EXPLORING STRATEGIC ALLIANCE MANAGEMENT
ISSUES IN THE FINANCIAL SERVICES SECTOR IN
PAPUA NEW GUINEA

By

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STATEMENT OF AUTHENTICATION

The work presented in this thesis is, to the best of my knowledge and belief, original based on raw data collected by me except as fully acknowledged in the text. I hereby declare that I have not previously submitted this material, either in whole or in part, for a degree at this or another institution.

....................................................
Signature of candidate

....................................................
Signature of principal supervisor
ACKNOWLEDGEMENTS

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D.T. Kavanamur  
Grose Vale, Sydney  
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DEDICATION

I dedicate this thesis to Mati for her unfailing support, encouragement, prayers and love.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of authentication</td>
<td>1</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>2</td>
</tr>
<tr>
<td>Dedication</td>
<td>4</td>
</tr>
<tr>
<td>Table of contents</td>
<td>5</td>
</tr>
<tr>
<td>Tables and Figures</td>
<td>8</td>
</tr>
<tr>
<td>Abstract</td>
<td>9</td>
</tr>
<tr>
<td><strong>CHAPTER 1: INTRODUCTION</strong></td>
<td>10</td>
</tr>
<tr>
<td>1.1 Background to the thesis</td>
<td>10</td>
</tr>
<tr>
<td>1.2 The main research problem</td>
<td>12</td>
</tr>
<tr>
<td>1.3 Conceptual framework</td>
<td>13</td>
</tr>
<tr>
<td>1.4 Justification for the research</td>
<td>14</td>
</tr>
<tr>
<td>1.5 Methodology</td>
<td>16</td>
</tr>
<tr>
<td>1.6 Thesis outline</td>
<td>16</td>
</tr>
<tr>
<td>1.7 Definitions</td>
<td>18</td>
</tr>
<tr>
<td>1.8 Limitations of scope and key assumptions</td>
<td>19</td>
</tr>
<tr>
<td>1.9 Summary</td>
<td>20</td>
</tr>
<tr>
<td><strong>CHAPTER 2: LITERATURE REVIEW</strong></td>
<td>21</td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>21</td>
</tr>
<tr>
<td>2.2 Theoretical rationale</td>
<td>22</td>
</tr>
<tr>
<td>2.2.1 Defining strategic alliance management</td>
<td>23</td>
</tr>
<tr>
<td>2.2.2 Classification of approaches</td>
<td>28</td>
</tr>
<tr>
<td>2.3 Parent discipline: systems approach</td>
<td>30</td>
</tr>
<tr>
<td>2.4 Immediate discipline: strategic alliances</td>
<td>33</td>
</tr>
<tr>
<td>2.5 Strategic alliance management case reviews</td>
<td>36</td>
</tr>
<tr>
<td>2.5.1 Alliance management in the West</td>
<td>36</td>
</tr>
<tr>
<td>2.5.1.1 Organisation environment context in the West</td>
<td>36</td>
</tr>
<tr>
<td>2.5.1.2 Organisation context in the West</td>
<td>45</td>
</tr>
<tr>
<td>2.5.1.3 Management culture in the West</td>
<td>73</td>
</tr>
<tr>
<td>2.5.1.4 Management process in the West</td>
<td>80</td>
</tr>
<tr>
<td>2.5.2 Alliance management in developing countries</td>
<td>114</td>
</tr>
<tr>
<td>2.5.2.1 Organisation environment context in developing countries</td>
<td>114</td>
</tr>
<tr>
<td>2.5.2.2 Organisation context in developing countries</td>
<td>121</td>
</tr>
<tr>
<td>2.5.2.3 Management culture in developing countries</td>
<td>129</td>
</tr>
<tr>
<td>2.5.2.4 Management process in developing countries</td>
<td>133</td>
</tr>
<tr>
<td>2.5.3 Summary of alliance management in the West and developing countries</td>
<td>139</td>
</tr>
<tr>
<td>2.5.4 Analytical model for alliance management</td>
<td>143</td>
</tr>
<tr>
<td>2.6 Summary</td>
<td>146</td>
</tr>
<tr>
<td><strong>CHAPTER 3: METHODOLOGY</strong></td>
<td>148</td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>148</td>
</tr>
<tr>
<td>3.2 Justification for the paradigm and methodology</td>
<td>148</td>
</tr>
<tr>
<td>3.2.1 Strengths and weaknesses of positivistic paradigm</td>
<td>150</td>
</tr>
<tr>
<td>3.2.2 Strengths and weaknesses of interpretivist paradigm</td>
<td>152</td>
</tr>
<tr>
<td>3.2.3 Phenomenology</td>
<td>154</td>
</tr>
<tr>
<td>3.2.4 Case study method</td>
<td>156</td>
</tr>
<tr>
<td>3.3 Research procedures: data collection strategies</td>
<td>158</td>
</tr>
<tr>
<td>3.3.1 Selection of case studies</td>
<td>158</td>
</tr>
<tr>
<td>3.3.2 Checkland’s soft system methodology</td>
<td>159</td>
</tr>
</tbody>
</table>
3.3.3 Case study selection process  
3.3.4 Selection of unit of analysis  
3.3.5 Case studies: site visits, interviews, piloting instruments  
3.4 Research quality issues  
3.4.1 Construct validity  
3.4.2 Internal validity  
3.4.3 External validity  
3.4.4 Reliability  
3.4.5 Bias  
3.4.6 Triangulation  
3.4.7 Focus group  
3.4.8 Software  
3.5 Generalisability of findings  
3.6 Ethical considerations  
3.7 Summary  

CHAPTER 4: WITHIN-CASE ANALYSIS  
4.1 Introduction  
4.1.1 Categorisation of alliance performance  
4.2 Case 1 – Smallholder Agriculture Credit Scheme (SACS)  
4.2.1 Background  
4.2.2 Environment context  
4.2.3 Alliance management skill  
4.2.4 Organisation context  
4.2.5 Alliance management culture  
4.2.6 Alliance management process  
4.2.7 Coping strategies  
4.2.8 Case summary  
4.3 Case 2 – GoPNG’s Credit Guarantee Scheme (CGS)  
4.3.1 Background  
4.3.2 Environment context  
4.3.3 Alliance management skill  
4.3.4 Organisation context  
4.3.5 Alliance management culture  
4.3.6 Alliance management process  
4.3.7 Coping strategies  
4.3.8 Case summary  
4.4 Case 3 – Small Business Guarantee Facility (SBGF)  
4.4.1 Background  
4.4.2 Environment context  
4.4.3 Alliance management skills  
4.4.4 Organisation context  
4.4.5 Alliance management culture  
4.4.6 Alliance management process  
4.4.7 Coping strategies  
4.4.8 Case summary  
4.5 Case 4 – Bougainville Microfinance Scheme (BMFS)  
4.5.1 Background  
4.5.2 Environment context  
4.5.3 Alliance management skill  
4.5.4 Organisation context  
4.5.5 Alliance management culture  
4.5.6 Alliance management process
<table>
<thead>
<tr>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1 Conceptual framework of a strategic alliance management model</td>
<td>13</td>
</tr>
<tr>
<td>Figure 1.2 Research framework of strategic alliance management</td>
<td>17</td>
</tr>
<tr>
<td>Figure 2.1 Classification model of strategic alliance management</td>
<td>29</td>
</tr>
<tr>
<td>Table 2.1 Classification model of approaches</td>
<td>29</td>
</tr>
<tr>
<td>Table 2.2 The four management blueprints</td>
<td>46</td>
</tr>
<tr>
<td>Table 2.3 Hofstede’s value index of five dimensions in major Western cultures</td>
<td>74</td>
</tr>
<tr>
<td>Table 2.4 Alliance management through the life cycle approach</td>
<td>84</td>
</tr>
<tr>
<td>Table 2.5 Alliance manager characteristics</td>
<td>88</td>
</tr>
<tr>
<td>Table 2.6 Elements of difference and complementarity between Volvo and Renault</td>
<td>95</td>
</tr>
<tr>
<td>Table 2.7 Hofstede’s value-index of five dimensions in selected developing countries</td>
<td>129</td>
</tr>
<tr>
<td>Figure 2.2 Holistic conceptualisation of strategic alliance management</td>
<td>144</td>
</tr>
<tr>
<td>Figure 2.3 Preliminary holistic strategic alliance management model</td>
<td>145</td>
</tr>
<tr>
<td>Table 3.1 Assumptions of the two key paradigms</td>
<td>150</td>
</tr>
<tr>
<td>Figure 3.1 A sketch of Soft Systems Methodology</td>
<td>161</td>
</tr>
<tr>
<td>Table 3.2 Site visits</td>
<td>164</td>
</tr>
<tr>
<td>Figure 3.2 Focus group discussion participants</td>
<td>170</td>
</tr>
<tr>
<td>Figure 4.1 Categorisation of alliance performance</td>
<td>176</td>
</tr>
<tr>
<td>Table 4.1 Analytical summary of case findings for the SACS alliance</td>
<td>185</td>
</tr>
<tr>
<td>Table 4.2 Analytical summary of case findings for the CGS alliance</td>
<td>194</td>
</tr>
<tr>
<td>Table 4.3 Analytical summary of case findings for the SBGF alliance</td>
<td>201</td>
</tr>
<tr>
<td>Table 4.4 Analytical summary of case findings for the BMFS alliance</td>
<td>209</td>
</tr>
<tr>
<td>Table 4.5 Analytical summary of case findings for the NASFUND-AON alliance</td>
<td>216</td>
</tr>
<tr>
<td>Table 5.1 Cross-case summary – Environmental context</td>
<td>219</td>
</tr>
<tr>
<td>Table 5.2 Cross-case summary – Organisational context</td>
<td>222</td>
</tr>
<tr>
<td>Table 5.3 Cross-case summary – Alliance management skills</td>
<td>225</td>
</tr>
<tr>
<td>Figure 5.1 Cross-case summary classification of alliance managers’ skills</td>
<td>228</td>
</tr>
<tr>
<td>Table 5.4 Cross-case summary – Alliance management culture</td>
<td>229</td>
</tr>
<tr>
<td>Table 5.5 Cross-case summary – Alliance management process</td>
<td>232</td>
</tr>
<tr>
<td>Table 5.6 Cross-case summary – Coping strategies</td>
<td>235</td>
</tr>
<tr>
<td>Table 5.7 Theoretical summary</td>
<td>242</td>
</tr>
<tr>
<td>Figure 6.1 Holistic conceptual model for strategic alliance management</td>
<td>263</td>
</tr>
</tbody>
</table>
This study is premised on the assumption that because of increased globalisation the trend towards strategic alliances is going to increase in the 21st century. This is evident in the phenomenal growth towards the establishment of alliances the world over despite high failure rates. The study also makes an important assumption that a major cause of alliance failure is managerial in nature and therefore relates to the task performed by alliance managers. Whilst research in the West has attempted to focus on such failings, few researchers have attempted to understand the state of alliances in developing country contexts as well as the reasons for the lack of their successes or otherwise.

This study therefore seeks to fill this gap by exploring the managerial issues surrounding alliance management in a developing country, Papua New Guinea. The study undertook an extensive literature review. The alliance case materials were reviewed based on three dominant perspectives that have contributed much to the discussion on alliance management: strategic management, network and relationship marketing. These perspectives were used to evaluate the case materials along four systems variables: organisational environment, organisational context, management culture, and management process.

The study justified and utilised the use of phenomenology as its research paradigm along with the case study and soft systems method. These methods were found to be highly relevant for conducting exploratory research into strategic alliances because of the need to generate rich data and for such data to be interpreted within their context.

The study found that alliance managers in countries such as PNG faced managerial challenges similar to those of their counterparts in developed countries. However, the similarity ends here. PNG alliance managers faced a myriad of challenges relating to the idiosyncratic business environment, which is highly volatile, plagued by resource deficiencies, and information void. The study demonstrated that governmental and socio-cultural factors predominate in the national and local environments. It found that resource deficiencies made alliances highly susceptible to misalignment in strategic intent and structure. It also found that alliance management skills in PNG were still at the embryonic stage with the exception of a small number of cases. It was also revealed that as part of the management process, PNG alliance managers extensively adopted coping strategies to manage their alliances. Finally, the study resulted in the development of a holistic approach to the study and management of strategic alliances.
CHAPTER 1 INTRODUCTION

1.1 Background to the thesis

A developing country such as Papua New Guinea (PNG) has the potential to expand its services sector and therefore its general economy by using strategic alliances as a corporate strategy. The services sector includes commerce, finance, transport, and construction with a number of sub-sectors.

During the 1990s, business organisations experienced a major paradigm shift\(^1\) in the way corporate strategy was designed in response to increasing environmental turbulence, the realisation that much of the resources needed by organisations had to be obtained from the external environment and the challenges posed by globalisation. The result was the evolution of the network form of organisation (Johnston and Lawrence 1988; Powell 1987, 1990; Miles and Snow 1992, 1995). This form of organisation and/or activity is now being popularly referred to as strategic alliances (Lorange and Roos 1992; Yoshino and Rangan 1995). This structure is considered as distinct from ‘markets and hierarchies’ which emphasises transactions and vertical integration of core business functions (Williamson and Ouchi 1981). A network organisation has several goals: lowering overhead costs, obtaining new technologies, increasing flexibility and hence responsiveness to rapid changes in customer tastes, improving market share and entering new markets, and accessing pollution control technology. The strategy is gaining worldwide acceptance.

The European-based Industrial Marketing and Purchasing (IMP) research group and the Nordic School of Service have both included networking in their marketing programmes since the 1980s and are major proponents of the relationship marketing paradigm (Turnbull and Cunningham 1981; articles in Hakansson 1982; Hakansson 1998; Gronroos 1990, 1994).

Buttery and Buttery (1998:27) have identified networking specifically as “a market entry strategy or a means of organising a vertical marketing system (VMS), of reducing competitive threats, of obtaining economies of scale and scope in marketing or of obtaining a critical mass to take full

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\(^1\) Knowledge development seems to occur in cycles, with the initiation, growth, maturity, and then decline of paradigms (Kuhn 1970). A new paradigm can offer a fresh world-view with the potential of resolving
advantage of marketing services, including market research, promotion and product
development”. Overall, the main causes of this shift include economic uncertainty, competitive
forces and globalisation, rapid technological changes, and stricter environmental regulations.

Papua New Guinea has an established number of strategic alliances in its services sector but
despite being amongst the top contributor to the country’s economy (38 per cent in 1999)
(Economic Insights 1999:116), the contribution is still poor. However, it is clear there is potential
when comparisons are made with similar countries in the region.

The influences which constrain the sector are well known. They include: the debilitating effects
of the hard currency strategy which lasted from independence in 1975 until the early 1990s, the
high cost of factors of production and poor state of locational amenities (e.g. infrastructure,
utilities, land), the lack of human capital, deterioration of the physical infrastructure, and an
excessively high crime rate. The lack of experience with strategic alliance management can also
be considered a major handicap.

Although there has been a trend towards strategic alliances in the developed market economies,
an understanding of strategic alliance management issues is still negligible due to a lack of
research in this area (Child and Faulkner 1998; Spekman and Mohr 1994; Spekman, Forbes III,
Isabella, and MacAvoy 1998; Wildeman 1998). There is a dearth of analysis on the causes of
failure and, more importantly, on such crucial factors as how to successfully manage alliances
(Child et al. 1998). This neglect is particularly acute in several developing countries including
PNG. This study therefore seeks to:

• fill the research gap in the extant literature by developing a strategic alliance management
model for strategic alliance managers or network coordinators

• address the lack of research into strategic alliance management in developing countries such
as PNG

This chapter will define:

• the main research problem upon which this study is based
• lay out a conceptual framework for studying strategic alliance management
• justify the purpose of this research
• introduce the research methodology adopted in this study
• outline the chapters of the thesis
• define key constructs used in the thesis
• identify the limitations of scope and key assumptions

problems that baffled the old paradigm. Firms schooled in the old paradigm are likely to resist the new
paradigm.
1.2 The main research problem

An early identification of the main research problem is essential for PhD research as it focuses research activity and literature searches (Zuber-Skerritt and Knight 1986). Further, asking the familiar questions of ‘who’, ‘what’, ‘where’, ‘when’, ‘how’ and ‘why’ leads the researcher to derive a research problem with appropriate parameters (Yin 1989:17). This approach has helped to identify the main research problem addressed in this study:

**How do strategic alliance managers/liaison managers strategically manage strategic alliances in the Papua New Guinea financial services sector?**

Essentially, the author argues that strategic alliance management requires skilful management that can be best derived from a systems perspective of management. A glance at the literature invariably reveals that a major cause of strategic alliance management is related to management particularly where partners are involved (Niederkofler 1991).

A number of key questions have been derived from the literature review (Chapter 2), the answers to which leads directly to solving the research problem:

1. **What economic/technological, political/legal and cultural/social factors impact on strategic alliance management in PNG in terms of organisation context, management culture and management process?**

2. **What is the state of alliance management skills in PNG?**

3. **What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with?**

4. **How did the alliance manager in PNG manage the alliance in the context of these major shortfalls?**

5. **How important were PNG cultural elements such as *wantokism* in the management of strategic alliances?**

6. **How did alliance managers/liaison managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?**

To enable alliance managers evaluate the health of their strategic alliances and contribute to the extant literature on alliance management, the thesis seeks to focus on the following system variables for each case under study:

- strategic alliance environment
- strategic alliance organisation component
- strategic alliance management culture
- strategic alliance management process
The purpose of this research is to develop a systemic understanding of the factors that influence the behaviour of participants at the alliance or network level which affect alliance performance. A holistic strategic alliance management model will facilitate successful leveraging of the above factors to ensure alliance goal attainment.

1.3 Conceptual framework

A conceptual framework is employed to disentangle the research problem. The framework was developed for the thesis based on theoretical insights drawn from four theoretical approaches: systems, strategic management, network, and relationship marketing, and a critical review of case studies on strategic alliance management both in developed and developing countries.

The framework enables us to evaluate how the variables noted in section 1.2 affect the role of strategic alliance managers. This evaluation results in the preliminary conceptualisation of strategic alliance management presented in Chapter 2. The model’s tenets will be field-tested using the case study approach with the findings presented in Chapter 4. Insights gained will benefit alliance managers and contribute to the current corpus of knowledge in strategic management.

Figure 1.1 Conceptual framework of a strategic alliance management model
1.4 Justification for undertaking the research

This study can be justified on a number of grounds: (a) the shift towards strategic alliance management in the 1990s, (b) high business failure rates, (c) the lack of research on alliance strategy in developing countries, (d) the use these results may be put to, and (e) the addition to the corpus of knowledge on strategic management.

Firstly, there is a need to further the research on the broader trend towards strategic alliances as part of the broader paradigm shift in corporate strategy of the 1990s so that more can be learnt about the phenomenon. Although the trend was first noticed as early as the 1970s and 1980s (Drucker 1969; Galbraith 1974; Toffler 1981; Naisbitt 1982; Piore and Sabel 1984), its relevance in the 21st century cannot be understated. The shift in corporate strategy was initially perceived in terms of values, time and technological trajectories (e.g. short- to long-term thinking and mass production vs. flexible specialisation), but eventually crystallised into the evolution of the network form of organisation (Piore 1992), a clear move away from the traditional hierarchical management structure found in the divisionalised, functional, and matrix forms of organisations (Miles et al. 1995; Nohria 1991). Various forms of network organisations have emerged including the:

- stable forms (kingdom network or dominated network) suitable for the relatively predictable environments of the 1980s
- dynamic forms (republic networks or equal-partner networks) highly suitable for the unpredictable markets of the early 21st century

Competitive-collaborations as a strategy first came to notice as the winning policy for the influential Japanese management techniques of the 1980s (Gerlach 1987; Womack, Jones and Roos 1990; Best 1990), the industrial clusters of Europe (Piore and Sabel 1984; Brusco 1982, 1986; Best 1990), and amongst Chinese and Indian businesses (Haley and Haley 1998). However, in the 1990s networking has been increasingly adopted amongst firms of all sizes in the US, Europe, Australia and some developing countries in Asia and Latin America.

