From Ideals to Institutions:
Institutional Entrepreneurship in Mexican Small Business Finance

Rodrigo Canales
rodrigo.canales@yale.edu
Yale School of Management
135 Prospect St.
06511 New Haven Ct
(203) 432-6054

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Abstract
This paper analyzes the creation of the market for small business credit in Mexico, which presents a rare opportunity to explore the mechanisms of institutional entrepreneurship. The paper analyzes successful and unsuccessful attempts to activate small business lending to determine the organizational, structural, and personal aspects that allowed certain groups of individuals and not others to succeed. The paper proposes that, contrary to conventional thought, institutional change is not rare because institutional entrepreneurs are scarce. In fact, they are quite prevalent. What keeps most institutional entrepreneurs hidden from view is preference falsification, or the distinction that institutions function through the coordination of common beliefs, while private beliefs can diverge wildly. A central challenge of institutional entrepreneurship, therefore, is the transformation of the private beliefs of a few into common beliefs that can support new institutions. The paper argues that institutional entrepreneurship, while common, seldom succeeds because it entails a sequence of relatively unlikely events, including the recognition of an opportunity, the execution of organizational experiments, and the creation of public knowledge. Each stage of institutional entrepreneurship requires a combination of personal and structural qualities that are rarely found in a single individual, which explains why so few of them succeed.
Small and Medium Enterprises (SMEs) are the backbone of most developing economies, but they face significant barriers to growth. One of the largest challenges for these firms is finding efficient forms of financing. This was especially true for Mexican SMEs before 2001, given the underdevelopment of the financial sector. Its strongest players—national banks—did not think of SMEs as a viable segment, viewed them as too risky, and lacked organizational capabilities to extend business credit to them. SMEs did not consider bank financing as an alternative, partly because it was scarce but also because they did not consider themselves as credit-worthy. Not surprisingly, existing laws and regulations were equally unfavorable to SME lending. Moreover, this suboptimal market arrangement proved resilient to several reform attempts. By 2006, the landscape had changed dramatically. After investing only US$150 million of government funds—a small amount for a federal program—close to two hundred thousand SMEs had received more than US$4 billion in bank loans. All major banks had an area exclusively devoted to SME credit and several considered SMEs as the priority for growth. Legislative changes were enacted to facilitate SME lending and firms were demanding loans at never before seen rates. How did officials from the relatively powerless Ministry of the Economy generate such widespread change, in such a brief period, and through such a small program? More importantly, what can this tell us about intentional institutional change?
These questions extend beyond Mexican SMEs, since the creation of a market like SME credit requires new institutional arrangements (Dobbin 1994; Dobbin and Dowd 1997; Fligstein 2001). Institutions directly affect human action at the individual, group, and organizational levels (Clemens and Cook 1999). They shape markets and, depending on their particular configuration, can determine the developmental path of entire countries (Acemoglu, Johnson, and Robinson 2001; Acemoglu, Johnson, and Robinson 2002; Fligstein 1990). It is thus important for theoretical as well as normative reasons to understand how institutions—such as those that shape SME financing—are changed so they can be improved. While stable by definition, institutions are not exogenous artifacts but social constructions endogenous to human action. It follows that, together with stability, change must be intrinsically built into them. Accordingly, increasing attention has recently been paid to the study of endogenous institutional change (Clemens and Cook 1999; Streeck and Thelen 2005). Of particular interest is the recognition that, given that it is individuals who populate institutions, it must also be individuals who change them (DiMaggio 1988; Eisenstadt 1964; Greif and Laitin 2004).

The conceptualization of individuals as agents of institutional change, while necessary, generates a puzzle. Institutions bring stability to social life through the convergence of beliefs on what are appropriate courses of action, thus narrowing available options and reducing uncertainty (Arrow 1974; North 1990). An actor expects others to follow specific behaviors and choose specific interpretations to her actions, so she behaves accordingly (Schelling 1960). Others anticipate this mental calculation and react in ways
that confirm the actor’s expectations, reinforcing the system (Greif 1993; Greif 1994). As expectations are confirmed, they are narrowed to the point where only similar beliefs remain (Bowles 1998). This is further reinforced as organizations adapt their practices to existing norms (Haveman and Rao 1997) and certain groups gain power to perpetuate the arrangements that differentially benefit them (Immergut 1998). At a mature state, all these mechanisms narrow expectations to the point where they limit what is considered feasible or even thinkable (Campbell 1998), and institutions become taken for granted (Bowles 1998; Douglas 1986). Institutional change, therefore, entails a shift in expectations (Greif and Laitin 2004). But if institutions operate through the convergence of beliefs and become taken for granted, then how can an individual who has been socialized into an institution suddenly abstract herself from it and envision an alternative? (see Battilana 2006; Piore 1995). And how can she amass the skill, resources, and organizing capability required to convince others of that alternative? (DiMaggio 1988; Fligstein 1997).

One answer is that only individuals with unique abilities can generate institutional change, which would explain why it seldom happens. Existing work on institutional entrepreneurship reflects the complexities of change and the uniqueness of those that carry it out (e.g. Caro 1982; Caro 1990; Hargadon and Douglas 2001; Munir and Phillips 2005). Cosimo de Medici, for example, is described as an enigmatic man with a remarkable ability to influence others by strategically veiling his interests, which allowed him to enact deep institutional transformations once he found himself in a privileged
structural position (Padgett and Ansell 1993). Unfortunately for scholars, instances of institutional change are rare. As a result, existing accounts tend to rely on changes that have already occurred and analyze them retrospectively, tracing the successful and recorded actions of identified change agents. This has described the path followed by institutional entrepreneurs, but suffers from two important limitations. First, it leaves the emergence of dissenting beliefs unresolved. If we can only explain diverging expectations within institutions through the uniqueness of change agents, then institutional entrepreneurship is simply another type of exogenous shock and does not constitute endogenous change (Clemens and Cook 1999). Second, it is limited by survival bias. Since only successful and recorded actions are analyzed, we are missing the counterfactuals that could determine, for example, whether actors with similar characteristics pursued similar strategies unsuccessfully (Fearon 1991; Mahoney 2000). The lack of counterfactuals leads to portrayals of relatively linear sequences with little contestation, failed experimentation, or alternative potential paths (Hall and Taylor 1996; but see Hargadon and Douglas 2001). More importantly, it makes it difficult to dissect the mechanisms that can explain both how endogenous change emerges and why it seldom succeeds.

If only extraordinary individuals can initiate change, then all change attempts—including SME credit in Mexico—must occur when such an individual appears in the right time and place. But there are good reasons to question whether institutional entrepreneurs are rare at all. Consider that in Mexico—and many other instances of change—several attempts at
change failed before one succeeded. Analyzing only successes censors previous entrepreneurial efforts. More generally, consider that only a small fraction of business entrepreneurs succeed in starting a business and survival is not attributable to individual skill alone (e.g. Sørensen and Sorensen 2003). Why should institutional entrepreneurship be different? If we define an institutional entrepreneur like we do in business—as someone who attempts change but is not necessarily successful—then there may be more institutional entrepreneurs than outcomes would suggest and the inclusion of failures in the analyses would be critical. This broader definition of institutional entrepreneurship would also allow for a more systematic understanding of when to expect institutional entrepreneurs to emerge and when to expect them to succeed.

The case of SME financing in Mexico provides a unique setting to explore a view of institutional entrepreneurship that does not take successful change as the starting point but only as one potential outcome. The program at the heart of the transformation emerged from the federal government and was offered to all major banks with the intention to implement it in all states. However, given the structure of the Mexican banking sector and the fact that Mexico is a federation there is significant variation—that cannot be attributed solely to market factors—both at the bank and at the state level in the achieved results. I leverage these sources of variation to seriously consider counterfactuals and isolate the factors that rendered only some efforts successful. Moreover, I observed the ongoing process of change at different critical junctures and from different levels of analysis. I was thus able to identify the different alternatives that
were tried, by different people and at different times, to promote change before the outcomes were revealed.

These unique data demonstrate that actors with the personal qualities, ideas, and actions typically associated with institutional entrepreneurship are in fact prevalent across organizations and geographies. In Mexico, a number of institutional entrepreneurs from different organizations coordinated to purposefully initiate institutional change, but only a small portion succeeded. The paper argues that, contrary to our traditional understanding, institutional change is not rare because institutional entrepreneurs are scarce. Rather, what makes change infrequent is that it entails a sequence of relatively unlikely successes. The paper presents an image of institutional entrepreneurship that is more experimental, fraught with failure, and especially much more collective than existing theories would lead us to expect (but see Colomy 1998). It also shows that a retrospective analysis of the Mexican case not only would be consistent with existing accounts, including in the uniqueness of institutional entrepreneurs, but also would be wrong.

