roles (Seelos and Mair, 2007; Wry and York, 2017). To the extent that social impact for these companies results from commercial activities that require workers to labor under challenging conditions, it stands to reason that employees in social enterprises would experience difficulties similar to those observed in our study. Further, we see our findings as revealing important boundary conditions on the positive effects of prosocial work on employee retention beyond the Western companies which have been the focus of most existing studies. We hope that scholars explore the implications of our findings for social enterprises as well as for firms that encourage employees to engage in prosocial work with the hopes of increased retention.

7.1. Limitations and conclusion

Like any study, ours has limitations. For one, our main results come from a single organization. Although we explored the generalizability of our findings across the microfinance industry, more research is needed to establish how our findings apply to other commercial MFIs, as well as to other types of organizations that support necessity entrepreneurs through business training (Engström and McKelvie, 2017), technology implementation (Santos et al., 2019), or other such means. There is evidence that integrating training and technology into the microfinance model can strengthen the link between access to credit and positive entrepreneurial outcomes (Ebrahim and Rangan, 2014), making such work practically important. We also encourage further research into the relationship between loan officer turnover and the entrepreneurial performance of the clients that they support. Our results show that working with the poor leads to increased exit, but we were unable to directly observe how officer exit affects borrowers' business outcomes.

Also, while we focused on the effects of lending to all types of poor entrepreneurs, poverty is frequently correlated with gender, race, and other categorical inequalities. Scholars should consider how these demographic features affect the provision of credit to poor entrepreneurs, as well as the propensity for loan officers to quit when asked to work with people from these marginalized groups (c.f., Wry and Zhao, 2018). Thus, we hope that our results provide a launch point from which scholars will continue to study the challenges of serving traditionally excluded entrepreneurial populations, and thus deepening the integration between research streams that focus on race, gender, inequality and entrepreneurship.

Despite these limitations, our study offers new insights into the difficulties associated with providing credit to poor entrepreneurs. Loan officers play a key role in providing the credit that is the key input into the microfinance theory of change (Ebrahim and Rangan, 2014). Yet extant studies have overlooked the challenges that emerge on the frontlines of this effort. By focusing directly on loan officers' experiences, we show that lending to poor entrepreneurs not only fails to yield the human resource benefits found in other studies of corporate social initiatives, but can actually lead to greater exit among an MFI's top employees. In essence, the contextual challenges that plague poor entrepreneurs—weak infrastructure, transportation challenges, and associated stresses—can spill over to create work-related challenges for the employees who support them. Our paper thus reveals an important tension that commercial organizations face in their efforts to support poor entrepreneurs and, more importantly, offers potential strategies for addressing this problematic relationship.

7.2. Executive summary

Microfinance institutions (MFIs) crucially support the emergence and growth of new ventures among the economically poor. Extending credit to these entrepreneurs is difficult, however, due to a lack of collateral and credit information. To compensate, many MFIs rely on relationship lending, where loan officers go into the field to gather information and build trust with borrowers. Prior studies have shown that this is an effective way to fund emerging ventures. However, we know little about how relationship lending affects loan officer retention. Our study explores this question through a mixed-method analysis of turnover among loan officers in a large Latin American MFI. Contrary to expectations from existing research, quantitative models show that working with poor entrepreneurs leads to greater turnover, potentially disrupting their clients' access to credit. Interview data suggests that this pattern can be attributed to the unique challenges associated with working in economically impoverished areas, and to loan officers' lack of prosocial motives. We thus highlight a previously unrecognized challenge in funding poor entrepreneurs. Our analyses also suggest that this problem can be overcome if an MFI shifts its hiring practices; notably by emphasizing the prosocial nature of supporting poor entrepreneurs and by screening for employees who value this aspect of their work.

CRediT authorship contribution statement

Laura Doering: Conceptualization, Methodology, Formal analysis, Investigation, Resources, Data curation, Writing – original draft, Writing - review & editing, Supervision, Funding acquisition. **Tyler Wry:** Conceptualization, Methodology, Resources, Data curation, Writing – original draft, Writing – review & editing.