Secondly, this research is justified because while organisations the world over are heading in the direction of strategic alliances there remains the problem of high failure rates in managing alliances: 60-70 per cent within the first year of business (Rackham, Friedman, and Ruff 1996; Wildeman 1998; Cauley De La Sierra 1995) and 40-50 per cent within five years (Bleeke and
Ernst 1993). Whilst the high failure rate parallels the establishment of new businesses generally and therefore is possibly to be expected, there remains a need to better understand the causes of failures as well as success factors in order to promote alliances seeking goal attainment.

Thirdly, the research is justified in that whilst a limited number of case studies have been undertaken in developed countries to illuminate the problem of high failure rates, there is a dearth of studies shedding light on strategic alliance management in developing countries. This study introduces a developing country dimension to the emergent literature in strategic management concerning alliance management. Further, in the context of PNG, the study is significant because it is the first of its kind and, therefore, will benefit the expansion of the services sector as well as the country’s current strategic intent of an export-driven economic growth strategy.

Fourthly, as this thesis views the unit of analysis - strategic alliance managers - from the manager’s point of view, the research findings will be of practical use to alliance managers, network brokers, strategic planners, and marketers in the partnering firms as they seek to successfully manage their alliances through a holistic model. There are also lessons for public policy makers in governments who are consciously seeking to promote or enhance alliance management or business networks in the private sector and between the public and private sectors. For instance, the Australian government through AusIndustry developed a policy intervention programme - the Business Network Programme - to oversee the development of business networks amongst small and medium enterprises (SMEs) and revitalise regional Australia as a result of the increased interest in networking discovered in several studies including those of Buttery (1992, cited in Buttery et al. 1994), Brown (1996), and Dean, Holmes and Smith (1997).

Finally, the findings of the research will be of theoretical value to the corpus of knowledge in strategic alliance management, which is the immediate discipline of the research problem. This is an important requirement of a PhD thesis.

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2 The latter percentages must be interpreted with caution to allow for those alliances that have been terminated amicably and therefore cannot be deemed failures.
3 AusIndustry is Australia’s national gateway to business support programmes that provides practical assistance to firms in different sectors of the economy, particularly in regional Australia.
1.5 Methodology

This thesis adopts the case study approach as propounded by Yin (1989, 1994) in its study of the variables that cause the success and/or failure of strategic alliances in PNG. An early appreciation of the determining variables were derived from the extant literature on international cases of alliances reviewed in Chapter 2. These variables were then used to develop a tentative strategic alliance management model presented in the latter part of that chapter. The model has also greatly benefited from Kast and Rosenzweig’s (1974, 1985) work on systems management, thus ensuring comprehensiveness and extensiveness, two important requirements of models.

A strategic alliance, in effect, involves strategic partners and customers in coevolving relationships with a web of internal and external ties or networks. The role of the alliance manager is necessarily about relationship management. Thus, the unit of analysis, the alliance manager, has to constantly contend with dynamic rather than mere dyadic, or company level, relationships (De Burca and McLoughlin 1998).

There is general consensus amongst seasoned researchers that the case study approach, entailing in-depth interviews, is the most appropriate methodology that can fully capture the strategic value and dynamic nature of networks that involve human interactions over time and space (Niederkofler 1991; Duysters, De Man and Wildeman 1999; Spekman, Isabella, MacAvoy and Forbes III 1996; Bruner and Spekman 1998; Bailey 1992; Eisenhardt 1989; Easton 1998; Proenca and Castro 1998) and as a corporate strategy. Moreover, it has the advantage of employing an embedded design, that is, multiple levels of analysis within a single study (Yin 1994), such as at the industry and company level. In short, the case study method has the potential to capture a complex phenomenon such as relationships at multiple levels.

1.6 Thesis outline

The thesis is structured as follows: Chapter 2 sets out to derive a definition of strategic alliance management, lays out a classification of approaches to analyzing alliance management, discusses the parent and immediate disciplines of the thesis, reviews alliance management cases against the theoretical approaches for both the developed and developing countries and derives an initial conceptualization of a holistic strategic alliance management model. The main contribution of
Chapter 2 to the thesis is its derivation of six research questions that guided the actual research. Chapter 2 forms an important part of the thesis because “... it is through the process of critical evaluation, of adding incrementally to a body of knowledge, that progress is made” (Naude and Turnbull 1998:ix-x).

Following on from the research questions derived in Chapter 2, Chapter 3 justifies the research paradigm and method used in this thesis, and lays out the research procedures that guided the actual research. The research paradigm used in the thesis is phenomenology, one that fits well with the case study method because of the exploratory nature of the research.

Chapter 4 lays out the criteria for measuring the performance of strategic alliance management and undertakes a within-case analysis of the five cases. A summary of findings for each of the cases is presented at the end of each case discussion. Chapter 4 is important to the thesis because it contains a summary of rich primary data gathered by the author from the field and placed in Appendix 1 to the thesis.

Chapter 5 undertakes a cross-case analysis of the rich individual data found in the case summaries laid out in Chapter 4 with a view to deriving common themes. These themes are, in turn, linked to the theoretical findings of strategic alliances and their experiences in developed and developing countries. The cross-case analysis fulfills the requirements of data and theoretical triangulation, being important requirements of the case study approach.

Finally, Chapter 6 draws on the accumulated evidence presented in Chapters 2, 4 and 5 to derive answers for the six research questions and importantly the research problem. It also presents implications for policy and practice, and contributes to strategic alliance management a holistic conceptual model, modified from that presented in Chapter 2. The study’s limitations are discussed and potential areas for future research identified.

At the outset, it must be noted that the raw data upon which the thesis is based is attached in Appendix 1 as required by Yin (1994:134). The case reports demonstrate the level of originality of this thesis. Appendix 1 has its own references reflecting its standalone nature.

The structure of this thesis closely resembles Chad Perry’s (1994) structured approach to PhD theses. The chapter layout discussed in this section is portrayed in Figure 1.2.
1.7 Definitions

Researchers often use different terms to refer to the same phenomenon, or even different definitions for a single term. Therefore, key terms are defined here to establish positions taken in this PhD research.

**Strategic alliance management**: refers to the process of strategically managing dynamic cooperative-competitive relationships between two or more partners involved in a simultaneous network of alliances, in order to capture synergy thereby enhancing the competitive position of each partner. This process assigns the task to an alliance manager who must regularly take cognizance of the influence of external factors on the alliance, namely the partners’ culture, organisational and environmental contexts.

**Alliance manager/coordinator/liaison**: refers to the person(s) at the centre of an alliance or network coordinating the intricate links between partners and providing leadership. This person could be referred to as the alliance manager, alliance coordinator, or liaison officer. In this thesis, the alliance manager occupies both a formal and informal position created by an alliance or network.

**Strategic management**: refers to that set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives (Glueck 1976:6).

**Relationship marketing**: is an approach that seeks to establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfillment of promises (Gronroos 1997:118).

**Network approach**: is a perspective on organisation-environment relations that seeks to locate the precise source of environmental forces by analyzing the pattern of relationships among the organisations that make up the environment (Nohria 1992:6).
**Wantokism**: refers to a social network comprising people from the same location or clan who speak the same language or at a much broader level those who are brought together because of proximity, familiarisation and regular contact. Such networks are held together by exchange obligations (Hess 2001; de Renzio and Kavanamur 1999).

### 1.8 Limitations of scope and key assumptions

At the outset, the main research problem presented in section 1.2 automatically limits this thesis to exploring the management environment within which a strategic alliance manager, the primary unit of analysis of this study, has to operate. Further, the main research problem focuses on the alliance internal and external environment contexts in the PNG services sector. Thus the focus of the research centres on managing strategic alliances and on seeking to understand the emergent problems and issues, rather than on alliance formation or termination strategies. These issues have been well documented in the literature.

The conceptual framework in section 1.3 actually confines the thesis to evaluating the variables that a strategic alliance manager has to manage in order to ensure the success of a network. These variables form the core of the holistic strategic alliance management model presented in Chapter 2 and modified in Chapter 6. Moreover, the definitions in section 1.7 also help to clarify the conceptual parameters of the thesis.

Because the thesis uses the case study approach, the generalisations of findings are theoretical rather than statistical (Glaser and Strauss 1967). Yin (1994:10) explains this succinctly by noting that “… case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. In this sense the case study, like the experiment, does not represent a “sample”, and the investigator’s goal is to expand and generalise theories (analytical/theoretical generalisation) and not to enumerate frequencies (statistical generalisation)”. In case studies “… random selection is neither necessary nor even preferable” (Eisenhardt 1989:537). Case studies use theoretical sampling which may involve the selection of cases such as extreme situations and polar types (Pettigrew 1988, cited in Eisenhardt 1989).

The thesis has two basic key assumptions. One is that a major cause of alliance failures is managerial in nature and therefore relates to the task performed by alliance managers. The second assumption is that the current phenomenal growth in the number of strategic alliances the world over will continue into the 21st century, as the trend towards globalisation is here to stay. With
increased globalisation, many firms feel that an effective way to serve overseas markets is through establishing alliances with overseas partners.

1.9 Summary

This chapter has laid the foundations for this thesis. It showed major gaps specifically in the area of strategic alliance management despite the hitherto voluminous literature on alliances and networking. Following this, the main research problem and research questions were introduced. A conceptual framework of the thesis was outlined and the research justified. The case study methodology was presented and justified as well, based mainly on the dynamic nature of alliance management involving human interactions over time and space. The thesis was then outlined with brief descriptions of each chapter, key constructs defined and, finally, an overview of the limitations. On these foundations, the thesis is set to proceed with a detailed description of the research.
CHAPTER 2       LITERATURE REVIEW

2.1 Introduction

Chapter 1 highlighted the need to research into the managerial issues surrounding strategic alliances as these have been identified as the major determinant of success or failure. It also noted that this need is very urgent in a developing country context, particularly Papua New Guinea. PNG has had in existence a number of strategic alliances such as financial networks but these have not been researched previously to establish how they have been managed. Once an alliance has been negotiated and sanctioned it is the alliance manager’s job to drive the day-to-day affairs. This task requires an appreciation of four broad variables: (a) the macro environment context, (b) the organisational context, (c) the strategic alliance management culture, and (d) the strategic alliance management process. The identification of these variables and a preliminary appreciation of the nature of alliance management enabled the author to propose that a holistic conceptualisation of strategic alliance management could facilitate the work of alliance managers in achieving partner objectives (section 1.2). The specific particulars of this conceptualisation process are presented at the end of this chapter after a review of cases of alliance management from both developed and developing countries.

This chapter therefore reviews the literature from both developed and developing countries with a view to identifying managerial factors that could be categorised under the four major variables above. This approach is important for the formulation of the proposed analytical model of alliance management presented at the end of the chapter, and validated in the methodology (Chapter 3). In the course of this review, research questions and gaps will emerge and will be answered in Chapter 6.

The general aim of a literature review is to “build a theoretical foundation upon which the research is based by reviewing the literature to identify research issues which are worth researching because they are controversial and have not been answered by previous researchers” (Perry 1994:5). In the process, the review not only centers on the research problem but also on the “links between the research problem and the wider body of knowledge” (ibid.). In other words, the review should demonstrate a link between the immediate field of the research problem and its parent discipline(s).
In following these established rules, this author has sought to become familiar with the literature on the systems approach as the parent discipline of this thesis, which in turn has directly given rise to strategic alliance management – the immediate discipline. According to Perry (1994) more than one parent discipline is justifiable, but only one immediate discipline is generally preferred because of the need to be focused and ease at which thesis examiners are selected.

Thus the key objectives for this chapter are:
1. To contribute a working definition of strategic alliance management to the literature as well as develop a classification model for the review.
2. To demonstrate a familiarity with the systems approach (parent discipline) and strategic alliances (immediate field).
3. To critically and analytically review the literature on strategic alliances in both developed and developing countries along the four major variables identified in section 2.1.
4. To formulate researchable questions from the review aimed at addressing the focal research problem laid out in section 1.2.
5. To locate research gaps from the review and demonstrate how this study is important in closing them.
6. To develop an analytical model that explains and aids the generation of a holistic strategic alliance management model.

The main purpose of this chapter is to generate researchable questions aimed at solving the main research problem, as is the requirement of the case study approach (Yin 1989). To aid the work of alliance managers and future researchers, a preliminary strategic alliance management model is generated. In addition, the preliminary model actually maps out the managerial factors that ought to be emphasised by the alliance manager in the course of his/her duties. This map is then compared and modified in Chapter 6.

2.2 Theoretical rationale

The purpose of this section is to establish a working definition of strategic alliance management. This is important because it emerges as one of the key contributions of this thesis to the general corpus of knowledge on alliance management. Following from this a classification model is developed - one that sketches a mind map of the literature review and succinctly summarises the major case studies reviewed in the remaining part of this chapter.
2.2.1 Defining strategic alliance management

The absence of a holistic definition of strategic alliance management in the literature requires the author of this thesis to develop one. This is done in a three-step process, first conceptions of strategic marketing management or simply strategic management are reviewed, second the author reviews the various definitions of strategic alliances, and thirdly a definition of strategic alliance management is then derived after reviewing key critical works on alliance management.

First, conceptions of strategic management are evaluated. The process of implementing strategies has been described variously over decades as including budgeting, long-range planning, strategic planning, strategic management and strategic market management (Aaker 1998). Of these terms, strategic market management/strategic management is more relevant to this thesis and its systems perspective as it ventures out from the vantage point that the planning cycle is inadequate in dealing with the rapid rate of change that can occur in a firm’s external environment. Therefore, to cope with ‘strategic surprises’ and fast-developing threats and opportunities, strategic decisions need to be precipitated and made outside the planning cycle (Aaker 1998:11). The demands of the environment have precipitated the increased use of methods, systems and options that are responsive. This implies a need for continuous, real-time information systems rather than, or in addition to, periodic analysis (Aaker 1998). Such a strategy requires more sensitive environmental scanning, the identification and continuous monitoring of information-need areas, efforts to develop strategic flexibility and an entrepreneurial thrust of the organisation.

Hamel and Prahalad (1994) urge managers to have clear and shared understanding of how their industry may be different in 10 years and a strategy for competing in the world. They challenge managers to evaluate the extent to which:

1. Management has a distinctive and farsighted view, rather than a conventional and reactive view, about the future.
2. Senior management focuses on regenerating core strategies rather than on reengineering core processes.
3. Competitors view the company as a rule maker rather than a rule follower.
4. The company’s strength is in innovation and growth rather than in operational efficiency.
5. The company is mostly out in front rather than catching up.

Thus strategic market management encapsulates an evolving system encapsulating the budgeting system, the projection-based approach of long-range planning, the elements of strategic planning, and the refinements needed to adapt strategic decision making to real time (Aaker 1998). The
inclusion of the term ‘market’ in the phrase ‘strategic management’ emphasises that strategy development needs to be proactive and driven by the market and its environment rather than by an internal orientation as already pointed out above. Although there are difficulties in understanding and predicting the environment there are benefits in applying strategic market management. This approach: (a) precipitates the consideration of strategic choices, (b) forges a long-range view, (c) makes visible the resource allocation decision, (d) aids strategic analysis and decision making, (e) provides a strategic management and control system, (f) provides both horizontal and vertical communication and coordination systems, and (g) helps a business cope with change.

According to Yip’s (1985) study of 13 firms, strategic market management approaches have value for firms that:

- need multifunctional strategies
- need to achieve synergy among multiple markets
- need to coordinate the strategies of multiple brands
- are involved in complex markets where multiple or layered channels, regional variations, or multiple elements of the marketing mix are involved

For the purposes of this thesis, strategic market management is therefore an appropriate tool for implementing the strategy of strategic alliances and has relevance for the definition of strategic alliance management derived towards the end of this section.

Second, the thesis attends to the definitions of strategic alliances. Numerous definitions abound concerning strategic alliances from varied authorities. At the outset it should be noted that the term strategic alliance connotes a process of interorganisational linkages or networks. Essentially, what is anticipated here are different forms of cooperation and collaboration among participating organisations (Buttery et al. 1999:415). Therefore, because of the generic nature of the phenomenon, the term strategic alliances has been used interchangeably with concepts such as business networks, clusters, strategic partnering, collaborative arrangement, cooperative strategy, flexible specialisation and linkages.

Buttery et al. (1994:17) prefer business networks in their usage and define it as “two or more organisations involved in mutually beneficial relationships, that maintain all participants as separate corporate entities”. Their definition implies that although partners in a network may carry on business operations independently from the network, they may pool skills and resources leading to a new venture in order to jointly create an ‘advantage’ (Buttery et al. 1998:27). The ‘freestanding’ nature of partners implied in this definition is important for this thesis and is in line
with Lipnack and Stamps’ (1986) position that describes participants in a network as freestanding and cohering through shared values and interests.

Spekman et al. (1998) note that despite differences in organisational form portrayed in the literature, such as joint ventures and co-marketing agreements, each of these alliance definitions converges on several salient themes: goals that are both compatible and directly related to the partners’ strategic intent, the commitment of and access to partners’ resources and opportunity for organisational learning. Hence for them, a strategic alliance “is a close, long term, mutually beneficial agreement between two or more partners in which resources, knowledge, and compatibilities are shared with the objective of enhancing the competitive position of each partner” (Spekman et al. 1998:748).

Whilst this definition is more comprehensive than that of Buttery et al. (1994) given above, their inclusion of the descriptor ‘long term’ is slightly problematic for this thesis because of the author’s position, elaborated later in this section, that strategic alliances should be measured not by time frames but by the attainment of respective partners’ objectives. Yoshino and Rangan (1995:104) make this same point in response to erroneous and simplistic interpretations by many researchers of widespread announcements on dissolution of alliances as ‘failures’. Yoshino et al. (1995) argue convincingly that alliance expiry dates, termination of alliance because of accomplishment of main objectives, or conclusion of the life span of an alliance due to lack of alignment or fit between business and strategy resulting from environmental shifts after years of cooperation, could all scarcely be construed as ‘alliance failure’. Cauley De La Sierra (1995:5) also makes the same point in noting that there is no set time-limit for alliances, “their duration is a function of the objectives and structure of the partnership, the prevailing business conditions and the management capabilities of the partners”. Moreover, because revenues or intangible benefits from each key account should exceed the costs of establishing and maintaining the relationship within a certain time span (Blois 1999), relationship longevity is not a guarantee of customer profitability. Thus, some alliances may be short-lived while others may be long-term, depending on goal attainment.

Wheelen and Hunger (2000) offer a simple but profound definition of strategic alliances that differentiates them from normal company-to-company dealings. For them a strategic alliance is “an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership” (Wheelen et al. 2000:125). Therefore, alliances can range from informal handshake agreements to formal agreements with lengthy contracts where parties may exchange equity, or contribute capital to form a joint venture.
This definition is fairly flexible as it includes both formal and informal networks. More importantly, it underscores the point that the management of alliances is fairly distinct from that of a typical single company. This point is important for this thesis and has been emphasised by numerous authorities (Spekman et al. 1998; Niederkofler 1991; Duysters et al. 1999; Spekman et al. 1996; Doz et al. 1998).

