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Title

**ANSOFF'S STRATEGIC PARADIGM FOR MFIS
SUSTAINABILITY IN INCLUSIVE GROWTH**

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Abstract:

In this dynamic world, Strategies enable a firm to fix his position in the industry. Strategies are the real warriors who counter act the prevailing challenges. The strategically inspired goals, followed by Micro financial institutions [MFIs] are poverty alleviation & financial inclusion, which is also one of the millennium development goals and present global slogan for inclusive growth.

The core purpose of the paper is to present the *strategies pursued by micro financial institutions [MFIs] & discuss on the challenges faced by MFIs*. For the said study researcher is using secondary data gather from financial updates, banks working paper, other financial reports & survey reports.

The paper analysis the issue related to MFIs through **Ansoff's strategic success paradigm**. The study is descriptive and analytical in nature. It's apt to conduct a study on Strategies followed by India financial institutions for inclusive growth as inclusive growth is the prevailing mantra of the globe.

Key words: Ansoff's strategic success paradigm, challenges, Financial Inclusion & Inclusive growth, Micro Financial Institutions & Strategies.

INTRODUCTION:

FINANCIAL INCLUSION is, one of the several aspects of inclusive growth strategy. Micro financial institutions play a vital role in financial inclusion of ultra poor, the most downtrodden section of the society. During the last decade microfinance sector has been growing rapidly through out the world and particularly in Asia pacific regions. India, one of the fast developing countries carries large young population. Despite the adverse circumstances, our economy grew by 7.2% in 2009-10. For eliminating poverty, and providing productive employment for our young population in the near future, economy should grew about 10%. This is possible only through the adoption of inclusive growth strategy as around 40% Indian population still falls below the international poverty line. The paper presents the role of MFIs in inclusive growth, the MFIs strategies and

challenges faced by MFIs.

Related literatures

Microfinance Banana Skins 2011 by CSFI / New York CSFI discuss about risk faced by MFIs, Financial inclusion in India Presentation by Shri U.C. Sarangi, Chairman, NABARD & Shri S.K.Mitra, Executive Director, NABARD -2007 discuss about strategies & services for inclusive growth., Financial Inclusion Concept, Issues and Roadmap -Presentation by, Dr. K C Chakrabarty, Chairman and Managing Director, Indian Bank, Chennai at Institute for Development and Research in Banking Technology Hyderabad on date 02.09.2006, Article of Vishal Mehta The Indian Express, 3 December 2010 micro finance macro effects, CRISIL-rating top 50 MFIs- provide an over view of leading players in India. European Journal of Social Sciences – Volume 14, Number 1 (2010) MF Challenges and Opportunities in Pakistan, S.D Mohammad, Federal Urdu University discuss on opportunities and challenges faced by MFIs.

METHODOLOGY:

The researcher had applied descriptive and analytical approach for the study and used only the secondary data from electronic sources. Ansoff's¹ strategic success paradigm is used for analyzing the MFIs related issues.

MFIs strategies for inclusive growth-analysis part:

The main strategies adopted by MFIs are as follow:-

- Poverty alleviation, a societal good strategy

¹ Igor Ansoff¹ is one of the eminent thinkers in the area of strategic management. He created the famous 'Ansoff's grid'.

- Financial inclusion, an inclusive growth strategy
- Customer centric model, a need based strategy
- Heterogeneous legal structure, a structural strategy

As a combined effect of the above mentioned strategies the MFIs have been able to provide credit to over 25 million poor household's...& MFIs increased their clients by 60 per cent every year since 2007²

Heterogeneous legal structure:

Some of the MFIs had been registered as NBFCs, NGO-MFIs, cooperatives, trust and societies. Legally MFIs can be classified as not for profit MFIs, for profit MFIs and mutual benefit MFIs. As per the grading given by CRISIL as on March 31, 2009 out of 215 assessments 47% qualify for mfr4 or higher grade³. As MFIs have been registered under several legal forms, it leads to lack of uniformity. MFIs registered as NBFCs are regulated by RBI. Savings and deposit service is offered only by banks and co operatives. NBFCs can raise deposit only after obtaining license from RBI. Trusts and societies cannot accept savings and deposits⁴.

Challenges faced by MFIs:

² Vishal Mehta The Indian Express, 3 Dec 10 MF macro effects

³ source CRISIL rating top 50 MFIs

⁴ Sec 45S of RBI act 1934- source CRISIL rating top 50 MFIs



Although MFIs evolved rapidly, supported by four robust strategies such as poverty alleviation strategy,

CHART I- MFIs⁵CHALLENGES:

Financial inclusion strategy, customer centric strategy and heterogeneous legal structure strategy. MFIs sustainability was questioned due the challenges mentioned in Chart I. Its growing commercialization & competition has damaged the reputation of MFIs. The industry is migrating away from its mission of financial inclusion of poor to high commercialization, leaving the poor financially immersed in high debt burden.

Lack of Technological adoption, absence of corporate governance code, inferior management practices, inappropriate regulatory frame work, political interference, multi lending, mission drift, credit risk and unfair competition had questioned the sustainability of MFIs.

Ansoff's strategic success paradigm's key elements:

- 1) There is no universal success formula for all firms

⁵Authors' selection, composition & formation based on data from Microfinance Banana Skins 2011 New York CSFI

- 2) The level of turbulence in the environment determines the strategy required for the success of a firm
- 3) The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize the firm's success
- 4) The management's capabilities should be aligned with the environment to optimize the firm's success.
- 5) Internal capability variables i.e. cognitive, psychological, political, anthropological and sociological variables, all jointly determine the firm's success

Discussion part:

Let us discuss the applicability of Ansoff's strategic model for MFIs success

There is no universal success formula for all firms

First key element of Ansoff's strategic paradigm, there is no universal success formula for all firms, this very much true about the MFIs as in the absence of a single regulatory structure accompanied by multi legal structure with many other issues they succeed in touching the bottom of the pyramid the non banked population.

