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Institutional entrepreneurship and social innovation at the base of the pyramid: the case of M-Pesa in Kenya

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ABSTRACT
This paper explores the agency of multinational corporations that perform social innovation under conditions of institutional complexity and resource constraints. Insights are drawn from a case study of Vodafone Group Plc and Safaricom Kenya Ltd that engaged in mobile money innovation in Kenya. The paper identifies three types of institutional voids that entrepreneurs can exploit to implement a social innovation: market, policy and social voids. Legitimating the social innovation involves appealing to the instrumental needs of target users, early and sustained engagement with policy-makers and redefining meanings of both incumbent and new technologies. The paper argues that spanning institutional voids – which provide entrepreneurial opportunities – also provide contingent legitimation narratives that can be targeted at different audiences. By mobilising insights from institutional theory, this paper provides a fresh perspective of social innovation in a base of the pyramid context.

KEYWORDS
Institutional entrepreneurship; social innovation; institutional voids; legitimacy; base of the pyramid

JEL CODES
L52; M16; O320; O35

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1. Introduction

Despite massive investment to combat global poverty through government expenditure, foreign aid and private philanthropy, large segments of populations in developing countries continue to subsist on less than $2 a day. Academic interest in alternatives that use the market-based solutions to engage 'base of the pyramid' markets has increased in the recent past (Alvord, Brown, and Letts 2004; Dacin, Dacin, and Matear 2010; Mair and Martí 2006). Actors driven by this social mission may engage in social innovation which, according to Hämäläinen (2007), induces changes in a society's cultural, normative or regulative structures. Thus, such actors may be considered as institutional entrepreneurs as they mobilise resources to create divergent change to address social problems (Battilana, Leca, and Boxenbaum 2009). Within the institutional entrepreneurship literature, relatively low attention has been dedicated to understand efforts to provide solutions to social problems in 'institutionally complex' (Greif 2006; Mair, Marti, and Ventresca 2012) base of the pyramid

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(BOP) contexts where dynamics differ from industrialised contexts (Bruton 2010; Khoury and Prasad 2016; Margolis and Walsh 2003).

In the literature on entrepreneurship in emerging markets and BOP contexts, scholars have argued that institutional complexities and uncertainties create barriers for entrepreneurship (Khanna, Palepu, and Sinha 2005; London and Hart 2004; Meyer et al. 2009). However, there's an emerging stream of literature that shows that such complexities instead provide opportunities for entrepreneurship, while acknowledging that the exploitation of such opportunities is a demanding task that calls for social, political and cultural skills (Battilana, Leca, and Boxenbaum 2009; Khoury and Prasad 2016; Marti and Mair 2009; McKague, Zietsma, and Oliver 2015; Tracey and Phillips 2011). This paper contributes to the latter research stream, but rather than focusing on change processes led by NGOs and community-based organisations common in this literature, it focuses on change processes led by a multinational corporation (MNC).

Specifically, the study explores the managerial agency a MNC together with its local affiliate engaging in social innovation in a BOP context, concentrating on two phases of social innovation process as defined by Mulgan (2006): (1) when generating ideas by understanding needs and identifying potential solutions, and (2) when assessing, scaling up and diffusing good ideas. Insights are derived from the activities of Vodafone Group Plc and its affiliate Safaricom Kenya Ltd during the development and launch of M-Pesa, a mobile phone-based money transfer innovation. M-Pesa was launched in Kenya 2007 as an alternative to established commercial banking services with the view of providing formal financial services to 'the unbanked' population. Compared to similar innovations globally, deeper levels of financial inclusion in Kenya have been achieved through M-Pesa adoption. Analysis of this case provides a toolkit of strategies and actions that could be deployed by MNCs to promote institutional change in a BOP context, while mitigating the liability of newness associated with the introduction of innovative products.

With regard to the first phase where entrepreneurs focus on seeking opportunities by understanding needs and seeking solutions, the paper mobilises the notion of 'institutional voids' (Khanna and Palepu 2000) which according to Mair and Marti (2009) creates opportunity spaces for entrepreneurs to exercise managerial agency. Based on the two interpretations of institutional voids in previous literature, i.e. (1) the absence or weakness of formal market institutions (Khanna and Palepu 2000), and (2) gaps or spaces that occur at the interfaces between informal institutional spheres (Mair, Marti, and Ventresca 2012), the study identifies a market void and a social void that were exploited by Vodafone and Safaricom to launch M-Pesa in the Kenyan financial services sector. However, a third void was identified, one that did not fit with the definitions in previous literature because it occurred at the interface of two formal institutional spheres, i.e. a policy void between banking and telecommunications. Accordingly, the paper proposes the theoretical extension of the institutional voids construct, while illustrating how spanning voids afford both opportunity discovery and opportunity creation.

For the implementation phase of social innovation where good ideas are scaled up and diffused, the paper draws insights from the literature on institutional work (Lawrence and Suddaby 2006; Lawrence, Suddaby, and Leca 2011) and legitimacy (Suchman 1995) to explore the legitimacy-building strategies. The case shows that entrepreneurs employ different targeted strategies to convince different constituencies of the fitness of their new business model, organisational form or technology to existing norms, values, beliefs and

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definitions. The strategies used to build legitimacy for the social innovation are derived from the considerations made during the innovation process to simultaneously exploit multiple institutional voids. In this regard, the case study illustrates how key actors conferred legitimacy when the entrepreneurs demonstrated that the innovation was effective in actually filling the void.

This paper makes several contributions to literature. First, it develops a much-needed account of the activities that institutional entrepreneurs as they attempt to institutionalise a social innovation in a BOP context. By mobilising perspectives from institutional theory, it adds fresh insights to the social innovation literature by proposing a toolkit of strategy choices that can successfully deploy a social innovation. The paper also introduces a new understanding of institutional voids that increases the scope for analysing entrepreneurial opportunities, and explains how by exploiting the voids, innovations gain legitimacy. More broadly, the study contributes a new understanding to the study of poverty alleviation through market-based solutions deployed in an understudied geographical context.

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2. Literature review

2.1. Social innovation

Although many conceptions of 'social innovation' exist in the literature, a common thread among the definitions offered is its intentionality, and this distinguishes it from social change (Franz, Hochgerner, and Howaldt 2012). The point of departure is in the focus on whether an innovation is social in its means, or social in its end. In the former, scholars emphasise a goal-oriented view, i.e. the potential of an innovation to meet social needs, (e.g. Mulgan 2006; Phills, Deiglmeier, and Miller 2008). In the latter, they emphasise a process-oriented view, i.e. the social processes that deliver products and services (e.g. Mumford 2002). A combined view – 'social both in their ends and their means' (Murray, Caulier-Grice, and Mulgan 2010, 346) – has been put forward, and is now widely adopted in policy decision-making. However, this definition is considered scientifically imprecise as it does not account for social innovations that were not intended as social at the point of invention, or social innovations that were not delivered through social means (Franz, Hochgerner, and Howaldt 2012). Thus, a conceptualisation of social innovation that highlights a change in or new interpretations of institutional elements such as roles, relations, expectations, practices, norms and values is more desirable (Franz, Hochgerner, and Howaldt 2012; Hämäläinen 2007). As this paper adopts a neo-institutional lens, it favours the following definition offered by Franz, Hochgerner, and Howaldt (2012, 6): 'social innovation consists of new, more effective and/or more efficient social practices with social ends and social means'. Following this definition, actors engaging in social innovation may be perceived as institutional entrepreneurs who, according to DiMaggio (1988), mobilise resources to create new institutions or transform existing ones in order to realise interests they value highly. By example, The Grameen Bank has been presented as a successful social innovation (Mulgan 2006; Murray, Caulier-Grice, and Mulgan 2010) that established microfinance as a new method of fighting poverty by availing credit to impoverished people, whereby its founder, Muhammad Yunus, may be considered an institutional entrepreneur.