Cauley De La Sierra (1995) offers important insights into the international dimensions of alliances and the differences between alliances and traditional joint ventures. She prefers to use the term ‘competitive alliances’ to convey the point that alliances “are ventures between strong international companies that generally remain competitors outside the relationship” (Cauley De La Sierra 1995:4). She adds that most alliances have well defined – often limited – strategic objectives and are designed to serve regional and global markets. Moreover, regardless of structure, “all alliances entail some degree of intercorporate integration among partners – less integration than an outright merger but more than a simple buy/sell relationship” (Cauley De La Sierra 1995:4). More importantly, she makes the point that alliances are different from the traditional MNC-host JV and the strong-weak relationships inherent in such ventures because they are partnerships among equals. Furthermore, she makes the same point as that of Doz et al. (1998) that many companies are entering into not only single ventures, but also entire networks of alliances, which portray high fluidity and flexibility.

Beamish and Killing (1996), in the same vein as Cauley De La Sierra (1995), emphasise the international aspect of alliances and explain why they are referred to as ‘strategic’ in nature. They point out that, “international alliances are cooperative arrangements formed by organisations from two or more countries” (Beamish et al. 1996:1613). An alliance is considered ‘strategic’ when it involves the allocation of resources by the alliance manager to areas deemed pertinent to the alliance’s future success, vis-à-vis value creation.

Third, the author of this thesis turns to definitions of strategic alliance management. Yoshino et al. (1995) highlight the challenges faced by alliance managers. They point out that any interfirm collaborations are plagued by ambiguities in relationships, tensions linked to the need to balance cooperation and competition, managerial mind-sets unacquainted with organisational links, myriad details that need to be managed, and lack of appreciation of the complex linkages among the strategies, structures and systems of participating firms and the alliance (Yoshino et al. 1995:109). This leads them to define alliance management involving clear and strategic understanding of six tasks:
• the nature, scope, importance, and likely evolutionary path of an alliance
• aspects related to the protection and augmentation of a firm’s core competencies
• the need to effect a shift in the mind-set of the managers designated to deal with the alliance
• resource requirements
• the need to ensure interfunctional coordination
• the potential for a network of alliances to evolve and the extraordinary complexity of coordinating the same

Yoshino et al. (1995) further differentiate between the job of the alliance manager and those of top managers. They note, based on their study of alliances, that firms that benefit the most from alliances have assigned the management responsibility to a specific manager or group. For most alliance managers, a set of generic tasks are identified: (a) establish the right tone/atmosphere, (b) monitor partner contributions, (c) recognise the importance of information flows, (d) reassess strategic viability, and (e) recognise the importance of internal relationships.

Yoshino et al. (1995) also make the point that top management’s involvement is crucial and does not stop with the appointment of an alliance manager. Alliance managers must be backed by active and involved top management teams to ensure success. This entails direct and frequent personal contact between top managers with a view to understanding the alliance’s evolution, assessing the desirability of the path taken and taking the necessary steps to shape/influence events related to their firms’ strategies. Examples of firms which have pursued alliance-based strategies aimed at institutionalising the personal involvement of top managers include Motorola, Ford, Corning Glass, Toshiba and Mazda (Yoshino et al. 1995:148).

Drawing from their study of Ford Motor Company, the authors highlight two dimensions of executive participation – the external and internal. The external dimension involves (a) fostering organisational reciprocity, (b) deepening personal commitment at all levels, (d) engendering organisational commitment, (e) exploring new strategic opportunities, (f) conducting strategic reviews, and (g) ending alliances based on reviews. The internal dimension involves (a) selection of an alliance manager, (b) resource allocation for alliances, (c) shaping shared strategic intent, (d) recasting reward systems in favour of those involved in alliance work, and (e) catalysing cultural change to address the us-versus-them attitude vis-à-vis cooperation, not-invented-here syndrome vis-à-vis organisational learning, and the inability to strike a strategic balance between cooperation and competition.

Spekman et al. (1998) suggest that alliances should be conceived as using a life cycle approach entailing seven stages: anticipation, engagement, valuation, coordination, investment, stabilisation and decision. For each of the stages, the role of the alliance manager evolves over time from
visionary, strategic sponsor, advocate, networker, facilitator, manager and mediator, respectively. Therefore, Spekman et al. (1998) view alliance management as a complex effort that changes over the life of the alliance. This complexity and difficulty stem from the very nature of alliances entailing numerous partners each with its own objectives, agenda and culture (Spekman et al. 1998). Importantly, they make the point that management is made difficult by the fact that objectives change as the alliance develops and matures. In their view, therefore the life cycle approach “takes the discussion of alliance management well beyond partner selection and other concerns typically the focus of research limited to an understanding of alliance formation” (Spekman et al. 1998:763).

Overall, generally alliance management has been viewed by varying authorities from different perspectives. These include the network perspective entailing the portfolio and spherical approaches, the coevolving approach, traditional international joint venture (IJV) approach and the relationship marketing approach.

Based on the foregoing perspectives the author now seeks to derive a holistic definition of strategic alliance management. Thus this thesis adopts the following working definition:

**Strategic alliance management is the process of strategically managing dynamic cooperative-competitive relationships between two or more partners involved in a simultaneous network of alliances, in order to capture synergy thereby enhancing the competitive position of each partner. This process assigns the task to an alliance manager who must regularly take cognizance of the influence of external factors on the alliance, namely the partners’ culture, organisational and environmental contexts.**

The derived definition and its key variables reflect the nature of systems thinking which guides this thesis. This thesis posits that an alliance manager must take cognizance of alliance management as (1) a process that exists within and between (2) organisations being embedded in (3) culture and (4) an environment.

### 2.2.2 Classification of approaches

A classification model or mind map (Figure 2.1) is now derived from the above definition. Its purpose is to provide an analytical structure for grouping concepts so that the literature review does not become a mere description of the extant literature (Perry 1994).
Table 2.1. Classification of approaches to strategic alliance management in developed and developing countries

<table>
<thead>
<tr>
<th>Alliance Context</th>
<th>Theoretical Approach</th>
<th>Developed Country Source</th>
<th>Developing Countries Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Network</td>
<td>Wildeman (1998); Miles et al. (1992, 1994, 1995); Nohria (1991, 1992); Barley et al. (1992); Kogut et al. (1992); Powell et al. (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Relationship Marketing (RM)</td>
<td>Epstein (2000)</td>
<td></td>
</tr>
<tr>
<td>Organisation Context</td>
<td>Strategic Management</td>
<td>Lorange et al. (1992); Yoshino et al. (1995); Cauley de la Sierra (1995); Doz et al. (1998); Child et al. (1998); Limerick et al. (1993); Buttery et al. (1994)</td>
<td>Kanungo et al. (1990); Kohn et al. (1996); Fashoyin (1996); Komin (1996); Hess (2001)</td>
</tr>
<tr>
<td></td>
<td>Network</td>
<td>Hutt et al. (2000); Miles et al. (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RM</td>
<td>Dibb et al. (2001)</td>
<td></td>
</tr>
<tr>
<td>Management Culture</td>
<td>Strategic Management</td>
<td>Hofstede (1997); Lorange et al. (1992); Child et al. (1998)</td>
<td>Hofstede (1997); Hess (2001); Mellahi (2001)</td>
</tr>
<tr>
<td></td>
<td>Network Approach</td>
<td>Duysters et al. (1999); Sharma (1998)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RM</td>
<td>Vollmann et al. (1998); Chonko et al. (1999); Ojasalo (2001)</td>
<td>Roslin et al. (2000)</td>
</tr>
</tbody>
</table>
Table 2.1 lays out the general guidelines for reviewing the literature on strategic alliances in both developed and developing countries. The broad alliance management dimensions and approaches automatically become the sections and subheadings in the review following the views of Zuber-Skerritt and Knight (1986). The authors cited in Table 2.1 are those who have had a direct impact on alliance management.

Prior to the actual review itself, the author first of all reviews the literature on systems approach (parent discipline) and strategic alliances (immediate discipline). This is important to the thesis as it justifies the systems approach to alliance management. Because of the need to be analytical and succinct (Perry 1994) the review of alliance studies is undertaken in the following format:

1. A summary of findings and limitations is derived from each piece of literature.
2. A summary is derived immediately for each of the major variables.
3. A Summary for the literature from developed and developing countries is drawn.
4. General links between each piece of literature will be extrapolated to the larger corpus of knowledge or epistemology.

This approach enables the condensation of findings into a holistic systems model for alliance management at the end of this chapter. It also goes towards fulfilling the requirement of theoretical triangulation (Yin 1994:91-92) to complement the process of data triangulation in Chapters 4 and 5 and Appendix 1. The third type of triangulation, which is method triangulation, is not being used in this thesis because of the exploratory nature of the research. The fourth type of triangulation, which is researcher triangulation, has also been fulfilled in this thesis.

2.3 Parent discipline: systems approach

The purpose of this section is three-fold: (a) to review the systems approach, and (b) to justify the relevance of systems to the study of alliance management in PNG. In so doing, this section will have demonstrated familiarity with the parent discipline and provide the link with the immediate discipline of the thesis (Perry 1994).

It is clear from the introduction to this thesis that the systems approach is the most useful framework for understanding the role of an alliance manager in a strategic alliance arrangement. Its key postulates resemble the four main variables identified in the definition of strategic alliance management and are relevant for the study of alliance management in PNG.
The systems approach to problem-solving gained currency in the 1950s against the backdrop of centuries of solving problems analytically dating back to the time of Galileo and the ‘Scientific Revolution’. Then, problems were simple and it was fashionable to reduce them to their isolatable components and establish causal relationships, the sum of which constituted a description of the phenomena under study. The whole, in complex phenomena, however, is more than just the simple sum of the properties of component-parts. More importantly, the whole includes the intra-component relationships and the inter-component-environmental relationships. This approach tends to better explain the output of ‘synergistic’ relationships that results in a total output greater than the sum of components taken independently: $2+2=5$ or $1+1>2$. The antitheses to the thesis which brought about the synthesis in approaches to problem solving included the primary phenomena of complexity, open systems and interrelatedness whereby there are many interacting elements seemingly organized to accomplish objectives. Schoderbek, Schoderbek and Kefalas (1985:12) provide a synthesized definition of a system from various works:

A system is a set of objects [including the static parts of which the system consists and the functions performed by the system's parts: inputs, processes and outputs] together with relationships between the objects and between their attributes related to each other and to their environment so as to form a whole.

Modern day systems approach incorporates three interrelated domains of disciplined inquiry: systems theory, systems philosophy and systems methodology (Banathy 2000). Systems theory seeks a theory of universal principles applying to all systems in general; systems philosophy deals with the question of what things are or ontology and the question of how do we know what we know or epistemology; and systems methodology provides a set of models, strategies, methods and tools that instrumentalise systems theory and philosophy in analysis, design, development, problem solving in – and the management – of complex systems (Banathy 2000). The systems approach is characterised by a varied specialised frameworks including systems analysis/systems engineering, systems dynamics, cybernetics, operations research, soft systems methodology (SSM), critical systems thinking, and chaos and complexity theory, but all owe their origins to General Systems Theory (GST).

Ludwig von Bertalanffy’s (1950) work, ‘The theory of open systems in physics and biology’, Science, January 13: 23-29, first advanced the basic concepts of a ‘general systems theory’. Similar developments had also developed in the social sciences which culminated in Parsons’
Bertalanffy was steeped in the Aristotelian philosophy that viewed objects as wholes and as endowed with intrinsic goals (telos) and used this view to question the efficacy of the analytical reductionist approach stemming from the tradition of Comte, Rene Descartes and Emile Durkheim (Schoderbek et al. 1985; Checkland 1981). In 1954 a society for General Systems Theory was founded under the leadership of Bertalanffy, economist Kenneth Boulding, biomathematician Anatol Rapoport, and physiologist Ralph Gerard. Notwithstanding the slow progress in fields outside of the ‘hard sciences’ towards the realization of the society’s broader goals such as the search for law and order in the universe - an order of order and a law of laws - GST’s major postulations played a catalytic role in advancing the systems approach. There are 13 fundamental postulates of GST that have been gleaned from the voluminous literature on systems, which are listed below.

These are, however, by no means exhaustive: (1) interrelationship and interdependence of objects and their attributes, (2) holism, (3) goal seeking,(4) inputs and outputs, (5) transformation process, (6) entropy, (7) regulation, (8) hierarchy, (9) differentiation, (10) equifinality, (11) boundaries, (12) homeostasis, (13) open and closed systems.

The usefulness of systems to this thesis lies in a number of key strengths of the approach. The approach provides a holistic and synergistic framework for both the researcher and strategic alliance manager in analysing the embedded environment of strategic alliances together with their internal components. It also renders the researcher and manager the benefit of a holistic outlook on viewing the world and therefore accepting that ‘perfect knowledge’ is a rare commodity. It views organisations not as closed systems but as open systems interacting with their environment. As a meta-discipline whose subject matter can be applied within any other discipline; it is a subject that can talk about other subjects (Checkland (1981, 1999).

The systems approach has contributed significantly to the extant literature on the rationalism-incrementalism debate. Although this debate underscores the point that both extremes do not exist in reality, there does seem to exist an implicit agreement that continuous improvement in the means for attaining a higher degree of rationality in decision making is highly desirable particularly in turbulent environments. Even the most ardent critic of comprehensive rationalism such as Lindblom who prefers the “sin of omission to the sin of confusion” (Etzioni 1968:270)

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4. Aristotle did not distinguish, as did the physical sciences in the 19th century between the two domains of nature, the physical and the social-psychological. Instead, he considered the two as non-separable (Churchman 1979).
now accepts that complex problems require some degree of ‘strategic analysis’ and planning, and that one can aspire to a shift along the spectrum towards synoptic analysis.

The systems approach also points out the weaknesses of incrementalism. For instance, Berry (1974, cited in Buttery 1988) argues that ‘muddling through’ can potentially wonder astray leading to ‘sub-optimality’ that it will be reduced to mere ‘emotional form’ of ‘ad hoc opportunism’. Palumbo and Wright (1980) also point out that the pure incrementalist approach lacks direction and supports Etzioni’s (1968) argument that small steps could simply be ‘circular’ leading back to where they commenced, or to nowhere. Incremental change as a ‘safe’ and ‘risk averse’ strategy could in fact merely complicate an already chaotic system as the ‘butterfly effect’ demonstrates (Gleick 1987). It also has the counterintuitive effect of restraining innovation and is a dangerous reinforcement of inertia and conservatism.

The discussion of the systems approach in this section is highly relevant to the thesis because it is considered the parent discipline of strategic alliance management (Aaker 1998; Kast and Rosenzweig 1974, 1985; Limerick and Cunnington 1993; Limerick, Cunnington and Crowther 1998). Following the systems approach, the author evaluates throughout this thesis alliance cases along four main systems variables, namely organisational environment context, organisation context, alliance management culture and alliance management process.

2.4 Immediate discipline: strategic alliances

It is important to appreciate the now common use of strategic alliances in the 21st century by organisations, both for-profit and not-for-profit, as a means to (1) reduce uncertainty, (2) provide flexibility, (3) provide capacity, (4) provide speed, (5) provide access to resources and skills not owned, and (6) provide information. According to Peter 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.

Similarly, Rosabeth Moss Kanter observes that “[a]lliances between companies, whether they are from different parts of the world or different ends of the supply chain, are a fact of life in business today” (1994:96). Growth strategies and entering new markets have been identified among the top reasons for forming strategic alliances by a Coopers and Lybrand study (Coopers and Lybrand 1997, cited in Elmuti and Kathawala 2001). This observation is in line with Ohmae’s (1992) views that companies simply do not have the time to establish new markets one-by-one. Moreover, “[i]today you have to be in all important markets simultaneously if you are going to
keep competitors from establishing their positions. Globalisation will not wait. You need alliances and you need them now. But not the traditional kind [joint ventures]” (Ohmae 1989:147). According to the Coopers and Lybrand (1997, cited in Elmuti et al. 2001) study, 50 per cent of firms involved in alliances market their goods and services internationally compared to 30 per cent of nonallied participants. Indeed, strategic alliances have become increasingly popular, that “[t]hey have moved from being a way to enter foreign markets of peripheral interest, or of gaining some returns from peripheral technologies, to become a part of the mainstream of corporate activity” (Beamish and Killing 1996:1613).

Coopers and Lybrand (1997, cited in Elmuti et al. 2001) more specifically identify the following types of alliances amongst their clients:

- joint marketing/promotion, 54 per cent
- joint selling or distribution, 42 per cent
- production, 26 per cent
- design collaboration, 23 per cent
- technology licensing, 22 per cent
- research and development contracts, 19 per cent
- other outsourcing purposes, 19 per cent

The rationale behind the use of alliances is sound and no doubt well established in the extant literature. This is so despite initial scepticism by leading business commentators, including Michael Porter who has argued that alliances are mere transitional devices rather than stable arrangements and hence destined to fail (Porter 1990). Porter’s pessimism has been discounted by both Ohmae (1989:144) who submits that alliances are not mere tools of convenience as they are important “instruments of serving customers in a global environment” and Yoshino et al. (1995:103) who argues that “alliances enable firms to focus on and invest in a few selected core competencies, leverage the competencies of other firms, and thereby grow into formidable global competitors”. Because of the utility of alliances so many organisations often rush into joining the bandwagon of strategic alliances. Indeed, Farris (1999, cited in Elmuti et al. 2001) observes that over 20,000 corporate alliances were formed worldwide between 1997-1999 alone while alliances over the past 10 years have doubled and the increase is expected to be unabated (Booz, Allen and Hamilton 1997, cited in Elmuti et al. 2001). Another study conducted by Anderson Consulting, reports that 82 per cent of executives believe that alliances will be the prime vehicle for future growth and that by 2004, they will constitute $25-40 trillion in value (Kalmbach and Roussel 1999, cited in Elmuti et al. 2001; Ettorre 2000:7).

However, as noted in Chapter 1, few alliances succeed as the failure rate has been projected to be as high as 70 per cent. And while much of the literature has been focused on the justification and
formation issues of alliances, the main cause of failure is managerial, hence the focus of this thesis in this area (Chapter 1). Only few alliance managers 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 et al. 1998). Leading business journals are only beginning to discuss this failure rate (Elmuti et al. 2001:206). Also, most of the discussion on alliance management has drawn managerial lessons from the traditional joint venture literature centering on ‘contractual arrangements’ between two companies/partners; however, there is an increasing trend towards multi-company alliances (Elmuti et al. 2001), requiring partners to constantly leverage their portfolio of relationships in order to create and capture value (Doz et al. 1998). For example, a six company strategic alliance was formed between Apple, Sony, Motorola, Philips, AT&T and Matsushita to form General Magic Corporation to develop Telescript communications software (Jacobini and McCreary 1994, cited in Elmuti et al. 2001). Indeed, the job of the alliance manager is relatively easy when dealing with bilateral networks involving two partners as in a typical joint venture; however, it becomes complicated in an alliance network where there is one alliance with many partners, in a portfolio of alliances entailing one partner with many alliances, and in an alliance web comprising several partners and several alliances (Doz et al. 1998:222-223).

The importance of this thesis should be emphasised again here. Firstly, it helps fill the gap in the literature on strategic alliance management and secondly, it fills the current void on the lack of study into alliance management in PNG. Although actual usage of the term ‘strategic alliance’ dates back to the mid-1990s in the context of university-industry partnership in PNG (Baloiloi 1995, 1996), this author has not located any published study that analyses the managerial issues involved in alliance management. This, however, does not imply that strategic alliances have not been in existence in PNG. In fact they have, but have been referred to as networking (Evans 1995), joint ventures or partnerships.

