Journal of Small Business Management 2019 57(1), pp. 230–254

doi: 10.1111/jsbm.12407

*Microfinance Traps and Relational Exchange Norms: A Field Study of Women Entrepreneurs in Tanzania**

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In interdependent social groups, microfinance traps occur when conflicts arise between borrowers' affective ties related to family needs and instrumental ties related to obligations toward their loan group. Thus, the social capital that facilitates microfinancing can lead to conflicting obligations toward business needs and economic obligations toward family. Building on an inductive field study among female entrepreneurs in Tanzania, we conceptualize microfinance traps. By using relational contract theory to interpret the qualitative data, we argue that microfinance traps can be reduced by balancing role integrity, preserving norms and reciprocity, and harmonizing the social matrix toward the family and loan group.

Introduction

According to the World Bank, with 200 million clients, the microfinance sector is estimated to be worth $60–100 billion. The gains from microfinancing, however, remain mixed.[1] Microfinancing has become a tool of economic and social empowerment for the working poor around the world (Chliova, Brinckmann, and Rosenbusch 2015; Jaffer 1999), especially in countries with weak institutional structures where social capital forms the basis of financial lending through microfinancing. However, critics purport modest benefits and a trend toward commercializing microcredit that is less focused on meeting the needs of poor entrepreneurs.

Based on an inductive study of Tanzanian female entrepreneurs, we identify microfinance traps resulting from the socially embedded relationships in microfinancing. This identified conceptualization of microfinance traps is salient in developing countries. Although in developed countries the affective ties to the family and instrumental ties to business or work stakeholders do not typically overlap or are less economically interdependent, in developing countries the family and the business are often highly intertwined.

The microfinancing traps may unfold as follows. The working poor use microfinancing loans to support their business, which in turn is central to the sustenance of their family. With a limited and varying flow of cash, at times these entrepreneurs must manage the trade-off between maintaining the ongoing relationship with their microfinance loan group to receive future loans and meeting the immediate financial needs of their family. We label this as a

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*This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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[1]*MicroBanking Bulletin*, which contains articles on material and microfinance industry topics written by microfinance practitioners and academics. http://www.themix.org/publications/microbanking-bulletin.

"trap" because the choice is not obvious. As one dimension of the trap, the family needs could dominate the obligations to the microfinancing group. Despite the increased risk of deteriorating instrumental ties, based on the tenets of the mixed gamble approach in prospect theory, losses to the family may be weighed more heavily than losses to the lending group, shifting the entrepreneur's focus from business development to the pressure of repaying loans, and at times the family's well-being could be jeopardized. Faced with limited resources that must be allocated between home and business, the very social embeddedness that facilitates solidarity lending (Portes and Landolt 1996) also increases the social, emotional, and financial pressure.

Meeting the financial needs of the family may help to maintain affective relationships but may also lead to the deterioration of instrumental ties with the microfinancing group. Prioritizing business needs over family needs may limit the deterioration of lending relationships and help to sustain the business in the long term, albeit at the potential expense of the family's well-being in the short term. These competing needs create a microfinance trap whereby prioritizing the needs of one group over the other leads to poorer outcomes in the long term. Thus, microfinancing could be a double-edged sword, as entrepreneurs attempt to meet competing priorities in their business and family with limited financial resources.

We interpret the inductively derived concept of microfinancing traps through the lens of social capital, specifically relational contracting theory (Coleman 1990; Ghosh and Ray 2016; Putnam 1993). Through this inductive, qualitative field study of female entrepreneurs, we are able to identify a set of mechanisms with which the female entrepreneurs in the study mitigate the competing obligations to outweigh the potential liabilities of social embeddedness in microfinancing. To understand further how female entrepreneurs in Tanzania manage microfinance traps, we draw on relational exchange theory (MacNeil 1980). Based on the inductions from the qualitative data, we infer that relational norms play a pivotal role in managing microfinancing traps. We also conclude that female entrepreneurs who maintain their role integrity toward the family and group, preserve the family and group relationships based on norms and reciprocity, and harmonize the social matrix between the family and the microfinancing group can manage the incompatible norms and obligations related to microfinancing traps more efficaciously.

We begin by providing the short theoretical background that informed the early stages of our qualitative design, followed by a discussion of the benefits and costs received from microfinance. Next, based on the relational contracting and relational exchange theories, we discuss the sampling context and present the results of our qualitative field study of a sample of female entrepreneurs in Tanzania. Thereafter, we provide propositions related to the management of microfinance traps.

Background

Female Entrepreneurs, Microfinance, and Solidarity Lending

Female entrepreneurs in developing countries tend to run small-scale or microenterprises, usually operating within the informal trade or service sector (Dzisi 2008), which increases the barriers to external finance (Amine and Staub 2009). Compared with men, women are often primary caregivers for their children and other family dependents, whether or not they work outside the home (Amine and Staub 2009). Moreover, in developing countries, women are often the family's sole breadwinner and are therefore forced to seek paid employment outside the home. One approach is to start a business.

Prior research on gender and entrepreneurship has frequently discussed the external barriers to entrepreneurship, such as a lack of access to capital and discrimination when applying for loans (Aldrich 1989; Aldrich, Reese, and Dubini 1989; Kolvereid and Obloj 1994; Satta 2003). In developing countries women face even more severe funding obstacles (Chiarello 1983), such as their limited ability to be a "businesswoman" (as perceived by others), which further constrain their entrepreneurial efforts. A lack of access to capital is a well-known constraint on growth in small firms (Bhide 1992; Bygrave and Timmons 1992), and obtaining capital is particularly challenging for female entrepreneurs in developing countries. Facilitating access to microloans encourages grassroots entrepreneurship (Bhatt and Tang 2001) and empowers disadvantaged individuals. Microfinancing is construed as a boon to such female entrepreneurs. Under these conditions the best option for women is usually to turn to microfinance institutions, in which group solidarity functions as collateral for the lender. The loan approval rate is higher for female entrepreneurs participating in microfinancing (Apgar and Reille 2010). Microfinancing also has positive spillovers at the individual level by providing greater dignity and self-sufficiency (Bhatt, Painter, and Tang 1999) and at the community level by facilitating economic growth in poor communities. The vast majority of microfinance institutions specifically target women (Aggarwal, Goodell, and Selleck 2015).

There is no standard configuration for this kind of group lending, and, as noted by Bhatt and Tang (1998), several variations exist. The most common configuration is for individuals to organize themselves into small groups of four to six people, with the group itself functioning as a bank guarantor. Here, loans are made to individuals, and they assume liability for the whole group's repayment; the members thus encourage one another to repay the loan, since no new loans are granted until everyone has repaid the first loan. The practice of bundling loans together is referred to as "solidarity lending," and this has been used as a large part of the explanation for many microfinance institutions' success (Jaffer 1999). The group liability contracts underlying microfinancing ensure that incentives exist among peers to screen, monitor, and enforce loans (Van den Berg, Lensink, and Servin 2015) and form the basis of microfinancing.

However, such contracts are particularly strenuous for female entrepreneurs, who must manage family and business needs. Female entrepreneurs, who increasingly experience incompatible norms and obligations in maintaining instrumental microfinance group ties and affective ties with their family, progressively face a dilemma in managing family and nonfamily ties in the microfinancing context. The relationships in nonfamily networks may be more instrumental than affective and associated with providing information and advice and completing tasks (Ibarra 1993; Umphress et al. 2003). Nonfamily relationships are frequently work-related (Lincoln and Miller 1979). Affective ties within the family and instrumental norms in nonfamily ties compete with one another such that membership of one network may demand adherence to norms at the expense of others in different networks. Existing research has shown that the interests of the family and the interests of the business may not always coincide, which can lead to adverse effects on entrepreneurs' businesses (Boles 1996; Chrisman et al. 2012; Karofsky et al. 2001; Miller et al. 1999; Smyrnios et al. 2003). Female entrepreneurs face such increasingly incompatible norms and challenges as they focus on managing norms in both affective and instrumental ties. The use of microfinance can result in both gains and costs, which we discuss below.

Gains and Costs of Microfinance

One explanation for the high success rates in microfinance is the social context (Bhatt and Tang 1998). High social capital exists in the community when group members are part of the same social network with strongly held norms that facilitate behavior control (Coleman 1990; Putnam 1993). High levels of social capital reduce the transaction costs associated with making, managing, and collecting loans. Fund lenders incur transaction costs, defined as nonfinancial costs, in attempts to source funds, design credit agreements, evaluate loan applications, provide training, monitor the loans, and so on. Borrowers can face costs in the form of traveling to lenders' offices, finding other group members, spending time in meetings, and negotiating with lenders.