The finding that institutions contain many skilled individuals who envision alternatives and constitute potential institutional entrepreneurs is consistent with a systemic view of endogenous institutional change, but seems irreconcilable with the notion that everybody’s beliefs must converge for an institution to function. This paper shows that the apparent paradox is an artifact of the level of analysis used. It is resolved once we
clarify that it is public beliefs that converge in institutionalized settings, while private beliefs may in fact diverge widely (Centola, Willer, and Macy 2005; Kuran 1989). Several mechanisms operate to sustain this discrepancy, including pluralistic ignorance (Allport 1937; Prentice and Miller 1993), its reinforcement through the prevalence of institutional rituals (Chwe 2001), and strategic calculation under uncertainty (Greif 1993; Knight 1921). The implication shown in this paper is that the key challenge for institutional entrepreneurship, and the main reason why so few attempts succeed, lies in the successful transformation of discrepant private beliefs into public knowledge that can sustain new common expectations. As I will show, while this challenge defines every stage of institutional entrepreneurship, the actual mechanisms required to overcome it vary significantly depending on the maturity of a change attempt. Naturally, few institutional entrepreneurs can succeed at all stages, even if many try.

The paper is structured as follows: The second section explains the institutional constraints that have limited SME lending in Mexico. The third section explains the data and methods used to analyze the process of market creation. The fourth section presents the empirical evidence and proposes a model of sequential institutional change. The discussion section concludes.

MEXICO AND SME FINANCING

Mexico is often portrayed as a poster child for the impact of weak institutions on financing environments. It has the lowest level of commercial lending of all OECD countries, and one of the lowest in Latin America. In addition, far from improving, it has
been worsening over time (see fig. 1). Much of this is a direct result of the country’s weak legal institutions (Gamboa-Cavazos and Schneider 2007; Laeven and Woodruff 2004). While in developed countries institutions vary from good to very good, in Mexico they vary from bad to less bad (Laeven and Woodruff 2004). This is as much a cause as it is a consequence of the lack of competitiveness of the Mexican banking sector. From its origins, Mexican banks have been at the center of the Mexican political system as a protected oligopoly that has endured waves of nationalization and privatization, the banking crisis of 1995, the subsequent bailouts of the Zedillo administration, and the opening to foreign capital in 1997 (Centeno and Maxfield 1992; Haber 2004; Haber and Musacchio 2005; Maurer 2002). What is striking about the development of the Mexican financial sector is the resiliency of its institutional arrangement, which endured even as its key players—including the owners of the banks—changed dramatically over time.

The institutional setup had devastating consequences for SME lending. The nationalizations, privatizations, and overall increase in centralization decimated the banks’ traditional, branch-based credit capabilities and the ‘soft’ information that accompanied them (see Berger, Klapper, and Udell 2001; Berger and Udell 2002). In

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1 Soft information refers to information that can only be attained through personal relationships. It is often cited as crucial for SME lending given that smaller firms have less collateral, more obscure financials, and shorter credit histories, among other limiting features.
addition, the availability of relatively risk-free profits through government credit further decreased the incentives to engage in business credit. SMEs have been affected by and have reinforced this dynamic. Between seventy and eighty percent of Mexican businesses finance their operations through trade and supplier credit, which carries costs of 10 to 15 percent per month (Banco de Mexico, 2007; 2010). While Mexico is often considered one of the most entrepreneurial countries (Reynolds, Bygrave, Autio, Cox, and Hay 2002), more than 60 percent of new ventures emerge in the informal sector. A self-reinforcing dynamic has thus been created. SMEs limit their growth expectations due to credit constraints (Banerjee and Duflo 2004; McKenzie and Woodruff 2008) while banks reinforce their skepticism of SMEs given their inability to grow.

All these factors point to Mexico’s dysfunctional banking system and its resilience to change. It constitutes a critical case, where intentional institutional change would be least expected to succeed (George and Bennett 2005). The three levels at which institutions operate—laws and regulations, organizational practices, cognitive scripts—were synchronized against SME lending and had remained so historically. Yet, 2002 marked a break with historical trends and an impressive shift in lending activity occurred, as shown in table 1. This increase in lending was followed by deep changes in the internal structure of banks. Before 2002, no bank had an area devoted to SMEs. Small business checking accounts, for example, were grouped with those of individuals. By 2006, however, all Mexican banks had SME banking areas, including specialized credit teams. Banks
offered more than twenty-five SME-specific credit products and three of Mexico’s largest banks claimed the SME segment as their priority for growth.

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The emergence of this market can be traced back to the creation of the National SME Financing System (SINAFIN) under the new administration of president Fox (Economía 2001). The program has changed considerably, but consists of a government-funded guarantee system that subsidizes the banks’ risk by absorbing a portion of SME loan defaults. The emergence of SINAFIN coincides with the activation of SME credit, but there are reasons to believe that there is more to the story than the mere existence of the program. First, there had been previous –unsuccessful—efforts to activate SME lending, some through similar guarantees. Second, in its four initial years, the entire investment in SINAFIN amounted to a modest US$150 Million while US$4 Billion of loans were placed. Third, during the initial stages of the process, all major banks were invited to the program. While they all expressed interest, only three engaged in SME lending successfully, while others lagged behind (see fig. 2). This variation in lending performance needs explanation. Fourth, the federal government launched SINAFIN through banks with national presence, but it had to be implemented in conjunction with autonomous state governments. Each state administration could choose whether and how to implement the federal program. Table 2 shows that the same program achieved dramatically different results in different states, and that the variation seems unrelated to
structural aspects that we would expect to be determinant like state wealth or SME population.

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If SINAFIN was central to the activation of SME lending in Mexico, then it is important to clarify how this modest program achieved such remarkable results in an environment characterized by a resistance to change. It is puzzling to see some banks suddenly embrace a segment that they had purposefully neglected; or engage in a government program similar to others they had turned down. As I will show below, the variation within SINAFIN can help explain its ultimate performance.

DATA AND METHODS

The research design leverages the temporal and cross sectional variation in SINAFIN outcomes to study the mechanisms that determined its success. The study takes advantage of unrestricted access granted by the Ministry of the Economy to unique data sources. I performed in-depth, ethnographic interviews and observation at the federal level and across six different states over a period of 18 months. I totaled over two hundred semi-structured interviews and many additional informal interviews. All interviews were done in-person, average length was 90 minutes, with a minimum of 45 minutes and a maximum of over three hours. Table 3 presents the approximate distribution of the
interviews. Observation periods with extension agents\(^2\) and government officials lasted a full workday (twenty extension agents and ten government officials). I also observed client-bank interactions, including five loan-contract negotiations. In addition, I attended several meetings at the SE, participated in many of their program discussions, and spent many days working in their offices and analyzing data with their team. I also participated in several federal and state-level seminars, like annual “SME fairs”, and I met with government officials and bank directors at the end of the process to validate my findings.

To select subjects, I interviewed all the federal government officials directly responsible for the design and implementation of SINAFIN. Through those interviews, I detected actors from different organizations who were either directly involved in the program or had a clear stake in it, including banks, business associations, and NGOs. I also attended several “SME Weeks”\(^3\) and mapped all the organizations present into stakeholder groups. I interviewed individuals from relevant organizations of each group, including supporters and detractors of SME financing. Once I validated the map of stakeholder organizations, I replicated it in each of my state cases.

\(^2\) Extension agents were created by the federal government to act as bridges between the banks and SMEs. They are hired and trained by State governments and paid by both Federal and State governments on a success fee basis.

\(^3\) A yearly expo funded and organized by the SE where SME issues, government programs, and products are discussed and showcased.
To pick the state cases, I asked all subjects in my initial sample to name states where SME credit had advanced successfully and those where it had lagged behind. Within the cases that most consistently got picked as good, bad, or average, I analyzed loan placement rates and patterns, bank concentration levels, state-level wealth and economic activity, industrial structure, political landscape, and geographical location to pick cases that matched on different performance levels as well as on other structural aspects. To the extent possible, as described in table 4, I followed a framework of most similar and most dissimilar cases (George and Bennett 2005).

In terms of quantitative data, I was granted access to all the records that currently exist on the different aspects of the program, including all the loans granted through the program between 2001 and 2006 and a survey of 1,400 SMEs that seeks to gauge the impact of loans on SMEs. While this paper relies solely on the qualitative data, I mention other sources as they deeply affected my thinking about the underlying issues.

SINAFIN AND INSTITUTIONAL ENTREPRENEURSHIP

During the presidential campaign, Vicente Fox’s team realized that SMEs had never been given voice as a political constituency and presented a political opportunity. SMEs

\[4\] All state, bank, and individual names are removed.
became one of Fox’s campaign differentiators, so one of his first acts as president was to create an undersecretary for SMEs and finance it through a new National SME Fund. After more than six months of research, the SME team identified financing as the most limiting factor for SME development, which led to the creation of SINAFIN.

SINAFIN was different from previous guarantee programs in several ways. First, it was a federal program. Previous attempts led by state governments or development banks were more limited in scope. Second, SINAFIN acknowledged the government’s inability to run disciplined loan programs and sought to involve private banks. In fact, the initial stages of SINAFIN were explicitly designed as experiments between the SE and the banks. Third, the banks were allowed to define central elements of the program in exchange for clear commitments, transparency, and accountability. Fourth, the SE decided to leave all lending decisions with the banks to avoid government intervention in credit outcomes.

