

Social - Financial Synergies and Legitimacy Strategies in Microfinance Social Enterprises: A Systematic Review

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Abstract - By using the PRISMA framework, this study carries out a systematic literature review to investigate how microfinance social enterprises (MFSEs) balance their financial and social objectives (i.e. dual objectives or dual mission) and maintain legitimacy. The Scopus journal database was used to conduct this systematic literature review. The initial search yielded 109 records when broad keywords (i.e. Microfinance and social enterprise) were used. The selection was further refined by using inclusion and exclusion criteria, and two recurring themes: mission drift and legitimacy that emerged in the initial search. This has resulted in the identification of 38 articles for the study. The period considered for the study is 2014 to 2025, and the study focused on MFSEs balancing dual objectives to reduce mission drift and maintain legitimacy. Mission drift takes place when MFSEs try to achieve financial objectives, ignoring the social objectives. Legitimacy is the perception of stakeholders that MFSEs achieve both financial and social objectives. MFSEs have to use different strategies to mitigate mission drift. The review reveals that large and mature MFSEs underpinned by good governance and prudent risk management are more capable of achieving the balance between financial and social objectives. Mission drift could also be reduced by disciplined financial management, client-centred strategies, good governance, and embedding the social outcomes into performance assessments. The review further shows that legitimacy can be improved by deploying structural and symbolic strategies. Structural strategies include partnering with local authorities, working with communities and empowering people in decision-making. Examples of symbolic strategies include clever use of language and being involved in philanthropic activities. The findings of this study could help MFSE leaders and policymakers to enhance governance, accountability and resilience.

Keywords: Financial Sustainability, Governance, Legitimacy Social–Financial Balance, Microfinance Social Enterprises, Mission Drift, PRISMA, Systematic Review.

I. INTRODUCTION

As explained by the World Bank, microfinance is a tool to unlock the productive potential of and to remedy failures in conventional credit markets by supplying financial services to poor self-employed (Cull & Morduch, 2017). On the other hand, Social Enterprises are there with a social mission to deliver financial services for underserved communities (Agapitova & Linn, 2016). Cull & Murdoch (2017) further suggest the ability of microfinance institutions to evolve or operate as social enterprises to achieve double bottom-line objectives of social outreach and financial sustainability. This notion has been endorsed by the European Commission (2025) and Asian Development Bank Outlook document (Thai-Ha, 2021) also. Thus, the Microfinance Social Enterprises (MFSEs) pursue the dual mission of financial sustainability and social outreach with the aim of empowering low-income communities through inclusive and sustainable financial services. When MFSEs try to balance financial sustainability and social impact or on the mission of achieving social -financial synergies, the MFSEs have to face many issues such as (1) Mission drift (2) Operational sustainability (3) Regulatory and policy constraints (4) and Technology migration.

Achieving these social–financial synergies or balancing the double bottom-line is often challenging, as outreach and profitability cause emergence of a tensions (Mori, 2010; Hartarska & Nadolnyak, 2007). However, empirical evidence suggests that MFSEs which are larger, more mature, and adopt more practical risk management practices are better in balancing the double bottom-line (Van der Auwera, D’Espallier & Mersland, 2024; Nyarko, Beisland & Mersland, 2024). Governance quality, which includes board diversity and reduced founder member dominance, is helpful in reducing the tension (D’Espallier, Hudon & Szafarz, 2013; Bennouri, Cozarenco & Nyarko, 2024; Mersland & Strøm, 2009). Operational strategies including both social and financial performance metrics, such as Social Performance Indicators or Social Return On Investment (SROI), can be useful in reducing mission drift (Bédécarrats, Baur & Lapenu, 2012; Vik, 2017). However, ownership structure *i.e.*, having investors with more attention towards outreach and commercial investors prioritizing profitability affects the balance due to the difference in focus (Galema, Lensink & Spierdijk, 2011; Afonso & Albuquerque, 2021).

