Micro-finance agencies and SMEs: model of explication of tacit knowledge

Patricia A. Rowe*
UQ Business School,
The University of Queensland,
St Lucia, Qld, 4072, Australia
Fax: +61 (7) 3365 6988
E-mail: p.rowe@business.uq.edu.au
*Corresponding author

Michael J. Christie
Division of Research,
Southern Cross University,
Lismore, NSW, 2480, Australia
E-mail: michael.christie@scu.edu.au

Frank Hoy
Worcester Polytechnic,
Worcester Mass, 01609-2280, USA
E-mail: fhoy@wpi.edu

Abstract: This paper contributes to a new area of research, namely: institutional preparedness of economic development agencies for developing small and medium-sized enterprises (SMEs). The cases presented illustrate variations in the micro-finance lender agency-enterprise development of processes for sharing vision and interdependence. In clarifying the nature of the agency-enterprise relationship along these two dimensions, we develop a set of propositions. Our model contends

1 that effective processes for sharing vision and good cooperation maximise the likelihood of explication of tacit knowledge
2 that ineffective processes for sharing vision and good cooperation lead to ad hoc explication of tacit knowledge
3 ineffective processes for sharing vision and poor cooperation minimise the likelihood of explication of tacit knowledge
4 effective processes for sharing vision and poor cooperation maximise the likelihood of explication of tacit knowledge.

Keywords: micro-finance; micro-credit; explication of tacit knowledge; interdependence; processes for sharing vision; small business.


Michael J. Christie is an Adjunct Professor at the Southern Cross University. His research interests are in entrepreneurship, economic development and innovation. He has recently edited an edition of the Journal of World Business and published in Entrepreneurship and Regional Development.

Frank Hoy is a Paul Beswick Professor of Entrepreneurship and Director of the Collaborative for Entrepreneurship and Innovation at Worcester Polytechnic University. He is a co-founder of the Camino Real Angels of El Paso, Texas, USA and part of the founding team of United Bank of El Paso.

1 Introduction

This paper contributes to a new area of research, namely: institutional preparedness of economic development agencies for developing small and medium-sized enterprises (SMEs). Specifically, it explores the institutional preparedness of micro-finance agencies (Woolcock, 1999). Micro-finance is often associated with lending to the poor or to micro-firms in developing countries with transactions that are based on a group of borrowers, such as rotating loans (Auwal, 1996). Existing literature on SME finance focuses on debates about financial management credit analysis (for example, Howorth, 2001; Hutchinson and Ray, 1986; Holmes et al., 1994; McMahon, 2001, 2003; Ray and Hutchison, 1985), finance gaps (for example, Hamilton and Fox, 1998; McMahon, 2003) and access and availability to micro-finance (for example, Deakins and Hussain, 1994; Gibb, 2000; Kotey, 1999). Supplying micro-credit products is a way for micro-finance agencies including small banks or credit unions to differentiate themselves from larger banks in the marketplace. Explaining relationships between these types of suppliers and SMEs in the financial transaction of micro-credit (Gibb, 2000) is the focus of this paper. This can be a tripartite relationship that can also include an economic development agency. For example there is a current program starting in Australia with the National Australia Bank and the National Incubator Association that can provide micro-finance for SMEs. Finance mechanisms like micro-credit are required to assist SMEs to reach their markets for two reasons. Firstly, they have limited resources and secondly, new and emerging SMEs play a critical role in developing new industries for small national economies like Australia, in addition to the international economy.

A call has been made for more research on the role of the micro-finance agency and investigating greater efficiencies in the delivery of loans between the micro-finance agency and the client (Bhatt and Tang, 2001; Binks et al., 1992; Gibb, 2000; Scott 2006). Several studies have been carried out that examine agencies that are active in providing risk finance for new and emerging SMEs (Harris and Bovaird, 1996; Westhall et al., 2000). Recent research on micro-finance has focused on the inter-relationship issues (Maula et al., 2005) and institutional factors (Derban et al., 2005). Also, case study research suggests that the interdependence of agency-enterprise relationships is a key
Micro-finance agencies and SMEs

dimension to focus on to explain why some agencies are successful and others are unsuccessful (Woolcock, 1999). This study found that successful relationships are based on individual stakeholder interests being mutually beneficial. These initial studies all emphasise the importance of the quality of the agency-enterprise relationship.

