**Kiva zip: Mission Drift or Niche Extension?**

**Critical Incident Overview**

This critical incident describes a non-profit’s recent strategic decision to open a new market and the intense negative backlash from some of the non-profit’s supporters and accusations of mission drift. The incident centers on the microfinance organization Kiva and their decision to begin offering loans supporting American entrepreneurs who may not have access to traditional financing options in addition to supporting entrepreneurs in the developing world. The decision to post loans for American businesses was not met with unanimously positive feelings and unhappy lenders felt that Kiva had changed their beloved organization’s mission as well as diverted funds away from the working poor in developing countries.

This critical incident investigates the concept of organizational mission drift in non-profit organizations, but it also raises issues of stakeholder analysis and engagement as well as a look at poverty in America. It is suitable for undergraduate courses in organizational change, strategy, and social entrepreneurship as well as graduate courses in non-profit management.

**Research Methods**

This critical incident is not disguised. All information comes from secondary sources.

**Learning Objectives**

The learning objectives of this critical incident are for students to:

1. Identify causes and possible consequences of the organizational change.
2. Explain mission drift and its foreseeable consequences as well as infer the unforeseen consequences.
3. Develop stakeholder analysis.
4. Propose and defend an appropriate course of action for Kiva.
5. Discuss different types of poverty and the role that entrepreneurship, financial services, and non-profit organizations can play.

**Questions**

1. Using a stakeholder dialogue approach, what does the analysis reveal about lender attitudes and issues that Kiva should consider? How should they respond to the angry lenders?
2. Has Kiva lost its way? Are they experiencing mission drift?
3. What role do the supporters play in shaping the organizations course? Because Kiva is a non-profit, do they have a greater responsibility to their stakeholders (both lenders and borrowers) than a for profit company?
4. Does the unhappy Kiva lender have a point? Do consumers in the developed world deserve the same support as those who have never even had access to financing?
5. Is poverty relative?

**Learning Objectives and Questions Matrix**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | LO1 – Organizational Change | LO2 – Mission Drift | LO3 – Stakeholder Analysis | LO4 – Course of Action | LO 5 – Discussion of Poverty |
| Q1 |  |  |  |  |  |
| Q2 |  |  |  |  |  |
| Q3 |  |  |  |  |  |
| Q4 |  |  |  |  |  |
| Q5 |  |  |  |  |  |

**Answers to Questions**.

1. **Using a stakeholder dialogue approach, what does the analysis reveal about lender attitudes and issues that Kiva should consider? How should they respond to the angry lenders?**

Kiva emphasized the concept of community in its approaches to both lenders and borrowers. One of the potential risks of fostering a community of lenders was that they could then react en masse through social media and be vocal in their objections to Kiva’s proposed new approach of lending inside the US.

Lenders were not in it for the money; if they had been then measurable return on investment would be the objective criterion. Mittelman and Rojas (2013) found that Kiva lenders were principally intrinsically motivated to make a small difference in the lives of the working poor. Their psychological interests in terms of personal satisfaction from lending to the needy abroad and also satisfaction of philosophical goals of assisting people in developing countries to progress were both fed by Kiva’s focus on developing countries.

A first step in understanding Kiva’s position could be in identifying the relevant stakeholders and completing an adapted Stakeholder Perspective Form (see Table 1 below) as described in Reade, Todd, Osland, and Osland (2008). For many nonprofits, stakeholders can be grouped into three main constituencies – the organization (founders, management, employees, board of directors), supporters (donors, members, volunteers), and recipients of their product/service (clients, public). In this critical incident, five stakeholders can be identified – the Kiva Team, the Unhappy Lenders/Supporters, the Happy/Silent Supporters, the American Entrepreneurs/Borrowers, and the Entrepreneurs/Borrowers in the Developing Countries.

Table 1

Stakeholder Perspective Form

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Stakeholder 1  Kiva | Stakeholder 2  Happy /Silent Lenders | Stakeholder 3  Unhappy Lenders | Stakeholder 4  American entrepreneurs | Stakeholder 5  Entrepreneurs in developing countries |
| Who are they and what do they value? |  |  |  |  |  |
| What do they hope to gain in this situation? |  |  |  |  |  |
| What will they do if situation changes? |  |  |  |  |  |
| Shared similarities with other stakeholder groups |  |  |  |  |  |
| Differences with other stakeholder groups |  |  |  |  |  |

Based on the analysis of the Stakeholder Perspective Form, Kiva could then employ a stakeholder dialogue approach as described in Reade, *et al.* (2008, p. 827):

1. Communicate and listen mindfully. Global leaders listen to other parties carefully and attentively, watching for verbal and nonverbal signs indicating lack of understanding. Respectful communication practices help to foster positive attitudes toward all stakeholders and build trusting relationships that create the foundation for collaboration. In contrast, negative attitudes and offensive language hinder collaboration.

