THE MANAGEMENT OF INTERDEPENDENCE AND THE SHARING OF VISION BY MICRO-FINANCE AGENCIES FOR NEW AND EMERGING SMES

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Abstract

The purpose of this paper is to conceptualise a theoretical model that clarifies the variations in both processes for sharing vision and interdependence of the lender and the SME owner in micro-finance. Processes for sharing vision and interdependence are possible predictors of the effective tacit and explicit knowledge generation/utilization of a micro-finance agency – SME owner relationship. For new and emerging SMEs the micro-finance agency can provide a critical role in their development. Micro-finance agencies can provide a mechanism in economic development that enables SMEs to have greater speed to markets. The focus of this paper is on the relationship between the micro-finance lending officer and the SME owner. Specifically, the model developed in this paper informs understanding the nature of knowledge generation/utilization between micro-finance agencies and SMEs. Effective generation/utilization facilitates the assessment of the risk for investment. The model clarifies the variations between interdependence and the development of processes for sharing of vision. When you have high interdependence (characterised by good cooperation) and effective processes for sharing of vision, an environment of effective knowledge generation/utilization is likely to be created between the micro-finance agency and the SME owner. The model proposes that the effective management of both tacit and explicit knowledge between the micro-finance agency and SMEs supports them to reach their markets. Implications of this research for SMEs and micro-finance agencies include the increase of knowledge and understanding of SME processes.

INTRODUCTION

This paper is part of a broader program that is opening up a new area of research, namely: institutional preparedness of economic development agencies for developing small and medium-sized enterprises' (SMEs). It explores the institutional preparedness of micro-finance agencies (Woolcock, 1999). Micro-finance is often associated with lending to the poor with transactions that are based on a group of borrowers, like rotating loans (Auwal, 1996). Existing literature focuses on debates about financial management credit analysis (for example Howarth, 2001; Hutchinson & Ray, 1985; Holmes, Dunstan & Dwyer, 1994; Kotey, 1999; McMahon, 2001, 2003; Ray & Hutchison, 1985), finance gaps (for example, Hamilton & Fox; 1998; McMahon, 2003) and demand and supply of micro-credit (for example, Deakins & Hussain, 1994; Gibbs, 2000). As a complement to these debates, this paper is interested in the role of the agency that lends to entrepreneurial enterprises (Hamilton & Fox, 1998). In particular, it explores, from a 'process' perspective, the micro-management relationship between the micro-finance lending officer and the micro-firm owner of new and emerging SMEs.

Why is it that some relationships engage in cooperative interdependence and processes for sharing vision whilst others do not? The overall interdependence between the lender and the SME owner is fundamentally underpinned by a power imbalance skewed towards the micro-financer. The reason for this is the coercive power of the lender to not approve or call in loans (Mole, 2002). However it is in the best commercial interests of both the lender and the SME owner to develop a partnership that is smart in analysing and interpreting risk from the internal and external environment of the SME. Variations in interdependence and processes of sharing vision have consequences for knowledge creation and utilisation that impact on risk assessment (Nonaka & Takeuchi, 1995).

This paper conceptualises a theoretical model that clarifies the variations in processes for sharing vision (Leonard & Sensiper, 1998) and variations in interdependence (Pfeffer & Salancik, 1978) that are predictors of the effective tacit and explicit knowledge of a micro-finance agency lending officer and the SME owner (Nonaka & Takeuchi, 1995). Being able to assess the type of business relationship (MacMillan, Money & Downing, 2000) will assist both the micro-finance lender and the SME owner to develop and grow these two sectors.

Micro-firms as new and emerging SMEs often miss out on credit due to their newness and size. At the same time faster speed to market is becoming more critical for SMEs with the existence of increased competition through communication networks. Micro-finance agencies can be a critical mechanism of providing faster speed to market for SMEs to grow. In its simplest form the general proposition presented is: the greater the degree of both micro-finance agency/SME owner interdependence and the development of processes for sharing vision, the more likely effective knowledge generation/utilization will occur.

Due to the limited resources of new and emerging SMEs and the critical role they carry out for small national economies like Australia there, is a requirement to have mechanisms like micro-finance to assist these firms to reach their markets. The focus on research of micro-finance is often on financial management and credit analysis. Researchers are now starting to investigate other matters that have shown to be as important. One of these is the interdependence of aspirations between micro-finance agencies and SMEs (Labie, 2001). Understanding the interaction in the nature of the relationship between demand (SMEs) and supply side (micro-finance agencies) of micro-credit (Deakins & Hussain 1994; Gibb, 2000) provides insight in how micro-finance can be more effectively managed. Management of investment risk by the lender and ROI for the successful growing SMEs (Westhall, Ramsden & Foley, 2000) is explored through the interdependence and shared vision of these stakeholders.

