

Strategic alliance issues in microfinance management

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Introduction

Papua New Guinea (PNG) went through a period of experimentation with microcredit and microfinance in the 1980s and 1990s. Prior to this the country had a financial development history dominated by savings and loans societies (May 1998), rural development banking, government-supported credit guarantee schemes and commercial bank lending to government-targeted sectors such as agriculture and housing (Kavanamur 2000).

In the past decade there has been increasing interest from donors, governments, NGOs and PNG grassroots in adopting international microfinance best practice principles to benefit local microfinance institutions (MFIs). MFIs are now generally accepted as a major tool in the fight against increasing poverty in PNG which now affects at least a third of the population. Following the success stories epitomised by the Grameen Bank of Bangladesh, BancoSol in Bolivia and the *unit desa* (village post) system of the Bank Rakyat Indonesia (BRI-UD), attempts have been made to replicate these in PNG. The lessons are relevant not only for MFIs, but also have had wider implications for the small-medium-large financial schemes' lending and receiving methodologies (Hardin and Associates 2000; Kavanamur 2002).

Whilst there have been some positive lessons, the overall results for PNG and the Pacific remain characterised by wide 'expectation gaps'. Among the problems identified are the narrowness of outreach and the unsustainable basis of most programs, operationally and financially (McGuire 1997).

The reasons for this unsatisfactory performance have been considered by practitioners and researchers (Cornford 2000; McGuire and Conroy 2000; Gregory 1999). The lack of strategic alliance management skills is a contributing factor since they are often neglected by MFIs involving two or more partners. This paper discusses possible lessons that might contribute to maximising the goals of MFI outreach, sustainability and self-sufficiency in the region.

Strategic alliance management skills

An increasing number of MFIs in PNG involve at least two or more organisations in a strategic alliance. An alliance or a business network can be described as 'two or more organisations involved in mutually beneficial relationships, that maintain all participants as separate corporate entities' (Buttery and Buttery 1994:17). Although alliance partners may carry on business operations that are independent of the alliance or network, they may pool skills and resources leading to a new venture in order to jointly create an advantage.

The process of alliance building inevitably assigns the task of managing the alliance to an alliance manager or coordinator who must continually monitor the influence of external factors that may cause a shift in the strategic intent and hence its alignment to core business and governance structure. Such factors may include a partner's organisational culture, and organisational and environmental contexts. Thus alliance management should be viewed as a process that exists within and between organisations being embedded in culture and an environment.

The importance of strategic alliances stems from their increasing prevalence among both for-profit and not-for-profit organisations, as a means to (a) reduce uncertainty, (b) provide flexibility, (c) provide capacity, (d) provide speed, and (e) provide information. According to Drucker (1996:1):

The greatest change in corporate culture — and in the way business is being conducted — may be the accelerating growth of relationships based not on ownership but on partnership; joint ventures; minority investments; cementing a joint marketing agreement or an agreement to do joint research; semiformal alliances of all sorts.

Despite the virtues of alliances, few succeed; failure rates across the world have been projected to be as high as 70 per cent within one year (Rackham, Friedman, and Ruff 1996) and between 40–50 per cent within five years (Bleeke and Ernst 1993). Whilst the high failure rates in the first year are in line with those for new businesses generally and are to be expected, there remains a need to better understand the causes of failures as well as successes in order to reduce the current failure rates of alliances, seeking longevity.

A glance at the literature invariably reveals that a major cause of alliance failure is managerial (Niederkofler 1991). Few alliance managers/coordinators understand how to move beyond the 'deal' and the 'structural' aspects of alliance design to the active management of alliances in order to create value (Doz and Hamel 1998).

The role of the alliance manager goes beyond the functions of a general manager in a unitary organisation, which include decision making, internal integrator, external integrator and information manager. The alliance manager is answerable to two or more partners and because (s)he has to integrate staff from different organisational and societal cultures, additional requirements arise within each of the traditional functions. For example, whilst the decision maker in a unitary organisation can easily initiate change, the alliance manager has the added complication of convincing not only the parent organisations but also the alliance's own board. These additional difficulties stem from two features of alliances: the presence of multiple principals, and the cultural heterogeneity that has to be managed within a cross-cultural

alliance (Child and Faulkner 1998). Thus the alliance manager has to grapple with role conflict and role ambiguity.

