



Non-Financial Performance Measures on Local Culture Basis in Assessing The Health of Microfinance Institutions

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ABSTRACT

Objective – Health assessment on microfinance institutions was conducted through non-financial measurements consisted of assessment on general and risk managements. The assessment was commonly used to assess commercial banks. Microfinance institutions, however, are differed to commercial bank in terms of their closeness to the poor. The paper presented the development and analysis of non-financial performance measures using local culture basis that can be applied to properly assess microfinance institutions.

Methodology/Technique – Qualitative study with ethnomethodology approach was applied to see cultural activities undertaken. Managers were considered as key informants. Results of qualitative study were analyzed using Fuzzy-Analytic Hierarchy Process method and Weighted Product Model was applied to weight the criteria and sub-criteria as well as the final assessment.

Findings – Results showed that local culture activities that could be used to assess general management in microfinance institutions were providing assistance in establishing places of worship, supporting religious activities, supporting the development of facilities and infrastructures in the villages, relief activities of cultural festival, helping in funeral, wedding favors, educational assistance, medical assistance, forming arts groups, and business group.

Novelty – This study suggests that non-financial performance measurements can use local culture and facilitate the management of microfinance institutions to perform performance measurement

Type of Paper: Empirical

Keywords: Non-Financial; Performance Measures; Local Culture; Microfinance Institutions.

JEL Classification: G21, G31.

1. Introduction

Microfinance institution has become an important issue in the previous researches regarding service to disadvantaged communities in developing country (Rashidah et al., 2016). About 72 percent of the society has no access to formal financial service (Honohan, 2008). Generally, there is a high demand on micro-financial service in various countries such as in Indonesia and Bangladesh of 80 percent (Karim et al., 2008). This microfinance is very important for business sustainability in developing countries (Crittenden et al., 2011; Sebhatu, 2009).

The Government of Indonesia has encouraged the growth of micro finance institution in various regions to give funding access to underprivileged rural society for them to have economic resistance, such as Rural Credit

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and Funding Institution (Lembaga Dana dan Kredit Pedesaan = LDKP) in West Java, District Credit Institution (Badan Kredit Kecamatan = BKK) in Central Java, Village Credit Institution (Lembaga Perkreditan Desa = LPD) di Bali, and so on. These financial institutions were inspired by Muhammed Yusuf, the founder of Grameen Bank in Bangladesh who started by helping rural women through his personal fund (Courts, 2008). Grameen Bank has developed and now has given a loan of \$8.7 billion since 1976 (Bruton et al., 2011). In addition, this microfinance institution has developed in a big city in the world such as Los Angeles. The development is followed by the shift in paradigm from social to a commercial bank (Hamada, 2010).

The sustainability of microfinance institution is related to the performance achieved to give better service (Ashraf and Hassan, 2012). Performance achievement through cooperation with general banks is conducted thus both institutions could perform their function well and able to substitute each other (Ghate, 1988). Arsyad (2008) viewed that good performance and sustainability of microfinance institution depend on internal (credit mechanism and management) and external (economy, social, environment, regulation, imperfect market information) factors. Other factors influencing the performance of microfinance institution are law, formal regulation, custom, convention, social norm, and ethical codes (Brinkerhoff, 1992). According to Khandker (1988), cost efficiency should be the main concern to achieve self-efficiency of the microfinance institution. Yaron et al. (1977) explained that theoretical measurement of performance is not merely about its self-sufficiency but also the scope of service given to society.

Other performance measurements such as outreach, loan recovery, profitability, financial performance (Ashraf et al. 2014) are used to determine the success of microfinance institution. In addition, Fitzgerald et al. (1991) stated in their research on microfinance institution that performance can be measured through financial performance competitiveness, resource utilization quality of service, and innovation flexibility. Performance measurement in previous researches has an alliance with general banks but less from the micro finance institution itself (Ashraf and Hassan, 2012; Mersland and Strom, 2009). The impact of this alliance in Indonesia is that there are 65 percent of 1408 micro finance institutions especially village credit institutions (LPD) that find some difficulties in implementing performance measurement in terms of management element in CAMEL (Capital, Asset, Management, Earning, Liquidity) thus they use CAEL instead to measure their performance (Bank Pembangunan Daerah Bali, 2015).