When balancing mission and financial sustainability, legitimacy becomes a critical factor (Ali, Ahmad & Mustamil, 2025). MFSEs must maintain legitimacy from the perspectives of multiple stakeholders to avoid mission drift, particularly during transitions from non-profit to hybrid or for-profit models. Strategies to achieve hybrid legitimacy, *i.e.* acceptance and credibility an organization earns from both social and commercial stakeholders, include forming alliances with government, local government bodies, village leaders or authorities, designing financial services that aligns with local customs and values *i.e.* services embedded in local community contexts, and having community involvement in decision making or participatory governance to improve transparency (Huang & Yin, 2025; Sarma & Mishra, 2022; Atahau *et al.*, 2022). Strategic communications which emphasize alignment of decisions with organization values during discussions on market-based practices can reassure stakeholders of minimized mission drift (Sarma, 2017). On the other hand, digital crowdfunding platforms and donor subsidies can serve as legitimacy-improving mechanisms (Kromidha, Yadav & Ilavarasan, 2023; Reichert *et al.*, 2019). However, reputational damage caused by conflicting profit motives and social mission of for-profit MFSEs (Park, 2020), and when the social impact claims are not backed by credible evidence (Hahn & Lülfs, 2014) induces legitimacy losses.

While literature offers valuable insights into governance, operational efficiency, and legitimacy strategies separately, several gaps remain. First, there are limited integrative studies that examine social–financial synergies and legitimacy strategies together in MFSEs, though they are interdependent. Second, existing studies are scattered across regions, leaving contextual variations underexplored (Vanroose & D’Espallier, 2013). Third, although studies investigate governance, funding structures, and stakeholder engagement individually, few address their combined effect on avoiding mission drift during organisational transitions. Previous reviews (Li and Bosma, 2025; Millán-Franco, 2025; Smith, Gonin and Besharov, 2013) have addressed similar issues in Social Enterprises but not the MFSEs. These gaps highlight the need for a systematic review that bridges the two themes, *i.e.* social-financial synergies and legitimacy, enabling a holistic understanding of how MFSEs sustain performance and legitimacy over time. To address these gaps, the following two research questions were formulated.

1. How do microfinance social enterprises navigate the trade-offs and synergies between social impact and financial performance across contexts?

2. How do microfinance social enterprises seek and maintain legitimacy while avoiding mission drift, particularly during transitions from nonprofit to hybrid or for-profit models?

To answer the above two research questions, this paper adopts the Preferred Reporting Items for Systematic Reviews (PRISMA) framework. PRISMA's structured approach ensures clarity, transparency and replicability by systematically identifying, screening, and synthesizing relevant literature (Sohrabi *et al.*, 2021). This method enables the integration of findings from diverse contexts and methodological approaches, allowing a comprehensive evidence base for analysing the relationship between social-financial performance and legitimacy in MFSEs (Mudiasari, Astuti, & Afrianty, 2024; Page *et al.*, 2021).

Following this introduction, Section 2 outlines the methodology, including search strategies, inclusion criteria, and the PRISMA-based review process. Section 3 presents the thematic synthesis of findings for the two research questions. Section 4 discusses the implications for theory, practice, and policy. Finally, Section 5 concludes with recommendations for future research and practical guidance for MFSE managers and stakeholders.

II. RESEARCH METHOD

This study used Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to strengthen the reproducibility and transferability in the review process. PRISMA is the most used rigorous technique for systematic reviews as it allows researchers to identify, screen and select articles pertaining to the research questions. Scopus database was used for literature search as it is a comprehensive peer-reviewed high high-quality database that includes articles in multiple disciplines such as management, social sciences, information science and engineering