Members are likely to be more cooperative if they identify with the same norms and trust one another; this is more probable when they are socially embedded and share geographically proximal ties. The key point of interest for the present study is that, where closure or bonding forms of social capital exist, microfinancing lenders more readily lower the transaction costs by relying on the lubricants of trust, norms, and obligations to regulate the repayment of loans. Where social capital is low, the transaction costs for all the parties will be higher, thus undermining the benefits of group-based microfinance initiatives.

However, the very social embeddedness that facilitates microfinancing could increase the costs for the borrowers. The notion of ties that bind that forms the basis of microfinancing (Adler and Kwon 2002; Arregle et al. 2013; Coleman 1990; Putnam 1993) could have negative outcomes that result in "ties that torture" (Krackhardt 1999, p. 183). By substituting strong social structures for weak institutional structures, microfinancing increases the problems for the borrowers. While social contracts in microfinance are required to mitigate moral hazard due to weaker financial intermediation, the social costs could be considerably higher for borrowers. Family, business, and social relationships overlap significantly to facilitate microfinancing. Obligations to these crosscutting and overlapping stakeholders could be increasingly difficult due to the instability of limited cash flows for the working poor. Faced with unstable and low cash flows, borrowers may not be able to pay loans on time or could default on loans. Either outcome could have high social costs in solidarity lending.

Due to the limited and uncertain cash flows typical of a sustenance-based business, loan funds are sometimes used to meet family needs by diverting business income toward family needs instead of paying loan installments. In other cases loan installments or principal payments must be diverted toward immediate business at the expense of family needs, resulting in "borrowers growing frustrated at the cost of attending regular meetings, loan officers refusing to sanction good borrowers who happen to be in 'bad' groups, and constraints imposed by the diverging ambitions of group members" (Armendáriz and Morduch 2005, p. 114). Borrowers must therefore manage the tension between potential gains from borrowing and possible losses in social standing and reputation, a reduced focus on developing the business, and adverse effects on future borrowing potential.

Microfinance Traps

Microfinance traps, therefore, refer to this dilemma that entrepreneurs face—expecting problems with paying back the loan could increase the problems for both the business and the family. Social capital with the microfinancing group is pivotal for initiating, receiving, and repaying loans and receiving future loans; however, those entrepreneurs who manage a sustenance-based business at times must also prioritize the norms underpinning the closed networks based on affective ties (related to meeting family needs) at the expense of instrumental ties (related to other members of the microfinance group). An inability to repay the loan reduces the cash flow to the business, because future loans may be difficult to acquire, and increases the uncertainty regarding future sustenance for the family. The expected insecurity involved in the inability to provide for the family also increases the affective costs in the family. Excessive pressure to meet filial obligations and to repay loans could divert attention from developing the business to preserve instrumental and affective ties.

The foregoing discussion leads to two conjectures. First, continued participation in solidarity lending is necessary for income mobility and sustenance. Solidarity lending ensures future loans for the business to support not only the entrepreneur but also the community. Due to the recursive build-up of capital in a household and in the community, solidarity lending increases the overall economic well-being. Second, despite the positive spillovers from social capital in obtaining financing, the use of microfinance could also have a high social cost and in extreme cases could lead to entrepreneurs selecting out of microfinancing. While the ability to borrow has an economic upside, the inability to make timely payments and/or payments in full has both economic and social costs. The inability to make timely and full payments not only reduces the future borrowing potential (economic impact) but also leads to social ostracism. Neither avoiding microloans nor overlooking the negative consequences of late payments or defaults is viable, because female entrepreneurs must rely on loans to carry out their business.

We explore the possibility of such microfinancing traps with a sample of female Tanzanian entrepreneurs. Through an inductive qualitative study, we conceptualize microfinancing traps, to our knowledge for the first time.

Methods

Relevance of the Tanzanian Context and Data Collection

The financial markets in Tanzania are underdeveloped, and small firms view access to capital as one of the most important constraints to their development (Satta 2003; Temu and Kessy 2015). Numerous microfinance institutions operate in the country with a mix of international and local actors, some profit-driven and others nonprofit. Most of these target female microentrepreneurs.

We selected female entrepreneurs operating in Morogoro, a small town of 200,000 inhabitants in central Tanzania, as the context for the present study. Our fieldwork consisted of data collection over a three-month period in 2009–2010. During this time one of the authors was living with Tanzanian families and spent a significant amount of time learning to understand the cultural context. This was very valuable, as it helped us to reach a deeper understanding of the research setting, which was especially important when analyzing the interview transcriptions.

The interview guide was developed to facilitate reflections on a number of themes regarding female entrepreneurs, family relations, and microloans. The participants were encouraged to discuss their situation in these areas in detail, what experiences they had or had observed, as well as the consequences of these experiences. One important way to increase contextual validity is to carry out a pilot study, especially when the study will be carried out in a foreign cultural context relative to the author collecting the data (Bryman and Bell 2007). To obtain a better understanding of the relevant key issues before the main data collection took place, we conducted a pilot study consisting of four interviews with female entrepreneurs who had taken out microloans and were operating within the service sector. This helped us to develop our interview guide further and to focus our research on microfinance traps as well as ensuring that we would be able to capture enough aspects of the experiences for the outcome to be detailed narratives.

Following the pilot study, the main data collection consisted of 20 semi-structured interviews with female entrepreneurs managing microenterprises, defined as firms with 10 or fewer employees. All the businesses were operating as either services (e.g., hairdressers or tailors) or retail stores (e.g., food stores or small shops). All the entrepreneurs were major owners of their businesses, the business was the main source of the owner's income, and the business had been operating for at least two years. The respondents represented various family situations. Half of them were married and four were widows; the rest were either divorced or single. All of them were mothers, and the majority lived in some sort of joint family system.

The interviews were semi-structured around the broad themes mentioned above, as we needed to obtain standard information but also needed to ask some open-ended questions to gain a deeper understanding of the respondents' feelings, attitudes, and behaviors, which are central aspects of the present study (Miles and Huberman 1994). The entrepreneurs were asked to describe the events, incidents, and activities of their venturing. Although some of the interviews were conducted in English, with the assistance of an interpreter, the majority of the interviews were conducted in Swahili, the local language. The interviews lasted between 45 minutes and 1.5 hours.

Data Analysis

Based on LeCompte (2000) and Van Maanen (1979), as well as Gioia and Chittipeddi (1991) and Nag, Corley, and Gioia (2007), the following initial steps were undertaken. All the interview transcriptions were read carefully, one by one. Words, phrases, and terms were labeled, and first-order codes were identified. The interviews were then reread several times, and the respondents were compared to identify similarities and differences. Gradually, codes that expressed similar ideas among the respondents were sorted into first-order categories. This coding continued until no more conceptual patterns shared by the respondents could be found. Thereafter, the first-order categories (as expressed by the respondents) were grouped into second-order themes, or theoretically distinct groupings, at a more abstract level. Eventually, we assembled the second-order themes into overarching dimensions. At this level the different phenomena emerging from the data were linked in a comprehensive theoretical framework of microfinance traps. Table 1 presents the five steps completed during our coding.

Findings

The Process of Microfinance Traps

The analysis of our data suggested that, through the family and personal affective ties, it was possible for the women to end up in what we call microfinance traps. Although the received benefits were clearly expressed and evident, we took particular interest in studying the women's affective ties with their family. In doing so, we observed that the potential benefits of the instrumental ties with the loan group were outweighed at times by those of the women's affective family ties. Drawing on the data, we observed a distinct process that could lead the women into such traps. The themes that emerged from the data and the more abstract overarching dimensions are illustrated in Table 2.

