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Factors Influencing Scaling Strategies of Indian Microfinance Institutions

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Abstract: Efficient selection of scaling strategies can help microfinance institutions (MFIs) to scale up their social impact. There can be various factors affecting the decision of these institutes regarding the selection of either scaling wide or scaling deep strategy. This paper aims at analyzing the effect of institution-specific factors on the selection of scaling strategy of MFIs. Ordinary regression model is used for analysis, as the study considers cross-sectional data of 204 Indian MFIs for the year 2020.The results show that number of branches, number of staffs, gross loan portfolio, impact scaling wide strategy and provision for non-financial services influence scaling deep strategy. India is a developing nation and microfinance institutions play a crucial role in the process of social and economical development of the country. Research on Indian MFIs which can suggest for the consideration of various internal factors in designing scaling strategies will be helpful in deriving maximum benefits from the activities of MFIs.

1. Introduction

There are certain social phenomena, which affect not only social growth but also the economic development of any nation. Some of such phenomena are poverty, unemployment, gender inequality. There have been a lot of efforts put by different enterprises to eradicate these issues, especially the efforts of social enterprises. These social organizations work hard to create a significant social impact. In the process, many organizational strategies are developed and adopted by these enterprises. Strategies adopted by social enterprises for enhancing social impact are called scaling strategies. Social enterprises as hybrid institutes pursue social missions while operating through commercial business models (Santos *et al.,* 2015). So, this is very important for these enterprises to maintain a proper balance between social mission and economic sustainability (Doherty *et al.,* 2014). As hybrid organizations, they need to combine different intuitional logic in such a manner that would help them in achieving their dual objectives (Battilana and Dorado, 2010). Bédécarrats *et al.* (2012) stated that achieving dual objectives is not impossible if well-planned strategies can be implemented. Institutional logics are the values driving organizational functioning and assumptions defining organizational goals. Combining these logics, social enterprises try to enhance social impact. Scaling up social impact means different techniques used by social enterprises to enhance their impact on resolving social problems or meeting social needs.

Microfinance institutions are one of the important categories of social enterprises, providing varieties of financial services to low-income populations to help them in raising their income levels and resolving the poverty problem. Microfinance, one of the popular terms in the area of financial inclusion, is considered as a developmental tool to improve the standard of living of the poor through a sustainable business model (Mishra and Baral, 2020). It includes provision for savings, deposits, small loans, and insurance products to low-income households. Nobel laureate Muhammad Yunus first initiated the concept of microcredit and microfinance by establishing Grameen Bank, Bangladesh in 1976. After the lunch of the microcredit summit in 1997, which highlighted the relevance of microfinance as an intermediary for social and economical development, these institutions are growing rapidly all over the world.

There are multiple ways through which impact can be increased. Some organizations may choose to focus on the enhancement of coverage area, expansion of size, enlarging target customers group with the concept that social impact can be enhanced by serving a wide range of people. Some other institutions aim at offering different products and services in a niche market, focusing on a small customer group with the assumption that social problems can be resolved through complete root out of these problems even if it is for a small group of people. These two are contrasting approaches to create social effects. Social enterprises can develop various business operational techniques to resolve social problems and create long-term sustainable modifications in society. These institutions can join hands with the government for solving different social issues. Various resources available such as-financial and human resources and various institutional factors-geographical locations, affect the extent to which these social organizations can influence government policies (Han, 2017). The biggest challenge faced by social enterprises is to enhance their social impact (Nicholls, 2010; Lyon and Fernandez, 2012; Weber *et al.,* 2012). Existing literature reveals two broad dimensions of scaling i.e. scaling wide (breadth) and scaling deep (depth) (Desa and Koch, 2014). In breadth scaling organizations give more importance to extend their geographical area coverage, client base, functioning budget, etc. (Uvin, 1995). It relies upon the economies of scale concept as the cost gets reduced when same products and services are provided to more and more people. Breadth scaling is related to economies of scaling because under economies of scale focus is on cost-saving through mass production (Kogut, 1985), the similarity of products (Darr *et al.,* 1995), and the use of parent organization's goodwill (Ingram and Rao, 2004). Similarly, under breadth scaling organizations try to reduce cost and enhance social impact by multiple replications of products and services across wide geographical areas. Social motive under breadth scaling is defined in a narrow sense. With proper functional strategies, sustainable MFIs with a wide breadth scaling can reach the poor same as poverty-oriented MFIs with narrow breadth. Example-sustainable credit unions of Colombia were having more poor clients compared to poverty oriented banks in Costa Rica and Guatemala (Paxton, Cuevas, 1998). This strategy results in upscaling and expanding scale. Financial sustainability and commercial success are given importance under this strategy. Some of the MFIs who have adopted this strategy are Pierre Omidyar, ProCredit Holding, Bancosoland Compartamos (Zhao and Han, 2019).