The issue on the implementation of management element in LPD is studied in a different perspective in previous research by including local culture as the element of performance measurement. This research aimed to analyze performance measurement of management element using local culture consisted of three indicators: *parahyangan* (harmony with God), *pawongan* (harmony among human), and *palemahan* (harmony with nature). It was based on previous research that local culture, such as a harmonious culture that takes hold on harmonization of relationship with God, human, and nature, has significant influence to improve performance in LPD (Astawa et al., 2013). Another study found that the commitment of LPD's manager to perform harmonious culture was strong and arranged in rural regulations (Astawa, 2013).

The research was conducted in two phases: qualitative and quantitative known as exploratory sequential design (Creswell, 2011, Myers & Oetzel, 2003). The first phase involved 20 managers of LPD as the key persons to be interviewed and surveyed using questionnaire consisted of the implementation of harmonious culture (*parahyangan*, *pawongan* and *palemahan*) in general (strategy, structure, system, human resources, leadership, and working culture) and risk (liquidity, market, credit, operational, law, and owner and manager risks) managements. The result was interpreted as ethnomethodology method explained by Garfinkel who studied people conversation in daily life setting (Have, 2004). There are four concepts in ethnomethodology in organizational and management function, i.e.: practice, reflectivity, knowledge and mind, and indexicality (Amal, 2010). The second phase involved in 1357 managers who have filled and returned the questionnaire, whereas the other 51 did not return the questionnaire. The questionnaire was made based on the reflectivity of harmonious culture in performing general and risk managements, which was the result of the previous qualitative study. Validity and readability test was conducted before distributing the questionnaire to respondents. Data collected would be analyzed with Fuzzy-Analytic Hierarchy Process (Fuzzy-AHP) method

to determine the level of hierarchy in each appraisal item (Chang, 1996) and Weighted Product Model (WPM) was used to weight criteria and sub-criteria as well as the final assessment (Chang, 1996). The result of the analysis would be a model to evaluate the performance of LPD in management element by Regional Development Bank (Bank Pembangunan Daerah) Bali and combined with CAMEL assessment. The assessment model would give solution to the difficulties in management element assessment.

2. Literature Review

2.1 Performance Measurement

Performance measurement plays an important role for a manager in decision making (Shahraki and Paghleh, 2011). Microfinance institutions in various countries have been encouraged to improve their performance to give better service (Ashraf and Hassan, 2012). Performance measurement such as outreach, loan recovery and profitability, and financial performance are used to determine the success of microfinance institution (Ashraf et al., 2014). Good governance is also a performance indicator for micro finance institution (Bassem, 2009) that able to improve customers' trust. In addition, the management structure is an important determinant of micro finance institution performance (Thrikawala et al., 2016; Astawa, 2013). Previous studies on performance measurement were mostly on general banks and few on micro finance institution (Ashraf and Hassan, 2012; Mersland and Storm, 2009). The condition resulted in problems for microfinance institutions that have limited service compare to the general bank; therefore, the implementation of performance measurement could not be conducted well. Astawa et al. (2016) tried to study to create financial performance measurement using harmonious culture in village credit institutions by confirming the appraisal with CAMEL in the perspective of harmonious culture. However, it has not hierarchically measured based on the need of LPD. It still in the act of expressing and has not tested to LPD as a whole. The study found that the implementation of cultural values could be an indication of the success of performance (Astawa et al., 2016).

