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Research paper



Factors influencing people to approach micro finance institutions in India

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Abstract

Microfinance or Microcredit is providing financial access to the low-income people to improve their living standard and also this will enhance the growth of national economy. Micro Finance Institutions (MFIs) provide financial services such as loan, savings, investment, insurance, money transfer and other financial products customized for low-income people. It is a highly competitive market consisting of banks, private financial institutions, local money lenders with exorbitant interest etc. Creating awareness of MFIs among the financially backward people and establishing their trust on the upcoming commercial offering is a tedious job, which requires thorough knowledge and analysis skills in addition to keen observations on the trends of financial markets. The current paper gives an insight on the factors influenc-ing common people or the driving factors to approach MFIs for their financial activities. In this paper, Interpretive Structural Modelling (ISM) approach is applied to find the interrelationships among the factors and driving power and dependence power of those factors con-cluding with most influential factors, purpose and legal elements which influences the people to approach MFIs.

Keywords: *Micro Finance Institutions; Microcredit; Micro Finance Factors; Interpretive Structural Modelling*

1. Introduction

The Micro finance business model was proposed by the Noble laureate Mohammad Yunus by starting Grameen Bank in Bangladesh to help billions of low-income people and eradicate poverty throughout the world (Yunus 1999). This marked as a major change in financial sector and aided women to start their own business. Micro Finance is small quantity of financial service provided to the low-income or poor. These services include loan, savings, insurance, transfer of funds, equity transaction etc., to meet their needs during the emergency (Tchuigoua 2015).
Adonsou and Sylwester (2017) has studied the difference of microfinance with traditional banks in macroeconomic condition by collecting data from 85 developing countries and observed over a period of 2002-2013 using economic growth and investment as indicators and inferred MFI credit is mainly employed to raise economic growth than that of bank lending. Micro finance mainly targets working women than that of men, as they have more desirable outcome and their performance is better compared to men, also using innovative strategies for improving training and service provision in order to make it cost effective and relevant to the needs of women, including self-financing (Pitt and Khandker 1998). The operational and financial stability of this sector is weak and needs to be concentrated to sustain in this competitive market. Micro finance operates in two different business models, namely Self-Help Groups (SHG) and Joint Liability group (JLG). There are many studies conducted regarding the frameworks and the factors based on ethical, social, organizational, market, legal factors and etc., either separately or few factors grouped together. This paper mainly discusses the relationships among the MFI factors using ISM approach.

2. Literature review

The literature consists of two parts, namely MFI factors influencing people and it is followed by ISM approach.

2.1. Literature review on MFI factors influencing people

Kwon (2010) studied microfinance global market and the structure of their business model from 1998 to 2007 in 83 countries of over 600 MFIs and examining their organisational, market and socio-cultural factors on their financial model, financial services combination provided, such as loans, insurance and savings. Each institution may vary with their financial model as it depends upon the purpose of the organizations and also the customer needs in that location. Also discuss about the models available in different region and why they vary in their structure. Kwon (2010) considers rate of interest under market factors that are mainly dependent on strict regulation. This also enhances the growth of the micro-insurance market. Chiu (2015) studied 112 MFIs from 2008 to 2012 in 34 countries based on resource-based argument and institutional theory. Diversity is the widespread of the institutions over countries and it is measured by the resource-based factors. This helps us to measure the intensity of engagement of the institution around country. This helps the customers' access of the institution all over the country. Panda et al. (2013) describes the service provided by the MFI is timely and adequate service to the poor people and enable them to access credit and fight poverty.
Dasgupta (2006) prepares a design on delivery network of microfinance service. Also, emphasis the purpose of these MFIs is to provide financial services in descending priority of savings, loan, insurance and fund transfer to the needed low-income people. The purpose is also classified as primary and secondary. The primary

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purpose is to provide services that include savings, loan, fund transfer and insurance and the secondary purpose includes the remaining services. Ahmed et al. (2013) suggests the better way to provide valuable service to poor is by proposing the government regulation and improvised organizational governance. These factors comprise the legal elements that must be followed by the lenders as well as borrowers for smooth process and this may help to finish the process on time and enhances mutual growth. Chiu (2015) develops a framework on ethical finance and related it to an organization to study about its obligations. Fairness is achieved when employees gives preference to the interests of the client than his own interest. MFIs must act more responsibly to develop the image of the profession among public by maintaining minimum ethical behaviour including a reasonable interest rate, a fair arrear rate and by helping clients. These factors make the firm act more positively, responsibly and with confidence and desirability in their action. Allet (2013) collected data from 160 MFIs through a survey and took semi-structured interviews of 23 MFIs top managers. CSR activities are the social activity that helps the organization attains its mission for the social welfare of society. Also found that the MFIs with social responsibility promote environment friendly practices through the financial and non-financial services.

