

Financial Social Innovation to Engage the Economically Marginalized: *Insights from an Indian Case Study*

Abstract

New sources of finance within the label of 'impact investing' have emerged as mechanisms to promote entrepreneurship within marginalized communities. Different vehicles for impact investment have emerged over the years; however, our understanding around their emergence, configuration and adoption is limited. Hence, the main purpose in this research is to study the role of the contextual drivers and conditions that gave rise to a unique form of impact investment in India, a financial social innovation – Developmental Venture Capital (DVC). Through the lens of capital theories, insights from the case of India's largest and oldest DVC firm along with three of its most prominent investees are presented. Findings highlight that the social entrepreneurs behind the case DVC wholly re-conceptualized silicon valley-style venture capital financing to suit small brick and mortar investments in rural India, developed mechanisms for deploying funding frugally, and created partnerships of equals between themselves and their investees. Investee founders leveraged human and social capital throughout the social innovation process via deep immersion in the socio-cultural milieu of India.

Keywords: social innovation, social impact investment, social enterprise, rural, India

1.0 Introduction

Social innovations are viewed as innovative solutions to pressing social problems that create employment, new industries and business models (Bhatt *et al.*, 2016; Rivera-Santos *et al.*, 2012; Phills *et al.*, 2008; Alvord *et al.*, 2004). A majority of social innovations are introduced by social entrepreneurs with capabilities and access to resources that traditional ventures find difficult to acquire. The literature is replete with examples of entrepreneurial change agents who transformed societies with new concepts (Mumford, 2002). The micro-credit concept introduced by Bangladesh's Nobel Peace Prize winning social entrepreneur Prof. Mohammad Yunus has been classed as a social innovation. It enabled millions of poor to access funding for setting up microenterprises (Bernasek and Stanfield, 1997; Bornstein, 1996).

There is wide spread recognition of the positive impact social innovations backed by social enterprises have on economic systems (Harding, 2004; Neck *et al.*, 2009). However, initiatives are often constrained in terms of social, financial and human capital – particularly access to finance (Alvord *et al.*, 2004). A growing body of literature has examined new funding sources for social innovation and enterprises operating in marginalized communities. Such sources fall under the rubric of 'impact investments' but also called social investments, social finance, social impact investments, socially responsible investing, social impact bonds, development impact bonds, venture philanthropy and developmental venture capital (Höchstädter and Scheck, 2015; Geobey *et al.*, 2012; Moore *et al.*, 2012a). There is considerable interest in this area and a growing range of actors are becoming involved to form an ecosystem of social ventures, intermediaries and investors – all committed to addressing social needs (OECD, 2015).

A review of research in the area highlights that most papers discuss western or developed country-based impact investment models, methods and cases. Research on impact investment and its interplay with social innovation and enterprise in developing countries is scarce. Scholars acknowledge that patterns, norms and drivers of social innovation and entrepreneurship in the

developing world differs from the developed world (Rivera-Santos *et al.*, 2015) and there is a need for more comparative research to expand our understanding of social innovation in different national settings (Chell *et al.*, 2010). From the viewpoint of developing countries, where extreme socio-economic inequalities exist, there is little knowledge on the emergence of different forms of impact investment mechanisms. The role of cultural norms, religion and social hierarchy often have a powerful influence on dictating patterns of daily life in developing countries, including enterprise start-up and doing business. Further, attitudinal inadequacies such as risk aversion, passivity and over-reliance on the public sector have also been reported (Kasabov, 2016). A careful consideration of these aspects is then needed when trying to understand the role of impact investment in the mobilization of social innovations in developing countries.

The empirical setting chosen for this research is India, a developing country where societal problems arising out of extreme poverty, corruption violence, illiteracy and lack of access to basic facilities are greatly pronounced (Heston and Kumar, 2008; Lingaraj and Kumar, 1983). Despite a number of useful initiatives led by the government and multi-lateral funding agencies, a serious gap in financing for social innovation and entrepreneurship exists (Sonne, 2012). Hence, a demand-side pull effect has resulted, leading to the emergence of numerous ingenuitive financing mechanisms (Sonne, 2012; Mair & Marti, 2006; Nicholls & Cho, 2006) such as developmental venture capital (DVC) – an impact investment vehicle.

This research builds on McKeever *et al.*'s., (2014) work. They suggest that social capital enables and encourages entrepreneurs to share entrepreneurial expertise. Sharing of entrepreneurial expertise between the funding body and recipients and amongst the funded social enterprises forms the basis of DVC – the focal impact investment vehicle in this research. A theoretical advance is made by incorporating human and financial capital with the social capital body-of-knowledge, to explore the conditions that led to the emergence of a world-class DVC fund in India. The research highlights the role of human, social and financial capital in the development of social innovations and enterprises

funded by the focal DVC. Analytical contributions are based on an in-depth case study of a DVC fund - Aavishkaar, based in Mumbai, India and three of its investees. Aavishkaar is one of the world's first DVC funds and as per their 2016 Impact report US\$201 million worth of investments in social enterprises developing social innovations across 8 sectors were made. Such investments had an estimated 56,086,800 beneficiaries in rural and semi-urban India. Aavishkar investments to-date have resulted in the creation of 35,000 jobs and in the last two years, and US\$49.1 million in income has been generated for marginalized households (Aavishkaar, 2016).

An exploratory case study approach informs the methodological framework. Accounts from the DVC's management and social entrepreneurs funded are analysed; these provide the contextual detail to highlight the manner in which different forms of capital (financial, social and human) contributed to the development and scaling of social innovations by DVC funded social enterprises in India.

The paper is structured as follows; first, we discuss current debates on social innovation, capital enablers and constraints in social entrepreneurship and impact investment mechanisms as an alternate source of finance. The research methodology is presented next followed by prominent themes that resulted from the data analysis. In the discussion, two major contributions of the research are highlighted and finally the conclusion presents implications of the research and its limitations.