Signals of Received Benefits. As we studied the use of microloans among female entrepreneurs in Tanzania, a clear pattern emerged from the data, suggesting that the women have benefited from receiving microfinance. We identified three second-order themes, which together

Table 1
Data Analysis and Coding Process

Step	Description
Step 1: Tidying up	This involved putting all the field notes and interviews in order, creating files based on types of data, cataloguing and storing all the documents, labeling the files, and reviewing the research question and comparing it with the data collected. This allowed us to make a preliminary evaluation of the data.
Step 2: Finding items	We next looked for specific things in the data set and coded, counted, and assembled them into research result items, that is, first-order codes. To identify items relevant to the research questions, we read through the interview transcriptions repeatedly and systematically looked for frequency, omissions, and declaration of items.
Step 3: Creating stable sets of items	When items were identified, we organized them into groups or categories by comparing and contrasting them and matching them. This resulted in input to the secondary-order themes.
Step 4: Creating patterns	When stable sets of categories had been created, we identified patterns among them. In the process we searched for how taxonomies could be clumped in meaningful ways, noticing and marking links to the previous literature.
Step 5: Assembling structures	In this stage the patterns were grouped into structures, which helped us to describe or explain the whole phenomenon that we studied. This resulted in overarching dimensions.

highlight the positive effects of microfinance and the women's commitment to the loan group. These themes also explain why these loans empower women in developing countries through (among other things) financial means. First, microcredits offer *resources to ensure a focus on venturing*. Many of the respondents expressed that no other sources of capital were available; indeed, microloans gave them an opportunity to start or expand a business and thereby generate an income. As expressed by Mary, who runs a service business, "I am only depending on loans, only. No money from any other places, no." The resources gained while obtaining microloans included independence and increased self-confidence due to contact with other female entrepreneurs in the loan group. Such relationships ensured that they really focused on venturing and establishing their companies. Importantly, several women said that the microcredits ensured that they set up their business and thus acted as a tool to help them to provide for their families. This was critical for understanding the high level of engagement in venturing that was evident among the studied entrepreneurs.

Second, microcredit provides *legitimacy of the business concept*. Mariam, who runs a clothing store, explained that "Before you take the loan, there are two days of seminars. And when we meet [in the group] to do the repayments, there are also seminars on business training and how to run the loan that you have taken." Most microfinance institutions require women to start by saving a small amount of money every week before obtaining the loan. During the repayment period, they usually receive business training, for example, training in bookkeeping, which further legitimates and strengthens the women in their role as entrepreneurs. This legitimacy is important for reaching initial customers and for building relationships with suppliers, thus obtaining the necessary products for sale. In many cases payments need to be made in advance; indeed, in such cases the microcredit takes on significant importance.

Third, the microcredits often give the entrepreneurs the *potential to upgrade the business*. Usually, the women join a group that starts with a small loan, and when all of them have repaid that first loan, they can be granted a second loan, which is larger. When all have repaid that

Table 2
Overarching Dimensions and Themes in the Data

Overarching Dimensions	Second-Order Themes	First-Order Categories—Representative Quotations
Signals of received benefits	Resources to ensure a focus on venturing	"I am only depending on loans, only. No money from any other places, no." "I found that life was too tough. That's why I decided to start this business. So that I can get the money to run my family."
	Legitimacy of the business concept	"When I was taking that loan from PRIDE, they were educating people [in bookkeeping] before they get the loan. This is important for the business operations." "Before you take the loan, there are two days of seminars. And when we meet [in the group] to do the repayments, there are also seminars on business training and how to run the loan that you have taken."
	Potential to upgrade the business	"I started with [the first loan] in 1988. I started with 50,000 TSH. After that, 50,000 again. Another loan of 300,000. Then 500,000. Then one million." "I want to take a bigger loan, but first you can start with 200,000 TSH, and after repaying that, you can get 400,000 and then you get 600,000. It just goes on like that."
Incompatible norms and obligations toward family	Visible instrumental toward group/loan supplier	". . . the hard thing is that they say that you have to be in a group of five or something. And when you are in a group . . . when someone fails to pay, you have to pay for her. And the difficulty is to repay per week. Every week, you have to pay the money. That is where the difficulties come . . . ." "The other women in my group are my neighbors. But it is bad, because when someone fails to repay, you have to pay for her. And someone will fail to repay, and you are supposed to pay for her. That is bad for me."
	Invisible instrumental toward group/loan supplier	"Those groups of women, you must know your group. Everyone should know their group, because if you don't know someone, if there is a new woman, if she fails to repay and you don't know where she is staying, it will be difficult to do follow-up with that person. So, in every group, you must know each other, and know the places where they are living." "I want to take an individual loan, me as me. So I don't have to worry about the group."
	Visible affective toward family	"I used to save money from this business. But this year, I used the money which was saved to pay for school fees for my younger sister. I used almost 1,700,000 TSH." "My husband died some years ago. But sometimes, someone from my family, or relatives from my husband's family . . . assisted me with different things. And I now help them with other things."

Table 2
Continued

Overarching Dimensions	Second-Order Themes	First-Order Categories—Representative Quotations
	Invisible affective toward family	"The bad things, when you are running your own business, I mean, you can't use your own money . . . because the relatives, they are just looking at you, that you have something there, some money, so they come with their problems, asking for assistance . . . . And because they saw you, they saw people coming [to the shop], customers, they know that you have money, so sometimes you find yourself using a lot of money helping them."
		"Family is family. I do not cooperate with anyone else; if there is a problem, I try to solve it . . . . We are nine people in the household, and this business is providing for everyone."
Weighting ties	Cognitive weighting to solidarity	"I fail to save, because I have children and there are school fees and bus fares to be paid, and then to get the money for food every day, there are needs at home . . . . I am still repaying the loans which I got—I mean, I am supposed to repay. Now, you find it is difficult for me to save any money . . . ."
		". . . the problems of having these bank loans, you have to make more effort, so that you can make your repayments. But when you are sick, you will be in a very bad situation, and think 'how can I get the money?' [. . .] And it is difficult for me to save, because the rent here is 300,000 TSH per month. And at home, there are my three children. School fees, bus fares to school . . . many things in life need money. So it is difficult to save."
	Affective weighting to solidarity	"I'm a widow. I am the only owner of these businesses. The name [of the business] 'Martin's Decoration and Catering' is from the name of my son" [who died some time ago and the woman dedicated the business to her son].
		"My husband was a drunkard for many years, so it was difficult to develop the business. He has been saved now, he received Jesus as his savior, and he is not drinking anymore. But for all those years, we didn't even have a house . . . so it was difficult with the business as well. But now, the income is good and we have started to build a house."
Microfinance traps	Problems paying back the loan	"I'm afraid of getting these loans . . . I don't dare go there . . . because, when I see these other women, when they fail to repay, how these people [loan officers], they are just going and taking all their things. No, I don't like that . . . ."
		"Many women are afraid to take loans from the microfinance organizations, because if you fail to repay, I mean, they are just coming to take all your things and your house . . . So, you see, many women are afraid to take loans . . . ."

Table 2
Continued

Overarching Dimensions	Second-Order Themes	First-Order Categories—Representative Quotations
	Not obtaining new loans	"First you take a small loan, maybe 50,000. And when you have repaid, you can get a second loan, of 100,000. And then a bigger loan and it goes on like that. But everyone in your loan group has to repay, before anyone can get a new loan . . . . Otherwise you will not get any." "You start with a small loan, and after repaying that one, you can get bigger loans, little by little. But everyone has to repay their loans first."
	Losing focus on developing the business	"Many women want to take bigger loans, and not just what they can get from these microfinance institutions, you can't do anything with small amounts . . . and you find that you are not using it all in the business. Because when you take loans, you find that there is no money at home, and there is no other money—you don't have any savings—and you will just take some of the money from the loan, and use it for other issues at home . . . . And I also have some other problems at home, so when I got the loan, I took some of it for other activities. I do not really progress further . . . ." "The most challenging side of getting capital is the bureaucracy. Too long processes. And when you have no one to assist you to sell the products, you have to stay in the shop. So you find that it takes too long time just to get the loan, and maybe you decide to not make any applications for the loan at all."

second loan, they can apply for yet a higher loan amount, and so on. Francesca, who sells children's clothing, says, "I want to take a bigger loan, but first you can start with 200,000 TSH[2] [USD 150], and after repaying that, you can get 400,000 [USD 300] and then you get 600,000 [USD 450]. It just goes on like that." If a woman is successful, and after several group loans is proven to be reliable in repaying the loans and becomes well known to the loan officers, she may be granted an individual loan that is higher still. In this way her business can grow at a slow and steady pace, as the entrepreneur develops business skills and the microbank avoids taking risks that are too high. The majority of the respondents felt that they had the potential to upgrade their venture thanks to the microloans. Some of them were also employed elsewhere but found that their salary was insufficient to cover their expenses in life. We also learned that many of the interviewees had been housewives for a long time but found that the family income was not enough when their children reached school age and school fees had to be paid. They started a business as a means to survive and to improve their situation gradually.