2.2. Institutional voids

When evaluating the success of institutional entrepreneurs in orchestrating change, in this case through social innovation, it is important to consider the characteristics of the environment in which they are embedded and their social position in that field (Battilana, Leca, and Boxenbaum 2009), which in this case is the base of the pyramid (BOP). BOP contexts have been defined based on per capita income at or below US$1500 or US$2000 per annum (Prahalad and Hammond 2002). Other definitions make references to 'the bottom billion' or even 'the bottom four billion' of the global population who reportedly live on or below the income thresholds of US$1 or US$2 per day (Bruton 2010; Hart and Christensen 2002). Geographically speaking, BOP contexts have been equated with entire countries and regions in Africa, Asia and Latin America (Khoury and Prasad 2016; Kolk, Rivera-Santos, and Rufín 2014), or even more generally, emerging markets (Khanna, Palepu, and Sinha 2005; London and Hart 2004). While the literature shows divergences in the delineation of the BOP and has received criticism for this (Karnani 2007), a defining characteristic of these contexts is economic poverty or severe resource constraints.

Along with resource constraints, BOP contexts have been regarded as 'institutionally complex' (Greif 2006; Mair, Marti, and Ventresca 2012), as such environments consist interlocks of formal institutions such as constitutions, laws, property rights and governmental regulations, and informal institutions such as customs, traditions and religious beliefs. 'Modern' (Western-style) or formal market institutions are typically either absent, weak or exclusive. In the literature, these contexts are deemed to have 'institutional voids', a notion that has been interpreted in two ways: (1) the absence, weakness or failure of *formal* institutions to support a market economy. Khanna and Palepu (2006, 62) who originated this view describe institutional voids as 'the absence of specialist intermediaries, regulatory systems, and contract enforcing mechanisms'. In other words, institutionally void contexts are characterised by a variety of market failures that become apparent in the absence of efficient intermediation, and thus, an increase in transaction costs (Khanna and Palepu 2000). (2) Gaps occurring at the interfaces between indigenous or informal institutional spheres such as community, politics and religion and formal market institutions. This perspective argues that institutional voids are associated with contradictions brought about when a plethora of formal and informal institutions driven by multiple logics serve the same organisational field (Greif 2006; Mair and Marti 2009; Mair, Marti, and Ventresca 2012), resulting in conflicts and uncertainty about which institutions apply in different scenarios, or exclusion of actors for whom the logics do not apply. For example, property rights as formal market institution may conflict with patriarchal systems in many BOP settings that disfavour women's access and ownership of assets. From these two interpretations of institutional voids, we can infer that voids have only been associated with spheres where weak formal institutions persist, and in spheres populated by informal institutions. Consequently, voids are unlikely to occur in the presence of strong formal institutions. This paper interrogates this proposition.

It is worth noting that similar institutional complexities have been found in transition economies (Puffer, McCarthy, and Boisot 2010; Santangelo and Meyer 2011). These economies are also characterised by weak regulatory institutions, and normative and cognitive institutions that are not necessarily congruent with market institutions (Ahlstrom and Bruton 2010; Williams and Vorley 2015). Rather than relying on formal market institutions, entrepreneurs rely on trust in networks and informal institutions such as *blat* in Russia

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and *guanxi* in China (Puffer, McCarthy, and Boisot 2010). The difference is that as these economies are rapidly industrialising, they experience dramatic and unpredictable shifts in institutional structures as they reform and adjust to economic changes, thus potentially exacerbating the occurrence of institutional voids.

While Khanna and Palepu (1997, 2000) view institutional voids as impediments to entrepreneurship, Mair and Marti (2009, 420) consider them 'opportunity spaces for institutional entrepreneurship'. Tracey and Phillips (2011, 32) further propose that 'the greater the number of institutional voids in an emerging market, the greater the opportunities for entrepreneurs to found ventures that span them'. Despite the availability of such opportunities, exploiting them – an effort that may involve innovating in and around voids, or spanning multiple institutional voids – would be a demanding form of institutional entrepreneurship (Tracey and Phillips 2011) complicated by the lack of widely accepted institutional arrangements, whether formal and informal. For entrepreneurs engaging in social innovation in and around institutional voids, it is expected that this complexity would be carried forward to the task of building legitimacy for the innovation. This brings us to the question of whether, given their social mission, social innovations face the challenge of gaining legitimacy in the targeted environment.

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2.3. Legitimacy building challenges for social innovations

It has been taken for granted that social missions have an inherent measure of legitimacy (Alvord, Brown, and Letts 2004; Dacin, Dacin, and Matear 2010; Mair and Martí 2006). However, as already seen, social innovation involves actions intended to disrupt or transform prevailing institutions that have stabilised around social problems. It is also likely that social innovations introduced into a context suffer from the 'liability of newness' (Freeman, Carroll, and Hannan 1983), and as a consequence, entrepreneurs must engage in legitimation activities to convince key actors about the fitness of the new organisational form existing norms, values, beliefs and definitions (Aldrich and Marlene Fiol 1994; Suchman 1995). The challenge of pursuing legitimacy for social innovation in and around institutional voids is exacerbated by the lack of relevant actors, and therefore the difficulty in identifying key actors with whom the entrepreneurs can build networks and form alliances with. As already seen, institutional gaps imply that commonly accepted business practices, organisational structures, dominant designs, industry standards and other types of institutions are few or lacking (Tracey and Phillips 2011) or that informal or indigenous have conflicting logics (Mair, Marti, and Ventresca 2012). As a consequence, shared meaning systems that would form the basis of a legitimation effort for an innovation are lacking.

To address this challenge, Tracey and Phillips (2011) suggest that entrepreneur could create proto-institutions, i.e. practices, technologies and rules as 'institutions in the making' (Lawrence, Hardy, and Phillips 2002, 283), then seek ways to institutionalise them. Alternatively, entrepreneurs may form a new organisational field to substitute for the institutional voids through their efforts to legitimite their start-ups (de Lange 2016). This requires similar skills as those held by entrepreneurs entering emerging markets (Maguire, Hardy, and Lawrence 2004). For instance, entrepreneurs must be skilled in the ability to develop networks and alliances with diverse stakeholders associated with institutions *next to or across the voids*. Similarly, they must be able to theorise about the innovation in ways that appeal to those stakeholders, and align the innovation and its associated practices with

existing institutions across or around the void. These crossovers may result in resistance to participation, as if often evident with social innovations, due to fear of risks and loss of status quo positions, resistance to change and strong social ties (Mulgan et al. 2007).

