

INNOVATIVENESS AND PERFORMANCE OF MICROFINANCE INSTITUTIONS: A LITERATURE REVIEW

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Abstract: Despite the vital role of innovativeness to the success of financial institutions, review of the literature in area of microfinance reveals no much studies investigate linkage between innovations and performance of microfinance institutions. This study examines the connections between innovativeness and performance of MFIs. Based on the review of literature and past studies, this study found that innovativeness influences the performance of MFIs. The study recommends that, MFIs that want to sustain it success, should focus on innovativeness in the market place. The study suggest that future research should investigate the effect of innovativeness on Performance of MFIs from empirical viewpoints.

Keywords: Innovativeness, MFIs, Performance.

1. INTRODUCTION

Innovation plays an important role in influential the success of organizations. Over the years, innovativeness as an area of research has continued to be emphasized in the literature (Rubera & Kirca, 2012; Wang & Wang, 2012). The emphasis on innovativeness resulted from the realization that every organization needs innovation to achieve its organizational objectives and also to deal with the changes occurring in the business environment as well as to compete successfully in the market place.

Since the microfinance institutions were introduced in the 1980's, their numbers have continued to increase in developing countries across the world. These institutions have experienced remarkable growth and acceptance. More specifically, in Nigeria, MFIs are increasingly being recognized as an essential component of the financial industry in the country. Despite their important role in the financial industry in Nigeria, information concerning the nature of MFIs as well as the manner in which these institutions are managed remained limited.

MFIs are created for specific objectives. Although, For organizations to achieve their objectives, they must be able to perform their operations efficiently and effectively. Organizations need to adopt effective practices to help them accomplish their objectives as well as sustain their organizational performance. The performance of organizations is measured in terms of their abilities to achieve their specific organizational objectives.

The literature indicates that different organizations use different methods and measurement to determine their level of performance as well as to know the extent to which they are able to achieve the specific organizational objectives. Different organizations in different industry use different methods and measurement of performance because each different organization has different set of organizational objectives to accomplish.

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In measuring the performance of an organization, it is necessary to identify as well as know its primary objectives. Organizations establish their primary objectives based on their business mission or the purpose they are created. Once the organizations have determined their specific objectives, they need to work on how best to achieve all of their objectives in a given period of time (Drucker, 1977).

The literature reveals that theoretical and empirical contributions in the area of MFIs remained limited, particularly in innovative perspectives. The limited theoretical and empirical contributions in this field of study have resulted not only in little knowledge about MFIs but also the lack of information concerning their true nature as well as their business practices and performance as financial institutions.

Based on this information and research gaps, the objective of this paper is to investigate the influence of lending practices on financial and social performance of MFIs. The paper is presented in three sections. The following Section Two is literature review. Finally, Section Three presents short conclusion of the paper.

2. LITERATURE REVIEW

Innovativeness refers to the process of translating an idea or invention into a good or service that creates value or for which customers will pay (Akinwale et al., 2017; Moradi et al., 2017; Swink, 2000). Also it is a characteristic of individual or organization to create or adopt new ideas, processes, product or services that are intended to increase value to the customer and contribute to the performance or effectiveness of the firm (Pawliczek & Kozel, 2015; Setyanti et al., 2013; Yunis & Tarhini, 2017).

Innovation plays a vital role in determining the long term success of organizations. Over the years, innovativeness as an area of research has continued to be emphasized in the literature (Calantone et al., 2002; Rubera & Kirca, 2012; Wang & Wang, 2012). The focus on innovativeness resulted from the realization that every organization needs innovation to achieve its organizational objectives and also to deal with the changes occurring in the business environment as well as to compete successfully in the market place.

A study by Janssen (2004) in a competitive environment, invention is fundamental because it could enhance competitiveness at the organization, group as well as the individual levels. Innovativeness in relation to routing process and performance is more difficult for three major reasons. Firstly, innovative performance contains procedures and methods not prescribed by present practices. There is no clear guideline for generating, promoting as well as realizing ideas (Janssen, 2004). Secondly, innovative creativities could draw criticism for people that may be conservative and resistant to change. Thirdly, innovativeness requires considerable risk taking that may lead to failure in the organization. Creative, accumulation and application of knowledge, LGO are of the view that, in a knowledge based economy, intellectual capital and knowledge are seen to have incessantly gained appreciation as the main foundations of the competitive advantage on sustainability performance.

Literature reveals that the success of Grameen Bank is largely depend on its innovation. The Grameen Bank founded in Bangladesh is considered as one of the earliest formal microfinance banks. The bank was established in 1983. According to Yunus and Yusus (1998), Dowlal and Alamgir (2003), Sardana(2013) and Acar (2014), the Grameen Bank evolved from a credit program initiated by Muhammad Yunus. In 1976, Yunus first started his credit program by lending 856 taka (less than US\$27) to 42 people in the village called Jobra. According to Boyatzis and Khawaja (2014), Yunus was a student of the Comilla Academy in the 1950s. He had a personal relationship with AkhrHameedKhand, the founder of the Comilla Project. The success and leadership of the Comilla project may have inspired MuhammedYunus to create a microfinance bank.

Today, the Grameen Bank is considered one of the most successful microfinance banks in the world. Studies by Al-Mamun, Nurul, Mazumder and Malarvizhi (2014), Augustine (2012), Shukran and Rahman (2011), Yunus (1998) and Yunus and Yusus (1998), have found that as a microfinance bank, Grameen Bank has performed very well since its inception in 1983. In recognition of Muhammad Yunus and the Grameen Bank tremendous contributions to the society, they were awarded the Noble Peace Prize in 2006. Leaders around the world recognized Yunus for his works in fighting poverty and the promotion of economic and social opportunities. Apart from the Noble Peace Prize, Yunus has also been conferred the Franklin D. Roosevelt Presidential Medal of Freedom and the United States Congress Congressional Gold Medal.

Muhammad Yunus strongly believed that lasting peace in the world can be achieved if large population of the poor people can find ways to break out of poverty. According to Yunus, one of the ways to improve the livelihood of the poor people is by offering them microfinance products and services. By developing Grameen Bank into a successful microfinance bank, Yunus has provided a longterm vision of eliminating poverty in the world (Al-mamun et al., 2014; Bayulgen, 2008; Dallimore, 2013; Shukran & Rahman, 2011).

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3. CONCLUSIONS

Microfinance institutions (MFI) are considered important because they provide financial products and services that have positive impact on the lives of people, particularly among the poor people in the developing countries. By providing financial products services such as saving schemes, small loans, insurance, fund transfers and remittance, the MFIs are able to help to ease not only the financial burden of the poor people but also eradicate poverty by improve their economic and social lives. This study attempted to examine the relationship between innovativeness and performance of MFIs. Based on the review of literature and past studies, this study found that innovativeness influences the performance of MFIs. These findings add support to previous studies that suggest MFIs do innovation practice will achieve it long term success (Kazemian et al., 2015; Yuliansyah et al., 2017).

The study recommends that, MFIs that want to sustain it success, should focus on innovativeness in the market place. The study suggest that future research should investigate the effect of innovativeness on Performance of MFIs from empirical viewpoints.

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