Chapter 20
A Comparative Integration Study of Performance Metrics in Microfinance:
Grameen Bank vs. Cooperative Bank

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ABSTRACT

This study aims to understand the cause-and-effect relationship between financial and non-financial measures under a balanced scorecard (BSC) model in the microfinance sector of Bangladesh. Structural equation modeling is employed to test non-financial relationships hypothesized under BSC model and one sample t-tests are conducted to further relate non-financial variables to the financial performance variable for two microfinance providers. While all non-financial variables share positive and significant relationships, findings show that customer perspective and internal business process factors are quite strong and more evident for Grameen Bank than a cooperative bank. As such, microfinance providers which will improve their non-financial perspectives can ultimately benefit from increased financial performance. The article draws attention to microfinance providers so that they can address shortcomings in their current performance measurement systems and identify mechanisms that can help them improve their financial performances. Implications and future directions are discussed too.

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Introduction

Microfinance is a sustainable finance option and an effective rural banking channel for the unbanked population of developing countries. It is, in fact, a significant element in the new developed form of globalization (Cabanda & Domingo, 2014). The main idea of microfinance is to provide the poor people with credit and other financial services of very small amounts so that they can raise their income levels and improve their living standards (Khalily, 2004).

In actual, microfinance is the modernized version of "microcredit" concept which was pioneered in the 1970s by the noble laureate Professor Mohammad Yunus (Ahmed, 2001). In fact, it is Bangladesh which pioneered and fostered the institutional development of microfinance. Today, it is considered as the most dominant and efficient tool for economic development throughout the world (Zaman, 2013). According to Yunus (1998), the concept of microfinance is a trial and tested one which believes that the involvement of lending-repayment process with different socio-cultural activities can result in the empowerment and social development of the overall community. The initial process experimented with lending to poor women in the villages of Bangladesh and over time established an institutionalized version of the micro credit model, namely Grameen model. Based on this model's success, an organizational structure was authorized by the 1983 national legislation to offer microfinance services as an independent bank, namely Grameen Bank (Shil, 2009). This Grameen Bank is now the flagship of the international microfinance movement, whose model has been replicated by low-income and marginalized communities in Asia, Africa and the Americas including USA (Nisha & Rifat, 2017). At present, around 160 million people in various developing countries are served by microfinance.

In the context of one such developing country - Bangladesh, success of microfinance as the largest and most efficient sector has only been achieved through the support and competition among various institutions. With the progress of commercialization, microfinance facilities got initiated in different institutions and non-governmental organizations (NGOs) in Bangladesh. For instance, there are four types of institutions currently involved in microfinance activities namely Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Proshika, Association for Social Advancement (ASA), BURO, etc. Moreover, commercial and specialized banks like Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB) and government-sponsored microfinance projects like BRDB, Swanirvar Bangladesh and such others has directly or indirectly affected the social conditions of the country to a large extent. These different institutions drastically changed the economic scenario and made it possible for more than 13 million poor households of Bangladesh to have access to credit through microfinance (Hulme & Moore, 2007).

Recent addition to this microfinance market are the co-operative banks of Bangladesh that are providing limited-scale banking and financial services to the unbanked population of the country (Rahman, Luo, Ahmed, & Xiaolin, 2012). A prominent role played by a co-operative bank in this regard is the Dhaka Mercantile Co-operative Bank Limited (DMCBL). This institution is strongly involved in financing economic activity that aims at sustainable development by offering microcredit to the poor and financially deprived people of Bangladesh (Ahmed, Nisha, & Rifat, 2016). In order to ensure smooth economic development, DMCBL intends to protect the interest of low earners and to develop the socio-economic conditions. By increasing banking access in areas or markets, DMCBL actually aims to reduce banking exclusion and foster the economic ability of millions of people in Bangladesh just like any other microfinance service providers (Khan, Halabi, & Masud, 2010).

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