2.0 Background Literature

2.1 The Social Innovation Process

The social innovation view places emphasis on the social entrepreneur as change agents altering systems for the provision of public goods and services (Nicholls, 2010a). Such activity requires effort and the channelling of financial resources towards ambiguous scenarios, making traditional return on investment (RoI) calculations difficult to compute. Ambiguity around RoI often impedes social entrepreneurs from accessing traditional sources of funding such as venture capital (Lumpkin *et al.* 2013; Nicholls 2010b). Instead they need to garner support from a range of stakeholders outside traditional financial institutions (Austin *et al.*, 2006; Nicholls and Cho, 2006).

Social innovations are shaped and influenced by historical, cultural and organisational contexts (Newth & Woods, 2014; Kistruck & Beamish, 2010; Desa and Basu, 2013). They may be resisted and refined by contextual forces and the expectations of various stakeholders (Newth and Woods, 2014). The social innovation process is often triggered by 'problem identification' which is based on the unique life experiences of creative social entrepreneurs (Mumford, 2002; Policastro and Gardner, 1999). The conjectured solution to the 'problem', usually a social need or a novel concept, is often incomplete. Given the complexity of social settings, this spurs further technical and social development. Eventually making the process long drawn, dynamic and iterative (Mumford, 2002).

From a process standpoint, there are a few useful parallels between commercial innovation and social innovation. Van de Ven *et al.*'s (2008) work on innovation in commercial settings highlights that the innovation process consists of three phases: initiation, development and implementation. In the social entrepreneurship literature, scholars commonly use the term scaling to refer to implementation (example: Austin *et al.*, 2006; Guclu *et al.*, 2002). This is because it is common practice in social enterprises to adopt inorganic growth strategies to diffuse (or implement) a new idea through collaborations and alliances. Unlike conventional entrepreneurs, the social entrepreneur is

driven by motives to create some form of social value (Austin *et al.*, 2006; Chell *et al.*, 2010) and that a particular segment of society (end users) can be identified as target beneficiaries of the innovation (Tan *et al.*, 2005).

Considering the implications of the above, it is suggested that Van de Ven *et al.*'s (2008) three phases of the commercial innovation process: initiation, development and implementation, if modified to: initiation, development and scaling – would come to represent the social innovation process. To elaborate, during the 'initiation' period, a solution for an unmet social need is conjectured by the social entrepreneur through experimentation and refinement of ideas (Corner and Ho, 2010). The 'developmental' period involves activities that help crystallise this novel idea, such as creating a social mission, registering a new venture, mobilising resources (Guclu *et al.*, 2002). Finally, during the 'scaling' period, the new idea is diffused through expansion or collaboration (Austin *et al.*, 2006).

Through the process of innovative resource combinations, the social entrepreneur transforms existing resources (different forms of capital) into value, both economic and social (Dorado, 2006). The next section outlines how different forms of capital constrain or enable the development of social innovations.

2.2 Capital Enablers and Constraints of Social Entrepreneurship

Lehner (2014) suggests that when new social enterprises attempt to acquire and/or generate different forms of capital, the often-reliable enterprise start-up stages of opportunity recognition, formation and exploitation, cannot be easily distinguished as separate processes. The informal exchange of ideas between the funders and the entrepreneur leads to the formation of norm-value pairs. This then facilitates the transformation of the acquired and/or generated forms of capital into economic value. To undertake such exchange requires social entrepreneurial passion from the focal entrepreneur, which is characteristically unique in that it is characterised by enthusiasm and excitement and a desire to

make a mark (Yitshaki and Kropp, 2016). Hence, a central focus is placed on the social entrepreneur, the change enacting agent. The social entrepreneur innovates, transforms and combines existing resources (different forms of capital) into value, both economic and social (Dorado, 2006). Each new resource combination can consist of three forms of capital: financial, human and social. These forms of capital have a prominent role in the social innovation process. Discussed below are the roles of human, social and financial capital in the social innovation process enacted by social entrepreneurs.

2.2.1 Human capital

The human capital of the founder entrepreneur(s) is regarded as a key input in entrepreneurial innovation (Bruderl and Preisendorfer, 2000; Westhead & Cowling, 1995). Studies conducted in commercial enterprises suggest that a high level of human capital is associated with high levels of innovation output. (Pittaway *et al.*, 2004; Bianchi, 2001). In the case of social enterprises, the human capital of the founder social entrepreneur is considered crucial for the initiation and development of social innovations. Scholars have long argued that social entrepreneurs are innovators with exceptional creativity and leadership skills (Prabhu, 1999; Zahra *et al.*, 2009). Therefore, they are able to use unique cognitive processes and leadership expertise to identify social restrictions on potential solutions. Further, they are also able to analyse downstream consequences of social implementation as they generate, revise and develop new ideas.

Education prestige and prior management experience of the founder social entrepreneur are seen as a positive influence on venture performance (Miller and Wesley, 2010). This is because application of business knowledge and skills (Dees, 1998; Leadbeater, 1997) and strategic use of resources (Mair and Marti, 2006; Dees, 1998) is critical when providing solutions to societal problems through social entrepreneurial initiatives. Thus, entrepreneurs with

strong performance measurement projections (that are part of the business plan) are able to garner more support from funders (Mair and Marti, 2006).

The development and scaling of a social innovation requires strategic investment in human capital within a social enterprise (Kong, 2007). However, recruiting individuals with desirable skills and knowledge (or high levels of human capital) is expensive and social enterprises are rarely able to pay market-rate compensation (Oster, 1995). Then, there is reliance on volunteers to fill key functions such as board members, fundraisers or as staff to deliver services on the ground (Dorado, 2006). This creates challenges for the social enterprise's management when looking to encourage innovative behaviour.

2.2.2 Social capital

Social capital comprises the bonds, bridges and linkages that hold together societal members (Richards and Reed, 2015). In this manner, social capital is more important than both financial and human capital, because social relationships constitute a form of capital that may be transformed into other forms of capital. In fact, the creation of social capital is one of the key goals of social entrepreneurship. The created social capital brings innovation to social settings, especially in resource constrained environments of inner cities and developing countries (Dufays and Huybrechts, 2014).

A community's social capital is also a key resource that social entrepreneurs can deploy in the new venture creation process (Haugh, 2007; Thompson, 2002). Successful social entrepreneurs use their social networks to initiate social change and galvanise support for their mission (Alvord *et al.*, 2004). For instance, Alvord *et al.*, (2004) found that social enterprises tend to heavily rely on pre-existing community assets (community's social capital) in the development of core innovations. The use of the community's social assets means that relatively small investments (financial capital) could be used to bring about large-scale changes.