The institutional work and legitimacy literature (Lawrence and Suddaby 2006; Lawrence, Suddaby, and Leca 2011; Suchman 1995) provides a framework for understanding entrepreneurs' efforts to ensure the diffusion and stabilisation of social innovation at the field level. Strategies may entail discursive, political, relational and regulative activities, with the aim of gaining pragmatic, moral and cognitive legitimacy. Further, diverse typologies of strategies are deployed depending upon the context examined (Dacin, Oliver, and Roy 2007; Suchman 1995).

In view of this literature, the paper seeks evidence from the case study that explains how institutional entrepreneurs spanning voids legitimate social innovations in a BOP environment.

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3. Empirical context: M-Pesa as a social innovation

The case of the development of mobile money transfer services in Kenya offers an excellent opportunity to explore the efforts of entrepreneurs engaged in a mission to solve the social problem of financial exclusion. In 2005, Kenya had a population of 35 million, of which only 19% held accounts in formal financial institutions. The rest of the population either relied on self-organised community-level informal financial services such as Rotating Savings and Credit Associations (ROSCAs), Welfare Clan Groups (WCGs) and informal money lenders or were completely excluded from any form of financial services (CBK, KNBS, and FSD Kenya 2007). This segment of the population was referred to as the unbanked. Commercial banks had little incentive to provide financial services to this market segment as the margins expected from micro-transactions conducted by the poor would not offset the costs of installing and operating banking infrastructure in low income and rural areas. The unbanked were considered financially excluded, which is a form of exclusion that limits households' ability to make savings that they can invest in economic activities to raise incomes, prevents them from shielding against income shocks through access to credit and insurance (Jack and Suri 2014) and limits options for diversifying income sources, e.g. from remittances (Malkamäki, Johnson, and Nino-Zarazua 2009).

Financial exclusion is a social problem for which social innovations such as microfinance have been devised (Dash 2012). This study considers M-Pesa as a social innovation based on the social mission to 'reach the unbanked' that framed the innovation process and outcome, specifically in: (1) the sourcing of capital from a challenge fund, (2) the domicile of the initiative in the Corporate Social Responsibility programme of Vodafone Plc, (3) the collaboration of diverse actors from telecommunications, banking and microfinance in its formulation and early development, (4) user involvement in the development process and (5) the introduction of an almost instantaneous success in 'deepening' access to financial services (from 19 to 71%). These characteristics conform to both the process-oriented and goal-oriented elements of this study's working definition of social innovation put forth by Franz, Hochgerner, and Howaldt (2012).

At the time of development, pilot and national launch, M-Pesa was the only technology of its kind locally and globally. Due to this, M-Pesa had a high liability of newness, and thus, it is expected that its innovators would be confronted by a steep challenge to legitimate it.

Table 1. List of interviews.

Position	Affiliation	Interview no.
Principal Product Manager – M-Pesa	Vodafone Group Services	Interview 1
Former Head of Global Payments (pre-recorded)	Vodafone Group Services	Interview 2
Former Senior product manager (pre-recorded)	Vodafone Group Services	Interview 3
Mobile Money (M-Pesa) Business Analytics Consultant	Safaricom Ltd	Interview 4
General Manager Safaricom Financial Services (pre-recorded)	Safaricom Ltd	Interview 5
Former CEO (pre-recorded)	Safaricom Ltd	Interview 6
Director of Mobile Money	Competing mobile operator	Interview 7
Manager, Financial Inclusion	Central Bank of Kenya	Interview 8
Research Specialist	Financial Sector Deepening Kenya	Interview 9

The case of M-Pesa therefore provides fertile ground for an analytical exploration of institutional entrepreneurship and related legitimacy building activities.

4. Data collection and analysis

Case study data were collected in three ways: retrieval of archival documents, interviews and participant observation. In the process of developing the initial analytical narrative, the study relied on information retrieved from pre-existing accounts of the development of M-Pesa documented by various players: the two main executives at Vodafone directly involved in the innovation process (Hughes and Lonie 2007); Consult Hyperion, an electronic payments consulting firm whose role was to ensure operational and security robustness of M-Pesa (Makin 2009); Financial Sector Deepening trust (FSD Kenya 2009, 2012) and Alliance for Financial Inclusion (AFI 2010), both being non-profit organisations active in financial inclusion initiatives in Kenya, and GSM Association, an organisation that represents the interest of mobile operators (Muthiora 2015). In addition, the author consulted Vodafone and Safaricom's annual company reports, technical reports on M-Pesa, Central Bank of Kenya banking supervision reports, newsletters, circulars and press releases for the period between 2001 and 2012. Media reports on M-Pesa and mobile money in general were also gathered for the same period, and these included press clippings from the two major daily newspapers, video clips, television and newspaper advertisements and blog reports. Several research papers (e.g. Mas and Kumar 2008; Mas and Morawczynski 2009; Mas and Ng'weno 2010) provided further insights.

To fill gaps in the developing analytical narrative written based on secondary data and clarify pending questions, seven live and pre-recorded interviews of executives and employees at Vodafone UK and Safaricom Kenya Ltd, Central Bank of Kenya and Financial Sector Deepening Trust were conducted and obtained. Pre-recorded interviews were obtained in cases where live interviews with informants were difficult to arrange (see Table 1 for the list of interviews). Semi-structured, open-ended questions were used to understand the internal processes of M-Pesa development, and the strategies employed to engage with different actors in the financial services sector. Purposive theoretical sampling strategy (Strauss 1987) was used to identify relevant sources of data both for the secondary data collection process and identification of informants for the interviews. Finally, the author drew insights from the observation of the launch of M-Pesa, adoption of technology and participation in numerous domestic remittances using M-Pesa. Visits with M-Pesa agents, and informal interactions with M-Pesa agents and customers in various parts of Nairobi

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Table 2. Chronology of events detailing Vodafone and Safaricom's actions, changes in the market and regulatory environment over time. The table was compiled from various sources.

