

Borrower's Outreach and Market- Driven Financial Products of Microfinance Institutions: Sustainable approach of Khushali and Microfinance Bank in Sindh

Muhammad Shaaban Jamro¹, Noor Shah Bukhari², Syed Maqsood Zia Ahmed³, Imran Ahmed Shah⁴

¹Shah Abdul Latif University, Khairpur

²Shah Abdul Latif University, Khairpur

³Shah Abdul Latif University, Khairpur

⁴School of Management and Economics, University of Electronic Science and technology of China, Chengdu

Abstract:

The aim of the study was to investigate borrower's outreach and market-driven financial products of microfinance institutions in Sindh focusing on the Khushhali and Sindh Microfinance Bank. For this purpose, a survey was conducted from 270 participants associated with microfinance institutes of Sindh. In this manner, the confirmatory factor analysis and path analysis was conducted for the purpose of conducting a comparative analysis between the banks. Therefore, the results of the study determined that there is a significant effect of the attitude, behavior innovative product, need-driven products and level of access on the Market-Driven Products of Microfinance Banks. Besides, it was found that the level of accessibility and adoption of innovative products of Sindh Microfinance banks users in the context of market-driven financial products are less than Khushhali bank.

Keywords: Borrower's Outreach, market-driven products, small banks, microfinance banks.

1. Introduction

Although the microfinance institutions have had certain success in terms of overcoming the structural barriers which have influenced the provision of financial services to the needy people, it is broadly supposed that there is inadequate progress has been made in the lower divisions of the poverty spectrum (Anyanwu, 2020; Chen, Chang and Bruton, 2017; Gounaris et al., 2005). In this manner, it is evident that the people who are very poor may be excluded from the microfinance institutions activity. In contrast to this, most of those who initially participate are more likely to drop out of the microfinance programmes. The major purpose for such failure with respect to the microfinance institutions especially in the Pakistani regional rural banks in terms of achieving the retention of the customers and greater participation of the very poor segment. In this manner, this segment has been recommended to be a lack of market orientation with respect to the companies that supply money. In particular, it is evident that the microfinance institutions are fundamentally a product rather than the businesses that consider the customer-driven approach. On the other hand, there is more poverty in the rural areas of Sindh (Memon, Magsi and Magsi, 2015). In this manner, people who are the residents of rural areas of Sindh require huge loans in terms of investing in their fields and crops. However, the lack of a market-driven approach by the microfinance institutions resists these consumers to avail the loan.

In this manner, the existing literature associated to the organisational performance and market orientation is not well defined and does not provide the theoretical platform which could comprehend the microfinance institutions of Sindh in order to pursue their outreach objectives. It has been argued in the study of Tunn et al. (2019) that the attainment of market-driven products helps the companies to gain the attention of the consumers. In this manner, the performance of the company is increased as more number of people are attracted to the products presented by banks. It has been evident from the literature that the facilitation of market orientation assists towards the attainment of organizational goals by acquiring a comprehensive understanding regarding the requirements of the customer along with the competitive conditions. The major problem is associated with the availability of loan for the poor and needy people in the rural areas of Sindh. In contrast to this, there is still availability of the loans for the people but the poor and needy people are not able to avail the loans due to lack of market-driven products. It has also been stated in the study of Veesar and Hassan (2020) that the microfinance banks in the region of Sindh do not focus on the needs of the consumers which affects the availability of products which is according to the needs of the consumers.

1.1. Research Gap

Although the market-driven approach of the microfinance banks with respect to the demands of poor people has been much discussed in the context of regional microfinance institutions, however, the microfinance institutions in Sindh have not been emphasized upon. Moreover to this, the comparative analysis has also not been carried out on the Khushali bank and Sindh microfinance banks. In addition to this, if the market-driven approach to the development and delivery of financial services is to be implemented among these microfinance institutions, therefore, the factors which affect the nature and extent of market orientation in the regional microfinance institutions in Sindh must be further investigated (Imran, Aziz and Hamid, 2017). Therefore, this study has focused on determining the borrower's outreach on the availability of market-driven products of microfinance banks in Sindh which is the comparative analysis of Khushali and Sindh Microfinance banks.

