

Article

Sustainable Leadership in Microfinance: A Pathway for Sustainable Initiatives in Micro and Small Businesses?

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Abstract: Microfinance is used to enhance micro and small enterprise start-up and growth in developing countries. Although there is some discussion of how microfinance institutional activities lead to their own sustainability in the extant literature, the same cannot be said of the ways in which microfinance institutions shape the sustainability agendas of micro and small enterprises (MSEs). In this paper, we conceptualise and explain the way that joint liability lending in microfinance shapes the sustainability of micro and small enterprises owned by borrowers. Using sustainable leadership as a theoretical foundation, we conceptualise the strategic, operational, and community-level leadership functions associated with joint liability and construct a framework. Based on the conceptual framework, we also develop propositions and explain them using an illustrative case study. Our conceptual work reveals that leadership tasks at strategic, operational, and community levels influence MSEs' sustainability. Our conceptual framework, propositions, and illustrative case evidence contribute to theory and practice by highlighting that joint liability mechanisms are a possible pathway for MFIs to facilitate sustainable initiatives in micro and small enterprises.

Keywords: sustainable leadership; microfinance; joint liability; micro and small enterprises



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1. Introduction

Microfinance institutions (MFIs) provide small-scale financial services such as loans, savings, remittances, and insurance, sometimes in conjunction with non-financial services, to people who lack access to traditional banking services, for business purposes [1,2]. Microfinance loans provide the 'means' or the capital for borrowers to purchase assets, buy stock or equipment, or modify business initiatives, to facilitate the start-up or development of a business [3,4]. Such tasks have the potential to influence the sustainability of micro and small enterprises (MSEs) in terms of economic, social, and environmental dimensions [3]. For example, having loan money to purchase equipment increases the efficient use of resources and manufacturing of products, thereby increasing a business' economic sustainability [3]. Increased production also enhances resource use and waste production [3]. Nevertheless, as Shahidullah and Emdad Haque [5] note, MFI-funded MSEs are able to balance the economic, social, and environmental (i.e., triple bottom line) outcomes where ventures can be 'green', use social capital and local human resources, while simultaneously making substantial profits. Through their institutional policies and practices (e.g., credit evaluations and assessments), training programmes, information sharing, and management interventions, MFIs attempt to mitigate any negative sustainability outcomes in their own operations. In some cases, they even address their borrowers' business sustainability [5]. Such MFI efforts, processes, and effects are very limited in practice and are only now beginning to emerge in the scholarly literature, see e.g., [5–8].

At the same time, MFIs rely on group lending mechanisms: they typically adhere to joint liability principles, where, as a group, borrowers guarantee loans and are responsible for ensuring that each other makes the required repayments [9]. On the one hand, joint

liability mechanisms such as these have been found to affect a person's business choices, their risk profile, the loan amount, and whether they are included or excluded from lending schemes [9,10]. On the other hand, a group of people mutually reinforcing positive behaviours may encourage each other to be more sustainable in their ventures [3]. Based on these reasonings, we posit that joint liability lending procedures shape the sustainability agenda beyond an MFI. In this paper, we conceptualise the way joint liability lending shapes borrowers' MSE sustainability initiatives and answer the following research question:

How can joint liability lending schemes be adapted to explain MSEs' sustainability initiatives?

To answer this research question, we employ sustainable leadership as the theoretical foundation to ground our conceptualisation. Sustainable leadership is the notion that an enterprise needs to adopt a range of management practices in order to generate a proper balance between economic, social, and ecological outcomes by not only considering the present but also the future [11]. By incorporating sustainable leadership functions into different levels of the joint liability lending process, we contribute to the microfinance literature by developing a conceptual framework on the way sustainable leadership functions in MFIs in promoting MSE sustainability. We follow the narrative-based style of developing theoretical articles [12] and create propositions to represent and describe underlying processes [13]. Following Brodie and Benson-Rea [14], we also use illustrative case evidence from one MFI in Sri Lanka to elaborate on the conceptual framework and propositions. Using the conceptual framework, the propositions, and illustrative case evidence, we contribute by theorising the role of sustainable leadership in joint liability lending.

The remainder of the paper is divided into six sections. Section 2 presents the literature on sustainable leadership. This discussion is followed, in Section 3, by a review of the literature on microfinance, MSEs and sustainability, and joint liability lending in relation to MSE sustainability. Combining these streams of literature, we propose a conceptual framework and testable propositions in Section 4. Section 5 provides illustrative evidence from one MFI in Sri Lanka to illustrate the value of the conceptual framework and the propositions. While Section 6 discusses the study's results, contributions, limitations, and future research topics, Section 7 concludes the paper.

2. Theory: Sustainable Leadership

In businesses, sustainability encompasses Elkington's [15] triple bottom line perspective. The triple bottom line integrates social, financial, and environmental (i.e., profit, people, and the planet) dimensions [15]. In business settings, the term sustainability is defined along these triple bottom lines and highlights activities that improve a firm's social and environmental performance, alongside its financial performance [16]. Elkington [15] argues that integration and the blending of economic, social, and environmental activities are needed to achieve sustainable outcomes. This view of sustainability has been used and reiterated in recent scholarly work [17–19] which explores the ways in which economic, social, and environmental outcomes overlap and even create blended value in businesses. These studies elaborate that multiple and blended outcomes are intrinsically linked with business tasks [17,18]. For example, selecting socially responsible investments contributes to employee and customer satisfaction, while employee satisfaction and customer and supplier relationship management lead to (greater) socio-efficiency [18,19]. The integration and blending of social, economic, and environmental factors are part and parcel of sustainable leadership.

