TRANSFORMATION OF MFIS IS A LONG-TERM PROCESS REQUIRING A FUNDAMENTAL CHANGE IN MANAGEMENT PRACTICES AND CULTURE

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ABSTRACT

Today change is constant and organizational leaders who anticipate change and react rapidly and responsibly are successful. Business Transformation can be defined as change management strategy which has the aim to align People, Process and Technology initiatives of a company more closely with its business strategy and vision. Transformation has become a popular, common, overused word in organizations in the twenty-first century. Only a few individuals understand transformation or why there is a necessary for transformation, not merely incremental or transitional change. Often, people confuse transformation with any kind of change, technology breakthrough, innovation, process improvement or transition. However, few changes are truly transformational. Transformation, a complex, revolutionary, and continuous process, demands fundamental changes in the organizational structures and systems through which products are developed and services are delivered. This article is limited to secondary data alone focusing on how effectively and efficiently the top management and leadership within the organization address transformation issues and how well are they prepare to handle the resistance which decide the faith of the organization and its success in implementing change quoting a few case studies of transformation.

KEYWORDS: Change management, Micro Finance, MFIs, NBFCs NGOs, Transformation.

INTRODUCTION

In today’s business world change has become very imperative considering the sea change in business models and advent of information technology. Organizations are becoming flatter and less hierarchical in order to survive in this new bandwagon of reengineering and downsizing. Management must create tomorrow through change management to maintain the organization as a "going concern." In addition, to continuous improvements in the operations of the organization and its relevance in the market place. They lead to new processes. They lead to innovation. They lead to new businesses. Eventually continuous improvements lead to fundamental change- effective change management.
In the past every single move of the company had a shareholder focus which is now replaced with the concept of protecting the interest of stakeholders. Today quality of product can never be product quality alone, what is needed is TQM (Total Quality Management). Instead of a rigid system, a flexible and an adaptive system is encouraged by the market to absorb the various changes happening from time to time. Although most of the companies adopted a mixture of the old and the new styles, the companies who could make a faster positive result were those who adapted themselves to the new realities i.e. to the changing needs of employees, customers and communities. They understood the importance of speed and innovation in the global market. MFIs are going slow on opening branches and acquiring loan customers. In an attempt to improve quality control, the industry has prepared a code of conduct, following which MFIs will try to avoid heavy concentration in some regions and stop chasing the same set of customers. License requires them to have Rs 20 million at their disposal. To transform means to change in form, appearance or structure. Transformation in the context of the management of organizations and systems occurs first in individuals, and then, in the organization.

“Across the globe, businesses are transforming and changing the way they work with the need to exceed investor expectations. They are trying their level best to excel in their transformational journey, offering incremental as well as quantum improvements to clients.”

Business Transformation can be defined as change management strategy which has the aim to align People, Process and Technology initiatives of a company more closely with its business strategy and vision. Further, the businesses of NBFC-MFIs are being shaped by a regulatory environment that requires them to maintain a stipulated capital adequacy ratio. Changing norms for capital adequacy as defined by the Basel 2 agreement require NBFCs which are SI (Systemically Important) and ND (Non-Deposit taking) to maintain CAR of 12% from March 2010 and increase this to 15% by March 2011. For NBFCs which are deposit taking the present minimum CAR is 12% or 15% as applicable.

The call for transformation is motivated by the possibility to become regulated institutions with a legal right to mobilize local savings and thereby increase both scale and scope of operations. Increased ownership control and better access to equity capital are other arguments used. (White and Campion, 2002, Fernando, 2004, Hishigasuren, 2006, Ledgerwood and White, 2006).

“In assessing the pros and cons of the issue of transforming NGOs into regulated Microfinance Institutions (MFIs) we have to remind ourselves as to what the ultimate objective of this exercise. In today's dynamic technological, social, political, economic and legal environment, change is all-encompassing in organizations. Change in simple words "moving from one state of position to another" for benefits. Change happens continuously and rapidly. Change Management is concerned with two sets of people i.e., one those who want to effect change and second is those on whom change is to be effected. According to Stephen P. Robbins change is concerned with making things different. Things must be different because they change constantly. Change can be defined as – when an organizational system is disturbed by some internal or external force, change frequently occurs. Change Management means "to make changes in a planned and systematic way by introducing new methods in an ongoing organization". While dealing with Change Management it comprises the management of the
change and its impact on the people. Ultimately, the goal of change is to improve organization by altering how work is done. Change Management supports moving an organization from a current state (how things are done today) through a transition state to a desired future state.