2. Literature Review

One of the major dimensions for the purpose of determining the way in which market-oriented behaviour enacted is the behaviour and attitude of the customers. This attitude and behaviour of the customers are necessary while considering the needs and demands of the target market which influence the delivery and development of the suitable products for the purpose of encouraging them to borrow from microfinance institutions (Gounaris et al., 2005). In addition to this, the attitude and behaviour of the poor people specifically in Sindh are among the major challenges which the company had to face while emphasising upon the market-driven products. It is due to the reason that there is an unequal distribution of income among the people of Sindh which creates the difficulties for the microfinance institutions operating in Sindh to determine the different attitude and behaviour of various people and present the products which best caters the need of these people with different attitudes and behaviour. In this manner, the attitude and behaviour as the factor of borrower's outreach have been examined on the availability of market-driven products of microfinance banks in Sindh. The first hypothesis of the study has been provided below:

H1: Attitude of the Borrower significantly influence the availability of market-driven products of microfinance banks in Sindh

H2: Behaviour of the Borrower significantly influence the availability of market-driven products of microfinance banks in Sindh

On the other hand, the level of access is yet another factor which has been determined as the major factor of the borrower's outreach. It is due to the reason that most of the consumers find it difficult to have access to the loans provided by microfinance banks. It has been argued in the study of Elamer et al. (2019) that the level of access influence the banks to provide market-driven products. On the other hand, the literacy rate of the rural areas in Sindh is low as compared to the urban areas of Sindh. In this manner, the loans are not accessed by the poor people as they are not well aware of the microfinance loans or procedures by the microfinance institutions. Moreover, there is a need to provide access to the loans for the poor people those are unable to avail the services of microfinance institutions. In this manner, the effect of the level of access has been tested on the availability of market-driven products of microfinance banks in Sindh. Therefore, the second hypothesis of the study has been provided below:

H3: Level of Access significantly influence the availability of market-driven products of microfinance banks in Sindh

Moreover, innovation helps the banks in terms of attracting consumers with respect to acquiring loans. It is due to the reason that the customers are attracted to innovative products. It has been argued in the study of Chen et al. (2017) that the innovativeness of the products helps the banks in terms of attracting more number of products. However, the innovativeness of the products must be market-driven. The major problem is associated with the issue of lack of product innovativeness. This leads the customers towards other banks and loan option for the purpose of catering their monetary needs. In contrast to this, there is a minimal possibility that the people in rural areas of Sindh will be attracted to innovative products due to the lack of education. They are not aware of the benefits provided by the innovative products of banks. It has been argued in the study of Wadho and Chaudhry (2018) that the people in Sindh are not aware of the benefits associated with the innovativeness of the products. In this manner,

they prefer to use the traditional methods of acquiring loans for their monetary needs. In this manner, the effect of innovative products on the availability of market-driven products of microfinance banks in Sindh has been tested in this study. Therefore, the third hypothesis of the study is provided as follows:

H4: Innovative product has significant influence over the availability of market-driven products of microfinance banks in Sindh.

Furthermore, the products presented by the microfinance institutions must be need-driven which are required to be according to the needs of the consumers. It is due to the reason that the products which cater to the needs of the consumers are more likely to attract people. It has also been argued in the study of Geng, Yang and Xu (2019) that the companies need to present the products which better caters the need of the consumers. On the other hand, need-driven products help companies to increase their market share. It is due to the reason that if the products best cater to the need of the consumers, they are more likely to make the purchase or avail the product. However, the needs of the consumers in rural areas of Sindh is difficult to determine due to the different education level and awareness of the loans. In this manner, the need-driven behaviour of the borrower’s outreach has also been tested on the availability of market-driven products of microfinance banks in Sindh. Therefore, the fourth hypothesis of the study has been provided below:

H5: Need-Driven products significantly influence the availability of market-driven products of microfinance banks in Sindh.

