



**SCHOOL OF ECONOMICS  
AND MANAGEMENT**

Lund University

Master Thesis, Business Administration  
FEK P01  
June 2008

# The Key Success Factors of Grameen Bank

– A Case Study of Strategic, Cultural and Structural Aspects

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# Abstract

<b>Title:</b>	The Key Success Factors of Grameen Bank - A Case Study of Strategic, Cultural and Structural Aspects
<b>Seminar date:</b>	2008-06-05
<b>Course:</b>	FEK P01, Master Thesis in Business Administration, 15 ECTS Credits
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<b>Supervisor:</b>	Tony Huzzard
<b>Keywords:</b>	Organization, strategic management, key success factors, culture, strategy, organizational structure, relationships
<b>Thesis purpose:</b>	To analyze strategic, cultural and structural aspects of Grameen Bank and its micro-credit project, in order to identify key success factors.
<b>Methodology:</b>	Case study with an inductive and qualitative approach, using semi-structured interviews.
<b>Empirical data:</b>	The data was collected by field observations and interviews on site in Dhaka, Bangladesh and surrounding areas.
<b>Conclusion:</b>	The critical success factor of Grameen Bank is the relationship focus, guiding and aligning its strategy, culture and structure. Also, local offices have been observed to utilize practices not permitted by the bank's management, ultimately increasing the organizational efficiency.

# Acknowledgements

*Richard*

I sincerely want to thank my co-author, Victoria, for all of her efforts and hard work. As I decided to venture into the Far East to roam the villages of Bangladesh, Victoria actually postponed her studies, although sceptical of my survival, in order to be a co-author. Well aware of her expertise in the field of theory and her amazing ability to deliver ideas, I was, and still am, incredibly grateful.

Recently, I discussed thesis writing with a friend, who claimed that co-authoring is associated with both advantages and disadvantages. I instantly replied that in my case, there are no disadvantages whatsoever. It is impossible to imagine a better friend and academic colleague.

I also want to thank Grameen Bank for allowing me to take part in their internship programme, Tony Huzzard for being an understanding supervisor, and Johanna Andersson for a great time in Asia.

*Lund, June 2008*

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# 1 Introduction

*“Nothing in the economic theories I taught reflected the life around me. How could I go on telling my students make-believe stories in the name of economics?”<sup>1</sup>*

Poverty has always been a social problem and often a target for political action. Government actions aside, the 20<sup>th</sup> century has witnessed the rise of private/semi-private companies not mainly driven by profit, but by the aim of aiding poor people and to help them become self-sustainable, thus able to live without the need of government grants. There are different types of this kind of organizations, but the most modern take is the type of organization which involves and activates the poor by turning them into workers or entrepreneurs. One example is the newspapers such as Aluma<sup>2</sup> in Sweden, which recruits homeless people and turns them into newspaper salesmen – selling a paper that spreads information about social outcasts while generating an income for the homeless people selling the newspaper. The income from the newspaper selling also finances the newspaper itself, creating an organization not in need of external financing.

The concept of running a self-financed poverty fighting corporation has recently been further explored by the Nobel Peace Prize (2006) winning Grameen Bank of Bangladesh, with its micro-credit loans.<sup>3</sup> By lending money to the poor and coaching them into becoming profit making entrepreneurs, the bank has claimed to succeed in lowering poverty while being independent and self-financed.

## 1.1 Background

Grameen Bank became a widely known organization in 2006, as the bank and its founder (Muhammad Yunus) received the Nobel Peace Prize. In an attempt to fight poverty, the bank started out as a money lender for poor people in Bangladesh, in order for them to become self-dependant entrepreneurs. Despite considerably lower interest rates compared to its rivals and the practice of lending money to loan takers otherwise considered not credit

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<sup>1</sup> Yunus, Banker to the poor – Micro-Lending and The Battle Against World Poverty, 2003, p. viii.

<sup>2</sup> <http://www.aluma.nu/>, 080522

<sup>3</sup> The Nobel Prize was split, giving ½ to Mohammad Yunus and ½ to the Grameen Bank. The explanatory statement for the award was formulated as “for their efforts to create economic and social development from below”, [http://nobelprize.org/nobel\\_prizes/peace/laureates/2006/](http://nobelprize.org/nobel_prizes/peace/laureates/2006/), 080522

worthy, the organization nevertheless succeeded in becoming financially independent and eventually gained the official status as a bank.

The idea behind the project was to provide “micro-credit” loans to poor people in desperate need of capital, in order to establish their own source of income. The lack of capital meant that the people had no possibility to provide regular money lenders with collateral. Even if they actually received a loan, they were still bound by high interest rates, effectively diminishing their disposable income and often leading to bankruptcy. By providing capital without the need of collateral and offering a more reasonable interest rate, the Grameen Bank project created a chain of entrepreneurs producing and selling products on the free market. Those entrepreneurs were able to keep a part of the profit for themselves while still being able to repay the taken loan, including interest.

The implication on society in terms of welfare is obvious, but the strategy employed by the Grameen Bank is interesting in itself. How is it possible for a bank to profit on high risk loan takers, in situations where other loan givers would not provide capital without both collateral and a higher interest rate? Whatever the answer may be, Grameen Bank evidently found a way to achieve its goals. Today, the borrower repayment rate is claimed to be 98.91%, which is an impressive number considering the clientele, and this number is predicted to be even higher in the future.<sup>4</sup>

When viewing Grameen Bank as a business enterprise and not merely a poverty fighting organization, one might say that the bank has explored a new market segment, and built a profitable organization by using unusual business solutions, guided by strong corporate values.

## 1.2 Problem discussion

The key success factors of an organization are often related to the strategy of the organization. Grant has underlined the importance of achieving an original strategy, as opposed to imitating and trying to deliver better results.<sup>5</sup> Heracleous has expressed a similar opinion, underlining the importance of not only offering a unique product, but to sustain a competitive advantage against the external environment.<sup>6</sup>

Such a competitive advantage is often dependent on several key success factors. Grant has described how organizational culture may be rigid and challenging to alter, obstructing

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<sup>4</sup> <http://www.oneworlddonepeople.org/articles/World%20Poverty/Grameen.htm>, 080522.

<sup>5</sup> Grant, 2005.

<sup>6</sup> Heracleous, 2003.



necessary adoption to environmental change.<sup>7</sup> A comparable conclusion has been drawn by Child, who states that cultural control is an instrument for achieving effective thinking among the employees, easing the accomplishment of organizational visions and goals.<sup>8</sup>

Organizational structure is another important factor of success, since it must be compatible with the strategy of the organization in order for the organization to function in a desired manner.<sup>9</sup> Hatch claims that there are two elements of organizational structure; the physical structure and the social structure. The physical structure consists of tangible elements, such as physical locations and buildings, while the social structure refers to the relationships within the organization, such as the employee environment, positions and divisions.<sup>10</sup> These two sides of the organizational structure might also be referred to as the formal structure and the informal structure. It should be noted that the informal organizational structure, i.e. the relationships with the organization, forms a bridge between organizational structure and organizational culture. Furthermore, Huang, Wei and Chang have noted how the cultural and structural shape of an organization influences its communities of practice, creating the borders for knowledge flows within the organization.<sup>11</sup>

Hence, it is possible to view organizational structure and organizational culture as autonomous entities, or as part of the organizational strategy. Either way, these three aspects are all connected and important to consider when identifying the key success factors of an organization. However, the authors cited above have all focused on for-profit organizations. While the statements of Grant and Heracleous regarding strategy may be valid regarding for-profit organizations, other aspects add to the equation when it comes to non-profit organizations. As an example, Stone et al have noted the difficulty of establishing performance indicators in such organizations, which obstructs the strategic planning.<sup>12</sup>

As for Grameen Bank, it shares a common characteristic with non-profit organizations, namely the goal of achieving social improvements. However, it also resembles a for-profit organization, since it is entirely self-financed. Hence, the bank must succeed in being a profitable organization in no need of external financing, but at the same time succeed in

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<sup>7</sup> Grant, 2005.

<sup>8</sup> Child, 2006.

<sup>9</sup> Grant, 2005.

<sup>10</sup> Hatch, 2002.

<sup>11</sup> Huang, Wei and Chang, 2007.

<sup>12</sup> Stone et al, 1999.

realizing its visions regarding social improvements and poverty alleviating. Because of these dual performance indicators, Grameen Bank might be characterized as a hybrid organization, a modern and interesting phenomenon.

Grameen Bank has achieved a reputation for successfully combining these dual objectives, making it an interesting case study for examining key success factors in the context of hybrid organizations. While the social implications of Grameen Bank and its micro-credit have been thoroughly examined,<sup>13</sup> there is a lack of research focusing on its organizational and strategic positioning. This thesis will examine how Grameen Bank managed to achieve its dual objectives, by studying its strategic, cultural and organizational aspects, and the connections between them. The research will be concluded by formulating key success factors, which will hopefully result in generalized knowledge regarding hybrid organizations.

### 1.3 Aims and research questions

The aim of this study is to discover key success factors for Grameen Bank and its micro-credit loans, mainly by examining the fit between strategy, culture and organizational structure. Another question this study aims to answer is whether there exist other success factors, related to other aspects.

### 1.4 Delimitations

Grameen Bank is a very complex organization, not to mention its several sister companies. Simply describing all of Grameen's history and different activities would probably require a separate master thesis.<sup>14</sup> Therefore, the organizational descriptions and empirical findings will describe only the most important aspects, focusing on findings of relevance for this study. The same goes for the micro-credit, which has developed immensely since its launch. The description of the micro-credit model is therefore rather brief, presenting its most important characteristics.

### 1.5 Disposition

The next chapter will describe the methodology used, explaining the underlying philosophical positioning. The subsequent chapter will clarify the theoretical framework, providing definitions of the terms used in the following chapters. The collected empirical

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<sup>13</sup> See for example Khandker, *Fighting Poverty with Microcredit – Experience in Bangladesh*, 1998.

<sup>14</sup> Grameen has founded a network of 17 independent organizations, ranging from telecom companies to textile mills.

data will then be described, presenting observations from the head office in Dhaka and the local branches, as well as the performed interviews. Finally, the resulting conclusions and analysis will be presented in the last chapter, including suggestions for further research.

## 2 Methodology

Since this study aims to examine aspects of Grameen Bank which have not been yet been covered through the perspective of business administration, empirical data needs to be retrieved from the bank. Furthermore, the natural way of uncovering success factors not earlier recognized is by examining the organization in its daily operations and interviewing its customers. Hence, this study will be based on material gathered by empirical studies made on site in Bangladesh.

This chapter will describe the research design, i.e. the framework used for the collection and analysis of data.<sup>15</sup>

### 2.1 Philosophical context

As research is performed, the yielded results and the description thereof are influenced by the underlying philosophical views of the researcher.<sup>16</sup> To fully grasp the context of research, a clarification is therefore needed regarding the epistemological and ontological standpoint of the study.

#### 2.1.1 *Epistemological considerations*

This study is conducted through a *positivist* standpoint. By using inductive research (see below) our aim is to gather data that can provide “basis for laws”<sup>17</sup>. The underlying belief is that organizations “exist as concrete entities about which data can be collected”<sup>18</sup>.

#### 2.1.2 *Ontological considerations*

Social ontology focuses on whether “social entities can and should be considered objective entities”<sup>19</sup> or if they should be considered as social constructions, defined by “the perceptions and actions of social actors”<sup>20</sup>. The former standpoint represents objectivism, while the latter represents constructionism.

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<sup>15</sup> Bryman and Bell, 2003.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid., p. 14.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., p. 19.

<sup>20</sup> Ibid.

This study will be conducted via an objectivist standpoint. Our research is hence based on the idea that “social phenomena (...) have an existence that is independent or separate from actors”<sup>21</sup>.

### 2.1.3 The resulting paradigm

Using the objectivist perspective as a research assumption furthermore leads to the question of whether the research is regulatory or radical. If the aim of the research is to “describe what goes on in organizations”<sup>22</sup> the research may be labelled as regulatory. The radical perspective, on the other hand, aims to “make judgements about the way that organizations ought to be”<sup>23</sup>.

The aim of our study is to be descriptive, rather than normative. Therefore, the purpose of the study is regulatory. Combined with the objectivist view, this places our study in the *functionalist* paradigm.<sup>24</sup>

## 2.2 The inductive approach

The purpose of this study is to explore the key success factors of an organization which is part of the social economy, an organization which has not been fully covered from this perspective before. Therefore the inductive approach is appropriate – which uses empirical data in order to construct theory.<sup>25</sup>

An alternative approach would be the deductive method, in which available research is validated or falsified. The intention of this study is however to identify success factors not considered or covered by earlier research. Therefore, the inductive approach is preferable.

## 2.3 Qualitative research

Examining key success factors includes research on how people describe their experiences. These factors are not easily quantified,<sup>26</sup> as they rely on descriptions. The very nature of the qualitative research is that it “emphasizes words rather than quantification in the collection and analysis of data”<sup>27</sup>. By applying a qualitative form of research, in-depth analysis is also

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<sup>21</sup> Ibid.

<sup>22</sup> Ibid., p. 22.

<sup>23</sup> Ibid.

<sup>24</sup> Bryman and Bell, 2003.

<sup>25</sup> Bryman, 2002.

<sup>26</sup> Bryman, 2002.

<sup>27</sup> Bryman and Bell, 2003.

made possible with a small sample of data.<sup>28</sup> For the purposes of this thesis, the qualitative way of research is therefore the natural choice.

## 2.4 The case study

The case study is the method used when analyzing a single case.<sup>29</sup> Another perspective describes the case study as “an empirical inquiry that investigates a phenomenon within its real-life context”.<sup>30</sup> This thesis uses the Grameen Bank’s micro-credit project as the case. The geographical boundary of the case is Bangladesh, where Grameen Bank is situated and operates. The aim is to understand success factors and the fit between corporate culture, strategy and structure, which requires research regarding the development and history of the bank. Hence, while the research was carried out during one month in late 2007, the research also aims to gather information about the past of Grameen Bank and its micro-credit loan, mainly by interviewing staff members with experience from the early days of the bank.

## 2.5 Collection of primary data

By conducting primary research, the necessary material is collected. Autonomic collection of data allows the gathering of precise data relevant for the study, as opposed to using sources which may be coloured by the respective author’s approach of research. Many dangers of using secondary data are avoided when using primary observations, such as accidentally using research motivated by a hidden agenda. While primary data collecting will not yield the same vastness of data, it will allow for nuances relevant for the conducted research to surface. Also, the quality of the data will be known, whereas the quality of secondary data may be questionable.

### 2.5.1 *Methods of collection*

For the purpose of this thesis, one of the authors applied for an internship at the head office of Grameen Bank in Dhaka, Bangladesh, and was accepted for a three week long internship program. During the course of these three weeks, live interviews with many of the driving forces in Grameen Bank were conducted. This internship also provided the opportunity to stay in a village in rural Bangladesh where many inhabitants are part of the micro-credit

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<sup>28</sup> Estherby-Smith et al, 2002.

<sup>29</sup> Bryman and Bell, 2003.

<sup>30</sup> [http://en.wikipedia.org/wiki/Case\\_study](http://en.wikipedia.org/wiki/Case_study), 080522.

program. During this stay, discussions with the loan takers took place and their actual use of the micro-credit was observed.

The amount of interviews was not decided upon in advance, but the ambition of the internship was to gather as many interviews as necessary for a satisfactory empirical study. As the interviews were performed, it became evident that expression of critical opinions was practically nonexistent. To remedy this flaw in the empirical data, further interviews with loan takers were undertaken, outside of the internship programme.