Organizational change is the movement of an organization from the existing plateau toward a desired future state in order to increase organisational efficiency and effectiveness. Such changes may be intermittent or ongoing, continuous improvement initiatives as a result of organizations responding to external forces for change. Changes like these may be a part of improvement programs such as Total Quality Management and Six Sigma or Organizational Development schemes based on various change models. Such change initiatives are worthwhile. Instead of an incremental strategy, organizational leaders adopt a radical, part of how they do business. They transform their respective organizations by developing (and deploying) new visions, missions, values, goals, strategies and structures that reflect a continuously-changing organization and the capability for ongoing, radical self transformation and reinvention. The causes for Change may be Internal/external (ref fig 1&2)

FIG. 1. INTERNAL CAUSES FOR CHANGE  FIG. 2. EXTERNAL CAUSES FOR CHANGE
TABLE 1: THERE ARE VARIOUS CHANGE MANAGEMENT MODELS AND THEORIES AS LISTED BELOW:

<table>
<thead>
<tr>
<th>Model</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Action Research Model/Theory</td>
<td>Collier, 1945; Lewin, 1946; French, 1969; Schein, 1980</td>
</tr>
<tr>
<td>Levin’s Three-Step Model</td>
<td>Lewin, 1945; Lewin, 1951</td>
</tr>
<tr>
<td>Schein’s Extension of Lewin’s Change Model</td>
<td>Schein, 1980</td>
</tr>
<tr>
<td>The Lippit, Watson and Westley model of planned change which expanded Levin’s Three-Step Model to a Five-Phase Model</td>
<td>Lippit, Watson, and Westley 1958</td>
</tr>
<tr>
<td>Kotter’s Strategic Eight-Step Model</td>
<td>Kotter, 1996</td>
</tr>
<tr>
<td>Mento, Jones and Dirmdofer’s Twelve-Step Model</td>
<td>Mento, Jones and Dirmdofer’s 2002</td>
</tr>
<tr>
<td>Jick’s Ten-Step Model</td>
<td>Jick, 2003; Jick, 2001</td>
</tr>
<tr>
<td>Shield’s five-step model</td>
<td>Shield, 1999</td>
</tr>
</tbody>
</table>

All the above change models and theories have same characteristics. The common factor is the reason and need for change. The right leaders can influence the right change.” People do not want to change unless there is a reason to change.”

John Kotter’s highly regarded books ‘Leading Change’ (1995) and the follow-up ‘The Heart of Change’ (2002) describes a helpful model for understanding and managing change. Each stage acknowledges a key principle identified by Kotter relating to people’s response and approach to change, in which people see, feel and then change.

Welch (2003) summed up thus:” We want to change the competitive landscape by being not just better than our competitors are but by taking quality to a completely new level. We want to make our quality so special, so valuable to our customers, so important to their success, that our products become their only real value choice. There is no company in the world that has ever been better positioned to undertake an initiative as massive and transforming as this one. Every cultural change we have made over the past couple of decades positions us to take on this exciting and rewarding challenge.”

All of the models incorporate the development of a vision or desired business result and movement from the status quo to a future state. Visioning is one of the most important steps of a change process. A good vision helps people in the organization know where they are going
In today’s world of continuous and multifaceted change the 5P’s Model is important. The five elements of this model are: Purpose, Principles, Processes, People and Performance. The importance is because the competition is not only with other organizations in an industry or a strategic group but the competition also includes terrorist organizations that seek to destroy economies as well as people to achieve their political or other purposes. (Pryor, Humphreys, Taneja and Moffitt, 2007). The 5P’s is a tactical model that enables an organization or a nation to be successful against all competitors. Organization needs more than a model that simply helps an organization move from the current state to a future state. What is needed is a comprehensive, systems model that is strategic, comprehensive and executable at intentional levels.

Change managers must look into the various resistances. In Leading Change James O’Toole suggests the following, more detailed, common explanations for resistance.

![FIG. 3.VARIOUS RESISTANCE TO CHANGE](image)

Rightly quoted by Maurer, "resistance kills change.”

Often, people confuse transformation with any kind of change, technology breakthrough, innovation, process improvement or transition. However, few changes are truly transformational.

**TRANSFORMATION**

Transformation is, a complex, revolutionary, and continuous process, demands fundamental changes in the organizational structures and systems through which products are developed and services are delivered. Although a dictionary definition of transformation – “an act, process, or instance of transforming or being transformed” – may appear straightforward, modern theorists have spent decades conceptualizing and describing the complex and unpredictable processes
involved in transformation. Transformation is meant to identify, leverage, and even create new underlying principles for the way things are done.”

Transformation needs new information and fresh perspectives but the present, myopic managerial cultures are blocking the needed learning required. Kotter states: "The combination of cultures that resist change and managers who have not been taught how to create change is lethal." (1996) 39

Transformation is what happens when people see the world through a new lens of knowledge and are able to create an infrastructure, never before envisioned, to the future. Transformation is motivated by survival26, by the realization that everything needs to change or the organization will die; that a significant breakthrough in mindset is needed in order to pursue new opportunities.