Broadly speaking, sustainable leadership captures the leadership role associated with managing a business' sustainable outcomes. This role includes keeping the people (i.e., social), profit (i.e., economic), and the planet (i.e., environmental) outcomes in balance, for the firm's entire existence [11]. Due to the nature of economic, social, and environmental focus, sustainable leadership entails considering diverse stakeholder interests. Avery and Bergsteiner [11] (p. 6) contend that this is "part of the implicit deal with stakeholders" where enterprises behave ethically and responsibly towards both the environment and the

community and in return, stakeholders, mainly customers, are loyal to the business. Hence, some scholars argue that sustainable leadership is a combination of responsible, social, or ethical leadership practices [20].

A key feature of sustainable leadership involves being concerned with the present and the future; that is, leaders have a long-term view of the firm [11]. This form of sustainable leadership includes fostering systemic innovation aimed at increasing customer value, developing a skilled, loyal, and highly engaged workforce, developing resilience, and managing interdependencies to offer quality products or services [11]. In addition, sustainable leadership also includes the use of sustainable suppliers, providing employee benefits, attracting, maintaining, and developing professionals, knowledge management, and organisational learning [11,21]. Synthesising these, we define sustainable leadership as the adoption of a range of management practices designed to generate a proper balance between economic, social, and ecological outcomes, not only for the present but also for the future. Aligning with this definition, Figure 1 outlines functions associated with sustainable leadership.

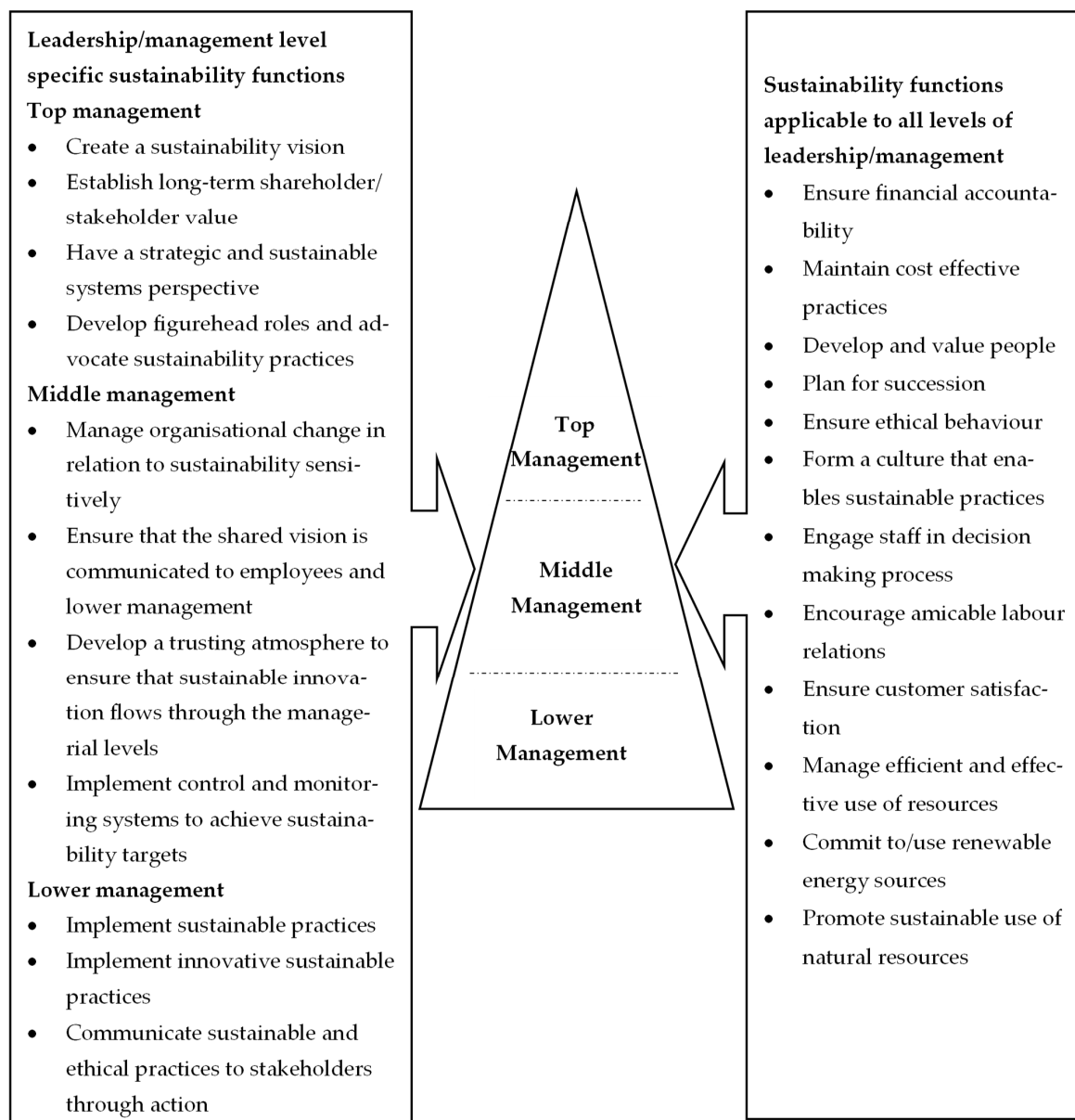


Figure 1. Selected examples for sustainable leadership/management functions adopted from [11,21].

