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A Matter of (Relational) Style: Loan Officer Consistency and Exchange Continuity in Microfinance

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Social scientists have long considered what mechanisms underlie repeated exchange. Three mechanisms have garnered the majority of this attention: formal contracts, relational contracts, and relationally embedded social ties. Although each mechanism has its virtues, all three exhibit a common limitation: an inability to fully explain the continuation and stability of intertemporal exchange between individuals and organizations in the face of change. Drawing on extensive quantitative data on approximately 450,000 microfinance loans made by a microfinance institution in Mexico from 2004 to 2008 that include random assignment of loan officers, this research proposes the concept of “relational styles” to help explain how repeated exchange is possible in the face of personnel change. We define relational styles as systematically reoccurring patterns of interaction employed by social actors within and across exchange relationships—in this paper, between microfinance clients and loan officers. We show that relational styles that are consistent facilitate a clear understanding of expectations and thus exchange. We also demonstrate that consistency in the relational styles followed by successive loan officers mitigates the negative impact of a broken loan officer–client tie. This paper thus proposes and empirically tests a social mechanism based on relational styles that often accompanies relational embeddedness, but which may also serve as a partial substitute for it.

Keywords: economic sociology; organizational sociology; relational sociology; sociology of development; social networks

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1. Introduction

Formal contracts are fundamental features of economic and social life. Because they specify rights and responsibilities *ex ante*, they facilitate exchange between actors by reducing the risk of defection. In complex settings, however, it is impossible to anticipate the myriad contingencies that may arise, rendering formal contracts incomplete, difficult to craft, and costly to enforce (Macneil 1978, Williamson 1985). Relational contracts can minimize these limitations through more flexible structures based on the trust that develops between parties with an economic interest in repeated exchange (the “shadow of the future”). Ultimately, relational contracts derive value from relationships between social actors. Traditionally, these relationships are theorized and documented between organizations or organizations and specific employees or clients (e.g., Rousseau 1990, McMillan and Woodruff 1999, Baker et al. 2002). However, organizations cannot establish informal relationships—only people can (Sorenson and Rogan 2014). Relational contracts are established between people who set, interpret, enact, and enforce them.

With this as a starting point, sociologists refer to “relational embeddedness” as the quality of dyadic relationships that develop between actors over time (e.g., Granovetter 1992, Heimer 1992, Gulati 1998, Nahapiet and Ghoshal 1998, Moran 2005). Consistent with relational contracting, substantial research has demonstrated the value of relational embeddedness for individuals and the organizations they represent (e.g., Uzzi 1997, Uzzi and Lancaster 2003).

A corollary of conceptualizing relationships at the dyadic level is that when relationships change or dissolve, so should the value they create for individuals or the organizations they represent in an exchange (Seabright et al. 1992, Beatty et al. 1996, Baker et al. 1998, Broschak 2004, Biong and Ulvnes 2011, Broschak and Block 2014; see also Burt 2000, 2001). This is particularly important when only one representative of an organization controls the client relationship. Given the ubiquity of change, employee turnover, and broken ties, it is unclear how organizations can consistently retain the value of the interpersonal relationships established by its members to sustain repeated exchange (Sorenson and Rogan

2014). Yet many do to good effect. Our paper provides one explanation for this puzzle.

We do so using microfinance as a strategic research site. Microfinance provides small loans using simple contracts between microfinance institutions (MFIs) and their borrowers (e.g., Giné et al. 2010). The frequency of loan disbursements allows for the observation of a large number of simple contractual interactions between an organization, its representatives, and its clients. Microfinance clients tend to be destitute and geographically dispersed, so loan officers are often their only point of contact with the MFI. Because client needs vary considerably across individuals and settings, ex ante contracts are necessarily incomplete, and borrower–loan officer relational considerations carry particular importance. In essence, microfinance constitutes an extreme version of small business finance where decentralized banks have been shown to be more effective because their branch managers have the discretion and incentives to establish relational contracts with their clients (Petersen and Rajan 1994, Berger et al. 2001). Given that bank employees are routinely promoted, fired, or rotated, the ensuing broken ties should produce disruptions that impact continuity of exchange. Notwithstanding constant change, these decentralized banks retain an organizational advantage through their relational contracts.

We determine a way they do so, using a novel, proprietary data set that includes information on approximately 450,000 microfinance loans made by an urban-market-focused MFI in Mexico between 2004 and 2008. Theory generation, construct development and validation, and model specification and interpretation are aided by rich ethnographic data, including 129 interviews, collected as part of a larger research project (Canales 2011, 2014). We gain empirical traction from the natural variation in agents' relational styles and the firm's policy of randomly assigning and rotating loan officers across branches when joining the firm and in response to vacant positions created by frequent turnover. The data include fine-grained information concerning the terms of the loan, the borrower's characteristics, and unique measures characterizing the consistency of each loan officer's relational style, where some agents follow a strictly contractual approach; others adhere to a holistic, broad interpretation of contractual terms and client conditions; and others mix elements of both approaches. Our identification strategy exploits the fact that regardless of why a tie is severed between a client and the loan officer representing the MFI, the subsequent loan officer is assigned at random to serve the client on behalf of the MFI. This provides random variation with respect to the (in)consistency

in the previous and subsequent loan officers' relational styles—orthogonal to client and loan officer characteristics or vacancy—that affords the analytical leverage required to test our predictions concerning (in)consistency in inter-loan officer relational styles.

We provide compelling evidence that although formal contracts bind the borrower to the MFI, these formal contracts are enhanced, as expected by relational contracts and relational embeddedness, by the loan officer's relationship with the borrower. At the same time, we show that relational value is not solely derived from the nature or strength of the dyadic relationship as characterized by the literature on relational embeddedness. Rather, clients care considerably about the *relational styles* employed by their previous and succeeding loan officers. We theorize these relational styles as systematically reoccurring modes of interaction and underlying schemata and scripts enacted by social actors. Below we propose theory that specifies how both a loan officer's individual consistency and the consistency between successive loan officers' relational styles influence a borrower's adherence to contractual provisions concerning timely repayment.

Our findings show that when loan officers leave the MFI, which occurs quite frequently both in the firm we study and the industry at large (Janik 2012), clients are approximately 24% more likely to miss a payment, and contingent on a first missed payment, 47% of clients also miss a second. We show that these figures can be reduced significantly and rapidly depending on the consistency of the relational style employed by the loan officer subsequently (randomly) assigned to administer the loan.

These findings have considerable economic implications. MFIs must maintain capital reserves equal to specific percentages of their outstanding portfolios at risk. As clients miss more payments, capital reserve requirements increase nonlinearly (e.g., from 4% of the loan value if only one payment has been missed (1–7 days in arrears) to 30% if three scheduled payments are missed (30–60 days in arrears)). For an MFI with a \$100 million portfolio (which the MFI we study has), capital reserve requirements can vary by millions of dollars.¹

The focus on relational styles adds depth to our understanding of relational contracts (see, e.g., Baker et al. 2002, Gibbons and Henderson 2011) on two separate levels. First, it specifies that relational contracts are established through individuals and that,

¹ Because MFIs leverage capital (8× for conservative ones), the difference in capital reserve requirements implies the inability to invest several million dollars. With yearly turnover of invested capital averaging 3×, and high interest rates charged to clients (mean = 80.122, SD = 6.475), this implies foregone income of millions of dollars.

as a result, the dyadic relationship is a core conduit of relational value attributed to relational contracts vis-à-vis formal contracts. At the same time, our research shows that relational contracts and relational embeddedness do not provide organizations with sustainable value solely through personal ties between employees and clients. Rather, the consistency in the styles of interaction employed by social actors occupying similar roles (loan officers in this case) provides a stable and clear set of expectations and thus shapes action. We demonstrate the value of this social mechanism net of the strength and quality of personal ties. Prior work that focuses solely on the nature and quality of dyadic ties without observing relational styles across different individuals may thus conflate distinct social processes—that pertaining to the quality of a dyadic relationship (relational embeddedness) and that relating to the particular style used by different actors as well as the expectations that such styles and their consistent application can foster.

In the following section, we provide additional background on microfinance and its suitability as a research setting. We then offer a summary of formal contracts, relational contracts, and relational embeddedness to provide more detail about their virtues and common limitation—the inability to fully explain the continuity of exchange in the face of interpersonal change. In the theory section, we develop our arguments and hypotheses specifying how, when, and why consistency in relational styles of loan officers should matter net of a contractual or dyadic relationship with a client. We then discuss the quantitative and qualitative data collected, as well as our analytic strategy. This is followed by a presentation of findings and a discussion that includes consideration of scope conditions and avenues for future work.

1.1. Microfinance as a Setting to Research (Relational) Contracts

Each year, microfinance provides approximately \$85 billion in loans to more than 150 million low-income borrowers (Daley-Harris 2009, Reille and Forster 2008). Broadly speaking, microfinance provides financial services, mostly in the form of microcredit, to unbanked and often destitute populations. Loans are typically small, uncollateralized, provided for short terms (between four and six months), and amortized through high-frequency payments (for a good introduction, see Morduch and Armendáriz de Aghion 2005). Loans are of the simplest form with terms, fixed rates, and a straight amortization schedule specified in a simple legal document.

From its origins in the 1970s, microfinance has demonstrated that poorer households not only constitute reasonable credit risk but also can put loans

to productive use, even using them to mitigate the effects of poverty (Yunus 2003). One of the most remarkable aspects of microfinance is that, contrary to conventional contract and finance theory (e.g., Bester 1985, Stiglitz and Weiss 1986), destitute populations with little collateral and no experience with formal finance exhibit exemplary repayment rates (Morduch 1994, Morduch and Armendáriz de Aghion 2005). Initial explanations for this puzzle centered on the common methodology of providing loans to joint liability groups where members have the incentive to screen, monitor, and enforce repayment of joint liability loans (e.g., Stiglitz 1990, Besley and Coate 1995). However, recent research employing experimental designs has demonstrated that other lending models, including noncollateralized loans to individuals, can achieve similarly impressive results (Giné and Karlan 2012). This has shifted focus away from the joint liability mechanism to more general contractual structures common in microfinance (Giné et al. 2010).

Recent research shows that future access to capital is the central incentive for timely repayment, which can be reinforced through different contractual structures, including (a) lending progressively (i.e., loans increase in size with timely prior payment) to place more value on future loans than on a potential default, (b) favoring borrowers (e.g., women's groups) who generally follow more conservative investment strategies, (c) making small yet frequent payments (e.g., weekly), or (d) engaging in intense supervision of clients (Armendáriz de Aghion and Morduch 2000, 2004; Anthony 2005; Field and Pande 2008; Giné et al. 2010).

Considerably less attention has been devoted to the organizations and the agents that create and enforce MFI contracts (Jain and Moore 2003). This neglect is surprising for several reasons. First, microfinance clients are mostly poor and geographically dispersed, which means that loan officers are often the sole point of contact between a client and the MFI. Whereas the central MFI determines lending policies, loan contracts, and collection procedures, these are always enacted and primarily enforced by loan officers operating from a network of small branches. It is loan officers who find and evaluate clients, gather credit information, perform a credit analysis, produce a credit recommendation, and provide all the necessary information for the disbursement of the loan. They also supervise loan repayment, ensure collection in cases of missed payments, renew and increase credit lines when a loan reaches maturity, and “sell” other products such as life insurance to good clients. As a result, even though clients have a contractual agreement with the MFI, they establish and experience it *through* their relationship with loan officers.