In contrast, enterprises going for depth scaling expand the number and type of activities to provide varieties of services to limited number of clients. Here the focus is not on reaching more and more people rather serve a small group of people in the best manner. Microfinance services to the poorest clients are considered more valuable compared to others. For example, a small loan to a widow is more valuable than a loan to a richer person. The Supply cost of microfinance increases with depth strategy, so it leads to high social cost. Compared to the rich, the poor generally are more diverse and less capable of indicating their ability to repay loans. This is the reason for which it costs more for a lender to find out the risk of a loan to the poor (Conning, 1999). Depth scaling strategy is also known as deep scaling and it focuses on expanding scope. Social, economic empowerment, inclusive practices, and community participation, social capital building, are given more importance under this strategy (Mayoux, 1995; Sanyal, 2009). MFIs adopting this strategy include Grameen Bank, Brac, Pro Mujer, Jamii Bora, Microcredit enterprises (Zhao and Han, 2019).

There are lots of internal and external factors, which can influence the selection of scaling strategies by MFIs. MFIs need to consider and analyze these factors properly before selecting either breadth or depth scaling strategy. Each scaling strategy has its way of functioning and involves certain challenges. MFIs need to understand various dimensions of scaling strategies for efficient selection of the strategy. This study focuses on one such dimension i.e. factors influencing scaling strategies of MFIs. The analysis aims at finding out the MFI specific factors, which can influence their scaling strategies by considering data of Indian MFIs. The main question which the study aims to address is how do different institution-specific factors (legal structure, number of branches, number of staff, maturity, non-financial services, gross loan portfolio, and operation in number of states) affect the scaling strategies adopted by MFIs? India is one of the developing nations in the world, having huge potentials for contributing to world economic development. The country faces many social challenges hindering full-fledged economic development. Microfinance institutions play a vital role in resolving these social problems. Research in this direction can give more and more inputs for enhancing the social impact of MFIs. This study adds to the present literature by analyzing different scaling strategies adopted by MFIs and by evaluating various MFI specific factors which influence selection decision of scaling strategies.

The rest of the paper is arranged as follows-review of literature, objective and hypothesis, research methodology, empirical results, findings and suggestions, limitations of the study and suggestions for future research and conclusion.

2. Review of Literature

We review the literature on scaling strategies of MFIs. Scaling is the process of enhancing an organization's impact to achieve the social objectives, for which it works (Desa and Koch, 2014). It indicates the ability of social enterprises to meet social demand (Bradach, 2003). Social enterprises always aim at enhancing their social impact by adopting different strategies. These strategies are called scaling strategies. Scaling strategies play a crucial role in determining the social performance of social enterprises. (Uvin *et al.,* 2000) explained some taxonomies of scaling, such as- increasing activities, expanding coverage and size, enhancing organizational sustainability, broadening indirect social impact. Microfinance institutions, being one of the important categories of social enterprises, also need to focus on selecting a proper scaling strategy to achieve the targeted social performance. This is the key to success for these institutions (Dees *et al.,* 2004).