Incompatible Norms and Obligations Toward Competing Networks. We also observed two clear patterns: first, norms and obligations toward family that were somewhat contradictory to those of the microfinance loan group and, second, instrumental ties that developed among other entrepreneurs subscribing to the group loan arrangements. We observed examples of both visible and invisible norms for both types of ties. The first theme, *visible instrumental norms and obligations toward the group/loan supplier*, concerned the instrumental relationship with the group of entrepreneurs to which a particular woman was linked and norms and obligations that were explicitly and visibly expressed in the loan group. As mentioned, the loan group is in itself the security for the microbank, and, together, the clients, through dependencies, increase and secure repayment rates. As a woman enters a loan group, she will be expected to reciprocate the loan and not to violate the obligations to the group of other entrepreneurs, in line with what the research on tie dependency has suggested.

What we considered interesting was that every single respondent who had been in a loan group also spoke of this arrangement as something negative and loaded with pressure. Although they realized that this gave them the opportunity to obtain a loan and acknowledged the benefits, they strongly disliked the economic stress and the risk of potentially repaying the loan of a failing group member. "... the hard thing is that they say that you have to be in a group of five or something. And when you are in a group ... when someone fails to pay, you have to pay for her. And the difficulty is to repay per week. Every week, you have to pay the money. That is where the difficulties come ...." What Angelina, a hairdresser, mentions here is openly shared by the absolute majority of the respondents.

The next second-order theme, *invisible instrumental norms and obligations toward the group/loan supplier*, was implicit and as such expressed more as hints and difficult-to-detect signals. Because the group members increased the financial risk for the individual loan client, it becomes important to know the others in the group. By doing so, we observed many hidden signals that could be communicated among the female entrepreneurs. Mwanisha, who sells jewelry and children's clothing, explains one of the difficulties with this: "Those groups of women, you must know your group. Everyone should know their group, because if you don't know someone, if there is a new woman, if she fails to repay and you don't know where she is staying, it will be difficult to do follow-up with that person. So, in every group, you must know each other, and know the places where they are living." In a country where many areas lack a system with street names and addresses, every client needs to know exactly where other group members are living to track a failing group member. As women are also often mothers, they tend to be less mobile, which also lowers the risk for the microbank. Obviously, bonds of dependency are formed—for better or for worse—within the loan groups. In this configuration the female entrepreneurs simultaneously send signals to each other and become aware that they depend on each other. In this process it was indicated that just a visit from another group member could create stress about failure and ensure that norms and repayment obligations were not forgotten. Thus, it might not

[2]Tanzanian shillings.

come as a surprise that Mwanisha continues by stating "I want to take an individual loan, me as me. So I don't have to worry about the group."

We call the third theme *visible affective norms and obligations*, which indicates the extreme importance of family ties in the Tanzanian context. In a society in which the government and other formal institutions are weak and dysfunctional, we observed and were told repeatedly that the extended family plays the role of protector and provider for individuals and that the family norms and family obligations significantly influence women's behavior. We captured several examples of the difficulties involved in navigating, networking, and succeeding as an entrepreneur without family relationships. Nmwera says, "My husband died some years ago. But sometimes, someone from my family, or relatives from my husband's family . . . assisted me with different things for the business start-up. And I now help them with other things." In return the extended family expects loyalty from the female entrepreneurs, which sometimes restricts them from developing in different ways. Something that is often mentioned as a financial burden is school fees, and not only for the women's own children. Angelina says, "I used to save money from this business. But this year, I used the money which was saved to pay for school fees for my younger sister. I used almost 1,700,000 TSH [USD 1275]." The majority of our respondents talked about how their families supported their choice to start a business, as their husbands or parents agreed on the need to increase the family income. Close family ties, however, also place expectations on the women to prioritize what is beneficial not only for the nuclear family but also for the extended family.

Obligations toward the extended family are also found implicitly as underlying expectations and pressure, as *invisible affective norms and obligations*, which constitute the fourth theme. Angelina, the hairdresser from the previous example, faces this underlying pressure from relatives. She explains: "The bad things, when you are running your own business, I mean, you can't use your own money . . . because the relatives, they are just looking at you, that you have something there, some money, so they come with their problems, asking for assistance . . . . And because they saw you, they saw people coming to the shop, customers, they know that you have money, so sometimes you find yourself using a lot of money helping them." As is evident in our data, the incompatible pattern of norms and obligations is rather strong from both networks, and they come in both very direct and more hidden forms. Our data illustrate that these incompatible signals were something that the women were often aware of and influenced by in their daily lives as entrepreneurs.

Weighing Ties. In several cases we observed that the respondents found themselves in unpleasant situations, in which they were forced to choose between the obligations toward the family and those toward the loan group/loan supplier. In these situations they made decisions in which solidarity toward the family was weighed against depending on the loan group/loan supplier. Even though family ties are strong and in many ways positive, we saw that families also limited women's ability to develop their businesses.

In our data we found both cognitive and affective components of this weighting, which we sorted into two themes. First, *cognitive weighting to solidarity* occurs when the cognitive dimension captures the thoughts and planning needed to meet family obligations. In deciding how to act in a specific situation, the family obligations were weighed against the instrumental ties in the loan group. In most cases it was clear that the affective ties outweigh the instrumental ties. For example, as Dora, who sells women's clothing, says, "I fail to save, because I have children and there are school fees and bus fares to be paid, and then to get the money for food every day, there are needs at home . . . I am still repaying the loans which I got—I mean, I am supposed to repay. Now, you find it is difficult for me to save any money . . . ."

The second component, *affective weighting to solidarity*, represents the strong feelings and care by which the women are influenced when deciding either to fulfill the expectations of the family or to fulfill those of the microfinance group. Here, as well, we observed several examples suggesting that their affective ties to their families outweigh their instrumental ties to the microfinance group. One example is Mary, who named her business after her son, who died from AIDS some time ago. Her affection toward her son made her dedicate the business to him, even though the reason that he died creates a stigma for her and risks leading to a bad reputation and problems with the loan group as well as fewer customers. She simply says: "I'm a widow. I am the only owner of these businesses. The name [of the business] 'Martin's Decoration and Catering' is from the name of my son."

Microfinance Traps. We saw several situations in which female entrepreneurs with microloans had to choose between solidarity toward the family and extended family and repaying their loans and investing as much as possible in their businesses. We have indicated a few of these situations, leading to the last overarching dimension identified as *microfinance traps*. Among our respondents we found three situations signaling that the women risked ending up in a worse economic situation than before taking out the credit.

First, this situation can lead to *problems with repaying the loan*. Many respondents fear this, since they know that loan officers can be rough in claiming belongings from a client who fails to repay. In such a situation, further venturing and the family's financial situation are jeopardized. Upendo says, "Many women are afraid to take loans from the microfinance organizations, because if you fail to repay, I mean, they are just coming to take all your things and your house .... So, you see, many women are afraid to take loans ...."

One of the consequences of not repaying leads to the second theme: that the client will *not be granted new loans*. There are numerous examples of misbehavior, which immediately restricts further funding. When experiencing difficulties in obtaining new loans, continuous venturing becomes problematic. Everyone is aware of how it works, and Sara explains, "First you take a small loan, maybe 50,000 [USD 37.50]. And when you have repaid, you can get a second loan, of 100,000 [USD 75]. And then a bigger loan and it goes on like that. But everyone in your loan group has to repay, before anyone can get a new loan .... Otherwise you will not get any."

Third, we found that, due to financial stress and the many burdens of not reciprocating the loan, many women tended to *lose focus on developing the business*, which further influences the venturing in a negative way. Sara again states, "Many women want to take bigger loans, and not just what they can get from these microfinance institutions, you can't do anything with small amounts ... and you find that you are not using it all in the business. Because when you take loans, you find that there is no money at home, and there is no other money—you don't have any savings—and you will just take some of the money from the loan, and use it for other issues at home .... And I also have some other problems at home, so when I got the loan, I took some of it for other activities. I do not really progress further ...."

Microfinance Traps

To summarize our findings, we observed a process of incidents that risk leading female entrepreneurs into microfinance traps when the tension between the obligations toward family needs and the obligations toward the loan group becomes too great. The overarching dimensions that we identified from analyzing the data are *signals of received benefits*, stating that there are many examples of positive outcomes from the use of microloans, followed by *incompatible norms and obligations toward competing networks*, referring to situations in which female entrepreneurs face conflicting obligations from different groups. Next, *weighting ties* refer to situations in which the tension is built up in such a way that the female entrepreneurs find that they have to weigh their priorities toward the different groups, and, finally, *microfinance traps* result from the inability to handle this complex tension.