Sustainable leaders motivate employees to engage in continuous learning and knowledge acquisition [21] as they are associated with the product, process, and business innovations. Further, such leaders are good at initiating bold changes in the firm and society, ensuring stakeholder value, minimum resource usage, and minimum environmental damage [22,23]. In particular, sustainable leadership balances the profit and survival of firms by allocating resources using sustainable principles which go beyond being green and socially responsible. For example, in a study on business sustainability in Thailand, Suriyankietkaew [24], found that out of 23 sustainable leadership practices, 16 were significantly connected with the firm's financial performance: in particular, 4 were significant drivers and positive predictors of a firm's long-term performance. Muralidaran [25] found that transformational leadership theory and sustainability conditions positively influence individuals' social entrepreneurship behaviours. These studies indicate the increasing popularity of sustainable leadership in the academic literature.

3. Context: Sustainability of MFI Activities and Joint Liability Lending

3.1. Microfinance and MSEs

Microfinance typically provides financial services to people who lack access to traditional banking services [2]. Institutions that provide microfinance became popular among development practitioners after the establishment of the Grameen Bank in Bangladesh [2], p. 20. Microfinance institutions around the world now provide credit, sometimes in conjunction with non-financial services such as financial literacy or business development services [1,2]. Such services are mainly targeted at women as they are more financially constrained: microfinance initiatives provide opportunities for women to be integrated into mainstream economic activities, progress out of poverty, and/or become economically empowered [9]. Although these development narratives are often questioned and critiqued [9,26,27], microfinance is still considered a way to create multiple societal benefits. In fact, secondary data, anecdotal evidence, and MFI case studies show that some institutions do in fact create multiple societal outcomes.

MSE owners also use microfinance to fund business tasks. MSE owners use these loans to start, diversify, modify, or grow their enterprises by purchasing assets or stock, hiring people, upgrading existing equipment, or paying for marketing [4,10,28–30]. Some MFIs also provide business development support: such support enhances entrepreneurial learning and can lead to business growth [31]. However, MSE owners must have the 'means' to repay these loans; thus, it could be said that they increase the risk to the business [30]. Failure to repay the loan leads to the loss of personal credibility within one's social network and the larger community [4]. Although there is some evidence that demonstrates that microfinance loans provide MSEs with some benefits, whether microfinance promotes entrepreneurship is highly contested [26]. However, given that at least some MSEs use loans for business purposes, we consider that MFIs play a role in promoting sustainable initiatives within MSEs.

3.2. Sustainability of MFI Activities

MFIs create multiple sustainable outcomes beyond economic/financial dimensions, with their impact being seen in the social and more recently, environmental dimensions. Stakeholders (e.g., donors' and investors' concerns and interests, government pressure through legislation and policy) are the driving force behind MFI sustainability [32,33]. At the MFI level, financial/economic (also termed self-sufficiency) and social sustainability is considered something given and has been widely studied in microfinance literature [34,35]. Examples reflecting economic and social sustainability include examinations of the use and performance of investments, minimising operational costs, the calculation of interest rates, the use of subsidies and donations, reaching poor borrowers, and empowering women [34]. These different types of multiple outcomes are due to the hybrid nature of MFI operations where social outcomes are interwoven with financial outcomes. There is, however, very limited focus on environmental sustainability at the MFI level. As García-Pérez et al. [34]

note, this may be because MFI activities do not usually generate a high environmental impact in terms of natural resource use, energy consumption, transport or emissions. As a result of having more resources to invest, larger and more mature MFIs perform better in terms of environmental outcomes [32]. Such MFIs tend to have better environmental policies designed to reduce their ecological footprint and conduct better environmental risk assessments [32].

Going beyond the institutional level, MFIs also demonstrate their commitment to sustainability through their responsible lending practices. For example, to ensure economic sustainability among borrowers, MFIs often offer training and education programmes and provide business development support [31]. Institutions often implement consumer protection practices by using transparent interest rates calculations, fair repayment conditions, and ethical loan recovery practices [34]. At the borrower level, an MFI's 'green' activities include screening loans according to environmental criteria, offering credit to support access to clean technologies, conducting training programmes for borrowers on environmental practices or climate change, and building partnerships with specialised organisations [5,8].

Although the extant literature outlines the different types of outcomes, the process that MFIs use in creating economic, social, and environmental outcomes for their borrowers' MSEs has largely been neglected. As microfinance services are provided through joint liability mechanisms, we address this gap by conceptualising how the same mechanisms could be used to create sustainability outcomes for MSEs.

3.3. Joint Liability Lending

The most common microfinance operational model is credit delivery schemes that rely on joint liability. In joint liability, people who know and trust each other act as collateral for their loans [36]. The joint liability groups are also known as solidarity or peer groups. These groups have around three to five people guaranteeing each other's loans. The well-known Grameen Bank model consists of five women who guarantee each other's loans. Around six to ten solidarity groups form an informal village-level unit called a cluster or a centre. MFI staff use these centres to share information, facilitate loan disbursements, and collect repayments (see Figure 2).

As illustrated in Figure 2, each of the units or actors operates at different levels of the lending process. All have specific roles and responsibilities. For example, at the institutional level, senior management/leadership at the MFI's head office set the formal rules, procedures, and guidelines according to the institutional vision and strategic direction [37,38]. In addition, at the head office level, leadership and management formulate and modify lending procedures according to various requirements, standards and regulations relating to donors, external funders, and international or national institutions (e.g., rating agencies, audit organisations, or government financial disclosure guidelines) [39,40].