Second, client needs vary considerably across individuals and time, making *ex ante* contracts necessarily incomplete. More broadly, microfinance constitutes an extreme version of small business finance, which has been shown to be especially sensitive to relational contracts and the “soft” information that can only travel through personal—rather than contractual—ties (e.g., Petersen and Rajan 1994, Berger et al. 2001). It also shares important characteristics with street-level bureaucracies, where agents must exercise unusual levels of discretion in the enactment of rules (Lipsky 1980, Canales 2011, Coslovsky 2011, Piore 2011). For these reasons, we can expect that borrower–loan officer relational considerations will interact with formal contractual structures to affect loan outcomes. In addition, the high frequency of microcredit results in a large number of contractual exchanges between an MFI and its diverse client population (Giné et al. 2010). Microfinance therefore presents a rich setting to test and separate specific claims and mechanisms concerning formal and relational contracts.

1.2. Predictions Concerning Contracts, Loan Officer Change, and Relational Styles

Contracts are foundational components of economic and social life (Durkheim 1997, p. 155; Weber 1978, Chap. VIII; Fudenberg and Tirole 1990). Contracts specify rights and responsibilities between individuals—or between individuals and institutions—in various exchanges. From the most mundane of matters such as consumer purchases to the most intimate such as marriage, contracts reflect, shape, coordinate, and circumscribe expectations and action.

In a spot market with perfect information, contracts would not be essential because there would be no need to account for contingencies or facilitate coordination (Hermalin et al. 2007). In the presence of information asymmetries and the risk of contingencies, however, contracts can stipulate the price, quantity, and timing of repayment, as well as penalties and remedial rights if the contract is breached, thus facilitating exchange.

Formal contracts have limitations. First, they are incomplete, as the myriad contingencies that may arise cannot be accounted for *ex ante* (Hart and Moore 1999). Second, they can be costly in time and money to craft and enforce. Relational contracts solve some of these limitations. They are less rigid than formal contracts as they rely on the trust that develops between parties who have an interest in repeated exchange (Macaulay 1963, Macneil 1978, McMillan and Woodruff 1999, Baker et al. 2002).

Some have argued that formal contracts and the trust required for relational contracts are substitutes (Zucker 1986, Guseva and Rona-Tas 2001). Others

have argued that formal contracts stunt the development of trust (Malhotra and Murnighan 2002). Research also suggests that the two can be complements (e.g., Poppo and Zenger 2002) and are often used to reinforce each other (Baker et al. 1994). A case in point is the imagery of community bankers who rely on relational lending practices that incorporate “soft” and “hard” information in decision making, as well as formal contracting mechanisms (e.g., Sharpe 1990, Berger and Udell 1995).

Relational contracts can be between organizations or people and organizations. For example, IBM once offered the promise of “lifetime employment” (Baker et al. 1994) that was not formally stipulated in employment contracts but was understood by corporate actors and applicants who enacted and enforced these contracts. More generally, organizational blueprints entail a host of implicit and explicit agreements with employees concerning the “employment deal,” such as how their efforts will be coordinated, controlled, and compensated (Baron et al. 2001). When blueprints are changed, employee turnover often ensues as implicit agreements are rescinded.

Change is ubiquitous in organizations as employees come and go, strategies and blueprints change, and internal soft expectations of performance adjust to align with the demands of changing market environments. When change alters or severs the ties that have sustained a relational contract, it follows that the value it creates can be compromised, often leading to the loss of an exchange relationship (e.g., Seabright et al. 1992, Hannan et al. 1996, Baron et al. 2001, Broschak 2004, Biong and Ulvnes 2011).² This follows because relational value is created by individuals who play dual roles, both as individuals and as representatives of their organizations. When a loan officer changes an aspect of the relationship, for example, the borrower determines whether to confer ownership of the relational value to the loan officer or the organization the loan officer represents (Sorenson and Rogan 2014).

As noted above, microfinance loans are simple in form: they have fixed terms, rates, and a straightforward amortization schedule summarized in a simple legal document. Timely payment should thus *not* vary as a function of the loan officer because the contract is signed between the borrower and the MFI.³ More broadly, credit methodologies typically

² The MFI (and industry) we study experiences high rates of employee turnover (Janik 2012). Consequently, it seeks to limit the depth of officers’ ties to clients because it fears that if they leave they will take good clients with them. Random loan officer rotations are employed to reduce this possibility. But, as a consequence, MFIs suffer increased delinquencies, as we show here.

³ Payment is made directly, electronically, to the MFI. Consequently, there is no technical reason changing loan officers should have an impact on timely payment.

assess the credit worthiness of a borrower. Clients can be classified as “good credit risks” because client types are assumed to be stable. To keep track of clients, facilitate loan officer work, and ease transitions in cases of turnover, MFIs—including the ones we study—have developed sophisticated software platforms that standardize lending decisions, keep track of loan activity, and enable loan officers to collect and record rich information about each client and document every visit or interaction. There is thus no economic, informational, or legal reason why clients, who were evaluated with the same credit methodology, should differ in their repayment behavior when interacting with loan officers with different relational styles. Furthermore, given that lack of payment will likely lead to the loss of the credit line, the significant incentive for repayment provided by future access to credit is in no way dependent on a loan officer’s relational style. Finally, loan officers are in a position of power as a function of the client’s dependency on them (Emerson 1962). Formal mechanisms and power dynamics should thus strongly incentivize timely payment irrespective of the relational styles employed by loan officers.

Yet our ethnographic work revealed the negative impact of change on borrowers. As noted above, although borrowers know their loan is provided by the MFI, they often perceive that their commitment is to the loan officer they have worked with. Thus, a change in the loan officer can be experienced by the client as a change in the relationship with the organization, which reveals the presence of relational considerations alongside their formal contract.

1.3. *Individually Consistent Relational Styles (Within Individual)*

The ways in which social actors interact can be abstracted and classified based on the roles each occupies (Berger and Luckmann 1967, pp. 72–77). This means that although there is heterogeneity in social interaction, there is also much that can be assumed based on homogeneity within roles. We argue that similar dynamics operate with respect to relations. Social cognitive psychologists have focused on specific layers of this process and refer to the operating mechanism as relational schemata (Baldwin 1992, Sanchez-Burks et al. 2000). Relational schemata include an interactional model of “ego” and “alter.” Each actor has expectations of self and other, and both employ relational scripts that form a model of a typical interaction (Smith 1984). Relational scripts are often conceptualized as “if-then” statements that structure behavior. Hence, each interaction, even those with complete strangers, starts with a baseline of understanding. We focus on the aggregation of these schemata into systematically reoccurring relational styles used by actors across interactions.

In field observations of loan officers, we found that certain loan officers interpret and enact policies flexibly while others adhere strictly to them. These observations led to an inductively developed typology of loan officer relational styles. Table 1 presents their underlying interpretive frames. One category of loan officers tends to adhere strictly to the rules. They rely heavily on standardized models to assess borrowers, customer relationship management systems to define client management tasks and track client information, and handheld technological devices to help automate decision making in line with organizational policies and procedures. In turn, this underlying philosophy informs and is enacted in their relationships with clients. We refer to them as “letter of the law” (LL) officers. Consider a typical LL officer’s description of his job:

My job is to recruit the new loan groups, train them on the methodology, do the credit analysis, and make sure that the whole process runs smoothly. It basically consists of applying the methodology strictly and making sure that the groups adhere closely to the policies.

LL loan officers adhere strictly to rules not necessarily because they believe there is no latitude in their client relationships. Rather, they assume that the rules are designed intelligently to maximize efficiency. The interpersonal distance maintained by LL officers is intended to maintain objectivity in relations with limited information, not necessarily out of contempt for clients. Officers in the second relational category, “spirit of the law” (SL), interpret provisions more expansively and flexibly; they also tend to develop deeper relationships with their clients as they learn about their lives, needs, and concerns holistically. This is not necessarily out of altruism. SL officers believe developing multiplex relationships with clients enables them to perform their jobs more effectively (May and Winter 2000):

Policies are good, they are useful, but you also need to give them a personal touch.... It is much better to spend that time learning about the client, about her relationships, and selling her on opportunities.... That’s what helping my clients is about. (SL officer)

Finally, some loan officers exhibited relational styles that are neither purely LL nor SL, but display a mix of both. These loan officers were labeled as “mixed,” as they blend elements of each style with every client, rather than different styles with different clients.⁴

⁴ We interviewed managers and loan officers after the typology was developed. A few notes are worth making. First, they all believe that loan officer styles are stable. This is because styles emerge from an underlying philosophy about the nature of organizational rules and the role of the MFI vis-à-vis its clients. Furthermore, clients adapt and react to styles, generating self-reinforcing dynamics.

Table 1 Interpretive Frames Associated with Different Relational Styles

Why and how loan officers interact as they do with clients	Spirit of the Law (SL)	Letter of the Law (LL)
View on the nature of microfinance and borrowers	—The best thing for the organization is to help its clients. The organization should always adapt to meet client needs. <i>“To the clients, we are [MFI]. And to [the MFI], we are the clients... We have to make sure that the company is doing the right thing, that it is truly helping our clients, and that our clients are being heard.”</i>	—The best thing for the organization is to stick to the business model that it knows and that works. The organization should select clients who fit the model well. <i>“At the end of the day, we are a business. We are not a welfare organization, even if our work helps people.”</i>
View on organizational rules and related client interaction	—Rules are tools, to be used as needed. —Rules are made by people who have <i>less</i> information than is available on the field. <i>“Policies are good, they are useful, but you also need to give them a personal touch... Managers don’t see what I see. The policies don’t see what I see.”</i>	—Rules are instructions that specify what can and cannot be done. —Rules are made by people who have <i>more</i> information than is available on the field. <i>“I explained things to them carefully; I went over the contract with them and they agreed. I told them of the responsibilities and the implications and they agreed. I went through different scenarios of good things and bad things that could happen and what the contract specified for good behavior and for bad behavior, and they agreed.”</i>
Contracts, information, and clients	—Our rules and contracts are incomplete in unforeseen ways. The more information I can have about my client—including personal information—the better. —The more information I can reveal to my client about me, how we do things, and how the system works, the better. <i>“When you visit a prospect’s store, you could just begin asking questions following the policies... It is much better to spend that time learning about the client, about her relationships, and selling her on opportunities, such as the purchase of a ham slicer and how productive the loan would be.”</i>	—The only information that is relevant is that which is specified and codified in our contracts and our systems. Collecting other types of information is a waste of our time. —Our clients need to understand how our contracts work and what their formal commitments are. <i>“There is a reason why we have these tools. The most efficient thing to do is to just ask the questions that the system needs in that order. You input information, the tool gives you an answer, and you’re done.”</i>
How loan officers handle problems in the client relationship	—We work with the client to understand the situation and jointly find a solution; the contract is a guideline. <i>“Whenever my poorer clients tell me they cannot make a payment because something bad happened to them, I have a policy of always trusting them. So I sit down with them, understand the problem and we come up with a solution, even if that means fighting [the MFI] to change the terms of the loan or do a formal restructuring... Sure, some of my clients end up not being morally solvent, but I can tell you that of every 10 clients I have helped, 9 have made it and 8 have become long-term clients.”</i>	—The client knows what the rules are; we enforce the contract as specified. <i>“I did not design these rules, and I did not force my clients to sign these contracts... what’s the surprise? I am only doing what I told you... keeping my side of the contract that you and I signed.” “Once I make an exception for the first woman, what do I do when her cousin calls me and wants the same? ... No, no, no. We have an agreement. I don’t come in and tell you why I did not deposit your loan amount after we signed a contract. So, if you don’t repay the company, my job is to come in and make sure that you do.”</i>

Notes. $N = 711$: SL = 235, LL = 233, and 243 = mixed. “Mixed” loan agents blend various elements of SL and LL agents, vacillating between the two. The em dash denotes a summary of approach across observations. Italicized text represents a representative quote.