There are two important scaling strategies i.e.: scaling deep and scaling wide. Scaling up is another type of strategy, which focuses on finding out of opportunities and challenges at organizational level with the aim of modifying the system entirely which created social problems. Organizations can always develop strategies to utilize these opportunities and to overcome the barriers by using the available resources. These strategies can focus on maximizing social impact through the process of networking. Scaling up is to affect laws, regulations, policies and procedures, which govern organizational functioning. Scaling deep focuses on creating more in-depth social impact by increasing the number and providing better quality products and services. In this case, MFIs operate in a niche market but with the objective of creating deep social impact, such as- employment generation, poverty alleviation, women empowerment. This strategy is based on the concept of economies of learning (Dieleman and Sachs, 2008). In economies of learning, organizations try to improve profitability by specializing in a particular product or service. In the same manner, under depth scaling strategy, MFIs focus on a particular customer group and try to serve them in the best manner. It is believed that a strong social influence can be created through deep root out of social problems even if it is for a small number of people. In contrast, scaling wide strategy gives more importance to widening geographical outreach. Here the objective of MFIs is not to create a deep social impact as it is in the case of deep strategy, but to help a large number of clients in increasing their income level, educational level, etc. MFIs following this strategy try to enlarge their customer base (Scheuerle and Schmitz, 2016). The main logic is providing services to a large number of people can eradicate social problems. This strategy is based on the concept of economies of scale. Under economies of scaling, organizations try to reduce costs and improve profitability by producing a large volume of products. In the same manner under scaling wide strategy, organizations try to create social impact by replicating the same products and services to more customers. Here the entire system is replicated and not just specific capabilities. Replication of the entire system means enlarging coverage and size, enhancing sustainability, increasing the number of activities.

Two important institutional logics determining depth and breadth scaling strategies are organizational goals and functioning principles (Zhao and Han, 2019). Institutional logics are the rationalities with which organizations operate. These are the logics that determine the behaviour of social enterprises and which are the foundation of success (Thornton and Ocasio, 1999). An Organizational goal can be defined as the basic purpose for which an enterprise operates. Social core and social spillover can be two separate dimensions for setting organizational goals. In social core, the main focus lies at resolving a deep social problem e.g. women empowerment, enhancing the standard of living of the poor. This dimension focuses on MFIs' intervention in addition to providing products and services to create social impact (Santos *et al.,* 2015). Social impact is given more importance compared to economic efficiency. Under social spillover, enterprises run with the assumption that the economic sustainability of the organization can enhance social impact in the future. So, their goals lie at a surface level e.g. making women self-employable, helping poor people for earning more income. Social spillover focuses on rapid growth to cover as many people as possible to enhance social impact(Zhao and Han, 2019). Products and services are provided to clients without much intervention by MFIs. Both social core and social spillover dimensions capture the entire concept of organizational goal by comparing social and economic objectives of MFIs. These describe the concept of social impact and the importance of social and economic goals in strengthening the social impact. In social core, more focus is on social impact rather than the economic benefits of products and services. But in social spillover more importance is given to the economic outcome of products and services and comprehensive social impact is considered as a by-product. MFIs following social core design products and services to build up social capital among clients, whereas the economic outcome of products and services are given more attention by MFIs following social spillover. The approach of measuring successful social performance differs depending upon the scaling strategy selected. For example, MFIs following a wide strategy count the number of borrowers and the amount of loans to measure social performance, whereas, meaningful utilization of loans provided (female entrepreneurs' income growth or clients' children going to school) is analyzed by MFIs following a deep strategy.

Functioning principles can focus on building social capital or strong enterprise-client relationship. The functioning principle of client-client reciprocity gives more importance to the build-up of socio-emotional relationships between clients. The reason behind this is clear in the sense; development of socio-emotional bonding among clients would encourage them to work together for solving each other's social problems. Whereas under enterprise-client reciprocity, microfinance institutions focus on building a good enterprise-client relationship, so that, clients would stay obliged for repaying the loan taken. The functioning principle of Client-client reciprocity or enterprise-client reciprocity followed by the microfinance institutions would decide different activities such as allocation of time, staff and money, training of staffs, performed to achieve their social mission. Those organizations which encourage the development of social capital, believe that social impact can be enhanced if people build up the social relationship among themselves. Those enterprises which try to develop the enterprise-client relationship, value this as more effective in creating social impact. Organizations following a deep scaling strategy would encourage client-client reciprocity (building social capital) and follow the social core dimension for achieving the dual objectives of social enterprises. A wide scaling strategy would combine two approaches i.e. enterprise -client relationship and social spillover.