2. Seek common ground and shared goals. Focus on common goals that supersede individual stakeholder interests and explore options for proceeding even in the midst of differences. Be open to constant interpretation and reinterpretation of issues, focusing on nuances rather than assuming adversarial positions. Minimize stereotypes.

3. Scrutinize your own assumptions. Never assume that there is nothing to learn from the local context or that the knowledge one brings to the local context is “new.” Move beyond historical– present day comparisons. Accept that conditions have changed, requiring new attitudes and behaviors to make progress. Don’t be afraid to change your opinion and acknowledge past mistakes. Be willing to accept influence from others. Rigidly adhering to one’s opinion both sets a bad example and becomes an obstacle.

4. Allow self-determination. Allow solutions to develop indigenously, from dialogue among local and global leaders. Seek and facilitate community buy-in. If community residents have an opportunity to voice their concerns, conflict may be averted. Complex problems involving multiple stakeholders are seldom permanently resolved. Expressing frustration over delays can prolong the situation. Expect ongoing dialogue and the need to balance competing tensions.

Based on the Stakeholder Perspective Form and Stakeholder Dialogue Approach, Kiva’s personnel could get a representative group of lenders together, presumably those living in the Bay Area, and discuss what to do. Given the global appeal of Kiva’s platform, an online community discussion could also be arranged. Some lenders should represent the Kiva Zip approach and others the traditional Kiva approach of assisting people in developing countries. Kiva’s managers obviously want to proceed with Kiva Zip but it could be that the lenders group could come up with useful suggestions; for example, perhaps Kiva could guarantee that lending in the developing world would continue to increase and that it would not be supplanted by loans in the US.

Lenders decide where to lend; Kiva Zip lenders might be motivated by different things and their voices should be heard in the stakeholder dialogue exercise. Of great importance as well is the enthusiasm people lending to the developing countries feel.

Kiva should have engaged in the aforementioned stakeholder dialogue to refine Kiva Zip. It should still do so to give dissenters and supporters a voice, that could very well improve the execution of Kiva Zip. For now it should proceed with the program to see what results follow.

1. **Has Kiva lost its way? Are they experiencing mission drift?**

Mission drift (also referred to as mission creep) occurs when an organization takes on new activities that lie slightly outside the core purpose. Gradually, as efforts and resources flow in that direction, the organization’s outcomes shift. Mission drift in microfinance organizations is a widely studied topic and usually refers to a change in the loan products towards larger loans, charging higher interest rates, and a movement away from targeting the poorest borrowers.

Hishigsuren (2007) evaluated a microfinance organization that served poor women in rural India and found that mission drift was not the result of a deliberate decision but rather a consequence of the scaling up process. In an attempt to reach as many clients as possible with the benefits of microfinance, efforts may lead to a tendency to provide larger loans to clients who are less poor while employing stricter loan-screening procedures. This change in product offerings, in turn, could result in decreased attention to and exclusion of the so-called riskier and poorer clients; an outcome in direct conflict with many microfinance organizations’ mission statements.

Kiva’s mission statement is “We are a nonprofit organization with a mission to connect people through lending to alleviate poverty” (About Us, 2014). The statement says who they are, what they do and what they hope to achieve.

On the one hand, notice that geographic boundaries, program limits or loan amounts are not mentioned. That gives Kiva latitude to adapt their programs and services to new opportunities and changing conditions without suffering mission drift.

However, this simple explanation ignored the important role of perception and stakeholders attitudes. The stakeholder analysis should reveal that there may be a disconnect in the understanding of the mission between the organization and some of its supporters. According to Kotler et al. (2010, p. 52), “when a brand’s mission is successfully implanted in consumers’ minds, hearts, and spirits, the brand is owned by the consumers.” The supporters, whose enthusiasm and participation is central to Kiva`s success, may choose to view the mission statement in very different terms.

The lenders care very deeply about Kiva and its mission. Flannery and Shah’s responsibility is to make sure that the organizations view and the supporters view align properly. Kiva needs to be conscious of the possibility of finding itself in the future in a situation where its lending objectives have been transformed. For this reason it’s important that Kiva’s managers meet with constituents from time to time to reassess that the aforementioned stakeholder management process.

1. **What role do the supporters play in shaping the organization’s mission and course? Because Kiva is a non-profit, do they have a greater responsibility to their stakeholders (both lenders and borrowers) than a for profit company?**

Non-profit organizations typically operate in complex environments with multiple stakeholders and supporters, such as employees, individual donors, institutional funders, referral agencies, government officials, volunteers, and clients or participants. When a non-profit organization, such as Kiva, has emphasized a strong sense of community it becomes incumbent on leadership to listen to its stakeholders (i.e., lenders in this instance). By doing so, they become subject to the expectations of not only formal authorities but also of each of the stakeholders as well as entities such as the media and the general public (Balser and McClusky, 2005).