All in all, seven interviews (some very lengthy; stretching over several occasions) were conducted within Grameen bank - two officers at the head office, two officers at the area level, two officers at the branch level and one depute program manager. More than twenty villagers were interviewed, eighteen of them without the supervision of Grameen Bank. Lastly, field observations were made, especially from staying three days in a village with a large percentage of Grameen Bank loan takers among the inhabitants.

While these are several types of data collection, they were all characterized by the qualitative approach discussed above.

#### *2.5.1.1 Interviews via the internship*

The purpose of the primary data is partly to cover pre-determined questions regarding the organization and its strategy, but also possibly uncover unknown success factors. This requires a flexible way of interviewing, with the opportunity to discuss different topics in depth if necessary. A suitable approach is thus the semi-structured interview, where the interviewer has a pre-made list of topics to be discussed.<sup>31</sup> This method allows for the interviewer to reformulate questions and even add new questions, depending on the responses given by the interviewee.<sup>32</sup>

The semi-structured type of interview was used with representatives of Grameen Bank. The interviews were based on a set of open-ended questions, but were also guided by a pre-determined purpose.<sup>33</sup>

This style of interview allowed creating comfort with the interview objects, resulting in richer descriptions and in-depth explanations. The semi-structured interview furthermore allowed the interviews to be essentially comparable, a factor of value both when analyzing the data and in terms of validity.

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<sup>31</sup> Bryman and Bell, 2003.

<sup>32</sup> Ibid.

<sup>33</sup> The pre-made questionnaire is available in the appendix of the thesis.

### *2.5.1.2 Interviewing the loan takers*

The actual loan takers of microcredit all live in rural areas in Bangladesh. Their point of view on the Grameen Bank is valuable in this research, since it further explains the success of Grameen Bank. As the research progressed, this source of data proved to be fundamental. Therefore, a lot of empirical material was collected from these villages, performed with the same type of semi-structured interview as was used at the Grameen Bank head office.

A problem encountered in these interviews was the language barrier. These people were not very fluent in English – actually, they typically did not understand a single word. These interviews were therefore carried out with the help of an interpreter, using a simpler set of pre-determined questions. The interpreter was recruited from Dhaka University, was fluent in both the native language and English and also educated in business administration and economics.

The loan takers were randomly selected without the influence of the Grameen Bank head office. Initially, two villages where Grameen Bank operates were selected. Arriving in each village, the interpreter asked for micro-credit loan takers, and eventually loan takers willing to be interviewed were found. Each interview required approximately one hour, and a total of twenty interviews were performed. Approximately five interviews were performed in one day, after which the given answers were discussed with the interpreter, in order to avoid translation mishaps.

Before the interviews took place, the research aims and the questions were explained to the interpreter, to avoid misunderstandings. While performing the interviews, the responses were written down immediately. If it seemed like the respondent did not understand a question, the interpreter would carefully explain the question further. After the interviews had been performed, the transcripts were discussed with the interpreter, in order to avoid nuances being “lost in translation”.

### *2.5.1.3 Field observations*

The micro-credit borrowers are all living in small villages in Bangladesh, where the influence of micro-credit allegedly has made a huge difference in the living standards of the inhabitants. These villages typically have a local Grameen Bank branch office and some representatives of the bank in their close proximity. Observing these institutions and the loan takers has provided additional insights on the micro-credit project, for example the level of supervision.



## 2.6 Secondary sources

Much has been written on the subject of Grameen Bank and micro-credit, especially in the aftermath of the 2006 Nobel Peace Prize. However, most publications tend to examine the purely social implications, which were the reasons for the Nobel Prize, and disregard the business model of the bank. While those publications have a certain value for this research, they do not provide the full picture. The close relation between politics and examination of social implications will also colour the view on Grameen bank, making many sources questionable as a base for economic analysis. Nevertheless, those sources will partly verify or falsify the image provided by the primary sources.

Another secondary source used is publications from Grameen Bank itself. Collected from the head office in Dhaka, these writings describe the Grameen Bank, its structure, development, ideology and, to some degree, its strategy. The interviewees at the head office often recited these publications and/or made references to them. Therefore, these writings are used as reference material during the description of empirical data.

## 2.7 Quality of the research

For the evaluation of research design, a few criteria need to be considered. Those criteria are typically used for evaluating quantitative studies, but are nevertheless relevant for qualitatively inclined research.<sup>34</sup> The first criterion is called reliability, describing the trustworthiness of the conclusions drawn from the data. Another way of putting it is determining whether the study is “transparent in how sense was made from the raw data”.<sup>35</sup> The second measurement is the validity of the research, which may be described as whether the study “gain access to the experiences of those in the research setting”.<sup>36</sup>

Reliability may furthermore be divided into external reliability, i.e. “the degree to which a study can be replicated”<sup>37</sup>, and internal reliability, meaning “if members of the research team agree about what they see and hear”<sup>38</sup>.

This study was conducted by interviewing several senior officers at the Grameen Bank head office over the course of two weeks. Also, twenty villagers were interviewed in one hour interviews. The collection of empirical data did not cease until the responses from the

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<sup>34</sup> Bryman and Bell, 2003.

<sup>35</sup> Estherby-Smith et al, 2002.

<sup>36</sup> Estherby-Smith et al, 2002.

<sup>37</sup> Bryman and Bell, 2003, p. 288.

<sup>38</sup> Ibid.

interviewees did not yield new perspectives, i.e. until a certain level of reliability was reached. In other words, reliability was accomplished by comparing answers from different interviewees, and when possible comparing them to the made observations. Internal reliability is however possibly weaker, since the research was performed by a single researcher. To raise internal validity, the research results were thoroughly discussed with the other author of this study, in order to discover other possible interpretations.

Like reliability, validity may also be divided into internal validity, i.e. “whether there is a good match between researchers’ observations and the ideas they develop”<sup>39</sup> and external validity, i.e. “the degree to which findings can be generalized across social settings”<sup>40</sup>. Regarding external validity, it is argued that this aspect is often a strong point of qualitative research, since “the prolonged participation in the social life of a group (...) allows the researcher to ensure a high level of congruence between concepts and observations”<sup>41</sup>.

As for external validity, the study was performed over several weeks, enabling in-depth reflections of the research results while conducting the study. As for internal validity, it has been argued that this poses a problem for many qualitative studies, because of the “tendency to employ case studies and small samples”<sup>42</sup>. In this particular case, a case study was used, but the sample size was, as mentioned above, not decided upon before the study was performed. Instead, new respondents were added until the empirical data showed such strong tendencies that generalization would be possible.

Another criterion for trustworthy qualitative studies, coined by Lincoln and Guba, is credibility<sup>43</sup>. This criterion refers to objectivity, which this study aims to reach by using multiples sources of information and by striving to describe the empirical data as accurate as possible. In the end, one cannot rule out that a certain amount of subjectivity always will be involved in interpretation of data. However, aware of this tendency, we aim to minimize such influence.

## 2.8 Limitations and critique

As a common denominator, the interviews performed at the Grameen Bank head office were tough to control. The interviewees did not respond to the actual given questions,

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<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid,

<sup>43</sup> Lincoln, 1985. Lincoln and Guba have also “translated” the aforementioned criteria, using the term “credibility” for internal validity, “transferability” for external validity and “dependability” for reliability.

instead giving lengthy monologues about related subjects. Interruptions and clarifications were often necessary, often to little help. In order to receive input on the areas of interest for this thesis, the interviews had to be directed until the interviewee had responded to the actual questions. Eventually, most of the areas of interest were covered, but in each interview, different topics had to be abandoned because of time constraints – the complicated interviews became very time consuming.

The staff members were also very reluctant to utter anything vaguely negative about the bank, instead providing the “official” views of the bank, often referring to the official publications mentioned above. Therefore, the answers of each interview were strikingly similar.

As mentioned above, the exact number of interviews was to be decided on site in Bangladesh, depending on the result of interviews. Having interviewed a couple of officers, the interviews showed no more than a few internal discrepancies. This data also corresponded extremely well to the official publications of Grameen Bank, a tendency experienced by other interns as well. When answering questions, the inclination to refer to official publications instead of speaking freely was also prevalent. The image of the bank as very successful and experiencing few problems was further fuelled by the field visits arranged within the internship, where the bank chose which branches to visit and also provided an interpreter - one of the senior officers of the head office.

At this stage, an external interpreter was hired, with whom interviews were performed in random villages, in the weekends and on days off. This research instantly yielded results which directly contradicted the statements of the staff of Grameen Bank. For the remainder of the time in Bangladesh, the new focus was to interview as many villagers as possible, in order to get their view of Grameen Bank, in order to receive a more nuanced picture of Grameen Bank and its success factors. Before these interviews, the importance of the relationship between the bank and the borrower had been identified, and the views of the borrowers, i.e. the customers, were to become an important part of the study.

As previously stated, a large part of the empirical input emanated from interviews conducted at the head office of Grameen Bank, while performing an internship. While this is the best source for knowledge on the internal structure and development, it is also a source not likely to present any critical opinions. This is a problem which was countered by discussions with loan takers, who presented a more critical view of Grameen Bank.

# 3 Theory

This chapter will first discuss the terms and concepts used when analyzing and describing Grameen Bank. Subsequently, research aimed at Grameen Bank will be presented.

## 3.1 Definitions, terminology and concepts

### 3.1.1 Strategy

There are three components of strategic management – strategy formulation, content and implementation. Strategy formulation is used to identify the mission of an organization, its goals and its philosophy on how to make plans for future achievements in these areas. Strategy content includes the actions that develop the organizations, with components like corporate, business and functional level strategies. Much focus lies on the organizational as well as environmental effects and outcomes upon the strategic content. Strategy implementation translates to the ability to execute the actual intentions and evaluate the strategy design, which includes both internal and external relationships.<sup>44</sup>

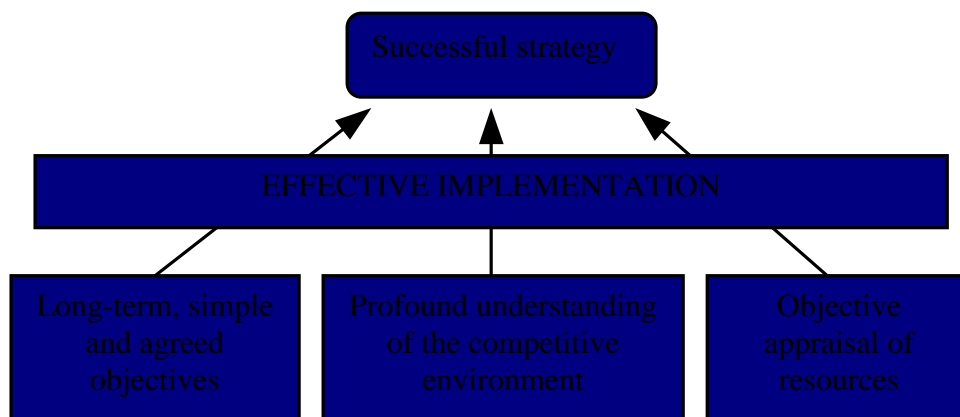


Fig 1: “Common elements in successful strategies”<sup>45</sup>

Grant points out that *basic, consistent and long term goals* is an important ingredient to successful strategy. But it is also essential to *clarify the competitive environment* to present a strong organizational vision. The third component of good strategy is *awareness of strengths and weaknesses* regarding potential resources. Of course, it is not meaningful to merely possess a perfect strategy, if there is no ability to implement it effectively.<sup>46</sup>

<sup>44</sup> Stone et al, 1999, pp. 380-381.

<sup>45</sup> Grant, 2005, p. 7.

<sup>46</sup> Ibid., pp. 8-9.

The strategy and decision making of an organization is designed by analysing the external environment such as social, political and other factors, which are involved in the industry.<sup>47</sup>

*“...strategy is concerned with planning how an organization or an individual will achieve its goals. As soon as we move beyond general notions of strategy to more precise definitions, then these depend upon the type of area within which strategy is being deployed.”<sup>48</sup>*

Business or competitive strategy is concerned about the ability for a company to have advantage over its rivals. But strategy is not solely a tool to compete with the external environment; it is also a tool for internal actions. When applying a constructive strategy, the strategy targets the employees in all manners, and hopefully it can coordinate individual actions. When a vision and a goal are presented to the whole company, it is much easier to lead the employees in the right direction. Often companies establish a future goal, for the greater good, which is a so called target.<sup>49</sup>

The value created in an organization, is dependent on the different associates linked to it – whether it is the customers or the owners. The values help the greater goal to become fulfilled, although it can be difficult to withhold the balance between making profit and doing what is best for the community of interest.<sup>50</sup>

### **3.1.1.1 For-profit organizations**

When speaking of profit organizations, we need to distinguish what profit really means for a certain organization. Profit and goals are united, since profit executes the goal. But the goals are not always profitable in terms of cash flow. It is rather a matter of long-term commitment within the organization and the external environment.<sup>51</sup>

To identify the key success factors, we need to establish the reason why the customers (or borrowers) really want by doing business with the organization, and what is needed to survive competition.

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<sup>47</sup> Ibid., p. 12.

<sup>48</sup> Ibid., p. 18.

<sup>49</sup> Ibid., p. 28.

<sup>50</sup> Ibid., pp. 39-40.

<sup>51</sup> Ibid., pp. 42 and 59.

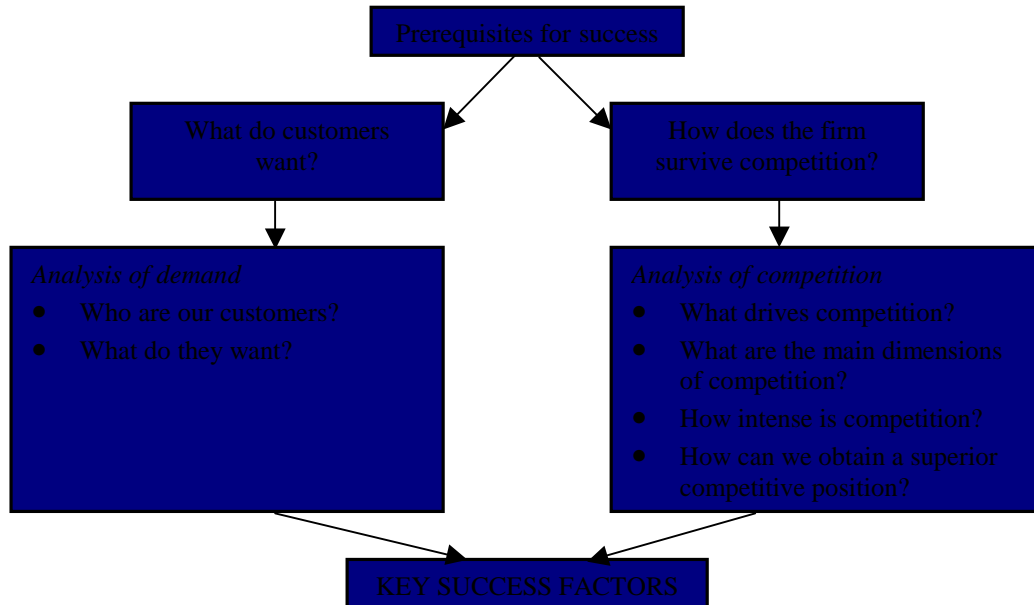


Fig 2: "Identifying key success factors"<sup>52</sup>

Grant claims that making profit is not just about imitating and delivering better results than other organizations, but rather to exercise differences to create an original strategy. The organization needs to make use of unique capabilities and resources, which result in gained market share. Competitors will try to copy the successful actions of an organization but it is impossible for them to copy the whole business strategy.<sup>53</sup>

A key to success is not only to offer a unique product, but also to sustain the competitive advantage against the external environment.<sup>54</sup> That must be achieved by preparing, evolving and rewriting the procedures for future opportunities and obstacles.<sup>55</sup>

### 3.1.1.2 Non-profit organizations

Performance is an important feature when analysing the strategy of non-profit organizations, the reason being the increasing pressure to present performance indicators. This is however a difficult mission to fulfil, since performance in non-profit organizations is based upon vague goals and uncertain outcomes. *Formal strategic planning* is not a general approach to non-profit organizations, but the larger the organization, the more important it is to create explicit boundaries where goals and perhaps potential future funders are established. The strategic planning involves annual goal settings which change depending

<sup>52</sup> Ibid., p. 93.