The nature of micro-finance as an interdependent system and how to operate effectively within it is not well understood. The question is not whether stakeholders will cooperate. The question is 'How well will they cooperate?' Many assistance programs exist for SMEs in Australia. These include mentoring, business advice, specific programs in research and development and commercialisation for the information technology and bio-technology industries, networking, exporting support, regional and local development, venture capital provision, training and education. The importance of these programs is currently being highlighted with the impact that globalisation is having on Australian SMEs (Commonwealth of Australia, 2001; Australian Parliament's Inquiry Joint Standing Committee on Foreign Affairs, Defense and Trade, 2002). Various types of finance gaps have been identified in the literature (for example, Cattani, 2002; Dollinger, 2003; McMahon, 2001 and 2003) and with Australian government programs focusing on equity issues for SMEs.

Role of the micro-finance agency

A call for more research on the role of the micro-finance agency has been made for investigating greater efficiencies in the delivery of loans between the micro-finance agency and the client (Bhatt & Tang, 2001; Gibb, 2000). A number of studies have been carried out that examine agencies that are active in providing risk finance for new and emerging SMEs (Harris & Bovaird, 1996; Westhall, Ramsden & Foley, 2000). Why some agencies are successful others are not, it is a matter of providing research on the interdependence of relationships that are based on individual stakeholder interests being mutually beneficial (Woolcock, 1999).

It is difficult to separate the formal risk assessment from the nature of the relationship of the micro-finance agency and the SME (Deakins & Hussain, 1994). Relying only on ratio analysis in the risk assessment does not take account of the broader information sources concerning SMEs. These broader information sources are often based on interpersonal relationships that provide tacit knowledge of an SME operations and the firm's potential. Explaining relationships in the financial transaction of micro-finance (Gibb, 2000) is the focus of this paper. Understanding the management preferences, beliefs and expectations of the micro-finance agencies and SMEs (Hamilton & Fox, 1998) will assist in understanding interdependence and shared vision of these stakeholders in the lending transaction.

Micro-finance has traditionally been perceived as in the domain of reducing poverty and unemployment and has been for firms that are marginal rather than those that are high growth or have high growth potential (Devereux & Fishe, 1993). Micro-finance agencies operate through community banks like that of the Bendigo Bank or the South Side Bank of Chicago, credit unions in developed and developing countries and as agencies specifically for micro-finance such the E.C.L.F. micro-finance agency of South Africa. Micro-finance agencies are closer to SME owners and provide more flexible services and loans than trans-national banks. Micro-finance agencies are usually incorporated independently of any government initiative. How they manage assistance to finance SMEs is not well understood. Although the benefits of micro-finance agencies for capacity building within communities are well acknowledged, there is little research about the micro-finance agency's internal operations of managing tacit knowledge in their assistance to new and emerging entrepreneurial SMEs.

Interdependence

Resource-dependence and innovation literatures provide the basis to determine the influence that power-dependence and interdependence has on micro-finance agencies' systems of financing micro-firms. Two factors of resource-dependence are focused on, namely, social interdependence and power-dependence. First, the resource dependence perspective's theorises about the relationship between social interdependence and resource dependence (Pfeffer & Salancik, 1978). In the micro-finance relationship, interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action. Interdependence characterizes the relationship between the agents creating an outcome, not the outcome itself (Pfeffer & Salancik, 1978: 40). It provides a definition of interdependence that, like

Axelrod (1984) identifies the notion of shadow of the future when it refers to the structure of resource dependence relations shadowing how micro-finance partners conform to each others demands or how they extract profits from one another (Salancik, Krackhardt, Andrews, & Tolbert, 1995: 343).

Thus interdependence characterised by cooperation establishes an environment in which a micro-finance agency can undertake continuous interaction to build a shared understanding and mutually agreed upon decisions with an SME. This type of relationship is based on cognitive trust i.e. the extent to which an entity [SME] is confident in and willing to act on the basis of the words, actions and decisions of another [micro-finance agency] (McAllister, 1995). Trust is cognition based in that 'we choose whom we will trust in which respects and under what circumstances, and we base the choice on what we take to be 'good reasons', constituting evidence of trustworthiness' (Lewis & Wiegert, 1985: 970). Cognitive trust allows people to take risks (McAllister, 1995).