The Proposed Framework and Propositions

How do female entrepreneurs mitigate microfinancing traps? In our interviews we identified several approaches. We use the relational exchange theory as an interpretive lens.

Relational Exchange Theory

Extending MacNeil's (1980) relational contract arguments to the microfinance realm could explain how relational norms ensure group loan reciprocation and microfinance behavior. Contrasting rational–economic formalism in contracts, MacNeil (1980) stated that contracts range from discrete (often called arms-length or transactional) to relational. Relational contracts are based on social and economic contexts and assume an ongoing relationship based on trust. Relational contract theory posits that relationships are governed by shared norms that explain obligations and are based on both social and economic motives. Specifically, relational norms drive "the behaviour that does occur in relations, must occur if relations are to continue, and hence ought to occur so long as their continuance is valued" (MacNeil 1980, p. 64). Instead of enforcing contracts through a third party, relational contract theory calls for negotiating and renegotiating, resolving conflict and maintaining reciprocity without the intervention of a third party.

MacNeil's (2000) work on modern relations exchange is characterized by factors that align closely with exchange relations in microfinance. First, relational exchanges are based on personal relationships, in which reputation, morality, and interdependence are central. Microfinancing is based on personal relations with the group and relies on trust and morality to sustain the value of community. The exercising of relational norms results in behavior patterns that are both regular and relatively stable and expected by members of the group (Bettenhausen and Murnigham 1991). To a great extent, stability in a relationship is built on the presence of common norms, following a high degree of interaction (Gundlach and Achrol 1993). Both loan lenders and receivers are bound by relational norms due to social embeddedness. Continuing social interdependence among lenders and borrowers is necessary to sustain the exchange. Enforcing contracts through discrete mechanisms (i.e., arms-length) may not be necessary, because lenders rely on solidarity lending to mitigate adverse selection and moral hazard. Second, being involved in microfinance requires a focus on both individual and collective interests by allowing individuals to pursue individual business interests while ensuring that the collective interests are upheld to maintain continuity. Finally, relationships are maintained for a significant period of time and objectives are both measurable and nonmeasurable. Not only is microfinance based on continued long-term exchanges in the community; it also has a broader nonmeasurable objective of promoting community sustainability through human dignity, social support, and shared values.

Based on our discussion so far on financial constraints and filial obligations, relational contract theory is a particularly relevant lens through which to examine the microfinance context in Tanzania. Because business and family goals in Tanzania are deeply intertwined, it is essential to understand fully the competing family and loan-related norms and the value of maintaining relational norms of exchange. Relational exchange norms could also assuage some microfinance traps. This practical approach to ameliorating the negative effects of microfinance provides social strategies that entrepreneurs can use to weigh instrumental ties with the group against affective ties with the family. The findings have implications for microfinance, entrepreneurship, and the relational exchange literature.

The proposed model (Figure 1) evolved from using relational exchange norms related to the findings discussed above and relational contract theory. To interpret the findings in the context of relational exchange theory, we continue with Table 3 to understand how entrepreneurs weigh ties in the context of the components of relational exchange theory. Specifically, in Table 3 we show that entrepreneurs who have high role integrity, have the ability to preserve norms and reciprocity, and work to harmonize the social matrix and manage ties with the family *and* the group face lower perceptions of microfinance traps. We found that entrepreneurs who focus more on family obligations over group obligations are more likely to experience microfinance traps.

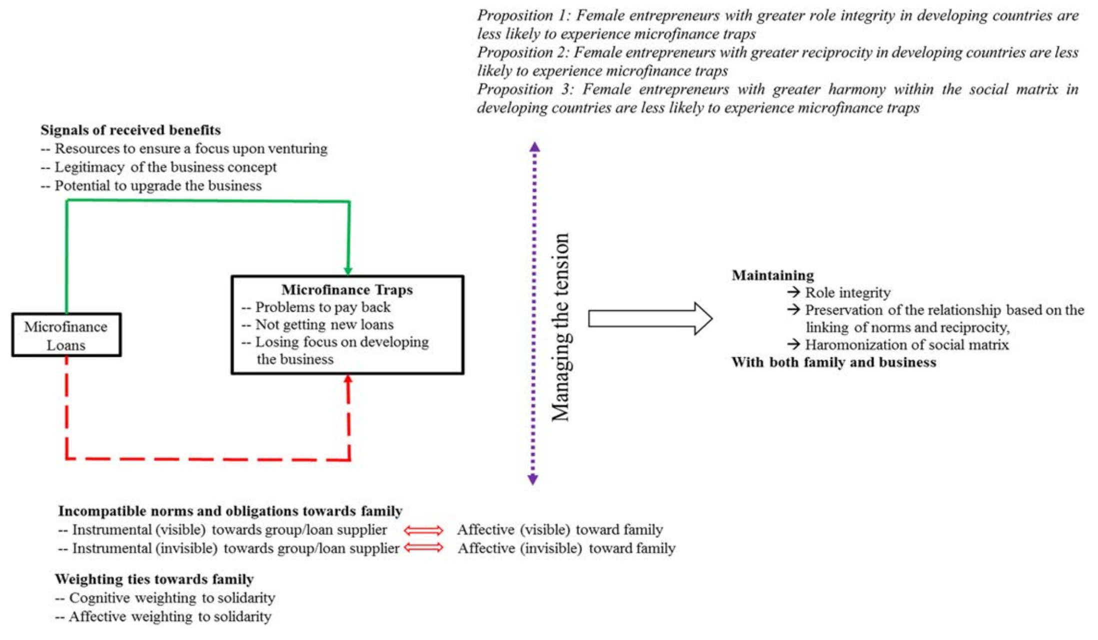
The quotes highlighted in Table 3 broadly indicate that managing competing relational norms between lender–receiver, receiver–business, and receiver–family contexts is necessary to reduce microfinance traps. These competing norms must be managed jointly. If a loan receiver focuses solely on filial norms, not only will the future likelihood of receiving loans decline but also their social standing could suffer. Focusing exclusively on group norms would limit the ability to meet filial norms, thus weakening the affective ties. For loan recipients to continue receiving loans, they must abide by relational norms and develop exchange mechanisms with both the family and the group.

Based on Table 3, the broad inferences pivot on three relational norms specified by MacNeil (1980): role integrity, preserving the relationship between linking norms and reciprocity, and harmonizing the social matrix. Based on the theoretical discussion, a set of propositions is presented below. Following each proposition we also present illustrative cases to show the relevance of the propositions to the studied context.

Role Integrity

Exchange partners aim to maintain role integrity by expecting that their partners will act "properly or adequately in all circumstances" (Misztal 1996, p. 121). The conceptualization of role integrity is based on the self-control of parties in overseeing short-term gains and adhering to exchange norms to maintain long-term relational exchanges. Because formal rules are absent in relational exchanges, parties rely on anticipated exchange outcomes and fulfilling obligations. Role integrity is based on trust, because parties are more vulnerable to moral hazard. Entrepreneurs who are able to balance the weighting between affective and instrumental ties will be able to increase their role integrity. We posit that the ability to maintain

Figure 1
Conceptual Model



The left part of the model shows the process of microfinance traps (deduced from qualitative analysis). In order to manage the tension between benefits of venturing versus gains from transferring microfinancing benefits to the family, we present three propositions based on relational exchange theory (shown to the right and presented below). [Color figure can be viewed at wileyonlinelibrary.com]

complex and long-term behaviors to meet business, group, and family obligations by maintaining integrity in the face of competing obligations leads to fewer microfinance traps:

> *Proposition 1: Female entrepreneurs with greater role integrity in developing countries are less likely to experience microfinance traps.*

To support the proposition, we use quotes from the respondents and interpret these through the lens of relational exchange theory. We start with two illustrative cases. Mary, who runs a restaurant and catering service, demonstrates greater weight toward family ties, which she expresses in both cognitive and affective ways, by taking responsibility for the extended family and by naming the business after her son, who passed away some time ago. However, she also shows commitment to her loan groups. She points out the importance of microloans for starting and expanding her business, and she has taken out loans many times. She also proudly shows her bookkeeping, and the process of running a business has clearly given her self-confidence as well as legitimacy as a business owner toward others. “Let me show you my bookkeeping, and also my business licence.” In managing incompatible norms regarding family and business, Mary focuses not only on the role of loans in improving the business but also on the dependence of family members on the business. Mary experiences fewer microfinance traps because she accepts a greater need to maintain relational integrity to fulfill both business goals and family commitments.