At the branch level, the focus is on the operational aspects of an organisation and implementing the MFI's strategic vision and objectives to benefit individuals/MSEs [37,38]. At this level, the field-level staff members liaise between borrowers and higher-level management/leadership [37]. These staff members share information, collect loan repayments from borrowers during cluster meetings, and/or provide additional loans or business-related services [37]. Such functions are coordinated and managed with the cluster or solidarity group leaders' support [37].

At both cluster and solidarity group levels, informal leaders and borrowers use their personal connections, and available information to screen people and distinguish between 'good' and 'bad' borrowers [37]. Such practices ensure (or enforce) repayment [36,37].

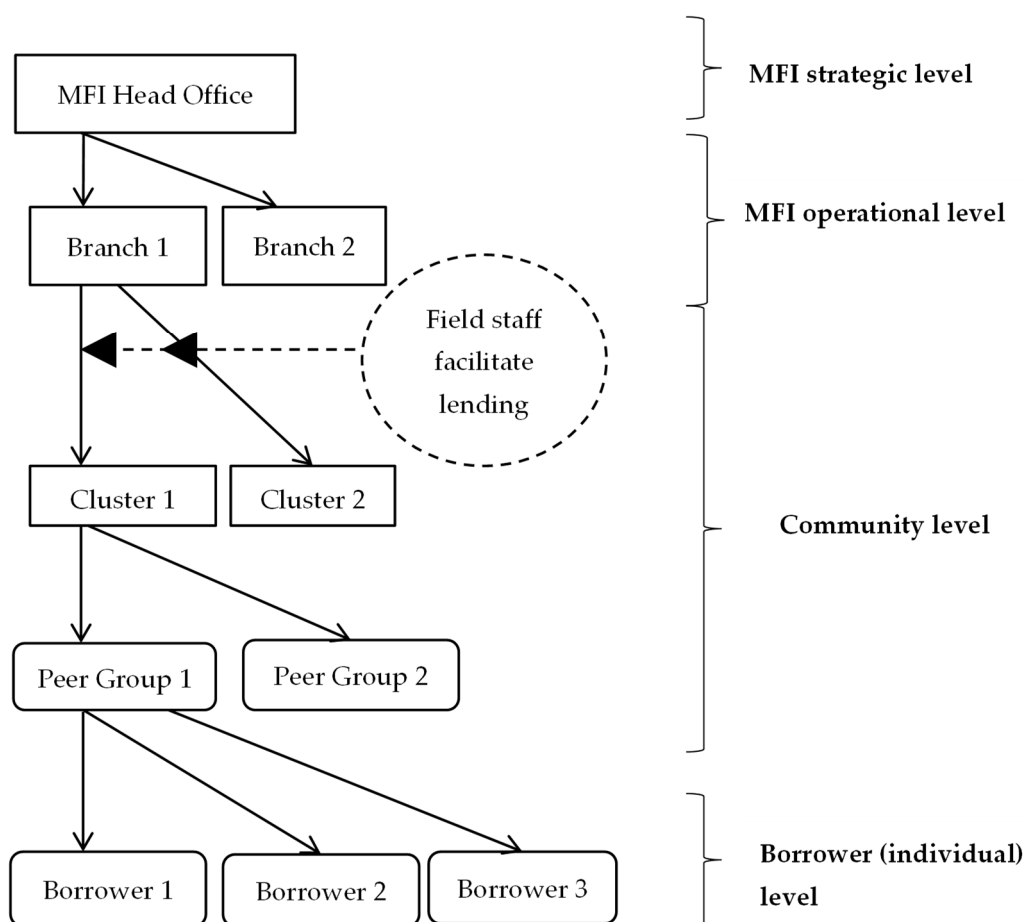


Figure 2. Joint liability lending process adapted from [37].

3.4. Role of Joint Liability in MSE Sustainability

The available evidence posits that joint liability lending shapes MSE sustainability in relation to economic, social, and environmental dimensions [3]. At the MFI strategic level, for example, institutional policies determine which business ideas are funded or not [6,32]. Institutions may also use comprehensive credit-worthiness assessments [41]. As explained earlier, donor interests, investors' concerns, government legislation and policy, and even legitimacy and reputation concerns [6,32] may lead to strategic level changes in an MFI. In turn, these changes shape the way joint liability groups function.

At the MFI operational level (mainly at branches), staff members are responsible for implementing strategic level sustainability policies. For example, if an MFI has a policy on assessing creditworthiness by incorporating the social and environmental impact of microcredit [41], field-level staff will be responsible for conducting the evaluation. Branch management will oversee activities and provide mentoring to derive a realistic estimation. Scholars have found that when MFIs provide clear environmental guidance, borrowers make necessary modifications to their businesses [5].

At the community level, available evidence also posits that solidarity groups may also shape an individual borrower's business sustainability. At the centre or solidarity group levels, for example, group members can impose penalties upon each other if they have selected to fund risky business projects [9]. Solidarity groups also monitor loan repayments within their community [36]. In a similar manner, solidarity groups may also scrutinise a business' sustainable initiatives, positively reinforce good initiatives, and even 'police' business sustainability actions.

Despite existing evidence suggesting that joint liability could shape MSE sustainability, there is no clear conceptualisation in the microfinance literature that could provide a framework to study business sustainability. In this paper, we address this research gap.