NGOS TRANSFORM FOR VARIOUS REASONS

i. to offer financial services beyond lending

ii. to access capital

iii. to comply with new legislation requiring or permitting transformation

iv. to gain legitimacy

v. to enable employees, clients, and other stakeholders to become owners

Reshaping the business to adapt to the changing environment is the most important part of management. But the big question here is - Why many change often fail29?

MANAGEMENT GURU JOHN KOTTER SUGGESTS EIGHT REASONS FOR CHANGE FAILURE

- Allowing too much complacency
- Failing to create a sufficiently powerful guiding coalition
- Underestimating the power of vision
- Under communication
- Allowing obstacles to remain even after change
- Not going for quick wins
- Declaring victory too soon
- Failure to anchor change culturally
Failure to anticipate or respond to new competition

Failure to understand business environment

Over-dependence on key resources

“Establishing the indicators of Success-Once the transformation is complete, key objectives are to be examined and the success has to be confirmed by comparing with the established indicators.” How success can be ensured in transformation?

Change has to be aggressively managed if it has to bring success. History proves that most companies who were successful looked for opportunities for transformation rather than waiting for change to be forced upon them. The following factors can be considered as essential for ensuring a success in business transformation as in Fig. 4:

FIG. 4. FACTORS THAT LEAD TO SUCCESS

MICRO FINANCE

Micro finance refers to the provision of financial services to low-income clients, including consumers and the self-employed. (Ledgerwood, 2000) The term also refers to the practice of sustainably delivering those services.

MIX recognizes many general definitions of microfinance, but for analysis purposes, employs a functional definition: “Microfinance services – as opposed to financial services in general – are retail financial services that are relatively small in relation to the income of a typical individual.
Specifically, the average outstanding balance of microfinance products is no greater than 250% of the average income per person (GNI per capita).”

Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks. "Microfinance can pay for itself." (Lidgerwood, 2000) Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.

Microfinance is generally understood as the provision of financial services to low-income households. Typically it involves supply of credit, savings, insurance, remittance and pension products/services in token sizes that are much smaller than those prevailing in the mainstream commercial markets. The Microfinance industry in India has borrowed largely from Grameen Bank in Bangladesh, in terms of methodology, processes and systems. Most of the leading Indian MFIs started out as NGOs during 1985-1999, adopting the Grameen Bank model of group-based lending to women in rural areas. Over the years, the MFIs have grown significantly and have transformed into for-profit non banking finance companies (NBFCs), thus moving towards a more regulated legal setup.

**MICROFINANCE INSTITUTION:**

Micro-Finance Institutions (MFI) in India exists in the form of Registered Trusts, Registered Societies, Registered Co-operatives, Non-Banking Financial Companies, etc.(See Fig.5 ). MFIs provide various services like credit, capacity building, training, marketing products of NGOs and micro-insurance. There are two models a) Bank Partnership Model i) MFI as Agent where bank is the lender and MFI act as agent. The MFI takes care of all relationships with the borrower from the first contact to the final repayment ii) MFI as holder of loans-a NBFC holds the loan of an individual on its book for a while, before securitizing them and selling them to the bank. Securitization involves gathering of a group of financial assets by an institution and creation of new securities representing interests on the loans and selling them to invest .b) Banking Correspondents: i) Banks are now permitted to use the services of NGOs, MFIs (except NBFCs) and other civil society organizations. These organizations act as intermediaries in providing banking/finance services to the poor. Further intermediaries act as business correspondents and carry out banking functions in a village or areas where it is not possible to open a branch.
FIG. 5 DIFFERENT TYPES OF MFIS IN INDIA

NBFC

NBFCs (Non-Banking Financial Company), which basically were better organized money lenders happened in large number. A NBFC is a company that is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities, leasing, hire-purchase, insurance business and chit business. NBFCs do not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. NBFCs in India have played a useful role in financing various sectors of the economy, particularly those that have been underserved by the banks. An Increasing number of microfinance institutions (MFIs) are seeking non-banking finance company (NBFC) status from RBI to get wide access to funding, including bank finance. The Task Force on Supportive Policy and Regulatory Framework for Microfinance setup by NABARD in 1999 provided various recommendations. Accordingly, it was decided to exempt NBFCs which are engaged in micro financing activities, licensed under Section 25 of the Companies Act, 1956, and which do not accept public deposits, from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to the Reserve Fund) of the RBI Act, 1934.