Despite this, it is plausible to assume that such relationships have not been managed as such. More recently the PNG press has been inundated with news about the emergence of many more such alliances. Examples include the option of securing a strategic alliance partner for the national flag carrier Air Niugini (Thomas 2000), the new distribution alliance between InterOil (PNG’s first oil refinery company) and Shell PNG (Post Courier Online 10 April 2001), the PNG-Queensland natural gas distribution alliance between ExxonMobil, Chevron, Oil Search, Orogen, Santos Asia Pacific, Mineral Resources Development Company, Japan PNG Petroleum, Gas-marketing Group (Brisbane) (Post Courier Online 10 April 2001), and a number of banking relationship alliances which serve as the case study cases for this thesis. One PNG commercial
bank, Bank South Pacific (BSP), also reported in its 2000 annual report that it is involved in talking to European banks for ‘beneficial alliances’ (Post Courier Online 6 June 2001).

2.5 Strategic alliance management case reviews

As noted in section 2.2.2 and emphasised by Perry (1994) any review of previous studies ought to be precise with key findings and limitations underscored. Moreover, general links should be extrapolated to the wider body of knowledge and gaps identified for filling by the concerned researcher. In what follows strategic alliance studies are reviewed, first in the West and then later in developing countries. In both areas four major systems variables are used: organisation environment, organisation context, alliance culture and management process; under each variables are sub-variables presented in the classification model (section 2.2.2). This section adopts the above modus operandi.

It must be noted at the outset that the various approaches (e.g. strategic management or network) that emerge from the extant literature and used to examine each component of alliance management in this section (2.5) reflect the different conceptual lenses or Weltanschauungen (Allison 1971; Checkland 1999) which are brought to bear on the different aspects of alliances being analysed as well as respective derived solutions. Therefore greater awareness of what proponents of these approaches bring to the analysis by the reader and author of this thesis will have profound implications for alliance management as well as the validity of this thesis.

2.5.1 Alliance management in the West

2.5.1.1 Organisation environment context in the West

(i) Strategic management approach

Gauging the impact of environmental forces is central to strategic management. This is done through environmental appraisal which is a process by which strategic planners monitor the economic, governmental, supplier, technological and market settings to gauge opportunities and threats to their enterprise (Glueck 1976). Following Glueck (1976), Buttery and Buttery (1998) identify two main component parts of the environment:

- macroenvironment, comprising larger societal forces which affect a company in the pursuit of its operations and would include demographic, economic, technological, political/legal, social/cultural, international and natural forces

- microenvironment or task environment, comprising forces acting in the immediate environment of the firm and which affect a company’s ability to deal with its stakeholders,
namely its customers, stockholders, suppliers, marketing intermediaries, partners and various publics.

The main concern that the environment poses for strategic management is coping with uncertainty. Johnson and Scholes (1999:100) note that environmental uncertainty increases the more that environmental conditions are dynamic or complex; and the appraisal approach to sense making of this depends on the extent to which the environment is stable or dynamic, and also by the extent to which the environment is simple or complex. In simple static conditions, historical analysis and forecasting are appropriate. In more dynamic conditions, scenario planning may be important. However, as the environment becomes more complex as is the current context under which strategic alliances in the West exist, the design of organisation structure and development of a learning culture is crucial.

Strategic management uses a number of techniques for auditing environmental influences depending on the type of environment one is in, as noted above. These include PEST analysis which entails identifying the political, economic, social and technological influences on an organisation or key ‘environmental drivers of change’. It also includes Porter’s Diamond for determining a nation’s competitive advantage or home-based advantages, scenario planning for building plausible views of different possible futures for organisations based on groupings of key environmental influences and drivers of change, Porter’s five forces analysis as a means of identifying the forces which affect the level of competition in an industry (Porter 1980). Moreover, it includes various competitor analysis and organisational positioning methods including strategic group analysis, market segmentation and directional policy matrix (see Johnson et al. 1999; Buttery et al. 1998).

Ohmae’s (1989) view of the global environment is that it is complex, uncertain and filled with dangerous opponents. He notes that companies are just beginning to learn what nations have always known that in this kind of environment it is better not to be a lone-ranger, but to pursue entente – the striking of alliance. He argues that alliances are not tools of convenience but are crucial instruments for serving customers in a global environment. Ohmae (1989:144) uses the example of Glaxo, the British pharmaceutical company, to drive this point home. Due to its costly commitment to topflight R&D, Glaxo could not build an extensive sales and service network to cover all the hospitals in Japan and the United States. Instead, it decided to swap its best drugs with them and focus its own resources on generating greater sales from its established network in Europe. Ohmae (1989) observes that the alliance strategy is necessitated by a world of converging consumer tastes, rapidly spreading technology, escalating fixed costs and growing protectionism.
Ohmae (1989:150) also cautions that because environments change rapidly, joint venture contracts are not appropriate as contracts only reflect the initial appreciation of costs and markets and technologies prevalent at the time of signing.

Hamel and Prahalad (1994) document their experience in studying how senior managers strategise to compete for the future throughout North America, Japan and Europe. They depart from the premise that companies in the West currently face painful upheavals and reflect the failure of one-time industry leaders to keep up with the break-neck pace of industry change. Hamel et al. note that for decades changes undertaken at Sears, General Motors, IBM, Westinghouse and Volkswagen were slow and linear extrapolations of the past. They lament that “those companies were operated by managers, not leaders, by maintenance engineers, not architects” (Hamel et al. 1994:123).

Hamel et al. (1994) attempt to gauge senior managers’ ability to compete for the future by asking them three questions: (1) What percentage of your time is spent on external rather than internal issues – on understanding, for example, the implications of a particular new technology instead of debating corporate overhead allocations? (2) Of this time spent looking outward, how much do you spend considering how the world may change in five or ten years rather than worrying about winning the next big contract or responding to a competitor’s pricing move? and (3) Of the time devoted to looking outward and forward, how much do you spend working with colleagues to build a deeply-shared, well-tested perspective on the future as opposed to a personal and idiosyncratic view?

Hamel et al. (1994) conclude from their study that:

- senior managers, on average, devote less than 3 per cent of their time to building a corporate perspective on the future, in some companies the figure is less than 1 per cent
- restructuring and reengineering predominate in the minds of senior managers, however, these strategies only seek to shore up today’s businesses rather than build tomorrow’s industries because the fundamental problem stems from lack of competitiveness as depicted by stagnant growth, declining margins and falling market share
- companies ought to establish a corporate change team within the organisation comprising some key managers, less-senior managers who are known to be challenging, bright and unconventional to ponder the economic threats to the future, technological changes, develop a view of the company’s competences, opportunities on the horizon, and consider how to devote more company resources to building competences and developing opportunities
- a draft corporate strategy which has been widely debated should emerge and also part of the end result to emerge from this process is leadership development and strategy development
- regenerating strategies and reinventing industries to halt corporate decline is an ongoing process and is different from restructuring and reengineering

Cauley De La Sierra (1995) draws from research findings that emerged from her interviews with senior executives on what companies seek when looking for partners in the period 1984-1986 and initially reported in Business International (1987, cited in Cauley De La Sierra 1995). Her sample included companies such as Corning – which receives approximately 37 per cent of its revenue from alliances and often relies on 50-50 ventures. Cauley De La Sierra (1995) observes that alliances offer the best strategy for taming current turbulent environment in that it provides the ability to share risks and capabilities, thereby minimising the time and resources necessary to develop new technology or product into the market. Taking cognisance of environmental factors alliances enhance a company’s global prowess in that they build global market capabilities, cope with escalating technology and R&D costs, preempt competitive threats, speed innovation and product introduction, cope with the integration of technologies and markets, build world class capabilities, establish global standards, jump market barriers in emerging markets and regional trading blocs, cut exit costs and tap opportunities from the greening of global businesses.

Doz and Hamel (1998) draw from their research into ‘forerunners’ of today’s fluid and uncertain alliances, such as the alliance between computer makers ICL in the United Kingdom and Fujitsu in Japan, and AT&T in the United States and Olivetti in Italy; the relationship between Rover and Honda; the evolution of Airbus; the alliance between Alza and Ciba-Geigy to develop new drug delivery systems; and other alliances. Doz et al. (1998:xi) reconstructed the history of about 20 alliances and traced their evolution in real time over several years. They also tested their emerging generalisations on much wider samples of alliances on which more limited data were collected. Doz et al. depart from the vantage point that more than ever key skills and resources essential to a company’s future prosperity lie outside the firm’s boundaries, and outside management’s direct control. They point out that whether an alliance will stand the test of time depends on its ability to learn and be flexible in the face of change. Alliances, more than any other organisational form, face a trade-off between too much rigidity – where design (e.g. contracts, governance mechanisms and interface formats) becomes a straightjacket – and too much flexibility – may cause loss of balance and direction (Doz et al. 1998:16). From their research, Doz et al. note that managers of enduring alliances master this difficult trade-off by undertaking the following: developing a process of tracking moving targets, periodically renegotiating the ‘bargain’ between partners, and reassessing the value of the options generated by the alliance.
Doz et al. (1998) highlight the major sources of alliance instability as emerging markets, emerging technologies, competitors, evolving partners’ commitment and regulatory changes. They note that unlike the traditional joint venture’s contractual partnership arrangements aimed at static objectives, alliances evolve from a single initial ‘bargain’ to a series of bargains struck over time as conditions change.

Doz et al. (1998:173-174) emphasise the importance of learning to cope with environmental forces; in particular partners need to learn in five key areas: the environment in which the alliance operates, alliance tasks, the process of collaboration, the partners’ skills, and their intended and emerging goals. In order to promote joint learning about the environment their research suggests several approaches:

1. Find and use new common data.
2. Clarify and debate assumptions.
3. Share the ‘whys’. Partners should keep asking each other the question, ‘Why do we/you see the world this way?’
4. Contain personal risks. Appointees to alliance positions need to be self-confident individuals who are not afraid of being challenged, but must have secured positions.

Overall, Doz et al. (1998) found that environmental influences became complex and difficult as one moves from bilateral alliances to multilateral alliances where the number of partners increase and as an individual firm becomes involved in several strategically related alliances. In this regard there are problems of evaluating the environment of competitors, alliance design and governance and maintaining strategic consistency. Doz et al. use alliance network, alliance portfolio and alliance web to capture the differing networks and their environments.

**Insights from the strategic management approach**

- It points out that as the environment becomes more complex, the design of organisation structure and development of a learning culture becomes crucial (Johnson et al. 1999). This is important for alliance managers, being the unit of analysis of this thesis.

- It provides alliance managers with the tools for identifying key environmental influences and drivers of change both at the macro- and micro-environmental level.

- It underscores the utility of alliances by making the point that more than ever key skills and resources essential to a company’s future prosperity lie outside the firm’s boundaries and management’s direct control.

- It highlights the dilemma faced by alliances where design becomes a straightjacket and excessive flexibility can result in loss of balance and direction (Doz et al. 1998).
Limitations of strategic management approach

- It fails to explicitly treat interaction and relationships among organisations as part of the environment and therefore develop tools for their analysis.

(ii) Network approach

Network theory draws mainly from systems theory to understand the impact of environmental forces on organisational structure and interactions. Nohria (1991) makes the point that environmental demands over the years have been responsible for three basic structural forms premised on the Weberian hierarchical form: functional, divisional, and matrix. However, in the last two decades following the seminal work of Best (1990) labelled ‘the New Competition’, describing the rise of small entrepreneurial firms of regional or industrial districts (section 2.4.1) and new industries such as computers and biotechnology, a new organisational structure emerged in response to the New Competition. This is characterised by a network of lateral and horizontal interlinkages within and among firms (Nohria 1992). In addition to the New Competition, a second reason for the increased interest in networks stems from recent technological developments. According to Nohria (1992:2) “[n]ew information technologies have made possible an entirely new set of more disaggregated, distributed, and flexible production arrangements, as well as new ways for firms to organise their internal operations and ties to firms with which to transact”.

That organisation theorists have always viewed an organisation’s environment as critical in any analysis of open systems such as organisations cannot be disputed. However, network theory transcends the tendency of organisation theorists to treat the environment as a black box surrounding the organisation, to talk about such terms as the degree of uncertainty or resource scarcity and to be vague about the source of these pressures. Instead, the network perspective’s key contribution to the literature on alliance management arises mainly from the fact that it accepts that the most significant elements of an organisation’s environment are the other organisations with which it must transact and that knowing the pattern of relationships among them is paramount (Nohria 1992:5). Barley, Freeman and Hybels (1992:312) succinctly capture this view in the following:

Not only are organisations suspended in multiple, complex, and overlapping webs of relationships, the webs are likely to exhibit structural patterns that are invisible from the standpoint of a single organisation caught in the tangle. To detect overarching structures, one has to rise above the individual firm and analyse the system as a whole.

Thus, network theory holds that the environment consists of a field of relationships that bind organisations together. This is also referred to as an ‘interorganisational field’ (DiMaggio and
Powell 1983:143) and these organisations include “key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products”. Nohria (1992) notes that although this view is similar to that of Porter’s (1980) framework for analysing industries mentioned earlier, network theory differs mainly where it pays greater attention to the overall pattern of relationships among the firms in the industry, an issue that is neglected in Porter’s framework (section 2.4.1).

In short, network theory views organisation-environment relations as going beyond abstract notions of environmental uncertainty, resource dependencies and institutional pressures. It endeavours to identify the precise source of these environmental forces by dissecting the pattern of relationships among the organisations that comprise the environment.

Network theory is critical of other organisational theorists’ attempt to typically explain the strategic behaviour of organisational actors such as the creation of alliances among them as being strategic responses to mitigate and manage competitive uncertainties and resource dependencies. It is also critical of the transaction cost approach’s way of explaining alliances as an effective response to conditions where transactions cannot be easily conducted through market contracts, but the transaction costs involved are not so high as to mandate internal organisation (Nohria 1992:11). The above views are taken to task mainly because of the points that these explanations are oblivious to how alliances interconnect to bind the firms into a network of relationships and how the network of relationships that emerges over time shapes and constrains the strategic conduct of firms in alliances. Barley et al. (1992) illustrate these reservations based on their study of the biotechnology industry by pointing out that firms in the industry can be partitioned into different niches based on commonalties in their alliancing strategy, but within these niches a firm also participates in different market segments. Therefore, while the causal direction of the link between alliance and market segmentation strategies is hard to establish, clearly the actions of firms are inevitably shaped by the position they occupy in the overall network. In this situation, it would be erroneous to explain the strategic behaviour of firms in the biotechnology industry without explicitly accounting for the network of relationships among them.

In the same vein, Kogut, Shan and Walker (1992) based on their study of the history of cooperation among new biotechnology firms and their partners in a sample of 87 in the period 1986-1989, conclude that the particular alliances that firms establish over time are a function of their position in the network of relationships in previous periods. Hence, the decision to cooperate is shaped by, and in turn shapes, the network of relationships in the industry. Powell and Brantley (1992) also concur with the above views based on their study in the US of biotechnology
agreement data between 129 therapeutics firms complemented by 81 biotechnology firms in 1990. Their study raises the possibility that the overall network defines a stable ecology that operates a learning system thereby suggesting that the conduct of firms in the biotechnology industry must be understood within the network framework.

Granovetter’s (1985) classic work on the importance of embeddedness to economic actions provides the basis of much work on social interactions to date, not least network theory. Granovetter (1992:47) posits that “economic institutions are socially constructed and that they result from actions taken by socially situated individuals embedded in networks of personal relations with noneconomic as well as economic aims”. It thus follows that an understanding of why institutions look the way they do requires analysis of their process of construction. In this regard the ‘social field’ surrounding, for instance, strategic alliances constitutes its microenvironment (Buttery et al. 1998), regardless of whether the alliance is in the West or a developing country. Kast et al. (1985) refers to the same phenomenon as psychosocial. Hutt, Stafford, Walker and Reingen (2000) also highlight the importance of the dynamic social network or human factors developed by boundary spanners and enveloping strategic alliances in their case study of an alliance between two Fortune 500 firms (Alpha Communications and Omega Financial Services) in the US. Their studies revealed that “people or human factors appear to have remained unconsidered in the alliance research tradition” (Hutt et al. 2000:51), yet these are vital microenvironmental ingredients that determine the success or failure of an alliance. The frequency of alliance communications, the importance of those communications and the closeness of the relationship are vital determinants in this regard.

At this juncture, the author of this thesis wishes to reemphasise the danger of overemphasising the importance of psychosocial factors per se in organisational studies of this nature. Granovetter (1992) himself warns of the dangers of both the under- and over-socialised accounts of structures or institutions. Baker et al. (1998) also warn against overemphasising the importance of relationship in marketing, a process from which market exchange remains central.

Miles and Snow (1994) following in the network theory tradition of Nohria (1991) identify the three traditional organisational forms that predominate in discussions on organisation-environment relations, namely the functional, divisional and matrix forms. They note that the term ‘form’ suggests not only an internal arrangement of resources but an external orientation as well. Thus, an organisational form provides an operating logic that governs both internal and external processes when the form is in use, directs how resources are to be put in use or direct actions, and teaches actors about the rationale for collective action and clarifies internal
relationships (Miles et al. 1994:37). Like Nohria (1992), Miles et al. (1994) note that because the environment conditions the operating logic of each form, forms evolve over time. Given that the current environment is driven by globalisation and accelerated technological pace of change and transfer from one industry to another and from one global market place to another a new form has emerged, the network form. They further add that this rapid change is bolstered by the fact that in every industrialised country, deregulation and privatisation of state-owned enterprises is contributing to technological diffusion and intense competition. Miles et al. (1994:45) note that at least 70 to 85 per cent of the US economy is now in direct contact with and pressurised by foreign competition.

Miles et al. (1994), unlike the network approach of Nohria (1991, 1992) which focuses mainly on interactions between firms as part of the environmental field, bring to the fore the need to take cognisance of the environment and therefore simultaneously align strategy, structure and process to establish what they referred to as ‘dynamic of fits’. They then propose that a company that has a misfit ends up as failure and one that has an early and tight fit ends up as a ‘hall of fame’ (Miles et al. 1994:19). In this regard, Miles et al. based on their long term study of US companies that pioneered the different organisational forms such as Carnegie Steel (functional form), General Motors (divisional form), TRW (matrix form), and General Electric, Wal-Mart and Rubbermaid (network form) conclude that many of today’s successful companies are using the network form as an adaptive strategy.

Within the network form, Miles et al. (1992, 1994, 1995) differentiate between stable networks or kingdom network such as the Japanese keiretsu and Korean chaebol designed to serve mostly predictable markets, and dynamic networks or republic networks designed for unpredictable markets or short term production of a product. However, a caveat Miles et al. (1992) draw this thesis’ attention to is the possibility of failure befalling the network form arising from managerial mistakes in design and operation if care is not taken. Nevertheless, however, the authors’ work underscores the significance of environmental influences on organisational form, strategy, structure and process rather than just interactions and the derived influences of, for example, the nodal position of a company in a network, as seen in the work of Nohria (1992) and others whose works can be found in Nohria and Eccles (1992).

Insights from the network approach
• It contributes to the extant literature on alliance management the point that other organisations with which an organisation must transact and the pattern of overall relationships among them are significant components of an organisation’s environment.
• It underscores the point that the environment field of a strategic alliance determines a dynamic fit between strategy, structure and process.

• It points out that, particular alliances that are established overtime are a function of their position in the network of relationships in previous periods.

• It warns that network failure can arise from managerial mistakes in design and operation and when the network form is abused through overextension and overloading.