<sup>53</sup> Ibid., pp. 136-137.

<sup>54</sup> Heracleous, 2003, p. 16.

<sup>55</sup> Ibid., p. 73.

on the organizational outcomes. According to certain findings, boards focusing on policy decisions and administration on a daily basis are more likely to implement formal planning which is further connected to goal and mission settings. There are indications that non-profit organizations using formal planning tend to have a rather dynamic and changing internal structure. Boards and managers are often involved in this changing process. Strategic planning may also affect the external environment, where company values and goals can change rapidly due to funder requirements.<sup>56</sup>

*Strategy content* is mainly about utilizing the resources in the surroundings; that means existing connections with the organizations such as funders. General customer service is given less attention. Depending on environmental commotion, the funder relationship might shift a great deal, which affect budget decisions and social welfare policies. Goals differ between non-profit organizations and it has been shown that these organizations can be both competitive and co-operative.<sup>57</sup>

It has been observed that when external factors change immensely, everything about the relationship between internal strategy and structure shift as well – a so called domino effect. The *strategy implementation* is dependant on the leader performance and authority, the organizational values and intentions.<sup>58</sup>

Concerning strategic planning, content and implementation, a question remains. Which of these areas has the most impact on performance? Do they work side by side, or might only one sector have the power to create such direct effect?<sup>59</sup>

The landscape and conditions for non-profit organizations has been shifting over the years and will continue to change. The issue of non-profit organizations moving into the profitable sector has raised questions regarding the original mission of an organization – especially when non-profit and for-profit organizations either co-operate or compete in the same territory. Also, the common interest of society and the view than an organization may be successful while unprofitable, may seem contradicting. A result of this is the future need for all non-profit organizations to compromise and adjust to the conditions concerning for-profits, which involves performance, organizational capabilities and competition as well as service and quality.<sup>60</sup> Grameen Bank has the characteristics of a non-profit organization, but

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<sup>56</sup> Stone et al, 1999, pp. 382-383 and 391.

<sup>57</sup> Ibid., pp. 391 and 397.

<sup>58</sup> Ibid., p. 399.

<sup>59</sup> Ibid., p. 409.

<sup>60</sup> Ryan, 1999.

since the bank finance itself with the earnings from the repayment interest, there are definitely certain features of the for-profit organization.

### 3.1.2 Culture

Corporate culture works as a mechanism for adapting the organizational values and norms on to the employees. This is demonstrated in symbols, dress codes, social engagements and vocabulary. It takes a long time to implement a culture, and when it has been established, it is hard to change the cultural existence. This makes it hard for the organization to be flexible when environmental changes take place.<sup>61</sup>

Organizational culture has many different aspects which have developed over time. It has had the role as a functional frame of reference where individuals share meanings, but also common language, with a set of symbols. The general opinion is the focus upon the employees and their interests. Johnson speaks of a cultural web, where different behavioural elements work together in an organizational paradigm. The elements and the centre paradigm affect each other and can either have a positive or a negative outcome, such as apathy, decline and resistance or innovation, or sustainable cultural beliefs and ability to fulfil the long-term vision.

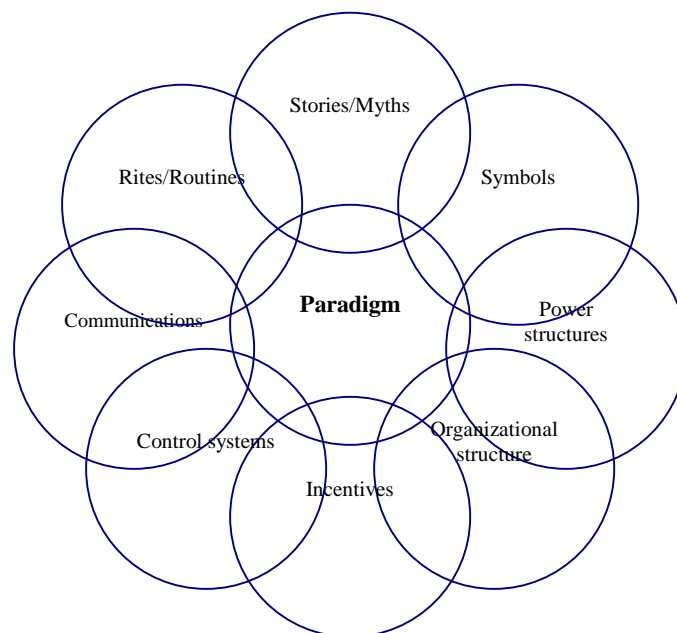


Fig 3: "The cultural web"<sup>62</sup>

<sup>61</sup> Grant, 2005, p. 216.

<sup>62</sup> Heracleous, 2003, pp. 88 and 90.



The cultural web can be used as a model for preparing for the future by establishing the strategic decision-making; knowing the detailed actions of each stage in the process. First, there is a need for an internal situation analysis, which is followed by the choice of vision. The next step handles implications connected to the vision statement where cultural resources meet the organizational strategy. In extent, this can influence the management regarding structure, incentives and other organizational characters to be able to handle a transition. The process continues with an internal evaluation, where the implementation is carefully examined and reviewed, to reveal whether there are any problems which need to be taken care of.<sup>63</sup>

According to Schein, culture can be defined by a three level model. On the visible surface the artefacts are found, underneath we have norms and values which show a higher sense of awareness, and on the bottom we find the invisible level, consisting of fundamental understandings and assumptions which are taken for granted.<sup>64</sup>

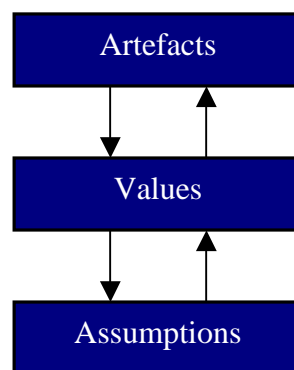


Fig 4: "Schein's three cultural levels"<sup>65</sup>

Assumptions define the reality we all live in and it unconsciously influences everything we think and feel. Values carry the general beliefs of what is right and wrong, often used as a moral or ethical code. Norms are the unwritten rules that direct people's behaviour in a certain direction. Artefacts, however, is visible for all and are fundamentally built by the values and assumptions. Corporate language, specific rituals and clothing are all examples of artefacts. Since this level is visible, it is also controllable and therefore not deeply rooted in the culture of a population or an organization; the artefacts are shape shifters, depending on what kind of culture the organization is settling for. The model is double-arrowed,

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<sup>63</sup> Ibid., pp. 99-106.

<sup>64</sup> Hatch, 2002, p. 242.

<sup>65</sup> Ibid.

meaning that the levels affect each other, not just through assumptions to artefacts, but also the other way around.<sup>66</sup>

### 3.1.2.1 Altering organizational culture

Alvesson and Sveningsson have argued that two important factors are involved when trying to achieve a strong organizational culture and human resource (HR) practice. It is argued whether culture is changeable or not but based on studies it has been shown that it is easier to change culture with receptiveness and openness towards new ideas.<sup>67</sup> But for the key actors to be able to change culture successfully, all members of the organization need to understand the deeper purpose of the change. That means that the actions, the dimensions of the change work, must make sense for the employees.<sup>68</sup>

Cabrera and Bonache have asked: “What can an organization do to ensure that its culture supports its strategic goals (...), what relationship exists among strategy, culture, and HR practices, and how can they be combined to strengthen an organization’s competitive advantage?”<sup>69</sup>

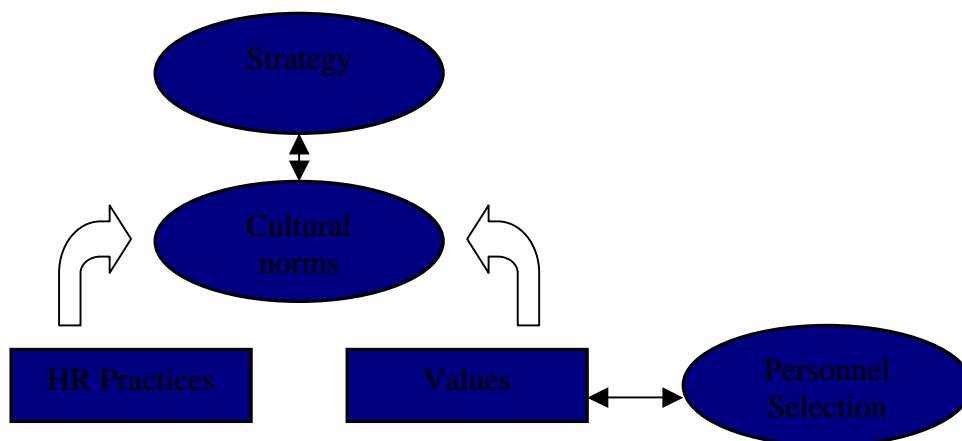


Fig 5: “The Design of a Strategic Culture”<sup>70</sup>

In figure 8, strategy, culture and HR practices are integrated into one framework. A system is presented where it is important for the organization that all personnel share the same set of values. If the organization is able to see potential in the employees, HR practices can be

<sup>66</sup> Ibid., p. 248.

<sup>67</sup> Alvesson and Sveningsson, 2008, p. 49.

<sup>68</sup> Ibid., p. 163.

<sup>69</sup> Cabrera and Bonache, 1999, p. 2.

<sup>70</sup> Ibid., p. 7.

used to fixate the individual's fundamental values for the cause of the organizational vision.<sup>71</sup>

Being an organization involved in poverty alleviation, a strong corporate culture is fostered which spreads throughout the organization and reinforces the belief that the organization is valuable. Alvesson and Sveningsson claims that the culture defines the fundamental identity of a company and when members positively identify themselves with the organizational values, beliefs, material practices and symbolic expressions, the members also see themselves as a unity where they all work towards the same organizational goals.<sup>72</sup> The process of changing corporate culture also ought to constitute a changing process for each individual, in which their own values will be revised.<sup>73</sup>

Child uses the term "*bureaucratic control*" to describe that the organizational members are told how to behave within certain boundaries, with limited flexibility. By reinforcing this control, employees are rewarded or punished, depending on their individual actions. Cultural control helps the bureaucratic control to become fulfilled - but instead of directing the employees in a strict manner, they are manipulated into behaving freely within the cultural context. It also enables a collective and effective thinking among the employees, which result in a joint course towards accomplishing the organizational vision and goals.<sup>74</sup>

### 3.1.2.2 *Communities of practice*

The general definition of community of practice is the social learning that emerges within a community where all individuals share the same beliefs and strive towards the same goals. It is important to identify the elements, such as cultural and structural implications, that prevent the implementation of community of practice. Otherwise the knowledge sharing that takes place within the organization, will not utilize the absolute potential that is rather helpful for all employees. Although, individuals might not be interested in sharing knowledge that makes them experts in a specific field it is essential that all organizations contain a working knowledge management. This will be maintained by a clear organizational vision towards handling competition, a reward and performance evaluation system, which will attract employees to share and exchange information. By promoting this

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<sup>71</sup> Cabrera and Bonache, 1999.

<sup>72</sup> Alvesson and Sveningsson, 2008, p. 39.

<sup>73</sup> Ibid., pp. 169-170.

<sup>74</sup> Child, 2006, pp. 122 and 129-131.

knowledge system, the organization will be able to develop a competitive advantage in the joint community of practice.<sup>75</sup>

### 3.1.3 Structure

Initially, all companies start out small without a specific structure,<sup>76</sup> but as they grow bigger, a need for a structure which suits both the particular business as well as the general industry arises. Large-scale organizations often need a hierarchical structure to control complex situations and a large number of staff. The hierarchical structure consists of bureaucracy with strict formalization and obligations, coordination and control. Furthermore, there are both traditional and organic forms of hierarchy. The traditional forms of structure are “mechanical” and closely related to bureaucracy, while organic forms of structure are less formalized and rely on mutual adjustments. It has been observed that when an organization works mainly with services and customer relationships, there is a higher need for flexibility.<sup>77</sup>

Bureaucracy is strongly formalized but at the same time decentralized, since management delegates some of the decision making to employees. But in a rapidly changing environment, bureaucracy does not necessarily work particularly effectively. The formalization must sometimes be liberated.<sup>78</sup>

According to Hatch, there are two types of structure within organizational theory – physical and social structure. Physical structure is distinguished by concrete elements such as buildings and the surrounding areas where the organization is located. Social structure speaks of the different relationships within an organization, such as the employee environment, positions and divisions.<sup>79</sup> Social structure is dependent on both the present and absent social interaction.<sup>80</sup> Social interaction contributes to the formal and informal structure, which exists within all organizations. The formal structure is visible on the organizational map and the informal structure appears behind the scenes, where the employees have the ability to either enhance or diminish their individual position.

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<sup>75</sup> Huang, Wei and Chang, 2007.

<sup>76</sup> Grant, 2005, p. 189.

<sup>77</sup> *Ibid.*, pp. 195 and 199.

<sup>78</sup> Hatch, 2002, p. 202.

<sup>79</sup> *Ibid.*, p. 190.

<sup>80</sup> *Ibid.*, p. 211.

### *3.1.4 Comment regarding the connection between strategy, culture and structure*

The purpose of section above has been to clarify the definitions behind strategy, culture and structure. However, the presented theory has hinted that the terms are related and not always easily divided. For example, Grant concluded that organizational culture may be a problem when adapting to environmental change.<sup>81</sup> Child mentions cultural control as a fundamental factor when realizing organizational visions and goals,<sup>82</sup> goals and visions described by Grant as an important part of strategy.<sup>83</sup> Heracleous has pointed out organizational structure as one of the ingredients in the cultural web,<sup>84</sup> and Hatch has described similar observations.<sup>85</sup>

Hence, it seems like there are strong interrelations between strategy, culture and structure. This subject will be thoroughly discussed in the chapter 4, when analyzing the empirical findings.

### *3.1.5 Relationships*

Since organizations consist of individuals, it is interesting to see how Grameen Bank influences the relationships between loan takers. Furthermore, the relationship between the bank and its borrowers is an interesting aspect of Grameen Bank as a hybrid organization. As the empirical data will show, relationships also play an important part in describing the key success factors of Grameen Bank.

Dong and Zhu have stated that with Customer Relationship Management (CRM) systems, companies have the capacity to gather information about customers. This information can be used to analyze their values and needs strategically and also to adjust customer services to maximize their satisfaction.<sup>86</sup>

It has been shown that CRM is a strategic successful approach in the banking industry.<sup>87</sup> The CRM are however designed in a different way in Bangladesh, compared to western societies. Despite this, Grameen Bank is very much interested in the relationship between the bank and its customers, i.e. the loan takers. Without the customers, there will be no

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<sup>81</sup> Grant, 2005.

<sup>82</sup> Child, 2006.

<sup>83</sup> Grant, 2005.

<sup>84</sup> Heracleous, 2003.

<sup>85</sup> Hatch, 2002.

<sup>86</sup> Dong and Zhu, 2008.

<sup>87</sup> Liu, 2007.

interest, repayments or a bank to speak of. It could be said that both the bank and the customers need each other - but this does not suggest an equal balance of power.

*“...However, according to IDC (International Data Corporation) and Gartner Group, the rate of successful CRM implementations is below 30% [36], hardly justifying the cost of implementing a CRM system.”<sup>88</sup>*

As expressed by the quote above, implementing a CRM system is not necessarily a wise strategic move, since a large proportion of implementations fail.