The purpose of this paper is threefold. First, it examines the general finance gap for SMEs. Second, it explains the role of the micro-finance agency in bridging this gap. We illustrate this role by presenting examples of practices of micro-finance agencies in Canada and Australia. These examples indicate that there are variations in interdependence and processes for sharing vision in the agency-enterprise relationship. Anecdotal evidence from these examples suggests that developing effective processes for sharing vision and good cooperation can have a positive impact on the quality of decisions and results that follow. In particular, we argue that these conditions favour better risk management and cognitive trust that are indicators of an environment that favours high levels of explication of tacit knowledge. Third, based on the literature and these examples, we conceptualise a typology of conditions for the explication of tacit knowledge in the agency-enterprise relationship based on interdependence and processes for sharing vision. The conclusion suggests areas for future research. In particular, it suggests applying the theoretical model to reduce the gap in our understanding about high-tech firms and micro-finance.

2 The general finance gap for SMEs

A micro-credit loan involves lending small amounts of funds for very specific initiatives. It is distinct from micro-equity lenders and angel investors who obtain shares for small amounts of money, and venture capital, which usually involves larger amounts of equity finance and providing management advice. The focus of this paper is the relationship in the financial transaction of micro-credit (Gibb, 2000), between SME borrowers and micro-credit lenders. Banks have traditionally been the primary providers of micro-credit loans; however this has not been without its limitations.

2.1 Cash flow problems for SMEs and the alternative

SMEs can experience difficulties in gaining access to these traditional sources of finance due to, inter alia, the trend of many banks in developed countries such as the USA, UK, Canada, New Zealand and Australia to direct SMEs towards credit cards as their solution to micro-credit for SMEs. This has not always existed. For instance an historical source of micro-credit for SMEs (that is no longer available due to changes in banking regulations) was attorneys/solicitors’ funds that were offered at competitive interest rates. In the USA, banks remain the primary source of external financing for working capital and capital expenditures, but are declining in relative importance to credit cards and trade credit (Scott et al., 2003). The primary cause of cash flow problems reported by firms in the USA is collecting money owed to them (Dennis, 2001). Thus, SMEs that are cash starved at the start of sales are likely to become even more desperate when customers delay payments. According to the National Federation of Independent Business, firms experiencing these problems are more likely to draw from personal resources than to borrow from a lending institution.
Micro-credit provides an alternative to equity finance and personal resources. SME owners generally prefer to not sacrifice equity in their business (Bank of England, 1999). The focus of this paper is micro-credit as provided by micro-finance agencies, as it allows the borrowers to retain control over their enterprise without drawing on personal funds. SME owners who prefer to retain control yet recognise the competitive advantage to be gained from a power-balanced relationship ultimately benefit from the sharing of tacit knowledge within this relationship.

There is a call for improving the supply side of micro-credit (Gibb, 2000). Several interrelated elements account for banks’ unwillingness to provide micro-loans at competitive interest rates. Historically, the relationship with the traditional bank branch assumed established relationships between the bank branch manager and the SME owner (or delegate). This traditional relationship was based on trust and the paper-based transaction. A good number of banks have now moved away from the traditional model of bank branch manager to a regional structure, and at the same time the relationship of the bank manager with the client has come under scrutiny as being limited (Gibb, 2000; Mole, 2002). Thus, the banking sector seems to have moved away from developing and maintaining relationships with SME owners in Australia and other developed countries. By directing SMEs to credit cards, banks form a transactional relationship in which they have little or no working knowledge of the SME in its early stages of development. In the USA, the federal government’s efforts to overcome such behaviour by banks has occurred primarily through incentives and encouragement from the Small Business Administration (SBA), such as guaranteed loan programs (Brewer, 2007).

2.2 Business advice

Another issue arises when a bank manager assesses an SME’s risk, and that is whether the bank manager should also provide industry specific business advice along with risk assessment (Gibb, 2000). Banks have taken a non-specialist approach and have tended to rely on information sources that are non-industry specific, such as balance-sheet ratios and forecast income (Deakins and Hussain, 1994). This is a further dimension to the finance gap debate in the risk assessment process. To address industry specific issues, banks are increasingly assuming those SME owners (or their delegates) will partner with their accountants during the loan application process. This has been a process that has allowed banks to overcome the limitations of paper-based transactions, assuming the accountant will provide the necessary advice and base their reputation on the credit worthiness of the loan applicant. It has meant an increased burden for accountants for which micro-loans applications may not justify the transaction cost. Being able to delegate the risk assessment to accountants and/or economic development agencies, banks are attempting to transfer their transaction cost of the risk assessment and loan monitoring. This banking strategy also assumes all SMEs have an accountant who in turn has a relationship with a bank.