4. Conceptualising Sustainable Leadership within Joint Liability Lending in Microfinance

As alluded to above, in this section we combine sustainable leadership with the joint liability lending mechanism to conceptualise the role of sustainable leadership in shaping economic, social, and environmental initiatives in MSEs. Here, we combine management and leadership functions (outlined in Figure 1) with joint liability mechanisms (see Figure 2). Our aim is to identify strategic, operational, and community-level functions that shape microfinance lending and the borrowing environment at the village level; hence, we contend that sustainable leadership functions go beyond an MFI (see Figure 3).

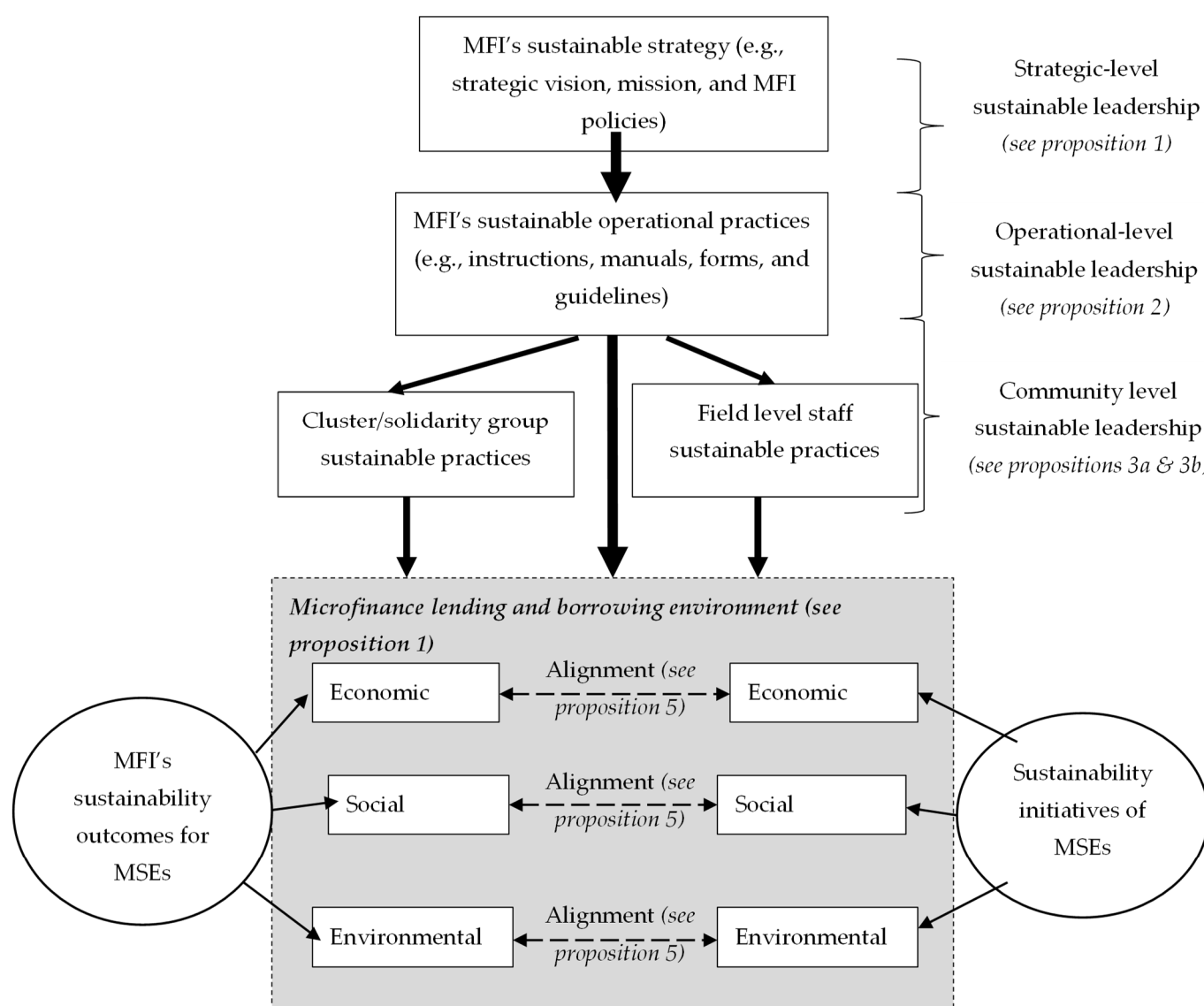


Figure 3. Conceptual framework: Sustainable leadership and joint liability lending.

At the strategic level of the framework in Figure 3, we combine sustainability-related strategic management and leadership literature with joint liability lending. At this level, we contend that the senior management/leadership at the head office level who conduct strategic level functions shape the sustainability agenda of an organisation. At this level,

the sustainability functions are oriented to both the MFI's internal and external environment. Internally, strategic leaders form the sustainability vision and mission, develop key performance indicators, and ensure that the MFI's strategic direction aligns with the national and international standards and legislation related to sustainability. At this level, leaders/managers also translate the organisation's sustainability vision into policies. Externally, strategic management plays a role in performing advocacy and lobbying functions with microfinance associations, regulators, and policymakers to incorporate sustainable development goals into a country's broader sustainability agenda and rhetoric; these actions indirectly contribute to and shape the sustainability agenda in other MFIs in terms of their lending processes. Hence, based on Figure 3, we propose the following for the strategic level at an MFI:

Proposition 1. *Strategic level sustainable leadership functions (internal and external to an MFI), directly or indirectly, lead to sustainable outcomes at MSEs.*

