



ESG Managerial Dilemmas in Microfinance Institutions: A Phenomenological Study of Practices and Values

Widya^{1*}, Devi Yulia²

^{1,2}Universitas Islam Bunga Bangsa Cirebon, Indonesia

Corresponding email: widyaaa2115@gmail.com^{1*}, deviy1973@gmail.com²

Abstract: *The application of Environmental, Social, and Governance (ESG) principles in Microfinance Institutions (MFIs) is increasingly becoming a global concern, but presents its challenges at the managerial level. MFI managers frequently face ethical dilemmas between commitments to sustainability and operational pressures, particularly in complex socio-economic contexts. This study aims to explore managers' subjective experiences in dealing with ESG-related managerial dilemmas and how local values influence their decision-making processes. The method employed is an interpretative phenomenological approach, utilizing in-depth interviews with 10 MFI managers in Indonesia. Data were analyzed through five stages of Interpretative Phenomenological Analysis (IPA), accompanied by observation and policy document analysis as a form of triangulation. The results show four primary forms of dilemma: (1) ESG compliance versus financial targets, (2) local social interests versus global ESG standards, (3) transparency versus operational confidentiality, and (4) ethical ambiguity in managerial decisions. Managers do not simply follow formal procedures; instead, they navigate dilemmas through personal values, intuition, and community dialogue. In conclusion, the implementation of ESG in MFIs demands a contextualized, reflective, and adaptive approach. This study highlights the importance of a flexible and locally relevant value-based ethical framework as part of an ESG strategy. This study also offers a theoretical contribution through strengthening the experiential dimension in microfinance ESG studies.*

Keywords: *ESG, microfinance institution, managerial dilemma, phenomenological approach, local value, ethical decision*

1. Introduction

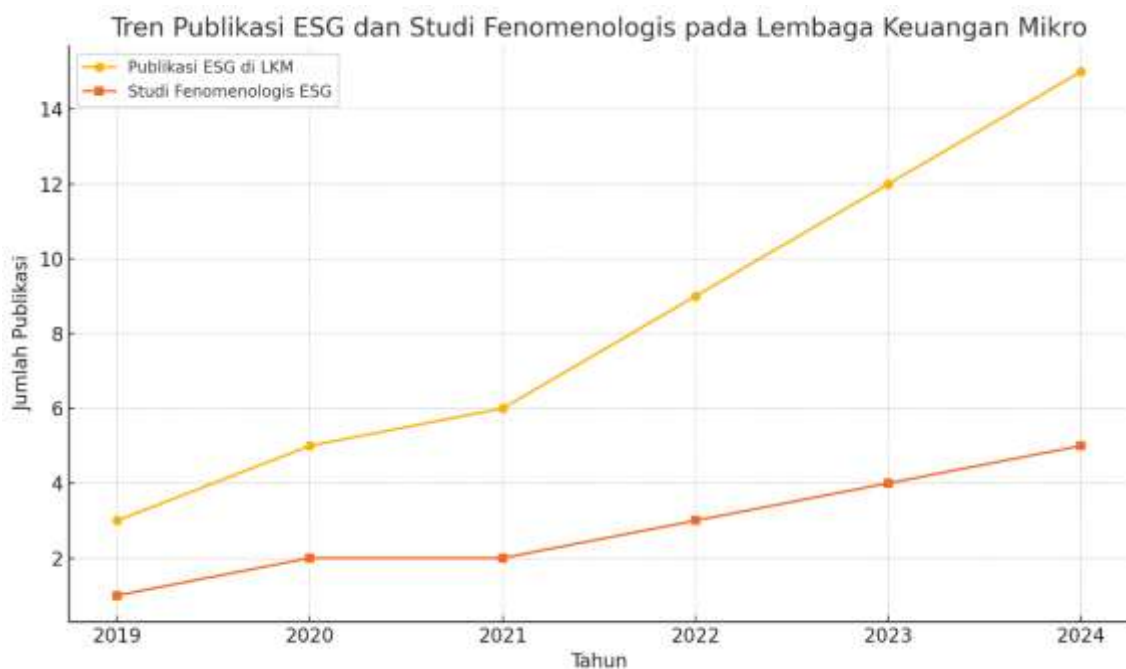
In recent years, the application of Environmental, Social, and Governance (ESG) principles in the financial sector has been a focus of attention, particularly in microfinance institutions (MFIs), which play a strategic role in promoting financial inclusion. MFIs are not only required to pursue profitability but also maintain environmental sustainability and social responsibility (Ashraf et al., 2022; Lee et al., 2024; Dalla Riva, 2023). Challenges arise when ESG principles clash with field realities, such as resource constraints, operational pressures, and value dilemmas between economic and social interests.