Whilst traditional banking strategies have contributed to the finance gap for SMEs, there is an opportunity for bridging the gap when micro-finance agencies take on the role of providing finance as well as industry specific advice. The Scott et al. (2003) survey made the opportunity particularly evident by finding high levels of dissatisfaction among small business owners with banks related to staff quality and turnover of loan officers.
3 Role of the micro-finance agency

Micro-finance has traditionally been perceived as being in the domain of reducing poverty and unemployment and for firms that are marginal rather than those that are high growth or have high growth potential (Devereux and Fishe, 1993). The type of micro-finance agencies discussed in this article however, are micro-finance agencies which operate through community banks, including the Bendigo Bank in Australia or the South Side Bank of Chicago, along with 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. Other examples are found in New Zealand – the Prometheus Foundation and the Prometheus Credit Union; in Canada – Assiniboine Credit Union, Credit Union Central of Ontario, Metro Credit Union and the VanCity Savings Credit Union; and in the USA – the Capital District Community Loan Fund.

Micro-finance agencies appear to be closer to SME owners and provide more flexible services and loans than trans-national banks (Christie et al., 2005). Micro-finance agencies are usually incorporated independently of any government initiative, though they may receive government sponsorship in the funding of micro-loans (Westhall et al., 2000). How they manage assistance to finance SMEs is not well understood. One school of thought is that they alleviate the information asymmetry problems encountered by micro-enterprises. Specifically, relationship-based financing results in the representative of the lending agency providing technical assistance in loan origination, such as assistance in preparing financial statements (Pollinger et al., 2007). 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.

3.1 Size of loans

The size of micro-credit loans varies in the SME literature. In Hong Kong, micro-finance agencies make available micro-loans up to US$128,000 (Cattani, 2002) while those in the USA vary from US$5,000–US$25,000 (Bhatt and Tang, 2001). There are a multitude of micro-finance agencies in the USA. Some are government-sponsored and may be based at any of the three levels of government in the US system: federal, state or local. One example is the government-run SBA Micro Loan Program. Through this program, the SBA provides very small loans to start-up, newly established, or growing small business concerns. The SBA makes funds available to non-profit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of US$35,000 with the average loan size at approximately US$10,500 (Borgman, 2005; Pollinger et al., 2007).

A non-governmental agency example is the US-affiliate of ACCIÓN International. The mission of this organisation ‘is to make access to credit a permanent resource to low- and moderate-income small business owners in the USA. By providing small or ‘micro’ loans to men and women who have been shut out of the traditional banking sector, ACCION helps build their businesses and increase their incomes’ (ACCIÓN USA, 2003). Providing access to micro-credit through organisations such as these is particularly important as it allows SMEs to make sales for rapid growth and to reach into new markets (Bank of England, 1999). Micro-credit loans vary in size and can be a loan of last resort.
3.2 Risk assessment

It is difficult to separate the formal risk assessment from the nature of the relationship of the lender and the SME (Deakins and Hussain, 1994). Relying only on ratio analysis in risk assessment does not take account of the broader information sources concerning SMEs (Scott, 2006). These broader information sources are often based on interpersonal relationships that provide tacit knowledge of an SME’s operations and the firm’s potential, for example, the ‘character of the owner, knowledge of internal control problems and management ability’ [Scott, (2006), p.559]. There is little empirical evidence about whether the micro-finance agency and the SME develop collaborative relationships. What is clear is that these specialised lenders, in most cases, accept, often by charter, higher risk borrowers (Pollinger et al., 2007). There is also evidence to suggest that micro-finance agencies engage in ongoing relationships over time, enabling the lenders to accumulate valuable and sometimes confidential information, making for more effective loan decisions (Brewer, 2007). It is likely that relationships characterised by collaboration include explication of tacit knowledge (Rowe, 2004).

3.3 Cognitive trust

The importance of trust in commercial relationships has been well established in the literature. Cognitive trust is defined as 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 and Wiegert, (1985), p.970]. Cognitive trust allows people to take risks (McAllister, 1995).

Cognitive trust (Sako, 1998) has been identified as a construct that has a correlation with effective tacit and explicit knowledge management. The emergence of inter-organisational trust in the micro-finance relationship is linked to firm performance by reducing transaction costs (Sako, 1998). Building trust in the micro-finance relationship is also an investment to increasing future returns and a relation-specific skill (Asanuma, 1989). Further, it gives rise not only to lower transaction costs or higher net benefits from investment, but also to faster innovation and learning (Sabel, 1994). In these situations, governance by trust can evolve as an informal control mechanism that enhances the effectiveness of transactions (Sako, 1998; Smitka, 1992). The higher is the level of mutual cognitive trust, the better the micro-finance relationship leading to innovation and learning performance (Sako, 1998). It also benefits the lender by ensuring access to information that verifies whether the borrower is satisfying the terms of the loan agreement (Brewer, 2007).