At the operational level of an MFI, we conceptualise the role of middle managers; this level includes regional or branch level managers who plan, lead, monitor, and control lending and loan recovery functions and the delivery of non-financial services to microfinance borrowers. At the operational level, sustainable leadership practices are geared towards translating sustainability policies into operational practices. This process includes developing instructions and manuals, modifying creditworthiness assessments to reflect sustainability objectives, and providing guidelines to staff to incorporate sustainability practices into their day-to-day tasks. At the operational level, sustainable leadership also includes identifying challenges and opportunities and communicating those upwards to strategic level managers and leaders and working with them to address any operational issues. Therefore, we propose the following for the MFI operational level:

Proposition 2. *Operational level leaders transforming sustainable strategic initiatives and implementing a triple bottom line vision of an MFI lead to sustainable outcomes at MSEs.*

Drawing on Ranabahu and Moerman's [25] work, we contend that at a community level both field-level staff and cluster and solidarity group leaders have a role to play when implementing an MFI's sustainability agenda. Here, field-level staff are the agents who interact with borrowers and thereby communicate sustainability conditions to them, monitor and assess a business' level of sustainability, evaluate loan applications based on sustainability criteria, and provide advice to business owners about modifying their business initiatives. Similarly, although the cluster or solidarity group leaders/members do not have a formal role in assessing the sustainability potential of a particular business, they help determine whether a member receives a loan or not. For example, if an individual's business is generating high levels of environmental pollutants, the group members may be reluctant to guarantee each other's loans or form a solidarity group with that particular member. Similarly, peers may monitor whether a business or a borrower is maintaining environmental or labour standards. Hence, we propose that both MFI field-level staff and cluster and solidarity groups shape the lending and borrowing environment. Hence, we propose the following for the community level:

Proposition 3a. *Field-level staff act as formal change agents in the implementation of sustainability-related operational initiatives which, in turn, lead to sustainable outcomes at MSEs.*

Proposition 3b. *Cluster and solidarity group leaders/members act as informal change agents in the implementation of sustainability-related operational initiatives which, in turn, lead to sustainable outcomes at MSEs.*

At the MSE level, however, economic, social, and environmental outcomes cannot be as easily isolated as these are interconnected. For example, loans may facilitate the

expansion of agriculture-based industries (economic outcomes), while such expansion may lead to the clearing of land, deforestation, the loss of biodiversity, and soil erosion (environmental outcomes) [3]. In contrast, loan investments for shifting from biomass or coal-related sources of energy to renewable sources could improve a business' economic and environmental outcomes [3,7]. However, in order to achieve an MFI's sustainability outcomes, the MSE's sustainability initiatives must align with the MFI's sustainability targets. The use of non-chemical fertiliser or the adoption of clean technologies, or the use of biodegradability guidelines or environmental standards, might be areas which both parties could easily agree upon and align with, hence Proposition 4:

Proposition 4. *Sustainability-oriented microfinance operations, at each of the levels of the joint liability lending process, shape the lending and borrowing environment at the village level, ensuring that sustainable business initiatives are normalised within MSEs.*

As the above explanations suggest, we see the village level microfinance lending and borrowing environment (see Figure 3) being shaped by an MFI's operational practices, the way field-level staff implement those practices, and the actions of cluster or solidarity group leaders and members. These actions have implications for sustainability initiatives at MSEs. For example, in order to obtain loans, or avoid exclusion from village level MFI clusters or peer groups, businesses may change their waste management initiatives or may enhance employee benefits. In addition, a business may purchase materials from sustainable sources. Over time, such initiatives become the norm, not the exception. Hence, we propose:

Proposition 5. *To achieve its sustainability targets, an MFI requires joint liability lending to change the business initiatives of MSEs, and thereby creates alignment between an MFI's sustainability targets and MSE business initiatives.*

5. Illustrative Case Example: The Case of Berendina Micro Investments Company (BMIC)

To elaborate our propositions further, we use illustrative evidence from one MFI in Sri Lanka: the Berendina Micro Investments Company (BMIC). We purposely chose Sri Lanka due to both authors' familiarity with the context. The case institution was selected as it was the first MFI in the country to obtain a Microfinance Licence under the Microfinance Act (No. 6, 2016) [42]. We also considered the MFI's lending mechanism: the BMIC follows a cluster-based system to provide credit, enterprise development services, and micro-savings.

BMIC's goal is to "create an empowered, equitable society where poverty does not exist" [42], p. 3. Aligning with this vision, the MFI's mission is to "ensure poor have access to quality, responsible and innovative microfinance and enterprise development services" [42], p. 3. BMIC's goal is to ensure that these services are provided in a cost-efficient manner to enable the prosperity of borrowers while maintaining the organisation's financial sustainability and developing their staff members' capacities [42,43]. According to the latest annual report [42], BMIC currently operates in 11 districts in Sri Lanka. It has 30 branches, with a total of 377 employees. The organisation provides services for 75,298 borrowers, of which 88% are women [42].

To elaborate our propositions, we collected publicly available data for BMIC (e.g., annual reports and details from the website including news items and case studies). To increase the validity of the data collection, we used multiple secondary data sources. From this data, we extracted sections relevant to sustainable leadership (e.g., tasks, strategies, and initiatives). We investigated whether the data extracts aligned with the strategic, operational, or community levels. By grouping the data into these levels, we are able to better explain the propositions we developed. The evidence is explained and presented under each proposition.

