Special Issue: Value Creation, Social Innovation and Entrepreneurship in Global Economies
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Catalytic Innovation in Microfinance for Inclusive Growth: Insights from SKS Microfinance

LAKSHMI MOHAN
School of Business, University at Albany, State University of New York, Albany, New York

DEVENDRA POTNIS
School of Information Sciences, College of Communication and Information, University of Tennessee, Knoxville, Tennessee

Microfinance offers a means for reaching the poor who are left out of the formal financial sector. A fundamentally new way is needed to create a scalable and sustainable business model to meet this unmet need: a catalytic innovation. Our study focused on Swayam Krishi Sangam (SKS), an archetype of a catalytic innovator. The insights gained from our 3-year longitudinal study led to the proposed framework for a catalytic innovator encompassing five factors: customer focus on the poor and social entrepreneurship for the social mission, operational innovation, information technology, human capital management for scaling, and financial sustainability.

KEYWORDS framework for a catalytic innovator in microfinance, innovation in microfinance, microfinance institutions, social entrepreneurship

INTRODUCTION

Inclusive growth has been succinctly defined by the Asian Development Bank as “growth that not only creates new economic opportunities, but also ensures equal access to the opportunities created for all segments of society, particularly for the poor” (Ali & Son, 2007, p. 12). More than one billion people lack access to basic financial services. In the United States with low income, over 30% have no checking or savings account. A 2008 study showed that over 20% of deposit accounts in developing countries are underfunded.

The current population number of people living in poverty is over one billion. Data from the World Bank shows that 45% of deposit accounts globally have a single deposit of $1.25 or less. In rural India, women are the most vulnerable to bank lending infrastructures. In fact, one in five women are married before the age of 15, and in bribes to obtain loans. Microfinance institutions were introduced to provide insured insurance to these households. The prefix microfinance is derived from a small amount that is not enough to build commercial enterprises, and not serve poor households. It is estimated that 38% of customers in rural India, who earn $1.25 per day, have a single deposit of $1.25 or less per month. Microfinance institutions (MFIs) are classified as microfinance banks, nonbanking financial institutions, and microfinance founds, however, the Microcredit Guarantee Fund is the largest in the world. MFIs covered 70,000,000 customers, with $50 billion in microcredit.

At the household level, the average secured loan is $1,850, with a median loan of $1,000. Loans are secured by a collateral of land or livestock. The median loan is $1,000, with a median loan of $1,000. One in five households have a loan because of the informal nature of the lending. The median loan is $1,000, with a median loan of $1,000. At the household level, microfinance institutions are the most common in the world. More than 90% of MFI customers live on $1 a day, with a median loan of $1,000. More than a billion people lack access to basic financial services. In the United States with low income, over 30% have no checking or savings account. A 2008 study showed that over 20% of deposit accounts globally have a single deposit of $1.25 or less. In rural India, women are the most vulnerable to bank lending infrastructures. In fact, one in five women are married before the age of 15, and in bribes to obtain loans. Microfinance institutions were introduced to provide insured insurance to these households. The prefix microfinance is derived from a small amount that is not enough to build commercial enterprises, and not serve poor households. It is estimated that 38% of customers in rural India, who earn $1.25 per day, have a single deposit of $1.25 or less per month. Microfinance institutions (MFIs) are classified as microfinance banks, nonbanking financial institutions, and microfinance founds, however, the Microcredit Guarantee Fund is the largest in the world. MFIs covered 70,000,000 customers, with $50 billion in microcredit.
people lack access to basic financial services, which is strongly correlated with low incomes. A study by Consultative Group to Assist the Poor (CGAP) showed that countries with higher poverty rates have the lowest penetration of deposit accounts per 100 adults. Specifically, 70% of adults in developing countries are still excluded from the regulated financial system (CGAP, 2009).

The current study focused on India because it has the world's largest number of poor people in a single country. An estimated 300 million, out of the total population of more than a billion, live under the poverty line of $1.25 per day (World Bank, 2005a). Although India has the fourth largest banking infrastructure in the world, 94% of its 600,000 odd villages do not have a single branch. The number of households facing financial exclusion is estimated at 120 million by Credit Rating Information Services of India Limited (2009). It takes an average of 33 weeks to get a loan approved in rural India, with borrowers having to pay up to 42% of their loan amounts in bribes to officials (World Bank, 2005b).

Microfinance provides financial services such as loans, savings, and insurance to the poor who are left out of the formal financial sector. The prefix micro highlights the distinct feature of these services: they involve small amounts of money, frequently less than $100. Commercial banks do not serve poor people for several reasons. A poor person cannot secure a loan because of lack of collateral. The person may not be literate enough to complete the paperwork to open a savings account. A small loan, or savings account with a small balance, yields only a tiny profit. The underlying economics also provide no incentive for banks to reach the poor in remote locations in rural areas. The cost of establishing a rural finance network in a remote area is estimated to be 80% higher than in a more accessible region.

At the heart of microfinance is microcredit that provides small, unsecured loans to individuals to establish or sustain a small business and generate income. A vast majority of loans go to women because studies have shown that women tend to undertake small, manageable activities rather than risky ventures, and they are more likely to reinvest their earnings in the household for the benefit of the entire family. An important element of microcredit is the recycling of funds. When loans are repaid, usually in 6 months to a year, they are reloaned.

Microfinance institutions (MFIs) have traditionally been backed by government agencies and charitable organizations. A limited pool of donor funds, however, inhibits scaling for reaching the poor. The 2009 State of the Microcredit Summit Campaign Report indicated that 75% of the 3,552 MFIs covered by the study are small organizations serving fewer than 2,500 customers, with only 1.4% of the customers reached by them as the poorest living on $1 a day or less. In contrast, the 16 large financial institutions with more than a million clients each had a penetration of more than 25% in the poorest segment (Daley-Harris, 2009). Aside from capital, MFIs face two other obstacles to scale: high cost of handling millions of small transactions and lack of standardized business processes.
What's required is a fundamentally new way to meet the unmet need for financial services at the bottom of the pyramid (BOP). Christensen, Baumann, Ruggles, and Sadtler (2006) coined the term *catalytic innovation* for new solutions that bring about social change, often on a national scale. They defined a catalytic innovation as a scalable, sustainable, and systems-changing solution that meets a need that is not served at all. Their article delineates five ways of identifying catalytic innovators using several examples, including Grameen Bank in microfinance. The current study addresses the research question: What are the factors that would make an MFI a catalytic innovator in microfinance? In our attempt to develop a framework, we draw upon management literature in two distinct fields. First, the theory of the resource-based view of the firm postulates that a firm's resources include tangible and intangible assets such as "brand names, in-house knowledge of technology, employment of skilled personnel, efficient procedures, capital, etc." (Wernerfelt, 1984, p. 172). This perspective provided the lens for formulating some of the success factors for a catalytic innovator. Second, the literature on social entrepreneurship, though still in an embryonic stage according to Short, Moss, and Lumpkin (2009), fueled our thinking because microfinance as a means for bringing about financial inclusion is indeed a social venture.