The heads of a corporation can easily claim that its purpose is “to maximize shareholder value.” From that core purpose, any stakeholder can infer how its performance will be measured and how its leaders will make strategic trade-offs. But nonprofits lack such inherent clarity of purpose (Jonker and Meehan, n.d.). Non-profits are expected to be accountable to multiple stakeholders: upwards to their funders or patrons, downwards to clients, and internally to themselves and their missions (Ebrahim, 2010).

Responsiveness may be problematic when multiple stakeholder groups have varying, and sometimes conflicting, expectations of the non-profit organization. In addition, stakeholders may want things that the non-profit cannot provide or that it believes it should not provide. Therefore, when organizations encounter conflicting pressures or expectations that are inconsistent with internal objectives, they should try to find a compromise between the inconsistent expectations.

Non-profits view maintaining community relationships as vital for being perceived as accountable and legitimate by stakeholders (Ospina, Diaz, and O’Sullivan, 2002). To facilitate communication between the community members and the non-profit for the purposes of educating and engaging, the organization may use conferences, advisory committees, member surveys to obtain input from community members, and newsletters and data sheets to reach out to constituents (Balser and McClusky, 2005).

According to Balser and McClusky (2005, p. 297):

“Strategic management of stakeholders entails not merely responding to stakeholders but guiding the stakeholders’ expectations and their evaluations of the NPO. By influencing expectations so that they are aligned with the non-profit’s values, missions, and capabilities, non-profits enhance the likelihood of being perceived as responsive to stakeholder needs and the public interest, and therefore as effective organizations.”

1. **Does the unhappy Kiva lender have a point? Do consumers in the developed world deserve the same support as those who have never even had access to financing?**

The working poor in developing countries often appear more deserving of assistance than Americans. The contrast can be great where even the poor in the US might have a TV, refrigerator, air conditioning, adequate caloric intake and even enough to become obese, have an iPhone, and so forth. The angry Kiva Lenders in the critical incident cite an example of a recent Kiva loan request from a U.S. entrepreneur who had a college degree and a career in architecture who wanted to start a business in website design. The loan he requested was for $7000 to start the business, an amount the lenders suggest could help 7 to 10 different borrowers in other parts of the world. The anti-U.S. lenders claim that lending to U.S. entrepreneurs doesn’t alleviate poverty because Americans aren’t living in true poverty, compared to people in underdeveloped countries.

On the other hand, Shah makes a compelling case for the need for a micro-lending platform in the U.S. He says more than 10 million U.S. business owners face difficulty obtaining capital—even before the credit crisis and economic slowdown which made lending tight. And there’s no doubt that with the credit crunch creating a drought of lending, small businesses in the U.S. are finding it tough to find funds, especially if their financial history isn’t stellar. Finally, there is nothing wrong with giving U.S. lenders the opportunity to boost entrepreneurship at home, especially at a time where jobs created by small businesses can help lift the economy out of a recession.

The track record of assistance to the poor in developing countries has not been strong; their lives are seldom transformed with a single microfinance loan. One could argue both sides but neither appears to have compelling evidence. The developing world’s poor make only marginal progress and the poor in the US may have already had a chance and failed to capitalize on it.

The decision ultimately depends on the preference of the lenders; they can act on their preference to lend to the developing world or assisting Americans. One could argue that Bill Gates knew a lot more about business than the developing world; perhaps his riches could have fostered growth in the US but it was his choice to do what he preferred.

1. **Is poverty relative?**

As mentioned above, the poor in the US are apparently better off than the poor of the developing world. However, this may be superficial as well. In spite of greater wealth in the US of material goods, the social problems associated with poverty could make life more unpleasant for the poor that are trapped in crime plagued ghettos where too many people suffer drug and alcohol related abuse. Anyone who has worked in Africa, for example, can attest to the apparent solidarity some villagers seem to feel. Thus poverty is indeed relative but judging who is better off requires the voice of the villager or poor person in the US.

In Kiva’s response to unhappy lenders, they offered the following:

*Kiva’s Definition of Poverty*  
  
We believe poverty is a global phenomenon, and can exist in every country around the world. We do not believe poverty is bound by national border, race, gender, ethnicity, citizenship, educational background, or life experience. We believe poverty has the potential to affect any person, and that no-one is immune from poverty.  
  
