



# A study investigating attitudinal perceptions of microcredit services and their relevant drivers in bottom of pyramid market segments



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## ABSTRACT

There are several types of services which are marketed to the bottom of pyramid (BOP) market. One of these is Microcredit, which is exclusively designed to provide credit access to customers in the BOP market. In recent times, it has been suggested that segmentation is necessary within BOP markets. In this respect, war-affected youth can be considered to be a segment of the BOP market. So, the main aim of this study is to investigate war-affected youth's attitudes towards microcredit and relevant drivers of these attitudes. Positive Affect, Perceived Benefits, Perceived Deterrents and Default Risk Perceptions have been considered as varied types of attitudes towards obtaining microcredit. The sample comprised 1250 youth selected from the Northern Province of Sri Lanka. Surveys were administered to facilitate data collection. The findings suggest that Positive Affect enhanced intentions of obtaining microcredit, whereas Perceived Deterrents reduced them. Also, Knowledge of Microcredit and Family Norms influenced these attitudes, whilst Entrepreneurial Desire acts as a moderator for the association between these attitudes and intentions of obtaining microcredit. From these findings, implications for theory and practice have been discussed.

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## 1. Introduction

The bottom of pyramid (BOP) market is defined as an aggregate of customers who have relatively low income levels, precisely less than USD 1500 per annum (Prahalad, 2012). This market has in the past few years received increased attention of marketers and policy makers (Prahalad, 2010). In this regard, several products and services are designed exclusively and marketed for BOP customers. For example, internet, mobile communications, computer software and health care are marketed to BOP markets in Latin America, Africa and South Asia (Cai et al., 2007; Dubey and Malik, 2013; Guesalaga and Marshall, 2008; Schuster and Holtbrügge, 2012; Subrahmanyam and Gomez-Arias, 2008). These products and services enable BOP customers' participation in consumption practices, which reduces their poverty levels and improves standard of living (Chikweche et al., 2012). One such product that is exclusively designed for customers of the BOP market is microcredit (Khavul et al., 2013; Subrahmanyam and Gomez-Arias, 2008). Microcredit can be defined as “the provision of small loans to poor people with the goal of helping them engage

in economic activities” (Southwold-Llewellyn, 2004, p. 27). BOP customers generally have limited access to capital provided by traditional banking institutions. Microcredit provides credit access to economically less disadvantaged customers, that is to BOP customers, thereby reducing their financial exclusion.

To this end, in recent years it is argued that the BOP market comprises several sub-segments, some of which are rural communities, marginal farmers, landless labourers and slum dwellers (Anderson et al., 2010; Prahalad, 2012; Schuster and Holtbrügge, 2012). In this respect, youth living in war-affected regions can be considered as belonging to the BOP market, as they experience features similar to other BOP markets. These features generally include poor infrastructure, limited income, loose legal framework and inadequate rights to property (Anderson et al., 2010). As these youth are in dire need of credit in order to participate in small business activities and earn their livelihood, microcredit could possibly serve their immediate financial needs.

Thus, the main aim of this study is to examine war-affected youth's attitudes towards microcredit and related drivers of these attitudes. Customers' attitudes, perceptions and purchase behaviour towards Internet banking, mobile banking and credit cards have been extensively researched in top of the markets, that is in developed economies (Chau and Ngai, 2010; Howcroft et al., 2002; Mattila et al., 2003; Rutherford and DeVaney, 2009). However, only a limited number of studies have investigated customers'

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attitudes and behaviour towards obtaining microcredit in BOP markets or the segments there in. So, this study proposes a unique conceptual to enhance war-affected youth's attitudes and perceptions towards obtaining microcredit, which in turn can be applied to other segments of the BOP market.

This study was carried out amongst the youth living in the Northern Province of Sri Lanka. People in this region suffered extensively from a 30-year long civil war, which concluded in mid-2009. Prolonged military operations rendered an intensely underprivileged and destitute youth population in this region (Somasundaram and Sivayokan, 2013). These youth represent bulk of the BOP market in Sri Lanka. These youth can benefit immensely when they involve themselves in small entrepreneurial projects; however, they are in dire need of capital (Somasundaram and Sivayokan, 2013). So, these youth comprise an appropriate audience to investigate the aims and objectives of this study. The following section explains the literature review, conceptual model and hypotheses development of this study.

## 2. Literature review and hypotheses development

### 2.1. Segments within bottom of the pyramid market and microcredit

Two-third of the world's population survive with an annual per capita income of less than \$1500, the minimum required to lead a decent life (Prahalad, 2010). Also, a purchasing power parity of US \$5 trillion resides amongst them (Prahalad, 2012). So, businesses have the opportunity to target economically less capable people and to design marketing activities that serve these people. This broad segment is identified as the "Bottom of the Pyramid Market" (BOP) (Prahalad, 2010). Serving the BOP markets contribute to companies' profits and to rebuilding the lives of vulnerable people, thus benefiting both business and the society at large (Chikweche et al., 2012).