Trinity, in contrast, demonstrates lower commitment to and identification with the loan group; she exhibits lower business commitment by incrementally taking out more loans, for example, “... first loan was 50,000 TSH [USD 37.50], then 100,000 [USD 75] and so on, and now it is 1.5 million TSH [USD 1125],” and less

Table 3
Types of Norms and Applicability in the Current Sample

		Weighting Toward Family Ties		Weighting Toward Business Gains (Signals of Received Benefits)			Incompatible Norms and Obligations Toward Family				
		Cognitive weighting to solidarity	Affective weighting to solidarity	Resources to ensure a focus upon venturing	Legitimacy of the business concept	Potential to upgrade the business	Instrumental (visible) toward group/loan supplier	Instrumental (invisible) toward group/loan supplier	Affective (visible) toward family	Affective (invisible) toward family	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Reported Micro-financing Traps
Role integrity	Mary	"One of the employees is the last born of my mother, so my younger brother . . . The business is important, not only for me but for the whole family."	"My husband and son died, and my father already died. I have only my mother. And I have dependents, like my sister. We are seven in the household, and they are all totally depending on me. I didn't tell them about my situation [having HIV], as they are all depending on me. How could I? It would make them worse than even me."	"I am only depending on loans, only. No money from any other places, no." (Indicating the importance of access to microloans to start and expand the business.)	"Let me show you my bookkeeping, and also my business licence." (Mary proudly shows her bookkeeping and licence. It has clearly given her self-confidence as well as legitimacy as a business owner toward others.)	"I have taken many loans. I started with the beauty salon in 2007, then I opened this restaurant in 2008. And before that, I had the decoration and catering service." (Microloans make it possible to grow.)	"I'm aiming at having a big business and the loan amounts that I get are too small. I need to get bigger [individual] loans." (Mary manages to repay her loans, but is struggling with the fact that group loans are small.)	"The commercial banks request a house for collateral, and I don't have that, so I have to turn to the microbanks. And, at least, the interest at the microbank is not very high, so I can slowly build up my business. When I get a big loan, I can do many things." (She clearly sees the benefits of the microloans, but would prefer bigger, individual loans.)	When it comes to my business, there is no one to talk to. They are all depending on me." (Obviously under the pressure of expectations from family members.)	"I'm a widow. I am the only owner of these businesses. The name [of the business] 'Martin's Decoration and Catering' is from the name of my son." (Mary's son died some time ago and the business is dedicated to him. This shows how strong affective ties toward family are linked to the business as well.)	Low
	Trinity	"It is difficult to save, after I have paid the employees, there are school fees and	"I have been running this business for three years now, since my husband	"When I started, the first loan was 50 000 TSH, then 100 000 and so on. Now I am on	"Yes, it is a licensed business, a guest house with rooms for rent."	"When I take loans, I try to change things, like the bed sheets. I try to make things	"Group loan is not good, because you are up to 50 people in the group, divided	"I'm in a group of five people who know each other, and if someone fails to repay, you	"My husband is dead and I have four children. One girl and three boys, but	"You find that women, we can do something. Women are the ones who are	High

Table 3
Continued

		Weighting Toward Family Ties		Weighting Toward Business Gains (Signals of Received Benefits)			Incompatible Norms and Obligations Toward Family				
		Cognitive weighting to solidarity	Affective weighting to solidarity	Resources to ensure a focus upon venturing	Legitimacy of the business concept	Potential to upgrade the business	Instrumental (visible) toward group/loan supplier	Instrumental (invisible) toward group/loan supplier	Affective (visible) toward family	Affective (invisible) toward family	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Reported Micro-financing Traps
		family needs . . . So if I save, it is just a small amount. Family needs go first."	died. Before that, we were running it together. Now I am on my own . . . ." (There is still a feeling of solidarity toward the husband who passed away.)	1.5 million." (Microloans give opportunities for venturing.)		better in the business." (Microloans help Trinity to upgrade the business.)	into sub-groups of five." (Frustrated about the complications with group loans.)	are supposed to take the responsibility of repaying for her. [. . .] I'd like to get a loan at a [commercial] bank, because it would be an individual loan." (Indicating how important it is to be able to control others in the loan group.)	one of them is disabled. We are about eight people in total, staying here. I am responsible for all of them."	responsible for the family. If we get good loans, we can run our business. And women are faithful in returning the loans." (Expressing her feeling of obligation and responsibility toward her family.)	
Preservation of norms and reciprocity	Angelina	"In the future, I want to be able to expand the business, so that I can pay school fees for my children." (Family needs as the most important driving force for an expansion.)	"The first person I turn to is my husband. Sometimes he supports me when I need to get something for the business, when I have no money. And he tries to help me in thinking about how to	"I am trying to find the alternatives to get a loan from a commercial bank, a bigger amount. I want 3 million. Maybe if I use the house as collateral. And this business will help me in repaying."	"You become free when you run your own business! You have a good plan and as you are running the business, you can just fulfill it!" (On how the business increases Angelina's self-	"The meetings [for repayments] are good too, because we discuss our businesses. For example I used to have a small shop, and we were discussing this, and I was recommended to start this salon.	"The hard thing is that we have to be in a group of five. And when you are in a group . . . when someone is not going to pay, you have to pay for her. And the difficulty is to repay per week. Every week you	"It would be better to get individual loans, where you take a loan – you as you – not within a group . . . ." (On how difficult it can be to depend on and cooperate with other loan clients.)	"I used to save money from this business, but this year I used the money which I had saved to pay school fees for my younger sister. I used almost 1,700,000 TSH." (Family needs come first,	"The bad thing is that, when you are running your own business, I mean, you can't use your own money . . . because the relatives, they are just looking at you, that you have something there, some money.	Low

Table 3
Continued

	Weighting Toward Family Ties		Weighting Toward Business Gains (Signals of Received Benefits)			Incompatible Norms and Obligations Toward Family				
	Cognitive weighting to solidarity	**Affective weighting to solidarity**	**Resources to ensure a focus upon venturing**	**Legitimacy of the business concept**	**Potential to upgrade the business**	**Instrumental (visible) toward group/loan supplier**	**Instrumental (invisible) toward group/loan supplier**	**Affective (visible) toward family**	**Affective (invisible) toward family**	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**Reported Micro-financing Traps**
		run the business in a good way." (Expressing solidarity between Angelina and her husband.)	(Microloans give opportunities for venturing.)	confidence and legitimacy.)	Now I find that was useful advice, after moving here to this salon." (The women within the loan group support each other in different ways.)	have to pay the money. That is where the difficulties come . . . ." (Expressing frustration with the structure of the group loans.)		not only those of her own children but also those of her siblings and other family members.)	They come with their problems, asking for assistance, because they saw people coming, customers, so they know that you have money." (Frustrated about pressure from family expectations.)	
Mwanisha	"The reason to start the business was to get more income. When you depend on your husband only, income is not good enough to run life." (On how family needs require better income.)	"I have two children; the first one is a girl, 10 years old. The second is a boy, six years old. I am married . . . . Many things in life need money. So it is difficult to save . . . ." (Solidarity toward children is in focus.)	"I started the business five years ago, with the help from loans from my church. It was a microfinance institution, passing through the church." (Microloans giving opportunities.)	"They have seminars, on how to run the loan you have taken. Before you take the loan, you get two days of seminar . . . . It is like a training, you have an exercise book and a pen, and they train you on how to go about the	"Before this business, I was selling second-hand clothes. First, I was saving money with the church, and then I could take the loan. I started little by little." (Microloans giving opportunities to grow.)	"I was taking these loans, but afterwards I stopped, because you have to be five of them [loan clients], and it is not good. I didn't like to take as a group, because there are some problems when you are in a group."	"You must know your group. Everyone should know their group, because if you don't know someone, she is new, and it happens that she fails to pay, and you don't know where she is staying, it will be difficult to do follow-up with	"It is difficult to save, the rent for this location is 300,000 per month, and at home, the children need bus fares . . . ." (Again, children's needs are in focus.)	"He [my husband] participates in bringing an income to the family. But you know, a mother is a mother . . . ." (Indicating that women in general take a bigger responsibility for the needs of the children.)	High