McKeever *et al.* (2014) suggested that research on social capital has mainly

focused on the measurement of the structural, relational and cognitive dimensions of the concept. Measurements, though useful, are unfortunately unable to explain how social capital, as a relational artefact and connecting mechanism, actually works in practice. To understand social entrepreneurship through the lens of social capital, it would be important to study the phenomenon as socially situated and influenced practice. The context then, within which entrepreneurs are embedded, must become a central focus of research.

2.2.3 Financial Capital

Social entrepreneurs involved in the initiation and development of social innovations recurrently report a lack of finance (Moore *et al.*, 2012a & 2012b). In general, mainstream financial institutions are reluctant to finance start up social enterprises owing to the heightened risks associated with assessing both social and economic potential (Austin *et al.*, 2006). New funding sources such as impact investments, venture philanthropy or developmental venture capital are few in number and fund ventures aligned to their objectives only (Hockerts, 2006; Pepin, 2005).

Given the above limitations, in the initiation phase of the social innovation process, the social entrepreneur requires unusual creativity in generating finance (Mumford, 2002). Research in this area suggests that social ventures often deploy innovative financing strategies such as 'bricolage' (Desa & Basu, 2013) or 'making do by applying combinations of resources at hand' (Baker and Nelson, 2005. pg. 33). In a developing country like India, it would be reasonable to assume that innovative modes of financing would be needed much more than developed countries as social enterprises face environments that are resource scarce (Collier, 2007; Seelos and Mair, 2005; Zahra *et al.*, 2009) or where financial institutions are either entirely absent or very weak (Kistruck *et al.*, 2010; Mair and Marti, 2009).

A final element to consider is the impact of financier expectations on particular social enterprises' strategy. According to Achleitner *et al.* (2014), the multi-

dimensional return requirements of social enterprise financiers could lead to a concentration of the funding structure. This may trigger a change of the social enterprise's business strategy to better reflect the expectations and interests of the financiers. Hence, finding financing that does not require such alterations remains challenging for social entrepreneurs.

2.3 Role of Impact Investing in Financing Social Innovations

It has been widely reported that mainstream financial institutions tend to marginalize social entrepreneurs and beneficiaries of social innovations. This is due to perceptions of higher risks associated with returns on social investment (Moore *et al.*, 2012a and b). In comparison, high-growth new ventures in commercial settings developing technological innovations have much better levels of access to equity financing from venture capitalists and other financiers (Ferrary and Granovetter, 2009).

The persisting financing gap for social enterprises is slowly being remedied by the rapidly developing 'impact investing' community. Impact investments intentionally target ventures that have a specific social and/or environmental objective along with a business model that can generate financial returns (OECD, 2015; G8 Social Impact Investment Taskforce, 2014; Moore *et al.*, 2012 a & b). The sector is quite diversified with a range of prevalent models (Höchstädter and Scheck, 2015; Cohen and Sahlman, 2013). An emphasis is placed on non-financial impact - which must not be merely intentional (Brown and Swersky 2012, pg. 3) and 'measurable' (O'Donohoe *et al.*, 2010). There appears to be no limitation regarding types of mechanisms or instruments available for impact Investing. It occurs across various asset classes including debt, equity, guarantees and deposits, and newer structures such as social impact bonds (Höchstädter and Scheck, 2015; O'Donohoe *et al.*, 2010).

Impact financing's boundaries overlap with the broad and more established field of 'Social Return on Investment' (SRI); and on a general level, their definitions do not differ drastically. SRI is often defined as the integration of certain non-financial concerns, such as ethical, social or environmental, into

the investment process (Sandberg *et al.*, 2009). This would be similar to impact investment - which involves the provision of financial resources for a return with an aim to generate a social and environmental impact (GIIN 2013; Louche *et al.*, 2012). Impact investing can, therefore, be considered an SRI strategy but with two differences. First, the 'nature and size of investments' – while SRI funds would traditionally focus on large corporations (Chua *et al.*, 2011), a typical impact investment structure would target small enterprises (Fleming, 2012). The second difference is the 'expected level of financial return' - SRI investors would expect near commercial returns, impact investors on the other hand aim for a low financial return to offset inflation effects (Ashta, 2012).

According to Höchstädter & Scheck (2015), the one area where there is a distinct lack of conceptual clarity relates to the characteristics required of an impact investee. Should impact investees be only 'social sector organizations' or any corporation that defines its mission in social or environmental terms? Are social projects of entirely commercial companies suitable for impact investment? Thus, whether a financial product should be considered an impact investment or not would be largely subjective and lacking in empirical value (Benijts, 2010).

2.4 Developmental Venture Capital as an Impact Investment Vehicle

An up and coming vehicle to deliver impact investment, developmental venture capital (DVC), has started to gain the attention of policy makers and researchers alike (SIIT, 2014). An example would be the Acumen Fund that aims to solve problems of global poverty through equity investments in India, Pakistan and Africa (Acumen, 2015).

DVCs and traditional venture capital have a number of important differences (Höchstädter and Scheck 2015). DVCs' work is more complex as social dimensions need to be valued. Further, transaction costs are higher due to fragmented demand and supply and the complexity of deal structuring (SIIT, 2014; Geobey *et al.*, 2012). DVCs specifically finance social enterprises aligned to their social objectives (Hockerts, 2006), and invest in sectors

ranging from healthcare to environmental start-ups. Average investments range between \$1 Million in the USA (Miller and Wesley, 2010) and Euro 1 million in Europe (Randjelovic *et al.*, 2003). These investments are generally medium term, lasting 3 to 5 years with fewer exit opportunities in comparison to mainstream VC investments (Miller and Wesley, 2010).

DVCs, however, do share a number of similarities with their commercial counterparts. Social entrepreneurs can access equity finance in the early stages of a venture in exchange for involvement of the DVC in its operations (Pepin, 2005). DVCs provide value addition in the form of non-financial support such as consultancy and access to networks to support social ventures (Ingstad *et al.*, 2014). Like VCs, DVCs seek ventures with high growth prospects, demanding economic returns between 21-35% for their investments (Miller and Wesley, 2010).

