Microfinance: Going Global And Public

Strategic Management

Microfinancing is when financial services such as loans are offered up to the poor population that do not have access to traditional banking practices. In terms of the case, microfinance involves a small loan with a high rate of interest. It lends itself to group-lending rather than individuals because of the transaction costs. Examples of microfinancing organizations are Grameen Bank, Compartamos Banco, and Bank Rakyat Indonesia (Dess, McNamara, Eisner, Lee, 2019). The major stakeholders in the case of microfinancing are donors, customers, creditors, and employees. The concerns of each of the groups of stakeholders can overlap and differ depending on their overarching goal with their involvement. The purpose of donors is to provide funds for the organization to achieve its goal of empowering the poorer population while making a profit. The concerns of donors are to outreach and essentially make a return on the money invested. The involvement of the donors depends on whether the microfinance organization wants to shift towards being commercial (Bayulgen, 2008). Customers of a microfinance organization have their needs met through it. They are concerned with the total price of borrowing money from these organizations. Such factors that impact the borrowing price are interest rates, lower transaction costs, and benefits for group borrowing. Creditors are loan providers, debt holders and bankers that lend money to the customers. Concerns of creditors on boards may create a conflict of interest when it comes to making financing decisions. Employees on boards have concerns for the company and may provide biased information thus can lead to incorrect board decision making. Employees on boards can lead to lower financial results and have less outreach than those who do not (Mori, 2010). While having different percentages of stakeholders on the board can affect the outreach and the financial output of the microfinance organization, each stakeholder is essential to the success and running of the organization. It is incorrect to say any type of stakeholder is more important. The customers create a need for the organization to exist. The creditors and donors provide funds, information, and push for financial gains. The employees run the internal day-to-day processes to ensure the microfinance to able to maintain its purpose. These stakeholders work together to make sure their goals are achievable thus leading to the success of the microfinance organization.

The Microfinance foundations are associations or organizations whose fundamental action is to give the poor in the less created nations with devices to work themselves out of destitution. The examination discovered that microfinance associations continue recharging their systems to accomplish an upper hand in the current regularly changing and fierce condition. The fundamental system utilized by the associations is making the credits modest, and the preparation is made snappy and basic. Various difficulties were recognized facing the usage of the methodologies. These incorporated the impersonation of techniques by different associations, high staff turnover, and innovative headways. Microfinance establishments have developed step by step. The main purpose of the microfinance institutions in Nairobi is to enable poor people to engage in self-employment activities (Kota, 2007). The individuals from the foundations are welcome to open investment accounts and they can obtain twice or even triple as much as they have spared relying upon the approaches of the various foundations. A few microfinance organizations additionally run various social projects, for example, directing desperate individuals, drug abuse, wellbeing, and life protections. Gathering loaning is the most observed MF advancement making it out of the ordinary compared to banking, regardless of whether MF goes past it. Visit reimbursements (momentary portions, beginning following payment) are another shrewd sober minded gadget, maintaining a strategic distance from inflatable installments where the chief is altogether repaid at development: given the monetary lack of education of numerous poor (that think that its difficult to comprehend that 'time is cash'), delaying reimbursements for a considerable length of time to come would for the most part end up in a calamity, for them and for the impulsive (Donou-Adonsou, Sylwester, 2017). In the present monetary atmosphere, banks are ending up progressively pulled in to business sectors they didn't already serve. While most banks like to arrive at these new markets by supporting MFIs, a few banks are beginning to offer MF items themselves (Bussard, 2006). As the MF division turns out to be progressively noticeable and full-grown, connections between the banking and MF areas ought to develop into an increasingly productive and expanded joint effort. As to as an extra market portion could be significant for banks so as to expand exercises as far as effort and in business areas.

In microfinance institutions' attempt to assuage global impoverishment by way of loaning funds on a small scale at an elevated interest rate for a, usually, decreased the period of time, they shoulder heightened risk and cost (Toindepi, 2016). These amplified elements of the loans can prove challenging to the duration and lasting of organizations in the microfinance business. When comparing the cost and return of Banco and Grameen to those of traditional banks, the results are the opposite of what one would expect management to want to see in terms of profit margin and lowering costs. Sacrifices must be made in the areas of profit and price in order to better the state of the destitute parties. The costs of loans of larger pools of funds are a fraction of those when those funds are broken up into smaller segments, which is precisely what microfinancing does. Conversely, the returns on the slices of loan amounts are much lesser than those on large loans. The interest rates may be higher, but the brief periods in which the loans are repaid minimizes the profit that would occur on a loan lent for a more standard period of time. However, if the interests of an organization are not primarily to generate a large margin of profit for itself, but to improve the well-being and economic state of the less fortunate, these are the tradeoffs that must be made. Luckily, there are ways management of these firms can combat the life cycle issues that come along with this method of operation. One way that could be of aid is the concept of going public to generate resources. After an initial public offering, returns on deposit must be split between the growth of the bank, the bank members, and the new stockholders. This investment holds management at a higher level of responsibility for maximizing long-term success for the good of every group of shareholders (Page & Pande, 2018). Banco, BRI, and Equity First have already instituted public trading and are all testimonies to how an IPO can enhance the openness and disclosure of information between stockholders and the firm in which they've invested. Another factor that could benefit microfinance is the ballooning of its user base and the reliability of those individuals who fall into this user category. Returning customers who consistently repay their debts and use the borrowed money to improve their financial standing, thus stabilizing their ability to repay, enter a symbiotic relationship with the lending institution. Both the lender and the lent to come out of a loan better than when they entered if both parties hold up their end of the bargain. At first glance, the methodology of microfinance banks may exhibit more hiccups and hassles than strengths and advantages. If we take a second look, however, we can see that, though small in increment, the good done is so important to humanity as a whole and proper measures can counter the potential issues that will undoubtedly arise.