The innovations at the heart of SINAFIN, therefore, are not found in the actual characteristics of the guarantees but in the process through which they were designed. This does not make them less remarkable. The process marked an important departure from longstanding traditions for all those involved. As I will detail below, these

5 The idea to use banks as partners was a central aspect of SINAFIN and a departure from previous practices. Given their national presence, their deep pockets, and their branch infrastructure, it was decided that banks were the best channel to quickly generate loans for SMEs.
innovations are tightly bound with the institutional entrepreneurs who led them. Moreover, and consistent with existing theories, a retrospective analysis of SINAFIN’s success would yield a relatively linear story that identifies a handful of individuals solely responsible for its results. The comparison of structurally equivalent organizations and states that nonetheless varied considerably in their results does, in fact, show that the role of a few individuals in detecting, launching, and driving the change process was an identifiable and distinctive factor of successful cases within SINAFIN. A deeper analysis, however, reveals a more complex story. Even using a restrictive definition of institutional entrepreneurship (see table 5), individuals who fit that description were abundant in both successful and unsuccessful cases. For example, institutional entrepreneurs who invested significant time and energy into change efforts, often risking—and sometimes losing—their jobs, could be seen in every one of the eight national banks I analyzed, even though they were only successful in three of them. They could also be found in all of the state cases, distributed among different organizations. Thus, institutional entrepreneurs were common in the development of SINAFIN and their distribution presents no systematic pattern across geographies or organizations. The difference is that in some cases they succeeded and in others they failed.

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INSERT TABLE 5 ABOUT HERE

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The analysis of change efforts within SINAFIN also reveals a remarkably consistent set of roadblocks that entrepreneurs—regardless of their background, organization, or
geography—encountered at similar stages of their paths. Each roadblock operated as a funnel, filtering a fraction of all institutional entrepreneurs. Thus, while only a handful of individuals can be credited with success, the actual number of individuals attempting change—many of whom directly or indirectly influenced successful efforts—is much larger.

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INSERT FIGURE 3 ABOUT HERE

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This suggests the conceptualization of institutional change as a sequential process, where a series of relatively unlikely successes must be attained to achieve a transformation. This approach recognizes the existence of successful and unsuccessful change efforts, it accounts for the observation of larger numbers of initial entrepreneurs, and it can identify the specific mechanisms that filter individuals at each stage. Note also that it is consistent with the empirical reality of infrequent instances of change. Even if we assign relatively high probabilities of success at each stage, the conditional sequencing results in a low probability of overall success. Figure 3 presents the stages observed in all change efforts as well as the actual number of individuals who survived each one. Table 6 shows, for a sample of federal organizations and states, the distribution of individuals across the different stages of change.

Success needs to be defined. In the earlier discussion of variations within SINAFIN, I characterized success at the state level according to the penetration of SME loans. For the
narrower context of institutional entrepreneurs within organizations, I coded success according to the *moves* or particular projects that the actors created (Goffman 1981) as well as the evaluations that all those affected by the projects had of the results (Benford and Snow 2003; Howard-Grenville 2007). As an example, consider a regional bank manager who, seeking to promote SINAFIN, engages all relevant stakeholders to create a credit culture in a state. For this purpose, she organizes a series of public events where SMEs are educated on the benefits of bank credit and invites *all* other banks to offer new products. In this example there is a market creation agenda and the results are measured by all the affected players against that agenda –i.e. how they all answered the question of whether “it worked”.

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The proposed stage model underscores how individual capabilities interact with organizational structures in processes of institutional change. It straddles different levels of analysis to uncover how structural elements interact with culture and individual characteristics to affect agency (Stinchcombe 1965; e.g. Vaughan 1998; Vaughan 1999). In what follows, I explore the mechanisms of institutional change at each of the stages, from opportunity recognition to the institutionalization of new practices, as summarized in figure 4.

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**INSERT FIGURE 4 ABOUT HERE**
Opportunity Recognition: Cosmopolitanism and ‘Taken for Grantedness’

In banking, socialization processes are strong, managers are promoted from within, and experience in the financial industry is the primary source of recognition and advancement (see Van Maanen and Schein 1979). As a result, bank employees become immersed in a community of meaning with a distinct language, a stable set of norms, and a uniform understanding of their world (Piore 1995; Smith 1990; Weeks 2004). In the Mexican case, this understanding included a clear set of assumptions about the credit worthiness of SMEs:

I can see no reason to participate in the program. (…) We meet eighty percent of our lending targets by lending to local and federal governments. Why would we ever want to lend to SMEs? (…) Lending to the segment is simply not feasible (…) SMEs are not productive, they are too risky, it is too expensive to manage their loans. (Bank Manager, Credit).

Government officials, business owners, and business associations held corresponding priors against the viability of the SME credit market. Government officials tended to view the banks with contempt. SME owners viewed both banks and government officials with deep mistrust:

The banks never lend money. Even if they did, it would cost me a lot. My supplier credit does not cost me. Also, if for some reason I fall back on my payments, they can come and take my house away. I just don’t need that. (Owner. Steel distribution business).
This quote, representative of SME owners in Mexico, is striking for several reasons. First, it shows that debt financing was so far removed from the entrepreneurs’ reality that they no longer accounted for trade credit, which carries costs of up to 15 percent per month, as a financial cost. It thus reflects the institutionalization of the lack of credit in the economy. Second, that belief is based on a false perception. Banks cannot take an entrepreneur’s house if the loan is granted to a limited liability business. The belief was prevalent, however, and it strengthened a perception of banks as unscrupulous, ambitious, and uninterested in their clients’ wellbeing. Firms were unaccustomed to external evaluations of their operations, and accounting exercises were a sport of fiscal evasion (Murguia O'Keefe 1999; Staking and Schulz 1999).

Yet, within this institutional convergence reinforced by decades of a dysfunctional system, there were those who envisioned alternatives:

I spent all my early professional life (as an entrepreneur) suffering from the lack of liquidity in Mexico. (…) By the time I made it to Vicente Fox’s campaign team I was convinced, from my experience, that we could turn SMEs into a powerful constituency. (…) We ran the campaign on that and won. (…) Now we had to prove to the banks that there was a huge market out there that they were neglecting. (JB – SE Official).

Some in the banking sector also saw the opportunities:

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6 Suppliers build the cost of credit into the price. When asked whether they would receive a discount from suppliers for an upfront payment, entrepreneurs typically mention a standard discount of around 10-15 percent.
I was hired to develop B2B models for the bank. In Mexico working on business solutions means working with SMEs (...). I realized that the SME segment was huge; it was where the real meat of the market was. I was surprised to see just how neglected it had been by the financial sector. There were basically no SME products (...). Nobody (in the bank) knew that segment well (...). People here would say that all SMEs were bad credit risk, not trustworthy, not productive. Through working with many SMEs I could see that this was just not true. (AH – Bank manager).

What allowed these individuals to see an opportunity that most had missed was an unusual career path that exposed them to SMEs more intensely. Career paths within banks and government, however, limit access to external sources of information since they favor linearity. Accordingly, managers who straddle the border with other worlds are scarce. In such networks with high homophily, a ‘cosmopolitan’ member who can access external information may use it, depending on her ability, to exploit latent opportunities (Castel and Friedberg 2009; Reagans and Zuckerman 2008). In the case of SINAFIN, outside exposure allowed some managers to realize that many of the assumptions held by their organizations about SME credit were simply wrong. For example, the traditional rationale for not lending to SMEs was their lack of productivity, which is fully supported by financial reports that show dismally low profit margins. Those closer to the segment, however, know better. Reports are routinely ‘adjusted’ to minimize tax liabilities and entrepreneurs include all kinds of personal and family costs as part of the business. Of more importance, reports do not show the true cost of supplier credit, nor can they show that its substitution for bank credit would release more than enough liquidity to pay for a loan (McKenzie and Woodruff 2008).
Through interactions with different social groups, cosmopolitan actors find opportunity in the mistaken assumptions, translation losses, and communication breakdowns between disparate groups. But this only occurs if they spend enough time within each group to understand the norms, meanings, and hidden assumptions that drive their actions (Piaget 1965; Piore 1995). It is precisely because institutional opportunities lie at the intersection of established institutional systems that abstract knowledge held by cosmopolitan actors becomes valuable.

When the Internet boom ended, the bank relocated me to internal process optimization (...). This work required me to spend a lot of time with each area to understand what they did and engage in long negotiations to change or cut a process. (...) I learned what each area cared about, what language they spoke (...) It became even clearer that SME lending was a huge opportunity that offered different things to different areas of the bank. (...) Nobody else in the bank saw it. (AH – Bank Manager).

SINAFIN sought to create a new credit market, which requires scale –liquidity, information, and diversification of risk—to function. Those who identified the opportunity also recognized that it could only exist if it was collectively created.