We selected Swayam Krishi Sangam (SKS) Microfinance as the research site for the current study because it stood out in the microfinance industry in India for the scale it had achieved in providing microcredit to the rural poor suffering from financial exclusion, and achieving a double bottom-line. The current 3-year study of SKS identified five factors that worked in concert for SKS to meet the criteria posited by Christensen et al. (2006) for a catalytic innovator.

To put the social innovation engineered by SKS in perspective, we begin with an overview of three distinct innovations that brought microfinance into the limelight as an industry that can do well and do good. The next section outlines the research methodology. The main body of the article presents the proposed framework that resulted from the current study of SKS chronicling its growth and analyzing the factors that have made it a catalytic innovator in microfinance. Further research is required to validate the framework derived from the SKS study by applying it to other prominent MFIs in India, which have attained scale and are committed to a social mission.

**INNOVATIONS IN MICROFINANCE**

Grameen Bank of Bangladesh pioneered an ingenious method of advancing credit without any collateral to poor women in rural areas for starting a small business. The innovation in the Grameen model was the group-lending methodology, where loans are made to self-selected groups of five women. Each woman is a guarantor for the others within the group so the pressure for default is minimized. The group's success maximizes transactions among group members, thereby reducing the risk of default. Muhammad Yunus, the entrepreneur behind the Grameen idea, recognized the potential of microcredit in microfinance.

The second for-profit to a non-profit to a for-profits to a non-profit to a for-profit and institution for financial inclusion, $300 billion in outstanding business opportunities and do well and do good, with ICICI Bank, the potential of the ICICI Bank, taking 40% of a bank's business, who are not ICICI also make 40% of a bank's business, the initiative in 2007. The initiative in April 2007, investors in the initiative in April 2007, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which became a partnership and do well and do good, which become
five women to be repaid in weekly installments. The group acts as the guarantor for the loan—if one member cannot make the weekly payment, the others will make up the difference. The collective responsibility of the group serves as the social collateral for the loan. This model minimizes transaction costs relating to selection of clients because members of the group have more information about each other and can exert peer pressure for prompt repayment. The discipline of regular weekly meetings also reduces the risk of default (Greeley, 2006). Grameen’s founder, Muhammad Yunus, believed that charity is not an answer to poverty. His experiment proved that the poor do not lack ideas, motivation, skill, or entrepreneurial spirit to start income-generating activities to improve their livelihoods. The Nobel Peace Prize of 2006 shared by Yunus with the bank recognized the social impact of microfinance and stimulated a global interest in microlending.

The second innovation in microfinance was the transition from a not-for-profit to a for-profit model for overcoming the constraint of limited donor funds for scaling. Microfinance became an attractive proposition for banks and institutional investors for two reasons. First, the large potential demand for financial services at the BOP in the developing world is estimated at $300 billion by JPMorgan (Lowitt & Grimsley, 2009). Second, MFIs had a low default rate, below 3% in many cases, compared to the write-off of 5% of outstanding credit balances by U.S. credit card issuers. Big banks saw the business opportunity to team up with MFIs to extend their reach to the BOP, and do well and do good by providing credit and increasing the earning potential of the poor. Several banks have already done so. For instance, ICICI Bank, the second-largest commercial bank in India, has benefited from a partnership model with MFIs to expand its outreach to low-income clients who are not covered by their branch network. Partnering with MFIs helps ICICI also meet the target set by the government for financial inclusion: 40% of a bank’s lending should be to priority sectors, including 18% to farmers.

Institutional investors also began to provide direct backing to MFIs in 2007. The initial public offer (IPO) of Banco Compartamos, Mexico’s biggest MFI, in April 2007 was a landmark event that heralded the interest of private investors in microfinance. Compartamos raised $498 million by selling off about one third of its equity that demystified microfinance as an industry for just “do-gooders.” The for-profit model, however, runs the risk of mission drift because of commercial pressures to generate a return to its investors, which became evident in the case of Compartamos. At the end of 2007, it had a portfolio of $316 million lent to 765,000 clients at annual interest rates that could exceed 100%. Loan officers earned bonuses of up to 120% of their salaries that made them sign up clients for more loans regardless of their needs. Investors earned an average annual return on equity of 53% between 2000 and 2007 (Epstein & Smith, 2007). The exceptional financial
performance of Compartamos clearly came at a social cost of overcharging borrowers and demonstrated the danger of an MFI losing sight of the focus on poor customers in a for-profit model.

The risk of mission drift is eliminated by the third innovation, an entirely new model of microfinance on the Web: online microlending. Instead of commercial capital, a brand new virtual class of individual investors provides the capital for microfinance. Donors make loans to poor people for establishing or expanding their small businesses, instead of giving charitable handouts to them. The lender gets the money back making the loan a gift that keeps on giving. Kiva.org was the first to launch a peer-to-peer lending portal in 2005 where profiles of microentrepreneurs from developing countries are posted. Visitors can click through the pictures and personal stories to choose the person they want to fund and make a loan of as little as $25 using a credit card. Kiva partners with existing MFIs in the developing world, who choose qualified borrowers, distribute the loan and collect repayments. Updates of the borrower’s business are posted on the Website. The lender also receives e-mail journal updates about the sponsored business throughout the 6- to 12-month duration of the loan. The funds are returned to the lender as loans get repaid, which could be funneled into another loan. By October 2009, Kiva had reached more than 239,000 entrepreneurs in more than 50 countries, disbursing more than $100 million from 573,000 lenders—proof that people see the value of social investments even in difficult economic times (Sys-con, 2009). Kiva is not yet present in India because of government regulations that require Kiva to be approved by the central bank. However, two peer-to-peer lending portals, Rang De and dhanaX.com, were launched in 2008 using a model similar to Kiva.org. The online model is still in a nascent stage. A critical issue is whether the MFIs in the developing countries, who actually select the microentrepreneurs, are indeed targeting poor people. Further, the viability of online lending to reach significant numbers is limited by the infrastructure in rural areas in developing countries, including India.