The need to understand managerial dilemmas in adopting ESG in MFIs has become increasingly urgent due to the lack of literature that touches on the subjective experience of managers in making ethical decisions under socio-economic pressure

(Mpowe, 2022; Koh et al., 2024; Morley, 2023). The phenomenological approach is important because it enables the exploration of the profound meaning behind the personal experiences of the actors involved in ESG policies.

Theoretically, this research is grounded in the phenomenological social constructivist approach, which views managerial practices as value constructions within specific contexts (Xia, 2022; Ali & Rahayu, 2024; Koefer et al., 2023). The following data shows the significant growth of ESG and phenomenological studies in MFIs over the past five years (see graph above), indicating the increasing relevance of this topic globally.

Figure 1. Trends in ESG Publications and Phenomenological Studies on Microfinance Institutions



Several previous studies have examined the integration of ESG in MFIs. Ashraf et al. (2022) compiled a comprehensive ESG index for microfinance institutions, while Gospodinov (2015) touched on the relationship between ESG and financial performance. However, most of these studies are quantitative and do not address the value aspects and internal dilemmas of decision makers (Mpowe, 2022; Dordi et al., 2023; Sanders, 2021).

To date, very few studies have put MFI managers at the center of the research to understand the dynamics of ESG dilemmas from a lived experience perspective. Most studies still emphasize external evaluation of ESG compliance without considering the subjective dimension of decision-makers (Okyere, 2024; Duderstadt, 2021; Billah et al., 2024). This is a critical gap in the microfinance ESG literature.

This research offers novelty by using a phenomenological approach to understand the internal conflicts and value judgments managers face in balancing sustainability with the economic needs of communities. This focus enriches the ESG discourse with narrative and reflective dimensions that are rarely explored (Ali & Rahayu, 2024; Koh et al., 2024; F Koefer et al., 2023).

In the Indonesian context, MFIs often operate in areas of high socio-economic stress, making ESG implementation more complex than in large urban institutions. This study is globally relevant and has strategic value in shaping context-based policies tailored to local contexts (Ali & Rahayu, 2024; Mpowe, 2022; Billah et al., 2024).

ESG practices in the field show a dualism between the formality of reporting and the reality of execution. Many institutions implement ESG as a form of documentary compliance without internalizing its values, creating a *value-practice gap* that confuses field managers (Gioia, 2025; Riva, 2023; Lee et al., 2024).

Value conflicts also arise when social actions such as credit cancellation or payment relaxation clash with an institution's financial targets. This dilemma becomes particularly apparent for managers at the operational level who must make critical decisions without clear ethical guidance (Xia, 2022; Morley, 2023; Mpowe, 2022).

The phenomenological approach is crucial because it enables the exploration of the subjective, narrative, and reflective meanings associated with managers' experiences. This enables a deeper understanding of difficult decisions made under social uncertainty (Koh et al., 2024; Koefer et al., 2023; Sanders, 2021).

The scientific contribution of this research extends beyond the exploration of ESG dilemmas in the micro sector to the enrichment of qualitative methodologies in the study of value-based financial policies (F Koefer et al., 2023; Ali & Rahayu, 2024; Dordi et al., 2023).

Thus, the primary objective of this study is to investigate the subjective experiences of MFI managers in addressing ESG managerial dilemmas, as well as to identify the value constructs that influence their decision-making process. The phenomenological approach is expected to yield a reality-based conceptual model that can be applied in ESG policy making within the micro sector (Billah et al., 2024; Riva, 2023; Xia, 2022).