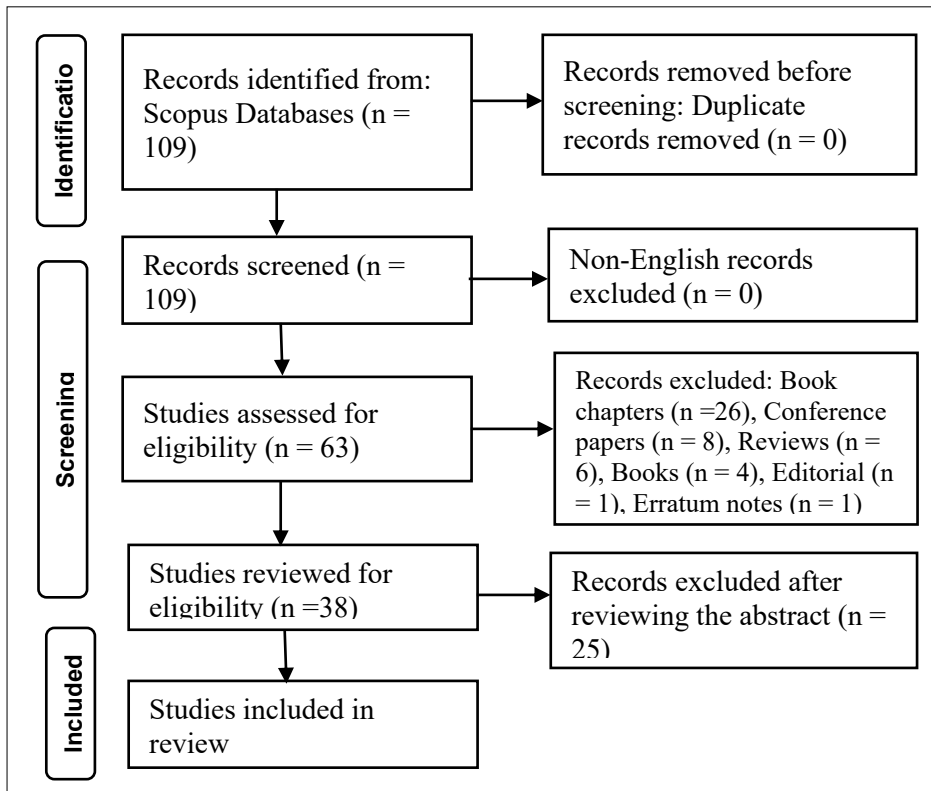
To commence the review, an initial search was carried out using the Scopus database using broad terms such as "microfinance" and "social enterprise". This search strategy results in a total of 109 articles spanning the period from 2014 to 2025. Particular time period was selected to include the most recent trends, making the findings relevant to future research and policy development.

When screening those 109 articles, several themes emerged; mission drift and legitimacy were the recurring and most frequent themes, and they were interconnected. Hence, the mission drift and legitimacy were selected as the theme for the systematic literature review. There were 38 papers that matched this theme.

The selection was further refined by using inclusion and exclusion criteria. The Inclusion criteria consist of Publication year between 2014 and 2025, Peer-reviewed journal articles published in the English language. The exclusion criteria consist of non-English publications, Conference papers, Books and book chapters.

Following the application of these criteria, 38 articles were finally retained. Two authors independently reviewed the process to validate the selection, and discussions were held to reach agreements when there were discrepancies. Thematic analysis was done based on the two research questions.

A PRISMA flow diagram will be presented to illustrate the number of records identified, screened, assessed for eligibility, and included in the final synthesis.

Figure 1. The Review Process, according to the PRISMA Guidelines

Source: Page et al., 2021.

PRISMA analysis demonstrates that out of 38 articles chosen for the study, there are 21 quantitative and 10 qualitative studies. Further, 2 mixed methods studies, 5 conceptual/review papers and 9 case studies are included in the final selection. It is interesting to note that studies covered many countries and regions. Geographical coverage comprises 7 Indian and 2 Chinese studies. Further, there are single studies from countries like Bangladesh, Ghana, Iran, and Ireland representing South Asia, Southeast Asia, Latin America, Sub-Saharan Africa and Africa. When it comes to authors, Roy Mersland is leading, authoring 6 papers, followed by Nyarko, Szafarz, Hudon and Randoy.