The 2008-2009 Annual Report published by the National Bank for Agriculture and Rural Development (NABARD) states that, in 2008, there were 1,109 microfinance institutions (MFIs) in India. Among the 50 Top Microfinance Institutions ranking, issued by Forbes, there are 7 Indian MFIs, which are ranked 2nd, 13th, 15th, 19th, 23rd, 29th and 44th. Between financial years 2004-05 and 2005-06, the combined loan portfolio of Share Microfin Ltd, SKS Microfinance Pvt Ltd and Spandana Sphoorty Innovative Financial Services Ltd, three of the largest NBFC MFIs in the country, showed a growth rate of 102%. While there are around half a dozen large MFIs in the country, there are close to a thousand other MFIs that can be categorized
as tier-2, tier-3 and new-age MFIs; most are in tier-3. In the past few years, a trend has been observed India-wide where most of the not-for-profit MFIs are converting into regulated finance companies (NBFC). Even most of the new entrants in microfinance have chosen NBFC as most preferred legal form. RBI Notification BS.PD.No.234, 235,236 CGM (US) 2011 dated December 02, 2011 containing the regulatory framework for NBFC-MFIs was introduced. Such NBFC-MFIs are non deposit taking NBFC(other than a company licensed under Section 25of the Indian Companies Act1956)that fulfills the following conditions 1)Minimum net owned funds of Rs. 5crores except North Eastern region the minimum NOF requirement stands at Rs. 2crores .2) Not less than 85% of its net assets are in the nature of “qualifying assets”.

CASE STUDIES ON TRANSFORMATION

PRODEM to BANCOSOL

Bolivia in Africa was the first country to see Micro Finance fast growing from a conventional non profit sector amalgamate into a formal financial sector. Banco Solidario S.A (Banco Sol ) in Bolivia stands out among the many micro finance institutions world-wide as the first private commercial bank to specialize in micro finance (Glosser1994). The fast growth of BancoSol in Bolivia and its transformation from an NGO (PRODEM) to a licensed commercial bank exemplifies important lessons for other microfinance institutions (MFIs).(CGAP1997-Greg Chen). The start of microfinance industry in Bolivia could be associated with the first twenty loans to four market women in La Paz made by PRODEM in 1985. Soon PRODEM grew as an NGO opening Branch offices in 1988 at El Alto and in 1989 Regional Head quarters in Santa Cruz. (Gonzalez-Vegas et al., 1997) report of the increase in staff from 15 to 116 in 1991with an outstanding of 18,681 loans. In fact, earlier cooperatives already had been lending to small businesses, but the PRODEM Model went to a scale level. PRODEM’s solidarity-group loan model is like that adopted by Grameen Bank in Bangladesh and Banco do Nordeste in Brazil. This process of transformation has been one of the major contributions of Bolivian microfinance to international experience in microfinance. The Bolivian success has led to a great deal of interest among practitioners, donors, and other supporters in the potential of microfinance NGOs to grow and become part of the regulated financial sector. This enthusiasm has propelled legislators and regulators in various countries to create new legislation that facilitates the transformation of microfinance NGOs and generates a completely new class of financial intermediaries dedicated to serving the poor. Regulatory windows have been established in some countries within the agency that supervises financial institutions to oversee specifically these new regulated MFIs. BancoSol has been acknowledged world wide as an example of transformation from NGO to a regulated bank. is embraced as one of the most effective strategies for achieving a significant scale by offering a wider range of services, accessing commercial sources of capital and improving operational efficiency through enhanced systems, controls and transparency in reporting that would result from links to regulators and other banking expertise (Campion and White 1999), and financial sustainability of MFIs. PRODEM was the NGO that transformed to BancoSol. In 1984 a group of Bolivian Entrepreneurs started the NGO to support enterprises in Bolivia. This entity provided small working capital loans to groups of three or more people dedicated to similar activities who were jointly and severally liable for and guarantors of their obligations. Although PRODEM now owns about one-third of the shares of
BancoSol, it has continued its own operations, with a new specialization in rural microfinance. By 1990 the belief had developed that the sustained growth of PRODEM was constrained by its NGO status and by its lack of access to sources of loanable funds that could be more flexible than the donors. As of January 1992, this NGO had a portfolio of 17,000 clients with loans amounting to 4 million dollars, and four branches located in La Paz, El Alto, Cochabamba and Santa Cruz. It was realized that Funds from the market would allow this organization to respond to substantial and clearly identifiable demands for credit and to manage its cash flows better in the presence of strong seasonal variations of such demands (Glosser, 1994). Most viable instrument to reach this objective and overcome the limitations arising from the legal and financial structure of an NGO was the establishment in 1992 of a commercial bank that became BANCO SOLIDÁRIO S.A. better known as BANCOSOL. But PRODEM’s informal culture was not suitable to BancoSol as a larger institute with new staff and branches. The difficulty was in integration and BancoSol needed better information system to manage an expanding portfolio. There was a need for enhanced standard lines of authority and communication and am ore proficient approach to decision making. BancoSol optioned to designing a stricter management structure, improved systems and new chain of command. BancoSol integrated experienced bankers, human resource managers, asset and liability management experts and specialists in management information system. BancoSol maintained its low costs and risk of lending through simple procedures adapted to clients demand and also retained the technology of personalized contact with customers’. Since BancoSol started operating, the volume of its operations has increased rapidly. In 2007 BancoSol had attracted more than 160 thousand clients with a loan portfolio more than US$ 300 million for microenterprise sector. BancoSol has been leading institution of MicroFinance since its beginning, with good micro finance portfolio, through a wide array of products and services aimed at satisfying their needs. The most important challenges for BancoSol was maintaining higher levels of solvency and liquidity, so as to guarantee clients deposits and reach for more efficiency and improvements for quality control for loan portfolio and decrease cost of products and services for the clients. On the other hand, the need to increase new products, credit as well as non credit products is no less important than opening new markets as in the case of VISA DEBIT card, automatic teller machines, PDA’s, scorings, life, health and accident micro insurance, certificates of deposits to guarantee contracts performance, international wires, loan home credits for Bolivian migrants, cell phone banking, among others. At present it has a Board of 5 Directors with a president and Vice president amongst them. BancoSol has become one of the world’s leading, profitable and innovative microfinance institutions, without ever losing sight of the market it was created to serve.