**Limitations of network approach**

• It tends to overemphasise the importance of interactions per se and alliance design and structure (Granovetter 1992; Baker et al. 1998; Lorange et al. 1992; Nohria 1991).

### 2.5.1.2 Organisation context in the West

(i) **Strategic management**

Limerick and Cunnington (1993) provide the background to the organisation context in the West in their apt description of four managerial blueprints or mindsets that profoundly affect managerial actions. The blueprints are actually cognitive maps or images of the way organisations ought to be managed, and they impact on managerial choice. Each blueprint is related to a set of social, technological and economic conditions prevalent at each epoch of time in the West. The authors’ arrival at this conclusion is based on their research dating back to 1984, during which time the Australian Institute of Management (AIM) tasked them to study the future of modern management. Limerick et al. (1993) undertook in-depth interviews with the Chief Executive Officers (CEOs) of 50 high-performing business and government organisations in Australia. Initial results were published as Limerick, Cunnington and Trevor-Roberts (1984, cited in Limerick et al. 1998). This study spurred further research, including that of Cunnington in 1988 on spin-off organisations in California’s Silicon Valley and Oregon’s Silicon Forest, and other in-depth interviews by Limerick, Cunnington and an additional partner, Crowther in the ensuing years resulting in a revised addition of the book (Limerick, Cunnington and Crowther 1998).

The authors found organisations in the middle of transforming their organisations into the new organisational form, downsizing, decentralising, venturing into the global markets, forming alliances with overseas organisations and eliciting more proactivity from their internal units. Their cultures were changing too in that they were becoming more individualistic, and yet more collaborative. CEOs were directly involved in attempting to design a new configuration of strategy, structure and culture – a process they call metastrategy which is beyond strategic management. Metastrategic management focuses on managing the very ‘identity’ of the organisation and looks at key stages of the metastrategic cycle during periods of both continuous and discontinuous change. A key concept introduced here is that of ‘self-transcendence’, the
capacity of the new manager or alliance manager to envision the organisation as a whole and to grasp its potentiality to become something different” (Limerick et al. 1993:xvii). Further, in their revised version of the book, the authors examine under metastrategy the creation of action learning organisations and look at the use of learning approaches similar to Checkland’s (1985a) ‘appreciative inquiry’ in designing more satisfying organisations (Limerick et al. 1998).

Table 2.2. The four management blueprints

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<td>Managerial skills</td>
<td>Person-to-person control</td>
<td>Goal setting Facilitation</td>
<td>Rational/ diagnostic</td>
<td>Empathetic</td>
</tr>
<tr>
<td></td>
<td>Efficiency</td>
<td>Self-actualisation</td>
<td>Self-regulation</td>
<td>Social sustainability</td>
</tr>
<tr>
<td></td>
<td>Productivity</td>
<td>Social support</td>
<td></td>
<td>Ecological balance</td>
</tr>
</tbody>
</table>

Source: Limerick et al. (1998:30).

Table 2.2 summarises the key features of each of the four blueprints and is self explanatory. The important portion of Limerick et al. (1993) and Limerick et al. (1998) is their findings relating to the management of strategic alliances and networks. They caution that network organisations should not be viewed as an easy panacea for the ills of the modern environment: “[t]hey are extremely tricky to manage…” and “[w]ithout careful design and management, the manifold advantages of networks are difficult to realise” (Limerick 1998:88). Among the challenges alliance managers face include:

- goal ambiguity and network boundaries
- sovereignty
- asymmetry
- creation of potential competitors
- focus on the short term
- communication and control
- different cultures

Limerick et al. (1998:91-96) then assemble from their studies nine management areas on which alliance managers need to focus, in the Fourth Blueprint where organisations are collaborative
and loosely coupled: (1) liberate your managers, (2) develop your boundary roles, (3) develop your communication systems, (4) get the mindset right, (5) set up the alliance carefully, (6) define the focus, (7) manage the soft issues, (8) manage the hard processes, and (9) manage the network control system.

Another important contribution from Limerick et al. (1998) to this thesis is their amassing of evidence to show another key trend characteristic of the Fourth Blueprint. This is that the alliance manager must realise that the 21st century has become the age of ‘collaborative individualism’, at least in the West. It thus is the dominant culture of network organisations: it stresses the need for individuals to work together with others towards a common vision and mission (Limerick et al. 1998:102). But at the same time it also underscores the individuals’ emancipation, freedom to reject hierarchical organisation and bureaucratic rules.

Limerick et al. (1998) note that managers in the West have moved away from the rhetoric of teamwork *per se* that they were exposed to in the past decades. In the Fourth Blueprint, teamwork is no longer the most important index of good management. Instead, organisations are now “populated by empowered, autonomous individuals who worked together with others, often in groups, but who were not bound by loyalty to those groups as an end in itself. They were bound by a common mission and collaborated, as autonomous individuals, towards its achievement” (Limerick et al. 1998:104). For example, the authors observe that interviews with Australian and US managers were saturated with the language of collaborative individualism, and the management literature in the UK and to some extent Japan also reflects this new world view. Nevertheless, Limerick et al. (1998) are quick to point out that the new worldview is not anti-teamwork, but is a post-teamwork phenomenon. This worldview has been captured in Drucker’s (1993, 1994) knowledge society, Miles et al.’s (1994, 1995) human investment model, Mathews’ (1992) spherical network and Semler’s (1993) autonomous workers. The common thread is that individuals are emancipated by discontinuity, empowered by knowledge and driven by values; the organisation thus becomes the means, rather than the ends, in fulfilling the individuals’ own objectives and the agreed mission.

Alliance managers and general managers of partner organisations would do well in light of the foregoing to identify and/or harness key features, competencies and skills of collaborative individuals for their network organisations. Limerick et al. (1998:120-131) list these as being: autonomous, proactive, empathetic, intuitive and creative, transforming, politically skilled, networking, mature, and lifestreaming.
Lorange et al. (1992) report general lessons on alliance formation, implementation and evolution based on four years of research. The authors interviewed managers with experiences with strategic alliances in Belgium, Brazil, Germany, Italy, Japan, Norway, Sweden, Switzerland and the US. The authors also did a focus study on the Fiat Group of Torino, Italy. This involved 29 prominent European, US, and Japanese firms together with groups of leading executives from Fiat. In their study, Lorange et al. (1992) consider two important components of organisation context, among other things: (a) alliance objectives and control mechanisms, and (b) human resource management issues. They evaluate the implications of these factors for each of the following types of alliances: ad hoc pool alliance, consortium strategic alliances, project-based joint venture, and full-blown joint ventures.

Lorange et al. (1992) infer from their research that there is a direct relationship between alliance goals and values or strategic intent, strategic alliance structure, and the planning and control mechanisms employed. They note that although strategic planning and control are made difficult by the presence of numerous organisations in a strategic alliance, strategic planning processes are pivotal to the implementation of alliances. There is still a need to achieve goal congruence, to avoid information asymmetry, and to reach consensus on how to take corrective measures and adapt over time between several partners (Lorange et al. 1992).

Lorange et al. (1992) discuss four important aspects of strategic planning and control processes: objective setting, strategic programming, strategic budgeting, and control and protection of core competence. First, the authors point out that in an alliance, it is important that the objective-setting process allows for a sharing of outlooks regarding goals, that a common information base is established, and that the programme is highly interactive, based on broad representation among the relevant focal parts of the partners.

Second, Lorange et al. (1992) highlight the importance of establishing a clear picture or responsibility matrix of the roles of each focal member organisation in each of the strategic programmes as well as the vital need to consolidate the various planning roles of each focal organisation. To underscore the importance of this point the authors give the example of the alliance between San Miguel and the New Zealand Dairy Board to produce cheese products in the Philippines. Difficulties in coordinating programming arose where the two partners were unable to establish punctual and stable production, owing to delays in the supply of raw materials from New Zealand. The partners’ failure in this regard helped competitors gain market share.
Third, Lorange et al. (1992) discuss the need for each partner in an alliance to explicitly commit the necessary resources in the form of managers, technologies and funds for a strategic programme. Among the resources the authors consider paramount, as it indicates congruence in strategic intent, is the commitment to the alliance of first-string executives, and not second- or third-string executives.

Fourth, notwithstanding the fact that cooperation achieves certain strategic intent better than going it alone, senior executives must seek a balance between the need to play with open cards and what might happen after termination or failure. Lorange et al. (1992) point out that this is a delicate issue and therefore should be attended to with care and sensitivity. The authors note that it is not unreasonable “that a partner maintain for itself some unique proprietary skills and know-hows to be used as latent protection against the other partner in potentially adverse circumstances” (Lorange et al. 1992:110). This action is known as a ‘black box’ and should be part of a partner’s portfolio strategy. An example of how the black box concept works is demonstrated by Coca-Cola which manufactures its syrup using a secret formula, in its wholly-owned plants and distributes this to its franchising partners, the world over. However, in order to avoid ill feeling, each partner should recognise that a reasonable black box protection is fairly legitimate.

In addition to the use of the black box for protecting core competence, Lorange et al. (1992) highlight the usefulness of ‘non-financial strategic control’ and ‘financial control’. The authors observe from their study that “legal contracts alone do not make alliances work, and majority legal ownership does not equal effective control” (Lorange et al. 1992:112). Likewise, a power-based attitude towards control does not induce a cooperative spirit. Therefore, non-financial strategic control can be exercised in a number of ways, depending on alliance structure:

- by being heavily involved in the planning process and in the follow up reporting on strategic progress
- assigning stronger managers to the alliance
- assigning to the board executives who are also active in the parent’s own business
- routine monitoring of responsibility matrix to ensure partner delivery on commitments and to detect potential problems early
- a pragmatic problem-solving atmosphere without avoiding sensitive issues
- strong partnership agreements among partners on how to share sensitive output from the alliance (e.g. technological ownership and/or handling of geographical territory issues), and strategic surveillance of such agreements
• take out minority, cross-ownership financial stake in partner(s) in relatively loose networks

Lorange et al. (1992) identify various vehicles for financial control in alliances, but also point out that such a mechanism of control must be made compatible with the parent’s control systems and needs to avoid duplication. In addition to tightly monitoring the revenue figures, the following factors are equally important for monitoring purposes:

• critical underlying assumptions to obtain early warning signals necessary for strategic direction modification

• scanning the environment

• strategic programme progress

• assessing competitor and customer responses

• strategic budget expenditures

Lorange et al. (1992) conclude from their evaluation of goal setting and control mechanisms the following points:

• strategic intent must be constantly evaluated against new environmental conditions

• neither classical budgetary control nor a strong black box position is sufficient to address the critical control issues in alliances; what is required is an integrated approach to planning and control based on a complementary set of approaches with a relatively large set of executives from parent organisations to ensure that alliances stay on their tracks

• differences in strategic intents can lead to shifts in what to emphasise when it comes to data interpretation and control focus

• the size and complexity of an alliance dictate the relative emphasis on formal planning and control as well as the speed of response to opportunities and threats

In addition to goal congruence and control mechanisms, Lorange et al. (1992) consider the management of human resources as an integral part of strategic alliance management. The authors view human resource as a strategic resource similar to financial resource that ought to be managed in an explicit, proactive manner. People represent core competencies which need to be identified and groomed (Lorange et al. 1992). Failure to develop human resources and core competencies as a strategic resource within a strategic alliance may result in loss of long-term strategic future attainment.

Lorange et al. (1992) identify six issues from their research to be of importance for management of human resources and core competencies within strategic alliances:

1. Assignment of managers to strategic alliances: who should be assigned where.
2. The human resource transferability issue: who controls a particular manager.

3. The trade-off in time-spending between operating and strategic tasks among various managers involved in the strategic alliance.

4. Judgment calls regarding the performance of the human resource in the established strategic alliance: how to avoid biases.

5. Human resource loyalty issues: the strategic alliance versus parent.

6. Individual managers’ career planning issues: how they can achieve career progression through strategic alliance assignments.

Lorange et al. (1992) then draw implications from each of the issues for each of the four strategic alliance archetypes noted earlier. Within an ad hoc pool, strategic alliance executives view their assignment as short term with clearly defined tasks. The job they do at the alliance level is merely viewed as part and parcel of their list of activities done at the parent level and therefore not considered separate. Performance measurement is based on what share the executive is able to deliver to create the intended output measure for the pool.

In a consortium strategic alliance, most of the observations above do apply, except that a larger number of executives are involved. This is where individuals tend to build up success patterns in the eyes of the parent partner through how well they have adapted to undertake roles in successive consortia assignments (Lorange et al. 1992). The necessary qualities for a successful career include flexibility, cultural sensitivity and other teamwork skills. Examples of project teams include the project partners being currently led by ExxonMobil to construct the PNG-Australia gas pipeline (Post Courier Online 10 April 2001).

In project-based joint ventures, executives tend to be evaluated on their individual or group ability to undertake a ‘shoe-string role’ in such an alliance over time (Lorange et al. 1992). This type of human resource management requires executives who are entrepreneurial and have the ability to survive without much parental support. The downside, however, is that they become difficult to bring back to the parent organisation later on because of the nature of their general skills.

The issue for the executives in the full-blown joint venture organisation is one of being assessed on how well on the whole the strategic alliance functions. Because loyalty is primarily to the joint venture, normal human resource management procedures predominate.

Key conclusions that can be drawn from the Lorange et al. study on human resource include:
• human resource management function generally differs dramatically in strategic alliance contexts relative to wholly-owned corporate settings
human resource management function may differ dramatically among the four types of alliances identified in the study

human resource management function within all types of alliances must undertake two types of tasks: (a) it must attempt to assign and motivate people in appropriate ways to ensure value creation with attention to appropriate job skills, compatibility of styles, communication compatibility, and so on, and (b) to sustain and enhance their competencies with a view to repatriating personnel back to parent firms

Yoshino et al. (1995) report their findings from several years of research on strategic alliances culminating mainly in a road map to alliance formation. A chapter of their work is, however, useful to this thesis as it addresses issues surrounding the work of the alliance manager. Because much of what they have to say has been reviewed in section 2.2.1 it will suffice here to highlight only the key themes from their study. First, Yoshino et al. (1995) clearly delineate the differences in the challenges faced by the alliance manager from that of a single organisation’s general manager. Alliance management is riddled with problems pertaining to ambiguities in partner agendas; difficulties in changing, particularly, American managers’ competitive mind-sets; coping with the tyranny of details in alliance management; complex systemic issues associated with interrelationships among strategy, structure, systems, and staff in the participating organisations; network problems as they evolve into network of alliances; and the uniqueness of the challenges distinct from either hierarchical subsidiary relationships or arms-length buyer-seller relationships.

Second, following on from the above the authors describe the key tasks of alliance management as to: (a) promote widespread understanding of an alliance, (b) protect and augment core competencies, (c) change the managerial mind-set of those associated with an alliance, (d) secure and expend additional resources, (e) coordinate among functions, (f) anticipate and coordinate a network of alliances.

Third, in addition to the foregoing general tasks for alliance management, are five critical tasks, which directly fall within the domain of the alliance manager, depending on the alliance structure:

1. Establish the right atmosphere with counterparts in partner firms through ‘right chemistry’ or organisational trust, appreciation for cultural and language differences, familiarity with a partner’s strategy, organisation and culture, and producing early tangible results.

2. Monitor partner contributions along the dimensions of delivery and quality according to the nature of contributions, either tangible or intellectual.

3. Recognise the importance of information flows as alliances involve the flow, exchange, processing and utilisation of information.
4. Reassess strategic viability because the needs of a firm change over time.

5. Recognise the importance of internal relationships because at the end of the day functional and divisional managers perform the necessary tasks to attain alliance goals.

Fourth, because alliance managers can only influence, not order, to get the job done, Yoshino et al. (1995) deduce from their study key qualifications for the job. Firstly, an alliance manager must have ready access to the general managers of participating organisations. If the alliance strategy is closely aligned to the parent’s business strategy then the alliance manager must be in a position to understand the firm’s strategy as well as have a voice in its formulation and implementation. Being part of the general manager’s team enables timely resource mobilisation and allows for prompt intervention to resolve competing priorities where numerous projects are involved.

Secondly, because organisational status alone does not suffice for successful execution, a manager should possess intimate knowledge of the organisation, extensive personal networks, and above all, credibility with managers at all levels (Yoshino et al. 1995). Credibility accrues to the alliance manager who possesses a clear grasp of the business of which an alliance is part and who is thoroughly familiar with the structure and industry economics, the company’s position relative to key competitors, and its strategy regarding the concerned business.

Thirdly, personal attributes as well as professional qualifications have a bearing on the effectiveness of alliance managers. These include flexibility, interpersonal skills and the capacity to build long term trust. Because the alliance manager acts as the ambassador, intermediary and ‘point man’, [s]he has to set the tone for the overall relationship. The litmus test for an alliance manager is not short-term relationship management with partners, but an enduring alliance relationship. In general, Yoshino et al. (1995) note that the qualifications and skills of an effective alliance manager and a good general manager are similar, except that the former must work with people over whom they have no direct authority. In fact, many companies are now beginning to view the job of an alliance manager as excellent training for future general managers. Ultimately, the operative word is ‘leadership’.

Cauley De La Sierra (1995) documents the findings from her study into how global alliances structured and managed alliances in the period 1984-1994. Her study is based on in-depth interviews with over 50 companies. Cauley De La Sierra’s work has important implications for this thesis as she addresses issues relating to (1) change and conflict management, (2) human resource, (3) alliance learning, and (4) causes of alliance failure.
Cauley De La Sierra (1995) notes three guiding principles for a fruitful cross-cultural alliance: (a) partners should treat each other as equals, (b) tap the support of the partner’s senior management, and (c) respect – do not fight – diversity. She observes that more than anything, it is attitudes, how partners view and treat each other, that shape the management dynamics within an alliance. She then discusses a number of steps aimed at better managing change and conflict gleaned from several alliances including Diamond Star Motors, CFM International, Ford-Mazda alliance, GE-Fanuc link, ICL-Fujitsu alliance, Fuji Xerox and Westinghouse-Mitsubishi alliance. The steps include: employ a ‘shoot the messenger’ strategy, have alliance executives jointly set milestones, steer the alliance clear of the goals and strategies of the parents, prepare alliance managers on basic alliance operating principles, eliminate product overlap, tap a seasoned alliance coordinator to mediate, and treat flexibility as a virtue.

Cauley De La Sierra (1995) then deduces from her study crucial components for maintaining a competitive alliance, namely designing a solid management and human resource base, fostering close communications links and reducing the risks of cooperative-competition. The first point she makes herein is that alliance success largely depends on the character and leadership qualities of the executives charged with running the venture. She notes that the real challenge therefore is to find executives with both leadership and management qualities and observes that some alliances place two or more individuals at the helm to both lead and manage. She gives the examples of Nippon Sheet Glass/LOF Glass joint venture in Kentucky where there are two directors and Siemens Electronics in the US, where three executives function together as the president’s office.

More specifically, Cauley De La Sierra (1995) states that generally most companies with alliance experience would recommend that alliance managers should possess the following requisite qualifications:

- be a technician who is culturally well-versed
- be a manager with strong potential for upward mobility
- be a good listener
- possess executive talents that match alliance conditions, e.g. cash cow or new business
- well-respected liaison

Such talents could be drawn from three pools: corporate headquarters, outsiders and subsidiaries.

The second point she makes relates to communication. She notes that executives studied by Cauley De La Sierra rank effective and continuous communication as a key ingredient in alliance management. This requires that a clear communications infrastructure is laid, multiple links with a single partner established but with clearly marked gatekeepers as is the case in the ICL-Fujitsu
alliance, and multiple links with multiple partners as in the Corning experience where there is a wide network of partners and ventures. And thirdly, because of the common risk that allies are often also competitors, a number of safety steps are recommended: foster mutual dependence as a protective shield, ensure that the objectives and goals of the partners do not diverge, establish an alliance coordination unit, ensure all employees understand the risks of collaboration, and pay attention to questions as well as answers.

