

The Transfer of Business Models within Low-income Markets: Institutions and the Global Growth of Microfinance

Description

A research agenda has developed recently that explores the potential for commercial business models in low-income markets (London & Hart, 2004). This research stream asserts that innovative firms pursuing profits in low-income contexts can unlock a large untapped market while at the same time improving social conditions. Others, however, have argued that both the business and social cases for these ventures are largely overstated (Karnani, 2007). While this debate is often formulated as *whether* there is a business case for firm innovation in low-income markets, I examine the question of *under what conditions* does the business case hold. In particular, I focus on the conditions under which a business model that works in one low-income society can be successfully transferred to others.

My study uses several theoretical and empirical tools to examine the transfer of one business model frequently discussed in the literature: microfinance. Microfinance theory describes a model for providing very small loans to poor families to help them engage in productive activities. This model was established for institutional conditions in Bangladesh but has spread to numerous societies over the last thirty years. Furthermore, with the transition to commerce viability, the microfinance field has developed into a nascent industry with rigorous reporting standards and 10 years of data. The spread and commercialization of microfinance therefore provides a unique setting to explore the transfer of business models from one low-income market to others.

Using an institutional framework developed in international business, I suggest that the commercial microfinance business model is most likely to succeed in institutional environments that are similar to the one where it was formed and developed. Specifically, I suggest that this institutional environment is primarily defined by its use of informal – rather than formal – means of contracting and by a relative degree of environmental stability. Because these two institutional characteristics played a critical role in the original development of microfinance, I further suggest that the commercial microfinance model is most likely to transfer to other countries with similar degrees of informal contracting and stability. Using a cross-section time-series random-coefficient model I tested these arguments on a sample of 139 countries. Results supported the hypothesis that microfinance is most likely to grow in countries with *high* degrees of informal economic transacting and *moderate* degrees of political stability.

Karnani, A. 2007. The mirage of marketing to the bottom of the pyramid: How the private sector can help alleviate poverty. *California Management Review*, 49: 90-111.

London, T., & Hart, S. L. 2004. Reinventing strategies for emerging markets: Beyond the transnational model. *Journal of International Business Studies*, 35: 350-370.

Bio

Joshua K. Ault is a doctoral candidate in the Sonoco International Business Department of the Moore School of Business at the University of South Carolina. He holds a Masters degree in Finance from the University of Utah and a Masters degree in Business Administration/International Management from Baylor University. His research interests lie at the intersection of sustainability, international business, economic development and banking. To study these topics, he uses theories and methodologies from economic sociology, comparative political economy, organization theory, and international business. His current research projects examine the cross-national spread of the microfinance business model to explore theoretical questions about the role of institutions in the successful transfer of business models across societies.