Year	Event
2003	Vodafone wins £1 million bid with Financial Deepening Challenge Fund (FDCF), which it matched equally
2003	Vodafone and Safaricom Ltd partner with Faulu Kenya and Commercial Bank of Africa to develop microfinance repayment tool dubbed M-Pesa
2003	M-Pesa technological platform is developed by Sagentia UK
2005	Safaricom approaches Central Bank of Kenya with request for authorisation for M-Pesa pilot project
2005	M-Pesa pilot begins in Nairobi CBD, Mathare and Thika
2006	CBK releases the Microfinance Act
2006	Safaricom requests authorisation from Central bank to launch M-Pesa as a money transfer service (rather than as a microfinance repayment tool)
2007	CBK audits legal structure of M-Pesa. Legal opinion distinguished M-Pesa from commercial banks. CBK issues 'Letter of No Objection' to M-Pesa
2007	Formal national launch of M-Pesa
2007	M-Pesa subscription rates increase rapidly, signifying the acceptance of mobile phone-based P2P money transfer practices
2007	Cardless ATM withdrawals introduced to M-Pesa users
2007	Bill payments and bulk salary payments introduced to M-Pesa
2007	Equity Bank, Family Bank and Cooperative Bank introduce financial products for the low-income segment
2008	Banks pressure Minister of Finance to shut down M-Pesa. The Minister of Finance requests an audit of M-Pesa
2009	A 'clean bill of health' awarded to M-Pesa. Legal opinion distinguishes M-Pesa from banking
2009	Entry of YuCash mobile money service
2009	International remittances from Western Union via M-Pesa allowed
2009	Changes in Banking Act to accommodate mobile money banking and agency banking
2009	Proceeds Of Crime and Anti Money Laundering Act passed
2011	Entry of Airtel Money and Tangaza Pesa mobile money services
2011	National Payments Systems Act the recognises mobile money passed by parliament
2012	CBK holds public consultation on Electronic Money Regulations; Regulation for the Provision of Electronic Retail Transfers; Anti-Money Laundering Guidelines for the provision of Mobile Payment Services

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city and Machakos town enriched the general understanding of the public discourses on mobile money transfer in Kenya.

Data analysis involved constructing a narrative account (Langley 1999) of M-Pesa development, launch and diffusion by fleshing out the chronology of events outlined in Table 2 based on the documentary evidence and interviews. The data were coded in two stages based on analytical categories derived from literature on institutional voids (Khanna and Palepu 2000; Mair, Marti, and Ventresca 2012) and institutional work and legitimacy strategies (Battilana, Leca, and Boxenbaum 2009; Lawrence and Suddaby 2006; Suchman 1995).

The initial open coding exercise conceptualised the action the data described. With regard to the first phase where ideas are generated and potential solutions are identified, the coding exercise paid attention to identifying instances in the formal and the informal institutional environments where institutional weaknesses and gaps as described by Khanna and Palepu (1997, 2000) and Mair, Marti, and Ventresca (2012) were evident. Examples of codes in this phase included 'voids in the formal environment', 'voids in the informal environment' and 'voids at the interface of the formal and informal'. The open coding exercise for the second phase of implementing the social innovation focused on identifying the strategic moves of Vodafone and Safaricom to influence their audience by building legitimacy, and codes such as 'mimicry', 'educating' and 'theorising' were used. However, it was found that that these strategies were being deployed in different ways for different audiences. Therefore, the strategies were grouped together depending upon the audience, resulting in codes such as 'legitimacy among clients', 'legitimacy among government and industry officials'.

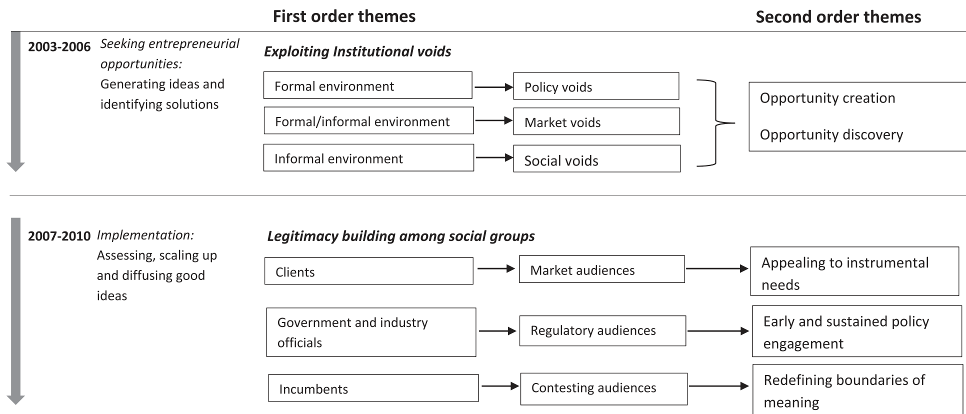

Figure 1. Overview of the analytical coding process.

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Subsequently, emergent themes from the open codes were identified through an inductive process. For instance, an evaluation of the excerpts of data related to the first phase coded under each first order code revealed a coherent set of second-order themes that characterised the institutional gaps. For instance, the institutional gaps discovered within the formal environment related to efforts of the entrepreneurs to position M-Pesa within the existing regulatory framework, or efforts of the Communications Commission of Kenya to find a regulatory mandate over M-Pesa. The lack of relevant laws or guidelines suitable for M-Pesa oversight implied that there was a policy void. Thus, 'policy void' became an emergent theme that used in the next phase of coding, as was the 'social void' and 'market void'. The same process was repeated for the excerpts on building legitimacy as illustrated in Figure 1.

The next section first presents the narrative account, followed by the findings of this analytical procedure.

5. M-Pesa development and deployment

Under its Corporate Social Responsibility programme's mandate to 'transform people's lives and contribute to global sustainable development goals', Vodafone established a social investment fund in 2006 to 'provide incremental resources going forward and to seed initiatives that can demonstrate high social value' (Vodafone, 2006, 15), and hired an executive to set up the corporate responsibility team and to 'help [Vodafone] understand its role in addressing issues like the Millennium Development Goals' (Hughes and Lonie 2007, 65), who then conceived the idea of tackling financial exclusion in developing countries as a potentially fruitful avenue. After submitting a grant proposal to the UK Government's Department for International Development (DFID) Financial Deepening Challenge Fund in 2003, Vodafone was awarded £1 million on a matched basis based on a pledge to contribute the equivalent in mostly human resource costs.

To identify local challenges in financial services, Vodafone and its Kenyan subsidiary Safaricom Ltd held a series of brainstorming workshops in Nairobi composed of banks, microfinance institutions, technology companies, telecom firms, non-governmental organisations and industry regulators. Vodafone and Safaricom then formed a partnership with Faulu Kenya, a microfinance institution, and Commercial Bank of Africa, an East African

bank. From this partnership, a proposition emerged to develop a platform that would enable Faulu Kenya's customers who were organised in informal groups, or *chama*s, to receive and repay microfinance loans. A mobile phone-based cash transfer platform dubbed M-Pesa[1] was developed in conjunction with Sagentia, a UK-based software development firm. M-Pesa would run on a subscriber identification module (SIM) card used in the most basic and low-cost mobile phones based on the Global System for Mobile Communications (GSM) protocol that enabled electronic cash transfers via short messaging service (SMS).