Substantial research has documented the sociocognitive processes that operate in dyadic interactions when there is ambiguity in action or expected reaction. Parties to such exchanges draw on prior experiences and underlying expectations to inform current interactions. Theory and research argue that individual social actors are evaluated based on their salient characteristics and others’ experience with those characteristics. For example, employers extrapolate the potential of prospective employees based on their specific gender or racial characteristics (see, e.g., Becker 1959, Arrow

1972, Bielby and Baron 1986, Fernandez and Greenberg 2013).

A similar dynamic is evident in other social interactions where actors have no prior relationships, which leads them to extrapolate from typologies of prior experience. Police officers, for example, use different scripts depending on which *type* of citizen they perceive they are dealing with, so they develop heuristics to determine whether they are likely dealing with a citizen, a criminal, or an “asshole” (Van Maanen 1978).

In microfinance, loan officers similarly try to establish role and relational expectations about their clients when they evaluate them to create a profile. Clients might be classified as high-risk or low-risk based on observable factors such as industry, proposed use of funds, and credit scores, as well as on soft

Finally, loan officers manage, on average, 250 clients. It is cognitively taxing—some of them argue impossible—to follow different styles with different clients.

information. Once classified, borrowers' subsequent actions are often interpreted with reference to these initial classifications.

For a borrower who most likely has little experience with financial products, it is also important to understand the expectations that her loan officer has of her because compliance with their relational contract will define her ability to succeed as a client and, therefore, access future loans from the MFI. Loan officers must therefore clarify *task knowledge* to clients on the technicalities of a loan and provide them with clear *relational knowledge* (Gibbons and Henderson 2011) about how those technicalities will be enacted. Will her loan officer establish and expect an arm's-length exchange? Or will the exchange rely on a closer social relationship where the expectation is one of joint problem solving, transmission of soft information, and a contextual interpretation of contractual terms?

By *relational styles* we refer to the specific manner in which social actors in given roles interact and relate to other social actors in given roles. Focus here is not on the strength of the relationship (Granovetter 1973), nor of the functional or other characteristics of the role incumbent or successor (e.g., Burton and Beckman 2007). Rather, it is on the specific ways in which actors interact, and how this interaction informs future interactions. For example, a loan officer, by virtue of prior experience, has a cognitive blueprint she enacts via scripts when interacting and responding to different client actions. This blueprint is based on her interpretation and understanding of organizational policies, incentives, and personal feelings about how to relate to clients. Loan officers can signal these expectations through a clear and consistent relational style, and clients can adjust their behavior accordingly. One loan officer explained,

They care about the loan and about the money, but they worry more about whether things are going to work out for longer, you know? They want the opportunity, not just the money. [...] So, you have to teach them. You see them begin to manage the loan, and you have to be clear with them, sometimes repeat the same thing several times. Then they start becoming more astute when they manage their money, and then you see them loosen up; you see them trust you because you do what you told them you would do. They do what you told them to do, and then there are no tricks; you increase the amount when they finish the first loan and things happen as you described them, so they trust you.

On the other hand, if a loan officer does not signal clear expectations, or sometimes employs relational scripts associated with a letter of the law style and other times a spirit of the law style, borrowers will have a difficult time understanding soft expectations and respond accordingly (i.e., the if-then link becomes

unclear). A borrower accustomed to a spirit of the law approach to contractual enforcement may thus come to expect that if he confesses experiencing some familial challenges that undermined his ability to pay on time his SL loan officer will then express understanding while devising a plan to get the borrower back on track. This expectation would, however, be undermined if the loan officer responds by indicating her intent to strictly enforce contractual terms. Moreover, this inconsistency should lead to ambiguity, misunderstanding, or even mistrust about what the loan officer expects of the borrower in future interactions. This leads us to expect the following.

HYPOTHESIS 1 (H1). A borrower is less likely to miss a payment contrary to contractual terms when her loan officer has an individually consistent relational style.

1.4. Along Consistent (Between Individual) Relational Styles

So far, we have specified how (within-officer) consistency helps clarify expectations and thus provides a solid basis for relational contracts. Consistency clarifies expectations because the elements that comprise the actor and action are logically interconnected. The relational scripts employed by a letter of the law loan officer are mutually reinforcing manifestations of a rational philosophy of action with certain premises about behavior. For example, one LL officer described the relational script he employs with clients:

I explained things to them carefully, I went over the contract with them and they agreed. I told them of the responsibilities and the implications and they agreed. I went through different scenarios of good things and bad things that could happen and what the contract specified for good behavior and for bad behavior and they agreed.

Consistency is concerned with the regularity of style or action irrespective of its content. It clarifies expectations by providing a within-actor baseline for prediction. For example, prior actions by counterparties who follow a particular relational style lead to predictions about their likely future relational styles, as evidenced by models of relational embeddedness (e.g., Uzzi 1997, Broschak 2004, Broschak and Block 2014). A broken tie is disruptive precisely because it removes the dyadic history that sustains expectations.

There is nothing in this definition, however, to restrict consistency to repeated interaction with the *same* social actor. Sociocognitive understanding can also arise from interaction with successive actors who have similar relational styles. We label this "along consistent relational styles" (i.e., consistency in the individual styles employed by successive individuals), building on Max Weber's (1962) concept of uniformity concerning interaction with different individuals.

An implication of a focus on relational styles, therefore, is that trust and understanding can emerge through dealings with different actors who exhibit a similar way of interacting in specific roles and situations. This intuition underlies economic and sociological models of employer screening that incorporate consideration of categorical characteristics (e.g., race, gender), as noted above. Another example is the comparative advantage that an organization gains from screening for and then inculcating and rewarding systematic relational styles that reflect its identity in its employees. Greetings by employees of Soup Kitchen International (as demonstrated by the “Soup Nazi” in the *Seinfeld* sitcom), for example, are of a definable type that attracts customers in addition to the food.

In a different business context, Southwest and Singapore Airlines have different value propositions, brand identities, and organizational cultures. The former stresses low-cost, no-frills air transportation that is fun and requires customer involvement to achieve cost advantages (e.g., Heskett and Hallowell 1993). The latter positions itself as a premium product and service. Although the functional objective of each of these businesses is to transport people, how they do so from a customer-experience perspective is drastically different. Consequently, so are their value propositions. Yet the sum of their internal processes and external identity are tightly aligned in consistent yet different ways, and both are praised for their exceptional yet distinct experiences.

Indeed, a flight attendant who previously worked at Singapore Airlines and switched to Southwest would have a confusing experience when first interacting with Southwest customers and employees, and vice versa. Moreover, in dealing with various employees of each company, a definable, consistent relational style becomes evident that employees and customers may have a preference or distaste for. Problems arise when “what is said” deviates from “what is done.”

The relational styles evident in these organizations are no accident. Organizations spend considerable resources selecting and teaching employees how they should interact with clients (Van Maanen 1973, 1978, 1991). In our research context, trainees spend several months shadowing experienced loan officers, observing and learning how they manage clients in the field. With experience, loan officers become keenly aware of the importance of providing a consistent client experience, as described by an officer:

Once clients become used to working in one way, if you change things, many of them get confused and some even go to another MFI... I know I am a good loan officer, but my style is different, and I learned that the hard way, losing clients in a previous rotation.

Consistency in the relational styles used by consecutive loan officers in our setting should thus facilitate

borrower understanding even in the face of a broken interpersonal tie because the schemata and scripts employed by *different* loan officers are internally consistent and may also be similar, and thus the client has a sounder basis for understanding expectations even without any prior experience with a specific loan officer. Conversely, inconsistency in relational styles should increase interpretive difficulty in soft expectations or the enforcement of hard stipulations, thus increasing ambiguity. One client who experienced a loan officer change explained,

[Turning to his wife] What was the name of the other woman? Yes, she was nice. I really liked how she worked. She came in, it was all business: Do you want to renew? How much? Any problems? Any referrals? And she was gone. That worked for me. But this new guy, man, he is so chatty. Always asking me about other stuff, and then telling me how to run my business. I just want my loan to run smoothly, as it did with [the previous officer]. So yeah, the change was not great for me. (Borrower)

Inconsistency across loan officers should increase the likelihood of delinquency as it becomes more difficult to predict how a subsequent loan officer will enforce contractual terms. This follows because not only must the borrower become acquainted with a new loan officer she does not know but she must also learn how to interpret and thus respond to the new loan officer’s requests and demands. The latter is more difficult when the borrower’s previous officer and new loan officer have distinct relational styles, which leads to distinct expectations and responses to contingencies. We should thus observe the following.

HYPOTHESIS 2 (H2). *A borrower is less likely to miss a payment contrary to contractual terms when there is a change in her loan officer and the subsequent loan officer has a relational style consistent with the previous loan officer’s style.*

From the discussion above, we can infer that the disruption caused by a broken tie that brings inconsistency to a borrower’s experience will be even larger when this disruption also brings with it an internally inconsistent new set of expectations. Such disruption further compounds and increases the level of ambiguity about expectations and likely reactions as a client must contend with change on two margins: first, the new loan officer does not engage interpersonally in the way her predecessor did in response to similar situations; and second, the loan officer herself engages with the client differently across situations that seem similar. By contrast, this is less acute or moderated when a change in loan officers and styles does not also introduce internal inconsistency. We should thus expect the following.

HYPOTHESIS 3 (H3). *A borrower is less likely to miss a payment contrary to contractual terms when there is a change in her loan officer, the subsequent loan officer has a relational style inconsistent with the previous loan officer's style, but the subsequent loan officer's style is also individually consistent.*

It is worth noting that relational styles, and social action more generally, can be consistently inconsistent,⁵ which implies a set of scripts not applied in a logically interconnected manner. We argue above that individually (or *intra*-loan officer) consistent styles are preferable, as is consistency across different loan officers (i.e., *inter*-loan officers). These two propositions lead to a potential tension when there is a movement from individually inconsistent to individually consistent relational styles, which also implies along-actor inconsistency. One can imagine two plausible predictions concerning which basis of predictability is most useful, with each favoring the two variants of consistency discussed above. Absent theory, we pose this as an empirical question to be explored with the data at hand rather than as a formal hypothesis; to wit: Is a borrower comparatively less (more) likely to miss a payment contrary to contractual terms when there is a change in her loan officer who has an inconsistent style and the subsequent loan officer has an individually consistent relational style?