III. FINDINGS

The findings are presented under each research question identified in the introduction section.

1). How do microfinance social enterprises navigate the trade-offs and synergies between social impact and financial performance across contexts?

Microfinance social enterprises (MFIs) pursue dual objectives that generate context-dependent tensions and synergies between outreach and financial sustainability. Wry & Zhao (2018) studied across multiple organizations and countries showed that the tension between achieving the social impact and financial sustainability is evident. This tension is intensified when social problems such as poverty and discrimination are rooted in the

culture, and the country is lacking a strong legal system and economy. However, when the legal system, economy and skilled leadership of the organization are present, it helps to achieve both social and financial aims. On the other hand, a significant number of hybrid organizations manage to succeed in achieving both social and financial goals. They serve poor clients while being sustainable financially. Success factors for achieving a double bottom line could be being a bigger institution with more resources and operational capacity or being an older institution with more experience. Based on that, the institutions can manage financial stability and credit risk (Van der Auwera, D'Espallier, & Mersland, 2024).

Characteristics of an institution, such as size and experience, affect the ability to manage two competing goals: serving low-income clients and staying profitable. Large institutions with more resources, better infrastructure, experience and better processes are able to handle this tension. Over time, institutions learn how to survive. Size and experience improve balanced ability while learning how to operate effectively and efficiently (Nyarko, Beisland, & Mersland, 2024).

Board composition also matters: a higher proportion of women directors help institutions to better manage the tension. Specifically in non-profit, unsubsidized and in contexts where women have access to education, employment and leadership. This suggests that governance diversity, i.e. diverse boards, ethical orientation, and leadership styles, helps to survive amidst the social and financial tension (Bennouri, Cozarenco & Nyarko, 2024). On the other hand, research carried out in Bangladesh by Hossain, Galbreath, Hasan, and Randøy (2024) showed that when the boards are family dominant, they tend to favour economic outcomes over the social aspects due to biases and low accountability. The authors suggest policy initiatives to limit family member participation in boards of the institutions. Foreign ownership or management also weakens the achievement of social and financial goals. Deeply rooted in the local context improves the ability to manage the dual mission (Sommeno, Mersland & Randøy, 2024).

Intertemporally, the ownership type, whether family-owned, state-owned, etc., affects which factor performance, social or financial, improves first or lead-lag. Lam, Zhang, Ang and Jacob (2020) found that the sequence in which these goals are achieved differs and vice versa in non-profits. With this asymmetry, MFIs have to take two different pathways. For-profit organisations can first focus on operational efficiency, risk management, and profitable portfolio growth, and channel their resources towards social engagements. Non-profits can focus on customer education, group lending methodologies, and monitoring to attract funding for sustainability.

Performance measurement choices and analytical tools used can reshape an institution's efficiency and strategic direction. Adding social outputs to efficiency analysis, which usually compares the efficiency of turning inputs into outputs, gives a more holistic view (Bharti & Malik, 2021). This will not only reward financial performance but will also recognise mission-driven success. Further, this will assist in identifying overlooked outcome domains. Scores based on social impact co-vary with financial performance, outreach (especially rural), clear social objectives and service quality. Social performance indicators (SFIs) and Social Return on Investment (SROI) are widely used metrics by MFSEs. This fact indicates that client-centric quality systems, i.e. better customer service, ethical lending practices and inclusive outreach, not only improve social scores but also financial viability (Beisland, Djan, Mersland and Randøy, 2021). At the pricing frontier, when deciding the interest to be charged, higher financial efficiency gained by streamlining operations and minimising waste helps reduce interest rates, though social efficiency does not automatically translate into lower loan costs. This

implies that disciplined financial management is a practical way to make loans affordable without eroding the institution's sustainability (Basharat, Hudon and Nawaz, 2015). When the focus is directed beyond operations, CSR practices improve productivity. That is, Total Factor Productivity (TFP) links CSR and financial performance, aligning stakeholder-oriented practices with sustainable outcomes (Wejesiri, Park, Wanke, Tan and Searcy, 2025).