DVCs encounter unique challenges in funding and supporting social enterprises; from deal sourcing, relationship building, screening and information gathering, co-creation, early decision-making, circular reasoning, deal structuring, post-investment after care, disengagement and return (Gordon, 2014). There is limited deal flow and their funding decisions are more complex given the dual identity of social ventures (Sonne, 2012; Pepin, 2005).

If Höchstädter and Scheck's (2015) arguments are considered, then labelling DVC as an impact investment vehicle would be a matter of normative judgment. In other words, the 'social' in DVCs' investment decisions would need to be judged and as to who ought to be eligible for investment (Santos, 2012). It is suggested that a more fruitful direction for further research would be to consider the practical perspective; specifically, the specific manner in which DVCs help social ventures develop social innovations.

3.0 Methodology

The aim in this research is to explore the role of human, social and financial capital in the development of social innovations and social enterprises funded by DVCs. Considering this aim an exploratory research strategy was adopted within a qualitative case study research design. An interpretivist basis is appropriate as it recognizes that research is value laden and relies on the subjective experiences, beliefs and values of the individuals involved (Darke *et al.*, 1998; Robson, 2002). The diversity in experiences is especially relevant for investigating the topics of social innovation and social enterprises as such phenomena are characterized by multiple stakeholder involvement (Dorado, 2006; Austin *et al.*, 2006).

The choice of deploying an exploratory case study was based on three reasons: first, it is preferred for research in areas where theory is in its early and formative stages (Eisenhardt, 1989; Benbasat *et al.*, 1987; Eisenhardt and Graebner, 2007) as is true for the areas of social innovation, social enterprises and DVCs. Second, it would enable the examination of a social phenomenon, in its natural and everyday context and through the views of multiple stakeholders (Yin, 1981a, 1981b; Feagin *et al.*, 1991). Third, multiple data sources can be usefully integrated such as semi-structured interviews and observations alongside secondary data (Yin, 2003). This makes the exploratory case study attractive for small sample studies, such as this research, where the complexity of the unit is studied intensively.

Fieldwork took place in India at Aavishkaar – a DVC based in Mumbai, India. Aavishkaar represented an exemplar DVC whose founder was awarded the Ashoka Fellowship for innovativeness by the global social venture network - Ashoka (Ashoka, 2015). On receipt of consent, the founder as organisational gatekeeper, provided a list of potential investee participants. Sub-case selection was informed by theoretical sampling (Eisenhardt and Graebner, 2007). As a result, three sub-cases of social enterprises were selected which provided useful illustrations of the type of social enterprises and innovations Aavishkar funded. The chosen cases were vetted by the founder as

representing diverse sectors and at different stages in the funding cycle. These included SKEPL (dairy sector), Rangasutra (Handicrafts) and Swas Healthcare.

SKEPL was selected as it represented a well developed rural innovation that had received funding from Aavishkaar in 2003 and by 2009 was a successful social enterprise founded by an entrepreneurial team (SKEPL 2015). Rangasutra was selected as it was in the growth stage and represented an exemplar in the handicrafts sector. It had received funding in 2007, its founder was a female and by 2009 it supported over 1000 rural artisans in remote areas of India (Rangasutra, 2015). Finally, Swas Healthcare, which was in its initial developmental stage, received funding from Aavishkaar in 2009 which it used to setup a chain of naturopathy clinics across Gujarat, Rajkot, Surat and Baroda (SWAS, 2015).

The primary data source consisted of 10 in depth semi-structured interviews with members of Aavishkaar's management team as well as with the investee social entrepreneurs. The interviews lasted between 1 to 1.5 hours, were tape recorded and transcribed. An overview of participating interviewees is presented in Table 1 below.

- INSERT TABLE 1 HERE -

A variety of documents were also analyzed throughout the research process. These included customer or investor surveys, newspaper articles, corporate videos, published teaching case studies, practitioner reports, leaflets, brochures, in house newsletters and annual financial reports. Whenever possible, direct observations were used to supplement and triangulate interview data. The first author observed a number of meetings between managers, which gave good insight into the decision making practices at the organization. Observations were primarily aimed at providing further contextual information for the semi-structured interviews.

Eisenhardt & Graebner (2007) suggest that theory building from qualitative research is an inductive process. The focus was to extract meaning from complex qualitative data emerging from the 10 in-depth interviews. This was done through the development of summary themes, patterns or categories from raw data through a process of data reduction. Here the qualitative data analysis rules recommended by Miles & Huberman (1994) were followed. These authors point out that careful descriptions of events, people and settings is one of the most important contributions of qualitative research. This requires an interpretive and analytic effort to illuminate the constant, influential and determining events which shape the course of events. Hence, data analysis was a formalized yet creative process (Miles & Huberman, 1994). Hence, interview data was analyzed to discover the manner in which human, financial and social capitals were accumulated and deployed for the creation and growth of subject social enterprises. Emanating findings helped in tracing the evolution of the social innovation process deployed by each sub-case organization.

4.0 Findings

Findings from the research are discussed under the following themes in line with the capital theories-based framework adopted in this research.

4.1 The Important Role of the Founder's Human Capital

Vineet, Aavishkaar's founder worked previously as the CEO of a Gujarat Government initiative in India: Gujarat Grassroots Innovation Augmentation Network (GIAN), which funded traditional knowledge innovations. GIAN's mission was deeply rooted in South Asia's cultural heritage. They funded novel solutions based on 'traditional' heritage-based knowledge of India's diverse multicultural rural and grassroots communities. Such knowledge includes artisan skills like embroidery for women and carpentry or blacksmith for men, as well as traditional farming methods. In 1999, when GIAN made its first investment, Vineet discovered that high growth rural enterprises were financially excluded when compared to high growth technology based firms in urban India. Vineet explains how he discovered the market gap:

"While working for GIAN, I interacted with several entrepreneurs in rural Gujarat. The interaction made me realize that most rural enterprises with innovative ideas and potential for rapid growth lacked access to risk capital."