The current study looks at the dominant brick-and-mortar MFI model prevalent in India for identifying the underlying factors for a catalytic innovation in microfinance.

METHOD

Our interest in microfinance and SKS in particular was sparked by the inclusion of Vikram Akula, the founder of SKS, among the “TIME 100: The People Who Shape Our World” in 2006. He was recognized by Time magazine for use of smart-card technologies to dispense small loans to the poor “in the hinterlands with few landlines, let alone ATMs making SKS one of the fastest-growing micro-lenders, having dispensed $52 million to 221,000 clients since 1998.”

SKS was lauded by (AP) as a no-frills for-profit company that became economics converts to poor women entrepreneurs in the developing world. By March 2007, SKS had expanded to four operations to 23 states, in, expanding 85 operations to 23 states by March 2007.

SKS qualified the criteria for SKS to scale private capital and take it to its systems and its financial back from numerous studies at the Financial Summit Camp, December 31, 2006).

SKS qualified the criteria for institutionalizing the financial structure and the unmet need. The financial structure of SKS was verified and accepted as a catalytic innovation in microfinance
clients since 1998... (with) a default rate below 2% by using software that provides real-time data" (Rawe, 2006, p. 1). The novelty of this accomplishment in a nontraditional business, with technology playing a significant role, motivated us to study how SKS did it.

SKS was launched in 1998 in Hyderabad in the state of Andhra Pradesh (AP) as a not-for-profit with a social mission to "empower the poor to become economically self-reliant." The Grameen model for making loans to poor women using social collateral was modified by SKS. It began operations in the drought-prone Deccan region of AP not covered by other MFIs already operating in AP. From 1999 to 2004, SKS focused on perfecting its systems and processes in AP and had scaled by end of March 2004 to more than 85,000 clients with a 99% repayment rate. In April 2004, SKS expanded to four adjacent states simultaneously, a first for any MFI in India. By March 2006, SKS members totaled 201,493. In July 2006, SKS extended operations to six states in North India that are considered "tough" to operate in, expanding the total number of clients to more than 600,000 by March 2007.

Recognizing the need for capital to expand outreach, SKS converted to a for-profit company in August 2005. By this time Akula had proven the ability of SKS to scale with a default rate of less than 1%, a prerequisite for attracting private capital. The equity investment of Sequoia Capital (a venture capital firm reputed for its early-stage investments in Yahoo!, YouTube, and Google) among others in March 2007 was indicative of the investors' confidence in the financial viability of the SKS model. SKS was, however, cognizant of its social mission even after becoming a for-profit company. The Microcredit Summit Campaign Report verified that 90.5% of the 134,346 SKS clients as of December 31, 2005, were below the poverty line of $1 a day (Daley-Harris, 2006).

SKS qualified as a research site for the current study because it satisfied the criteria laid by Christensen et al. (2006) for a catalytic innovator. First, it met the need for microcredit of the poor, who are not reached by mainstream financial services. It had achieved scale from just 10 customers in 1998 to more than 600,000 by March 2007 when we started our research. The wide geographical footprint of SKS manifested by early 2007, with the focus on underserved areas, provided additional evidence of SKS meeting an unmet need. The infusion of private capital to fuel its growth substantiated the financial sustainability of the company. Finally, data from industry rating reports verified that SKS did not abandon its social mission after becoming a for-profit company.

We began with an extensive review of the rich literature in microfinance ranging from academic articles in journals of development economics to numerous studies by international organization and their affiliated agencies to help us understand the factors underlying the growth and dynamics of the microfinance industry. In the next phase we undertook secondary research.
of leading MFIs, including Grameen Bank and two other prominent MFIs in Bangladesh, ASA and BRAC, as well as the early MFIs in India such as BASIX and Share Microfin. Our analysis of the strengths and weaknesses of the different business models of these MFIs gave us the perspective for the in-depth study of SKS. Over a period of 3 years, we tracked multiple sources that generated a wealth of data points on SKS. Case studies, dissertations, and reports from institutions that cover the microfinance industry in India provided multiple sources of evidences for data triangulation to achieve contextual validity, or dependability of the data. Interviews with knowledgeable observers and players in the microfinance industry published in the business press were valuable to get firsthand views on various issues. Two important sources for assessing the social performance of MFIs, including SKS, were the annual State of the Microcredit Summit Campaign Reports and MIX MARKET Reports. Primary archival data on SKS was obtained for the time span of 1998 through 2009 from quarterly updates, monthly tracking reports, and other documents posted on the SKS Website. The longitudinal data enabled the construction of a narrative to connect events germane to the success of SKS.

A three-stage coding process was based on the Strauss methodology (Strauss, 1987) for inductively processing data sourced from more than 500 documents. In the first stage, we listed all the data points, a process that corresponds to the "open coding" stage of the Strauss methodology. We examined various data points with lenses such as what is going on here? why is it done? and what does this data point indicate? The continuous assessment of data points based on periodic additions to the data set helped to strengthen the findings.

In the second stage, we teased out various data points to unearth commonalities and detect patterns that could be clustered under distinct labels. For example, all the data points shedding light upon the "internal audit process" in SKS were clustered under "financial compliance," which is termed as an "axial code" in the Strauss methodology. We consolidated the axial codes from the second stage into five succinct factors in the third stage termed as the "selective coding" stage in the Strauss method. For example, in the third stage, "operational innovation" emerged as a common theme for two patterns identified in the second stage, standardized business processes and financial compliance. The analytical process used in this example is shown in Table 1. Our objective was to construct a parsimonious model advocated by Eisenhardt (1988), who noted that "given the typically staggering volume of rich data, there is a temptation to build theory which tries to capture everything" (p.547).

We were able to cross-check the validity of our analysis of SKS with a managing partner of Sequoia Capital, which had selected SKS for its first investment in microfinance in 2007, and made a subsequent investment in 2008 after our interview with him.

