Chapter 10

Microfinance Institutions Influenced by National Culture: An Evidence Based on Investigating 35 Countries

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ABSTRACT

Many studies deal with the determinants of countries’ culture or efficiency of microfinance institutions (MFIs). The purpose of this chapter is to fill the gap in the literature, namely, to analyze the connection between national cultural features and indicators of countries’ microfinance institutions. The authors summarize the mission and operation of microfinance institutions, the six dimensions of national culture and three knowledge strategies. 35 countries representing the subject of the research, the statistics of which are available for both MFIs’ side and national cultural side. The rank correlation and the investigation of TOP 5 countries show that the MFIs are successful in countries characterized by high level of power distance, collectivistic culture, high level of uncertainty avoidance and restraint culture. The chapter also lists few countries where MFIs could be successfully introduced based on their national cultural features and recommends certain knowledge strategies for effective operation.

INTRODUCTION

The management of knowledge has become popular topic nowadays. In knowledge economy knowledge has also become a strategically important resource and the performance driver for organizations (Yesil & Dereli, 2013).

The relevance of national culture itself and cultural differences have become more crucial especially for organizations operating in several countries, international markets or even having employees from
different cultures. Reducing poverty is a key strategic goal for most countries, and the methods of applied to this could depend on national culture as well. The idea of founding microfinance institution (MFI) comes from Professor Muhammad Yunus. MFIs lend very small sums of money to extremely poor clients (billions of unbanked adults, who are unable to access traditional banking services) in order to provide financial assistance for starting their small-sized enterprises. He established the first MFI named The Grameen Bank in Bangladesh (India) in 1979. The vision of this bank type does not focus on achieving more and more profit instead it fights against poverty, as an altruistical mission (Balogh et al., 2013). Muhammad Yunus and the Grammeen Bank won the Nobel Peace Prize in 2006 for their efforts to create economic and social development from below.

The World Bank classifies countries based on income into the following four categories: low-income economies, low-middle-income economies, upper-middle-income economies and high-income economies. As a result, the classification of some countries has changed each year. Andy Sumner (2012) argued that most poor no longer live in the low-income economies, but the middle-income countries. The basis income levels of this classification are modified by World Bank in each year. World Bank’s Poverty and Equity Database can serve as a quick snapshot of the severity of poverty affecting the world. This database contains 32 series (plus population data) about 174 countries covering 42 years from 1974 to 2015 (World Bank, 2016). Appendix 1 (Table 6) shows the average annual change of the number of people and the percentage of the population, living on less than $1.90 or $3.10 a day at 2011 purchasing power parity. Years were observed from 2000 to 2013 and 2013 was the last year from which data was available. 30 countries having at least 10 data were selected from 14 years. The gray background cells of Appendix 1 show that despite the government actions, the number and the percentage of population living on less than $1.90 follows a slight but increasing trend in the case of Lithuania, Latvia and Hungary.

The objective of this chapter is to identify the national cultural types in which MFIs widespread. Based on this knowledge those countries could be listed which do not have MFIs yet, but where introducing it would be worth and this might need some kind of knowledge strategy.

The chapter can provide useful information on the one hand to practicing managers of MFIs concerning the potential countries where the expansion of their activity could be a success, or evaluate their managerial strategies applied previously. On the other hand this study can help all debutant managers of small business, because MFI promotes small business, so these institutions can be considered as one of the elements which support small business strategies’ sustainability. Furthermore this chapter serves helpful insights for individuals, entrepreneurs and policy makers from countries with limited availability of financial resources and big share of poor population.

The chapter is structured as follows. First, the Background section summarizes the analyses made regarding MFIs, presents the national cultural dimensions, and demonstrates how knowledge strategy could serve poverty reduction. After presenting the research question the databases used for the examination are presented which is followed by the hypotheses the study aimed to examine. Not only descriptive statistics are introduced, but the methods and their results are also presented in the paper. Based on these results the paper contains recommendation and shows research directions to be followed in the future as a continuation of this study.
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