From October 2005, M-Pesa underwent an eight-month pilot test in three locations: Nairobi central business district, Mathari – one of the largest slums – and Thika – a town located at an hour's drive north of Nairobi. A major part of the pilot involved recruiting small businesses to act as agents of M-Pesa, providing cash-in and cash-out services akin to commercial bank branches.[2] Further product and business model improvements were made – many based on user adaptation of M-Pesa functions, and numerous customer and agent training sessions were conducted. During these activities, Vodafone contended with resource constrains associated with capital, technology, human resources, literacy levels of the target market and unreliable transportation systems across the country.

Despite the challenges navigating these constraints, M-Pesa was launched nationally in March 2007, flagged by the massive and culturally compelling 'Send Money Home' marketing campaign. M-Pesa was adopted immediately and rapidly: in July 2007, about 268,000 people subscribed to M-Pesa. One year later, subscription increased by 2652% to about 7,388,000 (Kimenyi and Ndung'u 2009, 2). Within exactly three years, the number of registered customers had reached 10.3 million which corresponded to 21% of the entire Kenyan population or 46% of the adult population. The agent network had grown to 17,700 outlets with nearly half located in rural areas, and the equivalent of US$371 million in person-to-person transfers was made through M-Pesa, which generated US$100 million in annual revenue. By March 2014, M-Pesa had 26.2 million registered users, or 71% of the adult population, the value of money transfers had risen to US$2.1 billion. M-Pesa and other latecomer mobile money platforms are touted as enabling financial inclusion in Kenya by decreasing the proportion of the population excluded from formal financial services (World Bank 2013).

6. Analysis: Vodafone and Safaricom as institutional entrepreneurs

The foregoing narrative account outlines the nature of the institutional environment into which Vodafone Group Plc entered with the aspiration to develop a technological solution to a social problem as part of its corporate social responsibility programme. Through its collaboration with its locally respected subsidiary, Safaricom Ltd, Vodafone engaged different skills and resources to tackle or exploit various challenges and opportunities, most notably, sourcing for capital for a high risk social project, developing familiarity with an exotic BOP institutional context and navigating its corresponding resource constraints, designing and deploying a feasible technology and business model and legitimising principles that

[1]The 'M' refers to mobile, while 'pesa' is Swahili for money, thus the popular term 'mobile money'. This catchy product name was proposed by a local advertising agency.

[2]Initially, Safaricom's already established airtime dealers were selected to serve as agents, but as subscription to the M-Pesa service grew, the agent network diversified to include a myriad of small businesses or kiosks such as shops, grocers, pharmacies and even small clothing boutiques.

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threatened pre-existing institutional arrangements. This section explores the strategies that Vodafone and Safaricom employed to influence prevailing institutions and introduce a divergent business model.

6.1. Exploiting institutional voids

6.1.1. The market void

As seen earlier, the vast majority of the Kenyan population living in low-income urban areas and rural villages did not have access to formal financial services by 2006. Commercial banks did not consider bottom-of-the-pyramid households as a target market. These households instead used informal non-market-based mechanisms of financial management, primarily through informal groups, or *chamas*. The absence of formal financial services in these regions – a phenomenon that can be understood as an absence of formal market institutions, and therefore a market void – presented an opportunity for entrepreneurship.

The social innovation process in Vodafone and Safaricom therefore began with the identification of the underserved market for which the innovative activity would be targeted, and an effort to understand the specific needs of this market in order to build a feasible solution. As the Vodafone senior product manager reported: 'We had to find customers with a real market need to use the service. This may appear obvious, but the mobile commerce market is strewn with technical solutions looking for a problem' (Hughes and Lonie 2007, 70).

While only 19% of the population had access to a bank, the 2006 FinAccess Survey shows that 56% of the population had access to mobile phones. Mobile penetration in Kenya had been increasing rapidly since the late 1990s and early 2000s when the telecommunications industry was liberalised. Reforms in the sector facilitated the entry of Safaricom Ltd and other firms, and stiff competition among them resulted in lower prices and increased coverage. The number of mobile subscribers grew from 15,000 in 1998 to 3.4 million in 2004, 9.3 million in 2006 and 16 million in 2008, and Safaricom controlled 80% of this market. Consequently, for Vodafone, the existing telecommunications infrastructure which extended beyond the geographical reach of commercial banking could be leveraged to extend a formal financial service into areas dominated exclusively by informal market institutions.

The existence of the market void notwithstanding, the M-Pesa team needed a value proposition that resonated with Vodafone Group management on the one hand, and with Safaricom and the Kenyan market on the other. For the parent company, the M-Pesa platform provided an entry point into the US$300 million international remittance market fuelled by migrants sending money home, and it begun piloting a mobile phone-based international transfer service with Citigroup (Vodafone 2007, 76). In order to appeal to the Kenyan market, the two firms exploited a social void arising from a change in the configuration of households and communities in Kenya, as seen below.

6.1.2. The social void

Demographic changes and rapid urbanisation since colonial times have affected traditional family and community structures in Kenya. With the development of cities and large towns as economic centres, there has been increasing migration from rural to urban areas. Migrants are typically younger, male and more literate members of these communities seeking better economic and educational opportunities in urban areas, leaving more dependent members of their households in rural areas. According to the World Bank's World

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Development Indicators, 20% of the Kenyan population lived in urban areas. By 2004, about a third of all Kenyan households divided their members between urban and rural homes (Agesa 2004). Due to this migration pattern, traditional family and communal structures for resource development and resource sharing began to disintegrate through losses in agricultural labour, changing gender dynamics[3] and changing social network structures. As a result, social voids have been created.

To compensate for their absence and their inability to directly contribute towards traditional resource-generating family or community practices, urban migrants remit substantial proportions of their wages to their rural homes. However, there was a lack of efficient mechanisms for making money transfers, especially since the senders tended to be the banked in urban areas, while the recipients were unbanked and the excluded in rural villages. As Vodafone's principal product manager for M-Pesa remarked:

> Because of the rural-urban migration of people coming to cities to work, you will find many families in Kenya with husbands living in urban areas and their wives in rural areas, or children working in the cities having parents who depend on them in the rural areas. There are a lot of outflows of cash from the cities to rural areas. This was a massive opportunity for Safaricom and M-Pesa to use the person-to-person system of transfer. (Interview 1)

As indicated by respondents in the 2006 FinAccess Survey, in-kind delivery through family and friends, deliveries using public bus and *matatu*[4] couriers and post office money orders were considered unreliable, unsafe and costly and were prone to leakage. Similar concerns were expressed by members of *chamas* who dispersed to various parts of the country while seeking economic opportunities, and due to their inability to physically participate in group meetings they needed reliable mechanisms for transferring cash. Thus, the cultural practice of making domestic remittances in Kenya fuelled the demand for money transfer platforms.

The shifts within informal cultural institutions created social voids that were perceived as opportunities for innovation, such that Vodafone and Safaricom's commercial team developed the M-Pesa launch proposition suggestive of this void, titled 'Send Money Home'.