2.2. Literature review on ISM

ISM approach is applied in the various areas and it is demonstrated in Table1

Table 1: ISM Approach Applications

Sl.No	Authors	Application area
1	Jharkharia and Shankar (2005)	Applied ISM to analyze the barriers of IT enablement of supply chains
2	Jain and Banwet (2013)	Used ISM for analyzing the selection criteria of long-term strategic alliance partner.
3	Ravi et al. (2005)	Used ISM for productivity improvement process in computer hardware supply chain.
4	Saleeshya et al. (2012)	Framework developed for agility assessment in supply chain network using ISM with analytic hierarchy process
5	Ambika Devi Amma et al. (2015)	Applied ISM for analyzing major threads of cloud computing
6	Patri and Suresh (2017b)	Applied total ISM for analyzing agile factors in healthcare organization.

3. Methodology

3.1. Data collection

The data was collected from 15 respondents from experienced employees working in MFIs in Tamil Nadu, India. It was collected by conducting interviews with the respondents and noting down the responses provided by them.

3.2. ISM approach

The following steps are used to illustrate modelling procedures of ISM (Patri and Suresh, 2017a):

1) Factors were identified from literature review and expert interview and Table 2 contains the factors identified for people to approach MFIs for their financial activities.
2) Self-structured Interaction matrix is created to depict the contextual relationship among two factors and it is represented as following,

V: i alters j
A: j alters i
X: J and I are mutually influences
O: J and I do not influence each other

The SSIM matrix derived from the interaction among the variables according to the data collected are represented in Table 3.

3) The initial reachability matrix is developed using the SSIM. The step carried for conversion is as follows,

From SSIM (i,j)	V	A	X	O
Initial reachability matrix (i,j) entry	1	0	1	0
Initial reachability matrix (j,i) entry	0	1	1	0

It is represented in Table 4.

4) Final reachability matrix is derived using table 3 and using transitivity analysis. That is, if K=L and L=M then K=M It is represented in Table 5.
5) Partitions of final reachability matrix is created based on three sets namely, reachability set, antecedent set and intersection set. The various iterations are depicted in Table 6, 7, 8, 9, 10, 11.
6) Digraph is created using the level partitions and final reachability matrix. The factors are divided into levels and the interaction between the factors in the same level and the adjacent levels are represented and the digraph is noted as Figure 1.

Table 2: Identified Factors for Influencing People to Approach Mfis

Sl.No.	Factor	Definition	References
1	Financial Model (F1)	The combination of financial services provided, such as loans, insurance and savings	Kwon (2010)
2	Rate of interest (F2)	The annual rate that must be paid for the debts borrowed or received for the saving	Kwon (2010)
3	Diversity (F3)	Widespread of the institutions over countries	Chiu (2015)
4	Integrity (F4)	The act of being consistent between one's words and behaviour.	Chiu (2013)
5	Purpose (F5)	The quality of being of objective	Dasgupta (2006)
6	Fairness (F6)	Treating customers with respect and dignity, and to thrive towards a balance of the permissible interests among all affected parties.	Chiu (2013)
7	Professionalism (F7)	Maintaining and developing the image of the profession and thrive to improve the service quality provided to the public.	Chiu (2013)
8	Service provided (F8)	Performing a work or service for a customer or an institution that needs it in exchange for legitimate remuneration.	Panda et al. (2013)
9	CSR activities (F9)	The social activities enable the institution to achieve its social mission for the welfare of the society	Allet (2013)
10	Legal elements (F10)	The rules to return the credit and the consequences that must be faced if one does not repay the debt at stipulated time	Ahmed et al. (2013)

Table 3: SSIM Matrix for Factors Influencing People to Approach Mfis

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10
F1	1	O	V	O	A	O	O	V	O	A
F2		1	O	O	A	O	O	V	O	A
F3			1	O	A	O	V	V	O	O
F4				1	A	V	X	O	O	O
F5					1	V	V	V	V	V
F6						1	V	V	O	A
F7							1	V	O	O
F8								1	A	A
F9									1	O
F10										1