Table 3
Continued

		Weighting Toward Family Ties		Weighting Toward Business Gains (Signals of Received Benefits)			Incompatible Norms and Obligations Toward Family				
		Cognitive weighting to solidarity	Affective weighting to solidarity	Resources to ensure a focus upon venturing	Legitimacy of the business concept	Potential to upgrade the business	Instrumental (visible) toward group/loan supplier	Instrumental (invisible) toward group/loan supplier	Affective (visible) toward family	Affective (invisible) toward family	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Reported Micro-financing Traps
					business." (The process of microloans increases the legitimacy as a business owner.)		(Frustrated about joint liability.)	that person. So you must know each other, and know where they are living."			
Harmonization of the social matrix	Nmzera	"My husband already died. But some-times, if I have to go somewhere, a member of the family, a close relative, comes here and assists me." (Indicating the importance of solidarity within the family.)	"When I have a financial issue, I usually talk to my brother-in-law. In order to get a loan, you are given a form, and someone whom you believe in has to fill it in, with a picture and signature, like a reference . . . ." (Nmzera manages to maintain close relationships, even with her in-laws.)	"I just went there, applied for the loan and got it, without any complications, and I could start my business right away." (Microloans giving opportunities for venturing.)	"When I have finished this loan, I am thinking of going back to NMB[a] for a bigger loan. I have good chances, because I am already a member, a customer." (Showing that Nmzera has managed to build legitimacy as a reliable customer and business owner.)	"I started with 500,000, from October to March. When I finished, I applied for 1 million that is the loan which is running now." (Increased loan amount give opportunities to grow.)	"Not in formal ways, but informally, I cooperate with other women, in Dar es Salaam and here in Morogoro. We cooperate with this handicraft, but also in communicating." (On the importance of cooperating with other business women, not only within a loan group.)	"Individual loan is good, rather than group loan. And NMB[a] is good, the way they give the loans, and the interest is not very high compared to the banks. And they don't come and harass the ladies in their business or whatever, as long as you pay." (Realizing the benefits of microloans, as long as one manages to repay.)	"I haven't managed to save, but I managed to repay the loan I have taken. I also managed to pay school fees, not all, but a certain amount. You know, in life, after paying the loan, school fees, there are family needs, you need food . . . That's why I fail to save." (Family needs come first.)	"We are four in the household, me, my two children and my sister. She is not working. I am responsible for them. But sometimes, not frequently, but sometimes, you find that relatives from both sides, also from my husband's side, they assist me." (Even though Nmzera is a widow, she has managed to keep good relationships with her own as well as her husband's family.)	Low

Table 3
Continued

	Weighting Toward Family Ties		Weighting Toward Business Gains (Signals of Received Benefits)			Incompatible Norms and Obligations Toward Family				
	Cognitive weighting to solidarity	Affective weighting to solidarity	Resources to ensure a focus upon venturing	Legitimacy of the business concept	Potential to upgrade the business	Instrumental (visible) toward group/loan supplier	Instrumental (invisible) toward group/loan supplier	Affective (visible) toward family	Affective (invisible) toward family	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Reported Micro-financing Traps
Dora	"My husband died two years ago. We are now five in the household. Me, my three children and the daughter of my sister. I am bringing an income for all of us, but my sister's daughter is also selling vegetables at our house." (Having great responsibility for dependents.)	"After my husband died, I stopped running the business for some time. I had to find the capital to start again . . . ." (Dora talks about the financial difficulties she had to go through after the death of her husband and how this affected the family.)	"I don't like the group loan, but it does give me a chance to take a loan . . ." (Dora recognizes the benefits of microloans.)	"Education would be the most important thing for women who run a business. We don't really get education on how to run our business at PRIDE [microbank], they just tell us about how to save the money and how to repay the money." (Having higher expectations on how the microfinance institutions could help in building legitimacy for the women.)	"A good place for me to get a loan would be a commercial bank, where they give you an individual loan. But I would fail, because I don't have a licence." (Since the commercial bank is not an option, the microloans at least give some opportunities to grow.)	"The difficult thing is that you have to be in a group of five or something. First you have to save 2000 TSH per week, up until 50 000, then, when you get the loan . . . when someone fails to repay, you have to pay for her." (Expresses frustration about the joint liability within the loan group.)	"The other women in my group, they are not my friends, they are neighbors." (Dora indicates that there is a lack of trust between the clients in the loan group.)	"The first loan was 200,000, but I used only 150,000 for the business and the remaining 50,000 for school fees . . . ." (Obligations toward family needs make it difficult to repay the loan.)	"I fail to save, because I am a widow and I have children who are in school. They need school fees, and bus fares to school, and then, to get the money for food every day. There are needs at home. I am still repaying the loan which I got. I mean, I am supposed to repay. So you see, it is difficult for me to save . . . ."	High

[a]NMB, National Microfinance Bank.

role integrity toward the group, because the business is not highly profitable. She expresses that she finds it difficult to save money and repay loans in time. She is also very frustrated with the complications with group loans, and expressed a low degree of commitment toward her loan group members. "I'm in a group of five people who know each other, and if someone fails to repay, you are supposed to take the responsibility of repaying for her. This is the problem . . . . I'd like to get a loan at a [commercial] bank, because it would be an individual loan." Maintaining role integrity requires the maintenance of a dual focus on the group's needs and the family's needs. Trinity's increasing focus on filial needs, and taking out more loans despite a lower ability to save, led to a higher risk of microfinance traps.

Preserving Norms and Reciprocity

Reciprocity is pivotal to social exchanges in which the exchanges are based not on equitable *quid pro quo* but rather on the parties' willingness to be flexible by assuming a long-term outlook and not evaluating the value of exchanges based on individual transactions. The norm of reciprocity—network members' expectations that exchanges will be reciprocated (Coleman 1988; Nahapiet 2009)—is a central feature of social capital that governs exchange (Baker 2000; Nahapiet 2009; Woolcock 1998). It is particularly important when actors share a common bond or identity (Biggart and Delbridge 2004). It also helps to bind communities together (Adler and Kwon 2002) and strengthens conformance. Generalized reciprocity is an even more potent form of this norm, because it is based on the expectation that a favor may not be repaid immediately (Putnam 1993). It can dampen individual rent-seeking behavior and promote interest in the common good (Adler and Kwon 2002).

This norm is particularly important, because loan receivers must manage the weighting of ties with reciprocity toward both instrumental ties, possibly at the expense of affective ties. Deriving the benefits of bonding capital requires reciprocal dependence on access to valuable resources, which heightens the importance of relationships beyond the family (Hite and Hesterley 2001). Reciprocity can facilitate group commitment (Bhatt and Tang 1998) and bind members together through shared outcome goals (Wageman 1995), thus enabling trust to build. Here, supportive behavior is induced by norms of cooperation that facilitate the pursuit of mutual goals (Stern and Reve 1980). Group members commit to group goals not based on sentiments of solidarity but based on mutual self-interest, because their fate may be inextricably linked to others in the group. While exchanges may be more instrumental than principled, they are nevertheless reinforced by expectations of reciprocity (Carney 2007).

Reciprocity leads to a high degree of solidarity (or a sense of *we-ness*) based on shared experiences such as adversity, whereby the interests of the collective transcend those of the individual. This can encourage members to engage in altruistic behaviors (Portes and Sensenbrenner 1993, p. 1328). Such behaviors can range from loan extensions to support from the group in cases of default or nonpayment. This is characteristic of family or clan-type networks (Coleman 1988) and on a continuum of low-to-high bonding capital (Carney 2007) can be described as high. Reciprocity, in the context of this study, allows loan receivers to put the interests of the family above those of the group, and frequent relationships over time foster mutual support (Peng 2004) from the group to mitigate future uncertainties in loan-related exchanges. Thus, reciprocity could reduce microfinance traps:

> *Proposition 2: Female entrepreneurs with greater reciprocity in developing countries are less likely to experience microfinance traps.*

Maintaining a balance in norms and reciprocity toward the family and the group leads to a lower perception of microfinance traps. This can be illustrated by Angelina, who seems to balance norms and reciprocity in the family. She clearly states that family needs are the most important driving force for expanding her business but also that the most important support comes from the family: "The first person I turn to is my husband. Sometimes he supports me when I need to get something for the business, when I have no money. And he tries to help me in thinking about how to run the business in a good way." At the same time, she recognizes the value of meetings with the loan group: "The meetings for repayments are good too, because we discuss our businesses. For example, I used to have a small shop, and we were discussing this, and I was recommended to start this salon. Now I find that was useful advice, after moving here to this salon." Thus, Angelina lowered the risk of microfinance traps.