6.1.3. The policy void

Vodafone and Safaricom created, and then leveraged a *policy void* at the interface of commercial banking and telecommunications, two well-established formal market sectors. Financial institutions were licensed and regulated by the Central Bank of Kenya, and therefore, the entry of a mobile operator in the finance space had been inconceivable until then. As the Vodafone head of social innovation reported when referring to the submission of the bid for funding from the Financial Deepening Challenge Fund (FDCF):

> The entrant of a telecom company into a funding competition for the financial services sector took a few of the FDCF proposal review team by surprise, but we overcame some initial cynicism and were awarded funding of nearly £1 million. (Hughes and Lonie 2007, 67)

[3]In many cases, the highly gendered pattern of rural–urban migration left women to manage households and agricultural production. In general, women were disempowered when securing their rights to land, labour and agricultural income (Francis 2002).

[4]*Matatus* are informal shared taxis that dominate the public transportation system in Kenya. The drivers of *matatus* often provide courier services for customers looking to send money or goods to their family and friends located in other parts of the country.

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As a mobile operator, Safaricom Ltd was licensed under the Communications Commission of Kenya (CCK)[5] regulatory authority which governed information and communications sectors including broadcasting, multimedia, telecommunications, electronic commerce, postal and courier services. Besides recognising M-Pesa as a value-added service to Safaricom's repertoire of products, CCK had no regulatory apparatus that could oversee the development of M-Pesa as a financial service. As a consequence, CCK deferred to the financial services industry regulator, the Central Bank of Kenya (CBK), which had experience overseeing payment systems and commercial banking. Even so, the Banking Act had no provisions mandating CBK to regulate non-bank actors, and as such, CBK had no clear authority over non-bank funds transfer either (AFI 2010, 5). Even though the 2003 amendment of the CBK Act gave the CBK power to 'formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems' (CBK Act, Section 4A (d)), the operational modalities of such oversight had not been worked out pending the approval of the National Payments Systems bill[6] (Mas and Ng'weno 2010). In a press release in 2009, Central Bank of Kenya even clarified that it '… does not regulate mobile phone providers …, as they are licensed by the Communications Commission of Kenya (CCK)'. Effectively, the legal environment for regulating M-Pesa at the time of development and launch remained unclear, and therefore, technically, neither CCK nor CBK could interfere with M-Pesa development and launch.

As the policy-makers grappled with regulating M-Pesa, the entrepreneurs also internally wrestled with the identity of M-Pesa in the existing institutional configuration. Neither Safaricom nor Vodafone had a banking license, and therefore, managing the legal and regulatory structure of the business proved challenging. Resolving the dilemma involved 'many rounds of discussions with Kenyan and English lawyers, many straw men, and many heated debates' (Hughes and Lonie 2007, 79) from which a complex legal structure to run the M-Pesa service in Kenya was developed.

The struggles on both the regulators' part and the entrepreneurs' part is evidence of a *policy void*, as prior to M-Pesa, there was yet to be an important policy problem at the interface of banking and telecommunications for which interventions would have been developed. Therefore, rather than being an exemplar of the failure of market institutions in this setting, the institutional void was due to the absence of an actionable policy problem (Hajer 2003). In fact, through CBK's learning process of providing incremental oversight to M-Pesa as questions were raised by actors such as Kenya Bankers Association and the Ministry of Finance, and as M-Pesa's functionality expanded, existing legislative frameworks were reviewed and new laws such as the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and the National Payment System (NPS) regulations were crafted. Meanwhile, Vodafone and Safaricom – with the complicity of the CBK in its 'test and learn' regulatory stance – exploited the policy void.

Despite the initial contention about who should regulate M-Pesa, CCK and CBK settled into a collaborative regulatory arrangement, with the latter taking the lead on decisions relating to the financial aspects of the platform, e.g. liquidity, deposit protection and fraud

[5]Renamed Communications Authority of Kenya after the promulgation of the new constitution. See http://www.kachwanya.com/2014/06/28/cck-ca-k/.

[6]The National Payment System (NPS) regulations were eventually approved by parliament in 2012. It codified many of the informal regulatory practices developed since M-Pesa launch (Muthiora 2015).

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prevention, while the former focused on regulating the underlying technical infrastructure. By exploiting the policy void, M-Pesa innovation disrupted the boundary between telecommunications and banking, and initiated new networks of actors across those institutional boundaries.

6.2. Legitimating the innovation in and around voids

Despite the socially beneficial nature of Vodafone and Safaricom's innovative efforts, legitimacy for M-Pesa was not automatically conferred. The entrepreneurs engaged in efforts to persuade constituencies on the merits of M-Pesa and form practical connections to existing institutions in order to gain widespread social acceptance in the financial services sector. They deploy diverse strategies to address the needs of the different constituents that came into contact with M-Pesa in one way or the other, highlighted below.

6.2.1. Legitimacy building among market audience

From the outset, Vodafone and Safaricom's efforts were geared towards *addressing the substantive needs* of the unbanked poor, which due to the market void were not catered for in the financial services sector. The entrepreneurs specifically adapted the solution to the capabilities and preferences of the unbanked by developing a solution using artefacts this audience was familiar with, based on rules that they recognised. In this regard, the development team adopted the basic GSM handset used by the poor as the foundational technology. Although challenging due to language structure and character limits, M-Pesa menus were translated into Swahili, the popular language in low-income urban areas and in rural villages. They also modelled M-Pesa's peer-to-peer cash transfer system to address the social void resulting from the lack of mechanisms to make instant cash transfers across large distances, thus enabling urban migrants to provide frequent financial support to their families and dispersed informal groups to continue pooling funds regularly. Thus, as concluded by the Central Bank of Kenya, 'the system was designed with the Kenyan market in mind' (AFI 2010, 5).

In addition, Safaricom as the implementing subsidiary used instruments of strategic *public relations* and impression management to actively influence perceptions of the market constituency and gain pragmatic legitimacy. Vodafone and Safaricom's commercial team developed the 'Send Money Home' proposition marked by a significant investment in a nationwide marketing campaign through television, radio, print media, billboards, road shows and convoys travelling across the country to sign up new subscribers and demonstrate the service.

A strong presence was established through the large network of M-Pesa agents, which were highly recognisable branded outlets featuring a prominent M-Pesa logo (Mas and Ng'weno 2010). M-Pesa adverts also featured a cultural, emotional and patriotic appeal. In addition to the compelling value proposition, Safaricom was a 'powerful brand' in Kenya (Mas and Ng'weno 2010, 357), well respected due to its home-grown products and CSR initiatives. Thus, M-Pesa's legitimacy also rode on the dispositional spillovers reinforced by the trust and goodwill associated by the Safaricom brand.