2. Setting and Analytical Strategy

2.1. Data

The quantitative data used in this study are drawn from a proprietary loan-level database maintained by one large MFI in Mexico for the period 2004–2008. The MFI is a well-established and regarded market leader that provides mostly individual loans in urban areas, primarily Mexico City. The database includes extensive, standardized measures for 450,000 loans administered by more than 700 loan officers, which reflects all the loans administered by the MFI in the study time frame. On average, each loan officer handles approximately 250 borrowers at a given time, affording a sufficient number of transitions between varying combinations of loan officer relational styles for robust estimation. In terms of relevant information, the measures include loan size, size of scheduled payments, interest rate, term, client payment history, client gender, whether the loan was administered as part of a group, and previous delinquency. We focus on loans as the level of analysis because each has specific features (e.g., interest rate, term, size) that vary

within borrowers and can have a bearing on delinquency.⁶ Moreover, ultimately, loan officers must justify specific loans in branch credit meetings.

Two features of the study setting are worth highlighting: First, loan officers are randomly assigned to branches upon entry to the MFI and, once there, are assigned a geographic area of coverage. Second, the company has a policy of randomly rotating loan officers across branches. For example, the MFI purposefully staffs new branches with existing, randomly selected loan officers from the pool of hires and then rotates additional officers around vacancies. The same applies when a loan officer leaves the MFI, which occurs quite frequently. This is a common policy in MFIs employed to reduce the risk of corruption and collusion between loan officers and clients, as well as the “capture” of clients by loan officers who can take them to a competitor if they leave the firm. When rotations happen, the loan officer is assigned an existing portfolio at her new branch (see Hertzberg et al. 2010 and Fishman et al. 2011 on the logic of rotation practices). Her original portfolio is then assigned to a new loan officer or split between the officers who remain in the branch.

Our basis of identification is thus the fact that regardless of why a tie was broken between a client and initial loan officer, the subsequent loan officer is assigned at random. In turn, she may or may not have a relational style that is consistent with the prior loan officer, and it is this (in)consistency that is of interest here. This provides random variation with respect to the (in)consistency in the previous and subsequent loan officers' relational styles, which is orthogonal to client and loan officer characteristics or the basis for the (unobservable) cause of the originating loan officer's vacancy, that affords the analytical leverage required to test Hypotheses 2 and 3 concerning inconsistency in inter-loan officer relational styles. This exogeneity cannot, however, be substantiated with respect to our first prediction about inconsistency in a specific (i.e., *intra*) loan officer's relational style, which nonetheless relies on tests including careful inclusion of theoretically informed covariates.

This paper is part of a larger mixed-data research program considering processes and outcomes in microfinance. The qualitative component of the project includes ethnographic evidence and interviews with MFI managers and loan officers ($N = 76$) at different levels of experience and institutional authority, as well as a random subset of their best and worst clients ($N = 53$). We conducted about 400 hours of interviews and significant ethnographic observation

⁵ On related intuition concerning predictably irrational behavior, see Arieli (2008).

⁶ Treating borrowers as the unit of analysis would therefore require ignoring loan and time-varying contextual information or aggregating data in some fashion that would obscure important differences.

at three different MFIs in Mexico, generating approximately 1,200 pages of notes that were transcribed by one of the authors. These qualitative data are used here to frame hypotheses and to inform the development, understanding, and interpretation of key constructs, findings, and implications. The qualitative data have been discussed in other studies (Canales 2011, 2014). Therefore, we limit presentation and discussion of them here to conserve space and focus attention on the novel contribution of this paper—the implications of within-loan-officer and between-loan-officer consistency on delinquency.

2.2. Measures

2.2.1. Outcome Measures. We calculate three dummy-coded outcome measures that evidence breach of contract: the first denotes that the borrower missed one payment or more in breach of contract during the life of the loan (mean = 0.333, SD = 0.471). The second denotes that the borrower missed two or more consecutive payments (mean = 0.168, SD = 0.374). The third denotes that the borrower missed three or more consecutive payments (mean = 0.115, SD = 0.319). As evidenced by these summary statistics, a third of the borrowers miss a payment.⁷ It is worth noting that of those who miss a payment, nearly half miss a second payment. And contingent on missing a second payment, two-thirds miss a third payment or more. To conserve space, we discuss the first measure in depth while making reference to the other outcome measures in passing. Complete results for these models are available in the online appendix (available as supplemental material at <http://dx.doi.org/10.1287/mnsc.2015.2167>).

These measures are well suited to assess a breach of contract and the theoretical predictions outlined above because the timely repayment of a loan is the most important responsibility of the borrower. In fact, repayment rates are the first and most common metric used by MFIs to evaluate loan officers, branches, and the overall health of their lending portfolio. More broadly, the timely repayment of a loan is the primary measure of compliance in any credit relationship in Mexico or the United States.

2.2.2. Predictors. We calculate two sets of variables to classify individual loan officer consistency in relational styles. The first set includes spirit of the law (*SL*), letter of the law (*LL*), and mixed (*M*)

relational style dummy variables to capture individual (within-actor) consistency of relational styles. *SL* and *LL* styles are regarded as consistent and distinct relational styles guided by principles that subsume scripts that “hang together” in a logical fashion. By contrast, loan officers exhibiting a mixed style engage in practices that incorporate elements of both *SL* and *LL* styles—practices that often do not hang together in a logically complementary manner. For example, a mixed loan officer might ask similar questions and signal a similar personal relationship with a client as an *SL* officer but may be unresponsive if the client faces a problem that makes it difficult to pay, whereas an *SL* officer would almost invariably engage in joint problem solving. By contrast, an *LL* officer will typically use formal contractual mechanisms (asset confiscations, the presence of company collectors) to compel repayment.

To code loan officers according to their relational styles, three regional managers who supervise and know all the loan officers were independently shown Table 1 and, using the full roster of loan officers, were asked to code each loan officer as either *SL*, *LL*, or mixed. We emphasized that the categories referred to their relational styles and not to their performance. It is worth mentioning that managers thought the typology was descriptive, intuitive, and a fair representation of loan officers. Managers also coded officers quickly, which both reinforces the validity of the typology and reveals the depth with which managers know their staff. Interrater reliability was just below 80%. At the same time, no manager had ever coded loan officers this way, so managers did not have intuition about which style would be “better.” In fact, as documented in other work (Canales 2014), when asked at the end of the process which style they anticipated would perform best, every manager had a different theory. There was no instance where one manager coded an officer as *SL* while another coded her as *LL*. The only discrepancies were between individually consistent styles (*LL* or *SL*) and mixed. These discrepancies were treated as mixed. The reason for doing so is straightforward: the inability of managers to agree on how to classify a loan officer provides prima facie evidence that the loan officer’s style is individually inconsistent.⁸

To ensure this classification captures real differences in loan officer relational styles rather than loan officer experience, human capital, or other characteristics that may be correlated with managers’ perceptions of loan officers’ relational styles as well as their loan portfolio delinquency rates, we performed

⁷ This number may seem high compared with microfinance best practices, which usually document delinquencies below 5%. Publicized numbers usually focus on 30-day or 60-day delinquency rates, whereas we focus on the dynamics of enforcement by observing trajectories of delinquency from the first missed payment. Overall rates of delinquency and default mirror standard best practices.

⁸ See the online appendix for more information concerning construct development and validity checks, as well as for ethnographic information on typology development.

a number of tests reflected in Table A1 of the online appendix, in which we also discuss construct validity in more depth. First, we calculated a direct measure of loan officer experience (tenure) and then compared it across styles reasoning that experience may be correlated with managers' ability to accurately classify loan officers. Second, we looked at the trajectory of loan officers within the MFI, assessing whether loan officers with different styles were rotated at different rates (total branch rotations), deserted the firm in different proportions or rates (turnover in percentage and turnover in days), or had a different initial training experience (time in the first branch).

We also looked at other loan officer observable characteristics, including educational attainment, age, marital status, and gender. We calculated and compared average loan values and interest rates across styles. We reason that if managers differ in their knowledge of loan officers' experience and task-specific human capital, thus leading to misclassification, managers should be more restrictive in the amount of the MFI's resources they allocate to those loan officers for the same reason. The results of these tests confirm that managers classify loan officers according to relational style and not based on a lack of experience with, or knowledge of, the officers. Finally, we directly compared loan officer performance by relational styles to determine whether the mixed category is a proxy for underperformance. Results are inconsistent with such a supposition. On average, mixed loan officers received average bonuses based on their loan portfolio performance that did not differ statistically from LL officers, for example. Moreover, the loan officer with the single highest bonus was categorized as exhibiting a mixed style, and numerically speaking, more mixed officers (126) performed in the 75%–25% interval than either SL (108) or LL (117) officers.

The second set of measures assesses the impact of broken ties on loan repayment. A variable codifies cases when a client was transferred to a different loan officer (changed officer). We then include interactions capturing between-actor consistency in, or the transition from, one loan officer relational style at time t to the same or a different style at time $t + 1$. We create summary and fine-grained measures. The summary measures are dummy variables denoting (1) between-actor consistency in individually consistent relational styles ($SL_t \rightarrow SL_{t+1}$ or $LL_t \rightarrow LL_{t+1}$), which means that although the client has a new loan officer, she employs the same relational style as her predecessor ("along consistent" relational styles); (2) individually consistent, successively inconsistent styles ($SL_t \rightarrow LL_{t+1}$ or $LL_t \rightarrow SL_{t+1}$) (across consistent or "individually consistent to individually consistent"); (3) along individually inconsistent styles

($M_t \rightarrow M_{t+1}$) ("individually inconsistent to individually inconsistent"); and (4) moving from a within-actor individually inconsistent style to an individually consistent style ($M_t \rightarrow SL_{t+1}$ or $M_t \rightarrow LL_{t+1}$) ("inconsistent to consistent"), which denotes that the original loan officer employed an inconsistent relational style whereas the subsequent one employed a consistent one—either letter or spirit of the law.

The fine-grained transitions include spirit of the law to spirit of the law ($SL_t \rightarrow SL_{t+1}$), letter of the law to letter of the law ($LL_t \rightarrow LL_{t+1}$), mixed to spirit of the law ($M_t \rightarrow SL_{t+1}$), mixed to letter of the law ($M_t \rightarrow LL_{t+1}$), letter of the law to mixed ($LL_t \rightarrow M_{t+1}$), letter of the law to spirit of the law ($LL_t \rightarrow SL_{t+1}$), spirit of the law to letter of the law ($SL_t \rightarrow LL_{t+1}$), and spirit of the law to mixed ($SL_t \rightarrow M_{t+1}$), with the omitted category in most specifications being changes from mixed to mixed. These measures provide a means of assessing how consistency in style across different loan officers over time has a bearing on the probability of delinquency (see Baron et al. 2001 and Burton and Beckman 2007 for similar coding strategies).