Literature describes these institutions as blending hybrids (Santos *et al.,* 2015; Pache and Santos, 2013; Dees and Anderson, 2003a) because their social impact is contingent (they have to intervene to create social impact, giving financial services alone is not enough) and most of the clients are beneficiaries. Suppose a microfinance institution provides educational loans to clients, but providing loans alone is not enough to achieve the goal of making society educated. It has to put extra effort by giving training or counseling services to clients to make them understand the importance of education. Most of the clients of MFIs are direct beneficiaries. This means MFIs provide products and services to those who are expected to get direct benefits from these. It is necessary for MFIs to properly organize their activities to create more and more influence on clients. A proper balance is required to be maintained between their social and commercial goals (Meyskens *et al.* 2010; Mair *et al.,* 2012; Maak and Stoetter, 2012). Microfinance institutions need to choose their scaling strategy carefully to scale up social impact because it would involve a lot of challenges and risks.

There are lots of factors (both internal and external), which help MFIs in deciding about their scaling strategy. The ecosystem model explained by (Han and Shah, 2019) states that different internal factors, such as- financing source, governance structure, information and communication technology, ability of the organization to tie up with different internal and external stakeholders, affect the capacity of these institutions to create social impact. It is important to find out the MFI specific factors, which can influence their selection of scaling strategy. The fundamental understanding of institutional factors can help MFIs to better analyze their scaling strategies. This also can guide policymakers to design suitable policies regarding MFIs to enhance their social impact. Existing literature doesn't have evidence in this dimension. So, this paper focuses on analyzing the MFI specific factors which can affect their scaling decision by considering Indian MFIs. India is an emerging economy, facing many social and economical constraints. MFIs do have an important role in the economic development process of the country. So, it is important to understand what factors can influence the scaling strategy of Indian MFIs.

3. Objective and Hypotheses

The present study aims to analyze the impact of MFI-specific internal factors on scaling strategies selection decision by these institutions. For this purpose, the study aims to test the following two hypotheses:

1. H0: MFI specific internal factors do not influence scaling wide strategy decision adopted by MFIs.

   H1: MFI specific internal factors influence scaling wide strategy decision adopted by MFIs.
2. H0: MFI specific internal factors do not influence scaling deep strategy decision adopted by MFIs.

   H1: MFI specific internal factors influence scaling deep strategy decision adopted by MFIs.

As adoption of a proper scaling strategy is important for achieving desired social performance objective, this is vital to find out different factors which can influence the scaling techniques. Proper knowledge about these factors will help MFIs to design appropriate scaling strategies. The microfinance industry in India is at a rapid growth phase and is expected to contribute a lot towards the economic development of the nation. The analysis on scaling strategies of Indian MFIs would be helpful for these institutions to meet the expectation.

4. Research Methodology

4.1. Sample

The study is based on secondary data of204 Indian MFIs for the year 2020. As per the latest Sa-Dhan report (directory of Microfinance Institutions in India, 2020), there are total of 234 MFIs in India. But considering the availability of data on both dependent and independent variables, only 204 MFIs could be taken up for the analysis. Data was collected from secondary source (report on directory of Microfinance Institutions in India, 2020) published by Sa-Dhan, a self-regulatory organization to assist Indian MFIs to better serve the poor. Microsoft Excel program was used for manual collection of data and Stata software was used for running the regression models. Data cleaning was based on the criteria of availability of data of both dependent and independent variables. Finally, 204 Indian MFIs data is used for analysis.