Appendix A. Qualitative data: Field observations and interviews

A.1. Field observations

The first author conducted field observations at MicroBank over a period of 3 years. Observations took place in December 2009, September 2010, March–September 2011, June–July 2012, and January 2013. To capture a range of experiences, the author conducted observations at the flagship branch (located in an urban area) and a smaller, rural branch. The author also attended two-week-long training sessions (in 2009 and 2011) and shadowed 27 loan officers as they worked in the office and visited clients "in the field" at both the urban and rural branches. Through these observations, the author watched how MicroBank hired and trained officers, as well as how officers worked with different types of clients. During periods of high volume at the bank, the author assisted loan officers and administrators with basic tasks, such as making photocopies, updating sales charts, and recording client information. These observations revealed the quotidian nature of officers' work with the poor, as well as their primarily financial orientation towards that work.

A.2. Interviews

To supplement field observations, the author conducted interviews with seven loan officers and two administrators. The purpose of the loan officer interviews was to delve deeper into officers' feelings about and experiences of their client-facing work. These interviews took place in 2013 at the conclusion of the field observations. The author recruited interviewees by sharing information about the study at staff meetings and soliciting participation. By comparison, the purpose of the administrator interviews—which took place at the outset of the field observations—was to gain a richer understanding of MicroBank's history, policies, and practices.

The author spread the interviews across the two observed branch offices to maximize regional variation. At the urban branch, the author interviewed three loan officers and one of the bank's general managers. At the rural branch, the author interviewed four loan officers and the branch manager. The interviews lasted between 30 and 90 min. With the exception of one administrator interview, all interviews were recorded and transcribed. Table A summarizes the qualitative data.

Table A
Qualitative data summary.

Data type	Collection period	Description
Field observations	Dec 2009	Shadowed 27 officers
	Sept 2010	Observed 21 client evaluations
	Mar-Sept 2011	Observed 10 client follow-up visits
		Shadowed 2 collections officers on 5 client visits
	Jun-Jul 2012	Attended 2 week-long training workshops for new officers
	Jan 2013	Spent 84.5 h in branch offices observing: officers compiling client reports officer-administrator communication officer-client telephone and in-person communication
Interviews	Dec 2009 Jan 2013	2 interviews with administrators

(*continued on next page*)

Table A (*continued*)

Data type	Collection period	Description
		1 follow-up administrator interview 7 interviews with loan officers: Female, age 29, 8 months experience Female, age 30, 1 year experience Female, age 40, 1.5 years experience Male, age 19, 1 year experience Male, age 23, 1 year experience Male, age 31, 2.5 years experience Male, age 42, 2 years experience

Appendix B. Including all officer exits

In our main analyses (see Table 3), we operationalize voluntary exits by measuring exits that occur in high-performing officer-months. However, this approach has the potential to exclude officers who were not exemplary, but quit nevertheless. To test the robustness of our findings using a less stringent measure of officer exits, we reproduce the models from Table 3 with a more expansive sample. In Table B, we estimate the effect of client poverty on the likelihood that officers will exit in *any* month, not only those in which they met or exceeded the bank's average rates. This approach captures exits among all 102 exiting officers in includes 4027 officer-months.

Table B
Predicting all officer exits.

	Model 1	Model 2	Model 3	Model 4	Model 5
	Logistic regression	Rare event logistic regression	Logistic regression, with branch fixed effects	Logistic regression, with tenure fixed effects	Logistic regression, with officer fixed effects
Poor clients (%)	0.02**	0.02**	0.02*	0.02***	0.07
	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Caseload size	0.00	0.00	0.00	0.00	0.03*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
New loans	−0.26***	−0.26***	−0.27***	−0.27***	−0.31***
	(0.04)	(0.04)	(0.06)	(0.05)	(0.07)
Missed payments (%)	0.01**	0.01**	0.01***	0.01**	0.10*
	(0.00)	(0.00)	(0.00)	(0.01)	(0.04)
Rural clients (%)	0.01	0.01	0.01	0.01	0.06*
	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)
Original clients (%)	−0.00	−0.00	−0.00	−0.00	0.03
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
Officer age	−0.17	−0.19	−0.20	−0.18	
	(0.12)	(0.12)	(0.17)	(0.13)	
Officer age^2	0.00	0.00	0.00	0.00	
	(0.00)	(0.00)	(0.00)	(0.00)	
Female officer	−0.21	−0.21	−0.21	−0.24	
	(0.22)	(0.22)	(0.14)	(0.23)	
Officer tenure	−0.03***	−0.03***	−0.03*	0.13	
	(0.01)	(0.01)	(0.01)	(0.12)	
N	4027	4027	4027	3821	1395

Note: All models include year fixed effects. Standard errors are clustered by officers in models 1 and 2. We do not include a version of model 2 from Tables 3 and 4 because *new loans* and *missed payments* are potential confounders only when we use those values to operationalize voluntary exits, as we do in Tables 3 and 4.

