Strategic Use of Information Technology in the Spanish Microfinance Sector

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ABSTRACT

This paper analyzes the relationships between IT and microfinance in a developed country. Its main purpose is the study of the intensity of IT use in the sector, focusing on IT-related management of its organizations. Two different goals related to actual IT use have been identified. Information Technologies have indeed been used as a tool to provide information, both to prospective clients and with a more general scope. Furthermore, improvements on management due to IT use have also been encountered, such as on-line direct support to would-be entrepreneurs through specific software. The paper also considers whether IT use adds effective value to the performance of some or all Spanish Microfinance Institutions (MFIs). It is found that such strategic use of IT is less widespread, related primarily to financial transparency issues, more clearly shown by MFIs linked to the social economy.

Keywords: Financial Transparency, Information Technology Adoption, IT Management, Microfinance, Social Economy, Strategic Use of IT

INTRODUCTION

As technical changes, such as information systems or information technologies, become increasingly available, their potential power to transform organizations has also increased (McLoughlin, 1999). At the same time, advanced IT\(^1\) has the potential to support innovative and strategic responses to the challenges faced by the organizations (Castells, 2000).

Currently, IT has been explicitly regarded as a strategic resource for public, private and nonprofit organizations alike, in a number of recent theoretical and empirical works. Measures of performance nevertheless differ between for-profit and nonprofit organizations. While financial performance is a basic guide to strategy development in the for-profit sector, it has to be replaced with other measures, such as efficiency and effectiveness in achieving its mission, in the nonprofit and public sectors (Moore, 2000). Based on several profit and cost-based performance measures, results of a well known study conducted by Bharadwaj (2000) on a group of large firms indicate better performance of firms with high IT capability. Similar

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findings are reported by Ragowsky and Gefen (2008) concerning the competitive advantage provided by the use of information systems in (large) manufacturing companies, stressing their strategic impact in increasingly complex environments. Those results also matter to small businesses, as shown by Smith (1999) or Lee, Kim, Choi, and Lee (2009) amongst others, correlating the knowledge and use of IT to the firm’s performance.

The use and effects of technology on nonprofit organizations have also been studied to some extent in the literature. Results indicate that significant numbers of voluntary organizations show a “relatively low use and application of the core networking technologies, [...] thus under-exploiting the transformational and learning capabilities inherent within these technologies” (Burt & Taylor, 2000, p. 132; referring also to Gordon, 1998). Saidel and Cour (2003) report on nonprofit organizations’ awareness of the effect of IT on their missions, although “it is not clear [...] just how carefully decision makers examine the relationship between mission and technology” (p. 22). Basic use of IT is widespread among nonprofit organizations; even though their employment of IT to help fulfill the organizational mission is significantly lower (Hackler & Saxton, 2007). Strategic change in several nonprofit organizations has nevertheless been encountered and studied in the literature (Elliot, Katsioloudes, & Weldon, 1998; Burt & Taylor, 2000, 2003; Finn, Maher, & Forster, 2006).

Specifically regarding microfinance, reported uses of IT include the adoption of several technical devices for operational purposes. Among them, the use of Smart Cards to reach clients more efficiently (Cecchinni & Scott, 2003) or the development of remote hand-held transaction systems to process the spot loan applications and approvals (Claessens, 2006) could be mentioned. Improvements in specific information infrastructures allow technology to bring down transaction costs (Beck, Demirgüç-Kunt, & Honohan, 2009; Attali, 2000). Nevertheless, the overall presence of Microfinance Institutions (MFIs) on the internet is scarce. According to Gutiérrez-Nieto, Fuertes-Callén, and Serrano-Cinca (2008), only large MFIs have high degrees of public exposure on the internet and, on the whole, levels of financial or social disclosure of MFIs’ programs are to be considered low. Quite expectedly, they also found a positive correlation between the levels of development of a country and MFIs’ use of the internet (for reporting).

This paper is meant as a contribution to the analysis of the relationships between IT and microfinance. It is of particular interest because it deals with the use of internet by microfinance firms in Spain, an area which has not been researched before, nor in neighboring countries. Its main goal is the study of the intensity of IT use in the sector, focusing on IT-related management of its organizations. At the same time, we shall consider whether such use adds effective value to the performance of some or all Spanish MFIs; that is, whether the analyzed IT use can be regarded as strategic.

The paper is structured as follows: next section presents the research methodology, while the two subsequent ones examine in turn IT resources available to the Spanish microfinance sector and the impact of IT use in the management of the MFIs. In the two final sections a discussion of strategic issues and some concluding remarks are found.

**DATA AND RESEARCH METHODOLOGY**

The study considers the most relevant Spanish microcredit programs. As in most European countries, in Spain there is no specific legislation on microcredit (European Commission, 2007). This includes the absence of a regulatory framework. Therefore a definition of the Microfinance Institution in Spain through its legal status can not be provided. Different institutions have been identified as suppliers of microcredit, including savings banks, foundations and diverse types of nonprofit associations.

By the end of 2008, when the fieldwork for this paper started, the Spanish microfinance
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