2.1. Conceptual Model

Figure 1 depicts the conceptual model of the study which depicts that the borrower’s outreach is the independent variable which consists of several controlled variables including attitude, behaviour, level of access, innovative product and need-driven products. Moreover, the dependent variable is the market-driven products of microfinance banks in Sindh. However, the model has also a moderator for a comparative analysis between the banks. This has led to the formation of another hypothesis as follows:

H6: There is a significant difference between the borrowers’ outreach of Sindh Microfinance Bank and Khushali Bank in Sindh

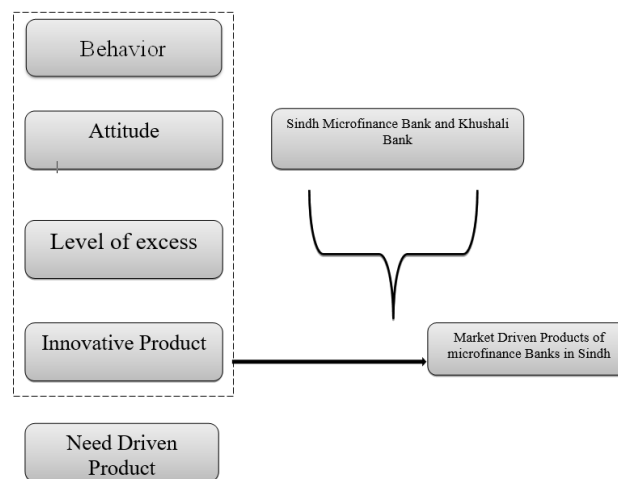


Figure 1: Conceptual Model of the Study

3. Methodology

3.1. Data Collection and Population

The researcher has used the survey process in this study for the purpose of gathering the responses. In this manner, the managers and employees of the microfinance institutions in Sindh were considered. In this manner, the findings of Fugard (2015) has been considered in terms of selecting the adequate sample size of the study. The equation for the estimation of sample size is as follows:

$$n = \frac{(1.96)^2 \times 0.5 \times 0.5}{(0.05)^2} = 384$$

Based on the above calculation, the adequate sample size for the study is 384 respondents. In this manner, the researcher provided the questionnaire to 390 respondents out of which 274 respondents provided the response. Therefore, the response rate is computed to be 70.25%

3.2. Sampling Technique

The researcher has selected the sampling technique for the purpose of gathering the responses. Therefore, non-probability convenience sampling has been used by the researcher in this study. It has been argued in the study of Farrokhi (2012) that non-probability convenience sampling is the type of technique which is adopted based on the accessibility and convenience factor.

3.3. Research Instrument

The researcher has used the survey questionnaire for the purpose of gathering the data from the respondents. In this manner, the questionnaire was developed on the five points Likert Scale which took 15 to 20 minutes for each respondent to provide the response. On the other hand, the dummy variable has also been considered in this study which is the microfinance banks. This variable is measured with the help of coding i.e. 0 and 1. Therefore, 1 denotes to Sindh microfinance institutions and 0 denotes to Khushali Banks.

3.4. Data Analysis Method

In this study, the Structural Equation Modelling (SEM) has been used as the method to analyse the data. The study of Martínez-López (2013) argued that SEM is the essential and modernised model to access the responses of survey. In addition to this, this model also involves the confirmatory factor analysis (CFA) and path analysis for the purpose of testing the moderation of variable.

4. Findings

4.1 Confirmatory Factor Analysis

The CFA is an essential dimension of the SEM model which comprehends the structure of the constructs for the purpose of examining the latent variables and constructs (Brown, 2012). In addition to this, the CFA also assists in terms of determining the validity and reliability of the constructs (Geldhof, 2014). In this manner, it has been argued in the study of Wong (2013) that the suggested threshold of outer loadings is 0.7. With respect to Table 1, it is evident that the factor loadings for all the items are above the threshold of 0.7. Therefore, there is no need to remove any item from the study. On the other hand, the threshold of composite reliability and Cronbach’s Alpha is 0.6 (Ahmad, 2016). Therefore, it can be identified from Table 1 that the lowest value for the Cronbach’s Alpha is 0.831 which meets the criteria of Cronbach’s Alpha. On the other hand, the lowest value for the composite reliability is determined to be 0.899 which is also above the threshold of 0.6. In this manner, it is evident that the constructs are reliable and can be assessed further. Moreover, with respect to the AVE, the threshold is considered as 0.5 (Afthanorhan, 2013). Therefore, it is evident from Table 1 that the lowest value for AVE is determined to be 0.749. It posits that the constructs possess convergent validity.