<table>
<thead>
<tr>
<th>TABLE 1 Analytical Process for SKS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Selected data points</strong> for SKS:</td>
</tr>
<tr>
<td>Standardization of business processes for:</td>
</tr>
<tr>
<td>- selecting a village for a loan</td>
</tr>
<tr>
<td>- conducting the loan application</td>
</tr>
<tr>
<td>- forming the group for collective repayment</td>
</tr>
<tr>
<td>- training members on financial procedures</td>
</tr>
<tr>
<td>Operations manual &quot;101&quot; procedures for:</td>
</tr>
<tr>
<td>a. conducting the first meeting</td>
</tr>
<tr>
<td>b. how to deal with nonattendance or issues raised</td>
</tr>
<tr>
<td>Pilot Efficiency Program:</td>
</tr>
<tr>
<td>- December 2007 to December 2011 in AP, extended to other regions in 2008</td>
</tr>
<tr>
<td>- move from villages to microbranches to a fully digital system to reduce operational costs</td>
</tr>
<tr>
<td>- increased member attendance and repayment rates, which was reflected in the membership incentives and increased financial compliance</td>
</tr>
<tr>
<td>Internal audit SKS:</td>
</tr>
<tr>
<td>- moved from internal to external audits, which took an initial step in May 2008 with a team of 225 trained auditors</td>
</tr>
<tr>
<td>Grading of branches:</td>
</tr>
<tr>
<td>- took an initial step in 2009</td>
</tr>
<tr>
<td>- all branches received incentives to improve branch performance based on past documentary audits and disbursements management verification, and increased member attendance</td>
</tr>
</tbody>
</table>

Note: ISO = International Organization for Standardization.
**TABLE 1** Analytical Process Used to Derive the “Operational Innovation” Factor

<table>
<thead>
<tr>
<th>Process Description</th>
<th>Clustering of data points – open coding</th>
<th>Standardization SKS standardized the processes for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- selecting a village</td>
<td></td>
<td>− conducting the village surveys</td>
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<tr>
<td>- conducting the village surveys</td>
<td></td>
<td>− forming the groups and the Centers</td>
</tr>
<tr>
<td>- training members on the procedures</td>
<td></td>
<td>− selecting a village</td>
</tr>
<tr>
<td>Operations manual</td>
<td></td>
<td>Operations manual</td>
</tr>
<tr>
<td>Prepared “how to” procedures for:</td>
<td></td>
<td>Prepared “how to” procedures for</td>
</tr>
<tr>
<td>a. conducting the weekly center meetings</td>
<td></td>
<td>a. conducting the weekly center meetings</td>
</tr>
<tr>
<td>b. how to deal with problems of nonattendance and nonrepayment or issues raised by customers.</td>
<td></td>
<td>b. how to deal with problems of nonattendance and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>nonrepayment or issues raised by customers.</td>
</tr>
<tr>
<td>Pilot Efficiency Project Pilot started in December 2007 with 30 branches in AP, extended to 30 more branches in February 2008, to move from weekly meeting with clients to a fortnightly interval to reduce operational cost. Initial concern that clients may find it difficult to meet fortnightly repayment commitment was not reflected in the pilot project. Also, member attendance actually increased from 70% to 80%.</td>
<td></td>
<td>Pilot Efficiency Project Pilot started in</td>
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<td></td>
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<td>December 2007 with 30 branches in AP, extended</td>
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<td></td>
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<td>to 30 more branches in February 2008, to move</td>
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<td></td>
<td></td>
<td>from weekly meeting with clients to a</td>
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<td>fortnightly interval to reduce operational cost.</td>
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<td></td>
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<td></td>
<td>difficult to meet fortnightly repayment</td>
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<td></td>
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<td>Also, member attendance actually increased from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>70% to 80%.</td>
</tr>
<tr>
<td>Internal audit SKS was the first microfinance institution in the world to get an ISO certification for internal audit processes with a team of 225 employees. It was certified by ISO 9001:2000 on May 6, 2008, certificate valid until May 2011.</td>
<td></td>
<td>Internal audit SKS was the first microfinance</td>
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<td>institution in the world to get an ISO</td>
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<td>team of 225 employees.</td>
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<td>certificate valid until May 2011.</td>
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<tr>
<td>Grading of branches Internal audit took an initiative in 2008 to grade all branches for linking staff incentives to branch grading based on parameters like documentation, loan repayment and disbursement, fund management, fixed asset verification, attendance, etc.</td>
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<td>and disbursement, fund management, fixed asset</td>
</tr>
<tr>
<td></td>
<td></td>
<td>verification, attendance, etc.</td>
</tr>
</tbody>
</table>

Note: ISO = International Organization for Standardization; MFI = microfinance institution.
PROPOSED FRAMEWORK

Five factors emerged from our analysis of SKS, which are linked in a framework proposed for a catalytic innovator in microfinance (see Figure 1).

Two factors are essential for the social mission of providing financial services for the poor:

1. Focus on Poor Customers: Customer focus should be the foundation of any business model because, as Drucker (1986) put it more than 50 years ago, the only valid purpose of business is to create a satisfied customer. For an MFI with a social mission, the focus should be not just on customers, but on poor customers.

2. Social Entrepreneurship, which is characterized by the focus on creating social wealth, and is a prerequisite for sustainability of social ventures (Zahra, Gedajlovic, Neubaum, & Shulman, 2009). For an MFI with a social mission, social entrepreneurship is an overarching factor that provides the compass for the other factors in the framework.

The other three factors are components of a “systems-changing” model for achieving scale and financial sustainability. They can be viewed as the firm resources that could be deployed for a catalytic innovation instead of the traditional business objective of competitive advantage advocated in the resource-based theory literature (Barney, 1991; Wernerfelt, 1984).

To set the context for the innovation was the constraints of the rural areas. The customers had to travel far for meeting repayment requirements and service cost by increasing the cost. The Center was focused on serving the women serving its clients and was responsible for a financial sustainability model. A group of 60 customers were charged at a cost of $1.60 per day and who were the lowest tier of customers.

Focus on Poor Customers

The social goal was the right focus decisions right from the start. The selected villages were the selected were remote villages and were the poorest of the population. The selection was ingrained with the constraint of our short-term financial requirements. Telangana region was the worst region and MFIs because of the rural area. The villages were small and with no assets, and the cost of living was more than a dollar a day for the state, a price only by dirt roads and no assets. The households were small with children, the lowest tier of the village.