Strong trust emerges in response to a set of internalised norms and principles that guide the behaviour of exchange partners and is independent of whether or not specific formal governance mechanisms exist (Barney and Hansen, 1994). Interdependence characterised by cooperation can facilitate the establishment of a high-trust environment in which a micro-finance agency can undertake episodic interactions with an SME to build a shared understanding and mutually agreed upon decisions.
3.4 Explication of tacit knowledge in the relationship between lender and borrower

In the conceptualisation of the explication of tacit knowledge developed in this paper, it is assumed that it occurs through the sharing of insights and hunches (the ‘wisdom’ inside our heads) (Rowe, 2004). There are few empirical studies validating the assertion that tacit knowledge may have an impact on competitive advantage. The psychology literature has applied ‘practical intelligence’ as a proxy for tacit knowledge (Sternberg, 1997). However, this is a narrow view of tacit knowledge (Castillo, 2002). There have been numerous empirical case studies from a constructionist perspective. These include in-depth case studies in the electronics research and development, the manufacturing industry and professional practice (for example, Fruin, 1997; Liker et al., 1999; Mills and Friesen, 1996; Nonaka and Takeuchi, 1995). However, international business scholars have had little success in quantifying tacit knowledge (for example, Hennart, 1992; Kim and Hwang, 1992). Two exceptions are studies that include codifiability and complexity as measures of tacit knowledge (Zander and Kogut, 1995; Subramaniam and Venkatraman, 2001). However, these studies focused on the ‘content’ of tacit knowledge rather than the knowledge processes, which is a focus of the conceptualisation of explication of tacit knowledge developed herein.

Tacit knowledge as a concept is based on the premise that most of the body of knowledge is made up of things we know but are unable to express. That is, ‘we can know more than we can tell’ [Polanyi, (1966, 1998), p.136]. More recently, some authors suggest that not only do we know more than we can express, we even know more than we realise (Leonard and Sensiper, 1998). Tacit knowledge has been defined as knowledge that is ‘not yet explicated’ (Spender, 1996). It is subjective, experiential, and created in the ‘here and now’. Some dimensions of knowing are unlikely ever to be wholly explicated, whether embedded in cognition or in physical abilities – for example, the negotiation skills required in a corporate meeting (Leonard and Sensiper, 1998). The common element in such knowing is the inability of the knower to totally articulate all that he or she knows.

Tacit knowing embodied in cognitive skills is learned through experience and resides in the unconscious or semiconscious. It is deeply rooted in an individual’s actions and experience as well as in the ideals, values or emotions he or she embraces (Nonaka and Takeuchi, 1995). These authors suggest that tacit knowledge becomes explicit through the process of externalisation, i.e., by sharing metaphors and analogies during social interaction. However, such a process can be both difficult and costly. Indeed, the fact that the tacit knowledge must be externalised before it can be exploited is a key challenge for the lender/SME relationship. Some authors suggest that it emerges as a result of interaction (Cook and Brown, 1999; Leonard and Sensiper, 1998; Mascitelli, 2000). For example:

“Tacit knowledge lies below the surface of conscious thought and is accumulated through a lifetime of experience, experimentation, perception, and learning by doing. Managers who can tap into this vast pool of creative energy can elevate the innovative capabilities of their teams well beyond the incremental and mundane…. The ultimate goal is to establish a generative atmosphere…. in which divergent thinking, improvisation, and artistic creativity merge with the practical demands of the product development process.” (Mascitelli, 2000)
Tacit knowledge is developed communally, over time, in interactions among individuals in the group...[and] which exists more or less complete in the head of each member who was completely socialised into the group’ (p.121). In working groups, it is the tacit dimensions of a group member’s knowledge base that make such individuals especially valuable contributors to group projects – perspectives based on such knowledge cannot be obtained any other way except through interaction.... (Leonard and Sensiper, 1998).