Over time, Vineet realised that the institutional boundaries of GIAN were stifling and that there was a social entrepreneurial opportunity to provide equity finance to high growth rural enterprises. He believed that such a provision would be similar to that of Venture Capitalists funding high growth technological ventures. He left GIAN and began setting up the new venture:

"I left GIAN and short listed eight high potential rural enterprises that required additional capital. I then began searching for investors to back my idea by setting up a venture capital fund exclusively for such ventures."

However, at the time, the commercial venture capital Industry in India was itself just emerging and the total investments by them in high-technology firms stood at a meagre \$320 million (Nageswaran, 2003). Given the enormous size of the Indian ICT sector as well as other high growth technology based sectors like automotive parts and biotech, the spread of VC investment was quite thin.

However, Vineet was determined to bring to a new approach to rural finance in India, borrowing methods from traditional VC finance learnt from work experience prior to GIAN, and utilizing his training as an MBA and connections within investor networks. Vineet created a unique combination of ideas, resources, methods and technology to solve a pressing social problem with an innovative new business model.

The founders of the three investee sub-cases also experienced failed government initiatives for poverty alleviation and development. The founder of SKEPL, an accountant, witnessed severe inefficiencies and crippling corruption at producer cooperatives - a development initiative to tackle rural poverty which did not work in the complex socio-cultural context of India with powerful institutions such as organized religion and the system (Singh, 2012; Bennett, 1983). Rangasutra was founded by a social worker with prior experience in development initiatives of international NGOs. The founder questioned the efficacy of these projects in empowering marginalised communities which built a culture of dependency. The founders of Swas healthcare realised that healthcare provision in smaller towns and cities of India was wholly inadequate as government hospitals were ill equipped and poorly managed.

Founders' human capital played an important role in the start-up cycles of the three sub-cases. The founding team of SKEPL consisted of seven professionals - mostly urban residents with industry specific human capital ranging from accounting, IT to marketing. They conceptualised the need for an information management systems dubbed AMCS in the early 1990s for milk cooperatives in India. Ujval, one of the founders, with decades of work experience in sales and distribution recalls the ideation phase of the concept:

“I had gone to a village for a few days for my friend's marriage in the summer. On my daily morning walks, I noticed long winding queues of farmers and their families with large canisters of milk outside a local dairy which was just a basic shed. It was hot and humid and there was quite a commotion as the queue moved slowly down the dusty road I could see that some officials were measuring the milk using scales, others taking samples and some handing out plastic or paper tokens to the farmers after the milk collection...”

The system intended to introduce transparency between milk cooperatives' officials and rural semi-literate farmers. It would also enhance efficiency through seamless computerised operations. SKEPL's founders used their background, training and skillset to develop AMCS; integrating electronic weighing of milk with Quality testing equipment. Successful installation of AMCS at milk cooperatives required customisation and the founders' backgrounds and cultural understanding was essential for achieving this. Customization included developing content in local languages to cater to end users' multilingual requirements. Further, the system's design was greatly simplified considering the significant gaps in digital literacy of semi-literate farmers.

The cases of the founders of the second and third investees, Rangasutra and SWAS Healthcare, echoed Vineet's experience. In both instances, founders Sumita and Sanjay of Rangasutra and SWAS Healthcare respectively, conceived solutions for problems that poor and marginalized rural communities faced based on prior fieldwork and an extended immersion in the communities' lives. Sumita explains:

I had worked as a social worker for the past twenty years and I realised that the NGOs were unable to empower their target communities. I felt that they were building a culture of dependency by providing donations or grants. I strongly felt that there would be a better way of doing things and after talking to community representatives I realised that this could not lead to economic development of the locals. I intuitively felt that people needed to develop faith in their ability or skills to invest in their own future”.

Sumita's desire to help rural artisans combined with her human capital led to the launch of Rangasutra, a company whose mission is to empower artisans in rural communities. She explains how her long engagement with rural women and men made her recognise that their human capital (craftsmanship) had been passed from generation to generation:

“I saw that women artisans had skills their traditional crafts heritage such as intricate embroideries, applique work, weaving as well as tie and dyeing cloth using natural plant based dyes. These artisans belonged to rural communities and some of them had migrated from Pakistan during the war in 1971 and settled in parts of Rajasthan and Gujarat”

Sanjay, the founder of SWAS Healthcare, explained the manner in which he designed his venture. He aligned his “solution” with not only the healthcare requirements of poor rural communities where spending power is very low but also to culturally valued and sacred practices in rural India:

“In India healthcare provision in smaller cities and towns is quite limited...and government clinics and hospitals are quite ill equipped.Then,...long term health issues like diabetes, depression and so on are on the rise. Allopathy is not well suited for treatment of these chronic health conditions due to availability of proper advice and affordability. So we thought about ancient Indian treatments of Ayurveda and Yoga that could be affordable and suitable...”

A final notable point relates to levels of entrepreneurial activity within certain ethnic communities. Both SKEPL (in 2003) and Swas Healthcare (in 2010) were founded in the Western state of Gujarat in India. Entrepreneurship is deeply rooted in the social structure and cultural DNA of the Gujarati community and its business diaspora are present across the world from Hong Kong to USA. It is suggested that being a part of this ethnic community awarded Ujval and Sanjay with specific human capital that proved useful when starting enterprises within the socio-cultural milieu and norms of doing business in Gujarat.

4.2 Using Social Bricolage to Overcome Resource Constraints

The ability of Aavishkaar to tap into vast reserves of all the different forms of capital available with overseas Indian technocrats in Bangalore was a significant marker in their start-up success. A large number of these technocrats became business angels in Silicon Valley, developing extensive knowledge and innovation networks with academics and other supporting institutions such as venture capitalists. Towards the end of the 1990s, large numbers of them returned to India, seeking opportunities during the Y2K crises. Most of these technocrats chose to settle in Bangalore. The combination of available expertise, different forms of capital, network hubs such as the Indian Institute of Science and Indian Institute of Management, and favourable socio-economic conditions led to Bangalore becoming the Silicon Valley of India. Consequently, most of the commercial venture capitalists at the time were also geographically concentrated in Bangalore.