SHARE TO SHARE MICRO FINANCE LIMITED (SML)

Micro Save India Focus 20 states that “Some of the largest and most successful MFIs in India have transformed from NGOs into regulated for-profit companies (SKS, SHARE, and Spandana) or even banks (SEWA).” SHARE (Society for Helping, Awakening Rural poor through Education) is India’s largest MFI in terms of outreach or number of loans given. SHARE is the first NGO to transform to NBFC in INDIA. Thus, any complete study of MFIs in India will have to consider SHARE. It was originally registered under the Societies Act as a service organization in the year 1989 by Mr. M.Udaja Kumar, Founder and Chairman under Grameen Model with 83 per cent of SHARE’s belonged to adivasis, dalits and “other backward castes. It then transformed
into ‘SHARE Microfinance Ltd,’ a regulated Non-banking Financial Institution (NBFC) under the companies act in the year 2000. SHARE operates mostly in the rural areas of the states of Andhra Pradesh and Karnataka.

Share’s vision is “to improve the quality of life of the poor by providing access to financial and support services and to be a viable financial institution developing sustainable communities.” Its mission “is to mobilize resources in order to provide financial and support services to the poor, particularly women, for viable productive income-generating enterprises enabling them to reduce their poverty.”

SHARE follows Grameen methodology in its operations by focusing on loaning to groups of women. The focus on women is to ensure that the benefits of increased income accrue to the general welfare of the family, particularly children. During the years 1991-1994 SHARE had started its microcredit operations as a two year action research project with a US$25,000 recoverable grant from the Asia Pacific Development center and a soft loan of US$35,788 from the Grameen Trust in Bangladesh. SHARE’s major expansion however, began in 1997 with the opening of six new branches to a total of ten branches with one branch achieving self sufficiency which it’s NGO legal status did not permit. SHARE decided to transform for several reasons, one of which was the legal restrictions it faced as an NGO. Yet, it also felt that transformation would allow it to attain financial self-sufficiency which its NGO legal status did not permit but the profit motive was against the principles of charity. According to SHARE, the two major limitations of being registered as a society were that the income tax law in India does not recognize charitable institutions carrying on microfinance activity and thus, the MFI loses its tax exemption. Secondly, raising funds becomes a difficult task when financial leverages cannot be optimized because the net worth and equity of the MFI do not work for profit. SHARE transformed to a community owned and managed for-profit regulated financial institution registered under the companies act in the year 2000. During 1999-2000, SHARE incorporated a “for profit” public limited company, SHARE Microfin Limited (SML), under the Companies Act 1956 and was registered under section 45/IA as a Non Banking Finance Company (Non-Deposit taking) under the Reserve Bank of India Act, 1934. The outstanding portfolio and staff was purchased from SHARE (the NGO) by SML (NBFC) during 2000-02. SHARE’s 2001 annual report states that 99% of the equity in SHARE has been contributed by its clients with the remaining 1% from unspecified individuals. In 2002, Mr. Udaya Kumar Founder and Chairman was honoured with “Lifting Up the World with Oneness-Heart” award by the UN Peace Foundation.. He is also the proud recipient of the “Change Makers Award” from the Dr. Reddy’s Foundation and “Excellency in Micro Credit” award from the Rockefeller Foundation and Grameen Foundation USA for his pioneering contribution in the field of microfinance.

It faced a number of challenges as other NGOs under the Act:

1. No clear permission to undertake micro finance.
2. Regulation under Societies Act was weak and Reserve bank had no role to play.
3. Being a Society SHARE had no Capital Structure.
4. The Boards Members had individual unlimited liability.

5. It was much more difficult for non profit for ‘non-profits’ to charge interest rates12 that cover full costs of efficient operations and fund mobilization.

