

## MANAGERS' MOTIVES FOR TRANSFORMATION OF NON-PROFIT ORGANIZATION INTO A FOR-PROFIT ORGANIZATION ON THE EXAMPLE OF MICROCREDIT ORGANIZATION

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### ABSTRACT

The paper is aimed at establishing managers' motives for the transformation of a non-profit organization into a for-profit organization on the example of micro-credit organization (MCO), as well as managers' views on whether the MCO transformation from a non-profit into a for-profit one will cause problems in the implementation of the MCO's vision and mission, problems in the cooperation with Banking Agency, problems in employees' adjustment to managers' plans.

In B-H, micro-credit organizations operate as non-profit organizations. Pursuant to recent legal solutions in B-H, micro-credit organizations can be transformed into for-profit organizations. The decision and motive for the transformation include MCO managers' expectation that the transformation into a for-profit organization will result both in an increase in the MCO's profitability and in an increase in the market share, the number of clients and the reduction of poverty.

The study will use primary research among MCO managers, other stakeholders, chambers of commerce, employment agencies, and other bodies related to MCO operations. Scientific analysis will establish motives for the transformation and managers' expectations related to the MCO profitability, market share, number of clients and reduction of poverty.

JEL classification: D03, D23, L3

**Key words:** Non-profit organizations, micro-credit organizations, transformation, managers' motives.

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## 1. INTRODUCTION

In B-H, microcredit organizations have been operating as non-profit organizations since late 2006. "Microcredit organizations base their goals on the combination of banking and social goals.<sup>1</sup> Pursuant to new legal solutions in FB-H and RS, microcredit activities are regulated in a way that microcredit organizations are involved in providing microcredits as a for-profit activity. However, the legislator allows founders to register as a microcredit foundation as well."<sup>2</sup>

The fundamental goal of both conventional and non-profit marketing is the satisfaction of individual (or shared) needs. However, the goal derived from the fundamental one in obtaining a profit in the case of conventional marketing, while in the case of non-profit marketing it should primarily be obtaining general social benefit, or an appropriate contribution to obtaining it".<sup>3</sup> A microcredit organization is involved in the microcrediting activity with the aim of improving the microcredit users' financial position, increasing employment, providing support to the development of entrepreneurship and gaining profit.<sup>4</sup>

## 2. RESULTS OF RESEARCH INTO MANAGERS' MOTIVES FOR TRANSFORMATION

The main motive of transforming a non-profit microcredit organization into a for-profit one is the expectation of better and more successful operation, increased turnover, increased market share, more profitable and economical business, which will be expressed through increased profit and achieved goals of owners and investors into the for-profit microcredit organization. Profit, as a result of doing business, is a source of investors' confidence and motivates them to buy shares, which in turn leads to the increase in their price. This directly opens the possibility of the organization's faster and easier growth in its striving to achieve future goals. This view implies that profit is not merely a "result", which is a frequently emphasized marketing view, but also a source of the company's future competitive health and

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<sup>1</sup> Vujić mr. Saša, „Mikrokreditne organizacije i mikrokrediti“, Sarajevo, 2008. god., Ekonomski fakultet Sarajevo, pp. 40. - 42.

<sup>2</sup> Law on Microcredit Organizations, "Official Gazette of FB/H", issue 59/06, Art.4.

<sup>3</sup> Marcel Meler, „Neprofitni marketing“, Sveučilište u Osijeku, 2003., p. 62.

<sup>4</sup> Law on Microcredit Organizations, "Official Gazette of FB/H", issue 59/06, Art. 15.

wealth.”<sup>5</sup> “Organizations that know who they are and which path they are pursuing make the best business decisions.”<sup>6</sup>

In order to confirm or reject the listed assumptions, we conducted specific primary research. Surveys were conducted with: microcredit organizations' managers, founders, banks and investors, and representatives of the chamber of commerce, employment bureau and other bodies in charge of microcredit organizations' operation.

### **2.1. Managers' expectations of the effect of MCO's transformation from a non-profit to a for-profit one**

“Recognition and development of opportunities must be continuously managed. Identifying, understanding and forecasting change in environment must be focused on recognizing and developing opportunities, which range from evident to “unimaginable” and should be brought to the surface.”<sup>7</sup> MCO managers were asked questions pertaining to their expectations after the MCO's transformation from a non-profit to a for-profit in terms of greater freedom of activity, increased market share, increased credit volume, flexibility of product range, profitability, rewarding system and freedom in offer. Responses were provided by twenty-five managers of the most important MCO organizations in B-H, and their responses are summarized in the following table:

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<sup>5</sup> V. Babić-Hodović i M. Šestić, «Marketing menadžment», Ekonomski fakultet Sarajevo, 2006, p. 43.