We believe poverty is relative. There are many definitions of poverty that exist. One very common global definition is those who live on less than $1 a day. Many countries measure income to create their own “poverty line”, below which those living in that country are considered “poor”. The United Nations Development Program uses a [Human Poverty Index](http://en.wikipedia.org/wiki/Human_Poverty_Index) that considers life expectancy, literacy, unemployment and income level. Others believe that poverty is something more abstract.  
  
We believe there is no exclusive definition of poverty that defines who is poor and who is not poor. We respect that there are many different opinions of what it means to be poor, and we respect an individual’s interpretation of poverty that is most meaningful to them. We also believe that, within any poverty definition, one might further distinguish moderate poverty from extreme poverty, and we respect that there are many different ways an individual may understand the various levels of poverty that may exist.  
  
We believe there are many factors that contribute to poverty. These can include access to credit, access to employment, access to education, access to health services, and access to food and clean water. As there are many contributing factors to poverty, there are also many solutions to poverty, none of which can eradicate poverty alone.  
  
We also believe poverty is an impermanent state. We believe that it is possible for an individual to move out of poverty, as well as to fall into poverty, according to circumstances that take place.  
  
As such, Kiva does not define poverty for each individual entrepreneur on the Kiva website. Instead, we strive to provide an environment where people can choose who to support based on their own definition of poverty.

Source: <http://blog.kiva.org/2009/08/03/a-message-in-response-to-your-questions-about-the-us-pilot>

**Additional Pedagogical Materials**

The Kiva Zip critical incident provides additional opportunities to explore entrepreneurship in the developing world as well as discuss the marketing of poverty alleviation and charities with the following activity. This could be done either before or after the critical incident.

Before class begins, students are encouraged to bring in $2 each which will be used for charitable purposes in a classroom activity. It is not mandatory for a student to contribute the $2 to participate in the exercise. We set a goal of $50 so that we could make two loans on Kiva.org. This activity has been tested in classes of 25-45 students. If possible, students should also bring their laptops.

The activity begins with an introduction to Kiva.org. There are a number of pre-made Kiva introductions for the university classroom at http://www.kiva.org/do-more/campus.

A Kiva account and lending team are created for the class by the professor ahead of time. The professor deposits $50 into their account in anticipation of the students repaying these funds. This way, the funds are in the account and are ready to be lent in class. In brief, students are broken up into small groups where they will select and present a borrower as worthy of a loan. The class will vote on the most worthy borrowers and with the money raised in class, loans will be made.

Phase 1 - Choosing a Borrower

In small groups (no more than five), students review the profiles of entrepreneurs on Kiva.org by visiting the site and clicking on the Lend tab. Encourage the students to use the different search options and to think about why they have selected the borrowers that they have. Students should note what is it about that particular borrower that made them review their profile. In their group, they must choose one borrower they feel should receive a loan.

Phase 2 – Marketing Borrowers

After choosing a borrower as a group, the student must prepare a group presentation of no more than two minutes in which they need to ‘market’ or ‘sell’ their chosen borrower to the rest of the class as a worthy recipient of a loan. Students can highlight any number of attributes in their attempt to convince the rest of their classmates to vote for their borrower. If possible, the professor can put the entrepreneurs profile up in front of the class.

Phase 3 – Voting

Each student now gets the opportunity to vote for the most worthy loan recipients. If you are making two loans ($50 collected), each students gets two votes (or if $75 collected, three loans and thus three votes each, etc…). Students cannot vote for their entrepreneur.

Phase 4 - Results and Making Loans

The votes are collected and tabulated. The borrowers receiving the most votes receive the loans. For example, with five groups presenting borrowers and $50 collected, the two borrowers with the most votes will receive a loan while the other three borrowers will not receive a loan.

With money already deposited into the professor’s Kiva account, the loans can be made right in class for the students to see.

**Epilogue**

Flannery, Shah, and the Kiva Team took the criticism very seriously. Less than 2 weeks after the announcement was made that Kiva would launch the U.S. pilot loans, they took the time to respond to some of the questions raised by the Kiva community in an open letter to all Kiva Lenders. That letter, which addresses many issues raised in the case, can be found here - <http://blog.kiva.org/2009/08/03/a-message-in-response-to-your-questions-about-the-us-pilot>.

Since then, Kiva has continued to expand its presence in the United States and with Kiva Zip. They now work with thirteen Field Partners from across the country. For example, former U.S. President Bill Clinton recently announced the Kiva would be facilitating loans in Little Rock, Arkansas (Reyes, 2013). At present, almost $9 million dollars has been lent to American entrepreneurs or 1.6% of the total amount lent on Kiva.org (“Statistics”, 2014).

Furthermore, Kiva has continued to expand their scope with initiative financial products for student loans, clean and accessible energy, financing agriculture, and leveraging mobile technology through Kiva Labs (<http://www.kiva.org/labs>).

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