We knew that a market had to be created (...) it required scale (...) to provide enough cash, to spread the risks, to change SME culture. So banks had to be part of the solution. They were the only ones with the scale and distribution network to do this. (...) That’s where BG came in. He spent his early career in a bank and then moved into policy (...) he spoke their language, they understood him well, so I recruited him to the SE. We needed somebody who could bridge that side of the problem. (MS –SE Official).
Cosmopolitan individuals who recognize institutional opportunities are relatively rare. But they are not inexistent. In fact, cosmopolitan actors can be found in most social systems, so cosmopolitanism alone cannot explain why a few of such actors become disproportionately valuable (Reagans and Zuckerman 2008). In line with this, figure 5 shows many individuals within my sample who recognized the opportunity for SME lending. Around 80% of them had a cosmopolitan background (vs. around 15% for the rest of the sample). This confirms that the ability to connect disparate social groups, understand language nuances, and translate concepts across settings is a necessary condition for institutional entrepreneurship (Ansell 1997; Caro 1982; Castel and Friedberg 2009; Morrill and Owen-Smith 2002; Padgett and Ansell 1993). It also suggests, however, that it is neither unique nor sufficient to generate change. For only a subset of those who identified the opportunity actually pursued it, and only a fraction of them eventually succeeded. As I argue below, not all this variance can be ascribed to individual ability or taste. Rather, much can be explained by the generation—or lack thereof—of public knowledge.

*Attempting Change: Overcoming Pluralistic Ignorance*

If so many individuals detected a clear opportunity for SME credit, why did only a fraction of them become involved in a change effort? If institutions are structures that provide certainty, it follows that institutional change is fraught with uncertainty:

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7 Spent at least two years of their professional life in at least one different field than their current work.
I would love to tell you that we knew exactly what to do and how to do it. (...) We had no idea (...) we knew that we had no idea (...). We also knew that we could not do this ourselves; we needed to convince key players from other sectors, like the banks, to do this together. We thought some of them would be interested, but it was impossible to know (...) We had to work with others from the very (...) definition of the process; we needed to discover who would work with us (...) and what it would take for them to participate. (PB – SE official).

The aspiring institutional entrepeneurs I observed were not naïve about the uncertainty of change. They were acutely aware of it. SINAFIN required the participation of actors from the private, development, and public sectors. Most potential entrepreneurs had reason to believe that, if enough of them acted in concert, a market could be created. They were also reminded by recent history that, should they attempt change alone, they would fail. Potential institutional entrepreneurs, therefore, grappled with three sources of uncertainty. First, they knew that a critical mass of individuals and organizations had to come together to make change possible, yet it was unclear whether it existed. Second, it was unclear whether the costs entailed in generating change would yield sufficient benefits for their organization and themselves. For most, after all, time devoted to SME credit was time not devoted to their ‘real’ jobs. Finally, given what they thought was required to coordinate across organizations, many were unsure that they possessed the capabilities and resources to initiate the change. Entrepreneurs could seek additional information to reduce uncertainty, of course. But one critical mechanism for institutional stability is that actors not only know what to expect of others, but also have a strong incentive to fulfill others’ expectations (Bowles 1998). This includes public agreement
with existing institutions to reinforce and clarify collective expectations (Chwe 2001; Kuran 1995). This means that, at any point in the life of an institution, it is impossible to know how many individuals can envision an alternative or would be willing to join a change effort.

A critical question, therefore, is when individuals decide it is conceivable to break through (Kuran 1989). The case of SINAFIN was not the exception. Many actors were anxious to transform the financial sector but had difficulty knowing who was ‘in’ and who was ‘out’:

I was convinced that we could make (SME credit) work. But there was also a sense of real danger. (...) we needed to create a group of “explorers” including people from my bank, from the SE, from the development banks, from other banks (but) I just did not know who was open to this. (...) I was not just hesitant about the project, I was afraid of losing my job. I was not supposed to be doing this, it was not something the bank was going after. (KA –Bank Manager).

As SE officials contacted different stakeholders, they were surprised by how many agreed in principle –and in private—with the plausibility of SME credit. They also became increasingly frustrated, as no actor was willing to take a first step. The message was always the same: they would join an ongoing effort but would not be first. As the need for simultaneity became clear, the SE team inadvertently created it. To identify the needs of each stakeholder, the team initiated the “PyME (SME) Tour” across the thirty-two states of Mexico. During each visit, the team set up roundtables with actors from all the relevant groups. The methodology was simple: to collect anonymous (private)
thoughts on the local limitations for SME credit and discuss them publicly.\(^8\) As these meetings progressed, the SE team consolidated the entire process in a single document that provided the basis for coordination:

The PDE\(^9\) started as the list of things that I would have liked as a business owner, I drafted the first table of contents (…) At each stage of the “PyME Tour” (…) we incorporated ideas to the plan. (…) We ended up with a “chilaquil”\(^10\) (and) we made a copy for every roundtable participant. (…) The end product was remarkably similar to the original version, not because I am a genius, but because much of it was common sense. (…) But the goal of this process was (…) to identify who could be a part of the programs (…), we needed to let them identify each other, they had to feel that they had all jointly produced this plan. (JB, SE official).

The SME Tour, embodied in SINAFIN, provided an institutional project that the different actors could coordinate through (Colomy 1998). It allowed institutional entrepreneurs to identify each other, gauge the potential for critical mass, and establish a new platform for communication. SINAFIN became the common language for actors from different sectors as well as an artifact to mobilize resources within their organizations (Ansell

\(^8\) Participants were asked to turn in anonymous thoughts that were then aggregated by the SE team and presented to the workgroups. Participants then held a working session to explore avenues for SME development.

\(^9\) PDE: Plan de Desarrollo Empresarial or Business Development Plan. It was the initial document prepared by the Ministry of the Economy where the broad strategy for creating a market for SME credit was described.

\(^10\) Mexican dish: a mélange of tortilla chips, green salsa, cream, cheese, and shredded chicken.
It became a source of public knowledge that allowed all those interested to simultaneously initiate change efforts.

The key effect of the PDE, then, was to overcome pluralistic ignorance (Allport 1937; e.g. Prentice and Miller 1993), thus resolving a key source of uncertainty for potential institutional entrepreneurs. It brought into light who understood the SME credit issue, who was *willing* to join in the collective effort, and who was *able* to mobilize resources around it. In many cases, the identity of those revealed to possess (or lack) the motivation to engage in change efforts was a surprise to all involved –sometimes even to the entrepreneurs themselves. An example of this is AH, a bank manager featured above. He had the most knowledge about the SME segment in his bank, but he was not the appropriate interlocutor for new product discussions. When the meetings began, AH accompanied the commercial director as an advisor, but then found himself in a different position:

(The commercial director) did not understand the segment (…). He was convinced that the efforts would lead nowhere (…) so he just stopped. (…) I had been looking for ways to work with SMEs, so I was not going to let it pass. I kept the two jobs –one officially, one not quite—for a long time. It was not until the SME area of the bank was officially created that I was able to stop working on internal process redesign. That was three years after the initial negotiations began. (AH –Bank Manager).

Managers from Findev, an important development bank, responded differently. Findev was the development agency with the most experience with SMEs and the only
development bank with the mandate to promote them. Findev officials participated in all PDE meetings and often expressed their interest in SINAFIN but would then remain passive or actively block emerging ideas. It soon became evident that Findev officials had no intention to generate drastic change:

As a manager there, you get the best salary and the best benefits you could ever imagine. That is why Findev managers have been there for more than twenty years. (...) After the 1995 crisis Findev lost a lot of money and many people lost their jobs. Those who remained built a strong culture that protects their job above everything else. (...) They don’t take risks. (...) They do a lot of window-dressing (...) and they are very protective of their turf. (JG –SE official).

The Findev resistance proved problematic at every stage of SINAFIN, but also presented opportunities. When Findev blocked SINAFIN, for example, SE officials fought them head on –sometimes publicly—and sought alternative avenues. For institutional entrepreneurs within banks, this was a credible signal that SE officials were committed and it gave them additional confidence to pursue the SME opportunity.

For most institutional entrepreneurs, the motivation revealed –and fuelled—by SINAFIN was not grandiose. Most of them only sought to do their jobs well. RF, for example, managed a credit card product for his bank. Credit cards in Mexico had grown at impressive rates in prior years, so he was expected to replicate previous results. He was convinced, however, that the market was close to saturation and aggressively pursuing activations would present dangerous risks. As he searched for new potential markets, his previous experience with SMEs led him to the epiphany that firms were desperate for
credit and it did not have to come in the shape of a loan, it could be a credit card. SINAFIN gave him the platform to pursue the idea. In similar fashion, a government official from the state West explained:

We were the first (state government) from the (opposition) left party, so we needed to demonstrate that we were friendly towards business, especially SMEs. (…) But we are a poor state, so we don’t have resources to pursue big programs. The only solution I found was (…) to get as much money from the federation as I could (…) even if internally this was not seen with good eyes. (…) When SINAFIN came up, I made sure to participate in its definition so I could attract as many of its resources as possible. (JQ –Economic Development Official, Southwest State).