At the organisational level, balancing means structuring teams and workflow efficiently, managing resources and policies, etc. Balancing is not totally organisational. It manifests through work-life balance, mental and emotional resilience, etc., of the staff. Employees with longer tenure tend to understand the organisational social mission. Though initially financial performance increases with increasing tenure, there could be a decline or plateau in financial performance, mostly due to complacency and outdated practices. Further elongation of the tenure again makes employees less likely to be in conflict with achieving social and financial goals as spelt out by the mission of the organisation. This suggests that proper training and retention are important in achieving financial and social success (Godfroid et al., 2022).

Jha, Bhawe and Satish (2021) explored how product diversification can help social enterprises or MFIs to grow while maintaining their dual goals. Diversifying products, such as offering savings, insurance or training alongside loans, helps these institutions to reach more clients and their varied needs. Further, the authors argue that diversification of products must be strategically tailored to align with the mission and existing products.

To address the debate on 'fair profit' Hudon, Labie and Reichert (2020) propose a multidimensional framework. MFIs or social enterprises which manage to balance profitability, social mission, pricing and surplus distribution are identified as committed to both financial health and social outreach.

Social enterprises operate in diverse contexts, such as different countries, regulatory systems, market conditions, etc. Despite those differences still the institutions can achieve financial and social goals without compromising either of them. In obtaining double bottom lines and to avoid mission drift, leadership and the board need to work to align with the social mission. Also, internalizing social outcomes into metrics, product diversification, CSR-driven productivity, managing costs and processes without compromising outreach to others that need to be observed.

2. How do microfinance social enterprises seek and maintain legitimacy while avoiding mission drift, particularly during transitions from nonprofit to hybrid or for-profit models?

MFSEs broadly use two strategies: structural and symbolic, to enhance legitimacy among stakeholders. Structural strategies are doing the right things, and symbolic strategies involve being seen as doing the right things

MFSEs in developing countries use several strategies, such as developing rapport with local authorities (i.e. structural, developing reputation-building activities and being involved in philanthropic work (i.e. symbolic) to maintain hybrid legitimacy with institutions, markets and industries. These strategies not only help MFSEs to survive and grow but also to maintain a balance between achieving social and financial objectives (Huang & Yin, 2025)

MFSEs can reinforce legitimacy through visible actions so that communities can judge them and be convinced. When non-profits shift to commercialisation, they can

legitimise their activities by showing measurable performance, complying with legal requirements, thereby gaining downwards accountability and achieving the dual mission (*i.e.*, social and financial) (Sarma & Mishra, 2022). Besides, it is important to have formal and informal controls in order to reduce the tension faced by hybrid organisations when achieving the dual mission (Siti Nazariah et al., 2024).

To reduce the mission drift and keep a hybrid identity, microfinance institutions can have a clear path to social objectives, community engagement and stakeholder participation. This is illustrated by Indian MFIs. For example, they have a clear path in terms of women's empowerment, and they achieve this path by using their self-help groups (SHGs) and strong stakeholder participation (Sarma, 2017).

MFSEs deploy rhetorical strategies to defend against organisational changes. In 2010, when Indian MFIs were confronted with commercialisation debates, they used cosmological and teleological rhetoric to link contested practices with acceptable ones to gain institutional legitimacy (Sarma, 2017).

MFIs often utilise quantitative social accounting tools such as SROIs to measure the social performance of investments. However, studies show that SROIs indicate symbolic legitimacy rather than true impact assessment, given selection and attribution biases in microfinance (Vik, 2017). This warns scholars and practitioners to use metrics with caution.

MFIs' legitimacy can be negatively affected by exogenous shocks. In 2010, due to the microfinance scandal in India, for-profit MFIs endured huge financial losses and became weaker compared to the non-profit MFIs. This happened not because of any wrongdoing but due to the responses of social control groups such as the media, politicians and regulators who stood against commercialisation (Adbi, 2023). This shows how MFIs experience reputational asymmetries when pursuing commercial goals.