Resource-dependence explores the exercise of power-dependence of individual organizations in an environment (Pfeffer & Salancik, 1978; Pfeffer, 1981; Thompson, 1967). In terms of this paper, power-dependence also explores the power in the relationship(s) between the micro-finance agency and the SME client. The focus is on the power-dependency (interdependence) that these relationships create within the delivery of an entrepreneurial development program. For instance, a micro-finance agency that is highly centrally planned and controlled would have a high level of power-dependence with SMEs compared to an organization with a greater emphasis on partnership. Under conditions of partnership, power-dependence is far more dispersed. This view is consistent with the innovation literature. In one study, managerial influence on variations in ideas creation is characterised by the level of power in operational decisions and activities (McGrath, 2001). Under conditions of dispersed dependence, micro-finance agencies seek resources through a number of differing institutions rather than a single sponsor. Resource-dependence for entrepreneurial development programs explores the degree of power-dependence micro-finance agencies can experience and infers a range of strategic initiatives that micro-finance agencies can implement to affect their degree of independence.

Not much is known about why micro-finance agencies, with low power-dependence and with high cooperation, enable faster speed to market, sophisticated business practices and ROI/profit for their clients. What is known is that both social environment and organisational context have an impact on the frequency of learning (Amabile, Conti, Coon, Lazenby & Herron, 1996; Martin, Rowe, & Christie, 2001; Moorman & Miner, 1998).

Processes for sharing vision

It is important to recognize that processes for sharing vision between the micro-finance agency representative and the SME owner are a means for directing the talents and energies of each stakeholder towards valued ROI goals. The 'process' perspective explored in this paper is unlike the 'content' perspective that focuses on strategic objectives such as the sharing of vision about the mission of a business. Processes for sharing vision occurs at the operational level between a micro-finance agency representative and a SME owner. The paradox is that a knowledge utilization capability is more likely when simultaneously, both openness but also closure are managed well to converge on specific solutions (McGrath, 2001). Processes for sharing vision are dual mechanisms that enable this duality to operate in their relationship. This duality relates to divergence and convergence of thinking around a common aim (Leonard & Sensiper, 1998). That is, the processes for sharing vision provide mechanisms to shift from generating maximum variation in ideas creation (McGrath, 2001) and maximum contradiction in viewpoints to decisively limiting micro-finance outcomes to a minimum number of courses of action (Lazega, 2000; McGrath, 2001).

Processes for sharing vision are characterised by a duality in its processes. First, differing viewpoints about risk emerge during discussions that occur in the micro-finance relationship as a result of non-routine activity (Fiol & Lyles, 1985; Marks, Mathieu & Zaccaro, 2001). Individuals' explicit statements or suggestions carry with them the weight of unspoken knowledge. That is, mental models, life examples, perhaps physical skills, even unrecognised patterns of experience which people draw upon to increase the wealth of possible solutions to the risk problem. This experience, stored as tacit knowledge, often reaches consciousness in the form of insights, intuitions, and flashes of inspiration (Leonard & Sensiper, 1998). When micro-financing addresses an unexpected, non-routine challenge, each skilled participant frames both the problem and its solution by applying mental schemata and patterns he or she understands best. The result is a cacophony of perspectives. In a well-managed process in the micro-finance partnership, these varying perspectives foster creative abrasion, intellectual conflict between diverse viewpoints producing energy that is channelled into new ideas and products (Leonard-Barton, 1995: 63).

The steps for developing processes for sharing vision are most likely to facilitate knowledge generation when micro-finance partners are willing and able to agree to a workable course of action. The steps for developing processes for sharing vision are most likely to inhibit knowledge utilization when the climate is individualistic and competitive and team members are unwilling or unable to agree to a workable process for developing processes for sharing vision for the partnership.

Processes for sharing vision are an important antecedent to knowledge generation/utilization because their absence undermines key partners' ability to develop a focused response to SME challenges and opportunities (Dougherty, 1989). To date, however, they have not been the focal point of empirical studies. Thus, this study is an early contribution to our conceptualisation of processes for sharing vision.

Based on this review, there is a gap in the literature pertaining to the relationship between interdependence, processes for sharing vision and knowledge generation/utilization. The relationship between types of micro-finance agency processes of sharing vision and interdependence is summarised in figure 1.

Figure 1: Typology of micro-finance agency processes of sharing vision and interdependence for knowledge generation in the sharing of risk and cognitive trust

	Processes for sharing vision	
Interdependence	***Effective processes for sharing vision***	***Ineffective processes for sharing vision***
Good cooperation	**Cell 1** **Knowledge utilization capability** •Partnership between partners that is smart in interpreting and assessing risks from internal and external environments •Cognitive trust	**Cell 2** **Knowledge utilization ad hoc** •Partnership between partners that is smart in interpreting and assessing risks from internal and external environments •No cognitive trust
Poor cooperation	**Cell 3** **Knowledge utilization frustrated** •Partnership between partners that is NOT smart in interpreting and assessing risks from internal and external environments •Cognitive trust	**Cell 4** **Knowledge utilization failure** •Partnership between partners that is NOT smart in interpreting and assessing risks from internal and external environments •No cognitive trust

Discussion

The theoretical proposition of this paper is: the greater the degree of both micro-finance agency lending officer/SME owner interdependence and the development of processes for sharing vision, the more likely effective knowledge generation/utilization will occur with the sharing of risk and cognitive trust.