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6.2.2. Legitimacy building among regulatory audience

Vodafone and Safaricom *formed an alliance* and proactively engaged with Central Bank of Kenya (CBK), in spite of the existence of a policy void. As the Head of Mobile Money at Consult Hyperion reported:

> M-PESA's approach to financial regulation, right from the start, was one of engagement. The very first, tentative moves towards M-PESA consisted of meetings with as many interested parties as possible – and, of course, the regulator was one of those, and his views diligently sought. But this was not a one-off process, and the team were very keen to ensure that the regulator was regularly kept abreast of developments. (Makin 2009, 6)

In fact, Vodafone and Safaricom leveraged the policy void to solidify the alliances with regulatory authorities in both banking (CBK) and telecommunications (CCK), both of whom were involved throughout the development, testing, launch and functional expansion of the M-Pesa platform. Both regulators were invited to brainstorming workshops prior to the development of the platform, and prototype demonstrations during development, all along addressing questions raised by CBK (AFI 2010; Hughes and Lonie 2007). Before launch, Safaricom submitted a request for authorisation to launch M-Pesa, and at the request of CBK, prepared a detailed risk mitigation programme and conducted an in-depth audit of the technological platform addressing anti-money laundering standards[7] and operational risk factors such as hardware and software security, backup and audit trail capabilities (AFI 2010).

From this review, CBK was satisfied that M-Pesa was adequately robust, and in February 2007 issued a 'Letter of No Objection' authorising the launch of M-Pesa. The letter also specified reporting obligations and laid out a set of prudential and market rules, and allowed M-Pesa to operate under the oversight of CBK pending the approval of the NPS Act (Muthiora 2015). Expansions of product functionality were approved on a case-by-case basis as Safaricom and CBK coordinated further regulations. Such intense and continued engagement with the regulator as the de facto gatekeeper of financial services industry ushered M-Pesa into a banking services, a privileged category of services that were strictly regulated and difficult to penetrate. The Letter of No Objection, which acted as a special licence that provided a form of *certification,* legitimated M-Pesa in the policy sphere. Safaricom used this certification as the basis for entrenching public confidence in the platform in the face of contestations by other actors in the industry.

Further, in order to legitimise the business model with the financial regulator, the M-Pesa team engaged in *mimicry* by deliberately taking steps to associate M-Pesa with financial services taken for granted in commercial banking, and prevent it from being perceived as 'dangerously avant garde' as described by the Head of Mobile Money at Consult Hyperion:

> In an attempt to ensure that M-Pesa was 'covering all the bases', [we took] steps which helped to ease the relationship with the regulatory authorities, by bringing a familiar structure to the relationship. All of this was not intended merely to convince the regulator to allow M-Pesa to launch – though, of course, it helped, and M-PESA was launched under a special licence – rather, it was done primarily because the team felt that, although M-Pesa is not a fully-regulated financial institution, to behave like one is the only responsible approach. (Makin 2009, 6)

[7]The AML audit was based on Kenyan Anti-Money Laundering draft legislation and the international guidelines by the Financial Action Task Force (FATF). Measures for Combating the Financing of Terrorism (CFT) were also tested. These audits were conducted by Consult Hyperion, a technology consulting firm.

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Mimicking conventional banking services also prepared M-Pesa for future regulatory developments, and oriented the mind-set of staff towards a quasi-financial institution.

Due to sustained interactions with the regulator, Safaricom participated in setting the agenda for reforming existing regulations on electronic payment, and designing new guidelines for anti-money laundering and branchless banking, and in so doing engaged in pro-active *advocacy* to institutionalise mobile money transfer as a legitimate financial service. Further, when objections about M-Pesa are raised by Kenya Bankers Association and the Ministry of Finance, we see Central Bank stepping in defence of mobile money innovation, indicating Safaricom's *co-optation* of the regulator as a key constituent who then fought battles on its behalf, effectively securing the moral legitimacy of the innovation.

6.2.3. Legitimacy building among contesting audiences

Contestation about the nature and classification of the M-Pesa business opened up opportunities for Safaricom to engage in institutional work to *change normative associations* about financial service provision in Kenya. Firstly, as seen earlier, due to the policy void, the M-Pesa team and industry regulators grappled with the definition of mobile money in the context of regulated financial services during the development phase. Based on insights generated from Safaricom's deliberations with a variety of actors, M-Pesa was defined as a non-bank money transfer service rather than a deposit taking service that would be subject to prudential regulations of the Banking Act.

As the M-Pesa subscription base grew rapidly among both the unbanked and the banked, commercial banks registered their discontent with CBK's lax regulation of mobile money through their advocacy group – Kenya Bankers Association (KBA), citing the blurred lines between the deposit-taking for saving in banks and deposit-taking for payments in mobile network operators not subject to the prudential guidelines of the Banking Act. The Minister of Finance expressed similar reservations when he publicly ordered an audit of M-Pesa, stating: 'I don't know whether M-Pesa will end up well. [CBK] should study the scheme and pronounce policy to safeguard depositors' (Daily Nation newspaper, Michuki: Probe cash transfer, 2 December 2008).

In response to these contestations, Safaricom attempted to reconfigure the institutional constraints that defined the scope of banking services in Kenya specifically by *theorising* on bank vs. non-bank services per regulation, and *prognostic framing* recasting mobile money as superior to banking in addressing the market void affecting the unbanked, and in addressing the social void that continued to deepen with further rural–urban migration. In their public responses, the former Safaricom CEO, and Vodafone's Head of Global Payments, endeavoured to segregate mobile payment services vis-à-vis banking in the financial sector. In a reported press conference, the former Safaricom CEO presented the following argument:

> Some of the banks are saying we are in competition, but I don't think M-Pesa is a threat to banking industry. What we are doing is that we filling a gap that the banks have left out. We don't classify this as a mobile banking product: this is a mobile payments service. (Daily Nation, Michuki: Probe cash transfer, 9 December 2008)

By projecting the ideal that financial inclusion will be achieved through M-Pesa which addresses the needs of the unbanked that commercial banks have neglected, Safaricom attained moral legitimacy in the eyes of the regulator, who then promoted this ideal to contesting parties. Through a legal opinion, Central Bank confirmed that M-Pesa is in fact not conducting the banking business. While declaring that 'M-Pesa is an extremely important

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tool for financial inclusion' during the launch of a rival mobile money transfer platform in 2008, the CBK governor noted that with 11 million Kenyans having access to a mobile phone, and only approximately 4.5 million banked, mobile money as the new solution offers 'an avenue to push forward the access frontier in Kenya', thus bringing more Kenyans into formal financial services.

This discourse drew *new boundaries of meaning* that defined the banking domain vis-à-vis the mobile money domain, thus allowing M-Pesa to thrive despite protestations, effectively changing normative associations previously linking financial services exclusively to banking. As a result, mobile money was accepted as a parallel, and even complementary institution without challenging banking as the pre-existing institution, but instead, leading other actors to challenge the efficacy of banking.