* $p < .05$.
** $p < .01$.
*** $p < .001$.

Results in Table B are consistent with our main models. Models 1–4 demonstrate that increasing proportions of poor clients in an officer's portfolio are associated with a significantly increased likelihood of exit. For instance, results from model 1 show that an officer's odds of exit are 1.02 times greater ($\beta = 0.02$, $e^{0.02} = 1.02$, $p < .01$) with each 1% increase in poor clients. Model 5 includes officer fixed effects and shows a positive relationship between *poor clients* and all officer exits, but does not quite reach statistical significance ($\beta = 0.07, p = .127$). We suspect that this reduced significance level stems from the fact that many exit observations in this model were forced rather than voluntary. Thus, including officers who were fired may weaken the relationship between client poverty and exit, as many other factors are likely to affect dismissal.

Overall, these models show that, even when using a more expansive measure of exit, we find that officers are more likely to leave MicroBank as more of their work involves poor clients. These models provide increased confidence in the robustness and reliability of the findings from our main models.

Appendix C. Microfinance industry analysis: methodological details and results

To execute the industry-level analysis, we draw on data from the Microfinance Information Exchange (MIX), a large and comprehensive clearinghouse of microfinance data. The MIX data have three important features. First, they identify microfinance organizations as for-profit or non-profit. Second, they capture each MFI's average yearly loan size. Researchers often use this variable to proxy for an organization's focus on poor clients, who generally take out smaller loans (Armendáriz and Morduch, 2010; Cobb et al., 2016; Cull et al., 2009). Third, the MIX data measure non-managerial staff turnover rates. In combination, these factors allow us to examine how turnover rates vary at for-profit and non-profit MFIs as employees increasingly engage with poor clients.

We utilize data from 808 MFIs across 96 countries: all MFIs that report turnover data to the MIX. Our dependent variable is yearly turnover for non-managerial staff, and our first predictor is *client poverty*, defined as an MFI's average yearly loan size (logged). Loan size is widely used to proxy for client poverty based on the logic that the amount a person can afford to borrow varies with their wealth: a lower average loan size reflects a greater proportion of poor borrowers. As Cull et al. (2009), p. 173) explain, the variable "distinguish [es] between institutions serving the poorest customers versus those that focus on individuals with low-incomes (but who are substantially better off than the poorest)." Our measure adjusts for inflation, is comparable across MFIs and nations, and is reverse coded so that higher values reflect greater client poverty. Our second predictor, *non-profit MFI,* distinguishes between non-profit and for-profit organizations (non-profit = 1). We also control for a number of factors that might affect staff turnover and organizational performance, as outlined in Table C1. Each MFI has between 1 and 4 yearly observations, for a total of 1558 organization-year observations.

Table C1
Variables used in microfinance industry analysis

Type	Name	Definition
Dependent variable	Staff turnover	Turnover rate as a proportion of all non-managerial staff.
Key predictors	Client poverty	Logged average loan size. Scholars frequently use this measure as an indication of an MFI's overall client poverty (Armendáriz and Morduch, 2010; Cobb et al., 2016; Cull et al., 2009). Variable is reverse coded so that larger values reflect more loans to poor clients.
Controls	Non-profit MFI	Binary variable identifying MFIs as non-profit or for-profit.
	GDP per capita	In US dollars.
	Dev assistance	Official Development Assistance (% of GNI).
	Institutional strength	The strength of market institutions using the Heritage Foundation's Economic Freedom Index. The index comprises data from the Economist Intelligence Unit, International Monetary Fund, and World Bank, and scores nations on ten market efficiency factors: property rights, corruption, government spending, fiscal freedom, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom, and financial freedom. Nations are graded from 0 to 100 on each factor, and the scores are averaged to create a composite index (rescaled to 0–1). Higher scores reflect strong property rights, an effective legal system, low corruption, a favorable investment climate, and efficient regulations.
Controls (cont'd)	Organization age	Years since founding.
	Num employees (ln)	Number of employees (logged).
	Professional mgmt	Professional management variable that combines MIX data about the quality of an MFI's financial reporting with data on its regulatory status (i.e., whether or not an MFI is regulated by a state banking authority). Both measures are thought to reflect MFI management quality (Armendariz and Morduch 2010).
	Broad portfolio	Binary variable indicating whether an MFI serves clients across the poverty spectrum. This variable helps control for the possibility that higher average loan size might reflect a strategy where revenue from larger loans is used to offset smaller loans to poorer clients rather than a lower poverty focus.