<sup>6</sup> Harding D., Rovit S., „Preuzimanje i spajanje poduzeća“, Harvard Business School Press, Masmedia d.o.o., Zagreb, 2004, p.46.

<sup>7</sup> Collins Eliza G.C., Mary Anne Devanna, (2002), „Izazovi menadžmenta u XXI. stoljeću“, J. Wiley & sons, Inc, prevod Mate, Zagreb, p. 341

Table 1: DO YOU BELIEVE THAT MCO'S TRANSFORMATION FROM A NON-PROFIT INTO A PROFIT ONE WILL AFFECT:<sup>8</sup>

No.	QUESTION	STRONGLY DISAGREE	DISAGREE	NEITHER AGREE NOT DISAGREE	AGREE	STRONGLY AGREE	TOTAL
a.	GREATER FREEDOM OF OPERATION	12,0%	8,0%	12,0%	32,0%	36,0%	100,0%
b.	INCREASED MARKET SHARE	0,0%	0,0%	12,0%	40,0%	48,0%	100,0%
c.	INCREASED CREDIT VOLUME	0,0%	0,0%	8,0%	52,0%	40,0%	100,0%
d.	FLEXIBILITY OF PRODUCT RANGE	0,0%	0,0%	0,0%	60,0%	40,0%	100,0%
e.	GREATER PROFITABILITY	0,0%	0,0%	0,0%	36,0%	64,0%	100,0%
f.	BETTER REWARDING SYSTEM	0,0%	0,0%	8,0%	52,0%	40,0%	100,0%
g.	GREATER FREEDOM OF OFFER	0,0%	0,0%	0,0%	72,0%	28,0%	100,0%

NOTE: Responses were provided by MCO managers.

Research results are as follows:

- a) Managers expect that they will have a greater freedom to act upon the MCO's transformation from a non-profit into a for-profit one.
- b) With respect to the question if they expect an increase in market share upon the MCO's transformation from a non-profit into a for-profit one, most MCO managers expect an increase in market share after the transformation has been completed. The responses are interesting in that not a single manager expects a decrease in market share.
- c) With respect to the questions if the MCO's transformation from a non-profit into a for-profit one will result in the increase in credit volume, all the managers forecast an expansion of the credit volume upon the transformation into a for-profit organization.
- d) With respect to the questions in the flexibility of product range will increase upon the MCO's transformation into a for-profit organization, all managers responded that the range will become flexible.

<sup>8</sup> Vujić S. (2009), Research results, author's data collection.

- e) For the question if managers expect a greater MCO's profitability after the transformation, affirmative responses, that the MCO's profitability will increase, prevail.
- f) Managers expect a better rewarding system in the new transformed, for-profit MCO compared to the non-profit MCO. No respondent expects a worsening in the rewarding system.
- g) With respect to the question if they expect a greater freedom in offer after the MCO's transformation from a non-profit into a for-profit one, all managers agree that the freedom in offer will increase. 72.0% agree and 28.0% strongly agree, while no respondent expects that the freedom will decrease after the MCO has been transformed into a for-profit form.

## 2.2. Managers' views on potential problems upon the MCO's transformation from a non-profit into a for-profit one

The second group of questions for the surveyed MCO managers pertained to their view on whether the MCO's transformation from a non-profit into a for-profit one will cause problems in: implementation of the MCO's vision and mission, its cooperation with the Banking Agency, employee adjustment and adjustment to managers' plans. Responses to these questions were given by MCO managers, and they are summarized in the following table:

**Table 2:** DO YOU BELIEVE THAT THE MCO'S TRANSFORMATION FROM A NON-PROFIT INTO A FOR-PROFIT ONE WILL CAUSE PROBLEMS IN:<sup>9</sup>

No.	QUESTION	STRONGLY DISAGREE	DISAGREE	NEITHER AGREE NOT DISAGREE	AGREE	STRONGLY AGREE	TOTAL
a.	IMPLEMENTATION OF MCO's VISION AND MISSION	4,0%	8,0%	36,0%	24,0%	28,0%	100,0%
b.	COOPERATION WITH BANKING AGENCY	32,0%	16,0%	32,0%	8,0%	12,0%	100,0%
c.	EMPLOYEE ADJUSTMENT	4,0%	12,0%	16,0%	48,0%	20,0%	100,0%
d.	ADJUSTMENT TO MANAGERS' PLANS	8,0%	12,0%	36,0%	36,0%	8,0%	100,0%

NOTE: Responses were provided by MCO managers.