7. Discussion and conclusion

Multinational enterprises that engage in social innovation in BOP markets – whether to expand their operations in order to increase their bottom line, or to address social problems as part of their corporate social responsibility mandates – are confronted with the challenge of navigating new institutional contexts that constrain their behaviour. Entrepreneurial efforts in general involve instituting divergent change while gaining legitimacy (Aldrich and Marlene Fiol 1994), and such an undertaking is demanding when dealing with institutional complexities characteristic of BOP contexts. This paper focuses on how entrepreneurs identify and exploit different types of institutional voids through social innovation, and how they seek legitimacy for the innovation. The paper explores the case of M-Pesa, a mobile money innovation in the financial services industry in Kenya, and analyses the efforts of Vodafone UK and its subsidiary Safaricom Kenya Ltd as the institutional entrepreneurs that deployed the innovation. The findings explain how entrepreneurs discover and create entrepreneurial opportunities for social innovation by simultaneously exploiting multiple institutional voids at the BOP. The analysis shows that gaining legitimacy for a social innovation involves efforts to establish how the innovation addresses or mitigates the institutional voids in that particular setting. Thus, spanning institutional voids is a key strategy to successfully deploy social innovations in institutionally complex environments.

As the first contribution, the study introduces a new interpretation of the institutional voids construct, and thus expands the scope in which this construct may be applied. Khanna and Palepu (2000) first advanced institutional voids as absences of or weaknesses in *formal* market institutions in BOP contexts. In the M-Pesa case, the market void associated with the large unbanked population exemplifies this type of void, and was discovered as an opportunity for social innovation to bridge the rift between 'excluded' social groups and the formal economy. Mair, Marti, and Ventresca (2012) advanced a second view that conceptualised institutional voids as gaps or spaces that occur at interfaces between *informal* institutional spheres such as community, religion and politics. The social void in financial services in Kenya, which emerged from the fragmentation of previously tightly knit family and community groups due to rising rural–urban migration, illustrates this type of void. Upon discovery of this void, the M-Pesa entrepreneurs exploited it by designing a solution that facilitated instantaneous domestic remittances across large distances. This paper introduces a third type of institutional void found in *formal institutional interfaces,* i.e. between two formal institutional spheres. In the case, Vodafone and Safaricom created

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an entrepreneurial opportunity in the sphere between telecommunications and banking where no regulatory guidelines existed, and in so doing yielded a *policy void* that enabled innovation. They exploited the policy void by designing a business model that integrated previously unrelated professional and policy orientations. This third type of void occurs not necessarily due to deficiencies in formal market institutions in these contexts as asserted in the literature, but rather due to the lack of generally accepted rules and norms outside established institutional arrangements. This finding analytically broadens the scope in which entrepreneurs exercise agency in BOP contexts.

Secondly, the study identifies legitimation strategies that may facilitate the successful deployment of a social innovation experiencing a high liability of newness. The findings show that in order to appeal to audiences consisting of fragmented, diverse constituents, a 'contingency approach' (Scherer, Palazzo, and Seidl 2013) in which firms simultaneously deploy different but targeted legitimation strategies is mobilised. With regard to the BOP market audience, the entrepreneurs in this study focus on *appealing to their instrumental needs* first by developing a substantively relevant product, by engaging in mimicry and investing in advertising and branding to gain pragmatic legitimacy. Legitimacy from policy audiences is conferred through *early and sustained engagement*, and this can be achieved by seeking certification early in the innovation process, undertaking voluntary audits and engaging in proactive advocacy. Further, by developing transparency in their interactions with policy-makers, entrepreneurs are able to co-opt policy actors to protect their interests in the face of contestation. Finally, legitimacy among contesting audiences is achieved by engaging in deliberate efforts to *redefine meanings* by changing normative associations, and theorising, framing and educating may shift prevailing institutions in favour of the new innovation.

Thirdly, the findings show that legitimacy building is part and parcel of the innovation process. The task of designing and implementing an innovation is in fact a process of creating new institutions – or proto-institutions (Tracey and Phillips 2011) – to fill existing voids. The design features and positioning of the technology or business model in relation to institutional voids determine the narrative that would be used to convince diverse audiences to accept it. Further, spanning multiple voids provides contingent arguments that can be leveraged against each other to build a tighter business case. In the M-Pesa case, this is evident when the entrepreneurs reached moral legitimacy by pursuing meritorious outcomes of social inclusion to deal with the market void, and by pursuing explicit certification, submitting to voluntary audits and co-opting regulators to deal with the policy void.

This paper has implications for MNCs engaging in social innovation in BOP contexts. Much of the BOP literature has focused disproportionately on the activities of multinational enterprises in large emerging economies, especially India, Brazil, China and Russia. Moreover, there has been a tendency towards studying business models for entering these markets with a pure profit motive, rather than market-based poverty reduction (Bruton, Ahlstrom, and Li 2010; Khoury and Prasad 2016; Kolk, Rivera-Santos, and Rufín 2014; Mair and Marti 2009). Therefore, this paper, with its focus on firm strategies at the interface of profitability and poverty alleviation in an African context is a valuable contribution to the debate on market-based poverty alleviation.

The findings underscore the importance of multinationals immersing themselves into the BOP context to gain an intimate understanding of institutional factors, as opposed to developing solutions entirely based on Western market ideals (Mezias and Fakhreddin

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2015; Prahalad and Hammond 2002). This entails tailoring their products to suit local requirements, aligning with the constraints and opportunities that local regulatory frameworks present and adjusting their political strategies to appeal to the new audience while transferring ideas, skills and practices.

Expanding the scope for either discovering or creating institutional voids as opportunity spaces for entrepreneurship has implications not only for innovation for social inclusion as seen in this paper, but also for social innovation in industrialised contexts occurring at the boundaries of established institutions. It may be argued, however, that as policies in developing countries are relatively in flux and therefore less inert, the identification and exploitation of policy voids in such contexts may be easier. Future research could explore whether and how policy voids in industrialised contexts have been leveraged as opportunities for social innovation, and how the attendant policy frameworks evolve. In addition, future research could include case studies of social innovation in transitional economies where institutional voids have also been found (see e.g. Puffer, McCarthy, and Boisot 2010; Santangelo and Meyer 2011), but rapid institutional shifts may enable or constrain multinationals efforts to exploit those voids and gain legitimacy.

While institutional voids offer opportunities for entrepreneurship and legitimation, exploiting them may have a dark side. Actors may operate within institutional voids to carry out illegal activities with the knowledge that regulatory authorities lack the mandate to implement sanctions. Entrepreneurs may also engage in activities deemed risky or unethical by other actors in the field. In the M-Pesa case for instance, Vodafone and Safaricom as mobile operators were seen as sidestepping prudential guidelines applied to commercial banks which, as argued by the Kenya Bankers Association, unlevelled the playing field and potentially exposed the financial system to various risks. These risks were ultimately addressed by developing new and extending existing regulations to cover mobile payments.

As a social innovation, the case of M-Pesa reinforces the assertion that solutions for pressing societal problems sometimes transgress the sovereignty of specific policies in place, and thus require interventions next to or across institutional orders (Hajer 2003). Addressing social problems at the BOP calls for 'thinking outside of the box' of formal Western-style institutional arrangements where they do not align with local norms, value systems and practices, or are difficult to implement due to severe resource constraints. Such innovations, when successful, encourage actors to rethink the formal institutional framework in place, and explore ways of addressing institutional voids in a way that legitimises instead of invalidating idiosyncratic local norms.

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