other. Investors and boards are likely to increase the emphasis on this holistic picture, in which the whole is greater than the sum of its parts.

Good disclosure does not necessarily mean that the underlying pay practices are also good. Nonetheless, the salutary light of disclosure should prompt companies and boards to improve the underlying compensation practices.

Pay for performance stands at the heart of compensation best practices. More than anything, investors want to see that executive pay matches performance. They look to the compensation report to connect the three legs of the pay-for-performance triangle: predetermined targets, actual performance and actual payouts.

Next year we are likely to see increasing shareholder pressure against compensation that is unrelated to performance or even constitutes pay for failure. Likely targets will range from excessive golden parachutes to executive perks such as personal use of airplanes. And expect other practices—such as tax gross-ups and padding supplemental executive-retirement plans with extra years of service—also to come under fire.

As best practices evolve, it's helpful to keep an eye on the ultimate goals. In a virtuous circle, better disclosures should lead to better compensation practices, which in turn should produce better long-term corporate performance and stock prices.

Let's also think of compensation best practices in terms of responsibilities—and not just corporate responsibility. With investors entrusting the board to represent them, executive compensation serves as a window into an otherwise closed boardroom. By ensuring that directors fulfill their duties, investors help to fulfill their own responsibilities as owners. CRO

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Using a Humanitarian Business Model

Combining new types of enterprise and technologies can lead to market opportunities

BY FAISAL HOQUE

PHOTOGRAPH FROM ISTOCKPHOTO.COM

COMPANIES SEEKING TO make a difference and a profit would do well to adopt a social business model. Social businesses have a humanitarian mission but are set up to earn a profit in a model superior to traditional philanthropy because it is self-sustaining.

SKS Microfinance, a nine-year-old company operating in India, makes tiny loans to poor people that enable them to establish or expand a simple business. SKS illustrates three key principles for success that are also valid for traditional businesses as they try to navigate their hyper-competitive marketplaces: an intimate understanding of the customer, a business model that adapts to difficult economic environments, and the innovative use of technology. The business model and the technology should be created together and managed as one.

Achieving this "convergence" of business and technology is extremely difficult for traditional corporations, and yet our research shows that those who are successful do better financially than their peers. Social businesses seem to find it easier, perhaps because: they are young and unburdened by legacy practices, they are highly motivated to succeed and they realize that they can only reach their goals with a creative intertwining of business process and technology.

Understanding the Customer

SKS has built its model to reflect its customers. It knows that the poor in remote villages trust each other, so it works with groups of five people, who will guarantee the loan should the recipient default. (It ▸

has a 98 percent repayment rate, even though it asks for no collateral.) It also lends to women, because it knows they are more likely than men to spend the money wisely for the family's benefit.

An Appropriate Business Model

SKS has honed its business processes for efficiency. When a field staffer visits a village to collect payments, all borrowers are expected to be in one place at the same time, to save the staffer from having to track them down. They repay the same amount each time in multiples of five rupees (about $0.13) to avoid having to make change.

It's not simply deciding to go do good somewhere in the world. It's having a holistic management framework and analytics through which the company can rationally assess such opportunities in the context of the company's mission and strategy, and then act effectively.

The company's business model draws on best practices from the corporate world. According to founder and CEO Vikram Akula, "SKS has adapted a standardized distribution process used by companies like Coca-Cola, a factory-style training for a semi-skilled force drawn on principles of McDonald's franchise training, and a decentralized hub-and-spoke model which draws from Starbucks."

Innovative Technology

SKS developed software with a graphical user interface that anyone can learn—most of the field staff have little or no computer experience. The system tracks each transaction so that headquarters can quickly spot problems. It has an online data transfer capability through which it can send transaction information to the head office daily. All transactions are consolidated and compressed so that they can be sent over a dial-up connection in less than two minutes.

Borrowers pay as much as 20 percent on their loans, but it is worth it—local loan sharks can charge as much as 300 percent—and the borrowers make enough money with their loans to pay them back. This rate is enough, after expenses, to attract big banks like Citibank, ABN AMRO, and HSBC to lend money. And, with its lean processes and innovative technology, SKS can earn a profit of two percent, which it uses for expansion.

Corporations are eager to explore the developing world, because that's where their next customers are. Doing so, as a social business, will introduce them to new markets. Earning a profit will ensure that their endeavors are well designed and actually meet a real need.

AMD, the semiconductor manufacturer, for example, is committed to enabling Internet access and computing capabilities for 50 percent of the world's population by the year 2015. "It's not just goodwill," Chairman and CEO Hector de J. Ruiz says. "It's good business."

With various partners, AMD creates learning labs that experiment with new technologies and business models. In a poor neighborhood of Sao Paulo, Brazil, for instance, it has launched a magazine and web portal and is seeking to make them profitable. It has discovered that people will pay for Internet connectivity if it helps them find a job or improve their health.

French food company Groupe Danone has partnered with Grameen Bank in Bangladesh to produce low-cost, nutritious food for the poor. It created a unique business model, using microfinance to fund startup businesses that will supply the factories while employing the poor living nearby. Profits from the first factory, built in 2006, are being reinvested to spread this "proximity" model around the country.

Endeavors like these are the new era of business model innovation that is made possible when business and technology activities are converged. It's not easy. Companies need rigorous management capabilities that enable them to sense new market opportunities and respond with a business and technology architecture that guides their investment decisions.

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I have seen the power of social businesses in remote villages of my native Bangladesh through the work of BRAC and Grameen. These endeavors give all of us in business an opportunity to lend a hand to those who are less fortunate. CRO

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