6. Society cannot accumulate profits to become financially independent.

7. Lenders and Investors act cautiously to invest in Society.

8. Commercial equity Investors neither have an instrument nor an incentive to invest in a society.

9. In the absence of Equity Capital the NGO had no provision for the many risks undertaken while lending and recovery of loans

10. With Financial Limitation there was less professional staff being attracted and low compensation given.

11. Long term sustainability was not ensured as the NGO depended on Grants

Many changes were noted between 1999 and 2003, since SHARE’s transformation to an NBFC, SHARE’s loan portfolio grew by 687%. Overall, the trends seem quite positive regarding the financial impact of transformation. SHARE’s ROA and ROE have gone from negative before transformation to positive after transformation and its operating self sufficiency has increased from 97.52% before transformation to 120.03% after transformation. SHARE’s borrowers per staff increased from 112 in 1999 to 184 in 2004 after transformation, showing higher level of productivity per staff member. SHARE’s Net Profit Margin was 17% in 2004 up from 2.55% in 2003 which is a significant improvement although it is still below its peers with a Profit margin of 23.5%. As an NGO the Executive members were from social network of promoters. With Transformation there was a new Board. The Board members were selected based on their expertise in banking, social development and management. The promoter, Mr. Udaia Kumar, has led the Board in his capacity as Chairman cum Managing Director since inception. To develop SML as a community based financial company, two elected community representatives joined the Board. SIDBI nominated a Director in 2001 and ICICI Bank nominee joined the Board in 2005. SML ownership and the Board have been substantially revamped in 2007. Legatum Capital a Dubai based privately owned firm purchased 65% equity stake for $25 million (Rs.100125 Crore) and now has three Directors on the SML Board. Aavishkaar Goodwell has purchased another 5% stake and has also nominated a Director on the Board. Managing Director and nominee Directors of two financial institutions (SIDBI and ICICI) have remained as members on the Board. The Board meets at least once a quarter. Discussions are now underway to further strengthen the Board with some high profile independent members. SML recently commissioned CRISIL to undertake a detailed governance and value creation diagnostic review exercise. In the last five years, SHARE has added over 2000 staff and over 800,000 customers and is today one of the top ten MFIs in Asia1. In April 2010 it reported by Business line that SHARE Microfin Limited (SHARE), one of the largest microfinance institutions in India, has raised Rs 50 crore through a private placement of 2-year non-convertible debentures (NCD). The
issue, assigned an LBBB+ rating by ICRA on its long-term rating scale and placed with institutional investors, will be traded on the Bombay Stock Exchange. Standard Chartered bank was the book runner and lead ranger for the issue.

The Company has established a Brand. Before introducing the SML programme in new village/slum, a public orientation meeting is held where SML vision, objectives and products are clearly explained in local language. SML’s expansion into new territories outside Andhra Pradesh; its ambition to be a leading microfinance provider across the entire country; the growing competition in the microfinance sector and SML’s plans to mobilize significant human and financial capital for rapid expansion, have all further highlighted the need for defining and reinforcing an SML brand. There is over 3000 staff with along term and successful career. Further SML today focuses on corporate communications. SML is looking at strategic imperatives and options to build the SML brand, and possible communication strategies and media (street theatre, website, radio, newspapers and television) to inform various segments (clients, staff, media, investors, regulators and other stakeholders at local, national and international level) about SML.

**ASA TO GRAMAVIDIYAL MICRO FINANCE LIMITED**

Grama Vidiyal Micro Finance Ltd. (GVMFL) is the largest and fastest growing Microfinance institution in Tamil Nadu, India with a mission that has dual focus of empowering women socially, politically, economically and thereby assisting poor families to alleviate poverty. The Founder, Chairman and Managing Director Mr. S. Devaraj started the Activists for Social Alternatives (ASA), an NGO in 1986 and carried out many community development projects. Grama Vidiyal (GV) was its microfinance wing which later transformed in to a NBFC in January 2008. ASA is a not-for-profit non-governmental organization (NGO) registered as a public charitable trust, working for the development of poor in the drought prone, poverty ridden area of central Tamil Nadu (TN). ASA started its operations in 1986 in Marungapuri block in Tiruchirapalli district of Tamil nadu with the objective of addressing the rights of the downtrodden and the exploited, most of whom belonging to the Dalit community. ASA formed Sanghas and/or societies of such people and built sustainable institutions out of such groups through education, conscientisation, skill based training and capacity building and lobbying and advocacy. Watershed and wasteland development was the entry point activity during the initial years. During the developmental efforts ASA has undertaken and implemented several relief activities including drought relief and flood relief activities. Soon the Sanghas started to save small amounts of money and utilized the same for onward lending to those in need and also to outsiders facing a lot of problems in default repayment. In 1993 the started their own bank Vidiyal meaning Dawn with 23 Sanghas. ASA has acquired competence in building sustainable Community Based Institutions, owned and managed by the people for their benefit. During the late eighties, ASA found sustainability of groups was not firm as the group tended to disintegrate as soon as issue was solved. The microfinance program started in 1992 was registered as a separate entity, the Grama Vidiyal Trust in 1997 based on Grameen model. GV operates with the mission of improving the standard of living of members and provides the structure for delivery of MF-plus services of ASA aimed at political and social empowerment. GV, after ten years of experience of managing an integrated MF programme GV has developed competence to run an
MF program. The overall policy of ASA-GV is based on these competences developed, integrating them for addressing the multi-dimensional poverty. ASA promotes groups and creates people’s structure to which GV provides microfinance services for economic progress. ASA provides a wide range of microfinance-plus services through various programmes to the members held together by the MF programme for their social and political progress. Further after 2001 and by 2005 various progresses was seen. ASA-GV enters into strategic partnerships with major national and international funding agencies & financial institutions – Ford Foundation, SIDBI, Grameen Foundation and Unitus. Over the years, ASA-Grama Vidiyal has adapted the Grameen Model of micro-credit to suit the local conditions in India. ASA-GV provides collateral-free credit to poor women organized in groups of five women at the village level. Started as a Public Charitable Trust in 1996, Grama Vidiyal received NBFC license in 2007 and transformed itself into a NBFC MFI in the year 2008. Transformation into NBFC is a step towards achieving ASA-GV’s Vision of a community institution owned and managed by the community members. A majority of the paid up share capital of the NBFC will be owned by representatives of the members of Grama Vidiyal microfinance programme.