Moreover, the Cauley De La Sierra study emphasises that alliances can be used to build knowledge and skills. But at the same time it must be acknowledged that the constant flow of information in an alliance could have both benefits and risks, i.e., information gained may also mean information lost (see also Hamel et al. 1989; Badaracco 1991). For example, Chrysler ceded control to Mitsubishi Motors in the Diamond Star Motors (DSM) venture in order to learn skills for its own use. It employed the following tactics: (a) adopt a top-down commitment to learning, (b) encourage company-wide visits, (c) map out a training programme in advance, (d) identify high-potential managers for training, and (e) recommend individuals with open minds for training.

Furthermore, Cauley De La Sierra (1995) reviews the reasons, from 30 ventures, for partners to part with some having their goals fulfilled while others not. The causes of failure are important for this thesis as they have implications for alliance strategy, structure and process. These are illustrated by way of scenarios (Cauley De La Sierra 1995:190-207):

1. Changes in strategic objectives and focus.
2. Changes in corporate leadership.
3. False expectations about partners’ capabilities.
4. Same bed, different dreams.
5. Inability to cope with diverse management styles and cultures.
6. Unrealised market expectations.
7. Cooperation sours in the market place.
8. Financial crunch forces premature exit of partner(s).
9. Partner(s)’ intention to use alliance as a strategy to exit industry.
10. Partner forces weaker partner to sell for own benefit.
Child et al. (1998) present their findings on strategies for cooperation arising from their joint and individual research in China, Eastern Europe and a range of strategic alliances in developed countries. A chapter of their work on managing cooperation is of importance for this thesis where they discuss (a) general management, (b) control mechanisms, and (c) human resource management.

Child et al. (1998) discuss general management under the roles of the alliance manager, ways to generate and maintain cooperation, appropriate organisational arrangements together with clear information flows, and alliance management qualities. Child et al. (1998) quoting Beamish (1988) and Schaan and Beamish (1988), point out that alliance managers on the whole perform the same functions as general managers of a unitary firm, namely as:

1. **Decision-makers**: innovator, resource allocator, negotiator, and disturbance handler.
2. **Internal integrator**: leader and teambuilder.
3. **External integrator**: figurehead and networker.
4. **Information manager**: monitoring, disseminator and spokesman.

However, in the case of alliances because alliance managers are answerable to two or more partners and because they normally have to integrate staff who hail from different organisational and societal cultures, additional requirements arise for each of the traditional functions noted above. For example, whilst the decision-maker in a unitary company can easily initiate change, the alliance manager’s job of an IJV takes on the added complication of convincing not only the parent companies but the IJV’s own board as well. These additional difficulties stem from two features of alliances: (a) the presence of multiple principals, and (b) the cultural heterogeneity that has to be managed within a cross-cultural alliance. Thus the alliance manager has to grapple with ‘role conflict’ and ‘role ambiguity’ (Shenkar and Zeira 1992).

Another issue discussed by Child et al. (1998) under general management is maintaining cooperation. The authors quote Faulkner’s (1993) chi square test of 67 international alliances which found significant correlation between alliance success and (a) commitment by partner top management, (b) mutual trust between partners, (c) sensitivity to partner’s culture, and (d) congruent partner goals, to a lesser extent.

Child et al. (1998) also found, in terms of alliance structure, that clear well-thought-out arrangement, and dissemination of information within, were associated with alliance success. The specific requirements include:
• the establishment of clear dispute-resolution mechanisms
• in joint-venture alliance, clear authority vested in the chief executive
• a divorce mechanism agreed at the outset
• processes for wide dissemination of information within the alliance

And in terms of alliance management qualities, Child et al. (1998) quote Yoshino et al. (1995) who emphasise the need for internal managers to possess the broader strategic awareness which is necessary for operating on a global scale, and for alliance managers who are responsible for domestic alliances to understand and accept the strategic rationale for alliance and the business objectives the partners place upon it.

A second task Child et al. (1998) undertake is to evaluate control issues as part and parcel of general management. The authors recognise that control in alliances does not necessarily have to be an ‘all-or-nothing phenomenon’ unlike in unitary organisations. Instead, control can be exercised by parents focusing on (a) specific activities, (b) decisions, or (c) processes based on what they perceive to be critical 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). For example, Child, Yan and Lu (1997) found in Sino-foreign equity joint ventures that foreign- and local-partner control was focused on those areas of alliance activity where competence advantages were enjoyed. Thus foreign partners had the greatest control in technology, quality maintenance, and marketing, while personnel and welfare were in Chinese control. Foreign partners are also likely to control the alliances’ financial management in view of the problem of corruption. We return to this point later in the developing country section (section 2.5.2).

Child et al. (1998) make an important contribution to this thesis in analysing the extent of control in collaborations. The authors observe that in their study of the Rover-Honda and RBS-Banco Santander alliances, control lies in two major focal dimensions (Child et al. 1998:195):

1. The ‘gatekeeper’ role established on both sides to ensure accurate communication between the two companies. Gatekeepers have to monitor implementation, guide the joint activities to the productive stage and keep partner top managers informed of progress.

2. The top managers of the joint company project teams upon which the economic success of the alliance depends have a role of equal importance to that of the gatekeeper.

A major downside with control in the collaboration form of alliance, however, stems from the lack of formal management structure, board of directors, or equity holdings, which therefore
results in weak control. Nevertheless, over-control is less inherent in collaboration because of flexibility.

A third task relates to the discussion of human resource as pertinent to general management in alliances. Child et al. (1998) discuss human resource with implications for alliance cultures, alliance control, organisational learning and alliance manager qualities. The authors point out from their study on human resource issues in Sino-foreign joint ventures, that appropriate human resource management policies can facilitate the fostering 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 (Child et al. 1998). Therefore, great importance needs to be attached to the selection criteria applied to the recruitment of managers and staff work in and with an alliance. The authors suggest that such criteria should not just emphasise technical competencies, but also the openness and flexibility of candidates’ attitudes to team work with partner companies. Appropriate attitudes in turn can be further developed through training and reinforced by the systems adopted for performance appraisal, reward and promotion (Child et al. 1998:213-214). IJVs in particular require the initial breakdown in internal cultural barriers and blockages to mutual understanding.

Child et al. (1998) view the recruitment and staffing of alliances as crucial control mechanisms. The authors cite the work of Child et al. (1997) who observe that the holding of senior management positions especially that of general manager and financial manager are important bases for partner influence. This adds to control leverage offered by equity share and the provision of non-capital resources.

In addition to occupying key positions to exert influence, Child et al. (1998) cite the work of Frayne and Geringer (1990) who view that the training aspect of human resource management offers three control benefits: (a) removing performance deficiencies, (b) generating behaviour consistent with that of parent companies’ cultures, objectives and interests, and (c) establishing and maintaining a unique culture for alliance cognisant to its specific circumstances. Moreover, performance appraisals and compensation and reward practices are also important control mechanisms.

Child et al. (1998) strongly argue for human resource management to provide a supporting climate and appropriate systems to increase the knowledge embodied in people, particularly in competitive collaboration. Knowledge is considered here as competencies, which are fundamentally information-based invisible assets, that cannot be purchased and whose market
value cannot be easily established and controlled. These include management and organisational skills, knowledge of the market, and technological know-how.

Child et al. (1998) consider the appropriate competencies of alliance managers as vital to the implementation of strategic alliances. There are many traits that have been identified by many as necessary for alliance management. However, it will suffice here to identify only the key personal characteristics from which the necessary traits (e.g. global vision and understanding, and ability to work in teams) can be derived. These include: open-mindedness, flexibility, self-confidence, sensitivity to others and a multicultural experience (Child et al. 1998:221). Complementary to the above are the basic requirements of ability, drive to achieve and requisite technical knowledge. Child et al. (1998) note that when selecting alliance managers and employees, human resource management ought to assess the extent to which candidates have these characteristics.

Doz et al. (1998) further contribute to the position of the strategic management approach in the alliance organisation context. The nature of their study has been previously described in section 2.5.1.1 (i). The main contribution of Doz et al.’s (1998) study to organisational context is towards (a) alliance value, (b) alliance design and learning, and (c) multiple alliance management.

The alliance manager’s job and direction is determined by the value creation goal of the strategic alliance. Most strategic alliances pursue the following goals:

- building ‘critical mass’ in a specific or new market by gaining competitive strength through ‘co-option’
- reaching ‘new markets’ by ‘leveraging cospecialised resources’
- ‘plugging skill gaps’ by gaining competence through ‘internalised learning’

In the process, according to Doz et al. (1998) alliances may also find themselves creating their own value in the race for the future while pursuing the race for the world, through:

- building nodal positions in coalitions aimed at creating new markets
- creating new opportunities by combining skills and resources
- building new competencies faster than would be possible through internal efforts

But in order for the alliance benefits of co-option, cospecialisation, and learning and internalisation to accrue, the alliance manager and parent general managers have to pay attention to the following tasks (Doz et al. 1998:90-91):

- assessing contributions
- agreeing on alliance scope
- understanding joint task demands
- defining and measuring progress
- keeping time
- anticipating points of tension
alignment of strategic interests to avert strategic incompatibility over time

Doz et al. (1998) then make the important point that alliance design, over which managers have substantial control, can be used to prevent needless conflict and foster cooperation. The authors further argue that design can be part of the problem or it can be part of the solution. Doz et al. (1998:120) identify four features of design relating to alliance configuration and coordination: (1) operational scope, (2) configuration and valuation of contributions, (3) alliance governance, and (4) alliance interface.

Doz et al. (1998), however, raise two important caveats vis à vis the utility of designs: (a) design features cannot solve all partner conflicts and that clever design is no substitute for strategic compatibility, and (b) conflict is not always bad, suppressed conflict precludes learning about different perspectives and therefore usually leads to failure.

The authors emphasise the need for alliance managers and parent managers to monitor and address possible gaps that may emerge in the evolution of an alliance. These gaps relate to alliance strategic and organisational context, content on which cooperation must focus, and processes through which cooperation must be achieved. These gaps include (Doz et al. 1998:166-167):

1. Frame gap, relating to sensemaking of the relationship by different partners.
2. Expectations gap, relating to benchmark and actual performance.
3. Organisational context gap, relating to compatibility in partners’ structure and process for decision making, work, organisation and performance, and organisational learning.
4. Confidence gap, relating to degree of personal commitment and personal risk taking.
5. Skill understanding gap, relating to the need to combine and blend differentiated skills where process integration is required.
6. Task definition gap, relating to the need to define a concrete set of tasks.
7. Information gap, relating to information sharing.
8. Time gap, relating to balancing of costs and benefits in perspective over time, for each partner and between partners.

Doz et al. (1998:206-207) report that the learning intent was central to all the alliances they studied; competence learning took place through several key processes:

1. Senior management communicated and reiterated the learning intent.
2. Learning was disaggregated into a sequence of steps, arranged in some logical order of growing complexity.
3. The interface was designed with learning in mind.

The authors bring to the attention of this thesis the enormous complexity in the job of the alliance manager in managing bilateral and multipartner alliances. The authors distinguish between the following types of alliances (Doz et al. 1998:222-223):

1. Alliance network, comprising a single alliance between many comparable partners (e.g. networks of accounting firms in various countries or a network of cooperative banks).

2. Alliance portfolio, comprising a set of discrete bilateral alliances entered into by a single partner (e.g. Corning has many alliances but manages them as separate portfolios).

3. Alliance web, comprising several partners engaged in several alliances that are more interdependent than a portfolio with no uniform structure compared to a network. Doz et al. note that not all firms want to maintain stable coalitions as this only enables competitors to copy technology (e.g. Sun Microsystems thrives in dynamic networks as it seeks out to learn more rapidly than its competitors and hastens innovation to market faster on its own).

Finally, key principles for success in collaborations are outlined. These include the following internal factors (Doz et al. 1998):

1. Strategic architecture to turn a clear strategic intent to reality.

2. Relative wealth where resource-poor but ambition-rich firms commit to alliances; such firms are often small and rapidly growing firms.

3. Balance cooperation and competition.

4. Commitment and flexibility of employees.

5. Capacity for constructive dialogue necessary for learning, reassessment and readjustment over time.

**Insights from strategic management approach**

- It sheds light on the important function of the alliance manager in leveraging key interrelated subsystems to achieve strategic intent and strategic competitive advantage, namely: goals and values, human resource, structure and control, technology, communication and learning. The outcome differs for different types of alliance designs, e.g. ad hoc pool alliance, consortium strategic alliance, project-based joint venture and full-blown joint ventures.

- It illuminates the need in the West, due to discontinuity and increased knowledge, for alliance management to revolve around harnessing ‘collective individuals’ and to manage ‘meaning’ (Limerick et al. 1998). This requires the alliance manager to possess the quality of ‘self-transcendence’, i.e. to envision the organisation as a ‘whole’ and liberate the individual within.

- It highlights the importance of both financial control and non-financial strategic control. In fact, legal contracts, majority equity and power-based attitude towards control do not necessarily render effective control.
• It considers human resource as a strategic resource similar to financial resource that needs to be actively managed to capture and create value for partners. The recruitment, staffing, training and rewarding are crucial control mechanisms.

• Because an alliance manager can only ‘influence’ to get the job done his/her qualifications should entail accessibility to the general manager of a participating organisation, reflect strong potential for upward mobility, well respected liaison, possess technical competence and executive talents that match alliance conditions, and have appropriate personal attributes including self-transcendence, flexibility, interpersonal skills, cross-cultural skills and capacity to build long term trust (Yoshino et al. 1995; Cauley De La Sierra 1995; Child et al. 1998; Limerick et al. 1998).

• It highlights the fact that while the alliance manager performs the normal roles of a single firm’s general manager such as being a decision maker, internal integrator, external integrator and information manager, additional requirements stem from two features of alliances: multiple principals leading to goal ambiguity and cultural heterogeneity (Child et al. 1998; Limerick et al. 1998).

• Control in alliances, unlike in unitary firms does not have to be an ‘all-or-nothing phenomenon’. Instead, control can be exercised by parents focusing on (a) specific activities, (b) decisions, or (c) processes based on what is important to them (Child et al. 1998). Only strategically important activities can be controlled rather than the whole alliance. For example, in collaborations control lies in two focal dimensions: the gatekeepers and appointment of top managers to joint project teams.

**Limitations of strategic management approach**

• It tends to emphasise one factor over the other resulting in ‘one best practice’ strategy. Presenting a universal approach may result in neglecting the particular cultural and environmental environments of developing countries such as those of PNG.

(ii) **Network approach**

As has been noted earlier in this thesis, the network approach tends to emphasise the importance of interactions, alliance design and alliance structure. Following this approach Hutt et al. (2000) report findings from their case study of two Fortune 500 firms (Alpha-Omega alliance) as they developed a co-branded product in a contractual alliance without the exchange of equity. Data was gathered from the entire network of alliance participants, including the core team and a cadre of senior executives in the two firms. The study was done at a time when the alliance was stabilising and moving into its second year of operation. The study is premised on the hypothesis that “many alliances fail to meet expectations because little attention is given to nurturing the close working relationships and interpersonal connections between ‘boundary spanning’ members that unite the partnering organisations” (Hutt et al. 2000:51). They further point out that theories of exchange ignore the human or people factors in the alliance research tradition.

To map the alliance social network, Hutt et al. (2000) sought to capture the overall (a) alliance ‘social architecture’, (b) communication patterns, and (c) beliefs that divided them. This was done
in a three-step study: first, an in-depth interview with 18 managers who were centrally involved in forming and implementing the alliance was conducted to examine participant goals; second, to examine the pattern of relationship and communications, data on 42 managers from both firms (22 Alpha managers and 20 Omega managers) were collected via survey, and third, personal interviews with each of these managers were conducted to pinpoint specific beliefs through the evaluation of trust, compatibility and commitment.

A number of key observations are made at the outset by Hutt et al. (2000) concerning the alliance between Omega Financial Services and Alpha Communications. Hutt et al. (2000) confirm the network approach’s position that views strategic alliances as a reflection of past acquaintances by noting that the partners of the Alpha-Omega alliance had been close customers and suppliers of each other for years, arising from personal ties at the executive level.

Omega Financial Services’ motive in the alliance was to halt the slide in its market share, which was partly due to Alpha’s entrance into the financial services market. Alpha’s motive on the other hand was to hedge on Omega’s established reputation in order to expand its core business in telecommunication networks through increased communications and billing data transmissions. Alpha’s intention was also out of fear that Omega, given its strength, might ally with one of Alpha’s competitors. Thirdly, because of a ‘clash of corporate egos’ the negotiation process was a protracted one taking up to almost a year – three months to cut the deal and nine months to protect each other’s corporate assets.

From Hutt’s et al. (2000) study, specific observations emerge. To help improve rapport between the partners a ‘working vacation’, in the first year of the alliance, that provided many relaxing social opportunities, was instituted followed by social meetings to foster friendships and personal relationships. As time went on, however, “the positive effects of team building and meetings appeared to be short lived” in the actual office settings (Hutt et al. 2000:55). Omega personnel accused Alpha of being too bureaucratic and not assigning enough senior personnel to the alliance who could make decisions on the spot. Instead, according to the Omega core team there was always someone different at Alpha for every little thing one had to do. Alpha’s high turnover rate was also a sore point.

Alliance managers from both organisations also accused each other of unnecessarily withholding vital information. Alpha in particular was accused of unwillingness to openly share details necessary to execute the alliance. This was because all of its alliance personnel were junior managers who were unable to distinguish nonproprietary from proprietary information. And then
by the end of the first year Alpha, who had put in little effort to the cobranded product, was accused by Omega of having over-inflated performance expectations when profits were modest.

Omega on the other hand placed high strategic importance on the alliance unlike Alpha and therefore assigned higher level personnel to the alliance who were empowered. Whereas Alpha allowed all of its participating managers to discuss alliance matters with their Omega counterparts, Omega had designated only ‘one key knowledgeable manager’ to deal with alliance-related communications (Hutt et al. 2000:55).

The overall patterns of relationship and themes were gauged in the second phase of the study where managers were asked to evaluate each of their contacts within and without the partnering firms on three dimensions: the frequency of alliance communications, the importance of those communications, and the closeness of the relationship. At the outset, Hutt et al. (2000) differentiated between core participants – those with strong communication and closeness linkages with others in the alliance – and peripheral participants who although assigned to the alliance, had weak communication and friendship ties in the social network.

As expected Hutt et al. (2000) found that Alpha managers with strong social ties were predominantly junior and middle managers mainly from marketing and to a lesser extent from the computer systems function. Alpha personnel with weak ties were either senior managers or junior and middle managers in the customer services function. Thus, according to Hutt et al. (2000) the communication and friendship network within Alpha failed to tightly integrate its management levels and functions.

Omega managers on the other hand, who had strong communication and friendship ties represented all levels of Omega’s management hierarchy in marketing, systems and customer service (Hutt et al. 2000). Whilst Alpha’s alliance manager was a middle manager from marketing, Omega assigned two alliance managers, a vice president and a marketing director who forged close communication and friendship linkages with partnering managers. Also, whereas Omega designated a junior but key boundary spanner from marketing for communicating all alliance-related information, Alpha had a large number of junior managers as boundary spanners who were also from marketing.