<sup>9</sup> Vujić S. (2009), Research results, author's data collection.

Research results are as follows:

- a) To the question if they believe that the MCO's transformation from a non-profit into a for-profit one will cause problems in implementing the MCO's vision and mission, MCO managers responded that they expect problems (24.0% agree and 28.0% strongly agree), while 36.0% were undecided. These responses indicate that the MCO's vision and mission should be re-defined upon its transformation and adjusted to the newly expected situation and focus on profitability.
- b) MCO managers' responses to the question whether they expect problems in the cooperation with the Banking Agency after the transformation are as follows: 48% do not expect problems; however, 32.0% neither agree nor disagree, while only 20.0% surveyed expect problems.
- c) After the MCO's transformation from a non-profit into a for-profit one, expectations related to problems with employees' adjustment to new business goals and different tasks point to the need for additional discussions, instructions and employee training aimed at decreasing problems in employee adjustment to operation and business of a for-profit MCO organization.
- d) With respect to the question whether there will be problems in adjustment to managers' plans upon the MCO's transformation from a non-profit into a for-profit one, responses are fairly dispersed, which partly indicates that MCO managers themselves are not fully aware what they can expect after the MCO's transformation into a for-profit organization.

### **3. RESULTS OF RESEARCH INTO TRANSFORMATION IMPACT**

#### **3.1. Views of other stakeholders (founders, banks and investors) on the impact of MCO's transformation from a non-profit into a for-profit one**

Other stakeholders (founders, banks and investors) were surveyed with the questions if they believe that the MCO's transformation from a non-profit into a for-profit one will affect the MCO's successful operation, increase in its market share, better return on capital, decrease in interest rate, and increase in the number of clients. Due to the expected increase in the activity volume and a great number of potential users, it is impossible to satisfy all the users and different needs. Ac-

cording to Kotler,<sup>10</sup> the central topic is making decision on who should be the target audience (target users), and what kind of behaviour should be produced in them. Responses to these questions are summarized in the table:

**Table 3:** DO YOU BELIEVE THAT THE MCO'S TRANSFORMATION FROM A NON-PROFIT INTO A FOR-PROFIT ONE WILL AFFECT FOLLOWING:<sup>11</sup>

No.	QUESTION	STRONGLY DISAGREE	DISAGREE	NEITHER AGREE NOR DISAGREE	AGREE	STRONGLY AGREE	TOTAL
a.	SUCCESSFUL BUSINESS	0,0%	0,0%	0,0%	60,0%	40,0%	100,0%
b.	INCREASED MARKET SHARE	0,0%	0,0%	0,0%	20,0%	80,0%	100,0%
c.	BETTER RETURN ON CAPITAL	0,0%	0,0%	40,0%	40,0%	20,0%	100,0%
d.	DECREASED INTEREST RATE	0,0%	20,0%	40,0%	20,0%	20,0%	100,0%
e.	INCREASED NUMBER OF CLIENTS	0,0%	0,0%	20,0%	60,0%	20,0%	100,0%

Note: Responses were provided by founders, banks and investors.

Research results are as follows:

- a) Stakeholders' expectations after the transformation from a non-profit into a for-profit organization are favourable, since they expect more successful operations.
- b) Stakeholders expect an increase in market share upon MCO transformation (80.0% strongly agree, and 20.0% agree that market share will increase).
- c) Stakeholders expect better return on capital (40.0% agree, and 20.0% strongly agree). However, as many as 40.0% are unsure, since they responded that they neither agree nor disagree. In the transformation process, MCO management should clarify, to stakeholders, the issue of return on capital so that they could also accept the estimate that return on capital will be better upon the transformation from a non-profit into a for-profit form.

<sup>10</sup> Filip Kotler i Alan Andreasen, „Strategic Marketing For Nonprofit Organizations“ prilagođeno u knjizi Jurica Pavičić, „Strategija marketinga neprofitnih organizacija“, Masmedia, Zagreb, 2003, p. 143.