Despite the large size and a significant purchasing power of the BOP market, little is known about customers' purchase behaviour in this broader segment (Barki and Parente, 2010). Significant differences exist between the customers in the BOP market and those in the middle and high ends of the market in terms of their attitudes, perceptions, purchase behaviour and purchase practices of products and services (Barki and Parente, 2010). Although price seems to be a prominent determinant of their purchase decisions, there are also other factors, such as education, Area of Residence, culture and religion that affect their purchase behaviour (Pitta et al., 2008). For example, Dey et al. (2013) reveal that rural farmers in Bangladesh use mobile phones; however their lack of technical expertise is a major deterrent to mobile phone usage. This implies that marketers operating in the BOP market need to understand the BOP customers' purchase behaviour to develop their marketing strategies and programs (Prahalad, 2012).

In this respect, it is argued that segmentation is possible and necessary within the BOP market (Schuster and Holtbrügge, 2012). This is because the BOP market has a total customer size of 4 billion (Schuster and Holtbrügge, 2012); hence companies are unlikely to reach such a huge market with an undifferentiated single market offer. In this context, war-affected society can be considered as belonging to the BOP market. These areas are similar to the BOP markets which are embodied with poor infrastructure, limited income levels, loose legal framework and insufficient property rights (Anderson et al., 2010). So, BOP marketing activities and strategies can contribute to rehabilitating war-affected people by enhancing their consumption practices (Penh, 2009). Particularly, the youth in war-affected regions can be considered to be a vulnerable segment. This is because any war has a negative impact on the opportunities for youth, with respect to their

education, vocational training and entry into the labour market. Among others, seeking a paid employment is a major challenge experienced by youth in war-affected countries (Njeru, 2011). During the post-war period, one effective way to address unemployment amongst youth is to encourage entrepreneurship. Unfortunately, such youth have access to limited capital, which in turn hinders their entrepreneurial activities (Lemmon, 2012). Traditional banking and financial institutions are not keen to lend seed capital to these youth, due to their inability of fulfilling collateral and other requirements (Lemmon, 2012). So, these youth need access to alternative sources of capital, such as microcredit.

Microcredit provides loan access to rural communities, slum dwellers, women and other disadvantaged sections of community, thus reducing financial exclusion of customers of the BOP market (Khavul et al., 2013). Microcredit increasingly meets capital requirements of communities in the post-war period (Cubitt, 2011; Hudon and Seibel, 2007). It is suggested that microcredit needs to be offered to vulnerable youth (Billimoria et al., 2013). Thus, youth in the post-conflict context need to be given priority in microcredit activities, and they need to be recognized as a separate segment for microcredit initiatives (Nagarajan, 2005; USAID, 2006). Therefore, it is worth investigating youth's attitudes towards microcredit in the post-conflict context. A conceptual model has been developed for this purpose, which is explained later on. This conceptual model can potentially be applied to other segments of BOP market.

### 2.2. Development of a conceptual model

The theories of planned behaviour and consumer socialization are used to develop an integrated conceptual model aimed at investigating war-affected youth's attitudes towards microcredit. The Theory of Planned Behaviour (TPB) proposed by Ajzen (1991) postulates that behaviour can be predicted by attitudes. It posits that prior to forming behavioural intentions, people form attitudes about an object. However, the theory of consumer socialization suggests that youth's attitudes, perceptions and behaviour towards products and services are influenced by socialization agents, such as parents, family, peers and school (Moschis, 1987). Normally, youth experience two sources of learning associated with finance and credit: They are observational learning and formal learning (Lyons et al., 2006; Moschis, 1987; Shim et al., 2010, 2009).

As suggested by Shim et al. (2010) and Webley and Nyhus (2006), observational learning about credit and finance takes place through youth's socialization with role models, such as parents and other family members. On the other hand, formal learning occurs using knowledge acquired from learning contexts, such as school, work, seminars and training programs (Xiao et al., 2011). It is thus plausible to suggest that Knowledge of Microcredit and Family Norms may drive youth's attitudes towards obtaining microcredit.

Attitudes towards credit predict purchase behaviour of credit (Borden et al., 2008; Hayhoe et al., 2000). Due to differences between the customers of the BOP market and those in the middle and top levels of the market, the generic attitudinal models would be inappropriate in predicting the BOP customers' attitudes and purchase behaviour (Barki and Parente, 2010; Pitta et al., 2008). Thus, there appears to be a need to develop a unique theoretical model that can better predict attitudes towards microcredit in the BOP markets, such as war-affected youth.

As suggested by Pinto et al. (2000), three types of attitudes about credit namely Positive Affect, Perceived Benefits and Perceived Deterrents relating to credit were incorporated into the model. Additionally, due to the special nature of customers in the BOP market, Default Risk Perceptions of microcredit were considered as an additional aspect of attitude. The next task was to investigate the drivers to the four identified aspects of attitudes,

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