


# Chapter 31


## How Does National Culture Influence Microfinance Institutions?

### Evidence Based on Investigating 45 Countries

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#### **ABSTRACT**

*Many studies deal with the determinants of countries' culture or efficiency of microfinance institutions (MFIs). This chapter aims to fill the gap in the literature by analyzing the connection between national cultural features and indicators of countries' MFIs. The summary of analyses made regarding MFIs is followed by the national cultural dimensions, and how knowledge strategy could serve poverty reduction. Forty-five countries represent the subject of the research. Their statistics are available for both MFIs and national culture. Rank correlation and investigation of TOP5 countries show that the MFIs are successful in countries characterized by high levels of power distance, collectivistic, long-term-oriented and restraint culture. Based on these results, the chapter lists countries where MFIs could be successfully introduced based on their national cultural features and recommends certain knowledge strategies for effective operation. Finally, research directions as a continuation of this study are also presented.*

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## **INTRODUCTION**

One of the segments of the collaborative economy is open knowledge (Palos-Sanchez & Correia, 2018) and the twenty-first centuries itself can be considered undoubtedly the century of knowledge (Jelenic, 2011). The connection the management of knowledge and national culture appeared to be a dividing question for a while for certain researchers (Ang & Massingham, 2007). However, the relevance of national culture itself and cultural differences have become more crucial nowadays especially for organizations operating in several countries, international markets or even having employees from different cultures. The idea of cultural differences being associated with differences in management cannot be considered new. It can be traced back to the 1950s, e.g. to the work of Morris (1956) who developed his analysis of dimensional human values to give a scientific basis to previous philosophical elaboration of human values. On the other hand, from another point of view, it is suggested that every culture distinguishes itself from others by the specific solutions it chooses to certain problems that reveal themselves as dilemmas (Trompenaars & Hampden-Turner, 2000). For most countries reducing poverty is a key strategic goal, and the methods of applied to this could depend on national culture and cultural differences as well. To help the operation and spread of microfinance institutions (MFIs) and the establishment of good conditions to manage knowledge, it is important to be aware of the roots and reasons for cultural differences.

The idea of founding 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 altruistic mission (Balogh et al., 2013). Muhammad Yunus and the Grameen 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. 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 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 64 series (plus population data) about 169 countries and 16 aggregates (e.g. Europe & Central Asia, Sub-Saharan Africa) covering 45 years from 1974 to 2018 (World Bank, 2019). Appendix (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 \$3.20 a day in 2011 purchasing power parity (PPP). Years were observed from 2000 to 2018 and 2017 was the last year from which data was available. Appendix contains only those countries for which data for both years (2000, 2017) were available. That means only 15 countries. For example, Hungary has not provided data on the examined poverty indicators since year 2016. Appendix shows that the number and the percentage of population living on less than \$1.90 or \$3.20 follows decreasing trend in the examined 15 countries.

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

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