Once the actors with the motivation to work on SINAFIN became visible to each other, their joint work began. They took a first, collective step. At that moment they switched from being potential to actual institutional entrepreneurs. They took the leap. While the uncertainty of whether a critical mass of entrepreneurs existed was resolved, the road ahead was paved with additional uncertainty, from the definition of where to begin to the broader question of whether change was possible. It also confronted each of them with their own ability as institutional entrepreneurs. For most, the confrontation ended in disappointment for reasons that are revealing of the nature of institutional change.

*Experimentation: Structural Dimensions of Institutional Entrepreneurship*

The Importance of Experimentation

A change in common beliefs entails, at the very least, demonstrating that those beliefs may be inaccurate or that an alternative path is possible. However, it is impossible for actors to anticipate the results of a new alternative. Thus, at the beginning of SINAFIN
the priority was not to agree upon an airtight program but to commit to the process and develop a common understanding of its issues (e.g. Sabel 1993; Uzzi 1997). This resulted in a set of deliberate and accidental experiments that, through their failure, built trust between the parties.

When the SE offered to work with us, it all sounded great but (…) we didn’t know if we could trust them (…) so we started with a very simple program. (…) the SE repaid all our initial losses on time and we realized that they meant business (…). When we initially tried to sell the ideas internally, the word in the bank was that we would never make it work because the government was not trustworthy (…) and the economics of the segment did not work out. (RF –Bank Manager).

The relatively simple experiments did not only build trust across organizations. They also helped institutional entrepreneurs advance change within their organizations in ways that would have been inconceivable with a more aggressive approach:

The only way to show that SMEs were not that risky was to, well, show that they were not risky, we had to actually lend to some SMEs. (…) When the SE accepted to back our loans with a guarantee and gave us full freedom on the actual products we saw it as the perfect opportunity (…)

It is very difficult for a banker to say no to free money with no strings attached, and the initial flexibility from the SE was easy to frame that way. (Bank Manager).

Like many successes within SINAFIN, the commitment to experimentation was the result of accident more than planning. As a new agency, the SME group lacked the programs or the administrative infrastructure to put their first-year budget to use. There was only one way to use the resources meaningfully. SINAFIN required collaboration with state governments and local partners, but president Fox was the first president from the PAN
party,\textsuperscript{11} so most state governments saw him as opposition. One thing all state governments like, however, is federal money.

\begin{quote}
\(\ldots\) we had to establish alliances with the state governments \(\ldots\) As soon as we had the PDE, we spent the next six months signing agreements \(\ldots\) to give money to state governments. \(\ldots\) The money had no conditions, they only had to use it to promote SME credit. (MS –SE official).
\end{quote}

Without guidelines, the state responses were as varied as their geographies. Some added the funds to existing development programs, others attempted to lend directly to SMEs with mostly disastrous results, and others spent the money on political campaigns or favors. These failures, however, proved invaluable for the development of SINAFIN. First, they allowed the SE to forge working relationship with state governments, some of which otherwise spurned the federal administration. Second, they showed that the state governments could not activate SME credit alone. Third, they legitimized the role of the SE as the coordinator of change efforts (see Fernandez and Gould 1994). Finally and of most importance, the freedom granted to state governments transformed the country into a laboratory where tens of different guarantee programs were tested, at a relatively low cost.

\begin{quote}
We learned so much \(\ldots\) We realized there was no way we could come up with a program that would just work for everyone \(\ldots\) we learned that we needed to try many things \(\ldots\) to figure out what would work. \(\ldots\) This is \textit{very} different from every policy effort I had been involved in before. (JG –SE Official).
\end{quote}

\textsuperscript{11} The PRI party controlled the presidency for seventy straight years in Mexico.
As SINAFIN entrepreneurs understood the need to experiment, they were confronted with the determinants of their ability to do so. One of the most striking elements of SINAFIN is that the institutional entrepreneurs who succeeded not only followed similar strategies but also were situated in similar hierarchical positions. Every successful entrepreneur was positioned in the upper-middle level of the organizational structure, as seen in figure 5. For government agencies, this translates to a third- or fourth-level officer; for banks, it translates to a middle manager in a commercial area. Sample organizational charts can be seen in appendices 1a and 1b.

Resources, Legitimacy, and (in)Visibility as Determinants of Success

That the organizational structure affects an individual’s ability to experiment should not be surprising. Experimentation, after all, is a form of deviance that not only challenges an existing norm but also demands organizational resources. One important element in SINAFIN was a level of familiarity with the organization that only positions of authority convey:

I located three branch locations that were owned by the bank but were not in use. I also borrowed old furniture and old computers from different bank branches. (…) I convinced a couple of friends from the commercial areas to lend me a few employees for a couple of months. Once I had all of this in place I asked (the commercial director) to let me run a small pilot and place a couple thousand small loans. (…) The required investment was practically zero, there was no financial
risk because of the (government) guarantee, and it was no skin off his back since I was taking all the professional risk, so he had no reason to reject it. (JA – Bank Manager).

Access to slack resources was determinant, but insufficient. Successful institutional entrepreneurs in SINAFIN were high enough in the structure to have access to resources, the discretion to mobilize them, and the legitimacy to bend certain rules (Phillips and Zuckerman 2001). Notice, however, that there were institutional entrepreneurs in SINAFIN who were higher in the structure and nonetheless failed. Figure 7 shows that seven of the twenty top managers I observed recognized the SINAFIN opportunity and five attempted organizational experiments. All of them failed. For these individuals, the limitation was not a lack of resources or ignorance of organizational norms. Rather, it was the visibility of their position. The commercial director of a mid-sized bank, for example, described his frustration at his inability to have a more active role with SINAFIN. On the surface, he was limited by his work. He had three Directors under his supervision, each responsible for five or six divisions, so the cost of spending time on the details of a potential new loan product (usually managed four levels below him) was high. Arguably, this director could have mandated a subordinate to design a product through SINAFIN. His reluctance to do so despite his belief in the SME segment was representative of other high-ranking managers. Given the strong sentiment against SMEs in the bank, this director feared that his involvement with SINAFIN would doom it to failure. Since his involvement would inevitably signal that the entire bank was committing to the segment (see Phillips, Turco, and Zuckerman 2009; Zuckerman 2010), the whole organization would turn its attention to the incipient process and amplify any
failures—inevitable, given the development stage—thus ensuring its early demise. He felt the only viable option was to find a volunteer product manager and hopefully spark an organic process. He was unsuccessful in finding a champion. Two similarly ranked officials (see fig. 7) resigned to create their own firms after not finding internal champions.

That middle managers play a critical role in organizational innovation has been documented before (e.g. Burgelman 1983a; Burgelman 1983b; Floyd and Wooldridge 1997). My observation of SINAFIN entrepreneurs revealed that three structural mechanisms operated simultaneously to only allow middle managers to launch experiments. First, entrepreneurs required an organizational perspective, legitimacy, and access to resources than only relatively high levels of the hierarchy convey. Second, entrepreneurs required a level of discretion and relative invisibility that only lower levels afford. Finally, middle managers often experience high organizational strain, which increases the probability of having the motivation to deviate in the first place (Clinard 1983; Simpson and Leeper Piquero 2002; Yaeger and Reed 1998).

Experimentation—and the structural characteristics that enable it—was thus critical within SINAFIN. It allowed actors to generate evidence about the efficacy of different types of solutions, the accuracy of critical underlying assumptions, and the trustworthiness of important counterparts. Notice, however, that it was not the success of an experiment that determined the subsequent success of a change effort. In fact, most
experiments were *expected* to fail. Rather, subsequent success was determined by how new knowledge was handled. In some cases, the information generated by an experiment was used to challenge an existing belief and pave the way for future experimentation. In others, the result of an experiment increased opposition, reduced momentum, or led to the termination of an effort. At the heart of these contrasts lies the difference between conventional innovation and institutional entrepreneurship and, more specifically, the role that public beliefs play in institutions.

*Dissemination of Success: Institutionalization through Public Knowledge*

During initial negotiations with the SE a manager stated that credit simulations had led his bank to expect delinquency rates of 7 percent of a new SME portfolio and requested the SE to subsidize the risk on a first-loss basis. Development bankers saw the proposal with skepticism, since it left portfolio quality solely under the bank’s responsibility. SE officials were simply unsure. If the program worked well, it would allow the SE to generate much more lending with less committed resources, given that both total portfolio and total guarantee amounts would be negotiated upfront. If the banks lent irresponsibly, the program would be a disaster outside the SE’s control. At issue was whether banks and their lending standards could—or should—be trusted. As negotiations continued it became clear that first losses was the only way to create a pilot within this bank, so the SE went ahead. The pilot was stopped mid-way, since the bank’s credit models proved to be too conservative, and was thus unsuccessful. At the same time,

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12 If, for example, the agreement was for a five percent coverage of a Mx$100M portfolio, the SE would reimburse loan defaults until Mx$5M were disbursed—regardless of the actual disbursed loans at that time.
different actors used it as a critical tool to advance a second round of experiments. SE officials used it as a demonstration of the bank’s transparency—the bank, not the SE, decided to stop the pilot. Bank managers used it to demonstrate that the SE could be trusted, since the SE reimbursed every default within a week of its request. Both groups used it as proof that SMEs were misunderstood—delinquency never surpassed 1 percent. The crucial distinction is that institutional entrepreneurs used the results of this failed experiment to unquestionably challenge an underlying assumption. Through the strategic dissemination of certain results to certain constituencies—other government officials for the SE, other bank areas for the bank manager—these institutional entrepreneurs reduced uncertainty to keep their projects alive. The goal was not to find the perfect product; it was to survive an additional stage.