There has been a recent study made on client value and the relationship between a bank and its loan takers, showing specific signs of what the future require of the banking industry. Although it is a study of private banking in Switzerland, the results show an overall assumption of what clients need from their bank, whether the client is poor or not. The study concludes that banks need to consider the certain requirements of their loan taker, to a larger extent.<sup>89</sup>

Child has described the reasons for cooperation, claiming that the definition of trust is “(...) the willingness of one person or group to relate to another in the belief that the other’s actions will be beneficial rather than detrimental, even though this cannot be guaranteed”.<sup>90</sup>

## 3.2 Research aimed at Grameen Bank

Several authors have examined Grameen Bank, typically regarding their success in alleviating poverty and achieving its social agenda. This section will briefly describe some of the research relating to the focus of this thesis.

### 3.2.1 *Succeeding with the social agenda*

Basher has performed a study of the correlation between being a loan taker in Grameen Bank and becoming an active agent in economic and non-economic aspects. Before becoming a customer in Grameen Bank, the villagers accepted their living situation. By taking a micro-credit loan, Basher argues that they become able to rethink and pursue a

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<sup>88</sup> Hying-Su and Young-Gul, 2007.

<sup>89</sup> Foehn, 2004.

<sup>90</sup> Child, 2006, p. 339.

better life. The fertility rate was reduced and the loan takers worked hard on eliminating the poverty stigma which they all carried.<sup>91</sup>

Bernasek has concluded that the Grameen Bank's micro-credit loans have improved the living standards for women, due to higher incomes, better living conditions and indications of higher social status, which have contributed to female empowerment in their own families and villages. However, for the women to make use of the new opportunities, they must overcome the cultural and structural constraints that they face.<sup>92</sup> Bernasek also notes that the Grameen Bank's micro-credit model has become acknowledged around the world and has been applied in other countries with bad conditions. Bernasek concludes that Grameen Bank has managed to improve the quality of life for women who sought after help, through micro-credit. However, this opinion has been refuted by Karim, who claims that the quality of life is not automatically improved. Instead, their new life as loan taker is becoming more complicated. The highest level of shame in rural Bangladesh is, especially for women, to lose face. As a borrower, with a long-term repayment scheme, it is essential to be able to fulfil their obligation on time. If they fail to achieve this important task, the woman will bring shame on her self including her family. Therefore, an "economy of shame" has unfolded, according to Karim.<sup>93</sup> Bernasek partially agrees, by stating that the micro-credit model is not alone a panacea for poverty alleviation, but rather an ingredient in the superior long-term plan for socio-economical change.<sup>94</sup>

### *3.2.2 Social responsibility*

The social responsibility of Grameen Bank towards employees and the society as a whole should also be taking into consideration when evaluating the organization. Child writes that "(...) norms of what is acceptable and expected are socially defined (...) it is very difficult to generalize about the criteria by which employees assess rewards."<sup>95</sup> The initial idea of Yunus was to make entrepreneurs out of poor women, by using micro-credit. Poor people had little chance of self-regulating their life conditions when borrowing from private money lenders, who charged unreasonably high interest rates.<sup>96</sup>

Although The Grameen Bank is not strictly a for-profit organization, their profiling in social responsibility resembles many other companies, in the sense of commitment to strong

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<sup>91</sup> Bashar, 2007.

<sup>92</sup> Bernasek, 2003.

<sup>93</sup> Karim, 2008, p. 7.

<sup>94</sup> Bernasek, 2003, p. 15.

<sup>95</sup> Child, 2006, p. 144.

<sup>96</sup> Bernasek, 2003.

ethical and environmental principles. The difference is that the profiling of Grameen Bank is much stronger. Since Grameen Bank offers a quite unique product for helping poor women and a good turn-over in return, they may be regarded as a company for the people. But how will Grameen Bank continue to succeed with this moral marketing when the concept of micro-credit and banking grows? According to Helen Edwards, it is hard for a well established company to get the ethics right and therefore contain the good reputation. If that is the case for Grameen Bank, will it be possible to handle both being an expanding institution and still obtain the moral initiative?<sup>97</sup>

It has also been discussed whether Grameen Bank is a cost-effective establishment or not. A study, performed by Schreiner, has shown that the surplus exceed the funding that has been coming in to the bank, but Schreiner also points out that succeeding in Bangladesh does not necessary mean that micro-credit works worldwide. Imitators around the world need to adjust the model according to their needs - there is no simple solution to microfinance. For example, Grameen Bank enjoys the benefit of the domestic supply of low-cost employees, which also helps reducing the total cost and thereby increasing the surplus. Schreiner has furthermore stated that Grameen Bank tries to succeed in both helping poor using subsidies and simultaneously improve the organization, which is a part of the greater strategy - “(...) doing good is not easy”.<sup>98</sup>

Karim has mentioned the political interest that has been drawn on Bangladesh. Ever since former US president Bill Clinton, and present presidential candidate Hillary Clinton, engaged themselves into studying the new financial development and made Grameen Bank a trustworthy authority worldwide, it has become harder to criticize or question the bank and its humanitarian actions.<sup>99</sup>

### *3.2.2.1 The relationship between the bank and its environment*

Three distinct schools of Corporate Social Responsibility (CSR) have been developed over the years; the neo-liberal school, the state-led school and the “third way” school.

*“(...) neo-liberal school (focusing on self-regulation by industry according to the risk and rewards of CSR activity), the state-led school (focused on national and international regulation and co-operation) and the ‘third way’ school*

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<sup>97</sup> Edwards, 2005.

<sup>98</sup> Schreiner, 2003, pp. 13-17 (the quote is located on p. 16).

<sup>99</sup> Karim, 2008, pp. 10, 13 and 24-25.



*(focused on the role of for profit and not-for-profit organizations).*”<sup>100</sup>

Non-Governmental Organizations (NGOs) and public-private ownership is important to the third school, because it does not rely on a dysfunctional state or a company with a hidden agenda. It shows a position between the government and for-profit or non-profit NGOs which helps the human rights movement to proceed successfully. Although these two sectors work well together, there is a risk of politicized engagement which can create conflicts involving capitalism and socialism. According to Michael, this can result in an opposite effect on society, compared to what was initially planned.<sup>101</sup>

Amin, Rai and Topa explored in 2002 the effects of poor and vulnerable (“Vulnerability refers to the inability of households to insure against idiosyncratic risks, and it is distinct from measures of consumption variability.”<sup>102</sup>) people in Bangladesh joining micro-credit programmes such as the one offered by Grameen Bank. To be able to establish the effects, and thereby create an antipoverty intervention, Townsend’s risk-sharing approach was used. The result showed that micro-credit programmes had difficulty reaching vulnerable poor because of insecurity for the micro-credit provider such as The Grameen Bank. The authors wonder how the loan taker groups are established, in other words, whether their individual vulnerability is measured to gather people that together make a less risky group when providing the repayments.<sup>103</sup> How poor should a person be to qualify to The Grameen Bank programme? The founder of Grameen Bank, Yunus, argues that all poor people are creditworthy and the bank can even offer a better future for the loan takers and their families. In 2003, the bank offered a particular loan for generational beggars, which has been recognized in the media.<sup>104</sup> The plan was to let the loan takers continue to beg but also try to make them sell things that was adjusted to each individual. The consequence would gradually transform the beggars into entrepreneurs, and thereby eradicate begging as a profession. Many of the loan takers are enthusiastic about this programme. Yunus emphasize the need for non-loss organizations to make sure that the business world contributes to the creation of a humane society. The ICT (Information and Communication Technology) has the ability to change the life of the poor by integrating them into the

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<sup>100</sup> Michael, 2003, p. 115.

<sup>101</sup> Ibid., p. 126.

<sup>102</sup> Amin, Rai and Topa, 2003, p. 21.

<sup>103</sup> Amin, Rai and Topa, 2003.

<sup>104</sup> Kamaluddin, 2004.

business world, introduce them to higher education and empowering poor women for the sake of democracy.<sup>105</sup>

Yunus believes that poverty, as a phenomenon, was created by strict policies and academics focusing on a socioeconomic system which in theory should include all levels of social classes. To eliminate poverty in society, institutions and other powerful sources need to redesign the system to fit the needs of the poor as well. That is why Yunus has been suggesting that micro-credit is the key for poor to turn their back on low social standard and instead start to consider themselves as part of a functioning society, with capabilities like anyone else.<sup>106</sup>

### *3.2.3 Practical issues of micro-credit loans*

Edwards has noted that in order to encourage the borrowers to repay their micro-credit loans, an innovative lending system has been designed by Grameen Bank. The construction of groups is designed to enable close monitoring of the borrowers, and to create joint responsibility. The condition to receive new credit in the future is to follow the bi-weekly or weekly instalment schedule.<sup>107</sup>

Karim has claimed that the Grameen Bank's micro-credit model requires, in practice, the group to be collectively responsible for all individual loans. If someone does not have the ability to repay a weekly loan, the other group members have to pay up. If not, the entire group gets punished and disqualified for any future loans. A surveillance network/mechanism has therefore been developed over time, to avoid having to pay for another loan takers debt. Women in rural Bangladesh are already under constant surveillance regarding their sexuality and behaviour, which Grameen Bank utilizes when collecting the repayments.<sup>108</sup>

According to Bond and Rai, symmetric group loans, like the Grameen Bank-model offers, are most efficient when the power relation between the borrowers is equal. If the power relation shifts in one direction, the co-signed loans are to better use.<sup>109</sup> However, it can be difficult for the bank to judge whether a loan taker has a better chance of handling the repayments than another loan taker.

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<sup>105</sup> Yunus, *Micro-credit Changes Lives*, 2005, p.1.

<sup>106</sup> Yunus, *Credit for the Poor – Poverty as Distant History*, 2007, p.1.

<sup>107</sup> Stiglitz, 1990 and Varian, 1990.

<sup>108</sup> Karim, 2008.

<sup>109</sup> Bond and Rai, 2008, p. 19.

The situation might also create team work, if the loan takers actively help each other. Common identity, having the same kind of background as poor villagers, the mutual moral obligation and being members of Grameen Bank, are commonalities enough to make the members work well together and push each other to the extent that every loan taker becomes a business person.<sup>110</sup>

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<sup>110</sup> Child, 2006, p. 346.

## 4 Empirical data

The empirical data has shown a dualism – while the interviews at the head office all yielded similar data, some of it was challenged by field observations and interviews conducted in the villages. The disposition of this chapter is structured in regard of this dualism, starting with data obtained via the internship, mainly regarding the organizational layout and how it developed. The following sub-chapter will then describe the data obtained outside of the internship, i.e. from the interviews performed in randomly selected villages.

### 4.1 Data obtained via the Head Office

#### *4.1.1 Genesis and growth of the bank*

All of the head office officials were eager to describe how Yunus created the bank, and the story was often told whether it was asked for or not. Regarded as the economic protagonist of Bangladesh, the background story revolves around how Yunus wanted to fight the injustices of poverty that he observed while working as a professor of economics. The following section is mainly based on an interview with Jannat-E Quanina, DPM at the Grameen International Program Department, who was one of the students accompanying Yunus when the very first micro-credit loans were given.

In 1976, Yunus gave the first micro-credit loans to 40 women in the village of Jobra, aided by some of his students. The loan takers had previously borrowed from private money lenders, who charged extreme interest rates, sometimes by forcing the loan takers to sell their products to the money lender at rates sharply below the market price. Yunus found out that the 40 women needed an aggregate sum of \$ 27, which Yunus provided from his own savings. The precondition was that the borrowed money was to be repaid by weekly instalments. The project was successful, and Yunus then approached conventional banks in an attempt to make them lend money directly to the poor women – however, the banks were reluctant, claiming that collateral and interest rates was a prerequisite for giving out loans. Realizing that the poverty issue was an urgent national problem, Yunus then expanded the micro-credit project by taking personal loans, which he lent to poor women. As this expanded project turned out well, he was able to convince the central bank of Bangladesh to establish the micro-credit as a pilot project in a village called Jobra. Still successful, Yunus approached the government with an idea of establishing a bank, an idea which was initially rejected. In 1983, having successfully launched the micro-credit programme in several other

villages, Yunus eventually managed to convince the government to establish Grameen Bank as a special bank, aimed at helping the poor. The bank was given certain limitations however, such as only operating in rural areas.

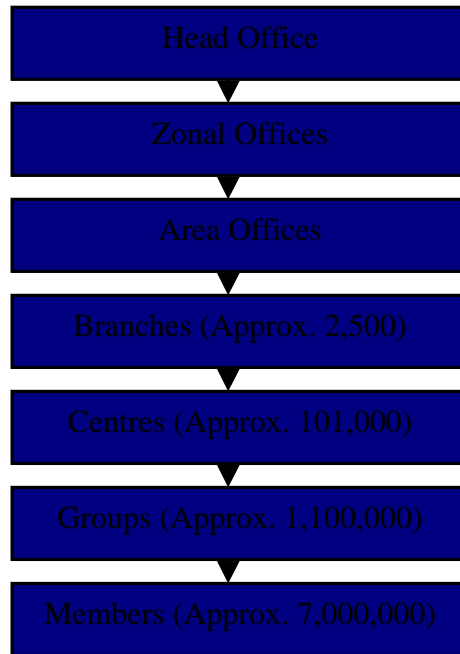
With the government acceptance, the bank grew fast. In order to manage the increased administrative burden, its organizational structure was reshaped into the structure of today.

*“When the bank was approved by the government, local offices were created and the structure of today started to take shape”*

*Senior Officer at the Head Office*

#### ***4.1.2 Formal organizational structure***

The empirical data shows a straight-forward image on the organizational structure in Grameen Bank, which is hierarchical and consisting of four levels of administration, and three levels of organizing the borrowers. The organization is constructed by geography and function, with its head office in Dhaka, the Zonal Offices covering all of Bangladesh, the Area Offices covering the geographic area of their respective Zonal Office and so on. A branch is a local office, managing all of the centres in the villages within its proximity. Each centre represents a certain amount of borrowers, and it is possible for several centres to co-exist in a village, if there are enough borrowers. This structure is illustrated below, including numbers to show the dimension of the organization.



*Fig 6: The Organizational Structure of Grameen Bank*

While the Head Office engage in broad management, general decision making and supervision of the organization as a whole, the functionality of each underlying level becomes increasingly focused on the actual banking. The Zonal Offices’ main function is supervision, monitoring and auditing of the Area Offices, which monitors and coordinates the branches. In the branches, all of the contact between Grameen Bank and its borrowers take place.

Within this classical hierarchical structure, one unconventional organizational approach stands out. Unlike many other commercial ventures, the work is not focused on the head office. Instead, the whole organization focuses on the centres, groups and borrowers, which is part of the philosophy that the bank should come to the customer and not the other way around.<sup>111</sup> The customer-focused philosophy even goes so far as to include the borrowers as a part of the organization. The bank strives to integrate all of its loan-takers into the organization, practically making the bank and its loan takers into one big organism. All of the loan-takers are required to purchase one share of the bank, making the bank owned by its borrowers (93 %).<sup>112</sup> This also reflects in the board of directors – nine out of thirteen positions are filled by the share-owning loan-takers.

This structure makes the distribution of power fleeting. The organizational structure pointed out the loan takers as being at the bottom of the organizational hierarchy, but the

<sup>111</sup> Yunus, Grameen bank at a glance, 2007, p. 23

<sup>112</sup> Yunus, Banker to the poor – Micro-Lending and The Battle Against World Poverty, 2003, p. 235.

loan takers are also, theoretically, the most influential actor in Grameen Bank's decision making process. In other words, the customer is also the service provider. This unusual distribution of power is illustrated below.