4.2. Variable Definition

The study considers one indicator representing scaling wide strategy (client outreach) and another for scaling deep (number of products and services offered) as two dependent variables. Client outreach is considered as a measure of scaling wide strategy because MFIs which believe that social impact can be created by serving more and more people do adopt scaling wide strategy. MFIs believing in niche market service, try to offer more products and services to a small group of people to fulfill all their requirements and create a deep social impact among these people. For this reason, the total number of products and services offered by Indian MFIs is considered as a variable denoting scaling deep strategy. Total of seven independent variables (legal structure, number of branches, number of staff, maturity, non-financial services, gross loan portfolio, and operation in number of states) are considered for analysis. All these variables are MFI specific variables as the study targets to find out the impact of institution-specific internal factors on scaling strategies adopted by MFIs. Legal structure determines whether a particular MFI is a for-profit or not-for-profit MFI. Not-for-profit MFIs tend to have better social performance compared to their for-profit counterparts (Cull *et al.,* 2009). Similarly, the scaling strategies adopted by them would differ to achieve the targeted social performance goal. Total number of branches and staff MFIs have affect their functioning strategies. The study considers these two variables to find out their influence on scaling strategies adopted. Maturity or age is an important internal factor that can influence the social performance of MFIs (Rashid and Twaha, 2013). With growing age as the old MFIs continue gaining more experience, they tend to adopt different strategies and techniques compared to new MFIs. Provision for non-financial services is an important dimension of the social contribution of MFIs. Health and sanitation facilities, financial literacy programs, capacity building programs, skill enhancement training etc. are some of the non-financial services provided by MFIs. The study aims to analyze the impact of this factor on scaling strategies adopted. The gross loan portfolio is the total principal amount of all outstanding client loans. The more the loans offered by MFIs, the more they can attract customers. But in this case, they might be offering a lesser number of other products and services to minimize the cost. With this expected impact, this study sight to find out the impact of gross loan portfolio on client outreach and number of products and services offered. Operation in number of states is considered as an independent variable for analysis. When MFIs operate in more number of states, they get more exposure in terms of types of customers and operational environment. This can result in the adoption of different scaling strategies to improve social performance. Details about dependent and independent variables are given in table 1 below.

Table 1: Definition and Sources of Variables

Dependent Variables		*Definition*	*Source*
No. of products and services		Total number of products and services offered	Sa- Dhan report
Client outreach		Number of clients served	Sa-Dhan report
Independent Variables	*short form*	*Definition*	*Source*
Legal Structure	ls	Dummy variable 1= if not-for-profit (society, trust, cooperative) 0=if for-profit (NBFC-MFI, section 8 company, NBFC)	Sa-Dhan report
Branch	Branch	Number of branches	Sa-Dhan report
Staff	Staff	Number of staffs	Sa-Dhan report
Maturity	Maturity	Age of MFIs	Sa-Dhan report
Non-financial services	nfs	Dummy variable 1= if MFIs provide non-financial services 0= otherwise	Sa-Dhan report
GLP	glp	Gross Loan Portfolio	Sa-Dhan report
No. of states	states	No. of states in which MFIs operate	Sa-Dhan report

Source: Authors' Own Calculation

4.3. Conceptual Model

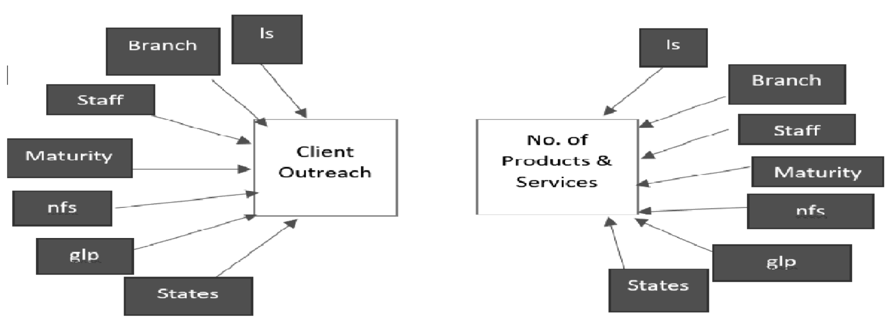

Figure 1: Conceptual Model of the Study

Source: Authors' Compilation

4.4. Model Specification

To investigate the factors influencing scaling strategies of Indian MFIs, ordinary Least Square (OLS) is applied for cross-sectional data analysis. The following models are used to find out the factors influencing scaling deep and scaling wide strategies.

$$\begin{aligned} Clientoutreach &= \alpha + \beta_1\, ls + \beta_2\, branch + \beta_3\, staff + \beta_4\, maturity + \beta_5\, nfs + \beta_6\, glp \\ &+ \beta_7\, states \end{aligned}$$

$$No.\ of\ productsandservices = \alpha + \beta_1\, ls + \beta_2\, branch + \beta_3\, staff + \beta_4\, maturity + \beta_5\, nfs + \beta_6\, glp + \beta_7\, states$$

5. Empirical Results

Table 2 gives the descriptive statistics for all the variables. The average client outreach of MFIs is 2.83 lakhs. The standard deviation is 7.38 lakhs. This high std. deviation shows that there is a high difference in the scaling wide strategy of Indian MFIs. Some are able to widen their client base, whereas some others have limited outreach. Average number of branches is 94. There is a huge difference between MFIs regarding the number of staff with whom they operate as the standard deviation is 1511. However, the average staff number is 685. Most of the MFIs in India have been established in near years to each other as the standard deviation of maturity is 8, less than the average of 13. The number of products and services offered by Indian MFIs is around 3 and there is not much difference between MFIs regarding this as standard deviation is 2. Average gross loan portfolio is 293.74 crores and standard deviation is very high compared to the average GLP i.e. 815 crores. This indicates a wide difference between MFIs regarding their loan portfolio. Most of the MFIs are operating in around 3 states.