GVMFL adopts the Joint Liability model (JLG) where members are federated into groups of 5 and each member in the group acts as collateral for the other member. This application of peer pressure through the group guarantees the repayment of the loan and has made possible a high repayment rate of 99.9%. GVMFL was ranked No 4 globally and as a leading organisation in India by MIX composite rating for its transparency, outreach and efficiency in 2007. It has also given a 5 star rating for GVMFL’s transparency for the past 14 years. In 2008, GVMFL was the First to receive ISO 9001: 2008 Certification for providing Micro Finance services in an efficient and cost effective manner. In 2009, GVMFL was conferred the prestigious "Srijan 2009 MFI Transparency Award" at the Microfinance Forum hosted by Intellecap & Standard Chartered Bank. The award recognizes the need for MFI's to be more Clients centric, transparent in its operations by disseminating pricing information and standardizing reporting methodologies. As of 31st December 2011 ASA-GV has covered 4 States, 49 Districts, 327 Branches with membership of 104697 and a staff of 2821. It is the fourth best institution in the world and the first in India dealing with Women’s Empowerment. It celebrated Silver Jubilee at Karpuratchagi Mahal in Trichy. Unless the financial and social status of women improve a country cannot reach its desired heights. Currently GVMFL serves around a million women across 5 states including Tamil Nadu and has a portfolio outstanding of around Rs.650 Crores. GVMFL has received two rounds of equity infusion from major investors like Unitus equity funds, Micro vest, Vinod khosla and Amar Foundation.

As reported by S. Amantha Subramanian in Live Mint- Muralidharan States “That transformation from NGO to NBFC certainly requires the support of lawyers, auditors etc.,” “It requires learning new regulations and understanding how to work under a different set of rules.” Those problems have reduced somewhat as regulations have become clearer, …that you need “the right set of advisers.” ASA-GV’s foremost hurdle still holds true for many NGOs. “In the initial stages, the biggest challenge was identifying the correct model for functioning.”
BWDA TO BWDA FINANCE LIMITED

The Bullock-cart Workers’ Development Association, a non-governmental organization, has set a mark in the creation of self-help groups (SHGs) in Tamil Nadu and Pondicherry. BWDA was formed in 1985 by Mr. Joslin Thambi with primary aim to strengthen the foundation of socio economic change of the bullock cart workers, rural artisans, unorganized workers and their families, poor women, youth and children. Villupuram was headquarters and it has helped to form 19,000 SHGs with a total membership of 3.5 lakh. Tamil nadu Women Development Corporation has selected BWDA NGO as partner and gave approval to implement women development programs in Mailam and Koliyanur Blocks in Villipuram District later Kancheepuram, Cudalore, Tirunelveli, Kanyakumari, Pondicherry, Andaman & Nicobar Islands. BWDA started its social mobilization programs with a small initial financial Rs2500/- from Program for Social Action (PSA) Kerala and later from Partner’s Justice Concern India. In the span of its social mobilization programs in the year 1987 came a major break through when it got its first foreign fund from a Dutch society The Inter Church Christian Organization (ICCO) For the Development of Bullock Cart workers through Development Programmes.