It is the responsibility of the alliance manager to maintain cooperation amongst partners at all times. A significant correlation has been found between alliance success, commitment by partner top management, mutual trust between partners, sensitivity to partner's culture, and congruent partner goals (Child and Faulkner 1998).

There is evidence to show that clear, well thought out processes for the dissemination of information, are associated with alliance success (Child and Faulkner 1998). The specific requirements include the establishment of clear dispute-resolution mechanisms, clear authority vested in the chief executive, and a 'divorce mechanism' agreed at the outset.

In alliances, control does not necessarily have to be an 'all-or-nothing phenomenon', unlike in unitary organisations. Instead, it can be exercised by parent companies focussing on (a) specific activities, (b) decisions, or (c) processes based on what they perceive to be crucial to the success of alliance performance or strategic objectives' attainment. This point has been underscored by many studies, observing that parent companies ensure that alliances conform to their own interest by controlling strategically important activities rather than over the whole alliance (Geringer and Hebert 1989).

Human resource management has critical implications for alliance cultures, control, organisational learning and manager qualities. Appropriate human resource management policies can facilitate the development of a shared corporate culture, which articulates goals and standards for the alliance, and a willingness to adopt common practices in the pursuit of those objectives. Great importance needs to be attached to the selection criteria applied when recruiting alliance managers and staff. Such criteria should not only emphasise technical competencies, but also the openness and flexibility of candidates' attitudes to team work with partner organisations. Appropriate attitudes can be further developed through training and reinforced by the systems adopted for performance appraisal, reward and promotion (Child and Faulkner 1998:213–214).

Key traits that have been identified as necessary for alliance management open-mindedness, flexibility, self-confidence, sensitivity to others and a multicultural experience (Child and Faulkner 1998:221). These are complementary to the basic requirements of ability, drive to achieve and requisite technical knowledge, with some alliance management competencies being teachable and others not (Spekman et al. 1996).

Microfinance alliance cases

Two of PNG's MFIs, the Liklik Dinau Arbitore Trust (LLDAT) and Bougainville Microfinance Scheme (BMFS), are briefly discussed to highlight alliance management issues and underscore the importance of inculcating strategic alliance management skills into MFIs in the Pacific.

LLDAT is the best known replica of the Grameen Bank experience in PNG. It was established in 1993 and commenced operations in 1994 in Goroka, Eastern Highlands Province. The project was initiated by the United Nations Development Program

(UNDP) in PNG but was joined by six other partners including the Department of Village Services and Provincial Affairs, Peace Foundation, AusAID, GoPNG, and the PNG Banking Corporation's Village Finance Ltd. UNDP mainly contributed towards project design and management capacity building through its rotating volunteers while the project partners contributed mainly financial resources.

By the end of 2001, LLDAT had run into management and financial difficulties. At the time of the author's visits to Goroka in May and August 2002, operational funds had evaporated and the scheme had effectively ceased operation. Management and governance failures were cited as the major problems. Running costs had been drawn from clients' savings, which apparently had not been adequately quarantined. Donors became impatient with the scheme's poor outreach progress, as well as the slow progress towards the achievement of both operational and financial sustainability.

Donor partners left their contributions to be managed by the UNDP and local management and subsequently found out that they were unable to leverage control over the management of the scheme. Primarily this was because of an oversight on the part of partners to ensure a proper governance structure and control mechanisms were in place before the scheme commenced operations. The UNDP itself learned from a review in 1998 (Hickson et al. 1998, cited in Conroy 2000) that there was no separate account for savings held at a commercial bank and therefore an absence of any reserve savings to meet contingencies.