Hutt et al. (2000) also examined three relationship characteristics: trust, commitment and compatibility. The idea was to decipher the meaning that managers ascribed to these relational dimension factors that built and/or eroded trust, commitment and compatibility.
In general, Alpha managers held a constructive view of the alliance, whereas Omega managers were more negative. Omega was more likely to blame Alpha for many of the alliance’s shortcomings and both sides rarely attributed self-blame. Of the relational terms studied, trust generated the most interest relative to commitment and compatibility. This scenario is indicative of two fundamental backdrops: one is that the alliance was more strategic to Omega than to Alpha and second, the alliance was embedded in a contentious competitive environment.

The study found that in discussing trust three dominant themes emerged: communication, competition and integrity of team members. Both partners agreed that integrity (i.e. honesty) was important and that opportunistic behaviour and underlying motives were of greatest concern and assumed the largest role in derailing trust. Communication frequency and openness were also identified as key drivers of trust. For example, Omega frequently blamed Alpha for not communicating problems and for being too cautious and careful on all alliance matters. Also, the fact that both parties were competitors in the financial services industry clearly provided an environment not conducive to launching a cobranded product in the same industry. Fears of leakage of proprietary information to competitors with whom each partner was aligned proved a real threat to each partner’s competitive position. It also stunted the development of deep social ties.

On the commitment theme, the alliance managers identified three themes: senior management involvement, dedication of alliance team members to shared goals, and alliance outcomes (e.g. current results and future expansion plans). Both Alpha and Omega viewed the actions of senior leadership – including willingness to invest resources, personnel assignments, and direct hands-on involvement – impacted more on perceptions of alliance commitment. Also, both partners viewed dedication of team members to advancing the alliance as an inherent component of commitment, although perceptions differed on how each partner actually fared. The alliance performance theme was, however, the only one on which both partners agreed – that the alliance was a success and that success begets commitment.

Finally, the compatibility theme attracted four dimensions from the alliance participants: firm size and status, goals and values, policies and procedures, and interpersonal relationships (Hutt et al. 2000). On the surface both partners were large and successful firms and appeared compatible. Alliance managers agreed that goals and values were aligned and that the alliance made sense. However, Hutt et al. (2000:59) found that compatible goals and similarities in size and stature were not enough, the inner workings of alliance must be compatible too. In this case, there were
marked incompatibilities. Policies and procedures of both firms were incompatible and one partner (Omega) resented the other partner’s (Alpha) bureaucratic structure, which was blamed for much of the decision-making impasse.

Hutt et al. (2000) subsequently identify important implications for alliance management from their study.

1. That interpersonal relationships do matter. Companies ought to forge strong interpersonal ties to unite participants in their organisations, and the process of boundary-spanning activities at multiple managerial levels must evolve together with the life of the alliance. The point is made that synergies do not arise from fixed contractual agreements but emerge only when many personnel in partner organisations get to know one another and become willing to exchange technology, refer clients, or participate in joint teams (Hutt et al. 2000:59). The web of interpersonal connections expedites communication, conflict resolution and learning. However, such interactions must be deemed by partners as efficient and equitable to strengthen the bonds among managers and create durable trust.

2. That the quality of interpersonal relationships is determined by the initial alliance negotiations. Hutt et al. (2000) suggest that managers rather than lawyers should be preferred to develop and control the negotiation strategy in the negotiation process. This will ensure proper balance between the formal, legal procedures that establish detailed contractual safeguards for the parties and informal, interpersonal processes pivotal to successful alliance strategy execution (Hutt et al. 2000).

3. That would-be partners must skilfully choose team members who will match their counterparts in the partnering organisation in organisational rank and job experience (Hutt et al. 2000). Once team members are selected nascent social ties among them should be supported with the help of a relationship consultant. Over time the social fabric of an alliance will naturally emerge provided the turnover rate is kept in check.

4. That in the evolution of an alliance, executive leadership must continue to define the meaning of the relationship and signal its continued importance to the rank and file within. Moreover, it should assume a critical role in communicating the strategic role of the alliance within the organisation. Furthermore, direct ties at the top-management level across partnering firms spawn organisational commitment and stimulate active engagement between managers at multiple levels of the hierarchy (Hutt et al. 2000:60).
Failure in this regard may lead members of the alliance team to question and thereby undermine the importance of the alliance to their firm and its value to their careers back at headquarters. For example, because Alpha’s senior managers were preoccupied with other strategic priorities, they were generally unaware of the dwindling interfirm trust. Therefore, it was fashionable for alliance personnel to seek reassignment elsewhere resulting in high turnover, delayed decision-making, and stalled alliance strategy execution.

5. Hutt et al. (2000) deduce from their study the point that a regular audit of evolving social, work, and communication ties is valuable for the alliance managers to gauge the health of an alliance and spot problematic areas. The authors suggest that generally each member of the alliance team can estimate the frequency and importance of alliance-related communications with colleagues, both internally and with the partnering firm.

6. A relationship audit can enhance the above regular audit. This is done by examining connections among operating personnel who require timely access to information and resources and between the project leaders who establish the alliance climate. The connections among senior managers who, among other things, signal the relationship’s importance are then assessed. Any potential trouble spots in internal as well as external communication flows would most likely emerge. For example, the Omega alliance team used a weekly telephone conference to coordinate plans, address pressing issues and keep members informed.

7. The information flow must be managed adeptly to ensure not only the smooth outflow of information, but also protect the distinctive skills and knowledge. In this study, Omega used a centralised approach, channelling communication mainly via a single manager. By contrast, Alpha used a decentralised approach where alliance members fielded queries from Omega, which proved cumbersome as a process and risked the danger of inadvertently compromising proprietary information.

Whilst Hutt et al. (2000) emphasise the importance of interactions, Miles et al. (1992) argue the importance of the network structure as a crucial component of alliance organisational context. Drawing from historical evidence on four broad forms of organisations including the functional, divisionalise, matrix and network, Miles et al. (1992) suggest that an organisational form performs optimally only within certain limits. This means that a particular form’s ‘operating logic’ can in fact be violated thereby leading to failure. Causes of failure could include well-
intended extensions and modifications of the form. Thus, Miles et al. (1992) caution against the violation of the operating logic of the network form by alliance managers. The authors point out that the network form has an operating logic associated with each of its variations. For example, a common threat to the effectiveness of the stable network is an ‘extension’ that requires the complete utilisation of the supplier’s or distributor’s assets for the benefit of the core firm. Heavy dependence on the needs of a single core firm prevents the benefits of broader participation in the market place and unless suppliers sell to other firms, the price and quality of their output is not market tested.

Miles et al. (1992) differentiate between the stable network form (or kingdom network) designed to serve a mostly predictable market by independently owned specialized assets along a given product or service value chain, the internal network, where organisation units buy and sell goods and services among themselves at market prices, and the dynamic network (or republic network), where independent firms are linked together for the one-time (or short term) production of a particular good or service. The authors advise that for the continued survival of the network form, network firms must be free-standing, suppliers must continue to participate in the broader marketplace so that the price and quality of their output is subject to market test; overdependence and overspecialization should be avoided, and partners must be free to withdraw from relationships they believe are unfairly structured.

In light of the apparent collapse of stable networks or kingdom networks in recent times such as the Japanese keiretsu where 20-45 core companies centre on a bank, as well as the Korean chaebol arising from the 1997 Asian financial crisis, Miles et al.’s (1992) call for further research into the causes of network failures seems prophetic and timely. The authors’ differentiation between stable and unstable environments echoes the contingency theory of Burns and Stalker (1961) which states that any system adopted should be contingent on the degree of change or stability in the environment of the organisation, hence their mechanistic and organic systems. It also reflects Likert’s (1961) ‘systems congruence’ where in each system, each facet supports every other facet.

In another study on the network form, but focusing on the more advanced form to have emerged – the spherical structure – Miles et al. (1995) highlight the need for network firms to reconsider the human relations philosophy of HR management in preference for the ‘human investment model’, one that fits and energizes this emerging structure. The model focuses on current abilities but places special emphasis on the potential of organisation members to develop a potent package of technical, business, and self-management skills necessary in a constantly changing environment.
To illustrate the two concepts, Miles et al. (1995) use as their case study Technical and Computer Graphics (TCG), a futuristic network organisation located in Sydney, Australia. TCG is a group of small companies that has become the largest privately owned computer service business in Australia. It is a highly interactive network of 24 companies with combined annual revenues of approximately $50 million and a staff of about 200 (ibid.:5). It was formed in the early 1970s with a view to sharing service and administration costs. TCG is considered to be one of Australia’s most significant innovators in portable data terminals, computer graphics, simulators, bar-coding systems, electronic data interchange, electronic identification tags, and other applications of information and communications technology. The group is also involved in exporting its products (Buttery et al. 1994).

Within TCG, a new product development (and hence network expansion) is called ‘triangulation’ where it involves a three-cornered partnership among a TCG firm, a similar technology-based firm outside TCG, and a major customer (Miles et al. 1995:6). The triangular product-development process typically involves five key steps: identify the market niche, find a development partner, locate a major customer, involve other TCG firms, and extend the triangle in new directions. At TCG firms, every individual is expected to be an entrepreneur and sometime project leader. Moreover, every individual in the various TCG firms works closely, as part of a self-managed team, with other professionals in the network. And most importantly, TCG has few rules and no pyramidal management hierarchy.

TCG, joins other multi-firm spherical networks such a Semco of Brazil (see Semler 1993) with autonomous operating units and self-managing teams, and without unneeded administrative mechanisms (Miles et al. 1995). TCG and Semco have gone to the extreme of empowering everyone to act as an entrepreneur and leader following the ‘human investment model’ that leads to investments in competence and trust building, facilitate employee development and opportunity to apply the knowledge. The human investment model calls for investing in capabilities and trust at the individual team, firm and network levels. Leading-edge network companies that have adopted this model have found that investments in capability and trust are paying greater dividends than investment in control (Miles et al. 1995.)

Miles et al. (1995), however, ask whether large companies may be able to adopt the multi firm spherical network based on the human investment model. They contend that this will very much depend on their overcoming of two major barriers: one is an intellectual one while the other, which is more difficult, is attitudinal. The key is to unlearn current thinking and introduce the
new so that the organisation becomes a learning organisation. The authors reveal in their study that already Nike, which is strong in relationship management, and Motorola, which makes financial investments in its suppliers, are moving in this direction. In fact, the authors point out that Asea Brown Boveri (ABB) is thus far the most well developed large spherical network.

**Insights from network approach**
- It points out that alliances can fail despite possessing the right strategic ingredients because they lack the social ingredients that define collaborative success.

- It shows that frequent interactions and the timely exchange of information across organisations resolve conflict, build trust, speed decision-making, and uncover new possibilities for the alliance.

- It emphasises that when developing an information management policy and defining information boundaries, alliance members ought to openly discuss and agree upon the degree of confidentiality for different categories of information (Hutt et al. 2000).

- It demonstrates that a regular audit of communication patterns and social ties is a valuable tool to create a social map of a relationship and isolate the interpersonal connections that make an alliance tick.

- It highlights the dangers of overextending the network form beyond its operating logic and therefore limits.

**Limitations of network approach**
- It risks overemphasising interactions and the network form as ends in themselves rather than important means in the total system for alliance success.

(iii) **Relationship marketing**
Whilst the network approach seeks to map out overall interaction patterns, RM zooms in on the actual building of relationship and its management (Gronroos 1994). However, both approaches complement each other as both seek to leverage the social fabric or the stock of social capital of organisations to an alliance’s advantage.

Dibb and Meadows (2001) following in the tradition of relationship marketing seek to consider its application in retail financial services. The authors note that more than ever before, senior managers in the financial services businesses have to possess a detailed understanding of their customers, their current and potential profitability, how to successfully meet the needs of their best customers through the provision of an appropriate range of financial services, and how to prevent these most valuable customers switching to other providers. The task is made more difficult given that all of this must be done while keeping the costs down, and ensuring that business processes are streamlined and efficient (Dibb et al. 2001). Whilst Dibb et al. note that
RM does focus on ‘customer retention’ and ‘process orientation’, they nevertheless ask if it does have the capacity to fulfil its potential in the retail banking industry.

To determine the applicability of RM in the financial services sector, Dibb et al. (2001) undertook in-depth interviews, surveys and documentary search using the case study approach into four retail banks in Great Britain. In this regard, Dibb et al. (2001) contribute specifically to the understanding of this thesis’ author, of alliances in the financial services sector and how they might better manage their relationships with customers. This dimension is pertinent for alliances that have direct contact with customers as in buyer-seller interaction in services. Dibb et al.’s (2001) review of the literature in banking reveal that high company performance is linked to the practice of RM more than to product oriented banks. It also reveals, as in many other services businesses, that the ‘intangibility’ of the offerings in the banking sector underscores the importance of customer relationships. The authors quote Perrien et al. (1993) who posit that it is financially more lucrative to retain existing clients than to attract new businesses. Thus, more established customers have higher account balances, relatively lower account costs and are more likely to utilise other bank products. Yet Dibb et al. found from the extant literature that developing an RM strategy is complex (see also Perrien and Ricard 1995). A number of issues must first be addressed to ensure the effectiveness of a relationship strategy, particularly:

1. Organisation structure design to fit the decentralised structure required by a RM strategy.

2. HRM policies’ impact on the effectiveness of relationships, in view of potential gaps between sellers’ and buyers’ perception.

3. The interface between relationship managers and customer information databases.

4. The fit of pricing within the relationship.

5. The role of the salesforce in the development of the relationship and salesforce training.

In their case study, Dibb et al. (2001) reviewed two traditional high street banks, one recently converted building society and one telephone banking operation. Data was collected through personal observations, interviews, surveys and secondary data. The authors then developed a framework within which they presented key findings. This entails four areas: (a) the ‘company’ itself and the degree to which RM is emphasised; (b) ‘the technology’ that is used by the business to get to know a customer better, gauge the current profitability and potential lifetime value of each customer, spot ‘life events’ such as salary increases, anticipate future customer needs, and implement loyalty programmes; (c) ‘the bank staff’ and how they handle customer relationships; and (d) the ‘customer perspective’ of the relationship with the bank as to whether it is creating value for them or not.
A number of interesting findings emerge from Dibb et al.’s (2001) four case studies. In terms of Kotler’s (1992, cited in Dibb et al. 2001) relationship marketing model, the case companies have reached the ‘proactive’ level four (the other levels of RM being ‘basic’ level one, ‘reactive’ level two, ‘accountability’ level 3, and ‘partnership’ level 5). Level four is the point at which suppliers proactively contact customers to respond to their needs. In the case of banks the ‘proactive’ stance involves the bank contacting the customer and attempting to understand and satisfy their needs. However, Dibb et al. (2001) criticise Kotler’s (1992, cited in Dibb et al. 2001) RM model on the grounds that it is insufficiently sophisticated to explain the adoption of RM in a services context.

Dibb et al. (2001) then devise a new model that captures best the implications of their findings. This model contrasts with Kotler’s static four-stage RM model as it seeks to contrast the characteristics of a high and lower RM focus. Four key messages highlighted by this new model using the company, technology, customer and staff framework, include:

1. From the company angle, an increased commitment to RM seems to indicate that organisations should move away from segmentation marketing, and towards ‘one-to-one’ marketing which looks at the lifetime value of individual customers.
2. Rather than gear a bank’s information systems to merely processing transactions, a more customer-focused view is required, based on a customer management system.
3. In terms of customer focus, the RM approach seeks to build relationships via communication rather than rely on direct mail and conventional database marketing.
4. Finally, from the staff perspective of RM, organisations adopting a strong relationship focus are moving away from rewarding staff purely for product sales.

**Insights from RM approach**
- It highlights RM strategies in the services businesses that are useful for building and managing relationships to the mutual benefit of both the supplier and customer. Relationships are important to alliance management and hence this thesis.
- It recommends a holistic view of the customer’s needs via a ‘one-to-one’ RM approach in banking relationships which looks at the lifetime value of individual customers away from segmentation marketing which focuses on the market as a whole.
- It recommends that relationships should be built via communication rather than rely purely on direct mail and conventional database marketing.
- It recommends that banking relationships should be analysed using three dimensions: relationship atmosphere, bond dimensions and internal networks.
Limitations of RM approach

- It shows that the traditional banking relationship concept overly focuses on social ties, administrative, operational and managerial aspects of bank-customer relationships to the neglect of structural, dynamic and organisational aspects that underpin the relationship.

2.5.1.3 Management culture in the West

(i) Strategic management approach

Strategic management has drawn from a number of cultural and communication frameworks to assist in cultural analysis at the organisational level. The most popular of these is Hofstede’s Value Survey Model (VSM), based on worldwide socio-cultural factors influencing management (Hofstede 1980, 1997; Hofstede and Bond 1984). Hofstede’s questionnaire survey of 116,000 IBM employees in 40 countries in 1980 first isolated four major dimensions which were congruent with different cultural values of specific countries (Hofstede 1980). Later, a fifth dimension was added which he called in 1984 the Confucian dimension (Hofstede and Bond 1984). Hofstede (1997) updates his findings for 50 countries including more recent studies, but the general pattern remains. Hofstede’s five cultural dimensions are used to classify people of all cultures as follows:

1. Individualism versus collectivism, refers to the extent by which a culture prefer, to make decisions as autonomous individuals or as members of a group.

2. Small versus large power distance, refers to the extent to which society accepts power differences.

3. Weak versus strong uncertainty avoidance, refers to the extent to which a culture is willing to accept and deal with uncertainty.

4. Masculine versus feminine societies, refers to the extent to which cultures subscribe to masculine traits such as assertiveness, performance, ambition, material possessions, and achievement in countries such as Japan, Germany or Austria rather than to feminine traits such as nurturing, developing human relationships and sympathy for the disadvantaged in countries such as the Nordic cluster and the Netherlands (Saee 1998, Buttery et al. 2002).

5. Long-term orientation versus short-term orientation (Confucian dimension), refers to the tendency of a culture to emphasise values associated with the future, such as thrift and persistence, versus values that focus largely on the present.
Table 2.3. Hofstede’s value index of five dimensions in major Western cultures

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Power Distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty Avoidance</th>
<th>Long-term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>UK</td>
<td>35</td>
<td>89</td>
<td>66</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>90</td>
<td>61</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>NZ</td>
<td>22</td>
<td>79</td>
<td>58</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>Canada</td>
<td>39</td>
<td>80</td>
<td>52</td>
<td>48</td>
<td>23</td>
</tr>
<tr>
<td>Germany FR</td>
<td>35</td>
<td>67</td>
<td>66</td>
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<td>31</td>
</tr>
<tr>
<td>Average</td>
<td>34.5</td>
<td>82.67</td>
<td>60.83</td>
<td>49</td>
<td>28.17</td>
</tr>
</tbody>
</table>


Table 2.3 depicts the value indexes of major Western cultures. Western cultures have low power distance indexes implying an acceptance of more equality among humans. The high individualism indexes depict the Western culture’s preference for individual performance rather than group loyalty. Western cultures aim at short-term performance results as shown in their low long-term orientation indexes. The indexes for masculinity and uncertainty avoidance are placed in the mid-range and so the results are inconclusive.

Trompenaars’ (1993) work is equally important as Hofstede’s work to strategic alliances, but has been overshadowed by fascination with the latter’s work. Trompenaars (1993) proposes a model of seven fundamental dimensions of national culture which are relevant to understanding diverse business in Western and non-Western cultures. These are:

1. Universalism versus particularism, refers to cultures that always apply the best way or a standard rule as opposed to those that decide on the basis of the specific case, especially when friendship is involved.

2. Individualism versus collectivism, refers to people regarding themselves mainly as individuals as opposed to those who see themselves as part and parcel of a group or community.