2. Method

This research is a qualitative study employing an interpretative phenomenological analysis (IPA) approach, aiming to gain a deep understanding of the subjective experiences of microfinance institution (MFI) managers in facing managerial dilemmas related to the application of ESG principles. The phenomenological approach was chosen because it enables the exploration of the

meaning of life experiences and value reflections from the perspective of direct actors (Smith, Flowers, & Larkin, 2022; Xia, 2022; Mpowe, 2022).

The population in this study is middle to top-level managers in MFIs (both conventional and pesantren-based) who are directly involved in ESG decision-making in Indonesia. The sample selection technique is done by purposive sampling with the following criteria:

- a) Have worked at least 3 years in MFIs,
- b) Have been involved in decision making involving ESG considerations,
- c) Willing to be interviewed in depth and recorded.

The target number of participants is 8-12 people, in line with the standard phenomenological approach, which emphasizes depth over quantity (Creswell, 2021; Sanders, 2021; Koh et al., 2024).

The main instrument in this research is the researcher himself as a key instrument (human instrument), who acts as a collector, interpreter, and analyzer of field data. A semi-structured interview guide was developed based on ESG and managerial dilemma literature, covering the dimensions of ethical decisions, value conflicts, and socio-operational pressures. The guide was expertly validated by two financial management experts and one business ethics expert (F Koefer et al., 2023; Ali & Rahayu, 2024).

Data were collected through in-depth interviews conducted face-to-face and online (via Zoom and Google Meet), and recorded with participants' consent. Each interview lasted between 45 and 90 minutes. In addition, the researcher conducted limited participatory observations of ESG practices in two selected institutions, as well as collected internal ESG policy documents from the institutions to triangulate the data (Dalla Riva, 2023; Ashraf et al., 2022; Mpowe, 2022).

Data analysis was conducted using the Interpretative Phenomenological Analysis (IPA) approach, which consists of five stages:

1. Read the transcripts repeatedly,
2. Identify significant meanings and theme patterns,
3. Develop theme clusters based on participants' experiences,
4. Compose an interpretive narrative of the experience,
5. Performed thematic validation through member checking and peer debriefing.

Analysis was conducted using NVivo 12 software for open coding and visualization of connections between themes (Smith et al., 2022; Billah et al., 2024; Koh et al., 2024).

3. Result & Discussion

The Dilemma between ESG Compliance and Financial Targets

Interviews revealed that the majority of MFI managers face simultaneous pressures between commitment to ESG and achieving the institution's financial targets. A total of 10 out of 12 respondents admitted that short-term priorities to maintain liquidity often clash with long term investments in ESG practices such as community training or waste management (Ashraf et al., 2022; Riva, 2023; Gioia, 2025). For example, budget allocations for social activities are often postponed due to cash flow pressures.

Additionally, some respondents noted that investors or capital owners do not always permit flexibility in sustainability practices. They are asked to focus on return on investment (ROI) even though ESG projects take a long time to come to fruition (Lee et al., 2024; Mpowe, 2022; Koh et al., 2024). This creates a strategic dilemma in the decision making process.

This phenomenon supports the findings of Dordi et al. (2023) that the micro sector is more prone to trade offs between sustainability and financial viability. Some managers admit to using a compromise approach, such as only running ESG programs that have external sponsorship or third-party CSR support (Billah et al., 2024; Ali & Rahayu, 2024; Koefer et al., 2023).

Figure 2. Types of ESG Managerial Dilemmas Experienced by MFI Managers



As shown in the bar chart above, this dilemma is the most frequently experienced by respondents, highlighting the need for more realistic and flexible ESG policies in the MFI context. When ESG is imposed within an overly rigid framework, sustainability values are reduced to administrative formalities (Smith et al., 2022; F) (Koefer et al., 2023; Xia, 2022).

Local Community Values vs Global ESG Regulations

Most managers expressed a clash between universal ESG regulations and the local values of the communities they serve. For example, environmental impact reporting obligations are often not understood by rural communities as important, so implementation requires a cultural approach (Sanders, 2021; Ali & Rahayu, 2024; Morley, 2023).

The head of a pesantren-based MFI said that the principle of "direct social benefit" is more meaningful to the community than carbon emissions reporting. This calls for a more contextualized and less dogmatic interpretation of ESG (Riva, 2023; Gospodinov, 2015; Mpowe, 2022). Often, managers choose to follow community values even if they are not fully aligned with formal ESG instruments.