In contrast, during the SME tour the SE team was puzzled to learn that, during the late 90s, a state government had created a small version of a guarantee program for SMEs and had placed a substantial number of loans with competitive delinquency rates. Yet, even though the program achieved positive results, it only lasted two years:

The programs just died out (...) we were not able to get the little machine (the market) to run the way it started now with SINAFIN. (...) our biggest mistake was not to sell our results better (...) to all the players in the market. We assumed once it worked that it would all happen on its own.

(Economic Development Official, Northwest State).

The dissemination of results was critical in SINAFIN because SME credit in Mexico required much more than innovation in new products. It required the institutionalization
of a new set of –existing but unobserved—beliefs (see Adut 2004; Adut 2005). The creation of new public beliefs in this case meant turning the private knowledge gained by some institutional entrepreneurs into not only common knowledge (something everybody knows) but also public knowledge (something everybody knows that everybody knows) thus activating a process of institutionalization (Adut 2004; Chwe 2001; Kuran 1989; Parkhurst Ferguson 1998). In contrast with the experimentation stage, personal background and social skill (Fligstein 1997) became more predictive of successes at this stage. This is consistent with previous work, where skilled institutional entrepreneurs are shown to use robust action, multivocality, bricolage, and sociological imagination to engender change (Howard-Grenville 2007; Padgett and Ansell 1993; Parkhurst Ferguson 1998; Rao, Monin, and Durand 2003; Rao, Monin, and Durand 2005). Notice, however, that social skill only became critical after structural factors determined survival from previous stages. In the case of SINAFIN, successful institutional entrepreneurs required skill to balance four distinct elements of public dissemination of information: the timing and type of communications, the audience targeted, the language used for that audience, and the actors referenced in the communication.

Skill was critical because different periods of SINAFIN proved to require different types of dissemination of results, even if the goal was always to create new public knowledge. During the initial moments of SINAFIN, for example, information was disseminated only among potential institutional entrepreneurs. At that moment, the goal was to disseminate the common, yet unexpressed belief that a market could be created, nothing more. The
PDE provided a form of public knowledge—all actors received the same communication at the same time. But it was distributed through carefully orchestrated events where only relevant actors were exposed to its results. A broader dissemination—through the media, for example—could have drawn premature attention to a process that actors were still reluctant to join.

As soon as experimentation yielded concrete loan products for SMEs and the SINAFIN mechanisms that supported them, the type of dissemination shifted dramatically. The goal was no longer to recruit institutional entrepreneurs or determine what SINAFIN should look like. The goal became the creation of a market, the institutionalization of what all previous experiments had revealed. It entailed a different scale of public dissemination of information, one that was best achieved through the mass media (Adut 2004; Adut 2005; Meyrowitz 1985). The SE, for example, established a national “SME week” (a trade fair) that, through intense media promotion, attracted more than fifty thousand visitors in its first year. The most important theme of the event was credit; reflected in the largest exhibit where participating banks set up virtual branches to pre-approve SME loans on the spot. Loan approvals were announced throughout the week in the national media (“Bank X just approved its two hundredth loan of the week!”) and the CEOs of the main banks, the minister of the economy, and even president Fox participated in several highly publicized roundtables and information sessions.
Successful dissemination strategies shared a highly symbolic nature. Although different in scope, most constituted “institutional rituals” that hinged on symbolic dissemination of public knowledge (Chwe 2001). But different audiences required different language and imagery to respond to public information. Accordingly, successful institutional entrepreneurs created different rituals for different audiences. Some messages, for example sought to provide support for banks that were active with SINAFIN, fuel competition between them, and push those that had remained on the sidelines to accept SMEs as an important new segment:

If the press was present at an event, (the officer in charge of SINAFIN) made public announcements that were one or two steps ahead of actual results. (…) If a bank reported a positive trend in its results, he would publicly announce that the bank was a leader in national SME credit (…). Guarantee agreements with each bank were signed in very public events and their (loan) commitments were publicized. (…) Each announcement pushed the banks to move quicker than they felt comfortable doing, it pushed them on to the stage. (LR – SE official).

Other messages were directly aimed at government actors, seeking to expand support for SINAFIN, pressure unresponsive agencies like Findev, and build support for the legislative changes that were required to facilitate lending:

We publicized the results obtained with the first guarantee in events that got a lot of press coverage (…) we never singled out Findev, but to those who knew, to everyone in the public sector, it was clear that they were absent in the results. (MS – SE official, emphasis mine).

We were suddenly left out (…) and started to see a lot of promotion of a new program for SMEs without Findev. (…) It was one of those ‘not good with them, much worse without them’
situations. The SE was now negotiating directly with the banks and we were not a part of the process anymore. *Anything* was better than not being part of that process (…) I don’t like admitting this, but without that public pressure we probably would not have allowed SINAFIN to happen. (LL – Findev manager).

Others still were aimed at SMEs and sought to signal that banks, local and federal governments, and business associations had turned a corner:

(Hands me a newspaper clipping from his desk drawer) This is the reason I approached the bank to ask for a loan. (…) It says that the (state) minister of the economy had given my bank a prize for giving loans to a thousand SMEs. First I thought that they must have been larger businesses, or people with connections, so I never applied, but I kept the article. (…) Then this (hands me another clipping) article came out. This is a picture of an SME that got a loan from my bank. (…) When I saw this I thought ‘My business is better than that!’ so I went to the branch. (SME owner, Center state).

The social skill required to disseminate public knowledge went beyond identifying the audiences, language, and timing of disclosure. It also entailed a sensitivity of the magnitude of the institutional rituals required at each stage and the organizational actors that needed to be involved:

We did all the *real* work with the operational managers, in the trenches. (…) There comes a point when you need to bring in the big guns (…). You have to signal that this (…) is something that organizations *in their entirety* are supporting. (…) When you show a picture in the newspaper of the CEOs of major banks with the presidents of business associations and the minister of the economy with a sign behind them that says “SME credit” it sends a signal (…). It has to appear
like this is something they personally came up with (…) even if some of them opposed it. (Economy minister, Northwest State).

The relative invisibility of middle managers that was crucial at early stages of experimentation was supplanted by the investiture of top managers once the goal was the broad dissemination of proven practices. In that sense, the involvement of CEOs and ministers in the official narrative of the SINAFIN program was, in itself, an institutional ritual; it was an important element of the institutionalization strategy. Federal and state ministers, bank CEOs, top government officials, and association presidents emerged as the key promoters of SINAFIN in the press and in public events not because it was true, but because it provided a different level of visibility, it signaled that entire State structures and organizations had committed to SMEs. Creating these symbols was not trivial or easy.

You ask the minister to come to the event and his assistant immediately asks who else will be there (…) You have to match the minister with at least the CEOs of the other organizations (…). The moment one of them cancels it all unravels (…) you need to have the levels matched. (…) It seems stupid, it is (…) pure theater, but it has consequences. (JG – SE Official).

Notice that the official narrative of SINAFIN as written in the press and other public documents presents a small group of high-level officials and bank managers who created the market. But this narrative of a few enlightened leaders, at least in the case of SINAFIN, was just the product of a broader process; it was an artifact of the institutional rituals required for it. Findev, for example, played an important role in SINAFIN, but was
dragged into SINAFIN relatively late into the process through political pressure. Contrary to the documented narrative, they were a disruptive force. Likewise, I do not intend to understate the importance of top-level support within each organization. In every instance this support was determinant, but it was a result and not the origin of successful institutional entrepreneurship. The narrative of top officials as the minds behind SINAFIN was strategic rather than descriptive. It also reflected the irony that the same institutional entrepreneurs who asked their superiors to take credit for SME initiatives were often the victims of their success. As soon as SINAFIN began to take shape, for example, JB –the SE officer who led its initial efforts—was transferred to a different agency in what he described as the most painful “promotion” of his career. The story of SINAFIN is full of managers who were transferred, promoted, or fired out of their creations.