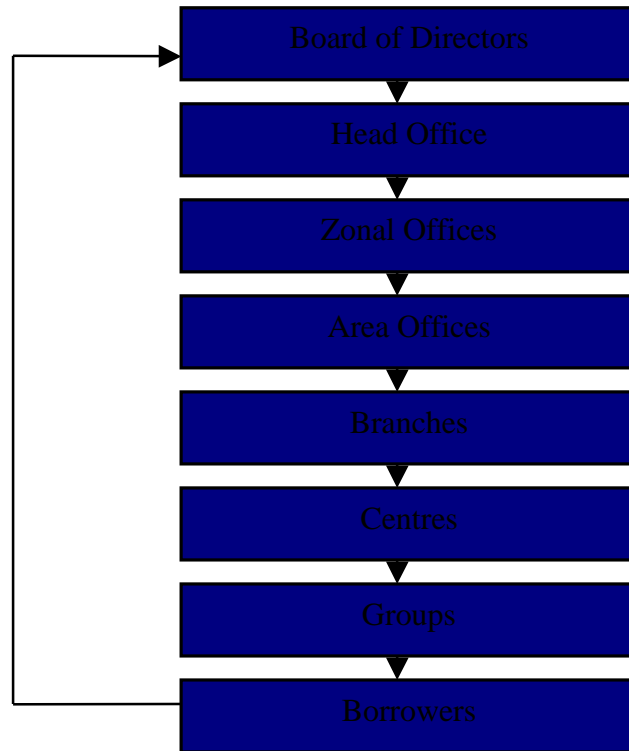


Fig 7: Distribution of power in Grameen Bank

#### 4.1.3 Informal organizational aspects

While the formal organization seems pretty straightforward, the impact of the ideology of Grameen has some interesting informal organizational aspects. Unlike regular banks, Grameen Bank revolves around the loan taker, which has led to several interesting observations.

In regular corporations, status often coincides with hierarchical level. In Grameen Bank, the officers of the Head Office do not regard their status and organizational importance as of being automatically higher, compared to positions closer to the loan taker. This is a perspective nurtured by the ideology (see below) of Grameen, which underlines the importance of working with the poor. Being a branch manager, for example, is desirable since they get to work with the poor in their day to day lives – while the higher instances focus more on administrative work. This does not mean that the Branch Managers does not respect their authorities, to whom they seem to have a close and professional, yet friendly,

relationship. On the other hand, the top management is of course very respected, but these observations are more relevant regarding the officers at lower levels.

This counterintuitive and rather complex status mechanism has also created a career ladder unlike most corporations. For example, the Head Office Senior Officer Shamimur started his career as a Branch Manager.<sup>113</sup> He was then recruited to the Head Office after a few years, which seems like very rapid career advancement. The view of this promotion was therefore surprising – Shamimur opined that “there is bigger prestige in working closer to the loan-takers”.

Shamimur expects to be transferred to a position lower in the hierarchy in a few years, working closer to the loan takers. Of course, this will not be some kind of degradation, but a natural process in the career of a Grameen worker. One area manager interviewed had made the same journey – starting as a branch manager, he was transferred to the head office and finally became an area manager. Partly, this could be explained by the fact that being a manager is regarded as a more important position than being an officer, although in higher levels of the hierarchy. But still, the typical career path of a Grameen worker hints that the underlying organizational culture is special.

#### *4.1.4 The corporate culture of Grameen Bank*

Interviews performed at the head office clearly indicated the presence of a very strong corporate culture. The pride of having received the Nobel Prize for humanitarian work was prevalent in the atmosphere, colouring the office environment and the replies of the interviewees. The staff at the Head Office all had extensive experience from field work, a result of the office policy of only recruiting workers from other parts of the organization.

As explained above, the informal structure of the organization is the most unconventional part of the Grameen organization. The source of this informal structure is in turn a result of the culture of the organization – and Grameen Bank does indeed have an extremely strong culture.

For a reader of this report, it is obvious that the goal of Grameen Bank is to alleviate poverty. It may not be as obvious how much this goal has meant for the culture of the organization. Grameen Bank is an organization driven by its social goals, and its micro-credit programme has evolved to become much more than a provider of capital.

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<sup>113</sup> A custom of Grameen Bank is to exclusively hire people with a Master’s Degree. The subject of the Master is less important – some specialize in Business Administration, some in Geography, others in English, and so on.



One illustrative example comes from a field trip during the internship. Walking around in a village with a high representation of loan takers, a woman, as a greeting, put her hand to her forehead in a way almost resembling a military greeting. This greeting was actually a special “Grameen-greeting”, employed by the loan takers to signal their Grameen Bank membership to other people. But, more important, this greeting symbolized the utterly strong group mentality shared among the Grameen loan takers. While it may seem irrelevant, this hints the mentality that is fundamental to convey when explaining the corporate culture of Grameen Bank.

Taking a micro-credit loan, the borrower is not merely receiving capital – the borrower becomes part of a social programme, with social values diverting from the traditional, conservatively Muslim, village culture. They become members of a savings programme, a pension programme, and are encouraged to become socially aware entrepreneurs. Their problems and hardships are no longer individual; they are now shared by the group, the centre, and ultimately the bank.

This close involvement with the loan taker is the base of the corporate culture of Grameen. Regarding its clientele not as a means to an end, but as the end itself, the borrowers stipulate the daily agenda of the organization. This explains the desirability of working close to the loan takers, and this mentality also ought to constitute an important success factor, allowing the organization to flourish.

The following chapters will discuss the strategy and the micro-credit model, areas which has developed semi-consciously with strong influence from the ideology which has created the corporate culture.

#### *4.1.5 The Micro-credit model*

The fundamental concept of micro-credit is to provide poor people with small loans. An important part of the Grameen policy is also to never require any collateral for the loans given, which is one of the reasons why Grameen was able to find willing borrowers – Grameen Bank proudly claims that despite the policy of not needing to provide collateral when applying for a loan, the loan recovery rate is 98.48 per cent.

*“Grameen’s system is without collateral – it depends on trust”*

*Senior Officer at the Head Office*

This simple concept has however been thoroughly developed and is now only a part of the “micro-credit model”. One important aspect underlined by the interviewees at the Grameen

Bank Head Office, is that loan takers own a total of 94 per cent of Grameen Bank, while the rest is owned by the government.

*“Grameen is a bank for the poor – Yunus’ vision was that loan takers would own the bank”*

*Senior Officer at the Head Office*

Aside from the ownership structure, many other policies have been added as well. One factor is the group structure; every loan taker needs to be part of a five-member group where all help each other, although no individual group member is responsible for repaying another members loan. The purpose of this requirement is for the members to find comfort and moral aid in time of hardship, and to quickly find out when a member is having trouble. The groups are further organized in small “communities”, called centres, which meet every week to report how their business is developing. These meeting are accompanied by the local branch manager, who collects the weekly instalments.

Aside from these organizational aspects, the micro-credit concept now involves more than merely a loan. Extensive savings programmes, pension funds and educational programmes have been introduced to the loan takers. Grameen Bank also strives for improvement in social areas, such as equality and lowering the amount of children in each family. Ever since the start of the micro-credit, loans are almost exclusively given to females. The reason is partly to stimulate female emancipation in the Islamic culture, and partly because Yunus believed females to be more rational decision-makers in matters regarding private economy. Education is also encouraged, as a way of alleviating long term poverty. As an example, there is an explicit policy of encouraging the children of female borrowers to be ahead of their class, and some of them are rewarded by receiving a scholarship for educational purposes. When achieving a certain level of higher education, the students are offered educational loans for further studies.

The micro-credit model has also expanded to cover life insurance benefits, which are provided to the loan takers as a benefit of owning a share in Grameen Bank; each loan taker is given one share as they become loan taking members of Grameen Bank. The aforementioned savings programme and pension funds are also mandatory parts of being a loan taker – hence, the micro-credit model has evolved to resemble a social programme.

*“Based on Grameen Bank’s experience, when a member no longer needs to receive any more loans, they still stay in the bank because of gratefulness”*

*Senior Officer at the Head Office*

In an attempt to meet criticism of not reaching the very poorest, a new arrangement was recently created, the Struggling Members Programme. The intention is to reach and activate beggars by offering them an interest-free loan with regulated and individual repayment schemes. The long-term plan is to turn the beggars into entrepreneurs. While 91 000 beggars had joined the programme as of 2007, the programme has yet to show any profound achievements, even though Grameen Bank is optimistic about its future.

As a way of motivating employees, staff members and branches receive colour-coded stars when a certain task has been successfully (100 per cent) achieved. Five stars indicate that a branch or staffs has reached the highest rank of performance. As of today, half of the 2 185 Grameen branches has received stars for achieving a 100 per cent repayment rate from the loan takers. Blue stars indicate earned profit and violet stars means that the branch has succeeded business-wise but also achieved to contribute their surpluses to other branches in the Grameen co-operation. A brown star means that a branch has ensured education for 100 per cent of the loan takers children, and a red star indicates that a branch successfully has carried all the borrowers of Grameen Bank over the poverty line.<sup>114</sup> A star is not automatically handed out, but needs to be applied for. A verification process regarding the prerequisites is then initiated, after which the branch will be granted the star. The objective is for all Grameen branches to receive five stars.

The micro-credit model as employed by Grameen Bank has been referred to as Grameen-credit by Yunus. By using this name, Yunus wishes to emphasize the political dimension of micro-credit as being “a human right”, a credit which in the long run is meant to help poor women and their families to overcome poverty. Yunus also underlines that all loans are based on trust instead of legal contracts. Furthermore, the mentality which Grameen Bank aims to convey is to provide service for the poor loan takers at their own door-step.

When a loan has been fully repaid (either weekly or bi-weekly), the loan taker may receive a new one but it is also possible to have parallel loans. It is preferable if the loans become larger and larger, in order to fund larger undertakings, generating more profit,

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<sup>114</sup> The “Ten indicators to assess poverty level” used by Grameen Bank is available in Appendix C.

which hopefully results in less poverty. The aim to fight poverty is also the explanation of the aforementioned savings programme.

While the micro-credit loans are given with less interest compared to money lenders, they still need to be financed. Nevertheless, they must not be too high, in order for the poor people to be able to overcome their poverty. The interest rates are therefore calculated in order to help the loan taker to stay with the programme, rather than resulting in profit for the bank. In other words, the interest must be close to the market rate without sacrificing sustainability.

By being involved in the Grameen Bank organization, the aim is for all borrowers to be able to develop their human capital and wish for better quality of life. Yunus believe that charity methods only help poverty to continue flourishing – instead, the micro-credit method introduces the borrowers to an institution which can reach the loan takers on their own terms.

#### *4.1.5.1 How Grameen Bank differs from other banks*

When applying for a loan in a conventional bank, there is usually a need for some kind of collateral, which is not the case when applying for a micro-credit loan via Grameen Bank. Also, there is no legal instrument between the lender and the loan taker in the Grameen Bank. When a loan taker is not able to fulfil a weekly instalment, the bank reschedules the repayment as a natural procedure and assists the loan taker to recover from her setback and overcome obstacles. In Grameen Bank, the interest can never exceed the original loan, which often would be the case when borrowing from other sources. Grameen also takes social responsibility for its members, for instance through the “Sixteen Decisions”, a list of core values that Grameen Bank expects its members to live by. The aim is to help the individuals to do achieve long-term progress in educational, social and health areas by establishing new beliefs (resembling a corporation trying to change its corporate culture to improve its results). The overarching goal is however to create a poverty-free world.<sup>115</sup>

#### *4.1.5.2 Grameen Generalised System*

Grameen Banks different programmes have developed over time and the system of today is called Grameen Generalised System (GGS), or Grameen II. The most important feature is the personalized micro-credit plan for each borrower, which all staff has the ability to create and customize for them. Since all Grameen members are divided into groups, creating

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<sup>115</sup> Yunus, Grameen Bank at a Glance, 2007, p. 32.

networks, they become involved in the decision-making of the bank. Empowerment and emancipation is intended to become a natural element of a borrower's obligation.

#### 4.1.5.3 The Star System

The five star system (green, blue, violet, brown and red) contributes to healthy competition among staff members, according to Latifee. They become inspired to do better for both themselves and the loan takers of Grameen Bank. One branch can receive a maximum of five stars. All members strive for the star reward, because it can and usually result in an individual career development. As a natural effect, the star indicates better status within Grameen Bank and the individual or staff will be treated as "the best members". When a star has been received, all staff members can wear the star on their clothing and in formal events.<sup>116</sup>

There is certain proof of the method being successful, in the terms of reducing poverty as well as earning profit.<sup>117</sup> Yunus believes that this kind of competition helps both branch members and others.<sup>118</sup>

Area	Color
100 % repayment	<b>Green</b>
Earning profit	<b>Blue</b>
More deposit than loan outstanding to the borrowers and from Head Office	<b>Violet</b>
100% literacy	<b>Brown</b>
<b>100% of borrowers over the poverty line</b>	<b>Red</b>

Table 1: "The Star System"<sup>119</sup>

Grameen Bank has provided loans to almost 7 million poor people in 73 000 villages in rural Bangladesh, where 97 per cent of the borrowers are women. The reason why the bank focuses on women is because of the capability of bringing more benefits to the families.<sup>120</sup>

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<sup>116</sup> Latifee, 2007.

<sup>117</sup> Ibid., p. 2.

<sup>118</sup> Yunus, Grameen Bank II – Designed to Open New Possibilities, 2007, p. 22.

<sup>119</sup> Khan and Wahab, 2003, p. 20.

<sup>120</sup> Yunus, We Can Put Poverty into Museums, 2007, p. 6.

#### *4.1.6 The strategy of Grameen Bank*

As the organizational structure hints, the general strategy of Grameen Bank is to maintain a close relationship to its borrowers. The overarching objective of the bank has been, since its start-up in 1976, to fight poverty by providing the poor with credit. Since then, the bank has however grown at a tremendous rate. From having ten members in 1976, the bank had in the end of 2006 a total of approximately seven million members. The impact of Grameen Bank as an organization has been profound, and the bank as of today is an entirely different entity compared to the early days. The concept of the micro-credit has been institutionalized, and the programme for borrowers has been extended and regulated.

From reading the works of Yunus, it is easy to draw the conclusion that the overall strategy of Grameen Bank is to provide loans without collateral, given with a relatively low interest. The interviews performed, along with observations from the field, indicate a slightly differing reality.

##### *4.1.6.1 The social strategy*

Actually, none of the officers interviewed has claimed the actual loans to be the fundamental part of the Grameen Bank strategy. Rather, they underline the importance of the relationship with the borrower. This goes well with the field observations.

While the collateral free policy, along with the relatively low interest, is the foundation of the micro-credit, several other organizations provide the same kind of loans. In Bangladesh, non-government organizations such as BRAC<sup>121</sup> and Proshika<sup>122</sup> offer similar interest rates, but have nevertheless been unable to reach the same success as Grameen. One possible explanation is that Grameen Bank was the first micro-credit institution, resulting in a first-mover advantage. This does not, however, fully explain the overall competitive advantage of Grameen Bank. Rather, the very core of the Grameen Bank strategy is the relationship with the borrower.

*“The strategy of the Grameen Bank is about relationship!*

*Success is reached by motivating people!”*

*Senior Officer at the Head Office*

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<sup>121</sup> <http://www.brac.net/>, 080525.

<sup>122</sup> <http://www.proshika.org/>, 080525.

By close supervision and social programmes, Grameen successfully creates a long-lasting relationship, not vulnerable to NGOs who might offer slightly lower interest rates. Being part of the “Grameen community”, the loan takers starts to reconsider their identity, as they are now belonging to a group. This in turn guarantees a more profound loyalty to the Grameen Bank. An interesting feature of this outcome is that the social undertaking becomes a competitive advantage.