The customers were the village survey for the visual group of the village, of whom are the lowest tier of the village. The innovative tech of the village, of whom are the lowest tier of the village, of whom are small.
1. Operational Innovation for deploying new ways of performing fundamental business processes, commonly referred to as “reengineering.”
2. Information Technology (IT) to reduce high delivery costs and manage portfolio risk.
3. Human Capital Management (HCM), a factor that can make or break manpower-intensive organizations like MFIs.

To set the context for our analysis, it must be noted that door-step banking was the crux of the SKS model to reach the unbanked poor in remote rural areas. This drove up operational costs, however, because loan officers had to travel to villages for meeting customers, making loans, and collecting repayments. SKS built on Grameen’s group-lending model to reduce this cost by increasing the number of customers handled by a loan officer. A Center was formed by combining 4 to 12 of the self-selected groups of five women serving as guarantors for one another. SKS made the Center also responsible for the payment of all the groups, creating in effect a joint liability model. A loan officer is assigned to each Center as the point of contact with the customers of the Center, thus enabling him to handle as many as 60 customers in a village at the weekly meeting.

Focus on Poor Customers

The social goal of reaching the poor influenced all facets of SKS operations right from the selection of the villages, the targeting of poor clients in the selected villages, and the delivery system. Customer focus on the poor was ingrained “in everything we do... even if it means operating against our short-term interests” (Akula, 2008, p. 56). The semiarid drought-prone Telangana region where SKS launched operations was not covered by other MFIs because villages in such regions are farther apart, making travel costs to these remote villages higher. Within Telangana itself, the most impoverished villages were selected where more than one half the population lives on less than a dollar a day, less than 30% of women are literate compared to 61% for the state, and infrastructure is poor with some villages being connected only by dirt roads. Within the selected villages, SKS targeted the “very poor” households where per capita income is less than $1 a day and who have no assets, and the “poor” households whose per capita income is $1 to $2 a day and who have some assets, in keeping with its social mission to reach the lowest tiers at the BOP.

The customer focus was factored even in the methodology devised for the village survey to identify members who met the eligibility criteria. An innovative technique called participatory rural appraisal that uses highly-visual group exercises was used to get information from villagers, most of whom are illiterate (Akula, 2004). For example, a pictorial diagram of different items, say, goats and buffalos, was used for respondents to indicate
how many of each they have by placing the corresponding number of stickers on that item. The visual nature of the exercise made the information captured transparent and easily understood, whereas a written survey would make the respondents fearful about what was being written down and for what purpose.

The customer-first philosophy of SKS dictated door-step banking despite the high cost of loan officers travelling to villages on mopeds on rough dirt roads and braving the vagaries of the hot summer and monsoon seasons. The deliberate choice of the most impoverished region for the SKS operations exacerbated the high travel cost. Another aspect of the SKS model is that weekly meetings were scheduled during the short window of time from 7 a.m. to 9:30 a.m. when the women were available so as to not disrupt their work schedule in the fields. These features contrast with traditional microfinance in India that requires borrowers to come to Branches and make monthly repayment.

The size of the loan was based on information about the borrower collected during the formation of the group. It ranged from $50 to $300, to be repaid in 50 weekly installments from the weekly cash flows. A cost-plus pricing model was used to set the interest rate for yielding a fixed profit of 2%. In states where SKS has attained scale, an average 24% (Annual Percentage Yield [APY]) was charged compared to the over 55% rate of moneylenders, who are the main source of informal borrowing for the financially excluded rural poor (Basu, 2004). SKS also provides interest-free emergency loans to tide over unexpected distress situations despite SKS having to pay commercial rates to banks for the funds borrowed for these emergency loans. This again underscores the focus on poor customers in its business model.

The customer-first philosophy also influenced the way SKS recruited the “right type” of loan officers who could effectively deal with poor customers, and their performance evaluation. The loan officers are recruited from the same poor villages as the customers. This makes it easy for them to connect with the customers they have to serve. They also possess some knowledge about the customers to facilitate their interactions with them. The salaries of loan officers are not tied to repayment rates or the size of their loan portfolios. Otherwise, the pressure to meet targets could foster a tendency to hound borrowers in a difficult situation, or loan them more than they need (Akula, 2008).

Operational Innovation

Our analysis identified two distinct areas for reengineering the business processes of an MFI: standardization for scaling operations and financial compliance that becomes important with scale. We discuss each in turn below.
Before starting SKS, Akula had learned from his experience of working as a loan officer for a not-for-profit MFI in India that microfinance operations were inefficient due to lack of standards in processes, and hence not scalable. He identified areas where processes could be standardized starting from the selection of areas to open Branches and covered every aspect of an MFI's operations, including the training program for loan officers.

A standard methodology was established for selecting the underserved region and villages for opening Branches as well as conducting the survey to select the targeted customers. An Operations Manual laid out the details of the “how-to” procedures for the tasks that loan officers have to carry out before starting financial operations. These tasks included forming groups and Centers, and conducting a five-day “Compulsory Group Training” program of hour-long sessions to educate members on the processes of SKS. The manual also covered the procedures for conducting the weekly Center meetings, disbursing loans and collecting repayments, and making checks of loan utilization. Guidelines for how to deal with problems of nonattendance and nonrepayment, or issues raised by customers, were also provided in the manual.

The process for conducting the weekly Center meeting was also standardized to increase the efficiency of the loan officers. A fixed weekly repayment for each customer in round numbers of 25 or 30 rupees, that is, multiples of five rupees (the smallest bill in India), cut the time in counting coins and making change. The Center meeting was scheduled at a fixed time and location in the village to ensure attendance by all members without loan officers taking the time to track them down. The fast turnaround enabled a loan officer to visit three villages instead of one in the limited open window in the morning. Other opportunities for standardization to speed growth were taken from the best practices of global giants. The factory-style training model used by McDonalds for the low-skilled workforce of its franchises was utilized for training SKS loan officers. The standardized training program cut the time for training loan officers to 2 months from the norm of 4 to 6 months in most MFIs. The goal is to cut it to one month (Akula, 2008). The decentralized hub-and-spoke model of Starbucks was used in the expansion strategy of SKS, where Centers were created in clusters under the umbrella of Branches. Opening multiple Centers in one Branch helped build the SKS name among customers. It also enabled experienced staff from an existing Center to train the staff in a new Center. The minute attention that SKS paid to identify areas with the potential for standardization was instrumental in achieving its 200% annual growth, adding 50 Branches, 500 loan officers, and 160,000 new customers every month.