2.2.3. Controls. We include three classes of controls, which are described and tabulated in Table 2, to help rule out alternative explanations and some endogeneity concerns. One class includes measures of the characteristics of the loan that may have a bearing on the recipient's ability and willingness to repay in a timely manner, which helps alleviate concerns of reverse causality pertaining to client performance and loan officer turnover. These include the size of the loan in thousands of pesos (mean = ln(8.925), SD = 8.561); gender (female = 0.624, SD = 0.484); days between scheduled loan payments (mean = 15.545, SD = 14.423, range = 7–86) (Field and Pande 2008); whether the loan has been issued to a group, which may increase social pressure to adhere to the provisions of the loan (mean = 0.15, SD = 0.357) (e.g., Stiglitz 1990, Armendáriz de Aghion 1999, Sanyal 2009; but see Giné and Karlan 2012); interest rate charged (mean = 80.122, SD = 6.476, range 58–96); and a count of the total number of previous payments the borrower missed (mean = 1.083, SD = 1.525, range = 0–14). We also include controls that reflect the history and interaction of the borrower and loan officer to reflect their relationship and interpersonal learning, and to account for other relationship-specific effects. Measures include whether this is the client's first experience with a loan, which is important given that for many clients microfinance is their first exposure to financial products (mean = 0.232, SD = 0.422); whether a loan was restructured, which might signal that a client has experienced exogenous difficulties (mean = 0.006, SD = 0.074); the number of loan cycles the client has had with the MFI, as a proxy for experiential learning (mean = 5.701, SD = 5.154, range 1–40);

Table 2 Variables and Descriptive Statistics

Variable	Description	Mean	SD	Min	Max
<i>BusinessLoan</i>	Dummy variable. Takes the value of 1 for incorporated firms and 0 for individual borrowers with unregistered businesses.	0.000	0.016	0	1
Δ <i>LoanOfficer</i>	Dummy variable. Takes the value of 1 if the loan officer was rotated during the loan cycle.	0.253	0.435	0	1
<i>ClientTenure</i>	Number of loan cycles the client has had with the firm.	5.701	5.154	1	40
<i>Female</i>	Dummy variable. Takes the value of 1 for female clients.	0.624	0.484	0	1
<i>FirstLoan</i>	Dummy variable. Takes the value of 1 if this is the client's first loan cycle with the firm.	0.232	0.422	0	1
<i>GroupLoan</i>	Dummy variable. Takes the value of 1 for group loans.	0.150	0.357	0	1
<i>InterestRate</i> ^a	Yearly interest rate charged.	80.122	6.475	58	96
<i>LoanAmount</i> ^a	Size of the original loan, in thousand pesos.	8.925	8.561	0.50	50
<i>PastDelinquency</i>	Total number of previous loan cycles where the client has missed a payment.	1.083	1.525	0	14
<i>PaymentDue</i> ^a	Size of scheduled payments, in thousand pesos.	1.114	1.924	0	20
<i>PaymentFrequency</i>	Days between scheduled loan payments.	15.545	14.423	7	86
<i>PreviousRegime</i>	Length of relationship, in number of loan cycles, between the client and the <i>previous</i> loan officer—conditional on a changed officer.	2.370	2.196	1	27
<i>RestructuredLoan</i>	Dummy variable. Takes the value of 1 if the loan has been restructured.	0.006	0.074	0	1
<i>ThreeMissedPayments</i>	Dummy variable. Takes the value of 1 if a <i>third</i> payment is missed.	0.115	0.319	0	1
<i>TwoMissedPayments</i>	Dummy variable. Takes the value of 1 if a <i>second</i> payment is missed.	0.168	0.374	0	1
<i>OneMissedPayment</i>	Dummy variable. Takes the value of 1 if there has been a missed payment in the loan cycle.	0.333	0.471	0	1
<i>IndividuallyConsistent_t</i>	Dummy variable. Takes the value of 1 if loan officer has a spirit or letter of the law relational style.	0.665	0.472	0	1
<i>AlongConsistent_{t,t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a spirit or letter of the law relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had a spirit of the law style if the prior loan officer had that style and a letter of the law style if the prior loan officer had that style.	0.021	0.143	0	1
<i>IndividuallyConsistent_t</i> → <i>IndividuallyConsistent_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a spirit or letter relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had either a spirit <i>or</i> letter style.	0.019	0.136	0	1
<i>IndividuallyInconsistent_t</i> → <i>IndividuallyConsistent_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a mixed relational enforcement style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had either a spirit <i>or</i> letter of the law style.	0.062	0.240	0	1
<i>IndividuallyConsistent_t</i> → <i>IndividuallyInconsistent_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a spirit or letter of the law relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had a mixed style.	0.059	0.235	0	1
<i>SL_t</i>	Dummy variable. Takes the value of 1 if loan officer has a spirit of the law relational style.	0.352	0.478	0	1
<i>LL_t</i>	Dummy variable. Takes the value of 1 if loan officer has a letter of the law relational style.	0.313	0.464	0	1
<i>M_t</i>	Dummy variable. Takes the value of 1 if loan officer has a mixed relational style.	0.336	0.472	0	1
<i>SL_t</i> → <i>LL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an SL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had an LL style.	0.028	0.166	0	1
<i>LL_t</i> → <i>SL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an LL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had an SL style.	0.019	0.135	0	1
<i>M_t</i> → <i>SL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a mixed relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had an SL style.	0.033	0.18	0	1
<i>M_t</i> → <i>LL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a mixed relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had an LL style.	0.024	0.153	0	1
<i>LL_t</i> → <i>LL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an LL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 also had an LL style.	0.02	0.14	0	1
<i>SL_t</i> → <i>SL_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an SL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 also had an SL style.	0.032	0.177	0	1
<i>M_t</i> → <i>M_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had a mixed relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had a mixed style.	0.041	0.198	0	1
<i>SL_t</i> → <i>M_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an SL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had a mixed style.	0.032	0.175	0	1
<i>LL_t</i> → <i>M_{t+1}</i>	Dummy variable. Takes the value of 1 if at time <i>t</i> the loan officer had an LL relational style, the officer was reassigned, and the subsequent/different loan officer at time <i>t</i> + 1 had a mixed style.	0.024	0.154	0	1

^aThe log of these variables is used in the analyses.

as well as the number of loan cycles a client had with a particular loan officer, to control for the personal bond that might have developed between them (mean = 2.370, SD = 2.196, range 1–27). Branch and year fixed effects are included to absorb institutional and temporal variation. Loan officer fixed effects are also included to ensure that the sequential consistency effects we observe are not attributable to some unobserved, time-invariant loan officer or borrower characteristics. (Models without loan officer fixed effects yield similar conclusions.)

2.3. Analytical Strategy and Identification

We model the probability of late payment with the following summary model:

$$\begin{aligned} \Pr\{Y = 1\} = G \bigg[& \beta_0 + \sum_{p=1}^P \beta_1(\text{IndividuallyConsistent}_t) \\ & + \beta_2(\Delta\text{LoanOfficer}_{t,t+1}) \\ & + \beta_3(\text{AlongConsistent}_{t,t+1}) \\ & + \beta_4(\text{IndividuallyInconsistent}_t \\ & \quad \rightarrow \text{IndividuallyInconsistent}_{t+1}) \\ & + \beta_5(\text{IndividuallyConsistent}_t \\ & \quad \rightarrow \text{IndividuallyConsistent}_{t+1}) \\ & + \beta_6(\mathbf{X}) + \Theta_l + \tau_i + \omega_t + \varepsilon \bigg], \end{aligned}$$

where Y is a binary variable denoting that, contrary to contractual provisions, the borrower missed a payment; $\Delta\text{LoanOfficer}_{t,t+1}$ denotes a change in loan officer between time t and $t+1$; $\text{IndividuallyConsistent}_t$ is a dummy variable equal to 1 if the loan officer originating the loan had either consistent relational styles (SL_t or LL_t); $\text{AlongConsistent}_{t,t+1}$ is a dummy variable equal to 1 if the former and subsequent loan officers have the same relational style, e.g., $LL_t \rightarrow LL_{t+1}$ or $SL_t \rightarrow SL_{t+1}$ (and is therefore contingent on a loan officer change as are the measures that follow); $\text{IndividuallyInconsistent}_t \rightarrow \text{IndividuallyInconsistent}_{t+1}$ is a dummy variable equal to 1 if both the originating and subsequent loan officers employ mixed relational styles; $\text{IndividuallyConsistent}_t \rightarrow \text{IndividuallyConsistent}_{t+1}$ is a dummy variable equal to 1 if both the originating and subsequent loan officers have individually consistent relational styles but employ different ones (e.g., $SL_t \rightarrow LL_{t+1}$, $LL_t \rightarrow SL_{t+1}$) (the omitted category thus represents changes from individually consistent to individually inconsistent; e.g., $SL_t \rightarrow M_{t+1}$, $LL_t \rightarrow M_{t+1}$); \mathbf{X} is a vector of controls; Θ_l denotes loan officer fixed effects; τ_i denotes branch fixed effects, ω_t denotes year fixed effects; and ε denotes the error term. We also specify

style-specific models that separate the LL and SL effects in a similar fashion.⁹

$$\begin{aligned} \Pr\{Y = 1\} = G \bigg[& \beta_0 + \sum_{p=1}^P \beta_1(LL_t) + \beta_2(SL_t) \\ & + \beta_3(\Delta\text{LoanOfficer}_{t,t+1}) \\ & + \beta_4(SL_t \rightarrow LL_{t+1}) + \beta_5(LL_t \rightarrow SL_{t+1}) \\ & + \beta_6(M_t \rightarrow SL_{t+1}) + \beta_7(M_t \rightarrow LL_{t+1}) \\ & + \beta_8(SL_t \rightarrow SL_{t+1}) + \beta_9(LL_t \rightarrow LL_{t+1}) \\ & + \beta_{10}(\mathbf{X}) + \Theta_l + \tau_i + \omega_t + \varepsilon \bigg]. \end{aligned}$$

To ensure that clustering is adequately addressed, we also estimated the model using a hierarchical nonlinear framework and various standard error clustering techniques. Results are consistent across models.¹⁰

3. Presentation of Findings

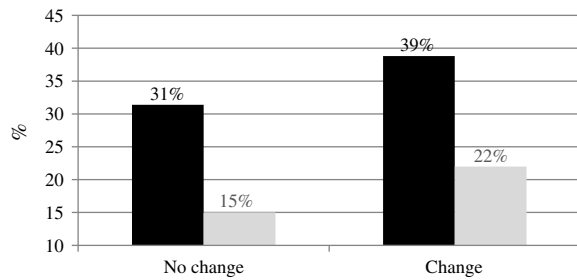
We begin by providing bivariate statistics in Figure 1 to build intuition and establish a baseline for the multivariate analyses that follow. As is evident when there is a change in loan officer, 38.8% of loans experience a missed payment as opposed to 31.3% when there is no change, which reflects an increase of 24% (contrast = 0.074: t -test = 13.01, $p < 0.000$); for two or more missed payments, the difference is even greater at 47.2% (contrast = 0.071: t -test = 13.92, $p < 0.000$), and for three or more missed payments, the difference is 61.3% (contrast = 0.061: t -test = 13.42, $p < 0.000$). Note that all these tests and those that follow are conducted with robust standard errors clustered at the loan officer level. It is thus evident that, as predicted by relational embeddedness and the literature on change in organizations, borrowers experience significant disruption when the tie to their current loan officer is broken. These quantitative findings are echoed in our qualitative work. An SL officer explained this common concern: “Transfers are tricky. You can lose a lot of clients, because the clients are used to working with a different loan officer. So when you arrive they can be like, ‘Who the f—k are you?’” The question is whether the disruption arises solely from the loss of a personal relationship or reveals a deeper pattern.

In Figure 2 we introduce loan officer relational styles. The bivariate results reveal significant variation by relational style. For loans administered by officers with a mixed style, the percentage with a

⁹ In loan officer fixed effects models, β_1 and β_2 cannot be identified. Models without fixed effects and thus main relational style effects yield similar results.