*“Our success comes from close supervision!”*

*Senior Officer at the Head Office*

## 4.2 Data obtained via interviews in villages

While the interviews of the staff at head office correspond well with the common view of Grameen Bank as a benevolent corporation,<sup>123</sup> the image is partly altered by the interviews performed with the loan-takers in the villages.

The purpose of visiting villagers and loan takers outside of the internship programme was to possibly uncover aspects not mediated during the earlier interviews. Upon arriving in the first village, it became obvious that it differed greatly from the villages visited under the supervision of the Grameen Head Office. Firstly, there was no local office in the close proximity of the village, and no Grameen representative was to be found. Furthermore, the area in itself seemed poorer.

The villagers were at first reluctant to answer questions, fearing they were being investigated by Grameen Bank. Having assured them that their answers or identities would not be shared with Grameen Bank, they soon became more friendly and willing to answer questions. A general tendency of giving lengthy monologues not always related to the questions made the interviews difficult, but the general area of discussion, the discrepancies in official Grameen policy and real practice, was generally maintained.

### 4.2.1 A less idealistic reality

While the bank proudly explains their human approach to their loan-takers, the interviewed members experienced a different reality, adding more insight to the success of the bank. During the field trips within the internship programme, it had been noted how the branch managers would sometimes act impolitely and harshly towards the borrowers. At the time, that observation had not been given much consideration, since it might have been somehow

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<sup>123</sup> As expressed in, for example, the official publications of Grameen Bank.

contextual. During these independent interviews, it became apparent that such strict behaviour was common.

The general notion of Grameen Bank was not much different, compared to the notion of other money lenders. In fact, most interviewees were surprised to hear how Grameen is supposed to differ. These discrepancies will be discussed in the following sub-chapters, each sub-chapter representing a general area of non-correspondence with the data obtained via the internship.

#### *4.2.2 Informal collateral*

One of the unconventional aspects of micro-credit is the collateral policy. It is claimed that no loan taker needs to provide collateral in order to be approved for a loan, which enables individuals with no prior property to gain access to capital.

The interviewed villagers agreed that one did not have to provide any formal collateral when applying for a loan. However, it was still impossible, or very hard, to receive a loan without owning any property. Many of the respondents described how a representative from Grameen Bank, such as the branch manager, would inspect the homes of individuals applying for a loan. If the individual did not own anything valuable, no loan was given. However, if the loan taker could assure the representative that some kind of asset was owned, a loan would be given. The silent premise of the loan giving was therefore, that failure to repay the loan would result in collection of property. While this practice does not qualify as demanding formal collateral, a fitting description would be a requirement of *informal collateral*, surely not admissible by the official Grameen rules.

*“Normally, Grameen Bank does not receive applications from people who are “rich” – but if these people would receive a loan, it would sooner or later be discovered that they have land and assets, and then they would be excluded from the Grameen Bank”*

*Senior Officer at the Head Office*

*“Some managers came to my home and estimated the value of my possessions and then told me that it was not enough – I did not possess enough wealth”*

*Villager in Jagannathpur, Comilla*



### 4.2.3 Consequences of non-repayment

The repayment rate is often focused by Grameen Bank, both by arguing for its success by claiming a repayment rate higher than 98 per cent and by rewarding branches with a 100 per cent repayment rate by giving them a star.

The interviewed villagers were asked of their experience regarding Grameen's policy of repayment, giving answers that question the official policy. As previously mentioned, the official policy is to apply tolerance when a member experience hardships and inability to repay loans, with restructure of loans as a possibility. In contrast, the respondents all claimed that non-repayment was unthinkable. Most of the women experienced a high pressure from the bank to never be late in their instalments, and none of the interviewees had ever been delayed in paying their weekly instalment. When questioned regarding the consequences of not repaying, the interviewees suggested that a local bank representative probably would claim some of their property, which further underlines the practice of informal collateral.

*“Not paying back a loan is not an option: GB officials will put pressure on the woman to find money to pay them back. Usually they do this by talking to the village leader, who then calls this woman and her husband and tells them that they have to pay back the loan, by selling land or other possessions or by help from relatives”*

*Loan taker in West Khal-Pao-dhoa, South Utholi*

The internal group pressure was also cited by several respondents. Since the loan takers need to form a group when applying for a loan, the group members become financially responsible for each other. If one of the group members fails to repay a loan, none of the other members will be able to receive any future loans.

Since many of the loan takers depend on receiving renewed loans, they furthermore cannot risk being shut out of the system. Therefore, group members become forced to repay the loans of other group members.

#### *4.2.4 Other topics of interest*

The loan takers expressed disappointment regarding several matters. The savings programme was often mentioned – a few of the loan takers who had tried to withdraw money from their savings account, had been told that the records of their deposits was lost.

In order to shed some light on the distribution of power and ownership structure of the bank, the loan takers were also asked about the share they receive upon becoming a member of the bank. None of the interviewees were familiar with the concept of shares, but after having roughly explained the meaning of it, none of the loan takers could recollect receiving any such document.

Generally, the loan takers had not experienced any benevolence. They regarded the micro-credit as a loan given to people who were “safe” loan takers, and did not receive support from the local bank staff, who were only interested in securing repayment of the loans. Discussing the terms of the micro-credit loan, another issue surfaced – the interest was sometimes a bit higher than the interest rates decided by the head office. This implies that the local bank staff upped the interest for personal financial gain.

*“The bank and the customer respects each other, but the customers are not happy with the bank”*

*Loan taker in West Khal-Pao-dhoa, South Utholi*

#### *4.2.5 Comment regarding the repayment rate*

The “real” conditions of the micro-credit, as described by the interviewees, help to explain the high repayment rate. Not only are only loan takers chosen by their financial capacity, their assets risk being seized to cover instalments not paid. Furthermore, individual failures are not likely to be seen in the system, since group members often step in when a loan taker cannot repay her loan.

#### *4.2.6 The bank-borrower relationship*

Earlier, it was described how the relationship based strategy provided a competitive advantage. In reality, the advantage has proven to be a bit more complex. By the constant supervision, Grameen staff immediately recognizes when investments (loans) are in danger, and can take effective countermeasures in order to uphold the repayment rate. The constant presence of Grameen staff also helps in keeping the loan takers aware of their repayment duties. An observation made in one village, was that the Grameen Bank representative acted

harshly, bordering on impolite, towards the loan takers. This also hints a formal relationship, in which the banks' representative had a monitoring relation to the loan takers, rather than a coaching one.

#### *4.2.7 Comment regarding the data*

The data was mainly collected from two villages, located far from each other. The criticism of the bank was nevertheless similar in both villages. It seems plausible that the local bank branches had problems with managers not following the official guidelines, therefore not being successful in mediating the values of Grameen Bank. It is possible that this is an unfortunate coincidence, but it is also possible that the fast growth of Grameen has made supervision and internal control difficult, allowing for local branches to deviate from the corporate policy. This would especially be a plausible explanation given the Star system, which encourages the local branch managers to achieve the "right numbers".

## 5 Analysis

This chapter will relate the empirical data to the theoretical framework, starting with strategy, organizational culture and organizational structure. The following section will relate these factors to each other, describing their interrelations.

### 5.1 Strategy

Strategic management is characterized by strategic formulation, content and implementation. These components show the process of creating a vision, as well as realizing the dream and put it into action.<sup>124</sup> Grant thinks that there are more components than just visualizing a dream, before the strategy can become implemented. Instead he considers that three themes are required to implement a successful strategy – a clear long-term vision, complete understanding about the competitive environment and resource capabilities.<sup>125</sup> As for the first one, the long-term goal and vision of Grameen Bank was initially to financially help poor people in Bangladesh by giving them micro-credit at a low interest rate and helping them becoming entrepreneurs. Yunus noticed how poverty had become an uncontrollable monster and was a national problem. Over the years, especially after being awarded the Nobel Peace Prize, the vision has evolved. Today, when Yunus and Grameen Bank have seen the impact of their work, the goal has grown into eliminating poverty. Members of the organization are well aware of this vision, and proudly keep on fighting for the poor peoples' right to higher quality of life. This social aim engaged the employees towards accomplishing a mission that would help not only poor women but the entire country.<sup>126</sup>

The Board of directors and the Head office are conscious of the surrounding resource potential and risks of Grameen Bank. By being aware of strengths and weaknesses,<sup>127</sup> the bank will be able to master conflicts with the government as well as supervising the loan takers' ability to follow their weekly instalments. For example, if someone is close to failing the repayment, Grameen Bank outlines a new plan to help her completing the duty to the bank. However, it should be noted that the description of what happens in the case of

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<sup>124</sup> Stone et al., 1999, pp. 380-381.

<sup>125</sup> Grant, 2005, p. 7.

<sup>126</sup> Ibid., p. 28.

<sup>127</sup> Ibid., pp. 8-9.

non-repayment differ immensely, between what is said by Grameen employees and the interviewed loan takers.<sup>128</sup>

Another way of understanding current weaknesses and surviving competition is to keep other micro-credit institutions at a distance by offering a unique and superior product.<sup>129</sup> A recipe for success<sup>130</sup> can therefore be the discovery of a market which has never been approached before – with the advantage of offering low interest which no other bank in the area does. The competitive environment has been carefully examined and is still observed closely. One of the direct threats are the private money lenders in rural areas, but since they only offer high interest rates the poor prefer to become a customer in Grameen Bank.

However, the strategy model “Common elements in successful strategies”, which describe common elements in successful strategies, does not show the interaction between organizational strategy and personnel, other than mentioning the importance of clarifying the main vision and goal.<sup>131</sup> The model rather represents a statement, connecting an organization with its environment. Of course, this initial analysis is relevant regarding further discussion upon successful strategy when speaking of figure 5; “The Design of a Strategic Culture”.<sup>132</sup>

There is a difference in choosing strategy in terms of non-profit and for-profit organizations. The non-profit organization focuses on different kinds of performance<sup>133</sup> while the other, naturally, concentrate upon earning profit.<sup>134</sup> There is also the difference between short and long-term goal settings, where the term “profit” can have rather different appearances. In non-profit organizations there is often a need for rapid results, especially when there is a need to obtain funding, but also to show that the goal of the organization is being accomplished. The for-profit organization must also show achievements, but the goals do not necessarily need to be fulfilled in a short period of time.

Grameen Bank is actually a hybrid of these two organizational forms. The idea is to operate and financially support itself, rather than making substantial financial profit. All the repayments are, according to interviewees at the bank, meant to help the existing and future loan takers as well as financing wages and other organizational costs. But still, although the bank might finance itself, where does the rest of the money go? Can really Grameen Bank

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<sup>128</sup> Compare the empirical findings in 4.2.3.

<sup>129</sup> Grant, 2005, p. 93.

<sup>130</sup> Compare Grant, 2005, pp. 136-137.

<sup>131</sup> Grant, 2005, p. 7.

<sup>132</sup> Cabrera and Bonache, 1999, p. 7.

<sup>133</sup> Stone et al, 1999, pp. 382-383.

<sup>134</sup> Grant, 2005, p. 42.

keep on expanding in the same pace as before by developing new branches? Since the organizational environment for Grameen Bank has changed over time, now might be the right time for creating new strategies or even more specific – new ways of implementation that suit the rapid financial input.

A question was presented in chapter 3 - which one of the three elements, strategic planning, content and implementation, has the most impact on performance?<sup>135</sup> Since it has been concluded that strategy is an ongoing process, it may be argued that all elements have their specific task - in other words, they function together. Planning creates a visionary map, the content reflects the analysis of capabilities as well as resources, and implementation is, as Grant suggested, the next step towards successful strategy.<sup>136</sup>

Grameen Bank offers a product which few bank dares to offer, since the risk in offering a loan to a poor person without any collateral seems too high.<sup>137</sup> The respected Grameen Bank vision is therefore located in a market that is not interesting to other banks. Private lenders seem to have the same idea as Grameen Bank, but require interest that keeps the borrowers in deep debt, meaning that the private lenders do not pose any greater threat to Grameen Bank. On the other hand, competition is a healthy and a natural part of development, which could help Grameen Bank to improve their key success factors and its borrowers' situation, in the long run. Grameen Bank is also protected by cultural walls,<sup>138</sup> which keep on getting stronger as the bank becomes more institutionalized.

The conditions for future success lie upon knowing who the customer is and what they need.<sup>139</sup> Grameen Bank often know what the loan taker want, merely by analysing her assets and perhaps collateral, her family and her living situation. Often, the loan taker has a wish to become a member of the Grameen system, since their good reputation is so profound. In reality, it seems like the Grameen membership implicate the matter of an “economy of shame” which is clearly not a dream scenario for any borrower.<sup>140</sup> Despite this, Grameen Bank really knows how to address future borrowers, by knocking on their door and initiate the bank-borrower relationship.<sup>141</sup> It is not about selling a product, like in other companies, but rather a way of presenting the company vision and to welcome the people in a collective culture that struggle together with the mission to eliminate poverty.

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<sup>135</sup> Compare 3.1.1.1 and Stone et al, 1999, p. 409.

<sup>136</sup> Grant, 2005, p. 7.

<sup>137</sup> Compare the empirical findings in 4.1.5.

<sup>138</sup> Grant, 2005, p. 216.

<sup>139</sup> Ibid., p. 93.

<sup>140</sup> Compare 4.2.4 and Karim, 2008, p. 7.

<sup>141</sup> Compare the empirical findings in 4.1.6.1.

By analysing the competitive environment, Grameen Bank also knows what they can offer the future loan takers something that no other bank or private money lender can provide. Yet, the bank needs to continue to supervise the conditions for competition, because imitators will appear. Though, the uniqueness of Grameen Bank is its unbreakable culture and continuous relationships, which are very hard – perhaps even impossible – to replicate.<sup>142</sup>

## 5.2 Organizational culture

Alvesson and Sveningsson argue that when the culture is clearly defined, all individuals in an organization identify themselves with each other.<sup>143</sup> Most of the employees at the head office seem to identify themselves with the organization, which might be a reason why all potential criticism, as well as all observations hinting organizational dysfunction, is rejected and questioned. The employment at Grameen Bank seemed to become a fundamental part of the employees' self image, which explains why criticism of Grameen Bank appeared to be taken personally. While this stance obstructs improvement, it also shows the strong involvement in the bank.<sup>144</sup>

This strong involvement in the bank spread to the loan takers, who actually develop a sense of belonging to the bank, creating bonds between the loan takers. This corporate culture also acts as a catalyst in the relationship created between the loan takers.<sup>145</sup>

The cultural web discusses how different elements, existing in any corporation, affect the entire organizational paradigm.<sup>146</sup> These elements are dependent upon each other, whether it regards a myth, a vision, communication or power structures, evincing how the culture impregnates all areas and functions. The culture of Grameen Bank works exactly like the cultural web explains.

The culture was indirectly created when Yunus developed the Grameen vision – in other words sowed the myth – and has been institutionalized for over three decades.<sup>147</sup> Yunus, and other associates, show a very strong commitment and seem to put their lives into the bank. This colours the culture even more and it influences the loan takers in the manner of customer engagement – as shown by the Grameen Generalised System<sup>148</sup> and the military

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<sup>142</sup> Heracleous, 2003, p. 73.

<sup>143</sup> Alvesson and Sveningsson, 2008, p. 39.

<sup>144</sup> Compare the empirical findings in 4.1.6.1.

<sup>145</sup> Cabrera and Bonache, 1999.

<sup>146</sup> Heracleous, 2003, pp. 88 and 90.

<sup>147</sup> Compare the Grameen background in 1.1.