BWDA formed SHGs for their socio economic development for which the SHGs required credit facilities. BWDA tried its level best to arrange credit to the SHGs through Banks, but it was not materialized. At this juncture, BWDA decided to start its own Micro-Finance programme to accommodate to the credit requirements of the groups as well as to address their other credit related issues. It started its micro-finance on September 9th, 1999 with an initial fund of Rs. 1.5 million from the Rashtriya Mahila Kosh (RMK), New Delhi, under BWDA Welfare Scheme (BWS). Since then, BWDA was actively engaged in its micro-finance programme besides its usual Social Mobilization programmes in the areas of women SHG formation, health and sanitation, family welfare, animal welfare, education, vocational training for women and various awareness programmes concerning gender issues and education. As the demand from the SHGs were so high BWDA Board decided to promote a separate entity for the Micro finance operation to benefit SHGs, JLGs and individuals of the target area (Tamil Nadu, Kerala, Puducherry (Pondicherry) and Andhaman Nicobar Islands). BWDA had a board of President, Vice president, Secretary, Treasurer and 5 Executive members.

BWDA Finance Limited has been started in 2003 and registered with Registrars of Companies (ROC) and Reserve Bank of India (RBI). It had a Board of 10 Directors under Mr. Joslin Thmbi managing Director. The various Loan Products are SHG Model Loan – term Loan , Joint liability Loan, micro loan , festival loan, seasonal loan , emergency loan , Micro Housing loan , Educational loan , jewel Loan , individual loan . Other products & services are : Money transfers, Micro Insurance, Capacity Building, Educational Support , Health Camps for customers , relief & rehabilitation , pension schemes.
Summary as on 31st March 2011

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>BancoSol</th>
<th>Share micro Finance Limited</th>
<th>BWDA</th>
<th>GVMFL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformation</td>
<td>NGO to Bank</td>
<td>Society to NBFC</td>
<td>Society to NBFC</td>
<td>Trust to NBFC</td>
</tr>
<tr>
<td>No. of Cities / States</td>
<td>8 big cities</td>
<td>19 States</td>
<td></td>
<td>4 States</td>
</tr>
<tr>
<td>No. of Branches</td>
<td>Over 100</td>
<td>1076</td>
<td>42</td>
<td>327</td>
</tr>
<tr>
<td>No. of Staff</td>
<td></td>
<td>5640</td>
<td>502</td>
<td>2821</td>
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<tr>
<td>No. of JLGs/SHGs</td>
<td></td>
<td>697178</td>
<td>24,425</td>
<td></td>
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<tr>
<td>No. of Members</td>
<td>146,977</td>
<td>353000</td>
<td>10,46,608</td>
<td>1046497</td>
</tr>
<tr>
<td>Amount Disbursed</td>
<td>2 billion</td>
<td>12498Crores</td>
<td>711.11 Crores</td>
<td></td>
</tr>
<tr>
<td>Repayment Rate</td>
<td></td>
<td>81.00%</td>
<td>Very high as found by LeeKuan Yew</td>
<td>98.20%</td>
</tr>
<tr>
<td>Partnership</td>
<td>6 Institutions</td>
<td>38banks</td>
<td>21 Banks</td>
<td>35 banks &amp;Institutions</td>
</tr>
<tr>
<td>Rating</td>
<td></td>
<td>Crisol 2009 Top 3rd MFI</td>
<td>Crisol 2009 Top 16th MFI</td>
<td>Crisol 2009 Top 9th MFI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LBBB+(ICRA) MF1 (CARE) A2+</td>
<td></td>
<td></td>
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</tbody>
</table>
Dividend Declared | First to give Dividend1997 | Last five years 9to15%
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**FINDINGS**

Organisational change comes in many forms. Organisations may grow bigger, they may become better without becoming bigger, they may shrink and become smaller or they may even die. Change must be continually managed to yield sustained results. Organizational change management is the perspective of business leadership from the top looking down into the organization. Measurement provides a way to track progress. An effective measurement system would be specific, simple to understand, creative and involve both managers and employees. Business Models that can absorb the opportunities offered by volatile market very quickly is the key for sustainable growth. by encouraging employees involvement and delegating responsibility downward to shape the change becomes continuous. This is because people develop greater awareness and a different mind set with which they actually want to continually improve. To be effective, the project must recognize, respect and leverage the knowledge, insights and opportunities that this change can bring. Effective change is nothing but winning over people in the organization. How effectively and efficiently the top management and leadership within the organization address these issues and how well are they prepare to handle the resistance will decide the faith of the organization and its success in implementing change. The importance of good communication system and the role it plays in make change process smooth and less painful can not be undermined. There are both internal and external factors that influence MFI’s decision to transform. To make transformation successful, MFIs need to access their situation and plan carefully. The competition, faced today can also be made better only when consistent effort aimed towards organization well being is practiced. Useful change tends to be associated with a multi-step process that creates power and motivation that is sufficient to overwhelm all the sources of apathy. As reported by CGAP September 2008 more and more NGO MFIs are transforming into profit companies including regulated financial institutions. It requires dedication and must be driven by high quality leadership who demonstrate their commitment to its success. The rewards for those organizations that manage their change efforts well have improved their competitive standing and positioned themselves for a far better future.

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