The level of turbulence in the environment determines the strategy required for the success of a firm

The existing turbulence / barriers / disorder determine the strategy. Financially excluded & exploited section gave birth to inclusive growth / financial inclusion strategy.

The present turbulent environment of MFIs will give birth to controlling strategies by way of government interventions, multi regulations & ordinance which will hinder the innovations

needed to serve the poor and ultimately questions its sustainability. So MFIs should determine the strategy that would order the turbulent environment by sticking to its mission.

The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize the firm's success

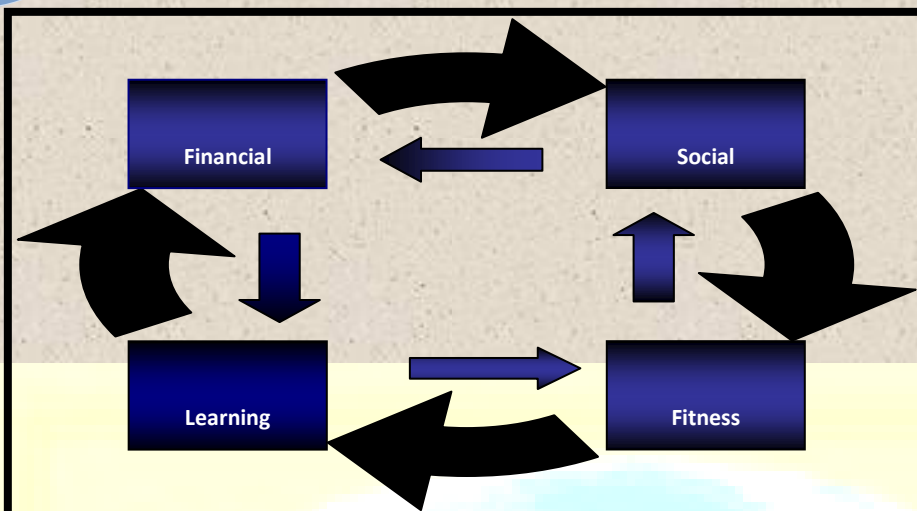
Aggressive financial inclusion/inclusive growth strategy was not aligned with the turbulence. As MFIs viewed financial inclusion as a stand alone phenomenon, they failed to concentrate on the interdependency of inclusive growth strategy. Financial inclusion, social inclusion, learning inclusion and fitness inclusion are all interdependent, they should boost each other. This interdependency aspect of inclusion is termed as turbulence in the environment as MFIs were considering financial inclusion as stand alone phenomena, & thus failed to support other interdependent inclusions which assure financial inclusion. To ensure the success, the aggressiveness of the strategy should be aligned with the environmental turbulence. This is the reason why the MFIs had faced the ordinance⁶ & subsequent drop in debt collection. All the four inclusions mention in the above chart boost each other. *For example educated and healthy people use the micro finance [MF] in an intended way.* Social inclusion deals with the power to be organized and be collective in nature in order to defend from all kinds of exploitations.

CHART II- INTERDEPENDENCY OF INCLUSIONS⁷

BOOSTING CIRCLE

⁶ Andhra Pradesh MFIs (Regulation of Money Lending) **Ordinance**, 2010, which came into effect on Oct 15,

⁷ Sources : author's outlook



Learning inclusion deals with educational aspect mainly concentrate on financial and technological learning process and equipping themselves [poor] with all related information through visual communication and through other Medias. Fitness inclusion deals with access to all kind of nutritional food and health related fitness.

The management's capabilities should be aligned with the environment to optimize the firm's success.

MFIs fail to align management capabilities with environment. MFIs with inferior quality of management accompanied with absence of corporate governance mechanism⁸ were unable to handle, considerably large amount of customers fairly & assess their credit worthiness. for e.g. At present, one credit officer handles loan accounts of around 500 to 600 borrowers. This does not give him adequate time to identify a possible distress in the borrower's family".⁹ More credit officer should be recruited so that burden may be reduced. The presence of corporate governance ensures good governance and mission fix. Strategy is based on mission when there is mission

⁸ [Corporate governance is to conduct the business in accordance with owner/shareholders desires, which generally will be to make as much money as possible while conforming to the basic rules of the society embodied in law and local customs]

⁹ Micro matters-December 2010 volume VII A Sa Dhan initiative -Anita Bhoir The Financial Express, Dec 21, 2010

drift due to lack of management competency it ultimately lead to strategy drift.

Internal capability variables i.e. cognitive, psychological, political, anthropological and sociological variables, all jointly determine the firm's success

Internal capability variables i.e. cognitive, psychological, political, anthropological and sociological variables, all jointly determine the firm's success. The MFIs should develop the internal capability variables as the MFIs themselves lack awareness regarding the field related information and on KYC [Know your client] aspect. Their clients the bottom of the pyramid has adhered a negative attitude due to situational pressure.

Ultra poor are weak on cognitive, psychological, anthropological and sociological grounds, that's the reason the MFIs were successful in loading them with multi lending & immersing them in debt. So the MFIs should take effort to equip their clients with social inclusion as well as help them to create a positive attitude, ultimately changing their culture.

If the internal capability variables have been given due care by Andhra Pradesh MFIs, they would have avoid ed the suicidal crisis.

Suggestion:

- For future sustainability of MFIs the application of Ansoff's strategic success paradigm is imperative and had been suggested.
- Adherence to corporate governance principle and application of resource transfer principles [*usage of same resource for multi purpose*] are suggested.
- Single regulatory authority is highly suggested to avoid the burden of multi regulations on MFIs.
- Financial inclusion is not a standalone