2.2 LPD and Local Culture

LPD is established based on Regional Regulation No.8, 2008 with the purpose of giving credit service to rural society and maintaining local culture (Astawa et al., 2016). It has a role similar to other microfinance institutions in countries as Malaysia, Bangladesh, Srilanka, Philippines, and Thailand, which is to encourage the economy of underprivileged society as well as government (Waweru and Sprakman, 2012). The difference was in its task to maintain the local culture, which is harmonious culture. The customs regulation implemented by LPD is based on harmonious culture sets out the harmonious relationship between company and God, employees, and the environment (Astawa, 2013). Good implementation of harmonious culture impacted the performance of LPD (Astawa et al., 2012). Currently, CAMEL approach is used to measure the performance of LPD (Ramantha, 2006). Healthy LPD can be achieved by implementing integrated CAMEL based on the ability of the company (Ramantha, 2006). The health is also determined by customers' payment (Bhatt and Tang, 2002; Brehanu and Fufa, 2008).

3. Research Methodology

The research used exploratory sequential design (Creswell, 2011, Myers & Oetzel, 2003) consisted of two phases: qualitative and quantitative. The first phase was a survey and in-depth interview to 20 managers from LPD with the following categories: healthy, fairly healthy, less healthy, and not healthy. The questionnaire was used as a reference in the interview that consisted of questions related to harmonization with God (*parahyangan*) in general and risk managements. Thirteen questions were related to maintaining harmonization with employees and societies (*pawongan*) in the implementation of general and risk managements. The last was related to the relationship with environment or nature (*palemahan*) that consisted

of twelve questions in the implementation of general and risk managements. Qualitative data was analyzed using ethnomethodology to obtained themes of harmonious cultural practice in general management and risk management Based on these themes, twenty-five items in question were made with the scale of 1 to 9 indicating not important to very important. The questionnaire was tested regarding its validity and reliability before distributed to 1408 LPD. 1357 managers filled and returned the questionnaire, whereas 51 did not return the questionnaire. Data collected was analyzed using Fuzzy-Analytic Hierarchy Process (Fuzzy-AHP) method to determine the level of the hierarchy of each appraisal item (Chang, 1996) and Weighted Product Model (WPM) was used to weight the criteria and sub-criteria as well as the final appraisal (Chang, 1996).

4. Result

4.1 Characteristics of Respondent

86 percent of LPD managers held Bachelor's degree and 14 percent were senior high school graduates. The average period to be in the position of manager was eight years with an average of age was 47 years means that they are in their productive age and have a good working ethic. The condition was beneficial to implement new things related to performance measurement.

4.2 The Implementation of Harmonious Culture

The qualitative study found various themes as described in the following Table 1.

Table 1. The Implementation of Harmonious Culture

Management	The Implementation of Harmonious Culture
General Management	Providing assistance in establishing places of worship, supporting religious activities, supporting the development of facilities and infrastructures in the villages, relief activities of cultural festival, helping in funeral, wedding favors, educational assistance, medical assistance, forming arts groups, and business group.
Risk management	Conducting religious lectures, communal praying, worshipping to God of money, doing <i>dharma gita</i> , religious travel, spiritual leadership training, business ethics training and business mentoring, meeting at <i>banjar</i> , giving gifts to customers, visiting customers who were sick and dead, meeting with indigenous villages, meeting with regulatory, and performance incentives.

Source: processed data

4.3 Respondents' Assessment on Harmonious Culture

Based on Table 1 a questionnaire was made and distributed to LPD managers to gain information on the importance of the cultural items implementation. Respondents' assessment of each item resulted in an average of above 7.7 that toward to very important level. The level of importance of general and risk management appraisal criteria can be seen in Table 2 and 3. Quantitative analysis to determine the hierarchy and weight of each item using Fuzzy-AHP and WPM calculation was conducted on three LPD with the biggest asset in Bali and the result can be explained in Table 2 and 3.