Leaders in today's interconnected and unpredictable global marketplace will face a variety of challenges, especially those involved in microfinance institutions. To succeed, leaders must recognize and continually reevaluate the interdependence of organizational activities, including setting a direction, designing the organization, and nurturing a culture dedicated to excellence and ethical behavior. Setting a direction occurs when leaders formulate a vision and strategy of what they want the organization to become. They must be able to effectively scan the environment to learn about their stakeholders and other environmental trends and events. Through this process, leaders can solve complex issues, be proactive, and develop strategic options. After Banco established his institution, he observed that Mexico’s population was growing much faster than jobs. He reevaluated his strategy and began offering larger loans to groups of people, specifically women.

Designing the organization consists of building structures, teams, systems, and organizational processes that allow leaders to implement their visions and strategies. Lack of leadership engagement can create problems, such as implementing ineffective reward systems, inadequate or inappropriate budgeting and control systems, or insufficient processes to coordinate and integrate activities across the organization. Budgeting is crucial and an error could cause a situation where there is not enough capital to meet the needs of the beneficiaries and to help those who need financial help which would cause management to reconsider the design of the institution (Dahir, 2015).

Excellent and ethical organizational culture is focused on core competencies and upholding high ethical standards. Leaders are responsible for developing and sustaining their organizational culture, which involves the values and beliefs that contribute to the social environment. Yunus and Banco had to make a decision of whether to go public to obtain funds which could alter their organizational culture, whether intentionally or not. Excellent organizational cultures require self-sustainability. This concept refers to the ability to continue providing services to the poor while maintaining operational activities and financial obligation without assistance, but if necessary leaders must decide how to acquire capital (Massele and Fengju, 2016).

The ideal scenario would be for bank members, the poor, to provide adequate capital without compromising the institution’s mission. Members are likely to be negatively affected by going public. Grameen Bank funds loans from members’ deposits only.. On the other hand, Banco went public and his institution was able to grow and offer more loans. Foreign investors were rewarded with returns and interest rates decreased, but the returns to the poor decreased which conflicts with their organizational culture. Banco should have evaluated the investors and only accepted those committed to the institution’s mission. The need for more capital and pressure to lower interest rates poses a great challenge. Banco, along with other public institutions leaders, must balance fiduciary obligations to their investors and the welfare of society through clear strategic objectives.

The internal corporate governance mechanism is the primary focus of microfinance. The focus of these microfinance institutions is to provide micro loans to poor individuals. Grameen Bank is owned by the borrowers, so upper management must act in the interest of the owners. This strategy becomes difficult when a microfinance institution goes public. Once this occurs, the borrowers and the shareholders have a conflict of interest. As stakeholders, both groups contribute to the wealth-creation process and must be integrated into the decision process (Sachs & Maurer, 2009, p. 539). The shareholders want profitability, but managers must prioritize the borrowers.

Compartamos Banc must cater to both shareholders and borrowers. Neglecting one group for another could impede the growth of the firm. Providing for the poor is morally just, but managers may feel pressure from shareholders to show profitability. The relationship between senior management and shareholders is the vertical aspect of corporate governance. The vertical aspect is focused on upper management’s loyalty to shareholders and their ability to stay on track with the company’s strategy (Urban, 2019, p. 2). The goal of microfinance is to advance the poor from poverty. This, however, could be seen by investors as a project with high risk, which requires just compensation.

Corporate social responsibility also plays a role in microfinance. Companies should innately have a moral obligation to improve upon society. By providing micro loans, the poor have a chance to lift themselves out of poverty. This benefits society in two ways. First, it ameliorates the stress imposed on government welfare programs. Second, the micro loans provide funds to individuals who are unable to receive funds through a traditional loan. Easily accessible funds for individuals and small businesses spurs economic growth. These companies are supporting the poor by providing assistance that the government is unable to provide.