Table 1: Convergent Validity, Composite Reliability and Cronbach's Alpha

| Constructs | Indicators | Factor Loadings | Cronbach' Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|---------------------------|------------|-----------------|-----------------|-----------------------|----------------------------------|
| Attitude | ATT1 | 0.805 | 0.831 | 0.899 | 0.749 |
| | ATT2 | 0.924 | | | |
| | ATT3 | 0.864 | | | |
| Behaviour | BH1 | 0.896 | 0.879 | 0.925 | 0.805 |
| | BH2 | 0.926 | | | |
| | BH3 | 0.869 | | | |
| Innovative Product | IP1 | 0.866 | 0.859 | 0.911 | 0.773 |
| | IP2 | 0.911 | | | |

| | | | | | |
|-----------------------------------------------------|------|-------|-------|-------|-------|
| Level of Access | IP3 | 0.858 | | | |
| | LA1 | 0.893 | 0.893 | 0.933 | 0.824 |
| | LA2 | 0.928 | | | |
| | LA3 | 0.902 | | | |
| Market-Driven Products of Microfinance Banks | MDP1 | 0.894 | 0.889 | 0.931 | 0.819 |
| | MDP2 | 0.936 | | | |
| | MDP3 | 0.883 | | | |
| Need-Driven Products | NDP1 | 0.905 | 0.905 | 0.940 | 0.840 |
| | NDP2 | 0.942 | | | |
| | NDP3 | 0.902 | | | |

The below Table 2 depicts the discriminant validity among the variables which is estimated with respect to the threshold of Heterotrait-Monotrait (HTMT). It has been argued in the study of Franke (2019) that the threshold of HTMT is 0.9. With respect to the below table, it is evident that none of the variables exceeds the threshold of 0.9.

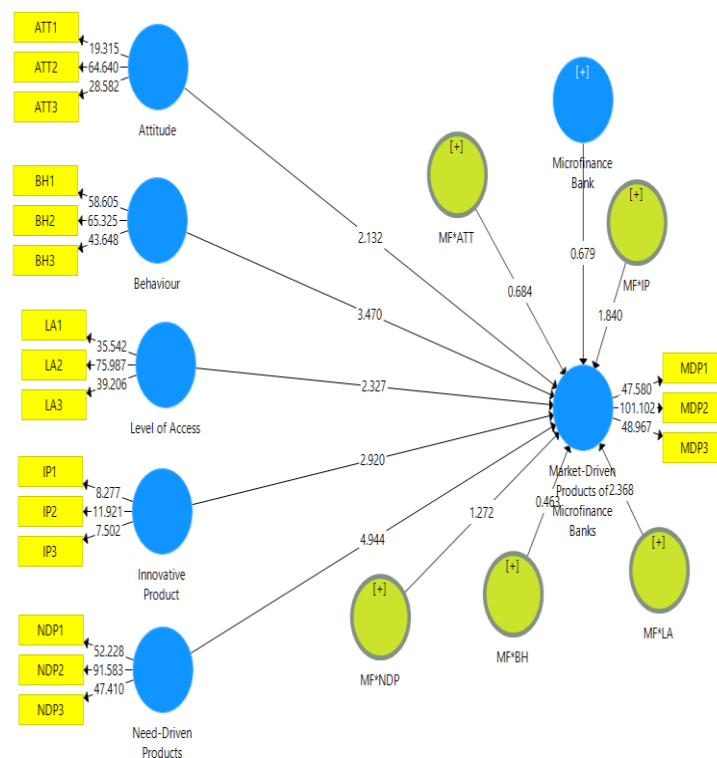


Table 2: Discriminant Validity

| | Attitude | Beha viour | Innovat ive Product | Level of Access | Market-Driven Products of Microfinance Banks | Microfin ance Bank |
|----------------------------------------------------|----------|---------------|---------------------------|-----------------------|-------------------------------------------------------|--------------------------|
| Attitude | | | | | | |
| Behaviour | 0.674 | | | | | |
| Innovative Product | 0.666 | 0.555 | | | | |
| Level of Access | 0.620 | 0.759 | 0.578 | | | |
| Market-Driven Products of Microfinance Banks | 0.428 | 0.595 | 0.184 | 0.494 | | |
| Microfinance Bank | 0.096 | 0.054 | 0.080 | 0.022 | 0.043 | |
| Need-Driven Products | 0.314 | 0.534 | 0.171 | 0.417 | 0.563 | 0.059 |