¹⁰ Given the size and complexity of our models, convergence took a considerable amount of time, making it impractical for more than a robustness check.

Figure 1 A Change in Loan Officer Results in a Higher Rate of Missed Payments

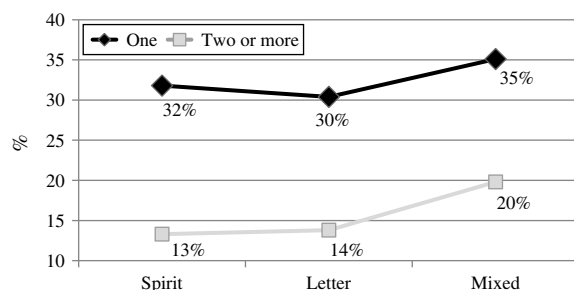


Source. Data obtained from a unique data set of $\approx 450,000$ microfinance loans made in Mexico, 2004–2008.

Notes. Black bars denote one missed payment; gray bars denote two or more missed payments. Differences are statistically significant at $p < 0.01$. Models are unconditional.

missed loan payment is 35%, with 19.8% missing two or more. By contrast, 30.3% of loans administered by letter of the law officers are not paid on time (13.8% two or more times). Spirit of the law officers exhibit similar patterns as letter of the law officers with figures of 31.8% and 13.3%, respectively. For one missed payment the contrasts between mixed and letter of the law (contrast = 0.047: t -test = 3.78, $p < 0.000$) and mixed and spirit of the law (contrast = 0.033: t -test = 2.48, $p < 0.013$) are both statistically significant, while the contrast between letter of the law and spirit of the law is not statistically significant (contrast = -0.014 : t -test = -0.98 , $p < 0.328$). (The same statistical results hold true for two or more or three or more delinquencies; available upon request.) These results suggest that borrowers are less likely to miss a payment if their loan officers have an individually consistent style, irrespective of whether this style entails strict interpretation and enforcement of the rules or a more flexible style. Following this intuition, we present

Figure 2 Missed Payment Rates Vary by Loan Officer Relational Enforcement Styles



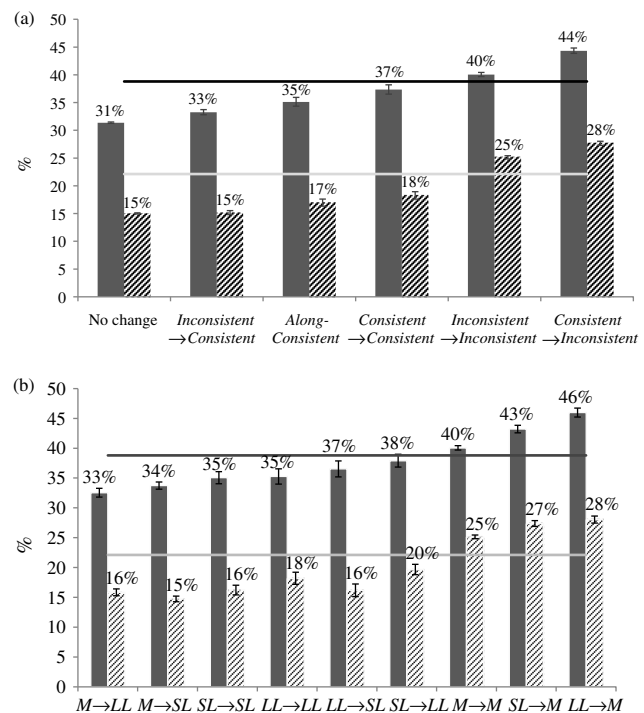
Source. Data were obtained from a unique data set of $\approx 450,000$ microfinance loans made in Mexico between 2004 and 2008.

Notes. The black line denotes one missed payment; the gray line denotes two or more missed payments. Differences are statistically significant at $p < 0.01$. “Spirit” denotes spirit of the law loan officers, “Letter” denotes letter of the law loan officers, and “Mixed” denotes loan officers who blend and vacillate between styles. Models are unconditional.

findings integrating both consistent styles as well as comparing each style separately.

To provide intuition concerning inter-loan officer changes, Figure 3(a) illustrates unconditional loan officer change and missed payment rates by summary categories of relational styles, and Figure 3(b) breaks out results by specific transitions within or between specific styles. The first two columns provide baselines for one or two missed payments when there is no change in loan officer. In such cases, 31.4% of loans experience a missed payment, with 15% experiencing two or more. The proportions are considerably

Figure 3 Missed Payment Rates Vary by Transitions Between and Within Loan Officer Relational Enforcement Styles



Source. Data were obtained from a unique data set of $\approx 450,000$ microfinance loans made in Mexico between 2004 and 2008, by an urban-focused MFI.

Notes. The black line denotes the sample average rate for one missed payment if there is a change in loan officer; the gray line, two missed payments. Dark vertical bars represent one missed payment; variegated lines represent two missed payments. Statistics presented are unconditional. *AlongConsistent* denotes successive loan officers with the same individually consistent styles (i.e., $SL \rightarrow SL$, $LL \rightarrow LL$), *Consistent \rightarrow Consistent* denotes moving between loan officers with individually consistent but different styles (i.e., $LL \rightarrow SL$, $SL \rightarrow LL$), *Inconsistent \rightarrow Inconsistent* denotes successive loan officers each with individually inconsistent styles, and *Consistent \rightarrow Inconsistent* denotes moving from a loan officer with an individually consistent style (spirit or letter) to one with a mixed style. *SL* denotes spirit of the law loan officers, *LL* denotes letter of the law loan officers, and *M* denotes loan officers who vacillate between styles. Arrows denote that, contingent on a change in loan officer, the prior loan officer had the first enforcement style and the subsequent one the style after the arrow. For example, $M \rightarrow LL$ denotes that the loan officer at time t had a mixed enforcement style and the subsequent loan officer, at time $t + 1$, had a letter of the law enforcement style. Models are unconditional.

higher when there is a change of any kind, as previously noted. However, there is significant variation in these figures depending on the pattern of loan officer relational style transitions. For example, when the former loan officer had a mixed style and the subsequent one an individually consistent style (either spirit or letter), the missed payment rate is approximately 33% for one missed payment and 15% for two. These rates are roughly 14% and 31% *less than* the overall average for an officer change (indicated by the horizontal bars in the graphs). Moreover, for two missed payments, the figure is the same as that for the situation in which there is no change. It is thus evident that the style employed by subsequent loan officer matters.

The columns labeled “*Along Consistent*” show that when the prior and randomly assigned subsequent loan officers employ the same relational style, there is a 9% reduction in the percentage of loans missing a payment and a 23% reduction in two missed payments. Reductions are also evident with transitions across individually consistent styles (spirit to letter, or vice versa). Increases are evident when there are transitions within mixed styles (+3% and +14% for one or two missed payments, respectively), with the worst outcome arising from a move from a loan officer with an individually (internally) consistent style (spirit or letter) to one who employs a mixed style (+14% and +25% for one or two missed payments, respectively).

Figure 3(b) plots changes within and between specific relational styles. When there is a change in loan officer, but the old and new loan officers both employ a mixed style, 40% experience one missed payment and 25.1% two or more. For letter of the law officers, the figures are 35.3% and 18.2%, and the corresponding figures for spirit of the law officers are 35% and 16.2%. Although a change in loan officer appears to be detrimental in general,¹¹ it is considerably more detrimental when the loan officers have mixed styles, as they result in 54.9% more multiple delinquencies than changes in spirit of the law officers (contrast = 0.05: t -test = 2.22, $p < 0.026$) and 38.2% more than a comparable change in letter of the law officers (contrast = 0.048: t -test = 2.46, $p < 0.014$). A movement from either a spirit of the law (43.2% for one and 26.5% for two or more missed payments) or letter of the law (46% for one and 28% for two or more missed payments) relational style to one with a mixed style results in a significantly greater percentage of missed loan payments (contrasts are all statistically significant). Moving from a mixed style to either an LL (32.5% for one and 15.8% for two or more missed payments) or SL (33.7% for one and 14.7% for two or

more missed payments) relational style decreases this percentage appreciably.

Unpacking the results further, it appears that moving from a mixed to a letter of the law loan officer reduces the probability of a missed payment by more than 41% (contrast = -0.13 : t -test = -6.74 , $p < 0.000$); this compares with a 28% reduction for similar movements from mixed to spirit of the law (contrast = -0.095 : t -test = -5.39 , $p < 0.000$). The results for two or more missed payments are even starker. But, interestingly, here the largest comparative difference is between moving from a mixed loan officer to one with a spirit of the law style (85.7%) rather than vice versa. An additional pattern is worth highlighting: notice that changes to SL and LL styles perform similarly for the first missed payment. At the same time, clients who are assigned to SL officers after a rotation are significantly less likely to miss their second and third payments, practically eliminating the impact of a broken tie. Thus, regardless of their preceding experience, clients who are assigned to SL officers consistently “recover” from a change more promptly.

Bivariate analyses thus far reveal that borrowers exhibit significantly different repayment patterns based on the consistency of their loan officers’ relational styles. This implies that relational styles are consequential, as borrowers are sensitive to them regardless of their formal contractual responsibilities or the power dynamics underlying their relationships with loan officers. To ensure that these results are not spurious, we present several multivariate models that account for the characteristics of the borrower, the loan itself, and the institutional and economic environments within which loans are made below to test our hypotheses.

Table 3 presents logistic regression coefficients predicting the likelihood of breaching contractual provisions concerning timely loan repayment. The models control for the natural log of interest rate charged, frequency of loan payments, natural log of the total amount of loan, gender of the borrower, whether the loan was received as part of a group, and whether the borrower has a history of late payment. The controls are all highly statistically significant and in the anticipated directions, and they are included in all models.

We build intuition by first presenting a summary model to demonstrate aggregate consistency effects. Model 1 reveals that loans administered by an officer employing an individually consistent style (either letter or spirit) are less likely to experience a missed payment than is the case with a mixed style, which is the omitted category ($e^{b(-0.125)} = 0.88$, $p < 0.001$ (two-tailed test, as are all that follow)). Model 2 separates the summary individually consistent effect into its

¹¹ All contrasts are statistically significant when compared with no change.