5.1. Proposition 1 Related to Strategic Level Sustainable Leadership

As noted above, according to BMIC's annual report [42], the MFI envisions an empowered, equitable society where poverty does not exist. Aligning with this vision, MFI's strategic goals and objectives outline initiatives that are both internal and external which ensures sustainable outcomes. For example, internally, BMIC's strategic objectives include the use of new technology to optimise their operational efficiency, strengthening HR policies and practices, enhancing occupational health and safety, using 'greener' practices, boosting client satisfaction, and improving impact-oriented enterprise development support provision [42,43]. Externally, BMIC's strategic-level leaders work with national and regional level microfinance and business development institutional networks (e.g., the Sri Lanka Microfinance Practitioners' Association, Banking with the Poor Network, and the Start and Improve Your Business Association in Sri Lanka). Such policy-level tasks external to the organisation contribute to regional and national-level policy formation. It also helps with the MFI's direction and ultimately, the MSE's [42–44]. As a case in point, the Lanka Microfinance Practitioners' Association implemented a code of conduct for MFIs. The BMIC was instrumental in developing and endorsing this code [42,45]. Hence, we see these examples as an elaboration of Proposition 1 as such strategic sustainable leadership tasks contribute to achieving the organisation's economic, social, and environmental outcomes and among the organisation's borrowers who operate MSEs.

5.2. Proposition 2 Related to Operational Level Sustainable Leadership

At the operational level, we identified that manuals, instructions, and directions developed by operational managers help in transforming the strategic objectives and implementing the MFI's triple bottom line vision. Although publicly available data does not provide detailed information relating to the MFI's internal activities, the evidence suggests the existence of sustainably oriented operational leadership. As a case in point, BMIC provides credit services bundled with enterprise development activities. The organisation operates an online platform that is used to sell MSE products [46]. There is an established customer grievance handling process, meaning that customers can communicate their concerns to the relevant senior managers and solutions are provided within a very short period of time [42–44]. Similarly, BMIC conducts a number of training programmes for staff related to operational practices, debt recovery, and credit appraisal [42,43]. Having these activities (e.g., the bundling of credit with enterprise development services, operating an online platform, handling customer grievances, conducting training programmes on operational practices) is an indication of the way leaders at an operational level translate the organisation's strategic objectives into practice. Hence, this evidence strengthens Proposition 2.

5.3. Propositions 3a and 3b Related to Community Level Sustainable Leadership

Following Proposition 2, Propositions 3a and 3b focus on the cluster level. In Proposition 3a, we outlined the role of the field-level staff. According to BMIC [42], field-level staff assess the loan applications and identify any harmful enterprises. They then work with MSEs to upgrade them. The MFI has also incorporated greener environmental initiatives and social outcomes in their existing enterprise development training programmes. Programmes facilitated or conducted at the community level include organic cultivation, environmental conservation mechanisms, waste management, energy savings using biogas or renewable energy, traditional crops cultivation, and health and safety measures [42]. Conducted according to communities' needs, such tasks are examples of field-level staff taking a sustainable leadership role at the community level.

In Proposition 3b, we outlined the leadership role of cluster leaders in shaping sustainably oriented initiatives of MSEs. The publicly available data for BMIC shows that cluster leaders worked with the MFI staff to implement projects for borrowers during the COVID-19 lockdown period [47]. Some COVID-19 recovery-related livelihood projects included cluster leaders working with the community and the MFI to provide dry rations

for the most vulnerable or provide cultivation material, or bee-keeping boxes [47]. In addition, the MFI holds cluster leader conferences and selects the ‘best cluster/s’ every two years [42]. Such events provide cluster leaders with an opportunity to share their concerns, and at the same time communicate institutional messages to MSEs. Although available evidence does not suggest there are any loan-related sustainability interventions by cluster leaders, the evidence here does partially indicate that cluster leaders can help shape the sustainability initiatives at the MSE level.

5.4. Propositions 4 and 5 Related to Microfinance Lending and the Borrowing Environment

Proposition 4 suggests that achieving an MFI’s sustainability targets requires joint liability lending initiatives to lead to changes in MSE business initiatives and, thereby, create an alignment between MFI sustainability targets and MSE business initiatives. For example, case studies in the annual reports [42,43] and the BMIC website [44] report on how MSEs have transformed some of their operations, became economically sustainable, or implemented social goals. For example, loans can be used to buy stock, upgrade business machinery/equipment, or any other modification that may lead to increased economic sustainability for an MSE. Similarly, MSE owners have attended training programmes or exposure visits to enhance their knowledge and skills. They have then used this new knowledge in their individual businesses. Furthermore, selected BMIC clients have obtained financial and technical support to construct wastewater treatment units or biogas units (for dairy farms) [42]. All of these achievements are reported on the organisational website and annual reports, communicating the alignment between MFI sustainability targets and MSEs initiatives. Therefore, the BMIC evidence supports Proposition 4.

Finally, Proposition 5 posits that sustainability-oriented microfinance operations can shape the lending and borrowing environment at the village level and that it can normalise sustainable business initiatives in MSEs. Although limited, the available secondary evidence provides an indication of where and how village-level events can occur; however, these examples do not confirm whether such events lead to the normalisation of sustainability initiatives. For example, BMIC’s annual reports [42] specify that organisational field officers conduct village level awareness meetings about different products and services. Although exact lending criteria may not be communicated in these forums, these events may provide villagers with a greater understanding of the MFI’s vision, mission, and objectives which incorporate sustainability goals. In addition, the field officers’ actions and activities, such as enterprise services provided to borrowers, measuring progress out of poverty, and the social protection policy and practices [42–44], can create an informal understanding among borrowers that the MFI is committed to the sustainability goals. In a similar manner, client success stories available on the BMIC website and annual reports showcase MSEs’ sustainability initiatives (e.g., the use of sustainable farming initiatives, having a long-term business orientation, and the efficient use of resources) [42]. These stories may lead to the normalisation of sustainable business initiatives within villages and in other MSEs.