4.2 Path Analysis

Since the study has focused on the moderation effect, therefore the path analysis has been Conducted for the purpose of determining the effect among the variables. In this manner, it is evident from the below Table 3 that there is a significant effect of the attitude, behavior innovative product, need-driven products and level of access on the Market-Driven Products of Microfinance Banks. On the other hand, it can also be determined from the below Table 3 that there is significant moderation of microfinance banks on the association of innovative products an level of access with the Market-Driven products of Microfinance Banks However, borrowers’ outreach respect to the Sindh microfinance banks is lower than Khushali Bank due to the beta obtained as -0.130 and -0.182. Specifically, it was found that the level of accessibility and adoption of innovative products of Sindh Microfinance banks users in the context of market- driven financial products are less than Khushhali bank.

Table 3 Path Coefficients

| | Original Sample (O) | T Statistics (O/STDEV) | P Values |
|-------------------------------------------------------------------------|------------------------|---------------------------|-------------|
| Attitude -> Market-Driven Products of Microfinance Banks | 0.150** | 2.132 | 0.033 |
| Behavior -> Market-Driven Products of Microfinance Banks | 0.282*** | 3.470 | 0.001 |
| Innovative Product -> Market-Driven Products of Microfinance Banks | 0.193*** | 2.920 | 0.004 |
| Level of Access -> Market-Driven Products of Microfinance Banks | 0.174** | 2.327 | 0.020 |
| MF*ATT -> Market-Driven Products of Microfinance Banks | -0.047 | 0.684 | 0.494 |
| MF*BH -> Market-Driven Products of Microfinance Banks | 0.038 | 0.463 | 0.643 |
| MF*IP -> Market-Driven Products of Microfinance Banks | -0.130* | 1.840 | 0.066 |
| MF*LA -> Market-Driven Products of Microfinance Banks | -0.182** | 2.368 | 0.018 |
| MF*NDP -> Market-Driven Products of Microfinance Banks | 0.091 | 1.272 | 0.204 |
| Microfinance Bank -> Market-Driven Products of Microfinance Banks | 0.034 | 0.679 | 0.497 |
| Need-Driven Products -> Market-Driven Products of Microfinance Banks | 0.321*** | 4.944 | 0.000 |

* Significant at 10%, **Significant at 5%, ***Significant at 1%

5. Conclusion and Recommendations

The study focused on determining the borrower's outreach on the availability of market-driven products of microfinance banks in Sindh specifically in case of Khushali and Sindh Microfinance banks. The structural equation model has been adopted for the purpose of assessing the results from data which has been gathered from the managers and employees of the micro-finance institutions in Sindh. The path analysis determined that there is a significant influence of the attitude, behaviour innovative product, need-driven products and level of access on the Market-Driven Product of Microfinance Banks. In addition to this, the moderation of microfinance banks was determined among the association of innovative products and the level of access with the Market-Driven Products of Microfinance Banks.