In the late 1990s, VC firms in India were making deals of a minimum size of \$1 million. Whereas, high growth rural enterprises needed financing in the region of \$30,000 - \$50,000 only. Their requirements could also not be met by the emerging Indian Microfinance sector. Microfinance catered to a maximum loan size of \$10 - \$15,000. Hence, what was needed was a mid-range financial provision and this was the niche Vineet identified for a new concept - micro-venture capital for rural enterprises. However, the timing was not right and Vineet had no prior entrepreneurial experience and so began his long arduous entrepreneurial journey of developing networks and convincing Bangalore-based overseas Indian technocrats to invest in his concept. He reflects:

“I had no money, no entrepreneurial experience and had never worked in the VC industry. I was also not well connected and being a young graduate, I faced major challenges. I struggled for five years without any salary. I continued to work hard. I guess my persistence made people start believing in me.....In the initial years we made little progress. It was an uphill task. It is right to say that Aavishkaar is born out of sweat and blood – a lot of hardship.”

All three founders of the investee social enterprises deployed social bricolage. Bricolage describes a particular way of acting as ‘doing things with whatever is at hand’ (Levi-Strauss 1967: 17). Bricolage has been used to characterize organizational practices related to improvisation in an entrepreneurial setting. In the face of resource-constraints, entrepreneurial activity relies on bricolage in the social construction of resource environments, and in the rejection of institutional constraints (Baker and Nelson 2005).

To illustrate, the founder of SKEPL explained that it operated under the brand name of AkashgangaTM. The brand name *Akashganga* in most Indian languages stands for the ‘milky way’, a name quite apt given that SKEPL’s registered office in Vidya Nagar lies on the outskirts of Anand, India’s milk city. This city is globally recognised as the centre of India’s white revolution (wherein *white* refers to India’s dairy revolution post-independence). The dairy industry in India is largely organised in the form of milk cooperatives. Member farmers with their small, family based holdings reside in villages outside urban locations. The cooperatives collect milk from their member farmers every day. After quality checks, the collected milk is pasteurised and packaged in the

cooperative's factories. This milk is then sold through an extensive distribution network onto retailers in cities. The cooperative distributes the sales proceeds to the farmers as per standardised rates and after deductions.

The founder of SKEPL used social bricolage and accessed the knowledge and social networks of the dairy co-operatives for ideation, development and the scaling their concept. This would not have been possible without a deep and extended immersion in the life-world of milk production in India. Ujval explains in the quote below:

"We wanted to understand the operations and how the Indian dairy industry was formed...we met with dairy officials and farmers over a long period of time....slowly their feedback helped us to trial and modify hardware and develop new software...it was slow and we did it ourselves"

Like SKEPL, Sumita of Rangasutra also used social bricolage and built networks to organise rural artisans and form a workers cooperative. She set up Rangasutra with a mission to empower artisan communities. Skills training was provided through collaboration with educational institutions like the Handloom School, Maheshwar and the Miller Centre for Social Entrepreneurs. Sumita explains the business model of Rangasutra below:

"We have a centralised marketing team of designers and marketers in our Mehrauli office in New Delhi. They combine traditional skills of these artisans with contemporary designs producing apparel, soft furnishings and so on The central team coordinates and supervises the production, interacting with the producer groups and our suppliers and our retailers....Rangasutra is a registered workers cooperative and artisans are represented on the board, attend our annual general meetings-we currently have over 1000 members"

Over seventy percent of Rangasutra's artisan owner-workers are women and self-employment has empowered them economically and within their family units. They now send their daughters to school and motivate other women to join the cooperative. Following equity investments by Aavishkaar in 2007, Rangasutra has received funding from EXIM bank of India-the exporters' bank, The World Bank and the Asian Development Bank. Thus, a network of financial institutions fund these self-help groups. Products of Rangasutra are marketed through large retailers like the International brand IKEA and the Indian FabIndia.

A notable role is played by Aavishkaar in building social capital within their investee teams. Lindsay explained how external social capital is built by providing client social entrepreneurs with regular newsletters and through social media:

“We have conducted an event in Africa. We have started a Wiki page for the company to document the work of our team this information is accessible to everyone. We have grown to 3000 subscribers in three months...”

Lindsay described the manner in which entrepreneurial behaviour through team working and cross collaboration was encouraged within Aavishkaar and its investees:

“I encourage and motivate staff to work in teams...For example recently one of our associates, Sanjay came up with the idea for a special supplement of the best articles of 2008. We conduct weekly team meeting to exchange ideas. Every two weeks we hold brainstorming sessions....the person with a new idea gets to lead it and develop it. We provide resources to the person. Even at the interview stage, we try to recruit people who have creative ideas. We are an entrepreneurial company and failures are not faulted”

Therefore, through the building of social relationships, not only did Aavishkaar investees gain the necessary social capital reserves needed for deploying social innovation, they also found new investment opportunities. Priyank, an investment manager at Aavishkaar illustrates:

“I have learnt a lot about entrepreneurship through my interaction with companies. I have also learnt to interact with customers and learnt a lot about business systems. I was the fourth person to join Aavishkar along with the CEO and the Trustee I attended quarterly review meeting. This helped me to learnt a lot about risks and investments. I figured out the reasons for challenges. The fifteen promoters (entrepreneurs) that we have invested in from arrange of sectors are part of my network. I have also established networks with the MF (Micro Financial Industry).

4.3 Accessing Financial Capital Within a Backdrop of Financial Exclusion

Case data analysis shows that Aavishkaar and its three-investee social enterprises encountered seemingly insurmountable difficulties in accessing financial capital. This may have been due to the nascency of financial capital markets in India during the decade leading up to 2010. It is worth noting that though Aavishkaar was based in Mumbai-the financial capital of India, Vineet faced challenges in raising finance as he recalls:

“There were several barriers. There was no ecosystem in rural India that could support Aavishkaar, we had to educate the entrepreneur about the benefits of venture capital. At that time, the concept of venture capital in India was still emerging. Moreover, we were targeting a new segment, the rural VC that was an untapped market both in India and the world”.