Table 3 Logistic Regression Predicting a Missed Payment in a Loan Cycle

Variable	1 <i>b</i> (SE)	2 <i>b</i> (SE)	3 <i>b</i> (SE)	4 <i>b</i> (SE)	5 <i>b</i> (SE)	6 <i>b</i> (SE)	7 <i>b</i> (SE)
<i>IndividuallyConsistent_t</i> (H1)	−0.125 (0.007)***						
<i>SL_t</i> (H1)		−0.13 (0.009)***		−0.079 (0.009)***			
<i>LL_t</i> (H1)		−0.118 (0.010)***		−0.091 (0.010)***			
<i>M_t</i> (H1)			0.125 (0.007)***				
Δ <i>LoanOfficer_{t,t+1}</i>				0.427 (0.009)***	0.419 (0.019)***	0.379 (0.015)***	0.187 (0.016)***
<i>AlongConsistent_{t,t+1}</i> (H2)					−0.206 (0.030)***		
<i>IndividuallyConsistent_t</i> → <i>IndividuallyConsistent_{t+1}</i> (H2)					−0.183 (0.031)***		
<i>IndividuallyInconsistent_t</i> → <i>IndividuallyInconsistent_{t+1}</i> (H2)					−0.066 (0.019)***		0.165 (0.019)***
<i>IndividuallyInconsistent_t</i> → <i>IndividuallyConsistent_{t+1}</i> (H3)					−0.251 (0.023)***		
<i>SL_t</i> → <i>SL_{t+1}</i> (H2)						−0.178 (0.034)***	
<i>LL_t</i> → <i>LL_{t+1}</i> (H2)						−0.15 (0.043)***	
<i>SL_t</i> → <i>LL_{t+1}</i> (H2)						−0.145 (0.036)***	
<i>LL_t</i> → <i>SL_{t+1}</i> (H2)						−0.141 (0.043)***	
<i>M_t</i> → <i>SL_{t+1}</i> (H3)						−0.214 (0.023)***	
<i>M_t</i> → <i>LL_{t+1}</i> (H3)						−0.206 (0.028)***	
<i>SL_t</i> → <i>M_{t+1}</i> (H3)							0.19 (0.024)***
<i>LL_t</i> → <i>M_{t+1}</i> (H3)							0.284 (0.027)***
Loan officer fixed effects	NO	NO	NO	NO	YES	YES	YES
Branch fixed effects	YES	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES	YES
Model fit/diagnostics							
<i>N</i>	438,252	438,252	438,252	438,252	438,346	438,346	438,346
χ^2	48,031***	48,030***	48,031***	49,998***	46,402***	46,385***	46,395***

Notes. Data were obtained from a proprietary, loan-level database of microfinance loans from one urban-market-focused MFI in Mexico between 2004 and 2008. The dependent variable is dichotomous and takes the value of 1 if, within a loan cycle, a client has missed a payment. In addition, all models include the following controls, which were omitted from the table for presentation purposes and because the coefficients are remarkably stable across specifications (coefficients significant at the 0.01 level in parentheses): *PaymentFrequency* (−0.021), *ln(LoanAmount)* (0.817), *ln(PaymentDue)* (−0.777), *ln(InterestRate)* (2.09), *Female* (−0.025), *GroupLoan* (0.118), *ClientTenure* (−0.137), *BusinessLoan* (0.462), *PastDelinquency* (0.417), *RestructuredLoan* (1.214), *FirstLoan* (0.38), and *PreviousRegime* (0.025). The omitted category for models 1 and 2 is a Mixed style. For model 3, the omitted category is the individually consistent category; for model 5, the omitted category is individually consistent to individually inconsistent; in model 6, it is spirit or letter to mixed; and in model 7, it reflects any style-specific movement from mixed to something else, or between LL and SL.

****p* < 0.001; ***p* < 0.01; **p* < 0.05 (two-tailed tests).

constituent spirit ($e^{b(-0.13)} = 0.878$, $p < 0.001$) and letter ($e^{b(-0.118)} = 0.889$, $p < 0.001$) components, revealing that both tend to outperform the omitted baseline mixed style. Model 3 includes a measure for a mixed (intra-loan officer) style. The coefficient is positive, suggesting that relative to either an LL or SL loan

officer (the omitted category), those loans administered by an individually inconsistent loan officer are more likely to experience a missed payment. These tests individually and collectively provide support for the first hypothesis that loans administered by loan officers with individually (internally) consistent

relational styles are less likely to miss a payment contrary to contractual terms.

Model 4 demonstrates what happens when a loan officer changes: there is a significant increase of more than 50% in the odds of delinquency ($e^{b(0.427)} = 1.53$, $p < 0.001$). The effect is even stronger for two or more missed payments (model 3, Table A2: $e^{b(0.811)} = 2.25$, $p < 0.001$) or three or more (model 3, Table A3: $e^{b(0.1025)} = 2.79$, $p < 0.001$). That these disruptive effects increase with the length of the relationship a client had with her previous loan officer is clear evidence of relational considerations between clients and their loan officers ($e^{b(0.025)} = 1.03$ for every additional loan cycle, up to a maximum of 27).

Model 5—including loan officer fixed effects (LO FEs)—begins to provide a test of hypothesis two concerning inter-loan officer consistency in relational styles. Compared with a movement from an individually consistent to a mixed style, transitioning from a loan officer employing an individually consistent style (e.g., spirit, letter) to another officer employing a different style that is nonetheless individually consistent mitigates the impact of severing a tie, reducing the negative shock from 52% to 26.6% ($e^{b(0.419-0.183)}$, $p < 0.001$), a result amplified in models of two or three missed payments. Transitions along consistent styles reduce the negative shock of a loan officer change from 52% to 23.7% ($e^{b(0.419-0.206)}$, $p < 0.001$), or a 54% reduction as predicted in Hypothesis 2. Indeed, even movements along mixed styles moderate the impact of change ($e^{b(0.419-0.066)} = 1.423$ (versus 1.52), $p < 0.001$), a result that holds across models. Similar results are evident for two (model 5, Table A2) or three (model 5, Table A3) missed payments.¹²

Model 6 provides estimates for style-specific transitions (e.g., $LL_t \rightarrow LL_{t+1}$). The overall results are consistent with the summary measures: relational style-consistent moves—particularly those made between spirit of the law officers—tend to mitigate the impact of change ($e^{b(0.379-0.178)}$, $p < 0.001$), as do movements across different but internally consistent forms (e.g., letter to spirit), albeit at somewhat reduced rates ($e^{b(0.379-0.141)}$, $p < 0.001$).¹³

Hypothesis 3 predicted that borrowers are less likely to miss a payment when there is a change in their loan officer and the subsequent loan officer has a different style that is also individually consistent.

Style-specific results in model 7 provide strong support for this argument. Compared with transitions that are along consistent styles (e.g., $LL_t \rightarrow LL_{t+1}$) or across different but individually consistent forms ($LL_t \rightarrow SL_{t+1}$), transitions from a consistent style to a mixed style increase the odds of one, two, or more missed payments appreciably. This is especially true when moving from a letter of the law to mixed style, which results in a 60% increase in the odds of missing a payment ($((e^{b(0.187+0.284)} - 1) * 100)$, $p < 0.001$). These results also hold across model specifications (see models 6 and 6(b) in Tables A2 and A3).

3.1. Robustness Checks

To ensure that the findings are not driven by client or loan officer subpopulations, we performed a host of robustness checks (some of these are presented in Table 4, and all others are available upon request). All robustness checks include loan officer, branch, and year fixed effects. The first two models, 8 and 9, are restricted to female and male borrowers, respectively, to determine whether missed payments vary by borrower gender. There is no evidence of this. Moreover, coefficient estimates tend to be similar for both.¹⁴ Models 10 and 11 are restricted to group and individual borrowers, respectively. Results indicate that our hypothesized mechanisms operate for both, consistent with work by Giné and Karlan (2012). Models 12 and 13 are restricted to clients with less than and more than average tenure with the firm, respectively, to assess differences in possible learning effects. Models 14 and 15 are contingent on loan sizes below and above the median, respectively, to proxy for client wealth, since loan sizes are correlated with it. Models 16 and 17 distinguish the gender of the loan officer to determine whether style effects vary as a consequence of whether a male or female employs each. Finally, models 18–20 are conditional on a loan officer change (rather than based on interaction terms). Furthermore, to ensure that the results are not driven by unobservable loan officer skill, we restricted models to loan officers who, in the organization's performance assessment, performed above the median, in the top quartile, or in the two mid-quartiles, between the 25th and 75th percentiles (results omitted to conserve space but are available upon request). The mechanisms we outline hold.

Contextualizing all the previous findings, it is important to note that when a new loan officer is assigned to administer a loan, the borrower does not choose the loan officer's identity or relational style.

¹² All contrasts are statistically significantly different in models without LO FEs, and all are significant in those with LO FEs save for the differences between mixed to individually consistent and along consistent styles versus across consistent. All corresponding contrasts are statistically significantly different for two or three missed payments.

¹³ Differences are statistically significant in models without loan officer fixed effects. All corresponding contrasts are statistically significantly different for two or three missed payments.

¹⁴ Statistically comparing across models is a nontrivial challenge. Because our hypotheses are agnostic to sample differences, and the point of these checks is to establish robustness rather than theorize differences, we refrain from such comparisons here.

Table 4 Robustness Checks: Logistic Regression Predicting a Missed Payment in a Loan Cycle

Variable	8 <i>b</i> (SE)	9 <i>b</i> (SE)	10 <i>b</i> (SE)	11 <i>b</i> (SE)	12 <i>b</i> (SE)	13 <i>b</i> (SE)	14 <i>b</i> (SE)	15 <i>b</i> (SE)	16 <i>b</i> (SE)	17 <i>b</i> (SE)	18 <i>b</i> (SE)	19 <i>b</i> (SE)	20 <i>b</i> (SE)
$\Delta \text{LoanOfficer}_{t,t+1}$	0.523 (0.022)***	0.516 (0.029)***	0.673 (0.044)***	0.48 (0.019)***	0.517 (0.031)***	0.435 (0.028)***	0.538 (0.026)***	0.481 (0.025)***	0.504 (0.029)***	0.55 (0.027)***			
$\text{AlongConsistent}_{t,t+1}$	-0.275 (0.036)***	-0.217 (0.046)***	-0.266 (0.075)***	-0.242 (0.031)***	-0.26 (0.037)***	-0.331 (0.046)***	-0.314 (0.042)***	-0.213 (0.039)***	-0.187 (0.042)***	-0.344 (0.042)***	-0.663 (0.037)***		
$\text{IndividuallyInconsistent}_{t,t+1}$	-0.332 (0.027)***	-0.338 (0.034)***	-0.363 (0.052)***	-0.317 (0.023)***	-0.289 (0.028)***	-0.433 (0.033)***	-0.359 (0.030)***	-0.31 (0.030)***	-0.374 (0.034)***	-0.361 (0.030)***	-0.714 (0.031)***		
$\text{IndividuallyConsistent}_{t,t+1}$	-0.211 (0.037)***	-0.228 (0.047)***	-0.23 (0.072)***	-0.212 (0.032)***	-0.247 (0.038)***	-0.233 (0.047)***	-0.197 (0.042)***	-0.243 (0.041)***	-0.308 (0.045)***	-0.219 (0.041)***	-0.659 (0.039)***		
$\text{IndividuallyConsistent}_{t,t+1}$	-0.048 (0.022)**	-0.084 (0.028)***	-0.082 (0.041)**	-0.054 (0.019)***	-0.055 (0.024)**	-0.07 (0.027)***	-0.064 (0.025)***	-0.053 (0.024)**	-0.02 (0.029)	-0.044 (0.027)	-0.106 (0.021)***		
$M_t \rightarrow M_{t+1}$												0.589 (0.028)***	
$SL_t \rightarrow SL_{t+1}$												-0.606 (0.046)***	
$SL_t \rightarrow LL_{t+1}$												-0.611 (0.051)***	
$LL_t \rightarrow LL_{t+1}$												-0.616 (0.055)***	
$LL_t \rightarrow SL_{t+1}$												-0.595 (0.054)***	
$M_t \rightarrow SL_{t+1}$												-0.649 (0.037)***	
$M_t \rightarrow LL_{t+1}$												-0.662 (0.042)***	
$SL_t \rightarrow M_{t+1}$													0.645 (0.032)***
$LL_t \rightarrow M_{t+1}$													0.763 (0.035)***
Loan officer fixed effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Branch fixed effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Sample/Restrictions	Female borrowers	Male borrowers	Groups	Individual borrowers	Tenure < Med.	Tenure > Med.	Size of payment < Med.	Size of payment > Med.	LO female	LO male	Conditional on loan officer change		
Model fit													
<i>N</i>	273,268	164,877	63,624	374,548	232,751	205,484	213,662	224,590	174,290	218,454	112,188	112,188	112,188
χ^2	31,123***	18,894***	5,763***	43,985***	19,087***	26,748***	23,284***	27,549***	21,187***	24,897***	12,058***	12,037***	12,063***

Notes. Data were obtained from a proprietary, loan-level database of microfinance loans from one urban-market-focused MFI in Mexico between 2004 and 2008. The dependent variable is dichotomous and takes the value of 1 if, within a loan cycle, a client has missed a payment. Where indicated, models also include loan officer (LO) fixed effects. In addition, all models include the controls outlined in the previous table.