An AusAID review in February 1999 cautioned that Liklik Dinau's continued operation was at stake because of a looming liquidity crisis. The scheme, had earlier on been bailed out by AusAID and the GoPNG. After the 1999 review the two parties had injected a further A\$1.2 million over a three-year period up to 2002 (Conroy 2000). The support was premised on the scheme meeting a set of stated performance targets, with a twice-yearly reporting schedule. The AusAID review of 1999 reasoned that for LLDAT to achieve a modicum of sustainability and self-sufficiency donor support would have to be continued beyond three years. AusAID's inability to exert effective control over the scheme resulted in its complete withdrawal by 2001.

BFMS was initiated by Credit Union Foundation of Australia (CUFA) and Australian Volunteers International (AVI) in partnership with the Commerce Division of the Bougainville Administration in 1996. The main funding partner has been AusAID, which joined the alliance in 1998. AVI and CUFA perform the main function as the Australian Managing Contractor (AMC), which manages the project on behalf of AusAID and the local Commerce Division. AVI and its partners as the AMC provides a team of advisers to a local implementing team who are employees of the BMFS located on the ground on Buka. AVI's team of advisers visits Buka three times a year to oversee capacity building and the implementation process.

Phase 1 of the project alliance ran from 1996–2000 and involved a process of sensitisation through a development education program and piloting. This resulted in the decision not to rush the project development but to '*go isi*' and to establish a central

coordinating and support organisation, provisionally named Bougainville Haus Moni (BHM). It was also decided that the project alliance should test the microfinance financial intermediation concept in four initial pilot project areas. Phase 2 involved a project design team of two microfinance specialists and a project design/gender specialist who benefited from the coordination and contribution of AVI's network broker and a CUFA technical specialist who had been in PNG at the same time for the activities under Phase 1 of the project.

An initial project design was drawn up by the project design team. This was appraised by AusAID, resulting in adjustments which emphasised the need to reduce the scale of the project to three years' duration, the role of women in the project activities, and project budget reduction, but care was taken so as not to compromise the long-term sustainability of the project. According to AVI's network broker, AusAID had sought an adjustment to the project's initial operating logic aimed at increasing project outreach because it was not sure of the viability of such an exercise. Earlier in 1998, AusAID had become entangled in the LLDAT microfinance alliance with partners such as UNDP. Thus the project design review sought to emphasise capacity building first at the BHM head office and within the four pilot projects at the expense of outreach goals. It increased headquarter staff and trimmed field staff. The performance of BMFS to date can be gauged from Table 1.

Unlike LLDAT, the BMFS alliance partners have ensured that the goals of the project alliance is clearly spelt out and understood by all parties including its main beneficiaries, the grassroots. The goal of providing financial intermediation services to the people of Bougainville after a ten-year conflict seem related to the core business of each alliance partner and there appears to be a significant presence of alliance management skills amongst partners. At the local level such skills are being developed through training. The project alliance currently benefits from the networking skills of the AMC, AusAID and the assistant secretary of the local Commerce Division on Buka. AusAID's direct involvement in the project has ensured a continuous attempt to align the strategic intent of the project to BMFS structure, planning and control, and broader environmental shifts through quality audits, performance and project design reviews. Although this has been

viewed by AMC as interfering with the original operating logic of the project alliance design, this has been necessary to aligning the project to budgetary constraints.

AVI has also allowed for cultural adaptation in the project design phase. When AVI commenced Phase 1 in the period 1996–2000 the vision was to develop a financial structure that adopted a 'savings-first' approach and one that was developed by the grassroots themselves, reflecting the need for a cultural fit as expressed in 'fitting custom with today's change'. Moreover, unlike LLDAT, the BMFS alliance has a clear responsibility matrix entailed in a memorandum of agreement between BHM and AMC and a management contract between AusAID and AMC. However, concerns have recently been raised about the tendency of one partner to overreach their role and assume the responsibilities of other partners.

Alliance management lessons

A number of lessons can be gleaned from the brief discussion of above cases above as and from the author's own research on alliance management in PNG over the last four years.