The fast pace of scaling operations brought to surface the need for financial compliance and accountability making internal audit an important function that required strengthening and training the audit staff. The quality of the rigorous audits done by the staff of 235 in March 2008 across
the 771 Branches in existence at that time earned the distinction of SKS being the first MFI in the world to get the ISO 9001:2000 certification. An important initiative undertaken by the internal audit group was to grade all Branches for the purpose of instituting staff incentives based on parameters like documentation, loan repayment and disbursement, fund management, fixed asset verification, etc. The audit staff strength was increased to 350 by early 2009 to improve the efficiency of audit processes by setting up separate audit teams for Branches, Head Office, individual loan products, internal audit training, quality assurance (ISO audit) and risk management. KPMG, an accounting consultancy, was also appointed to review the processes and suggest improvements.

Information Technology (IT)

SKS was a pioneer in using information technology (IT) from the very start because of Akula’s conviction that IT was an imperative to cut transaction costs, a significant barrier for scaling microfinance. An Internet-enabled management information system (MIS) was developed in-house as early as 2000, within 2 years of the company’s launch, connecting the Head Office to the Branches. The transaction data on loans, collections, and so on was entered for each customer by the loan officers in the Personal Computer (PC) at each Branch after their morning field meetings. The system was custom designed for ease of use by inexperienced field staff with no more than a 10th-grade education to independently handle transactions for up to 600 borrowers. The training required for them to enter the data in the system had to be minimal to realize the cost advantage of using readily available, low-wage staff for data entry. Another constraint created by the inadequate infrastructure in the region where the Branches were located was the availability of power for only 2 hours a day. The user interface of the system was simple enough to enable a loan officer to enter all the daily transactions in fewer than 30 minutes.

The core of the MIS system is the Portfolio Tracker module that captures all the transaction data input by the loan officers. A simple but telling example of the benefit of standardization of processes was the ability to pre-populate the fields for collections with data on the weekly loan repayments fixed for each client. The system generates the Collection Sheets for the loan officers showing the fixed amount to be collected from each client at the Center meeting. Only exceptions have to be recorded by the loan officers at the meetings, which in turn have to be entered in the Branch PC. This saves time at the Center meetings and at the Branch and reduces the incidence of data entry errors as well. All Branch-level transactions are consolidated and compressed so that they can be sent over a dial-up connection in fewer than 2 minutes. Summary data is available in the Head Office within hours after the morning field meetings. Corporate staff uses the extensive reporting capability of the system to identify risk. For example, in some Branches, there were sudden increases in defaults. The core of the MIS system is the Portfolio Tracker module that captures all the transaction data input by the loan officers. A simple but telling example of the benefit of standardization of processes was the ability to pre-populate the fields for collections with data on the weekly loan repayments fixed for each client. The system generates the Collection Sheets for the loan officers showing the fixed amount to be collected from each client at the Center meeting. Only exceptions have to be recorded by the loan officers at the meetings, which in turn have to be entered in the Branch PC. This saves time at the Center meetings and at the Branch and reduces the incidence of data entry errors as well. All Branch-level transactions are consolidated and compressed so that they can be sent over a dial-up connection in fewer than 2 minutes. Summary data is available in the Head Office within hours after the morning field meetings. Corporate staff uses the extensive reporting

Human Capital

Human capital is also a key factor in the success of SKS. The recruiting process ensures that the employees are the most qualified. SKS recruits young novice customers. SKS recruits young novice employees, which would
capability of the MIS to respond quickly to any problems in the field. In particular, the system enables SKS to manage portfolio quality to diversify its risk. For example, a few years ago it noticed that as many as 80% of loans in some Branches were for buffalo purchases. A buffalo disease epidemic or a sharp decline in the price of buffalo milk could create the risk of huge defaults. The portfolio was diversified by finding borrowers in other businesses such as tea shops, brick-making, and tire retreading (Bellman, 2006).

The fully integrated MIS entailed an initial investment of more than $250,000, a significant outlay for an MFI in its early stages of growth. However, it delivered on the promise of reducing cost of operations through automation of transactions and better management of portfolio quality. The low operational cost enabled SKS to drop the annual interest rate charged to borrowers from 36% in 1998 to 24% in 2006.

SKS was also the first MFI in India to launch a smart card pilot project in October 2000 to automate the “last mile of delivery” in field operations. However, the high cost of a single Smart Card ($3-30) at the time made the project unviable and put a hold on the rollout of the pilot. The positive outcome of the pilot was the interest of Visa International to collaborate with SKS to develop cell-phone-based card readers. Customers could then use magnetic-stripe cards as cash substitutes and not just as an electronic passbook. The cash-free system would also be safer than a loan officer carrying a lot of cash to villages.

Human Capital Management (HCM)

Human capital is a critical resource for an MFI that deploys a door-step banking to bring financial inclusion to the rural poor. Because the loan officers are the sole point of contact with customers in door-step banking, the recruiting strategy for getting the “right type of loan officer” and their performance evaluation are important areas of HCM for an MFI with a social mission.

SKS recruited the loan officers from the same poor villages as the customers because they had an inherent advantage of being able to deal effectively with their clientele. SKS also targeted the young, not much older than age 20, yielding a cost benefit generated by the low-wage bill of a young workforce. An additional benefit is the motivation of the loan officers to make the most of the job opportunity given to them. The salaries of loan officers were, unlike Compartamos, not tied to repayment rates or size of their loan portfolios.

The real HCM challenge for SKS is to manage retention rates and ensure that quality of staff is maintained during its rapid scaling. By July 2009 the employee strength had ballooned to 14,249 for serving 4.5 million customers. SKS has set an ambitious target of 15 million customers for 2012, which would require the workforce to expand to 39,000 employees. SKS is
currently exploring avenues in operational innovation and IT to address, at least in part, the HCM challenge facing it.

A pilot project was launched in December 2007 in 30 Centers to double the efficiency of loan officers by reducing the frequency of Center meetings from weekly to fortnightly. The concern that borrowers may find it difficult to meet fortnightly repayment commitments was allayed by the encouraging sign of no default in the pilot centers. The test is being extended to more Centers with plans to roll it out to all Centers in due course. An efficiency project was initiated in September 2008 to increase the productivity of loan officers in collaboration with Unitus whose affiliate, Unitus Equity Fund, has made an equity investment in SKS. The purpose of this project is to collect data on the time spent by a loan officer on performing his daily duties like pre-Center meeting preparation, Center meetings, and member acquisition process to identify bottlenecks and improve productivity.

