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Microfinance institutions' website accessibility☆

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ABSTRACT

Using a global dataset of 947 MFIs from 56 countries we investigate the factors affecting microfinance institutions' (MFIs) website accessibility. We find that MFI website accessibility is significantly associated with larger MFIs, higher financial leverage, and greater national economic development. We also show that MFIs that have access to cheap sources of funding tend to have low website accessibility. Our study reports that MFI website accessibility is lower in Sub-Saharan Africa (SSA) than in other regions. MFI size and financial structure are the two key determinants of MFI website accessibility in SSA.

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1. Introduction

In the past few decades, information and communication technology (ICT) has played an important role in improving access to information, fostering economic development and reducing poverty (Ayanso et al., 2014; Doong and Ho, 2012). Many countries in the world are investing heavily in ICT infrastructure such as Internet, mobile and telephone lines to drive their economic growth and improve the operating efficiency of their organizations (Doong and Ho, 2012). Prior studies have shown that access to some or all of these ICT facilities helps to improve socioeconomic conditions and enables firms to improve productivity, control business risk and increase customer base (Kauffman and Riggins, 2012). Despite the economic benefits of ICT, a sizable population of the world still lack access to ICT and distribution has not been uniform across the globe (Ayanso et al., 2014; Doong and Ho, 2012). Overall, ICT development is much lower in developing countries where the majority of the poor live (Doong and Ho, 2012).

Microfinance is a crucial tool for poverty reduction and economic development in developing countries enabling the provision of financial services to the poor and women (Mersland, 2009). Historically Microfinance has been associated with women. D'Espallier et al. (2013) in their global dataset show that 70% of Microfinance institutions' (MFIs) customers are women and 47% of MFIs exclusively focus on women.

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Starting in the 1970s in Bangladesh, the microfinance industry spread quickly across the globe and has grown in volume, now serving around 150 million borrowers globally (Hartarska et al., 2013). However, increasing competition and innovation from traditional financial institutions has forced many microfinance institutions (MFIs) to drift from their mission of serving the poor and women (Hermes et al., 2011). High transaction costs of processing small loans and serving remote rural customers make microfinance business challenging, and as a result MFIs tend to charge high interest rates to cover their operating costs (Kauffman and Riggins, 2012). However, Kauffman and Riggins (2012) show that in response to the industry's high operating costs and greater competition MFIs have begun using ICT to improve operational efficiency, promote repayment and increase their outreach to the poor.

The adoption of ICT by MFIs in developing countries has lagged behind developed countries because of digital divide barriers (Kauffman and Riggins, 2012). Globally policy makers want to reduce the digital divide across individuals, firms and countries (Ayanso et al., 2014). Four factors affect the success of this goal. First, regulators and ICT providers have to understand the factors that affect ICT adoption. Second, the financial system needs to be able to incorporate the technological change that comes from ICT adoption. Third, the government needs to ensure adequate education is provided to allow ICT adoption to be beneficial to the greater society. Finally, the government has to invest in ICT infrastructure to provide access to the greater community.

This study addresses the first of these considerations by answering the following two research questions: (1) What factors affect MFI website accessibility? (2) Do factors affecting Sub-Saharan Africa (SSA) MFI website accessibility differ from those in other regions?

We define website accessibility as the accessibility of information to a wide range of users in a language they understand.¹ De Andrés et al. (2010) argue that website accessibility helps firms to improve the quality of their disclosure, reduce operating costs and increase revenue. Our study explores if this is also true for MFIs.

Funding is critical for MFIs. Many existing MFIs rely on donations and subsidized loans (Mersland et al., 2011; Quayes, 2012). MFIs are also seeking new sources of funding in an endeavour to commercialize their services and sustain growth (Kauffman and Riggins, 2012). The ongoing growth in crowd-funding via the Internet has also increased lenders' demand for more information about the host MFI. We argue that information communicated via a website is an efficient way for donors, lenders and investors to check on resource allocation, and customers will be able to access information on products and services, and complete transactions online.

We consider Sub-Saharan Africa (SSA) because it is substantially different to other regions (see Appendix 1). According to the World Bank (2014) report, SSA has the lowest average GNI per capita, only US\$3466. SSA has poor financial access with only 34% of the population older than 15 using bank accounts. Compared to the global Internet access average of 40%, only 19.2% of the population have Internet access. In addition, SSA women, who constitute about 50% of MFI clients, are economically and socially disadvantaged. The Women, Business and the Law index of the World Bank group's 2012 report (cited in Aterido et al., 2013) indicates that the legal and business environment in SSA countries shows a high degree of gender discrimination. The average index value for SSA is 0.50. This is substantially lower than 0.85, the index value for the rest of the world. The Economist Intelligence Unit (2012) women's economic opportunity index also shows that women in SSA countries have less economic opportunity than other regions. Despite these statistics, SSA is growing at a fast rate. SSA has a GDP growth rate of 4.6% p.a. which is greater than the world average of 2.5% p.a. Five of the ten world's fastest growing economies are in SSA.

Our theoretical framework draws from the resource based theory which argues that resources owned by firms are essential to improve the firms' competitive advantage and acquire new resources (Wernerfelt, 1984). We propose that stakeholder web-based communication facilitates MFI access to resources, improving MFI sustainability. Website accessibility is one mechanism that enables an MFI to provide information (via a website) that improves MFI information disclosure.

Using a sample of 947 MFIs from 56 countries, we test if MFI website accessibility is related to operational factors, MFI social commitment and country level resources. Our findings indicate that typically MFI website accessibility is low. SSA MFIs report the lowest website accessibility. Overall, MFIs that use a higher proportion of deposits to assets and focus on women tend to have lower website accessibility. Larger MFIs and MFIs that operate in a more corrupt country are associated with greater website accessibility. To provide a clearer picture of the factors that affect website accessibility, we use principal component analysis (PCA) to summarize our variables into specific components that can better explain MFI website accessibility.

Our PCA results show that website accessibility is related to economic development, MFI size, social oriented funding and financial structure. Size and financial structure are the two strongest factors determining SSA MFI website accessibility. This implies that larger and highly leveraged SSA MFIs tend to have greater website accessibility. MFIs that have access to cheap sources of funding focus more on lending to women and tend to have low website accessibility. Greater economic development leads to higher investment in ICT infrastructure, potentially improving MFI website accessibility.

The remainder of this study is structured as follows. Section 2 reviews existing literature and presents the research hypotheses. We describe the data source, variables used and the econometric model in Section 3. Section 4 presents the empirical results. The conclusion and policy implications are reported in Section 5.

¹ De Andrés et al. (2010, pp.77) defines website accessibility as "Web application that can be accessed and used by all potential users, regardless of the limitations of the individuals".

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