First, the author's review (Kavanamur 2000) of financial alliances including those of LLDAT, Rural Development Bank's Smallholder Agriculture Credit Scheme (SACS), Small Business Development Corporation's Small Business Guarantee Facility (SBGF), GoPNG's Credit Guarantee Scheme (CGS) and National Investor Scheme (NIS) reveal an overall absence of strategic alliance management skills in PNG. The task of managing an alliance does not seem to have been clearly assigned to a single alliance manager/coordinator. Where this has been done as in the cases of the GoPNG's CGS and SBGF junior officers have been tasked to interface with partners. In almost all of these cases the results have not been encouraging. The junior alliance officers have tended to liaise laterally only with their counterparts and find it difficult to liaise vertically with senior executives in partner organisations. An exaggerated sense of hierarchy, limited networks, lack of self confidence, absence of team work skills and lack of innovation have been identified as the main constraints.

Second, an alliance is likely to fail when its importance to a key partner dwindles and it is no longer considered as central to its core business. For example, in the case of the SACS, the Department of Agriculture and Livestock (DAL) became less involved in the scheme over time when it felt that there was little benefit from it even though it was initially the main sponsor of the scheme in 1996. It is therefore important for an alliance to demonstrate some early positive results so as to keep partners on side.

Third, because of the volatile business environment in PNG the likelihood of misalignment between

Table 1 Summary of GMFIs by district, September 2000–30 June 2002

	Sep 2000	Sep 2001	June 2002	% Increase
No. of MFIs	42	136	184	338
No. of members	5,827	10,997	14,363	236
Savings (Kina)	149,600	252,254	484,267.51	224
Av. Savings (Kina)	26	23	33	27
Loans (Kina)	15,696	97,782	241,573.77	1439
No. of Loans	n/a	622	2,045	229
Av. Loan size (Kina)	n/a	157	118	-25
Loans (K) as % of savings(K)	10.5	38.76	49.9	

Source: Adapted from Newsom (2002) and BHM official records.

an alliance's strategic intent and governance structure, planning and control mechanisms, culture and environment is a real threat. In such a situation partners can find each other drifting away from one another and from the initial project alliance design. The cases of SACS, CGS, NIS and SGBF demonstrate that despite legally sound tripartite agreements reporting requirements were being paid lip service and partners refused to communicate with each other to resolve, for instance, payment obligations such as default called-up guarantees submitted by participating commercial banks. This results in a break down in trust and jeopardises future relationships. In PNG there is a tendency for alliance managers to go underground and hope that any problem will simply dissipate.

Fourth, even where alliance governance structures and feedback/control mechanisms are in place, alliances require management beyond the formal structures in order for partners to derive mutual benefit. It has been widely recognised that how the interaction between partners is managed will determine the longevity of an alliance (Doz and Hamel 1998). The alliance interface relates to how day-to-day interactions and exchanges between partners are managed, the extent to which partners' respective contributions are commingled or kept separate, and the operational linkages between them. Essentially, the interface consists of exchanges of information, meetings, joint task forces, common teams, and sharing of progress reports.

Fifth, PNG's volatile business environment contributes to the short life span of alliances. Almost all alliances that have been managed for more than six years have been ineffectual. Observing more recent and promising alliances such as that between the National Superannuation Fund (NASFUND) and AON Consulting (PNG) Ltd where the latter performs backroom operations for the former, it would seem that setting shorter alliance duration in agreements with clear measurable goals is likely to entice partners to work the alliance. At the end of an agreed period the alliance can be either terminated or renegotiated, depending on the degree of goal attainment.

Conclusion

Most MFIs in PNG tend to involve more than two partners. However, the line management skills based on Weberian hierarchical principles that characterise alliance managers' training is insufficient for ensuring the success of alliance management in PNG and the Pacific generally. This gap in management training is showing up in the failure not only of MFI alliances but also of interagency projects to achieve desired goals. MFI training programs in the Pacific would do well to include strategic alliance management practices in their training programs in order to reduce the managerial constraints that MFIs have had to contend.

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