The three examples below involve exchanges that focus on investment between agency and enterprise. The nature of these exchanges suggests that there could be processes for sharing vision and good cooperation that can facilitate a climate that encourages dialogue regarding external and internal risk management and cognitive trust. Anecdotal evidence from the examples suggests that in a favourable environment, dialogue can be characterised by explication of tacit knowledge that can result in better investment decisions. How this explication of tacit knowledge is developed for assessing the SME’s level of risk is not well understood. In all cases, trust building seems to be an important element in relationship building. These three examples illustrate practices of micro-finance agencies, two from Canada and one from Australia. All three examples suggest that micro-finance agencies encourage interdependence and processes for sharing vision. However, they can vary in the manner in which their SME relationships seek outcomes to minimise risk and also vary in their building cognitive trust. Data collection for the three cases involved telephone interviews, internet searching and e-mail interviews.

Community Futures Development Cooperation Central Kootenay

Community Futures Development Cooperation of Central Kootenay (CFDCK) is a small Canadian micro-finance agency that ran a specific micro-credit program for three years, targeting low-income entrepreneurs described by the micro-lending coordinator as having ‘little access to small business credit’. The organisation’s clients were SMEs operating in various industries. The micro-credit program offered loans of up to CAN$5,000 while outside of the program, the wider organisation offered loans of up to CAN$500,000. The program was available to start-ups as well as for expansion of existing businesses.

CFDCK had an approach to SME clients characterised by risk management being based on functional development activities. These functional development activities for CFDCK placed an emphasis on training of clients as part of providing non-financial support to approved applicants. In assessing the loan application, the lending officer undertook an evaluation of any training requirements, which were then offered as part of the lending program. For example, the manager in this example stated that ‘one-on-one business counselling by staff (and/or contract specialists) was available to clients on an as needed basis, dependent on staff recommendations’. The content of the training programs focused on business planning. The lending officer made training recommendations on a case-by-case basis, based on the extent to which ‘knowledge and skill gaps affect the client’s ability to re-pay the loan, the scope and complexity of the business and the extent to which training may be a barrier to entrepreneurial initiative’.

CFDCK conducted client satisfaction surveys after the application process. Descriptive results indicate that after the loan was received, the loan recipients had little or no contact with the loans staff of the micro-finance agency. Respondents cited the strong aspects of the agency were planning, support and training, yet also cited the need
for more ongoing contact after the loan was approved. Though there was good cooperation and risk management was managed through development activities, there was a lack of client follow up once the loan was received. Relationships were based on the financial component of the transaction rather than evolving from an ongoing trust based relationship. There was evidence of ineffective processes regarding sharing of vision – vision was a narrow, functional one that focused on training activities rather than a strategic vision.

Assiniboine Credit Union

Assiniboine Credit Union is a larger Canadian credit union than that outlined in CFDCCK. The manager in Assiniboine Credit Union specialises in micro-credit to small businesses and offers loans starting at CAN$5,000. Its clients are small and micro businesses from a variety of industries. Assiniboine Credit Union is self-described as providing financing for expansion of existing ventures or ‘to support new start ups which is seen by other financial institutions as too risky’. Similar to CFDCCK, Assiniboine Credit Union places an emphasis on training.

However, the core focus of Assiniboine Credit Union’s activities is a comprehensive risk management based on both training and the agency-enterprise relationship. In contrast, CFDCCK’s risk management is functionally based on training programs. Assiniboine Credit Union’s risk management approach required a high level of trust, interdependence characterised by good cooperation and effective processes for sharing vision regarding financial needs and risks. Assiniboine Credit Union assists SMEs in ‘understanding the key elements of their present and future financial needs as well as possible pitfalls they need to avoid’. It seeks to establish a relationship between the lending officer and the SME through interpersonal activities for building trust and sharing of vision. An example of building trust and sharing of vision is visiting the clients’ place of business. The manager in Assiniboine Credit Union believes ‘this provides a more rounded understanding of the opportunities, needs and risks for everyone.’ Assiniboine Credit Union has also established strong networks with both NGOs and government programs that assist in lending to start-ups, which increases the availability of resources for the clients around training and business advice.

Assiniboine Credit Union recognises that their relationship processes encourage the explication of tacit knowledge between the stakeholders in which, as stated by the manager, it ‘often requires more processing time with respect to approval and disbursement, and higher costs to service each (SME).’ They take the view that the resulting service provides a ‘win-win situation’ for both the SME and the micro-finance agency. Assiniboine Credit Union’s relationship process might provide an indicator of the credit worthiness of an SME in the absence of any past transaction evaluation.