He further elaborates how these barriers translated into financial constraints:

“In 2002, we registered the Aavishkaar India micro-venture fund with SEBI. We also set up a Singapore Arm, to raise funds from socially conscious investors who were looking to make a difference in India. We started with only \$200,000 instead of the estimated \$2 million needed for a profitable business model. This meant that our staff was overburdened and under-funded investments slowed our growth”

The massive shortfall in funds created bottlenecks during the developmental phase of Aavishkaar. Its founders and senior management adopted financial prudence and frugal practices to overcome limitations imposed by limited funds. Such meticulous financial management practices were apparent in this extract from an interview with Prashant, an investment manager at Aavishkaar:

“Running operations with a small amount of capital made us develop a more disciplined approach to investments with rigorous due diligence and strong investee accountability”

The three-investee social enterprises funded by Aavishkaar also reported financial constraints across geographies. SKEPL in the Indian state of Gujarat, which was the second investment made by Aavishkaar is a pioneering social enterprise that has developed affordable, contextualised, innovative and integrated automated dairy systems for dairy cooperatives in India. Ujval its co-founder reported that lack of access to finance in this quote:

“The initial capital for the company was INR 5 Lakhs invested by the seven co-founders. We took no loans and reinvested our profits in the enterprise”

In response to probing questions, Ujval elaborated further, how lack of finance created further problems as best illustrated in this quote:

“For us the biggest challenge is to find skilled human resources. It is difficult to find people who will work with you. We faced a major challenge in recruiting people in the rural area who could perform as we wish them to finally be decided to recruit unemployed people both graduate and non-graduate and trained them in the field for 5-6 days and in the office for 1-2 days”.

Sumita, the founder of Rangasutra, also expressed the struggles she went through in raising finance:

“I felt that there must be a new way of doing things so I decided to set up an enterprise in 2004. I then began looking for investors and like-minded people to invest in my enterprise. Banks I approached were not interested to fund my idea. Friends and family also showed low interest. So, I put in my own money.”

Finally, Sanjay a co-founder in Swas Healthcare that claims to be India’s first chain of naturopathy and other alternative medicine based services in smaller cities of India detailed his struggles with raising finance:

“We started three years ago in 2006. When we initially approached Aavishkaar, we were unsuccessful as our operations were small. We found it difficult to raise finance during those years so our growth was slow. Then, later in 2009, Aavishkaar provided us with seed capital which turned the business around.”

The recurrent theme of ‘financial exclusion’ across the main and sub-cases of social enterprises spans both geographies and time. Lack of formal financial institutions created a context quite different from the Western model of DVC. It would be reasonable to suggest that Indian government and international development agency-led financing programmes failed to address the start-up needs of the social enterprises who participated in this research. Researchers argue that such programmes lack contextual understanding. Further, their motives are patronage under the umbrella of human rights rather than empowerment (Waghmore, 2012; De and Berner, 2009).

Thus, the sub-cases examined in this study were driven to success by entrepreneurial zeal present within the founders’ stock of human capital; with Aavishkaar enabling them with the necessary financial capital and helping them create new social capital. Major contributions of the research and their implications are discussed next.

5.0 Discussion

Aavishkaar's social innovation – DVC - overcame various obstacles owing to the unique combination of 'capitals' that it was able to generate, overcoming numerous socio-economic hurdles, all within the unique cultural setting of India. Findings indicate that, operationally, the phenomenon of DVC in India is organized somewhat differently when compared to developed economies. Major contributions and such differences are highlighted in the sections below:

5.1 Emergence in a Unique Socio-Economic and Cultural Landscape

Previous researchers have suggested that countries differ significantly with regard to location-specific contexts in which they are embedded (Aslesen & Harirchi, 2015). Embeddedness in a developed or emerging country context can affect the likelihood of building local and global linkages and accruing other locational benefits. Entrepreneurial activities are strongly influenced by the context in which they occur and different contexts enable entrepreneurs to create opportunities. For instance, rural entrepreneurs mix an intimate knowledge of and concern for the place with strategically built non-local networks. They seek to exhaust the localized resource base before seeking out non-local resources (Korsgaard et al., 2015). Thus, it is important to explore how different forms of contexts are bridged in different settings to create opportunities.

The embeddedness of this research's participants in their Indian rural context led to the creation of their specific life-worlds, including their linkages, business models and scale and scope of provision. Social entrepreneurs took upon the challenge of filling gaps in services when top down and centrally planned initiatives launched by the Indian government and international development agencies failed (Jalali, 2008). Prior to embarking on their entrepreneurial journeys, social entrepreneur participants in this research experienced failed development initiatives in rural India leading to serious social problems of immense scale. They understood the nature of socio-economic and cultural

barriers to adoption such as the caste system, institutionalised corruption, violence, income inequality and the powerful hold of religious institutions in the day to day life of marginalised communities. There was a realisation that social systems could be altered by enhancing efficiencies through through ICT systems and by engaging beneficiaries as agents in their own empowerment process (Datta and Gailey, 2012). Hence, behind the success of DVCs like Aavishkaar in India is a serious attempt by social entrepreneurs to take over the provision of services usually reserved for state institutions.

Previous researchers have examined unique aspects of the Indian business culture and core values such as the importance of family (Banerjee, 2008), the adoption of a socially engaged approach than a narrow focus on shareholder value (Cappeli *et al.*, 2010; Gulati, 2010), and comfort with ambiguity and adaptability that enables entrepreneurial pathways to the micro and small business sectors (Borker, 2012). Another, equally important yet understudied aspect, is financial frugality and prudence, traits often, though somewhat erroneously, associated only with the large *Bania* caste or the business class in India. It was found that financial frugality formed an important corner stone of management within Aavishkar and its investee social enterprises. The founders practiced it as almost second nature and continued to even when their enterprises and social innovations had grown substantially and financial sustainability was no longer a pressing problem.

5.2 Alignment of DVC-Investee Social Visions

Prior research has examined integrated features of social movements contributing new insights to the theoretical and methodological discussions on social entrepreneurship's 'social' aspects. It has been found that social movements are strongly inclined towards social transformation, which within an organisational context has been referred to as 'social entrepreneurial movements' (Montessori, 2016). Aavishkaar's vision, "to catalyze equitable development globally by supporting entrepreneurial intervention", under which it provides risk capital support for rural social entrepreneurs can be seen as a mechanism to galvanize social entrepreneurial movements. With Aavishkaar's

support, SKEPL developed integrated dairy management systems for Indian farmer cooperatives that addressed social concerns around transparency, market manipulation and fair pricing; and, Rangasutra provided a platform to revive ancient artisan skills to address concerns around the decay of ancient Indian artisan skills.