6. Discussion

In this paper, we have conceptualised the way joint liability lending shapes the sustainability initiatives of MSEs owned by MFI borrowers. In particular, it has answered the research question: How can joint liability lending schemes be adapted to explain the sustainability initiatives of MSEs? In answering this research question, we employed sustainable leadership as the conceptual foundation, reviewed literature related to sustainable leadership and microfinance lending, developed a conceptual framework and key propositions, and explained the key propositions using an illustrative case. Table 1 summarises the key propositions and illustrative evidence.

Table 1. Summary of propositions and illustrative evidence.

Proposition	Selected Evidence—Illustrative Case
Proposition 1. Strategic level sustainable leadership functions (internal and external to an MFI), directly or indirectly, lead to sustainable outcomes at MSEs.	<ul style="list-style-type: none"> • Vision, mission, strategic objectives formation. • Working with external agencies.
Proposition 2. Operational level leaders transforming sustainable strategic initiatives and implementing a triple bottom line vision of an MFI lead to sustainable outcomes at MSEs.	<ul style="list-style-type: none"> • Provision of credit and enterprise development services. • Conduct training related to operational practices. • Operates an e-marketplace. • Customer grievance process and handling.
Proposition 3a. Field-level staff act as formal change agents in the implementation of sustainability-related operational initiatives which, in turn, lead to sustainable outcomes at MSEs.	<ul style="list-style-type: none"> • Field staff evaluations and identifying harmful enterprises. • Incorporation of environmental and social outcomes into enterprise development training.
Proposition 3b. Cluster and solidarity group leaders/members act as informal change agents in the implementation of sustainability-related operational initiatives which, in turn, lead to sustainable outcomes at MSEs.	<ul style="list-style-type: none"> • Cluster leaders work with the MFI staff to implement COVID-19 support projects.
Proposition 4. Sustainability-oriented microfinance operations, at each of the levels of the joint liability lending process, shape the lending and borrowing environment at the village level, ensuring that sustainable business initiatives are normalised within MSEs.	<ul style="list-style-type: none"> • Client case studies demonstrate sustainability in organisational reports/websites.
Proposition 5. To achieve its sustainability targets, an MFI requires joint liability lending to change the business initiatives of MSEs, and thereby create alignment between an MFI's sustainability targets and MSE business initiatives.	<ul style="list-style-type: none"> • Awareness creation at the village level. • Field staff members' support and actions. • MSEs showcase sustainable initiatives at a village level.

In line with the sustainability literature [11,20], our study shows that different actors in the joint liability lending mechanism take formal (or informal) responsibility for planning, communication, leading, managing, and controlling the MFI's sustainability agenda. Although the degree and type of activities conducted vary at each stage, joint liability schemes provide a pathway for MSEs to transform themselves into more sustainable ventures. In short, our findings align with the sustainability literature on microfinance e.g., [5,32].

Going beyond the existing literature, using the conceptualisations and illustrative case evidence, this study contributes to both sustainable leadership and microfinance literature. For sustainable leadership, we theoretically contribute by developing a conceptual framework that combines sustainable leadership functions with the joint liability lending process. We also contribute by demonstrating how strategic, operational, and community-level leadership functions are applicable to microfinance lending. Furthermore, we contribute to theory by developing testable propositions on the role of joint liability lending in the sustainability initiatives of MSEs. In terms of microfinance literature, we theoretically contribute by adopting the concept of sustainable leadership. We show that sustainable leadership is essential to all levels of the lending process to ensure changes in MSEs.

Our paper also provides managerial implications. For example, using our propositions and illustrative case, we list functions and initiatives which MFIs can use to enhance sustainability in MSEs. We also show that sustainable leadership functions must be conducted at each level of the lending process to normalise sustainable activities in MSEs. MFI directors, managers, field staff, and community-level leaders, all perform sustainable leadership functions which ultimately help in transforming MSE operations.

However, this paper is not without its limitations. The main limitation is that we have not empirically tested these propositions. Although we provide illustrative evidence here from one MFI, these propositions need further refinement. We also have not conceptualised whether each and every sustainable leadership function we identified in Figure 1 is applicable to the microfinance setting. We also have not examined whether sustainability functions, applicable to all levels of leadership/management, can be linked to each of the stages in joint lending. Hence, we see several avenues for future research. In particular, sustainable leadership is applied here only for MFIs that rely on joint liability lending. Future research could extend this conceptualisation to other forms of microfinance lending (e.g., self-help groups or individuals). In addition, researchers can also conduct empirical investigations to modify and improve propositions we developed and translate these into testable hypotheses. In doing so, future researchers could develop scales or measurements to quantify the degree of alignment between MFI sustainability outcomes and MSEs. Finally, going beyond the MFI level, future research studies could explore and examine MSEs' sustainable activities and how much of an effect MFIs have on their overall business sustainability initiatives.

7. Conclusions

In this paper, we have conceptualised how the sustainable leadership concept could be applied to MSEs funded by MFIs. We have developed a conceptual framework and propositions to explain sustainable leadership alongside joint liability lending mechanisms. This framework provides a novel way to study sustainability outcomes for MSEs. We also present illustrative evidence using one MFI that policy and practitioners could use to modify their services. In conclusion, the conceptual framework, propositions, and illustrative evidence here outline a pathway for MFIs to facilitate sustainable activities in MSEs.

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