<sup>11</sup> Vujić S. (2009), Research results, author's data collection.

- d) With respect to the decrease in interest rate, stakeholders' expectations are fairly dispersed (20.0% disagree that the interest rate will decrease, while 40.0% neither agree nor disagree). It is not completely clear what will happen with the interest rate upon the transformation from a non-profit into a for-profit organization.
- e) Stakeholders' expectations with respect to the increase in the number of clients are that the number of clients will increase (80.0% agree or strongly agree); however, 20.0% neither agree nor disagree.

### 3.2. Views of chambers of commerce, employment agency and other bodies related to MCO operations

The next group of questions was intended for chambers of commerce, employment agency, and other bodies related to MCO operations. They were asked five questions to which they responded, which pertained to their view on whether the MCO transformation from a non-profit into a for-profit organization will affect: increase in MCO's profitability, more diverse offer, increase in the number of MCO's clients, decrease in interest rates, and reduction of poverty. Responses to these questions are summarized in the table:

**Table 4:** DO YOU BELIEVE THAT MCO'S TRANSFORMATION FROM A NON-PROFIT INTO A FOR-PROFIT ORGANIZATION WILL AFFECT FOLLOWING:<sup>12</sup>

No.	QUESTION	STRONGLY DISAGREE	DISAGREE	NEITHER AGREE NOR DISAGREE	AGREE	STRONGLY AGREE	TOTAL
a.	INCREASE IN MCO's PROFITABILITY	0,0%	0,0%	14,3%	71,4%	14,3%	100,0%
b.	MORE DIVERSE MCO's OFFER	0,0%	0,0%	0,0%	85,7%	14,3%	100,0%
c.	INCREASE IN THE NUMBER OF CLIENTS	0,0%	0,0%	14,3%	57,1%	28,6%	100,0%
d.	DECREASED INTEREST RATES	14,3%	14,3%	57,1%	14,3%	0,0%	100,0%
e.	REDUCTION OF POVERTY	0,0%	0,0%	0,0%	57,1%	42,9%	100,0%

NOTE: Responses were provided by the chamber of commerce, employment agency, and other bodies related to MCO operation.

<sup>12</sup> Vujić S. (2009), Research results, author's data collection.



- a) Upon the transformation, most respondents responded: that MCO's profitability will increase, although 14.3% neither agree nor disagree. No response forecasts a decrease in profitability upon the MCO transformation from a non-profit into a for-profit organization.
- b) This group of respondents expects a more diverse MCO's offer. NO response expressed a different view, i.e. that offer will be less diverse.
- c) The respondents' expectations after the transformation are: 57.1% expect an increase in the number of clients, while 14.3% did not define their view. No respondent expects a decrease in the number of MCO's clients upon its transformation.
- d) 28.6% disagree with the statement that interest rates will decrease, 57.1% did not define their view, 14.3% believes that interest rates will decrease while no respondent is determined that interest rates will decrease.
- e) All respondents replied that they expect poverty to be reduced. No respondent anticipates that poverty will not be reduced.

#### 4. CONCLUSION

Based on our research, the main motive of MCO managers for MCO transformation from a non-profit into a for-profit organization is their expectation that the market share will increase, since no manager expects a decrease in market share. Managers expect the credit volume to increase, a greater freedom of operation, greater flexibility of product range, better rewarding system, and greater freedom in offer, as well as greater profitability. As their motive for transformation, stakeholders list the successful MCO's operation upon the transformation, i.e. no founder, bank or investor expects slower business. They expect an increase in MCO's market share upon the transformation. Research indicated that it is not quite clear to stakeholders, i.e. that they are uncertain about what will happen with the interest rate upon the transformation. Besides, they do not expect that the number of clients will decrease, although a high percentage does not have a clearly defined view. Founders, banks and investors assess the MCO's transformation from a non-profit to a for-profit form favourably, and their motive includes expectations that new MCOs of the for-profit form will have successful business, that they will increase their market share, have a better return on capital, and increase the number of clients. No response predicts a decrease in profitability. With respect to expecta-

tions by chambers of commerce, employment agency, and other bodies related to MCO operations, most of them do not expect a decrease in the number of MCO clients upon its transformation, but a significant percentage does not have a clearly defined view on the number of clients upon the transformation. Most respondents (chambers of commerce, employment agency, and other bodies related to MCO operations) are not decided about a decrease in interest rates.

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