We aim to examine how the interaction of MFI type and client poverty affects staff turnover. Because our dependent variable (*staff turnover)* falls between zero and one, we use generalized linear regression to predict turnover rates, as this approach allows us to account for the bounded distribution of the outcome and generate more reliable estimates (Neuhaus and McCulloch, 2011).

Table C2 presents the results. Model 1 includes controls only, and model 2 introduces the predictor variables. Model 3 introduces our key outcome of interest: the interaction of *client poverty* and *non-profit MFI*. We find that this interaction has a negative, marginally significant effect on turnover ($\beta = -0.09$; $p < .10$). We use the coefficients from model 3 to generate predicted values presented in the main text in Fig. 1, with controls constant at their means. Model 4 introduces country fixed effects and generates similar results. With the inclusion of country fixed effects, the interaction coefficient of interest falls just below significance ($\beta = -0.10$; $p = .110$), but the direction and magnitude of the effect remain consistent.

Two control variables exert significant effects across models: *organization age* and *broad portfolio.* The negative, significant coefficient of *organization age* (model 3: $\beta = -0.01$; $p < .001$) suggests that staff turnover rates are lower in older MFIs. This finding is consistent with other research showing that more established firms tend to have lower staff turnover (Inter-American Development Bank, 2003). The variable *broad portfolio* is a dummy that MFIs self-report to the MIX that reflects a focus on serving both poor and non-poor clients, as opposed to focusing on one or the other. Model 3 suggests that MFIs that adopt a broad focus have lower turnover ($\beta = -0.29$; $p < .001$). While we urge caution given the very coarse nature of the measure, a plausible explanation for this finding is that employees are more likely to stay with an MFI that serves poor clients if they also have an opportunity to work with those who are better off. This aligns with our main models, which show that the mix of clients in an officer's portfolio predicts exit.

Table C2
Generalized linear regression predicting MFI non-managerial staff turnover rates.

	Model 1	Model 2	Model 3	Model 4
Non-profit MFI		−0.15	0.69	0.84
		(0.08)	(0.51)	(0.55)
Client poverty		0.09*	0.12**	0.06
		(0.03)	(0.04)	(0.05)
Client poverty × Non-profit MFI			−0.09+	−0.10
			(0.06)	(0.06)
GDP per capita	0.00*	0.00*	0.00*	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)
Dev assistance	−0.03	−0.03	−0.03	−0.02
	(0.01)	(0.01)	(0.01)	(0.01)
Institutional strength	1.02*	0.88	0.91	−0.59
	(0.46)	(0.47)	(0.47)	(2.12)
Organization age	−0.02***	−0.01***	−0.01***	−0.01***
	(0.00)	(0.00)	(0.00)	(0.00)
Num employees (ln)	0.06	0.05	0.06	0.02
	(0.07)	(0.07)	(0.07)	(0.05)
Professional mgmt	0.41	0.28	0.26	0.47
	(0.46)	(0.51)	(0.51)	(0.54)
Broad portfolio	−0.36***	−0.29***	−0.29***	−0.20**
	(0.07)	(0.08)	(0.08)	(0.07)
Country fixed effects	No	No	No	Yes
N	1558	1558	1558	1558

Note: Models 1–3 include robust standard errors clustered by 808 MFIs and model 4 introduces country fixed effects. The interaction of client poverty × non-profit MFI in model 4 falls just short of statistical significance at $p = .110$.

$^{+}$ $p < .10$.
* $p < .05$.
** $p < .01$.
*** $p < .001$.

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