<sup>148</sup> Compare the data in 4.1.5.2.

like salutations between loan takers.<sup>149</sup> Grameen Bank carries a great authority, respected by most citizens of Bangladesh. Since the cultural elements keep on getting stronger due to the flourishing culture, the organizational paradigm becomes even more robust.<sup>150</sup> The Star System has become the reward system for accomplishment in Grameen Bank, having many employees fighting strongly to gain the respect associated with having stars. The Star System is actually a rather fascinating construction, since it helps both the employees as well as the loan takers. It also helps the organizational vision to become even more implanted in the organizational paradigm, according to Heracleous' "cultural web".<sup>151</sup>

The three cultural levels model, presented by Schein, illustrates the relation between assumptions, values and artefacts.<sup>152</sup> The Star System has provided an example of such visible artefacts.<sup>153</sup> When a star has been received, it can be proudly worn on the corporate uniform in both social and formal occasions. Everyone, engaged in Grameen, know the achievements represented by each star. By accomplishing a star for yourself or the staff, the upgraded status assures job security – at least for a while. Another visible artefact is the Grameen salutation, which mediates the connection with the bank. If you salute, you are involved in some way – either as an employee or a loan taker. The constructed artefacts are transferred to the general values of Grameen, and in addition affect the unspoken assumptions without any visible notice. The culture has therefore become more and more routed in Grameen, and as the situation lies, there is no intention of changing it.<sup>154</sup> Although, this presupposes that no crucial modification happens in the surrounding environment. However, as Grameen hold a strong control of its employees and loan takers, it is also capable of arranging new visions and goals by conducting them in a different direction than before, since the relationships are based upon respect. The cultural control is also expressed by the group meetings, which aids in keeping the culture strong.<sup>155</sup> The artefacts have a greater impact upon the individuals than the assumptions, which makes sense, as the loan takers are used to obeying cultural and religious rules.

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<sup>149</sup> Compare the empirical findings in 4.1.4.

<sup>150</sup> Compare Heracleous, 2003, pp. 88 and 90.

<sup>151</sup> Ibid.

<sup>152</sup> Hatch, 2002, p. 242.

<sup>153</sup> Compare the secondary findings in 4.1.5.3.

<sup>154</sup> Compare Cabrera and Bonache, 1999, p. 7.

<sup>155</sup> Compare the empirical findings in 4.2.4.



### 5.3 Organizational structure

Since Grameen Bank expanded in a manner that no one, including Yunus, could ever expect, the organization quickly formed a hierarchical structure. As of today, this structure is still expanding at a quick pace. This will, in the long run, result in a structure where the management lacks a connection to the branch managers and borrowers – the borrowers who elect the board of directors.<sup>156</sup> The management run a risk of losing considerable amount of information regarding the borrowers, meaning that the borrowers do not really know who they are doing business with. The branch manager is indeed the messenger in this equation, but is he or she able to transfer the Grameen Bank vision to the group members and maintain the community of practice?<sup>157</sup> The larger the organization, the harder it is to overlook its structure. Would a horizontal expansion be a better adjustment?

Grameen Bank is organized in a traditional bureaucracy, with strict formalization and obligations. It is therefore not particularly flexible,<sup>158</sup> meaning that the formalizations may need to become more liberated to actually answer to the loan takers individual and emergent needs.<sup>159</sup> Nevertheless, supervision, regarding repayments and informal collateral per loan taker, is a natural part of the every day life at the bank.<sup>160</sup> Grameen Bank assures that the rules can shift if the individual schedule cannot be realized, which makes the bank an organic hierarchy. This is reassuring for the loan takers, since they cannot always guarantee complete repayment on a weekly basis. But still, the question of an “economy of shame” is constituted.<sup>161</sup> Since Grameen Bank involves every loan taker in the different Grameen systems, they are not interested in disclaiming their membership rights. This means that the loan takers stay with Grameen Bank, even if they do not require its services any longer.<sup>162</sup>

The two dimensional hierarchical structure (traditional and organic) works dynamically. Usually it is based on a top-down decision process, but since Grameen Bank meets the loan takers close to their own homes<sup>163</sup>, it is rather a half way process; top-down meets bottom-up where two sides cannot work without the presence of the other.

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<sup>156</sup> Compare fig. 7, in 4.1.2.

<sup>157</sup> Huang, Wei and Chang, 2007.

<sup>158</sup> Compare the empirical findings in 4.1.6 and Hatch, 2002, p. 202.

<sup>159</sup> Child, 2006, pp. 122 and 129-131.

<sup>160</sup> Compare the empirical findings in 4.1.6.1.

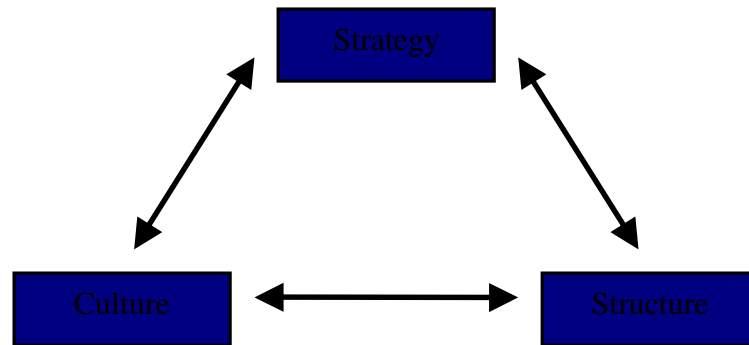
<sup>161</sup> Compare 4.2.4 and Karim, 2008, p. 7.

<sup>162</sup> Compare the empirical findings in 4.1.5.

<sup>163</sup> Compare the empirical findings in 4.1.6.1.

## 5.4 The connection between strategy, culture and organizational structure

The empirical data has shown how the organizational culture of Grameen Bank overlaps its strategy, as well as its organizational structure. These components are all working closely together and influencing each other.



*Fig 8: The connection between strategy, culture and structure*

This section will initially discuss these links more closely. Having described how these components work together, the following section will then describe how they relate to Grameen Bank's relationship with the loan taker.

### 5.4.1 Strategy and culture

As earlier discussed, the empirical data has shown a clear connection between Grameen Bank's strategy and its organizational culture. This is not a rare phenomenon – Heracleous, for example, has discussed the connection between strategic change and culture, claiming that “a strategic re-direction (...) can also entail significant cultural and organizational changes”<sup>164</sup>. Furthermore, Heracleous points out the interrelation between organizational culture and strategic change by the existence of “close links between organizational culture and strategy development”<sup>165</sup>.

However, in the case of Grameen Bank and its micro-credit project,<sup>166</sup> the connection between organizational culture and strategy development is even more profound. The corporate culture is strong enough for its staff members to identify themselves with the

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<sup>164</sup> Heracleous, 2003, p. 87.

<sup>165</sup> Ibid., p. 89.

<sup>166</sup> Compare the empirical findings in 4.1.5.

organization<sup>167</sup>, which affects the strategic environment over a long period of time. Sometimes it has even been difficult, as bystanders, to separate the bank's culture and its strategy since the characteristics of the both is quite similar. One can wonder whether the culture has created the strategy, or if it is the other way around. The theory regarding strategy<sup>168</sup> indicates that if a strong and quite simple strategy outline exists, the outline will at some point affect the organizational culture. However, there exist other perspectives. The culture theory, particularly regarding the cultural web<sup>169</sup>, has shown that different sets of artefacts have simultaneous impact on each other, as well as on the general organizational paradigm. Furthermore, the Schein model<sup>170</sup> shows how artefacts, values and assumptions work very closely together – and Grameen Bank is a great example of just that. It is difficult to see if the assumptions have changed the members of the organization on account of the strategic approach of eliminating poverty with the artefacts as a power tool, or if the culture impregnates the bank to such an extent that it affected the fundamental cause, although, it has not been said if the strategy is the culture or the other way around.

#### *5.4.2 Organizational culture and structure*

In the case of Grameen Bank, the formal structure is partly a result of the growth of the bank, which created a need for a hierarchical structure in order to coordinate all of the local offices. However, the local offices were also a direct result of the policy of keeping staff members close to the loan takers.<sup>171</sup> The number of branch offices could be greatly lowered by using strategically placed offices, creating a more efficient organization with less wage costs, but this would also result in less supervision and contact with the loan takers. It would also result in less loan takers, since the branch offices function as money collecting centrals – many borrowers are unable to travel outside of their villages. While a possible solution would be to send collecting staff to the villages each week, this would fail to establish the relationship with the loan takers needed to gain their confidence, making it very difficult to establish a micro-credit “community” in a new village.

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<sup>167</sup> Compare the empirical findings in 4.1.6.1 and Alvesson and Sveningsson, 2008, p. 39.

<sup>168</sup> Grant, 2005, p. 7.

<sup>169</sup> Heracleous, 2003, pp. 88 and 90.

<sup>170</sup> Hatch, 2002, p. 242.

<sup>171</sup> Compare the empirical findings in 4.1.2.

The informal structure is also a product of the organizational culture.<sup>172</sup> The reversed career path is a result of the loan taker being in focus, which explains why more status is being associated with positions closer to the loan taker.

Schein's three cultural levels explain the interaction between assumptions, values and artefacts. They interact in the same way as the hierarchical structure – top down and bottom up.<sup>173</sup> Specific and varying assumptions are routed in all individuals; they carry values based upon these assumptions which are brought into the light as artefacts. But it depends on which organizational level each individual exist. The group manager has a power relation over the group members, a power relation which can have different appearances. The community of practice have a rather natural significance in this matter, where the personal agenda might become visible.<sup>174</sup> The agenda could be the wish for helping loan takers on their way to overcome poverty, as well as an inner hope of gaining authority and success, ultimately adding stars to the uniform. This would of course have great impact on the group performance, which in extension would colour the manager's reputation in a positive manner. Some relevant information might be overridden for the cause of success, allowing the manager to keep his or her status.<sup>175</sup>

### *5.4.3 Organizational structure and strategy*

Previously, it has been described how the organizational structure results from the strategy chosen in the association; the structure cannot appear without a strategy.<sup>176</sup> But when the strategy and structure is clear, the structural elements can have a strong impact upon strategy, which is also stated by the cultural web.<sup>177</sup> This is shown in the Grameen sphere. In the sub-chapter "Formal organizational structure", it has been described how the local branch offices manage the village centres.<sup>178</sup> Borrowers within the centre do not get any closer to the bank than this. This is an interesting observation, since it is the loan takers who elect the Board of Directors.<sup>179</sup> Some background knowledge should be expected to perform this task sufficiently. If a knowledge gap exists regarding the election, the procedure could be questioned. Do the loan takers really have the right tools to be the judge of this important

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<sup>172</sup> Compare the empirical findings in 4.1.3.

<sup>173</sup> Hatch, 2002, p. 242.

<sup>174</sup> Huang, Wei and Chang, 2007.

<sup>175</sup> Ibid.

<sup>176</sup> Compare Grant, 2005, pp. 195 and 199.

<sup>177</sup> Heracleous, 2003, pp. 88 and 90.

<sup>178</sup> Compare the empirical findings in 4.1.2.

<sup>179</sup> Compare fig. 7, in 4.1.2.

organizational process? By elaborating the knowledge gap-issue, other areas of customer related concerns can be brought into light. The Grameen Bank strategy states that no micro-credit loans require any collateral<sup>180</sup>, but when interviewing some of the micro-credit loan takers, it was quickly discovered that informal collateral<sup>181</sup> was a prerequisite for receiving a micro-credit loan. Adding to this, some of the borrowers were not aware of Grameen Bank being any different from private money lenders – they were not even aware that bank membership is automatically accompanied by a share.<sup>182</sup> The notion of this makes it easier to understand the power advantage that the bank possesses over its members, hinting that the structure is not as democratic as claimed by the senior officers at Grameen Bank. As mentioned in sub-chapter 4.1.6, Grameen Bank’s main focus is the close relationship with its borrowers. According to employees working higher up in the hierarchy, with rather administrative duties, the goal is to be a branch manager working lower down in the organizational structure.<sup>183</sup> It has been concluded that while this might be an odd career goal to outsiders, it seems quite natural within Grameen Bank, since the ideology is to provide service to all loan takers in close proximity to their homes.

#### *5.4.4 Relationships*

According to the empirical data, other loan takers within the same centre need to pay a member’s instalment, if this person cannot fulfil her obligation on time. We can assume that collaboration between loan takers, under these circumstances, can create a “witch hunt” due to the need for everyone to repay their loan on time. Similar observations have been made by Karim.<sup>184</sup>

The relationships between loan takers can come in different appearances. Although it has not been fully expressed officially, the unity of the group experience grave tension when one loan taker cannot fulfil their weekly repayment, probably resulting in peer pressure in a time of crisis. If someone in a group is unable to pay the weekly instalment, the group will be punished by not being allowed to receive any more micro-credit loans. But since the repayment rate, according to Grameen Bank, is 98 per cent, we can estimate that the bank seldom let a group get that far. Grameen Bank utilizes a high level of supervision and customer knowledge, which assures the bank certain security. This security is further

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<sup>180</sup> Compare the empirical findings in 4.1.5.

<sup>181</sup> Compare the empirical findings in 4.2.2.

<sup>182</sup> Compare the empirical findings in 4.2.4.

<sup>183</sup> Compare the empirical findings in 4.1.3

<sup>184</sup> Karim, 2008.

achieved by informal collateral, which is estimated by the bank before a loan taker is welcomed.

Grameen Bank does not have an outspoken CRM system, but still focuses on customer commitment and the relationship to the customer. This alone does not prove that extended customer contact is a key to success. However, a part of the Grameen Bank strategy is to have complete knowledge of its poor loan takers and retain a satisfactory relationship throughout the customers' loan periods. Among the loan takers, different opinions have arisen regarding the customer maintenance. Some of them have experienced reasonable contact with Grameen Bank, while others feel neglected.

Yet, it is of great importance for Grameen Bank to obtain a functioning customer relationship by utilizing trust. This makes it easier for both parties to fulfil each side of the bargain, helping to achieve successful collaboration.<sup>185</sup> If mutual trust is obtained, the loan taker can spread the bank's great reputation to other villagers' word-by-mouth and therefore invite future customers into the hands of Grameen Bank. But considering some of the village interviews, the mutual trust and bank satisfaction can be questioned. Another way of understanding the relationship between the bank and customer is to regard it as a "business to business", because of the customer becoming both a loan taker and a shareholder in Grameen Bank.

The role of the relationship between Grameen Bank and its loan takers will be further discussed in the next chapter, describing its relation to Grameen Bank's organizational strategy, culture and structure.

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<sup>185</sup> Child, 2006, p. 344.

## 6 Discussion and conclusions

An evaluation of the empirical material hints several components which together explain how Grameen Bank and its micro-credit practices managed to gain momentum and grow to become a vast and financially independent establishment. This chapter aims to identify these success factors and further analyze the interrelations between Grameen Bank's culture, its structure and its strategy, by adding the component of relationships.

### 6.1 Another perspective on Grameen Bank's strategy

While Grameen is presented as a charitable program, it nevertheless boils down to an intricate business strategy. The main strategy employed by Grameen Bank is the conventional banking strategy; to lend money and receive interest. The unique part of the Grameen Bank strategy is however the clientele, namely poor people who would not receive loans from other banks. Thus, Grameen Bank has been successful in finding an unexplored market.

The difficulty of lending to poor people is the insecurity, i.e. to achieve a high repayment rate. Also, poor people generally only receive small loans, which require a lot of loan takers in order for Grameen Bank to generate large amounts of interest.

As every other bank - and most other companies as well - the profitability of the Grameen Bank depends on the effective use of its capital. Profitability is a must for sustainability, and profit is achieved by maximizing the returns of capital. Grameen Bank strives to lend as much capital as possible, and then profit by interest. In order to get repayments and interest, the borrowers must succeed in their investments. This is where Grameen has found a niche. By giving money to the desperate poor, who then can invest the money in simple activities such as farming and small scale manufacturing, which nevertheless has the advantage of a secure demand, a "safe" return on the capital is achieved. When the borrower has repaid the loan, new and higher loans are immediately handed out – effectively recycling Grameen Bank's capital, ensuring a steady flow of interest returns.