Cell 1 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by 'knowledge utilization capability' because of effective processes for sharing vision and high cooperation that is observable through well conceived assessment of the business plan/concept. First, it relates to interdependence and processes for sharing vision that facilitate knowledge generation/utilization practices for firms and micro-finance agencies to interpret and evaluate the risk of investment from both the internal and external environment to get products and services to market (faster speed to market). Secondly, it relates to interdependence and processes for sharing vision that proactively encourage cognitive trust.

Cell 2 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by 'knowledge utilization ad hoc' because of ineffective processes for sharing vision and poor cooperation that is observable through individually conceived assessment of the business plan/concept. First, it relates to interdependence and processes for sharing vision that only sometimes facilitates knowledge generation/utilization practices for firms and micro-finance agencies to interpret and evaluate the risk of investment from both the internal and external environment to get products and services to market (faster speed to market). Secondly, it relates to interdependence and processes for sharing vision that proactively discourages cognitive trust. For instance a lender may promote risk-averse advice that will protect the bank's exposure and be only concerned with financial and collateral details (Gibb, 2000; Mole, 2002).

Cell 3 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by 'knowledge utilization frustration' because of poor cooperation that is observable through poorly conceived assessment of the business plan/concept. First, it relates to interdependence and processes for sharing vision that do not facilitate knowledge generation/utilization practices for firms and micro-finance agencies to interpret and evaluate the risk of investment from both the internal and external environment to get products and services to market (faster speed to market). Secondly, it relates to interdependence and processes for sharing vision that proactively encourages cognitive trust.

Cell 4 relates to three factors of interdependence and processes for sharing vision that correspond to a situation that is 'knowledge generation/utilization failure' because of high ineffective processes for sharing vision and low cooperation that is observable through poorly conceived assessment of the business plan/concept. First, it relates to structures and processes that constrain knowledge generation/utilization practices for micro-finance agencies and SMEs to interpret and evaluate the risk of investment from both the internal and external environment to get products and services to market (faster speed to market). Secondly, it relates to interdependence and processes for sharing vision that proactively discourage cognitive trust.

Though there are factors beyond the control of the micro-finance agencies and SMEs like market forces and economic trends. This model attempts to capture the type of micro-interactions that occur between the lending officer and an SME owner.

A micro-finance agency provides a means to deal with the complexity of economic development and to coordinate knowledge utilization activities across program management. Internal management expertise within a micro-finance agency is of particular importance in this post-Fordist period (Amin & Thrift, 1994) that can be characterized as a period of economic history in which firms are trading in highly complex environments. A micro-finance agency that can mobilise support for trading in complex environments requires having a high range of management expertise, though not all achieve this.

Propositions

From this model two propositions are generated to examine the interdependence and shared vision of micro-finance agencies and SMEs. These propositions are:

P1: What are the factors that contribute to the interdependence between a micro-finance agency lending officer and a SME owner?

P2: What are the processes for sharing vision between a micro-finance agency lending officer and SME owner?

P3: Does interdependence have an impact on risk assessment?

P4: Do processes for sharing vision have an impact on risk assessment?

Interdependence and processes for sharing vision provide a means to understand how inter-relationships are developed and maintained or not within the environment of a micro-loan for a growing SME. This understanding of micro-management processes is particularly important in the management of economic development programs. Successful development programs like micro-finance are dependent on how well we understand what processes are occurring at the micro-level of management.

Conclusion

The 'process' perspective introduced in this paper explores the micro-management relationship between the micro-finance lending officer and the micro-firm owner of new and emerging SMEs. The model has two implications for policy and micro-firms. It identifies and clarifies the strengths and weaknesses of existing relationships between micro-finance agencies and SMEs that allows for a more informed design of these interactions because it identifies the processes for their success. Implications of this research for SMEs include the increase of knowledge and understanding of the processes of firm growth through micro-finance agencies. Consequently, SMEs and society can reap the benefits of increased return on investment, wealth generation, tax payments and employment generation. Further research is required to understand how the micro-finance agency is best placed to facilitate SMEs to grow.

Within the above model, there are a number of dimensions to the interdependences occurring that include psychological and the financial transactions between the micro-finance lending officer and the SME owner. Further empirical research can examine the nature of these dimensions. Future research is relevant to theory because it contributes to our understanding of the nature of interdependence in the micro-finance relationship. It contributes to practice because it informs policy makers and practitioners about the process of interpreting and assessing financial risk in the micro-finance – entrepreneurial SME relationship.

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