Table 4: Initial Reachability Matrix

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10
F1	1	0	1	0	0	0	0	1	0	0
F2	0	1	0	0	0	0	0	1	0	0
F3	0	0	1	0	0	0	1	1	0	0
F4	0	0	0	1	0	1	1	0	0	0

F5	1	1	1	1	1	1	1	1	1	1
F6	0	0	0	0	0	1	1	1	0	0
F7	0	0	0	1	0	0	1	1	0	0
F8	0	0	0	0	0	0	0	1	0	0
F9	0	0	0	0	0	0	0	1	1	0
F10	1	1	0	0	0	1	0	1	0	1

Table 5: Final Reachability Matrix

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10
F1	1	0	1	0	0	0	1*	1	0	0
F2	0	1	0	0	0	0	0	1	0	0
F3	0	0	1	1*	0	1**	1	1	0	0
F4	0	0	0	1	0	1	1	1*	0	0
F5	1	1	1	1	1	1	1	1	1	1
F6	0	0	0	1*	0	1	1	1	0	0
F7	0	0	0	1	0	1*	1	1	0	0
F8	0	0	0	0	0	0	0	1	0	0
F9	0	0	0	0	0	0	0	1	1	0
F10	1	1	1*	1**	0	1	1*	1	0	1

Table 6: Iteration-1

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
1	1,3,7,8	1,5,10	1	
2	2, 8	2,5,10	2	
3	3,4,6,7,8	1,3,5,10	3	
4	4,6,7,8	3,4,5,6,7,10	4,6,7	
5	1, 2,3,4,5,6,7,8, 9,10	5	5	
6	4,6,7,8	3,4,5,6,7,10	4,6,7	
7	4,6,7,8	1,3,4,5,6,7,10	4,6,7	
8	8	1, 2,3,4,5,6,7,8, 9,10	8	I
9	8,9	5,9	9	
10	1, 2,3,4,6,7,8,10	5,10	10	

Table 7: Iteration-2

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
1	1,3,7	1,5,10	1	
2	2	2,5,10	2	II
3	3,4,6,7	1,3,5,10	3	
4	4,6,7	3,4,5,6,7,10	4,6,7	II
5	1, 2,3,4,5,6,7, 9,10	5	5	
6	4,6,7	3,4,5,6,7,10	4,6,7	II
7	4,6,7	1,3,4,5,6,7,10	4,6,7	II
9	9	5,9	9	II
10	1, 2,3,4,6,7,10	5,10	10	

Table 8: Iteration-3

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
1	1,3	1,5,10	1	
3	3	1,3,5,10	3	III
5	1,3,5,10	5	5	
10	1,3,10	5,10	10	

Table 9: Iteration-4

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
1	1	1,5,10	1	IV
5	1,5,10	5	5	
10	1,10	5,10	10	

Table 10: Iteration-5

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
5	5,10	5	5	
10	10	5,10	10	V

Table 11: Iteration-6

Factor	Reachability Set	Antecedent Set	Intersection Set	Level
5	5	5	5	VI

4. Results and analysis

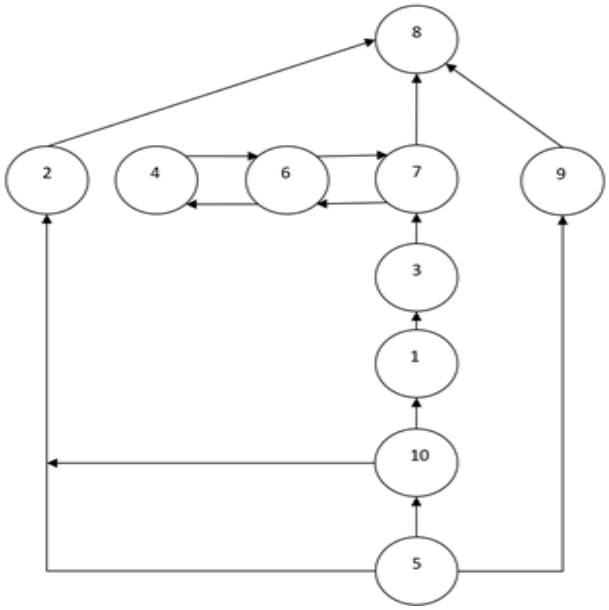


Fig. 1: Digraph of ISM Model.