Hence, in order to guarantee a high repayment rate, GB initially made sure that loans were only given to productive investments. One way of considering this policy is to regard GB as a venture capitalist, providing funding to small scale entrepreneurs, thus unleashing entrepreneurial potential. The actual role of GB has however shifted, and the empirical data

shows that loans are, in practice, given to fund unproductive investments as well. Still, the repayment rate remains high, because of high pressure to repay the loans.

Another part of the strategy is the public relations. Grameen Bank has immensely benefited from their reputation as altruistic welfare-makers, successful in reducing poverty. This reputation draws loan takers to the organization, and stories of successful loan takers fuels the growth of the organization even more. The image of “the successful poverty fighter” helps establishing connections in the public sector, establishing sister organizations (such as the nationally well-known Grameen Phone) and further solidifying the relationship with Bangladesh, the world as a whole, and the individual loan taker. This part of the Grameen strategy has developed “from below” as the organization has grown. Today, with the extreme goodwill generated - just consider the worth of receiving the Nobel Peace Prize - the bank only needs to uphold present relations to the public. As long as the repayment rates are upheld and the poor continues their journey toward economic autonomy, Grameen Bank will unquestionably retain this competitive advantage.

Also, this goal of social difference helped Grameen Bank to gather capital in its early days, which mustn't be overlooked.

## 6.2 Key success factors

The aim of this section is to label the critical key success factors for Grameen Bank, by applying the empirical material on the theoretical framework which has been presented earlier.

### *6.2.1 External success factors*

While this study has mainly targeted internal success factors, the public relations of Grameen Bank ought to be mentioned as a success factor as well. The Nobel Prize award symbolizes the massive positive goodwill that has been generated, easing the bank's efforts to attract customers and governmental cooperation. Yunus has gained the status of a visionary seeking to aid the poor, which reflects positively on Grameen Bank as an organization. This, in turn, helps Grameen Bank both in finding new loan takers and to maintain positive relations with Grameen Bank's organizational environment.

### *6.2.2 The fit between strategy, culture and structure*

The previous chapter showed how Grameen has managed to streamline its strategy, organizational culture and organizational structure in a symbiotic way. This symbiosis



reflect the most important and basic success factor, namely to aim all organizational aspects towards the same goal. On the one hand, one might refer to Grameen Bank's ability to reach new loan takers, mediate its visions, or perhaps even the ability to present actual social results, as being critical success factors. However, these are all expressions for the underlying success factor of the fit between the bank's strategy, culture and structure. While these three aspects may each be referred to as a key success factor, but more accurate, it is the alignment of the three features that constitutes the real success factor. However, they are not operating single-handedly. They work simultaneously, closely related to the relationship aspect. We have concluded that the relationship focus function as a glue between the three different elements, which will soon be discussed more thoroughly.

### *6.2.3 Organizational efficiency*

The empirical data showed severe discrepancies between the official policy of Grameen Bank, and the functionality of the organization at a local level. A possible interpretation of this observation is the existence of an organizational failure, in which the lower levels of the organization fails to implement directives from the top management. Such an interpretation would be rash – in fact, the organization seems very effective in terms of reaching its set goals of repayment rates. This dualistic organizational identity, combining the image of a benefactor with the methods of a common bank, enables Grameen Bank to gather goodwill and create a positive reputation, while attaining high repayment rates, which gives the bank credibility. A probable cause of this attained functionality is the star system, which implicitly encourage the branch managers to focus on financial achievements, rather than increasing the welfare of the individual loan taker.

#### *6.2.3.1 The Star System and the repayment rates*

As a way of encouraging the development in different villages, each branch is awarded with “stars”, as they reach different goals (for example, a star is given when a certain repayment rate is reached). A plausible assumption would be that the branch managers align their operations to fit the star system, in order to receive as many stars as possible. This will naturally shift the focus of the branch managers, from social progress to revenue maximization. Out of the five stars that may be awarded, three of them are directly related to financial achievements.<sup>186</sup>

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<sup>186</sup> See Table 1, in 4.1.5.3.

While the official purpose of this system is to ensure quality in Grameen Bank's program, the empirical data evinces that the award system has led to practices contradicting the vision of Grameen Bank. Ironically, these practices also maximize the corporate efficiency and explain the successful numbers presented by Grameen Bank.

First of all, the branch managers, eager to receive stars, accept no failure in repayment. It seems that the concept to offer a broad range of loan restructuring possibilities is seldom used. Instead, branch managers make sure that they receive instalments, even if the loan taker is experiencing a financial crisis. The interviewed members all agreed that stalling payments is absolutely unacceptable, since the branch manager would collect the payments no matter what. While this differs from the information provided by GB's head office, it explains the high repayment rate.

Secondly, the branch managers also become cautious of lending money to the very poorest. The empirical data shows that managers often inspect aspiring GB members, and makes sure that there in fact exists some kind of collateral, before granting a loan. In other words, a member would not be accepted, if that member did not have material possessions or friends with resources. While this selection process does not require formal collateral, it still relies on *informal collateral* as a membership prerequisite.

The result of these effects is that the hierarchical structure of Grameen Bank generates a symbiotic effect with the reward system. The hierarchy creates independent branch units which, however close Grameen claims to monitor them, operates relatively independently trying to achieve success in the eyes of the head office. These independent sub-units make it possible for the branch managers to require informal collateral, strict payments and other actions not officially backed up by the head office, ultimately increasing the organizational efficiency.

#### ***6.2.4 The bank-borrower relationship***

As shown above, there is a strong link between strategy, culture and organizational structure in Grameen Bank. The discussion has also hinted the presence of a common denominator, namely the relationship to the customer. It may seem obvious that an organization aiming to alleviate poverty is entirely focused at the poor, but in this case, the poor are also customers. Perhaps without realizing it, while aiming to help the poor, Grameen Bank has because of this focus at the customer developed a business model to suit the customers' needs, by focusing on the relationship between the bank and the customer.

The overlap and strong connection between culture, strategy and structure may therefore be explained by the underlining force of the bank-borrower relationship.

#### *6.2.4.1 Grameen Bank lock-in*

Another feature of the relationship between the bank and the borrower is the “life-style” that comes with being a Grameen loan taker. The extensive programmes, some of them mandatory, guarantees involvement from the loan taker which goes far beyond merely receiving a minor loan. Grameen Bank also strives to engage the loan takers’ families, for example by encouraging and sometimes financing the childrens’ education. By fusing many of the loan takers’ economical matters with Grameen, they become long-lasting customers of the bank.

The same reasoning may be applied to the social agenda of Grameen, for example the “16 Decisions”, which aims to change the core values and beliefs of the loan takers. Achieving such influence, the loan takers associate themselves with Grameen Bank, which ensures a long-lasting relationship. However, the empirical data suggests that the actual social involvement is much less dominant than claimed by Grameen Bank.

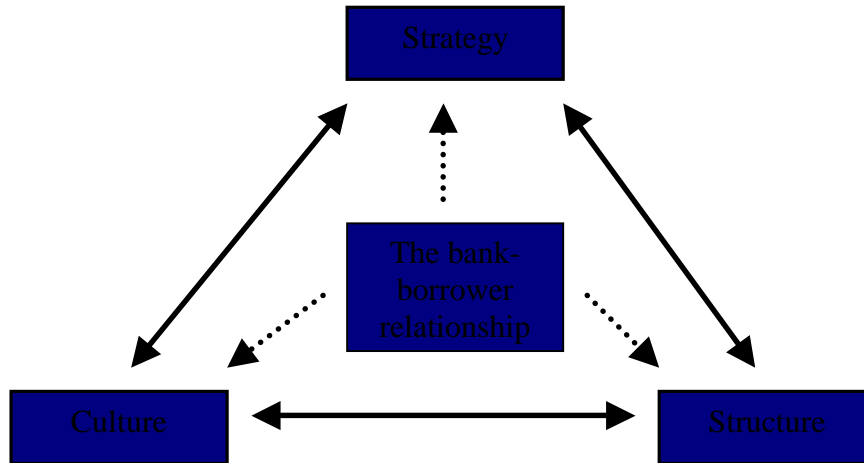
On the other hand, some of the loan takers described how the local officials claimed that their savings books had been lost.<sup>187</sup> While this practice probably is not a conscious strategy, it nevertheless poses an efficient way of retaining the loan takers. Ironic as it may seem, this practice actually seemed to make the loan takers hesitant to leave the bank, fearing their savings would be permanently lost.

### **6.3 A refined model**

As stated above, the explanation for the tight fit between strategy, culture and structure in Grameen Bank, may be explained by the overarching focus on the relationship to the loan takers. Strategy, culture and structure are organizational aspects that affect each other, but in the case of Grameen Bank, the vision and focus of the bank ensure that none of these organizational aspects wander from the ideological goal. In other words, the relationship focus pulls the aspects together, making sure that the fit between them stays intact. We have illustrated this tendency by adding the bank-borrower relationship to figure 8, resulting in figure 9, illustrated below.

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<sup>187</sup> As earlier noted, these claims were made by women residing in different areas of Bangladesh, suggesting that the phenomenon is not uncommon.



*Fig 9: The influence of the relationship focus*

As figure 9 illustrates, the bank-borrower relationship focus acts a force, keeping the strategy, culture and structure aligned. The relationship with the loan takers has a stronger impact on the organization, than we had first assumed. One could suggest that only the bank has power of its employees and customers, but in reality the bank-borrower relationship is a two way story. The bank, according to the Grameen vision and interviews with employees, work to achieve a more qualitative life for poor women in rural Bangladesh by giving them authority in the organization. This plan of action is referred to the decision making and repayment supervision at the local offices – which is done in collaboration with the branch manager. The outspoken strategy is fulfilled by achieving this tight connection between the bank and loan takers, as well as encouraging the Grameen culture with every meeting in the village, where cultural artefacts such as the specific Grameen greeting are common. If a person is a member of the bank, she will often gain respect in the village where they live, as being part of the local “Grameen community”. This is rather remarkable since women in Bangladesh in general are repressed by the Muslim society.

As an effect of the expanding Grameen popularity, the bank gets bigger and need to adjust the organizational structure. The quite unique hierarchy system, where employees in administration aspire to work their way down in the organization, show how important it is to maintain this close relationship with the loan takers.

However, these connections between strategy, culture and structure are not particularly unique for Grameen Bank. What makes this organization original is the tight bank-borrower relationship, which has taken the role as a lighthouse for organizational development, being a catalyst to organizational success.

Many organizations strive to align its culture to fit its strategy, by such means as cultural change programmes.<sup>188</sup> In the case of Grameen Bank, however, the vision of aiding the poor and the focus on relationships guide the interrelations between these organizational aspects. It is not impossible that the management are aware of this important result of the relationship focus, but it seems unlikely. Granted, the empirical data from the head office suggests that the management is well aware of the importance of focusing on the relationship with the loan taker. However, it seems like it existed an unawareness of the far-reaching impact of this relationship focus. While one interviewee claimed that the strategy of Grameen Bank is about relationships, this was exemplified by such things as fuelling motivation and being able to closely supervise. Indeed, this dimension of the relationship, especially supervision and control, might be called a success factor. But the other dimension of the relationship focus, as a force leading and uniting strategy, control and structure, was left out of the interviewees' descriptions of Grameen Bank's success. However, we would like to argue that this dimension is the most important one.

## 6.4 Conclusions and contributions

The aim of this study was to uncover key success factors of Grameen Bank, by examining its strategic, cultural and structural aspects. The most important of our findings is the impact of the relationship focus in Grameen Bank, which acts as a strong force in maintaining a fit between the bank's strategy, its organizational culture and its organizational structure, also constituting the most important success factor. The efficient organization, resulting from the local offices that apply different practices than the official policy suggests, is another important success factor. This efficiency is probably the reason behind Grameen Bank's high repayment rate, which is used to illustrate the bank's success in its dual objectives. Profitability is reached by a high repayment rate, and at the same time, the numbers may be interpreted as hard evidence that the loan takers succeed in becoming less poor, especially as they manage to repay higher and higher loans. Being a hybrid organization, the ability to present evidence of achieving its dual objectives it is of course of great value.

In the problem discussion, we expressed an aim of providing knowledge regarding hybrid organizations. As previously ascertained, the main obstacle for hybrid organizations is to achieve its dual objectives. By showing how the main factors behind Grameen Bank's

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<sup>188</sup> Compare Alvesson and Sveningsson, 2008, p. 3.

success, we believe our study has succeeded in providing new insights on the topic of hybrid organizations.

While hybrid organizations must face the problem of achieving dual objectives, they also have a natural advantage, since their social agenda often will guide the strategic, cultural and structural aspects of the organization. While this may be especially true regarding Grameen Bank, who unites its profitability with the achievement of its social agenda, it is probably a conclusion relevant for most hybrid organizations.

## 6.5 Suggestions for further research

The impact of Grameen Bank's goodwill was briefly described above, because of its role as a success factor. This aspect was not covered in depth, since the focus of this study is the internal organization of Grameen Bank. However, a possibility is to relate or ascribe this external success factor to the relationship focus of Grameen Bank, since the goodwill emanates from the poverty alleviating vision of Grameen Bank, which is the foundation of the relationship focus. Hence, it is possible that figure 9 may be used to describe external success factors as well as internal success factors. However, answering whether this is a realistic assumption or not would require further studies, and is a topic suitable for further research.

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# Appendix A

## Discussion areas – management of Grameen Bank

(Name, age, education, position at the office)

1. How was the micro-credit project initiated? (planning, first loan takers, initial organization, financing)
2. How did it develop?
3. Has there been any major set-backs or problems?
4. Please describe the organizational structure of the bank and the micro-credit project as of today. Has it changed since the start of the project?
5. Describe the overall strategy of Grameen Bank.
6. Please describe the culture/ideology of the corporation.
7. How important do you think the organizational structure is for the success of the micro-credit? Are other micro-credit organizations structured the same way?
8. Which factors do you think made the micro-credit project successful? (different key success factors)
9. Do you think the concept of the micro-credit would be possible in other geographic contexts? (What part does the culture of Bangladesh play for the success of Grameen?)
10. What advantages does the Grameen Bank have, compared to its competitors?
11. Please describe the ownership structure.
12. What is Grameen Bank's policies and values regarding the relation with the loan-takers?
13. How has the relationship with the loan-takers evolved, since the start-up of the bank?

# Appendix B

## Discussion areas – loan takers<sup>189</sup>

(Name, age)

1. How long have you been a micro-credit loan taker?
2. Did the branch officer require anything, before allowing you to become a loan taker?  
(Was there a prerequisite of collateral?)
3. What happens if you cannot pay back your loans on time?
4. Are you aware that you are a share holder/part owner of Grameen Bank?
5. How do you experience being part of a group of loan takers?
6. Overall, are you satisfied with Grameen Bank?
7. How has your economical and social situation changed since becoming a loan taker?

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<sup>189</sup> Initially, the interviewees were asked to describe their experience with Grameen Bank. These specific questions were defined when the first couple of interviewees revealed topics of interest for this study. Also, villagers not being part of Grameen Bank were interviewed. The questions in those interviews focused on the reasons why they were not micro-credit loan takers.

## Appendix C

### Ten indicators to assess poverty level<sup>190</sup>

A member is considered to have moved out of poverty if her family fulfils the following criteria:

1. The family lives in a house worth at least Tk. 25 000 or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.
2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tables or pitcher filters.
3. All children in the family over six years of age are all going to school or finished primary school.
4. Minimum weekly loan instalment of the borrower is Tk. 200 or more.
5. Family uses sanity latrine.
6. Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.
7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk. 5 000 in her savings accounts.
9. Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.
10. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.

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<sup>190</sup> Yunus, Grameen Bank at a Glance, 2007, p. 33.