Conversely, Mwanisha experiences more reciprocity in relation to the church, from which she received help to take out a microloan, and toward the loan provider, who offers seminars and business training. However, she focuses more on maintaining norms and reciprocity with her family. In describing reciprocity toward her family, Mwanisha notes that it was "the reason to start the business . . ." and "depending on your husband is not good enough." She showed less reciprocity toward the group: "I was taking these loans but afterwards I stopped . . . ." Mwanisha thus experienced more microfinance traps.

Harmonizing the Social Matrix

Harmonizing the social matrix refers to enacting the minimum necessary mechanisms to consummate an exchange. Kaufmann and Dant (1992) and Gundlach and Achrol (1993) proposed scale items such as "Our organization's procedures for dealing with disputes are formalized, and it is expected that they should be followed rigidly (reverse coded)," ". . . arrive at mutual settlement among ourselves," or ". . . eschew formal procedures/third party involvement" to measure the harmonization of the social matrix. In the context of microfinance, the scope of the social matrix should include the group, families, and businesses. Harmonizing the mechanisms, including norms and obligations toward the family and group, is necessary due to the underlying nature of the embeddedness required to provide, monitor, and manage loans. Indeed, social embeddedness through the family is required for groups to ensure that they are able to participate in and continue with microfinance. It is therefore natural that filial norms must be harmonized with group norms to develop the minimum necessary means to communicate and establish common norms that carry exchanges while relieving any significant tensions in meeting family and group norms. A harmonized social matrix allows for the development of proprietary of means, reduced relational conflict, and greater flexibility.

The underlying premise of microfinance is to promote social well-being without relying excessively on adjudication mechanisms, which are weak in developing countries. Harmonizing the social matrix is necessary to ensure more socially acceptable proprietary of means. For example, developing installment plans or business support from other group members could help to harmonize incompatible norms when family norms take precedence over business norms.

With a lack of harmony in the social matrix, the relational conflict with the group and the family could be exacerbated. Constraints from affective ties with obligations to instrumental ties could exacerbate microfinance traps. For example, if group members observe that a particular recipient is channeling business resources to help her family rather than repaying the loan, low social harmony could lead to conflicts regarding acceptable norms of exchange and increase the relational problems with the group. Individuals who communicate their inability to meet group obligations more openly, however, could receive more concessions, as the minimum necessary mechanisms for exchange require group members to account for family needs.

Finally, related to proprietary of norms and relational conflict, harmonizing the social matrix allows for greater flexibility. In relational exchanges flexibility reduces rigidity in following norms and makes exceptions in the interest of long-term obligations and reciprocity. Harmonizing the social matrix allows the participants to share incompatible norms and potentially negotiate exceptions and gain support from group members. For example, if a loan recipient foresees difficulty in repaying her loan, openly communicating this problem could garner support from others and harmonize the competing needs of the group with those of the family. Not harmonizing the social matrix of the group and family, in contrast, could lead to increasingly competitive exchange norms, stricter enforcement mechanisms of promises, and lower flexibility. This leads us to posit our third proposition:

> *Proposition 3: Female entrepreneurs with greater harmony within the social matrix in developing countries are less likely to experience microfinance traps.*

To illustrate this, we start with Nmzera, who demonstrates a well-adjusted social matrix in managing expectations with affective ties. She also shows harmonized commitment toward both her family and the business. Being a widow, she takes all the responsibility for her four children plus other dependents, and, at the same time, she has managed to maintain close relationships with her in-laws: “My husband already died. But sometimes, if I have to go somewhere, a member of the family, a close relative, comes here and assists me. When I have a financial issue, I usually talk to my brother-in-law. In order to get a loan, you are given a form, and someone whom you believe in has to fill it in, with a picture and signature, like a reference ....” She recognizes that the microloans have given her opportunities, not only to start the business but also to find ways to cooperate with other businesswomen. Nmzera perceives fewer microfinance traps.

Conversely, Dora, due to unfortunate events, could not manage the needs of her family and the business. She talks about the financial difficulties that she experienced after the death of her husband and how this affected the family; her obligations toward family needs made it difficult to repay loans. “After my husband died, I stopped running the business for some time. I had to find the capital to start again .... And the first loan was 200,000 [USD 150], but I used only 150,000 [USD 112.50] for the business and the remaining 50,000 [USD 37.50] for school fees....” At the same time, she clearly expresses her frustration with the loan group arrangements and indicates that there is a lack of trust between the clients in the loan group: “I don’t like the group loan! The other women in my group, they are not my friends, they are neighbors.” Her limited engagement with the microloan agency and a less informed need to harmonize the family and group needs led Dora to increase the risk of microfinance traps.

Conclusion

Illustrated by a study of women who run microenterprises in Tanzania, at the core of microfinance traps is the tension of managing competing norms and obligations toward the microfinance loan group and the family. Relational exchange processes of harmonizing the social matrix with both family and group norms are central. Based on an inductive qualitative study, we have presented three propositions regarding how the microfinance traps can be lowered.

Our research makes several contributions. Our main findings provide preliminary confirmation that women in developing countries who receive microfinance may end up in a microfinance trap. We found that the signals of the received benefits of instrumental ties to their loan group allow the flow of resources into the business, serve as a necessary and viable sign of legitimacy, and provide the potential to improve the business. These conditions may, however, place the women in a dilemma, since the situational characteristics may clash with incompatible norms and obligations to their affective and close family relations. At times, we noticed that these incompatible norms and obligations forced the women to weigh the norms and obligations both cognitively and affectively. Ultimately, solidarity tends to outweigh the norms of dependency created by participating in the microfinancing group. Managing the microfinancing trap is important, because not being able to pay back the loan might lead to no future loans and could jeopardize both instrumental and affective ties.

Our research complements and extends the view that ties from one context can have consequences in another. Incompatible norms may, at times, force actors to weigh filial and loan group norms against each other; indeed, in situations in which instrumental ties are weighed against affective or expressive ties, such as the family, those who appear in instrumental ties risk being neglected. The need to acknowledge that actors face contradictory norms is something that has been emphasized in the network and social capital literature (Adler and Kwon 2002). To understand the effects of microfinance on entrepreneurship in developing countries, the present research suggests that incompatible norms and obligations toward the family and the business are of significant importance. Our study also provides further insights into the contingent nature of networks; indeed, the risks of social capital can sometimes crowd out the effects of the benefits (Geleta 2016; Hansen 1999; Uzzi 1997).

Previous research in the field has primarily concentrated on how actors are influenced by network norms and obligations independently across networks (Adler and Kwon 2002; Chliova, Brinckmann, and Rosenbusch 2015; Griffin and Husted 2015). The present field research illustrates that norms across ties can mitigate and even negate each other. This neglect of how different types of ties interact may be particularly important to highlight in our research setting of microfinance and female entrepreneurs. Thus, we believe that the present study adds to the notion that the specific type of networking behavior among women in contexts such as Tanzania may restrict them from successfully pursuing entrepreneurship and reaping the benefits of microfinance.

Affective and instrumental ties are strongly intertwined in developing countries. We add to the understanding of managing the competing needs of family and group/lenders. Because family and business are socially embedded in the same relational exchange in microfinance contexts, the role of weighing the cognitive and affective needs of the family is essential for understanding the other side of the microfinance coin—the social side (cf., financial side). The entrepreneurship literature has focused on the role of the family in providing support in starting a business, and the family firm literature has focused on an economic and family calculus in making business decisions (Davidsson and Honig 2003; De Carolis, Litzky, and Eddleston 2009; Light and Dana 2013). The current framework addresses how family needs could affect business priorities. While the relational exchange literature has focused traditionally on the instrumental relationships in contract settings, we add the affective dimension toward family as a trade-off in managing relational exchanges.

This study is not without its limitations. It draws on the Tanzanian context, and generalizability to other contexts cannot be inferred. Nevertheless, the mechanism of affective ties is more likely to be found in developing countries because of the significant intertwinement between family and business, especially for female entrepreneurs who work in sustenance-based business. Future research should evaluate the generalizability of our study in other contexts. While the proposed conceptualization of microfinancing traps is in its very early stages, we were unable to identify a data dictionary to use more advanced content analysis tools and measures. We call on future research to develop more robust qualitative methods to understand the proposed framework further. Moreover, the potential downsides of microfinance that we report in the present paper suggest that more attention should be focused on improving the microfinance tool and the group loan solution to support entrepreneurship in the developing countries. The present study suggests that the benefits of microfinance as an instrument for improving the social and financial conditions of female entrepreneurs in developing countries could be contingent on microfinancing traps.

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