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$ (two-tailed tests).

This exogenous change in loan officer style contingent on change enables us to identify to what extent moving from an inconsistent relational style to a consistent one impacts breach of contract in the form of a missed payment. The results suggest that moving from a mixed to a spirit of the law relational enforcement style reduces the odds of delinquency appreciably. The same is true for a movement from a mixed to a letter of the law relational style. The converse is also true: moving from an individually consistent style (either LL or SL) to an inconsistent style increases the odds of a delinquency (see model 2). Moreover, the results are amplified when we consider two or more or three or more delinquencies.¹⁵

Finally, it becomes clear that clients who are transferred to an LL or SL officer have similar likelihoods of missing a first payment, but across the board, we find that clients who are transferred to an SL officer have a significantly lower likelihood of missing their second and third payments. The pattern may seem puzzling, but together with our qualitative data, it provides evidence of the mechanisms that we theorized affect loan outcomes after a broken tie. In discussing why consistency should matter in exchange relationships, we argued that loan officers “educate” clients not only on the technical aspects of a loan but also on the *relational* expectations of a lending relationship. When the patterns that clients expect in their loan interactions change, clients experience a disruption in the relational contract with the MFI. But the replacement loan officer can mitigate this by taking the time to “reeducate” existing clients and establish new relational expectations:

Before I move to my new branch I go out with the loan officer and ask him to take me to his clients and introduce me, and then I spend time explaining to the clients how I like to work and letting them ask me all their questions. Then when I am transferred I go out again, and I say, “Remember me? I am your new loan officer,” and I tell them again how my style is different and why I think it is better. (SL officer)

From this perspective, it is less surprising that SL officers eliminate the negative impact of a broken tie by the second and third missed payment of a loan. In loan officer interviews and observations, SL officers not only spoke more often and in more depth about the importance of educating clients, but we also observed them spend much more time in client education activities, especially following a branch rotation. In fact, it is an inherent characteristic of the SL style that loan officers spend more time exchanging

soft information with their clients. This includes information on why clients miss payments if their loan officers are transferred and on the expectations they created during their previous lending relationships that no longer hold. This pattern provides additional insights into the implications of our findings for organizations, which we discuss in the next section.

4. Discussion and Conclusion

Formal contracts constitute an important mechanism to facilitate repeated exchange, which is essential in social and economic life. Given inherent limitations in contracts, it has long been shown that organizations can derive significant value through relationships, theorized as relational contracts or as the embedded ties that enable them. However, an organization cannot establish these relationships—only individuals authorized to do so on its behalf can. It is thus unclear, considering the inevitability of turnover and change, when and how organizations can retain the value created through relational mechanisms (Sorenson and Rogan 2014). Put differently, we need more clarity on how relational ties, which are established and maintained by individuals, can become an organizational *capability*.

We propose theory that specifies how both within- and between-employee consistency in *relational styles*, net of relational embeddedness, allow an organization to largely retain the value of its employees’ relational ties. We define relational styles as discernible, reoccurring patterns of interaction within and between social actors. Informed by rich qualitative and quantitative evidence, we demonstrate that loan officers who employ consistent relational styles improve loan outcomes. We also show that when a loan officer leaves the firm, replacing him with another officer who employs a consistent relational style mitigates the negative effects of the broken tie.

We use this evidence to argue that organizations can derive significant and sustainable advantage by developing capabilities to establish consistent patterns of interaction with their clients, which in turn allow them to retain the value of the relational ties otherwise anchored in their employees. By implication, specific people or positions become less important, and consistent relational styles can constitute an important link between formal organizational practices and actual client experiences. This finding may be particularly valuable in settings or situations where organizations assign client relationships to a single employee, rendering the organization particularly susceptible to employee turnover.

This implies that organizations should establish routines that, in alignment with their identity, select and socialize employees to develop consistent relational styles with clients. They should also train

¹⁵ We estimated the model using a two-level (Bernoulli) hierarchical model. The results (available upon request) were substantively and statistically similar.

employees to “educate” clients on the relational expectations of their interactions with the organization. To the extent that an organization can maintain consistent relational styles with clients across individual employees, it will be able to establish clear and predictable relational expectations, thus increasing its ability to appropriate the value of relational ties despite employee turnover and exogenous change.

The findings also have sociological implications. Prior theory has considered the impact individuals (or dyadic ties) and positions (e.g., roles) have on a wide range of outcomes of interest. For example, it is well documented that organizations gain value through the social capital generated by interpersonal ties. At the same time, relational value travels through different mechanisms, with implications for the firm’s (versus the employee’s) ability to appropriate it (Sorenson and Rogan 2014). In this research we provide additional specificity on the sources of relational value and an organization’s ability to appropriate it. We demonstrate that the “logic of affection” plays a critical role but is retained by individual employees.

Yet we also uncover a different layer of social structure that plays a larger role and is easier for the organization to appropriate: typologies of relational styles within and between social actors that establish clear and stable relational expectations, particularly in the face of change. Whereas relational embeddedness and the network literature more generally focus on *what* social ties look like and their implications, relational styles concern *how* interpersonal ties are enacted and their implications for repeated exchange. Whereas individuals own relational ties, relational styles can become an organizational routine and, as a result, transfer ownership of the *relational value* to the organization.

Relational styles may also inform other theoretical concerns. Norm enforcement, for example, is usually understood to improve with cohesion (structural embeddedness). We show that compliance to norms of behavior may also be determined by a shared understanding of expectations and the social scripts that underpin them. A change in script (through a change in style) is problematic because it removes shared expectations, weakening norm compliance. This paper suggests the possibility that people who are similar on several dimensions may also follow similar relational scripts, making exchange smoother and more efficient.

As this is an initial statement concerning relational styles, many questions follow. First, the data used here are rich and extensive. However, they are derived from one industry, in one country, during a specific period of time. The extent to which these findings apply in other settings should be investigated. Second, additional theorization and investigation into the antecedents, forms, and consequences of

consistency in relational styles is necessary. Indeed, we believe there is significant opportunity to broaden and deepen our collective understanding of interaction patterns and their consequences in a range of settings by considering relational styles, which we view as a theoretical concept that integrates and extends insights from rich literatures concerning categories and relational embeddedness. This includes the basic question of how relational styles develop in the first place. Our intuition on the matter, based on field observations, is that the origin of relational styles rests largely in social structures including one’s family, early socialization, initial (i.e., imprinting) and subsequent (in timing, quality, and duration) employment experiences and genealogy, as well as more general cultural forces. In this case, anecdotal evidence suggests that loan officers who were recruited because they were particularly successful clients or community leaders and were first trained by an SL loan officer tend to become SL loan officers themselves. By contrast, loan officers who were recruited out of college (typically from an economics or finance major) and were first trained by an LL loan officer tend to develop LL relational styles.¹⁶ The relative magnitude and interaction of each of these forces is ultimately an empirical question.

One can imagine other social settings where similar dynamics are at work. Labor and dating markets are clear examples, as are alliance relationships between firms. In each of these cases, learning about how to interact and transact with another party occurs at one point in time. But this learning is not necessarily partner or corporate actor specific. There are types of relational styles that reoccur, and having experience with a particular type helps shape future understanding and action when facing individuals who exhibit similar relational styles. Moreover, because of path dependencies and self-fulfilling dynamics, these relational style types can remain stable across interactions and settings (e.g., Schelling 1960). One can imagine, however, a wide range of types of styles that are conceptually nested within a set of principles that serve as building blocks for variations. We view letter of the law and spirit of the law types as general categories of actors’ understandings of the nature of organizational rules and their enactment, which can be applied in a host of settings including, for example, education, law enforcement, as well as in childrearing or the sociology of marriage and family. To lower violence levels in inner-city communities, for example, police forces must establish trust-based, productive relationships with the community while also retaining authority and clear territorial control. The “broken

¹⁶ These two represent the most common recruitment strategies.

windows” approach to violence reduction, for example, is based on the premise that the police will react with absolute consistency across all types of criminal acts, regardless of their magnitude.

Community policing models, by contrast, are based on the premise that no police force can be effective without the community’s trust, which is built by police officers who consistently show personal involvement and concern for community members. Consistent with this point, Google’s internal research finds that whereas managers’ personalities and styles can vary widely, consistency and predictability with subordinates emerged as the best predictor of managerial performance (Bryant 2011).

As noted above, many organizations spend considerable time training employees on how to interact with customers with a specific focus on providing a consistent customer experience across employees. When they join “The Happiest Place on Earth,” Disneyland employees are heavily socialized. But so are visitors (Van Maanen 1991). These taught and learned relational styles can be a key element of the organization’s value proposition. From a customer’s perspective, it clarifies expectations for interactions with the organization. Expectations are similarly set for employees concerning appropriate ways of interacting with clients. Relational styles thus buffer the organization against changes in personnel that could damage customer–client relationships because customers are not tied to organizational employees but rather to how employees of the organization generally interact with them. Creating organizational capabilities to establish consistent relational styles may be especially important for organizations that, similar to MFIs, have dual or hybrid identities (Battilana and Dorado 2010). In the case of MFIs, key constituencies may have different expectations for whether the organization should be primarily committed to social outcomes or to financial returns. A lack of consistency in how employees relate to different constituencies may create confusion that can even lead to social unrest.

General principles of interaction can vary across cultures. A question is thus to what extent relational styles vary in form and effect across social space. In our setting, for example, we find that clients are reactive to a change in relational style even though they are relatively dependent on their loans and are in a situation of clear power disadvantage. We would expect sensitivity to relational styles to increase with the relative power of the counterpart. In similar fashion, we see an effect of relational styles even though loan contracts in microfinance are of the simplest type. We would expect the relevance of relational styles to increase with the technical complexity of the information transferred in an exchange as the necessity for, and volume of, information required

for interpretation increases. The extent to which standardization is important in one context can be one basis of variation. In some industries or businesses, there may be an expectation for individually consistent relational styles but not necessarily across-actor consistency. A business context that prides itself on individuality or quirkiness may favor such an approach. Finally, although we were able to exploit random assignment of subsequent loan officers to test our predictions concerning inter-loan officer inconsistency, the data used here cannot support such strong inferences with respect to intra-loan officer consistency, which would require a different research design and data structure.

Supplemental Material

Supplemental material to this paper is available at <http://dx.doi.org/10.1287/mnsc.2015.2167>.

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