Table 2. The Measurement of General Management Performance

No	Criteria	LPD A	LPD B	LPD C	Average	Assessment
1	Supporting religious activities	0.50	0.36	0.50	0.45	Very good
2	Establishing places of worship	0.33	0.40	0.36	0.36	Good
3	Helping in funeral	0.50	0.33	0.50	0.44	Very good
4	Wedding favors	0.17	0.50	0.28	0.32	Fair
5	Educational assistance	0.17	0.36	0.40	0.31	Fair
6	Medical assistance	0.17	0.50	0.40	0.36	Good
7	Forming Art group	0.50	0.50	0.33	0.44	Very good
8	Business group	0.50	0.36	0.17	0.34	Fair
9	The development of facilities and infrastructures in the village	0.50	0.36	0.40	0.42	Good
10	Relief activities of Cultural festival	0.36	0.33	0.50	0.40	Good

Source: processed data

Based on Table 2 it can be seen that the lowest and the highest performance appraisal were in educational assistance and supporting religious activities, respectively.

Table 3. The Measurement of Risk Management Performance

No	Criteria	LPD A	LPD B	LPD C	Average	Assessment
1	Communal praying	0.50	0.40	0.50	0.47	Very good
2	Conducting religious lectures	0.36	0.40	0.50	0.42	Good
3	Worshiping to the God of Money,	0.33	0.36	0.50	0.40	Good
4	Religious travel	0.33	0.50	0.17	0.33	Fair
5	Doing <i>Dharma gita</i>	0.33	0.40	0.36	0.36	Good
6	Spiritual leadership training	0.16	0.40	0.33	0.33	Fair
7	Meeting with indigenous village (<i>desa adat</i>)	0.17	0.33	0.28	0.26	Poor
8	Meeting with regulator	0.30	0.40	0.20	0.30	Poor
9	Business ethic training	0.17	0.40	0.5	0.36	Good
10	Business mentoring	0.25	0.33	0.17	0.25	Poor
11	Meeting (<i>sangkepan</i>) at <i>banjar</i>	0.25	0.17	0.33	0.25	Poor
12	Giving gifts to customers	0.40	0.33	0.25	0.33	Fair
13	Visiting customers who were sick	0.17	0.33	0.17	0.22	Fair
14	Visiting customers who were dead	0.25	0.33	0.40	0.33	Fair
15	Performance incentives	0.40	0.17	0.33	0.30	Poor

Source: processed data.

Item of communal praying had the biggest weight and the lowest was visiting customers who were sick.

5. Discussion

Based on the appraisal developed by Chang (1966), the appraisal of those three LPDs related to general management aspect found that items with very good assessment were religious activities, helping in the funeral, and forming art group. It is supported Brinkerhoff's (1992) finding that custom, social norm, and ethical code originated from religion can be used as performance measurement. The result also supported Schein's (2004) finding on the same basic assumption with *parahyangan* in harmonious culture (Astawa and Sudika, 2014). Risk management aspects with very good assessment result were activities conducted by LPD with its staff such as communal praying aiming to approach God in hoping to be guided to good direction and avoid risk. It

is also to avoid fraudulence regarding the culture of karma *phala* (the result of the act) (Astawa and Sudika, 2014). The culture means that if you do good things you gain good and vice versa. Items with less good assessment were meeting with the indigenous village (*desa adat*), meeting with the regulator, business mentoring, meeting at *banjar*, and performance incentives. These items need to be improved by the management since it could bring risk due to less coordination with the regulator. Good supervision can improve performance (Bassem, 2009). Added up the weight value of general and risk managements, the three LPDs had the average value above 0.33 or in good condition and had the same value with BPD but it was easier to understand using cultural items.

6. Conclusion

The use of local culture to appraise management in village credit institutions is a new thing and it gives easiness for them in management activity. Local culture implemented gave impact on the implementation of management developed by general banks and the complicatedness was easy to be adjusted to culture, custom, and trust followed by microfinance institutions. The results of study gave space for innovation in performance measurement of microfinance institutions in developing countries as well as strengthened the study by Brinkerhoff (1992). The research can be completed by involving all LPD to see the constancy of the appraisal and by adding other cultures developed in each area or country.

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