MFIs can enhance legitimacy by building strategies around local wisdom and culture. In rural Indonesia, MFIs strengthen social entrepreneurship and stabilise groups by embedding local wisdom and culture (Atahau, et al., 2022). Moreover, legitimacy can be improved by the intermediaries and environmental factors. For example, the Ran De platform crowdfunding project in India targeting digitally disconnected women became successful not because of the project-specific variables but the intermediary and the environment (*i.e.* platform) that acted as a trust builder (Kromidha, Yadav and Ilavarasan, 2023).

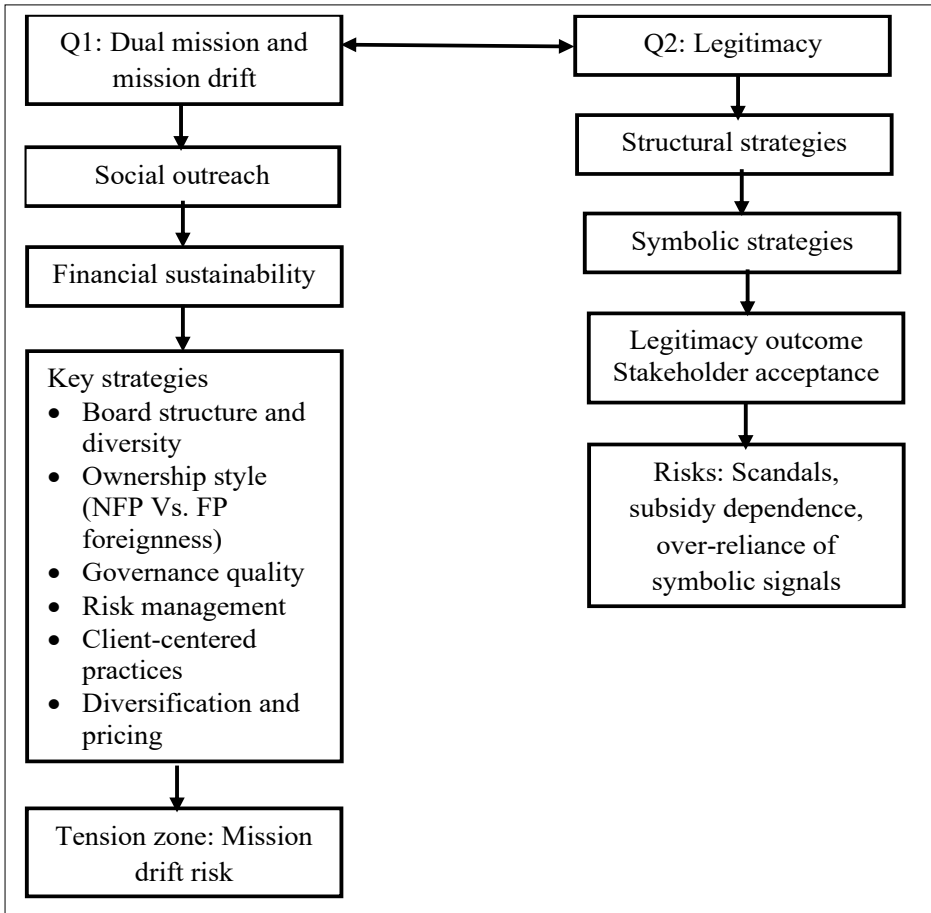
External funders such as donors and governments may assist MFIs to balance dual missions thus legitimacy. For example, corporate intangibles (*i.e.* reputation and brand support) and credit guarantees given by these funders could attract private investors such as banks and financial institutions (overcrowding-in) and thus financial sustainability. However, some poorly designed subsidies given by external funders could discourage private investors (*i.e.* crowding out) and thus create soft budget constraints, insisting that MFIs rely on subsidies rather than self-sufficiency (Reichert et al., 2019). Contrary to popular belief that there is a widespread mission drift, studies done based on 199 MFIs reveal that they achieve social objectives such as women empowerment, poverty reduction and rural inclusion as shown in their mission statements. Thus, the contents of mission statements are not mere window dressing (Mersland, Nyarko and Szafarz, 2019),