DISCUSSION
SINAFIN provides a good window into the mechanisms of institutional entrepreneurship both because of the broad change it generated and the clear role that individuals had in its creation. This is not, however, a story of heroic institutional entrepreneurship. If there are heroes in SINAFIN, they are not amongst the victors of the program but in the ranks of middle managers who risked –and lost—their jobs to generate new knowledge. Moreover, a retrospective analysis of SINAFIN that focused only on those who were hailed as its creators would lead to two important misconceptions. First, those left standing were not necessarily the drivers of entrepreneurial efforts; they were simply
asked or able to take the credit. Second, failures are instrumental for an accurate understanding of success, both because they help isolate the factors that determined it and because they generated indispensable information. Without the initial failures in state-level programs, for example, the SE team would have struggled to gain legitimacy and recognition as the coordinator of new policies. These failures, however, are not found in the archives or public accounts of SINAFIN. Through the observation of successes and failures within the larger process of SINAFIN, this paper leverages counterfactuals to make two broad contributions; the first about the mechanisms of institutional change, the second about the methodological implications of these findings.

On Institutional Entrepreneurship

The necessary inclusion of individuals in theories of institutional change creates two related challenges. The first is that, given that endogenous institutional change is extraordinary, researchers have mostly relied on retrospective accounts that are explicitly or implicitly told from the perspective of successful change agents, resulting in the unstated conclusion that institutional entrepreneurs are equally extraordinary. A second and related challenge is that, given that institutions function through the coordination of common beliefs, it is unclear how dissenting beliefs can emerge.

This paper tackles the two challenges by showing that individuals identified as institutional entrepreneurs were present in every bank and every state observed during the emergence of SINAFIN, even if only a few of them succeeded. The paper argues that this
finding is not inconsistent with our theoretical understanding of institutions that hinge on the coordination of beliefs. The important distinction is that institutions operate through common beliefs—what everybody thinks that everybody thinks—while private beliefs can vary widely. This subtle distinction between private beliefs, common knowledge, public knowledge, and common beliefs helps clarify how institutions operate and how they endogenously change. The distinction has clarified, for example, how apparently solid regimes can crumble overnight (Kuran 1995). While several mechanisms operate to keep private beliefs private, the possible discrepancy between private and common beliefs reveals a higher level of fragility and fluidity within institutions than has been acknowledged. This fluidity does not make change easy, it simply makes it systematic.

This paper shows that, even if institutional entrepreneurship is prevalent, successful change is unlikely because the central challenge faced by institutional entrepreneurs at every stage of their efforts is the transformation of the dissenting private beliefs of a few individuals into common knowledge. Every mechanism that has been shown to reinforce institutional stability operates against this transformation, thus making it difficult to attain. Institutional systems differ on the variety of (hidden) dissenting beliefs held, the number of people who hold them, and the relative costs of expressing them. Each of these factors will affect the likelihood that institutional entrepreneurs arise and the likelihood that they succeed. The fundamental contribution of this paper, however, is to demonstrate that these factors are all endogenous to institutions. The entrepreneurial process revealed
by this paper is thus much more collective, experimental, meandering, and especially systematic than has been documented before.

On Future Research

SINAFIN shows us that documented narratives can be nothing more than an additional element of a change effort. In some cases, the narrative can strategically obscure events—especially failures—that defined outcomes in fundamental ways. In other cases, it can completely distort reality, for example, by falsely representing a leader’s role. This paper has argued for the inclusion of failures in our analyses of institutional entrepreneurship as counterfactuals that can help dissect the mechanisms of change. It also suggests that retrospective accounts can often obscure as much as they disclose. The public description of Findev officials as tireless institutional entrepreneurs, for example, certainly reveals something about their status in the Mexican government and their centrality in its financial sector. It also misrepresents their actual role in SINAFIN. The implication is that there is much to be learned through the longitudinal observation of change efforts before their likely outcome is revealed. Research designs that specifically search for counterfactuals within change efforts—by leveraging regional variation, for example—can yield important insights. This may seem like a risky proposition, since entrepreneurial efforts are likely to fail, but the analysis of failure often yields the most useful insights.
Aung San Suu Key, cited at the beginning of this paper, was awarded the 1991 Nobel Peace prize for her efforts to bring democracy to Myanmar. Twenty years later, she is yet to succeed. It would be difficult to say that this makes her a less remarkable institutional entrepreneur, that she is the only individual seeking to bring democracy to her country, or that there is nothing to be learned through the analysis of their efforts. That institutions, like all social structures, constrain and enable actors in ways that not only provide opportunities for change but also perpetuate current structures is a basic tenet of the social sciences. Until we unpack the specific mechanisms through which actors are shaped, limited, and empowered by the institutions that surround them, we will continue to rely on an incomplete understanding of how our society evolves.
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TABLES AND FIGURES

Figure 1. Private Credit as a % of GDP, 1997-2006
Figure 2. SME Loans by Bank, 2002-2006 (Thousands)
Figure 3. Stages of Institutional Entrepreneurship in SINAFIN
Figure 4. Obstacles of Institutional Entrepreneurship

| OBSTACLE                          | SOLUTION |
|----------------------------------|----------|
| Homophily through socialization  | Cosmopolitanism |
| Entrenched communities of meaning| Abstract knowledge |
| Market creation requires deviance in a coordinated fashion | Collect private beliefs, create public knowledge |
| Risky due to pluralistic ignorance | Coordination through rituals to solve pluralistic ignorance |
| Change requires experimentation | Access to slack resources |
| Needs resources and discretion   | Limit fallout from failure |
|                                 | Ability to bend rules |
|                                 | Bricolage and multivocality |
|                                 | Publicly disseminate results |
|                                 | Institutional rituals |
|                                 | High levels of uncertainty and contestation |
|                                 | Must create new public beliefs that support new institutions |

**Mechanism**

- Cosmopolitan Background
- Public Knowledge
- Structural Position
- Social Skill

**Potential Institutional Entrepreneur**

**Actual Institutional Entrepreneur**
Figure 5. Stage Survival by Organizational Level

“Survivor” (within organization) at this stage

Established as independent entrepreneur at this stage
Table 1. SME Loans by Year (2002-2006)

| Year | No. Of Loans | Cumulative | % Default | Avg. Loan (Pesos) | % of SMEs\(^1\) |
|------|--------------|------------|-----------|-------------------|-----------------|
| 2002 | 600          | 600        | 7.0%      | $266,606          | 0.1%            |
| 2003 | 8,382        | 8,982      | 5.9%      | $271,572          | 1.1%            |
| 2004 | 22,875       | 31,857     | 1.4%      | $333,885          | 3.9%            |
| 2005 | 41,512       | 73,369     | 1.2%      | $296,769          | 8.5%            |
| 2006** | 49,000       | 122,369    | 0.2%\(^2\) | $231,684          | 13.6%           |

** Projected, based on September 2006 numbers
\(^1\) Cumulative loans as a percentage of total registered firms
\(^2\) Note that delinquency rates usually lag activity – this is likely an underestimation of the true 2006 expected delinquency rate.
| State                  | Number of Loans | % Market Share | GDP / Cap | % of National GDP | Judicial Factor | % Urban Population |
|------------------------|-----------------|----------------|-----------|-------------------|----------------|--------------------|
| DF (Mexico City)       | 25,250          | 25.49%         | 189.0     | 21.84%            | 0.2            | 98.6%              |
| Mexico (Mexico City)   | 10,177          | 20.16%         | 50.2      | 9.48%             | 1.0            | 73.0%              |
| Chiapas                | 3,137           | 25.24%         | 29.9      | 1.70%             | (0.2)          | 32.0%              |
| Nayarit                | 2,050           | 20.46%         | 42.9      | 0.54%             | (1.1)          | 44.0%              |
| Tlaxcala               | 708             | 19.49%         | 40.3      | 0.57%             | (0.9)          | 34.0%              |
| Guerrero               | 2,251           | 18.69%         | 40.5      | 1.68%             | (1.8)          | 40.4%              |
| Zacatecas              | 1,697           | 18.10%         | 41.8      | 0.76%             | (1.5)          | 37.0%              |
| Michoacán              | 4,226           | 17.20%         | 41.6      | 2.21%             | (1.3)          | 47.1%              |
| Jalisco                | 11,920          | 17.08%         | 71.2      | 6.31%             | 0.4            | 73.8%              |
| Yucatan                | 2,445           | 16.36%         | 58.9      | 1.41%             | (1.8)          | 60.1%              |
| Puebla                 | 3,741           | 15.64%         | 49.5      | 3.55%             | 0.4            | 48.3%              |
| Quintana Roo           | 1,805           | 15.48%         | 108.5     | 1.64%             | (1.0)          | 75.5%              |
| Morelos                | 1,524           | 15.39%         | 64.5      | 1.38%             | 0.6            | 60.9%              |
| Nuevo Leon             | 8,453           | 15.30%         | 133.9     | 7.43%             | 0.5            | 90.6%              |
| Durango                | 1,648           | 15.03%         | 66.9      | 1.33%             | 0.9            | 55.4%              |
| Tamaulipas             | 4,588           | 14.51%         | 82.9      | 3.34%             | 1.4            | 80.9%              |
| Aguascalientes         | 1,643           | 13.97%         | 87.7      | 1.23%             | 2.9            | 72.6%              |
| Coahuila               | 3,810           | 13.99%         | 102.2     | 3.37%             | 1.0            | 85.2%              |
| Colima                 | 1,039           | 13.85%         | 71.3      | 0.53%             | 0.1            | 71.9%              |
| Guanajuito             | 5,187           | 13.50%         | 55.1      | 3.60%             | 0.1            | 60.9%              |
| San Luis Potosi        | 2,427           | 13.36%         | 56.4      | 1.81%             | (0.2)          | 50.2%              |
| Oaxaca                 | 1,398           | 12.19%         | 32.4      | 1.52%             | 0.2            | 24.3%              |
| Campeche               | 1,390           | 12.01%         | 123.4     | 1.24%             | 0.2            | 55.7%              |
| Sinaloa                | 3,667           | 11.90%         | 57.2      | 1.99%             | (0.2)          | 56.9%              |
| Hidalgo                | 1,301           | 11.53%         | 41.9      | 1.30%             | (0.2)          | 30.0%              |
| Veracruz               | 4,462           | 11.35%         | 44.2      | 4.17%             | (1.5)          | 42.8%              |
| Chihuahua              | 3,581           | 11.07%         | 100.3     | 4.33%             | (0.4)          | 78.8%              |
| Baja California        | 3,969           | 10.84%         | 92.5      | 3.50%             | 0.7            | 85.1%              |
| Tabasco                | 1,064           | 10.71%         | 46.4      | 1.25%             | 0.9            | 33.5%              |
| Baja California S.     | 921             | 10.03%         | 87.1      | 0.60%             | (0.6)          | 70.1%              |
| Queretaro              | 1,412           | 9.16%          | 80.9      | 1.72%             | 0.1            | 51.4%              |
| Sonora                 | 2,599           | 8.44%          | 84.3      | 2.68%             | 0.5            | 75.1%              |