References

- [1] Afthanorhan, W.M.A.B.W., 2013. A comparison of partial least square structural equation modeling (PLS-SEM) and covariance based structural equation modeling (CB-SEM) for confirmatory factor analysis. *International Journal of Engineering Science and Innovative Technology*, 2(5), pp.198-205.
- [2] Ahmad, K.Z., Alwee, S.H.S., Yusoff, Z.Z.M., Osman, S.I.W. and Tuah, S.N.A., 2020. The Association between Ethical Decision-Making, Job Satisfaction, Organisational Commitment and Selected Demographic Variables. *Malaysian Management Journal*, 7(2), pp.1-11.
- [3] Anyanwu, D., 2020. Institutional Logics and the Double Bottom Line: A Study of Chikum Microfinance Bank Limited.
- [4] Brown, T.A. and Moore, M.T., 2012. Confirmatory factor analysis. *Handbook of structural equation modeling*, pp.361-379.
- [5] Chen, J., Chang, A.Y. and Bruton, G.D., 2017. Microfinance: Where are we today and where should the research go in the future?. *International Small Business Journal*, 35(7), pp.793-802.
- [6] Chen, Z., Li, Y., Wu, Y. and Luo, J., 2017. The transition from traditional banking to mobile internet finance: an organizational innovation perspective-a comparative study of Citibank and ICBC. *Financial Innovation*, 3(1), pp.1-16.
- [7] De Winter, J.C., 2013. Using the Student's t-test with extremely small sample sizes. *Practical Assessment, Research, and Evaluation*, 18(1), p.10.
- [8] Deng, S., Liu, Y. and Qi, Y., 2011. An empirical study on determinants of web based question- answer services adoption. *online information Review*.
- [9] Elamer, A.A., Ntim, C.G., Abdou, H.A., Zalata, A.M. and Elmagrhi, M., 2019, April. The impact of multi-layer governance on bank risk disclosure in emerging markets: The case of Middle East and North Africa. In *Accounting Forum* (Vol. 43, No. 2, pp. 246-281). Routledge.
- [10] Farrokhi, F. and Mahmoudi-Hamidabad, A., 2012. Rethinking Convenience Sampling: Defining Quality Criteria. *Theory & Practice in Language Studies*, 2(4).
- [11] Fugard, A.J. and Potts, H.W., 2015. Supporting thinking on sample sizes for thematic analyses: a quantitative tool. *International Journal of Social Research Methodology*, 18(6), pp.669-684.
- [12] Geldhof, G.J., Preacher, K.J. and Zyphur, M.J., 2014. Reliability estimation in a multilevel confirmatory factor analysis framework. *Psychological methods*, 19(1), p.72.
- [13] Geng, L., Yang, Y. and Xu, Y., 2019. To pursue personality or conformity: A study on the impact of face view on consumers' need for uniqueness. *Psychology & Marketing*, 36(3), pp.188-197.
- [14] Gogtay, N.J., Deshpande, S.P. and Thatte, U.M., 2017. Principles of regression analysis. *Journal of the Association of Physicians of India*, 65, pp.48-52.
- [15] Gounaris, S., Megicks, P., Mishra, A. and Lean, J., 2005. Enhancing microfinance outreach through market-oriented new service development in Indian regional rural banks. *International Journal of Bank Marketing*.
- [16] Imran, M., Aziz, A. and Hamid, S., 2017. The relationship between entrepreneurial orientation, business networks orientation, Export market orientation and SME export performance: A proposed research framework. *International Journal of Academic Research in Business and Social Sciences*, 7(10), pp.230-248.

- [17] Kent State University. 2020. LibGuides: SPSS Tutorials: Independent Samples t Test. Retrieved, October 2020, from [Samples%20t%20Test%20compares%20the%20means%20of%20two, Independent%20t%20Test](#)
- [18] Martínez-López, F.J., Gázquez-Abad, J.C. and Sousa, C.M., 2013. Structural equation modelling in marketing and business research. *European Journal of Marketing*.
- [19] Memon, A.W., Magsi, I.N.A.Y.A.T.U.L.L.A.H. and Magsi, H.A.B.I.B.U.L.L.A.H., 2015. Prevalence of rural poverty in Sindh, Pakistan: case of TandoAllahyar District. *Euro Acad Res*, 2, pp.13296-307.
- [20] Reviewer.Pk, 2019. List of Best Microfinance Banks in Pakistan. Retrieved 10 October 2020, from <https://reviewer.pk/list-of-microfinance-banks-in-pakistan/>
- [21] Tunn, V.S.C., Bocken, N.M.P., van den Hende, E.A. and Schoormans, J.P.L., 2019. Business models for sustainable consumption in the circular economy: An expert study. *Journal of cleaner production*, 212, pp.324-333.
- [22] Veesar, G.Y. and Hassan, M., 2020. A Comparative Study of Customers Satisfaction of Microfinance in Sindh, Pakistan. *Global Management Journal for Academic & Corporate Studies*, 10(1), pp.106-118.
- [23] Wadho, W. and Chaudhry, A., 2018. Innovation and firm performance in developing countries: The case of Pakistani textile and apparel manufacturers. *Research Policy*, 47(7), pp.1283-1294.
- [24] Wong, K.K.K., 2013. Partial least squares structural equation modeling (PLS-SEM) techniques using SmartPLS. *Marketing Bulletin*, 24(1), pp.1-32.