On the IT front, SKS announced in July 2008 a tie-up with Adrenalin eSystems, a subsidiary of Polaris Software (a prominent player in the Indian IT industry) to develop software for the human capital needs of SKS. This is the first of its kind solution for the microfinance industry to handle recruiting, training, performance management, and payroll requirements for up to 20,000 employees, according to its website. Presumably the software can scale to handle the targeted strength of 39,000 employees of SKS by 2012.

Social Entrepreneurship

Given that an MFI with a mission to bring financial inclusion to the unbanked rural poor is a social venture, it is obvious that social entrepreneurship has to be the overarching factor in the proposed framework to provide a compass for the other factors.

According to Zahra et al. (2009), social entrepreneurship refers to “activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner” (p. 519). Social entrepreneurs are “driven creative individuals who question the status quo, exploit new opportunities and refuse to give up” (White Rose CETL Enterprise, 2009, slide 15). Akula, the founder of SKS, fits these criteria for a social entrepreneur. He made a childhood resolve to eradicate the jarring poverty that he (born in India but grew up in the United States) saw when visiting India for the holidays. He began his career in microfinance as a means for dealing with this poverty and worked as a community organizer at a not-for-profit MFI after graduation in 1990. He found that microfinance had the greatest impact on poverty because it provided the base for other interventions like health and education. After finishing graduate school at Yale University in 1995, he returned to India as a Fulbright scholar to coordinate a project on providing microfinance loans to marginal farmers at another MFI. He learned the process of scaling to reach

Akula called the three delivery—an innovative business model that Sequoia Capital raised nonfinancial passion to see that SKS was the first for-profit microfinance to launch SKS as a

Social entrepreneurs always find ways for creating combined value such as using the customer audit.

Akula who has “bridled the impact of microfinance through ‘the delivery’—an innovative business model that Sequoia Capital raised nonfinancial passion to see that SKS was the first for-profit microfinance to launch SKS as a.

Vijay Mai study the economic chain of events. He lean
Akula crystallized his ideas for creating a scalable model after returning to the United States to pursue a PhD at the University of Chicago on the impact of microfinance. He identified three constraints to scaling—"what I call the three "C's"—lack of capital, lack of capacity, and the high cost of delivery"—and developed his business model to deal with them: "a for-profit model to overcome the capital constraint, best practices from the business world to overcome the constraint of capacity, and technology to overcome the cost constraint" (India E-mail: Knowledge@Wharton, 2008, p. 2). He pioneered door-step banking that not only gave the poor access to financial markets but also brought it to their doorsteps. Interestingly, his business model did not impress the big donor agencies like the Rockefeller Foundation and Ford Foundation who thought he was too young and lacked the experience. Undeterred, he raised $52,000 from 357 relatives and friends, including $10,000 from a small volunteer Indian American organization to launch SKS as a not-for-profit in 1998.

Social entrepreneurship often involves combining resources in new ways for creating social value (Mair & Marti, 2006). Akula’s business model combined various resources to create financial inclusion for the rural poor such as using IT to cut costs, hiring local people in the same poor villages as the customers, and partnering with an external firm like KPMG for internal audit.

Akula was featured in the CETL presentation referred to earlier as one who has "brought social change amongst poor women in villages" (White Rose CETL Enterprise, 2009, slide 13) in the traditionally male-dominated Indian society by offering them an opportunity to become economically self-reliant. This also helps to boost the confidence of the SKS women customers, raising nonfinancial wealth in the form of social capital in rural India. Akula’s passion to serve the poor led to commercial partnerships with investors to overcome the constraint of capital for scaling. Sumir Chadha, a partner in Sequoia Capital who we interviewed in February 2008, listed three attributes that Sequoia uses for selecting companies to invest which were met by SKS. Passionate entrepreneurship was one of the three.

Vijay Mahajan, a veteran in microfinance in India and the CEO of the first for-profit MFI, BASIX, acknowledged Akula’s contribution as a catalyst of innovation and change in the Indian microfinance industry. He is quoted in an interview as saying that: "Vikram is passionate about what he does and is committed to the poor. He has achieved a breakthrough in terms of scaling up, entered difficult geographies . . . and showed the sector its unrealized potential" (Sharma, 2008, p. 152).

In summary, Akula’s social entrepreneurship has brought about socioeconomic change through a game-changing solution for the nagging problem of financial exclusion in rural India.
Validating SKS as a Catalytic Innovator

We outlined in an earlier section our rationale for selecting SKS as the research site for the current study based on data as of 2006. Having discussed the five factors in our framework for catalytic innovation, we examine here whether SKS has continued to meet the criteria for a catalytic innovation in microfinance in terms of scalability, commitment to social mission, and financial sustainability (Christensen et al., 2006). We proceed to address the following three key questions for SKS using available data up to September 2009:

1. Was SKS able to scale?
2. Did it achieve its social mission?
3. Is it financially sustainable?

The J-shaped growth trajectory of SKS through March 2009 shown in Figure 2 establishes the scale achieved by SKS. The momentum is continuing unabated. Within the span of one month, outreach grew from 5.01 million in August to 5.31 million in September 2009.

According to the latest available Microcredit Summit Campaign Report, 96% of the total SKS clientele of 1.5 million as of December 31, 2007 were verified as poor living below the poverty line of $1 a day (Daley-Harris, 2009). Social performance should be seen not only as the end result (the impact) but as a process of achieving that result, according to Sinha (2006). This process should include “improving the social responsibility of the MFI towards its employees, its clients, and the community it serves” (p. 5). In the case of SKS, 76% of its clients as of March 2008 belonged to castes defined by the Indian government as marginalized communities. At the same time, the employees of SKS are from all communities.

The expansion of SKS was made possible by funding from Capital and Capital, the latter part of a global network of a global network of microfinance institutes. SKS has taken on the social mission of providing access to capital to the poor and essentially gaining the social performance that its clients require. The data show that SKS has maintained a relentless focus on its mission and has achieved financial sustainability.

He takes issue with microfinance, with no profit motive, by funding from Capital and Capital, the latter part of a global network of a global network of microfinance institutes. SKS has taken on the social mission of providing access to capital to the poor and essentially gaining the social performance that its clients require. The data show that SKS has maintained a relentless focus on its mission and has achieved financial sustainability.