Table 2: Descriptive Statistics

Variables	*Mean*	*Median*	*Std. Dev.*	*Min.*	*Max.*
Client Outreach	2.83	0.15	7.38	0.0002	36
Branch	94	12	230	1	832
Staff	685	69	1511	2	7653
Maturity	13	9	8	3	22
Products, services	3	2	2	1	7
GLP	293.74	17.7	815	0.03	8428
No. of states	3	1	4	1	19

Source: Compiled using Stata result

Table 3 indicates VIF to check if there is multicollinearity problem in the model. The result indicates that there does not exist multicollinearity among independent variables as VIF are less than 5 for all independent variables.

Table 3: Multicollinearity Test Result

Variables	*VIF*
Legal structure	1.199
Branch	3.026
Staff	4.755
Maturity	1.038
Non-financial services	1.066
GLP	3.545
No. of states	3.328

Source: Compiled using Gretlresult

Table 4 indicates the result of Breusch-Pagan test. Breusch-Pagan test is a test for checking heteroskedasticity in a regression model. It tests whether estimated variance of the residuals from a regression are based on the values of the independent variables of the model. The result of the test indicates that there are no heteroskedasticity at 5% significance level.

Table 4: Breusch-Pagan Test for Heteroskedasticity

OLS, using observations 1-204 (n = 204)

Dependent variable: scaled uhat^2

Explained sum of squares = 15.584

	Coeffcient	*std. error*	*t-ratio*	*p-value dd*
Const	–0.155357	0.705787	–0.2201	0.8260
Legal structure	–0.222356	0.657997	–0.3379	0.7358
Branch	0.00630355	0.00630893	0.9991	0.3190
Staff	0.000347301	0.00118763	0.2924	0.7703
Maturity	9.95250e-05	0.00120501	0.08259	0.9343
Non-financial services	0.711767	0.753682	0.9444	0.3461
GLP	0.000143455	0.00102567	0.1399	0.8889
No. of states	0.251286	0.149369	1.682	0.1941

Test statistic: LM = 7.792192,

with p-value = P(Chi-square(8)>7.792192)=0.0855612

Source: Compiled using Gretlresult

Table 5 and Table 6 indicate the results of ANOVA. The results indicate that the two models are significant predictors of dependent variables.

Table 5: ANOVA for 1st Regression Model

	Sum of squares	*df*	*Mean square*
Regression	3223.59	8	402.948
Residual	38.0763	194	0.19627
Total	3261.66	202	16.1468

R^2 = 3223.59 / 3261.66 = 0.988326

F(8, 194) = 402.948 / 0.19627 = 2053.03 [p-value 5.17e-183]

Source: Compiled using Gretlresult

Table 6: ANOVA for 2nd Regression Model

	Sum of squares	*df*	*Mean square*
Regression	164.318	7	23.474
Residual	186.638	195	0.957116
Total	350.956	202	1.7374

R^2 = 164.318 / 350.956 = 0.468202

F(7, 195) = 23.474 / 0.957116 = 24.5258 [p-value 8.3e-024]