Correlation with Market Share
- 0.16 0.35 -0.16 -0.05

Correlation with Market Share
- 0.11 -0.16 -0.24 -0.27

1 Accumulated loans as a percentage of firms registered with IMSS (Social Security) in 2005
2 Participation of State GDP in national GDP, current pesos
3 Correlation excluding Mexico City (DF and State of Mexico)
4 Quality of Legal and Judicial system, larger is better. See Laeven and Woodruff (2004)
## Table 3. Interviewee Description

| Level       | N     | Actors Interviewed                                                                                                                                                                                                                                                                                                                                 |
|-------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Federal     | 50    | - Ministry of the Economy: Current minister and SME sub-minister, all other senior officials responsible for the development and/ or operation of the programs (current and former)  
- Main national banks: Three interviews in each, with the SME product “owner” (director), its operator, and the relevant credit analysis manager  
- NAFINSA (development bank): Interviews with all the officials involved in the development and/ or operation of SME programs (current and former). Additionally, one interview with a senior official (COO or SME director) of three other development banks  
- Other bank intermediaries: One interview at each organization either with the CEO or the director responsible for SME lending, as applicable  
NGOs (three organizations, six interviews total) |
| State (4 cases) | 120 (30 ea.) | - Two-to three officials from the local ministry of the economy (senior and operational)  
- One or two officials from the state delegation of the federal Ministry of the Economy  
- Regional directors and/ or regional SME managers for at least three leading banks  
- At least two branch executives  
- At least three presidents of local business associations  
- Four-to-five extension agents  
- Ten business owners (current loan holders, loan applicants and rejected prospects) |
| State (2 extra) | 30 (15 ea.) | - One or two officials from the local ministry of the economy (senior and operational)  
- One or two officials from the state delegation of the federal Ministry of the Economy  
- Regional directors and/ or regional SME managers for at least three leading banks  
- At least one presidents of local business associations  
- Two to three extension agents  
- Five business owners (current loan holders, loan applicants and rejected prospects) |
### Table 4. Basic Description of State Case Studies

| State       | Loan Placement¹ | State Government² | Activity         | Wealth³ | Institutional Quality⁴ | Assoc. Strength⁵ | Bank Presence⁶ |
|-------------|-----------------|-------------------|------------------|---------|------------------------|------------------|----------------|
| Southwest   | Highest         | PRD               | Agriculture/Fishing | Low     | Low                    | Weak             | Medium         |
| North       | Lowest          | PRI               | Agriculture       | Medium  | Medium                 | Weak             | Low            |
| Northwest   | High            | PRI               | Industry/Agriculture | High    | Medium                 | Strong           | Low            |
| Center      | Lowest          | PAN               | Industry          | High    | High                   | Strong           | Low            |
| East        | High            | PRI               | Industry          | Low     | Medium                 | Medium           | High           |
| Southeast   | Low             | PRI               | Agriculture/Fishing | Low     | Low                    | Medium           | High           |

¹ Highest (lowest) = top (bottom) decile; high (low) = top (bottom) third
² Federal Government party is PAN (right). PRD is left, PRI is center
³ Based on GDP per capita. High (low) = second (fourth) quintile; medium = third quintile
⁴ Based on Laeven and Woodruff (2004). High (low) = second (fourth) quintile; medium = third quintile
⁵ Based on interviews: SME enrollment, financial health, ability to influence local politics
⁶ Based on bank branches per capita. High (low) = second (fourth) quintile; medium = third quintile

Note that East and Southeast were the two validation cases (lower number of interviews in each)
Table 5. Definition of Institutional Entrepreneur in SINAFIN

| An Institutional Entrepreneur presents all of the following:† |
|-------------------------------------------------------------|
| **Opportunity Recognition:**                               |
| - Recognize the importance of SME financing.               |
| - Believe that current institutionalized views of the segment are wrong and should be changed. |
| - Understand the economic and/or political opportunity that the issue presents for their organization. |
| **Institutionalization Project:**                           |
| - Identify internal barriers that prevent their organizations from successfully exploiting the opportunity. |
| - Seek to change or remove them through an “institutionalization project” (usually a pilot test). |
|   - Seek organizational resources for experimentation, support from other areas to implement experiments, support from superiors to bend or break existing rules. |
|   - Example: A bank manager who, recognizing the bank’s lack of understanding of the SME segment and lack of credit analysis skills to lend to it, sought to create a pilot program to lend to a small number of SMEs and learn about them. To achieve that, she would need to engage in extensive area-spanning efforts to find support from other areas of the bank, including commercial (to design the test product and to get some branches to test it), credit analysis (to create a first pass of a credit analysis process), and legal (to include a minimum set of requirements). She would also need to find the financial resources to grant those experimental loans, which would require the approval of the treasury or financing area. |
| **Inter-organizational Brokering:**                        |
| - Recognize that, due to broader institutional barriers, true success would only be possible if a wider institutional change is achieved. |
| - Identify that such a change would only happen if all or most of the relevant organizations and stakeholders are involved (Market creation needs scale, liquidity, etc.). |
|   - Actively seek to broker and coordinate efforts with other organizations to create the leverage required for a broader institutional shift. |
|   - Example: A state government official who brokered efforts between the local government, the federal ministry of the economy, local bank managers responsible for the deployment of experimental products, local business associations sensitive to local business’ needs, and local media capable of disseminating information about the efforts. |

†Note that these were not self-reported qualities. Only an individual who was described as presenting these behaviors by peers was recognized as an institutional entrepreneur.
Table 6. *Stage Survivors by Organization Type / By State*

| Case       | Recognition | Attempt | Experiment | Success |
|------------|-------------|---------|------------|---------|
| **Aguencies** | 14 | 9 | 6 | 4 |
| SE         | 5 | 4 | 3 | 3 |
| Findev     | 5 | 3 | 1 | 0 |
| NGOs       | 4 | 2 | 2 | 1 |
| **Banks**  | 24 | 17 | 6 | 4 |
| Alfa       | 3 | 3 | 1 | 1 |
| Beta       | 2 | 1 | 1 | 0 |
| Gamma      | 4 | 2 | 1 | 1 |
| Delta      | 3 | 2 | 0 | 0 |
| Others     | 12 | 9 | 3 | 2 |
| **States** | 27 | 20 | 7 | 3 |
| North      | 6 | 4 | 1 | 0 |
| Northwest  | 7 | 5 | 3 | 2 |
| Center     | 3 | 3 | 0 | 0 |
| Southwest  | 5 | 3 | 2 | 1 |
| Others     | 6 | 5 | 1 | 0 |
Appendix 1. Sample Organizational Charts

Appendix 1a. Bank Organizational Chart

- CEO
- Adjunct General Directors
- General Area Directors
- Division Directors
- Product Directors
- Product Managers
- Regional Directors
- Regional Managers
- Local Managers

Positions of successful institutional entrepreneurs

Area expanded in next level  Area NOT expanded in next level

* Note that this is a partial organizational chart, where only one area is expanded within each level.
Appendix 1b. Government Organizational Chart

*Note that this is a partial organizational chart, where only one area is expanded within each level.*