MFSE's legitimacy is built by various sources such as strong governance, visible community work, clever use of language and adapting to the local contexts. Further legitimacy could be further enhanced by using intermediaries (digital and offline), measurements of performance and positive signals from donors. However, legitimacy can

be at risk when market pressures take place and scandals. Even with commercialization, MFSEs could maintain legitimacy if they can align their missions with delivery and stakeholder engagement.

The following diagram, Fig. 2 shows the findings of the research questions 1 and 2 and the interconnection.

Figure 2. Summary of Questions 1 And 2 and Inter Connection



Source: Authors' compilation.

IV. DISCUSSION

The systematic literature review shows that governance of MFSEs helps balance social and financial objectives. When boards are diverse with female participation, MFSEs could achieve a dual mission (D'Espallier et al., 2013; Bennouri et al., 2024) Further, when the founder or family members dominate the boards, it could lead to mission drift (Mersland & Strøm, 2009). Hence, good governance is paramount to reach out to more clients and get acceptance from the stakeholders. Social performance indicators (SPI) and Social Return on Investments (SROIs) metrics are essential for MFSEs to achieve dual missions while engaging in day-to-day operations (Bédécarrats et al., 2012; Vik, 2017). In these metrics, ensure MFSEs achieve financial objectives not at the expense of clients' welfare. Moreover, transparent institutional environments support balanced performance (Mori, 2010; Hartarska & Nadolnyak, 2007). Further, ownership type, CSR-driven

productivity, and management of costs and processes could help MFSEs achieve the double bottom line.

MFSEs pursue two strategies: structural and symbolic, to get legitimacy. Under structural strategies, MFSEs partner with local authorities, working with local communities and empowering people in decision-making to ensure acceptance and trust (*i.e.* legitimacy) (Huang & Yin, 2025; Atahau et al., 2022; Sarma & Mishra, 2022). Symbolic strategies that include Rhetorical framing (*i.e.* clever use of language) could boost the confidence of stakeholders, especially in contested phases like the commercialisation of MFIs in India in 2010 (Sarma, 2017). However, overreliance on symbolic strategies without clear evidence could backfire, leading to reputational crises (Adbi, 2023).

Balancing dual objectives and legitimacy is interconnected. They are not isolated concepts for MFSEs. Governance acts as a bridge for this interconnection. However, this study shows that the extant literature does not integrate governance, legitimacy, and financial performance of MFSEs adequately. Many studies have been made in which these concepts are examined in isolation. Thus, this presents a practical and theoretical gap in literature. It is important to identify some holistic theories to understand how MFSEs could achieve financial objectives without compromising social objectives. Other than the gaps that exist in literature, this study has other limitations also. The study covers only the Scopus database and limited time frame. Further inclusion / exclusion criteria may pose possible biases.

V. CONCLUSIONS AND RECOMMENDATIONS

The systematic review highlights that the quality governance system, the use of social performance metrics and effective stakeholder engagement are central to balancing financial and social objectives while mitigating mission drift. The review also shows that structural strategies, such as community engagement and partnering with local authorities, and symbolic strategies, such as clever use of language, are vital to maintaining legitimacy.

On the practical front, MSFE leaders can establish diverse boards, utilise frameworks that measure both financial and social objectives and enhance legitimacy through community integration, partnering with local authorities and using clever use of language. On the research front, scholars can develop integrated frameworks combining financial performance, governance, and legitimacy to understand how MFSEs operate to pursue a dual mission. Further, they could examine how regulations, funding, and ownership influence the alignment of missions.

By adopting the PRISMA framework, this systematic review synthesises the fragmented literature and produces transparent and replicable evidence to practitioners, policy makers and researchers in the microfinance social enterprise sector.

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