Bendigo Bank

Bendigo Bank is an Australian bank, small in size compared with other major banks in Australia. It offers financial services to individuals and business, yet SMEs remain a salient focus of their activities. For example, the managing director in Bendigo Bank stated, ‘The SME sector can be the engine room for innovation, creation and employment into the future.’
Bendigo Bank differs from the traditional major banks through their community-focused approach, which can be traced to their history as a building society in rural Australia. As with the previous examples, its client-SMEs tend to come from a range of industries yet most are retail. Similar to Bendigo Bank, Assiniboine Credit Union has formed alliances. But instead of forming alliances with local communities, it was with government lending initiatives and NGOs. These alternate forms of alliances were considered by the Credit Union as ‘clear opportunities to grow’. A strategy of forming alliances with local communities may be more sustainable in the long term for micro-credit.

Bendigo Bank differs in its approach with its clients to the two other examples. The approach of Bendigo Bank is to focus on the strategic sharing of vision. As part of their mission statement, Bendigo Bank’s first priority is listed as what the customer is ‘trying to achieve’. Bendigo Bank believes ‘what people perceive, believe, and whether they trust’ will be the ingredients that secure our style of banking into the future.

Bendigo Bank has taken the engagement of the client to a more advanced level than traditional banks. It has developed a new banking model ‘to ensure access to essential banking services and a solution which enables us to unite, involve and engage community in solving the problem’ thus allowing for interdependence characterised by good cooperation and the sharing of vision between the agency and enterprise. In turn, this increases the likelihood of partnerships that are smart in interpreting and assessing risks from internal and external environments and facilitates building trust between the agency and enterprise.

In summary, as stated earlier, these examples suggest that interdependence and sharing of vision between micro-finance agencies and SMEs are important issues. Moreover, the examples suggest that explication of tacit knowledge can occur in an environment characterised by good cooperation and processes for sharing vision. Explication of tacit knowledge is indicated by the quality of the risk management and cognitive trust.

We now present a cross-disciplinary review of literature that can provide an explanation of the relationship between interdependence and processes for sharing vision. It involves an exploration of explication of tacit knowledge, interdependence and buy-in to processes for sharing vision of the micro-credit lender and the SME owner (or delegate).

5 Predictors of explication of tacit knowledge

Being able to assess the type of business relationship (MacMillan et al., 2000) will assist both the micro-finance lender and the SME borrower to develop and grow firms. This study conceptualises a theoretical model to assess this relationship: firstly, by clarifying the predictors of explication of tacit knowledge, namely, interdependence and processes for sharing vision, and secondly, distinguishing the effects of the interaction between these predictors on the explication of knowledge. Interdependence (Pfeffer and Salancik, 1978) also described in more recent literature as intimate personal contact (Mascitelli, 2000) and processes for sharing vision (Leonard and Sensiper, 1998) have been identified as predictors of effective tacit and explicit knowledge management.
5.1 Interdependence

The nature and operation of micro-finance as an interdependent system is not well understood. Explaining relationships in the financial transaction of micro-credit (Gibb, 2000) is the focus of this paper. The question is not whether stakeholders can cooperate. The question is ‘how well can they cooperate?’ Understanding the management preferences, beliefs and expectations of the micro-finance agencies and SMEs (Hamilton and Fox, 1998) will assist in understanding interdependence and shared vision of these stakeholders in the lending transaction.

Although the focus of micro-finance research is often on financial management and credit analysis, research is emerging on behavioural constructs such as the interdependence of aspirations between micro-finance agencies and SMEs (Labie, 2001). 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 power imbalance is the coercive power of the lender to disapprove 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 in analysing and interpreting risk from the internal and external environment of the SME.

Resource-dependence explores the exercise of power-dependence (interdependence) of individual organisations in an environment (Pfeffer and Salancik, 1978; Pfeffer, 1981; Thompson, 1967). Resource-dependence for entrepreneurial development programs explores the degree of interdependence micro-finance agencies can experience. It also 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 good cooperation enable faster speed to market, sophisticated business practices and return on investment (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 et al., 1996; Martin et al., 2001; Moorman and Miner, 1998). Interdependence encompasses the power in the relationship(s) between the micro-finance agency and the SME client.

Drawing on the resource-dependence literature provides an explanation of the influence that interdependence has on a micro-finance agency – micro-firm relationship. Interdependence characterises the relationship between the agents creating an outcome, not the outcome itself [Pfeffer and Salancik, (1978), p.40]. Within this resource dependence perspective, 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. The theory offers a definition of interdependence that, like Axelrod (1984), identifies the notion of ‘shadow of the future’, in referring to the structure of resource dependence relations shadowing how micro-finance partners conform to each other’s demands or how they extract profits from one another [Salancik et al., (1995), p.343].