Aavishkaar's ability to support the development of innovative solutions to address social concerns relied on its investment philosophy. The DVC-investee relationship was a rich and hands on 'partnership of equals'. Aavishkaar's mission of supporting social innovations was closely aligned with the missions of the investee social enterprises. At Aavishkaar and its three investees, the idea for a new venture was developed by founders through regular interaction with rural entrepreneurs. Social networks of the founder enabled collective action to raise financial capital. Social networks of investees were developed through frequent interaction during investment monitoring by the Aavishkaar team.

The above require a unique relationship dynamic to exist between Aavishkaar and its investees. Research highlighted that achieving this dynamic was not particularly difficult due to mutually shared visions, cultural experiences, a deep understanding of norms and values of rural and semi-urban India and, very importantly, trust. Research suggests that frequent interaction (Gulati, 1995; Tsai and Ghoshal, 1998) and open communication enhances trust (a form of social capital), which makes individuals more willing to share knowledge (Ring and Van de Ven, 1994; Uzzi, 1996). In the case of Aavishkaar, trust developed as its social objectives and those of its socially conscious overseas Indian technocrat investors came into alignment. Between Aavishkaar and its investees, trust emerged due to the development of a 'partnership of equals' where common values and a unique social vision to uplift marginalized communities were shared.

In contrast, research conducted on Western DVCs and social enterprises suggests that goal congruence between funding institution and the social

enterprise is difficult to achieve which has led to numerous failures such as that of the franchising model (Tracey and Jarvis, 2007).

5.3 Social Bricolage and the Success of Aavishkaar

Given the notion that social entrepreneurship in the developing world differs from the developed world (Rivera-Santos *et al.*, 2015), it would be reasonable to take on board the idea that the practice of social bricolage may also be equally varied. Thus, the significance of recognizing the influence of socially embedded informal institutions becomes important, since this allows us to consider differences across and within different developing world contexts (Holt and Littlewood, 2016).

Bricolage is common within poor communities where entrepreneurs amongst them employ diverse and innovative approaches, resorting to bricolage as an immediate means of mobilizing resources (Linna, 2013). Bricolage, as applied to entrepreneurship in the developing world, and social enterprises more specifically, is particularly applicable (Holt and Littlewood, 2016), and its evidence appears strongly in the case of Aavishkaar.

Aavishkaar's social innovation – DVC - developed under severe financial constraints. This meant that the founder, drawing on cultural roots and institutionalized norms, had to develop the venture through the creative re-combination of meagre resources in-hand. Aavishkar, like other entrepreneurial bricoleurs (Baker, 2007), refused to accept limits imposed by lack of resources. Resource constrained small firms are able to create 'something from nothing' through the exploitation of physical, social or institutional inputs that other firms reject or ignore (Baker and Nelson 2005). Within the scheme of bricolage categories such as network bricolage, institutional bricolage, collective bricolage and social bricolage – the deployment of social bricolage was found to be strongest at Aavishkar. Social bricolage demands active stakeholder participation and persuasion which is precisely what made Aavishkar's work effective (Di Domenico *et al.*, 2010).

6.0 Conclusion

In this paper, the case of a financial social innovation - a DVC that provides equity risk capital to high growth social enterprises within marginalised communities in India - was examined. Following an exploratory and interpretive approach, new insights were gained into social innovation and social enterprise creation within a developing country context. In doing so, the research responds to calls by Chell et al. (2010) in the special issue by Entrepreneurship and Regional Development for further research on social innovation and enterprises in different international contexts.

Findings illustrate the manner in which four social entrepreneurs launched enterprises after experiencing inefficiencies in development initiatives of the Indian government and international development agencies. Their understanding of the socio-economic and cultural aspects of India enabled them to find innovative and entrepreneurial solutions that challenged existing social systems and engaged marginalised communities in their empowerment. The financial, human and social constraints and the developed solutions and approaches to deal with such constraints were very much born out of the extreme environment of doing business in India.

Further research in the area should examine socio-cultural factors in other developing countries and attempt to link specific drivers that enable social entrepreneurs to enact the social innovation process. For policymakers and institutions looking to support social entrepreneurs, evidence from the study implies that there is need to develop a deeper understanding of the social and cultural drivers within which development initiatives develop.

A limitation of this study is that it focused on a single country - India. However, findings can provide the basis for developing general propositions to guide future researchers interested in studying drivers of social innovation and enterprise emergence in different socio-economic and cultural contexts. Another limitation, the purposeful selection of 'successful' investments made by a single DVC, is also acknowledged. Unfortunately, given the time and

resource constraints of the research this was unavoidable. Nevertheless, it is believed that such early stage theorisation is generally appropriate to guide future research, where findings could be refined and tested empirically using novel qualitative approaches or through large sample longitudinal studies using quantitative methods.

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Table 1 Overview of Interviewees

Note: interviewee names as actual

Interviewee	Role	Background	No of Interviews
Lindsay	Associate Vice President and Editor of <i>Beyond Profit</i> magazine at Aavishkaar & sister concern Intellectap	Female, American Age: 30-39 Business Strategist Decade of international experience in a range of advisory, research, forecasting and start up roles in intersection between commercial social responsibility initiatives and social change	1
Prashant	Investment manager at Aavishkaar	Male, Indian Age: 30-39 MBA	2
Vineet	CEO/co-founder of Aavishkaar	Male, Indian, Age: 40-49 Postgraduate Diploma in Forest Management from Indian Institute of Forest Management, Bhopal 18 years' experience in early stage investing and small business incubation and microfinance	2
Priyank	Investment manager at Aavishkaar	Male, Indian Age: 25-35 Chartered Financial Analyst	2
Ujval	Co-founder, SKEPL Brand Akashganga (One of 7 founders)	Male, Indian Age: 40-49, Commerce Graduate	1
Sumita	Founder and Managing Director, Rangasutra	Female, Indian, Age: 45-55 Degree in Economics from Mumbai University. Fulbright scholar in the United States, completed a Masters Degree in Conflict Resolution.	1
Sanjay	Co-founder, Swas Healthcare	Male, Indian Age: 40-49 MBA	1