Source: Compiled using Gretlresult

The results of the first regression model (Table 7)indicate that number of branches has a significant positive impact on client outreach. If the number of branches increases by 1, the client number increases by 0.0067lkhs. The establishment of more branches by MFIs helps them in reaching more clients. The results indicate that Indian MFIs establishing more branches go for scaling wide strategy. As per this strategy, MFIs try for fast expansion of business to cover as many people as possible to create social impact (Zhao and Han, 2019). Branching is a direct strategy for creating social impact(Dahles et al., 2019). This means branching motivates MFIs to reach more and more clients. The number of staff has a significant negative impact on client outreach. If the number of staff increases by 1, client outreach decreases by 0.0006lkhs. Though the impact is minimum, it influences the scaling strategy of MFIs. Setting responsibility with individual staff becomes difficult with more staff in a single branch. This negatively influences staffs' efficiency to reach clients. The results indicate that appropriate staffing is important for scaling. This is supported by findings of (Bloom & Chatterji, 2009). Gross loan portfolio has a positive significant impact on client outreach. When GLP increases by 1 rupee, client outreach increases by 0.0046lkhs. Gross loan portfolio is the total outstanding principal balance of loans. When MFIs provide more loans to clients and they are liberal regarding repayment conditions, GLP increases. This helps MFIs to attract more and more clients.

The findings of the second regression model (Table 7) indicate that the non-financial services dummy variable has a positive significant impact on the number of products and services. This means

MFIs providing non-financial services provide more products and services compared to those who do not provide non-financial services. Non-financial service providers provide around 2 extra products and services compared to those who do not provide non-financial services. Non-financial services providing Indian MFIs go for scaling deep strategy by increasing the number of products and services offered. They focus more on serving limited customers with different types of products and services. The legal structure has a negative impact on client outreach, though the impact is not significant. This means when the MFI is operating as a non-profit making organization, client outreach decreases by 0.0139lkhs. Non-profit making MFIs, such as-society, trust focus more on enhancing living standard of poor even at the cost of their profit. Instead of reaching more people, they try to provide better quality services to a small group of people. So, the impact of this variable is positive on number of products and services offered. Number of branch has a positive impact on the number of products, services offered. Non-financial services dummy variable has positive impact on client outreach, though the impact is insignificant. When MFIs offer non-financial services, more clients get attracted. Age is another factor, which influences the social performance of MFIs (Narwal & Yadav, 2014; Twaha,

Table 7: Regression Estimate

Dependent Variable	*Client outreach*	*No. of products & services*
Model	*OLS*	*OLS*
Independent Variables	*Coefficient*	*Coefficient*
Legal structure	-0.0139	0.0229
	(0.844)	(0.883)
Branch	0.0067***	0.0006
	(0.000)	(0.696)
Staff	-0.0006***	-0.00004
	(0.000)	(0.894)
Maturity	-0.00001	0.00002
	(0.884)	(0.934)
Non-financial services	0.0827	2.1979***
	(0.308)	(0.000)
GLP	0.0046***	0.0003
	(0.000)	(0.267)
No. of states	-0.0203	-0.0399
	(0.210)	(0.265)
Observations	204	204
Adjusted R-squared	0.9879	0.4488

Source: Compiled using Stata result

P values in parentheses

significance at 1% , 5% and 10% levels are indicated by ***, ** and * respectively

2013). As per the findings of this study, age has a negative impact on client outreach and a positive impact on the number of products, services offered. More mature MFIs focus more on providing quality services to limited clients. Gross loan portfolio has a positive impact on the number of products, services offered. Interest money collected on loan amounts is used for providing better services to clients.

6. Findings and Suggestions

The analysis concludes that different MFI specific internal factors have significant impact on client outreach and number of products, services offered. The null hypothesis (different independent variables do not have significant impact on dependent variables) for the study get rejected as the p values are 0.000, showing significant impact of branches, staff and GLP on client outreach. MFIs following scaling wide strategy would focus on creating a large customer base. Enhancing operation through more branches will help MFIs to attract clients, as branching is a direct strategy for reaching more beneficiaries (Dees *et al.,* 2004). Giving small amounts of loans to more clients will also help MFIs for widening their outreach. It is also true that when amount of loan given is small, there is less chance of default in repayment. MFIs can focus on building interpersonal relationship among clients, so that they motivate each other for timely repayment of loan taken. MFIs should try to function with the optimum number of staff to set personal responsibility on individual staff. Staffing is an important organisational capability driving social impact (Smith, 2010). Instead of just recruiting staff, they should focus on giving quality training to staff at regular intervals of time to enhance their skill for managing business activities efficiently. Internal staff position exchange can be helpful for monitoring staff performance. Newly established MFIs can focus more on enhancing their client base because they have to achieve a proper balance between financial sustainability and social performance during the initial years of operation to sustain in future.