5.2 Processes for sharing vision

It is important to recognise that processes for sharing vision between the micro-credit agency representative and the SME owner (or delegate) are a means for directing the talents and energies of each stakeholder towards valued ROI goals. Though ROI is not the
only goal of SME owners, it is a means to measure the owners’ success and a means to measure the return on the effort to grow the business. 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 occur at the operational level between a micro-credit agency representative and an SME owner (or delegate).

The paradox is that a knowledge utilisation capability is more likely when both openness and closure in a transaction are simultaneously managed to converge on specific solutions (McGrath, 2001). Processes for sharing vision are dual mechanisms that enable this duality to operate in a relationship. This duality relates to divergence and convergence of thinking around a common aim (Leonard and 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-credit outcomes to a minimum number of courses of action (Lazega, 2000; McGrath, 2001).

The buy-in to strategic vision by lender and borrower is characterised by a duality in its processes. First, differing viewpoints about risk emerge during discussions that occur in the micro-credit relationship as a result of non-routine activity (Fiol and Lyles, 1985; Marks et al., 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 and made explicit in the form of insights, intuitions and flashes of inspiration (Leonard and 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 can be a cacophony of perspectives. In a well-managed process in the micro-credit partnership, these varying perspectives can foster creative abrasion, intellectual conflict between diverse viewpoints producing energy that is then channeled into new ideas and products [Leonard-Barton, (1995), 63]. On the other hand, knowledge utilisation requires convergence upon acceptable action to clarify the way forward.

A micro-credit partnership can have processes for sharing vision that involves a consensual acknowledgement and acceptance that it is time to end the voicing of differing viewpoints for the purpose of decisively getting on with the task (McGrath, 2001). This systemic view reflects the assumption that processes for sharing vision in the micro-credit partnership provide mechanisms to shift from generating maximum variation in ideas to limiting a partnership to a particular course of action.

Processes for sharing vision are an important antecedent to the explication of tacit knowledge 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.

The examples suggest that there is variation in both the quality of the processes for sharing vision and in the level of cooperation between the micro-credit agency and SME. In addition, the examples also suggest that there is variation in the explication of tacit knowledge between micro-credit agency and SMEs. Based on these examples and this review, we find a gap in the literature pertaining to the relationship between
interdependence, processes for sharing vision and explication of tacit knowledge. A proposed relationship between types of micro-credit agency processes of sharing vision and interdependence is summarised in Figure 1.

**Figure 1** Typology of micro-credit agency processes of sharing vision and interdependence for explication of tacit knowledge

<table>
<thead>
<tr>
<th>Processes for sharing vision</th>
<th>Explication of tacit knowledge capability</th>
</tr>
</thead>
</table>
| Good cooperation             | •Partnership that is smart in interpreting and assessing risks from internal and external environments  
|                              | •Cognitive trust                           |
| Cell 1                       |                                          |
| Explication of tacit knowledge ad hoc | •Partnership that is smart in interpreting and assessing risks from internal and external environments  
|                              | •No cognitive trust                        |
| Cell 2                       |                                          |
| Explication of tacit knowledge frustrated | •Partnership that is NOT smart in interpreting and assessing risks from internal and external environments  
|                              | •Cognitive trust                           |
| Cell 4                       |                                          |
| Explication of tacit knowledge failure | •Partnership that is NOT smart in interpreting and assessing risks from internal and external environments  
|                              | •No cognitive trust                        |
| Cell 3                       |                                          |

**6 Discussion**

The theoretical proposition of this paper is: the greater the degree of both micro-credit agency/SME owner interdependence and the development of processes for sharing vision, the more likely effective explication of tacit knowledge can occur.

Cell 1 in Figure 1 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by ‘explication of tacit knowledge capability’ because of effective buy-in to strategic vision and a high level of 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 explication of tacit knowledge for firms and micro-credit 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). Better interpretation and evaluation of risk allows for issues and problems to be identified early and for appropriate action to be taken. Secondly, it relates to interdependence and processes for sharing vision that proactively encourage cognitive trust.
Cell 2 in Figure 1 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by ‘explication of tacit knowledge ad hoc’ because of ineffective buy-in to strategic vision. Although processes for sharing vision are poor, in this cell there is a high level of cooperation that is observable through individually conceived assessment of the business plan/concept. First, cell 2 relates to interdependence and processes for sharing vision that only sometimes facilitate the explication of tacit knowledge for firms and micro-credit 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 in Figure 1 relates to three factors of interdependence and processes for sharing vision that correspond to a situation that is ‘explication of tacit knowledge failure’ because of high ineffective buy-in to strategic vision and a poor level of cooperation that is observable through poorly conceived assessment of the business plan/concept. First, it relates to structures and processes that constrain the explication of tacit knowledge for micro-credit 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 discourages cognitive trust.