Level VI factors: five

F5 directly influences F10 in fifth level, as Purpose directly influences legal elements that have to be followed as ethics in organization. Purpose factor directly influences all other factors as it is the goal or aim towards which MFIs thrive to achieve, so all other factors work to carry out the objective of the firm.

Level V factors: 10

F10 directly influences F1 in fourth level, as legal elements are strictly controlled and monitored by Reserve Bank of India (RBI) so MFIs must enforce the statutory mentioned and maintain proper legitimate process. F10 also influences interest rate as mentioned in RBI regulations. Legal elements also influence fairness of the institution towards their customer and the implementation of fairness would gain trust of the customers. Service provided is also influenced by legal elements as the service provided must be legally acknowledged and authorised by RBI.

Level IV factor: [1].

Factor F1, financial model directly influences F3, diversity as the customers need loans for diverse needs so the financial model must be crafted in such a way to fulfil their expectation and also the situation will vary in each place and the need for money would differ in accordance with priority of culture, festivals, etc., so MFIs must provide a diverse and customized offering. Financial model also influences service provided as the offerings would vary according to the model.

Level III factor: [3].

Factor F3, diversity influences factor F7 professionalism, as employees have to be diverse in their approach towards customer in order to attract more customers who are divergent in nature. The people approach microfinance for different reasons which make diversity an important factor to lead the professionals.

Level II factors: [2], [4], [6], [7] and [9].

Factor F2, the annual rate that must be paid for the debts borrowed or received for the saving directly influences the service provided factor F8 as the rate of interest is the monthly income received by MFIs for the given loans, with that money only they can improve the service provided. Factor F9, CSR activities directly influence the service provided, as this creates an awareness of the kind of service rendered and the advantage to the customers for choosing their institution for financial service. Factor F7, professionalism also influences service provided directly as this influences the way that service is rendered to the customers by the employees.

Factor F4, F6, F7 are mutually influenced with each other. These are ethical factors and they have been influencing service provided also. Fairness, integrity and professionalism are the ethical factors

that drive the employees to give a unbiased, impartial and noble service to the customers. This may help to gain customers loyalty and spread good word of mouth to others who are in need of financial services.

Level I factors: [8]

Service provided is at level [1], this factor is directly influenced by factors F2, F4, F6, F7 and F9. All other factors indirectly influence F8 since it is the highly dependent factor. Service provided is the critical factor through which the customers are attracted and retained by the institution.

5. MICMAC analysis

MICMAC analysis is the development of a MICMAC graph and rank factors on the basis of driving power and dependence power. The MICMAC graph is presented in figure 2.

Autonomous factors (Zone-I): Financial model, rate of interest, diversity, CSR activities.

Dependent factors (Zone-II): Integrity, fairness, professionalism, service provided.

Linkage Factors (Zone-III): Nil

Independent Factors (Zone-IV): Purpose, Legal elements

Table 12 represents the MICMAC rank of the study where Rank 1 corresponds to the most crucial factors and Rank 8 corresponds to the least important factors among all.

		Zone-IV					Zone-III				
Driving Power➔	10	F5									
	9										
	8		F10								
	7										
	6										
	5				F3						
	4			F1			F4,F6	F7			
	3										
	2		F9	F2							
	1										F8
		1	2	3	4	5	6	7	8	9	10
		Zone-I					Zone-II				
		Dependence Power ➔									

Fig. 2: MICMAC Graph.

Table 12: MICMAC Analysis and Rank Determination

Factor	Driving power	Dependence power	Driving power/ Dependence power	MICMAC rank
F1	4	3	1.333	3
F2	2	3	0.667	6
F3	5	4	1.250	4
F4	4	6	0.667	6
F5	10	1	10.000	1
F6	4	6	0.667	6
F7	4	7	0.571	7
F8	1	10	0.100	8
F9	2	2	1.000	5
F10	8	2	4.000	2

Purpose and legal elements are critical and key factors. MFIs should concentrate on these key factors to attract more customers.

6. Conclusion

This paper provides the employees perception on the factors influencing customers to approach MFIs for their financial activities and also provides insight about the factors that help to retain customers. This paper will help the MFIs to concentrate on the important factors that drive people. ISM methodology has been beneficial in finding the relationship between the factors and help us to identify the most significant factors. MICMAC approach used in this study is providing an added advantage of ranking factors which will help to identify specific factors influencing preference over various MFIs. The paper concluded that the purpose and legal elements are the crucial factors which influence the people to approach MFIs.

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