Further research into the sustainability of the model is necessary for understanding the long-term impact of SKS.

And, if not, we...
time, the employee base was also primarily drawn from these marginalized communities—65% out of the 6,424 employees.

The exponential expansion of SKS has been fueled in large measure by funding from venture capital firms, including two rounds from Sequoia Capital and Kismet Capital, and an investment of $50 million by Sandstone Capital, the largest investment in any MFI, in November 2008 in the midst of a global meltdown in the financial industry. The large infusion of $135 million in equity capital in SKS raises a legitimate question about its effect on the social mission. Akula’s response to this question in an interview essentially gave the following argument (Nath, 2009). Customer retention data show that the large base of SKS customers is extremely loyal because of its focus on poor customers. Loyalty builds trust that is essential for a long-term healthy business, which is what commercial investors want. Akula hence believes that social return is not incongruent with financial return. He takes issue with Yunus, Grameen Bank’s founder, who believes that microfinance should be a “social business”, that is, merely self-sustaining with no profit. Akula questions this concept by pointing out that Grameen Bank took 35 years to scale to 7 million customers. At that rate it would take generations to scale to the 120 million people facing financial exclusion in India. In this context, SKS is all set to overtake Grameen with an outreach of 8 million customers in 2010, within 5 years of becoming a for-profit in 2005. On the question of the interest rate charged by SKS, the average 28% APY rate in 2008 breaks down as follows: 12.5% cost of funds for SKS from banks, 8.5% staff cost, 3% for overheads and other administration costs, 2% for loan loss provision, leaving 2% for profit. In states where SKS has attained scale, the interest rates are lower at 24%. If processes are made more efficient, the interest rates could be reduced further since the profit margin is fixed by SKS at 2%. Although banks charge on the average a lower interest rate of 12.5% for borrowing, a World Bank study on access to finance for India’s rural poor showed that longer processing times for loans together with bribes varying from 10% to 20% could result in a higher effective cost to borrowers (Basu, 2004).

SKS has received a host of awards from 2000 right up to 2009 for the organizational innovation engineered through the various factors in the framework in Figure 1 except for HCM. These awards are listed in Table 2 and provide a form of external validation for our analysis.

FUTURE RESEARCH

Further research is required to validate the proposed framework for catalytic innovation. Good questions to investigate are: whether all five factors are necessary for a catalytic innovation? Or, are they, taken together, sufficient? And, if not, what are the limitations? Another interesting question is whether
the framework will hold for SKS itself as it progresses towards its target of 15 million clients by 2012, especially in the context of news reports of SKS going for an IPO in 2010. We are in the process of applying the framework to newer entrants such as Bandhan, Equitas Micro Finance, and Ujjivan and to other large MFIs in India that were started before SKS as nonprofits and later converted to a profit model, including Share Microfin, BASIX, and Spandana.

In this context, the economics of an MFI could be dramatically changed by viewing microfinance as a platform, and not as a product (Counts, 2008). This view asserts that the MFIs’ most important assets are not their loan portfolios but their high-quality relationships with the BOP customers. MFIs can leverage these relationships as a platform to distribute a range of products and services, not just financial ones. The new perspective on MFIs becoming a distribution channel for a host of private-sector companies enhances the catalytic nature of innovation in an MFI. SKS has already put this concept into practice and started in 2008 to provide “the last mile solution” for companies to tap the large potential market in the bottom tier. This new initiative leverages the human capital created by SKS for its microfinance operations through the vast network of Branches and loan officers reaching the poor at their door.

In a pilot test, SKS has partnered with a company to pay for the delivery of products sold to 3,500 villages with three months (Kumar, 2006). The companies provide a tie-up to their merchant/sales agents, and SKS pays them $1 for each delivery made. The companies involved in this program see potential to reach a market of over 6 million households.

MFIs have economics of scale, but the potential to reach the poor unbanked is huge. In a recent test, SKS has partnered with a company to deliver 3,500 villages with over 2,500 clients. The company is now looking to expand this in a major way to over 5.3 million clients with lower interest rates, a significant opportunity for the poor. The pursuit of scale is necessary for MFIs to realize their potential.

We are grateful to the Schwab Foundation for Social Entrepreneurship for permission to use their data in the paper and to post their content at www.schwab-foundation.org.
at their door steps. By leveraging its existing resources, SKS can create a new revenue stream that can be used to further its social mission through lowering of interest rates on loans and charges for other financial services. SKS has partnered with Nokia and Bharti Airtel, the largest service provider. In a pilot test, Nokia’s 1650 model with an Airtel connection and a loan from SKS to pay for the phone was offered to customers in selected clusters of villages with zero mobile penetration. The penetration jumped to 30% in just 3 months (Karunakaran, Prasad, & Bhuva, 2009). Another initiative of SKS was a tie-up with the German retailer, METRO Cash & Carry, to distribute their merchandise to more than 500,000 SKS customers owning small provision stores. The commission from selling products is another revenue stream that adds directly to the bottom line and has a social impact because of the potential to reduce interest rates on loans.

CONCLUSION

MFIs have emerged as a promising channel for providing financial services to the poor unbanked sector. Because most MFIs are small catering to fewer than 2,500 clients and reach only a fraction of the poor, scale is a prerequisite for an MFI to reach the poor. SKS is an MFI that has scaled to reach more than 5.3 million clients in just over a decade. Its social mission of “empowering the poor to become economically self-reliant” was not abandoned in its pursuit of scaling. Latest available data from an independent rating agency verified that 95% of its clients as of December 2007 were indeed poor.

The focus of the current study was to identify the factors essential for an MFI with a social mission to achieve scale and sustainability, a catalytic innovation. Based on the insights gained from our longitudinal study of SKS from its inception through October 2009, we have proposed a framework for a catalytic innovator encompassing five factors. Two factors, customer focus on the poor and social entrepreneurship, are vital for the social mission. The other three factors, namely, operational innovation, IT and HCM, are necessary for scaling and financial sustainability.

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NOTE

1. All data pertaining to SKS reported in this paper have been extracted from primary archival data in the time span of 1998 through 2009 on quarterly updates, monthly tracking, and other documents posted on their Website www.sksindia.com. We took the precaution of printing all the data points from
the SKS Website, which was fortuitous because the new Website that we accessed in early December had deleted all the information we had accessed earlier.

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