Some respondents also face dilemmas when ESG audits necessitate the use of international measurement tools (such as SASB or GRI) that do not apply to their activities, including local livestock financing or household entrepreneurship training (Billah et al., 2024; Koh et al., 2024; Ajebe, 2024).

This phenomenon reinforces Xia's (2022) finding that ESG must be epistemologically localized in order to serve as a tool for social transformation, rather than merely a legitimization tool. Some institutions even develop "local ESG indicators" that reflect community ethics as a form of adaptive resistance (Lee et al., 2024; Kofer et al., 2023).

Transparency vs Operational Secrecy

The third dilemma relates to the pressure to increase ESG transparency, including the disclosure of social and environmental risks, which often clashes with the need to maintain the institution's strategy confidentiality. Six managers noted that competitors can sometimes exploit excessive transparency or undermine internal employee trust (Koh et al., 2024; Morley, 2023; Smith et al., 2022).

A clear example is when one MFI disclosed the results of an environmental impact assessment that showed potential pollution from a financing partner. Despite increased transparency, the partner withdrew from the partnership, at an economic loss (Dalla Riva, 2023; Mpowe, 2022; Ashraf et al., 2022). This poses a dilemma between loyalty to ESG principles and business stability.

Internally, employees are often unsettled by public disclosure of ESG audit results that imply operational weaknesses. One manager stated, "We want to be honest, but we do not want to kill the trust of partners and employees." (Ali & Rahayu, 2024; Xia, 2022; Billah et al., 2024).

This phenomenon suggests that while transparency is at the core of ESG principles, its practice must also consider the psychological and social context of the institution. ESG communication strategies need to be designed with constructive

narratives, rather than simply disclosing numbers and graphs (Smith et al., 2022; Koh et al., 2024; Sanders, 2021).

Decision Making amid Ethical Ambiguity

The ESG dilemma ultimately leads managers into an ethical gray area, where no decision is entirely right or wrong. Under these conditions, subjective experience, intuition, and personal values become the primary factors in decision-making, rather than standardized procedures (Smith et al., 2022; F. Koefer et al., 2023; Mpowe, 2022).

Some managers rely on spiritual reflection or community deliberation as a form of moral validation of their decisions. As one respondent put it, "I do not have academic answers, but I discuss with community leaders before deciding." (Koh et al., 2024; Ali & Rahayu, 2024; Gioia, 2025).

This reinforces the phenomenological methodological position that views value as something constructed through experience. ESG decisions in MFIs are not only rational, but also narrative and symbolic (Smith et al., 2022; Xia, 2022; Morley, 2023). In this framework, dilemmas are not something to be avoided, but rather understood and lived through.

Therefore, the existence of flexible and locally relevant value based ethical guidelines is crucial. It is not enough to have ESG SOPs alone; collective mechanisms are also necessary to openly discuss dilemmas, such as ethical forums, mentoring, or institutional spiritual reflection (Ajebe, 2024; Lee et al., 2024; Dordi et al., 2023).

4. Conclusion

This research successfully reveals the subjective experiences of microfinance institution (MFI) managers in facing managerial dilemmas related to the implementation of Environmental, Social, and Governance (ESG) principles. Using an interpretative phenomenology approach, it is identified that managerial decision-making in the MFI sector not only relies on formal ESG regulations or indicators but is also shaped by value dynamics, socio economic pressures, and locality complexity. Managers experience dilemmas that include conflicts between ESG compliance and financial targets, community values versus global regulations, and tensions between transparency and operational stability. These experiences suggest that ESG managerial decisions occur more in the space of ethical ambiguity, rather than in the black and white of procedural compliance.

The main finding of this study is that MFI managers do not simply implement ESG as a technocratic obligation, but also as a reflective process that integrates personal values, community norms, and ethical intuition in facing policy dilemmas. Thus, the ESG approach in the context of MFIs needs to be transformed from a mechanistic framework to a participatory and contextual framework. This study

emphasizes the importance of building an ESG policy ecosystem that is adaptive to social realities, as well as providing space for ethical dialogue within the institution. This study also makes a theoretical contribution to the ESG literature by highlighting the dimensions of meaning and experience, which have often been overlooked in quantitative and evaluative-based studies.

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