Cell 4 in Figure 1 relates to two factors of interdependence and processes for sharing vision that correspond to a situation that is characterised by ‘explication of tacit knowledge frustration’ because of a poor level of cooperation that is observable through poorly conceived assessment of the business plan/concept. First, it relates to interdependence and buy-in to strategic vision that do not facilitate knowledge generation/utilisation practices for firms and micro-credit 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.

This model attempts to capture the type of micro-interactions that occur between the lending officer and an SME owner (or delegate). To illustrate this, in example one, there is good cooperation but ineffective processes for sharing vision. The example is representative of a partnership that is smart in interpreting and assessing risks from internal and external environments but because there is no cognitive trust between the lending officer and SME owner (or delegate), the explication of tacit knowledge is likely to occur in an ad hoc manner. In contrast, in examples two and three there is good cooperation and effective processes for sharing vision. Unlike example one, explication of tacit knowledge is very likely because cognitive trust facilitates it in these partnerships. However, there are factors beyond the control of the micro-credit agencies and SMEs, like market forces and economic trends.

A micro-credit agency provides a means to deal with the complexity of economic development and to coordinate knowledge utilisation activities across program management. Internal management expertise within a micro-credit agency is of particular importance in this post-Fordist period (Amin and Thrift, 1994; Freeman and Perez, 1988; Freeman and Soete, 1997) that can be characterised as a period of economic history in
Micro-finance agencies and SMEs

which firms are trading in highly complex environments. A micro-credit agency that can mobilise support for trading in complex environments requires having a high range of management expertise, though not all achieve this.

7 Research questions

From this model, four questions are suggesting future research to examine and test the interdependence and shared vision of micro-credit agencies and SMEs. These are:

1. Do effective processes for sharing vision and good cooperation maximise the likelihood of an explication of tacit knowledge?

2. Do ineffective processes for sharing vision and good cooperation lead to ad hoc explication of tacit knowledge?

3. Do ineffective processes for sharing vision and poor cooperation minimise the likelihood of explication of tacit knowledge?

4. Do effective processes for sharing vision and poor cooperation constrain the likelihood of explication of tacit knowledge?

Going beyond the model, there are other related questions that warrant investigation: Does the longevity of the relationship between the lender and borrower matter? Would the shared-vision be achieved through cross training of the lender about the SME and the borrower about the process of financing? What outcomes should be expected and measured from a shared vision? Does the model have applications to relationships in addition to borrower and lender, such as the relationship between the entrepreneur and the equity investor?

8 Summary and conclusions

Interdependence and processes for sharing vision provide a means to understand how inter-relationships are developed and maintained 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-credit are dependent on how well we understand what processes are occurring at the micro-level of management. Lending to micro-enterprises that are more at risk than larger borrowers has been found to involve rates that are subsidised by the micro-finance agency (Pollinger et al., 2007). Thus, research is needed to investigate the sustainability of these agencies.

Within the above model, interdependencies include dual dimensions between the micro-credit lending officer and the SME owner (or delegate), namely the psychological and financial transactions dimensions. Further empirical research can examine the nature of these dimensions. This future research is relevant to theory as it can contribute to our understanding of the nature of the explication of tacit knowledge and decision making. Future entrepreneurs experience the sharing of their vision and interdependence in many business situations.
Further empirical research is needed to examine and verify this model, with the use of in-depth case studies. Despite the fact that equity investments are available in the pre- and sales stages of high potential SMEs, little is known of the processes involved with micro-debt finance for these firms. Unlike the different types of equity finance in the forms of sweat equity, owner, partner, silent, angel and venture capital, the nature of the repayments structure of micro-debt finance (principal, interest and administration fees charged) requires the high-potential firm to carry out sales. This means that the micro-loan is best utilised when initial sales are being made in the start-up phase when sales are occurring (Roberts, 1991). Although many types of investment decisions are made within the micro-finance agency-SME relationship, future research can focus on the management of investment risk by the lender and ROI for growing high-potential SMEs (Deakins and Hussain, 1994; Westhall et al., 2000). Considering the importance of providing assistance to high-potential SMEs, the conceptualisation outlined in this paper contributes to practice because it informs policy makers and practitioners about the process of interpreting and assessing financial risk in the micro-credit – high-potential SME relationship.

References


Freeman, C. and Soete, L. (1997) The Economics of Industrial Innovation, Pinter, London.