As per the results of the study, the non-financial services variable significantly affects number of products, services offered. If the MFIs offer non-financial services, such as- training, consultancy service, financial literacy programs, they tend to design varieties of new products and provide various financial services for the benefit of clients (Nayak and Pradhan, 2020). These MFIs follow scaling deep strategy and offer various products, services to serve a limited number of clients in the best possible manner. Through various training programs, MFIs make their clients educated regarding the use of various financial products, such as- micro credit, micro insurance, micro saving, education loan, vehicle loan, housing loan etc. This ensures that clients become knowledgeable about the uses of these products. Through different training programs MFIs get connected with their clients and can follow how they make use of different financial products and services taken by them. For this reason, the non-financial services dummy variable has a significant positive impact on number of products, services offered. The results also confirm that if the MFIs are not-for-profit MFIs, they follow scaling deep strategy and offer more products and services to their clients. Not-for-profit MFIs mainly work for the benefit of their clients. Their main focus is on serving the clients in better manner rather than earning huge profit. So, these institutions try to design innovative products and services for the benefit of their clients. As the total number of branches has positive impact on number of products, services offered, these institutions should try to establish more branches for making it easy to distribute various financial products and services among their clients. Establishment of branches in rural areas where people do not have much access to formal financial system, can be helpful in serving the society in better manner. Older MFIs should focus on providing more products, services to their clients for strengthening their social performance scores. The cost of operation becomes high when MFIs operate in more states. It gets difficult for these institutions to design and offer various products to their clients. So, MFIs intending to follow scaling deep strategy can limit their operation to fewer states for creating better social impact. MFIs can follow different strategies for reducing their operational costs. They can tie-up with other financial institutions for providing various financial services to their clients.

The study finds out that certain MFI specific internal variables have significant impact on scaling strategy decisions adopted by these institutions. Considering the results of the analysis several policies can be designed by MFIs to make proper selection of scaling strategy. Policy makers can make suitable policies which will be favourable for functioning of MFIs. MFIs can establish more number of branches especially in rural areas with proper recruitment strategies to operate those branches. Staffs can be trained at regular interval of times to make them update about changes in financial system and economy. By adopting proper recollection strategies, MFIs can grant more amount of loans to clients. Clients should be motivated to repay loan amount on time through group lending system, lending without collateral, provision of additional loan for those who repay on time.

7. Limitations of the Study and Suggestions for future Research

The study is based on secondary data available from published Sa-Dhan report. The results are analysed for Indian MFIs only. Due to focus on Indian MFIs' scaling strategy, the study considers only MFIs operating in India. For more in-depth analysis of scaling strategies, future studies can consider MFIs from other country context. Depending upon availability of data, the present study considers only seven MFI-specific internal factors. Future studies can consider taking other variables that can affect scaling strategy decision of MFIs.

8. Conclusion

Microfinance institutions play a crucial role in the social and economic development process of India. These institutions support the activities of the government in resolving various social problems. While the main objective of MFIs is to work for the betterment of the society, these institutions need to scale up their social impact by selecting various strategies. Scaling strategy selection decision is very crucial for these institutions as they need to maintain a balance between social performance and financial sustainability. Scaling strategy adoption decision gets influenced by various internal and external factors. More and more research need to be conducted for understanding the influence of these factors. This study is in this direction. After statistical analysis of Indian MFIs' data, the study finds that no. of branches, no. of staffs, and gross loan portfolio influence scaling wide strategy significantly. MFIs which operate with more number of branches and staff and give more amounts of loans to customers tend to widen their business operations to wide geographical areas. Non-financial services provision affect scaling deep strategy of MFIs. MFIs which provide various non-financial services, such as-education services, training, programs to empower women, adopt scaling deep strategy to root out a typical social problem of the targeted customer group. These different factors and their impact should be analyzed properly by MFIs before selecting a scaling strategy. Proper understanding of the influence of individual factors can help these institutions to design suitable strategies for strengthening their social performance standard. This study adds to the existing literature by focusing on different MFI specific internal factors which can affect scaling strategy decision of MFIs. The study will be beneficial to MFIs in knowing the factors to be considered while selecting a scaling strategy to enhance social impact. Policymakers can consider the factors for designing suitable policies to ensure maximum benefits from the activities of these social enterprises.

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