3. Neutral versus emotional, refers to cultures that attach importance to being objective and detached as opposed to those that permit emotions to predominate, as in decision-making.

4. Specific versus diffuse, refers to cultures that confine business to the contract versus those that involve personal contacts and relationship building.

5. Achievement versus ascription, refers to cultures that evaluate people on achievement as opposed to those that evaluate on the basis of background and connections.

6. Attitudes towards time, differentiates between cultures that possess a future orientation as opposed to those with a past-present orientation, and refers to how past, present and future are related.

7. Attitudes towards the environment, refers to cultures that hold the view that individuals can modify the environment and other people (‘inner-direction’) as opposed to those that
hold the view that people have to line in harmony with the environment and with other people, and therefore take our cures from them (‘outer-direction’).

There is considerable overlap between Trompenaars’ dimensions especially in regard to individualism, relationships and universalism (Child et al. 1998). Trompenaars tested his dimensions on 15,000 employees in many different countries, 75 percent of whom are managers while the rest work in administration, and found that Anglo-Saxon and northern countries tend to be high on universalism, individualism, neutrality, specificity, and meritocracy.

Although Hofstede (1996) criticises the Trompenaars Model based on his reanalysis of Trompenaars’ data that only two dimensions can be confirmed statistically – individualism/achievement and universalism/diffuse - and both are correlated with his individualism dimension, the point for this thesis remains that different cultures brought together in a strategic alliance can generate barriers to cooperation as well as offer the potential for each partner to learn positive aspects of thinking and acting. For instance, countries which are individualistic tend to be creative but poor at managing the collective effort required in executing new product ideas. By contrast, countries which are collectivist tend to be less a source of invention but very good at execution of ideas for the actual market. Japan’s perfection of TQM, originally an American idea, is a case in point.

In view of Hofstede’s and Trompenaars’ cultural dimensions, the need for improving cultural fit within an alliance by the alliance manager, chief executives and other senior managers exist. Alliance managers have the responsibility for managing the relationships between partner companies and generating a sense of common purpose within the alliance’s own organisation (Child et al. 1998). In deciding what policy option to take, they have to weigh up two major factors: (a) the substantive content of cultures present in the alliance, and (b) the flexibility available for modifying or developing each culture in relation to the others. The content of cultures in an alliance has to be determined on the basis of how they differ and to what degree. The more cultures differ, the more difficult it is to achieve a cultural fit. Culture content will determine which cultural-fit strategy be adopted by the alliance manager: synergy or cultural integration, domination by one partner’s culture, segregation allowing partners to dominate certain spheres of the alliances, or breakdown which leads to exit (Child et al. 1998:245). Cultural flexibility within an alliance has to be evaluated on how long-standing and deep-rooted the cultures are, and the nature of cultural webs that envelop them. The cultural web consists of the structures of power and authority, control systems, routines and rituals, symbols, stories, and myths (Johnson 1990; Johnson and Scholes 1999). This analysis can similarly be done on the surrounding web of a national culture within which the alliance exists including the political
structures, institutional bodies and their regulations, the routines and rituals, symbols and historical legends.

Once the culture content and flexibility is determined, the alliance manager can then evaluate the (a) problem of personal cultural adjustment, (b) intercultural communication, and (c) the effectiveness of multicultural teams. The extent to which these issues are addressed will determine the durability of an alliance’s cultural fit.

Hall (1976) had earlier on developed a useful cultural framework that differentiates between high and low context cultures which can be used in differentiating Western cultures from non-Western cultures. It is also a useful model to understanding communication patterns of different cultures. Low context cultures emphasize the spoken and written word, demonstrating the importance of the ‘contract’ that governs the formal sphere of life. In societies such as in the US, Australia and the UK, the legal profession plays a major role in the business world. Negotiations in, for instance, strategic alliance agreements proceed quickly, trust plays only a small role and non-verbal communication would not be deemed paramount (Buttery et al. 2002). Propositions and opinions must be justified rationally and transparently. The situation and context do not necessarily add another dimension to meaning.

Most Western cultures are examples of such cultures. People maintain physical distance, time is considered money and negotiators tend to prefer to deal with one issue at a time. Responsibilities for errors are pushed down the ranks in the organisational hierarchy showing that individuals have ownership of both success and failure.

High context cultures on the other hand have members who consider it important to know ‘whom’ they deal with; they select their partners and suppliers only after extensive background checks and lengthy negotiations. For any transaction, one’s position in society matters. Non-verbal commitment is important and confers meaning, i.e. one must read between the lines of spoken words to figure out connotations. In other words, words, expressions, and context are value-laden and words spoken may have multiple meanings. Further contrast between low and high context cultures is given later in section 2.5.2.3 on developing countries.

It is obvious from Hall (1976) that communication patterns within organisations are also deeply embedded in culture. In fact, Hall (1976) rightly pointed out that there is not an aspect of human life that is not touched and altered by culture. Harris and Moran (1993) argue that cultural differences result in different communication patterns. Elashmawi and Harris (1993) deal with
communication patterns in the West. Their communication model comprises three basic processes: (a) establishing rapport, (b) exchanging information, and (c) persuasion.

In establishing rapport, managers in the West do not go beyond exchanging business cards. They prefer to conduct business on the phone rather than necessarily meeting clients face-to-face or building personal relationship. Managers in the West value directness and are action-oriented (Murray 1993). On the other hand, many non-Western cultures prefer face-to-face meetings as a precursor to building personal rapport and therefore long term business relationships (Elashmawi et al. 1993).

In exchanging information, Western managers tend to come to meetings well prepared to exchange information with the aim of closing a deal early since time is money. The information is often deal-specific and may not meet all of the client’s terms (Elashmawi et al. 1993). Western managers need to understand that the financial benefits to personalised contacts and improved communications are considerable when operating outside Western cultures (O’Sullivan 1994). The North American attitude of ‘time is money’ where rigid schedules and punctuality are emphasised can be considered dehumanising in other cultures (Ferraro 1994).

Segil (1996:174) based on her extensive consultancy and training experience involving cross-cultural alliances observes that the American style of order giving, the demands of time-based delivery, and the lack of understanding of how business is transacted and decisions are made in China have compounded many manager’s problems in penetrating that market. She gives the example of a young American owner-manager of a shoe company who travelled to a Chinese village to sort out production and delivery problems with a village company dealing also with Korean, Taiwanese and Japanese buyers. Upon arrival the whole village council met him but because of the half-day schedule he had set for himself to spend in the area, he turned down an invitation to an evening banquet in his honour. Eventually the venture came to a halt and the village company turned its concentration to its other partners with whom it shared similar cultural values such as collectivism, femininity, relationship and consensual values. Cultural misunderstanding stemmed from the young US owner’s decision to snub the villagers’ invitation to get to know them better by means of a longer visit and a banquet - all the niceties that are valued in a relationship-based culture. Clearly, the issues in this alliance were not insurmountable, but there was no awareness of the differences and willingness on both sides to learn.
Western managers tend to rely on persuasion alone in their attempt to strike favourable deals, the tone of which is usually one of urgency and strong persuasion techniques. This is motivated by the propositions of time is money and the preference for short-term performance goals. Communication is characterised by a set deadline, an offer valid only for a limited time, and emphasis on product uniqueness to win orders, while neglecting other cultural factors (Elashmawi et al. 1993).

It is obvious that the main source of misunderstanding among cultures arises from differences in values and priorities. Often the misconceptions reflect the way in which different cultures understand time, thought patterns and reasoning, personal space, material possessions, language, religion, as well as ethnocentric beliefs (Saee 1998).

Lorange et al. (1992) evaluate the role played by cross-cultural differences in the areas of negotiations, strategic plans, and performance involving Swedish-Norwegian strategic alliances with cultural similarities, and Japanese-US strategic alliances. The authors conclude from their study of 67 Swedish and Norwegian parent firms that because of strong cultural similarities the differences in management approaches in handling the formation process cannot be easily attributed to cultural or national differences. The source of differences stems from differences in the firms’ strategic intents. Strategic intent influences the competence mix of the management teams, identified as political competence in cooperative venturing, entrepreneurial competence in pursuit of venture ideas, and analytical competence in undertaking relevant types of strategic analyses and investigations. Lorange et al. (1992) found that the formation process in the Swedish firms was characterized by a strong entrepreneurial competence in their drive behind the strategic alliance, considerations and thorough analytical efforts reinforced by influences from political considerations. Thus managerial activities during the formation process reflected the strategic intent of wanting to expand the home market into Norway.

The Norwegian firms’ management approach during the formation process, on the other hand, showed little analytical emphasis. This was clearly due to the firms’ overriding strategic intent namely to ‘piggy back’ on the international strength of a partner (Lorange et al. 1992). In other words, the partner had already done the hard work of strategic analysis.

Lorange et al. (1992) then evaluated the relative importance of cultural versus strategic intent differences in shaping the strategic alliance formation process based on an examination of 26 parent firms with three separate types of strategic intents under different cultural settings. The first group of alliances includes US firms entering the Japanese market with a typical entry
strategy of building the business in Japan via generating sales and building market share rather than expecting immediate profits. The strategic intent of this group is to gain a ‘beachhead’ to expand into the Japanese market by selecting appropriate local Japanese partners.

The second group involved Japanese firms entering the US market. Although this group has many similar objectives to that of the US entrants into the Japanese market, the openness of the US market relative to the Japanese market ensures the group has easy access. The local US partners of the Japanese entrants, tended to be more helpful in getting the Japanese to save time and gain rapid access. Thus the strategic intents slightly differ. Japanese domestic partners together with US firms entering the Japanese market form the third group of alliances. In exchange for helping a foreign partner access the domestic market, the local partners require technologies, proprietary products, and/or process know-how as benefits. The strategic intent here is learning from the partner how to get a complex task done.

Having highlighted the different strategic intents from different partners’ points of view, Lorange et al. (1992) suggest that it is difficult to understand the differences in the formation process patterns based solely on nationality distinctions, or based on strategic intent differences alone. The authors recommend a contingency-based analysis which incorporates both of these dimensions because any unilateral emphasis on cross-cultural or strategic intent differences is too narrow an approach in situations involving strategic alliance formation processes. Lorange et al. (1992) observe that in general, strategic intent is more important than cross-cultural managerial differences when designing the alliance formation process. Instead, cross-cultural management must support strategic intent, not hinder it. This finding confirms the proposition that culture impacts on strategy implementation much more than its formulation (Brown 1995, Buttery et al. 2002).

For the purposes of this section, however, Lorange et al. (1992) do emphasise the role of cross-cultural differences that are brought to bear on the alliance formation process, particularly on negotiation, strategic plans and performance. At the negotiation stage, cross-cultural differences that often cause concern include the American assertions that the Japanese partners take too long to negotiate with, while the Japanese often feel that their US partners push too much (Lorange et al. 1992). As to the strategic plan, US entry strategists typically paid too little attention to competitors’ reactions while Japanese entry strategists were more attentive to this concern. Culturally, the Japanese are excellent in assessing competitor reactions. With regard to the performance issue, while the US firms tended to be happy with better alliance results in terms of sales volume, the Japanese firms typically were very impatient with what they consider
unsatisfactory short term growth and were always striving for more. The differences in reaction to initial results often reflect cross-cultural differences of short-term performance objectives versus long-term objectives (Hofstede 1997) where the Japanese are never satisfied, opting for continuous improvement or *kaizen* in the strategic long term.

**Insights from strategic management approach**

- It offers useful cultural frameworks that can assist with cultural analysis at the organisational level in order to improve the cultural fit within alliances (Hofstede 1997; Trompenaars 1993; Hall 1976). Culture is an important systems variable used in this thesis.

- It emphasises the need for alliance managers to integrate corporate culture and country culture into alliance management systems (Segil 1996).

- It brings to consciousness the fact that communication patterns within organisations are deeply embedded in culture (Hall 1976; Elashmawi et al. 1993; Saee 1998).

- It shows that the Western communication process as described by Elashmawi et al. (1993) is strictly transaction-based and ends when the deal is closed (Leung 2000).

- It highlights the point that culture impacts on alliance strategy implementation much more than its formulation (Brown 1995; Lorange et al. 1992; Buttery et al. 2002) and that culture is critical to the management of cross-cultural alliances between Western and non-Western alliances, and even amongst Western alliances, e.g. US and European alliances (Segil 1996; Lorange et al. 1992; Child et al. 1998).

- It highlights the danger of elevating culture *per se*; instead it should be viewed holistically with other organisational factors, e.g. in the alliance formation stage of cross-cultural management it must support strategic intent, not hinder it (Lorange et al. 1992).

**Limitations of strategic management approach**

- It draws from studies based on cultural stereotyping which may lead to over generalisations concerning the values of whole nations and regions using the dominating culture within a country and region as reference points (Leith 2000; Hess 2001; Segil 1996; Buttery et al. 2002).

- It relies on a Western communication process that is still insufficient for eliminating cultural misunderstandings and culture clashes when applied to non-Western cultures because it remains transaction-based (Leung 2000).

- It relies on studies urging the building of strong corporate cultures based on organisational socialisation and indoctrination of employees to build the sort of strong organisational cultures celebrated by Peters et al. (1982), which although it brings success at home will not necessarily guarantee success abroad as it may lead to organisational rigidity and conformity thereby hindering innovation and adaptation to new circumstances (Fung 1995).

### 2.5.1.4 Management process in the West

(i) **Strategic management approach**

Niederkofler (1991) examines the strategic alliance managerial process using in-depth analysis of six case studies involving large, established firms and small, new ventures. He departs from the
premise that “a major cause for cooperative failure is managerial and therefore controllable and avoidable” (Niederkofler 1991:237). Niederkofler (1991) makes the point that although today’s managers are well-trained in competitive behaviour, the majority of managers lack cooperative skills for cooperative situations, hence the high failure rate of alliances. Niederkofler investigates three opportunities for managerial influences: the negotiation process; the boundary-spanning process; and cooperative flexibility. At the outset, key findings to emerge from his study and which underpin managerial discretion, include (Niederkofler 1991:237):

- negotiations must lay a sound foundation for a relationship with mutual benefits, by establishing a cooperation strategy based on complementary resources and compatible interests, and by having in place at the start a clear concept for implementation

- conscious boundary-spanning needs to bridge existing organisational incompatibilities, promote the creation and maintenance of trust and goodwill, and deal with conflicts

- success depends on the ability to respond to the forces of change altering market positions, resources and internal situations which may cause strategic drift or misfit, including the need for timely termination of the relationship (see also Giller and Matear 2001)

- the cultivation of goodwill and trust raises the general level of communication between partners and thereby improve the chances for uncovering and dealing with operating misfit

Niederkofler (1991) details his findings based on the evolution of cooperative relationships that alliances in his sample went through. He notes that the two main factors that determine the evolution of alliances are: strategic fit and operating fit. Strategic fit exists when partners’ interests in a specific area overlap and when each controls part of the requisite resources to pursue the shared goals. Although such compatible interests and complementary resources may be established at the start of a relationship, they may dissipate over time since the partners’ interests and needs evolve over time (Niederkofler 1991:242).

Operating fit, on the other hand, refers to the ways and means in which the relationship can be implemented in a mutually beneficial way. Strategic fit is established at top-management level, but operating fit has to be achieved by middle managers, those who implement the alliance. To maintain operating fit, existing organisational incompatibilities must be compensated, if not, then inherent procedural, structural and cultural differences between organisations at different development stages may become insurmountable roadblocks to successful cooperation. Thus only when alliance management creates and maintains both strategic and operating fit through making concessions and finding a middle ground will partner firms be able to profit from relationships.
In this regard, Niederkofler (1991) is critical of the role of liaison managers/alliance managers. He observes from his sample of alliances that the presence of inappropriate liaison managers exacerbated the organisational differences between larger and smaller firms, such as cultural, structural and procedural incompatibilities (Niederkofler 1991:245). He notes that a strong entrepreneurial manager is required to overcome segmentalism in larger firms, which inhibits the integration of cross-functional resources. To bridge cultural gaps between the organisations and bureaucratic hurdles, special skills in communication and diplomacy are required of liaison managers. Alliances, which faced difficulties in maintaining strategic and operating fit, had liaison managers who did not possess the appropriate position and skills, or even worse – no liaison manager was appointed (Niederkofler 1991:246). For example, the absence of a specific liaison manager in the Chip Design alliance led to a complete denial of support. In other alliances, liaison managers were either appointed too late, were too young without much experience, or were new comers and therefore occupied isolated positions within partner firms. These characteristics resulted in the managers’ inability to organise internal support and bridge the culture gap.

Niederkofler (1991:249) summarises key problems from his six case studies, which are useful for comparison with alliance management problems in PNG in chapters 4 and 5. These include:

- absence of strategic fit, where partners’ interests conflict (hidden agendas) and/or their resources do not amount to viable cooperation strategy
- negotiation is subject to time pressures, does not involve would-be alliance managers/liaison managers and issues of implementation are not addressed during the negotiation process
- partner firms’ ways of managing their businesses widely differ and clash with the consequences of misunderstandings, open or hidden conflicts, and communication barriers
- general resistance to innovative projects where the not-invented-here (NIH) factor, and the existing reward structure are all sources for a lack of support from partners
- inappropriate liaison managers from partners who are neither able to bridge cultural gaps nor are in a position to integrate resources across functional boundaries to support the alliance
- ignorance of operating misfit causes relationship to become dormant resulting in a lose-lose situation
- if a sustained operating misfit combines with a dependence on one partner in this area, strategic misfit and open conflict may ultimately result
- because partners’ interests and resources requirements shift over time, cooperative alliances become short-lived, and long-term goals difficult to achieve
• goodwill and trust are the crucial, yet volatile social capital of a relationship; it takes time to nurture but can be destroyed overnight

Likewise, a summary of key success factors is also rendered in Niederkofler’s (1991:253) study based on the potential influence alliance/liaison managers can have on the development of cooperative relationships:

• an alliance agreement should be based on a sober understanding of each partner’s resources and interests, focused on specific goals derived from this understanding, fair to both partners, and carefully crafted to provide flexibility and avoid dependence on one partner

• time pressures should not be allowed to take priority in the negotiation process; would-be liaison managers must be involved so that they can establish a working relationship early with each other and develop an operating plan, specify milestones, and design communication channels in order to ‘hit the ground running’

• because of inherent unavoidable incompatibilities between organisations, the amount of cooperation should be limited to the amount necessary to achieve goals; interface between partners should be clearly specified

• well-connected, veteran entrepreneurial managers with boundary-spanning and communication skills should be assigned as liaisons

• the entrepreneurial actions of liaison managers need the backing of top management as their actions may conflict with internal rules

• an alliance management that focuses on the creation of trust and goodwill gives the partners a high degree of tolerance, raises the intensity and openness of communication, and oils operating adjustments and renegotiations in the event of environmental shifts

• managerial flexibility is a key ingredient where it is common knowledge that alliances seldom succeed as planned

Spekman et al. (1996) document their findings in relation to two important managerial process questions: what are the characteristics of an alliance at each stage of its life cycle? Are there unique management skills which appear to contribute to alliance success at each stage in the cycle? The authors explore these questions using in-depth interviews with managers on both sides of five international strategic alliances. The spectrum of strategic activities ranged from offensive alliances to defensive alliances and to alliances aiming to reduce costs. Alliances represented the telecommunication, aerospace, airline, petrochemical and manufacturing industries in the US and Europe. A total of 31 managers in 12 companies were interviewed lasting from 90 minutes to 2 hours in length and included senior managers from each firm. The youngest alliance was 3 years old and the oldest was in its 24th year.
Table 2.4 summarises the aggregate findings which emerge from the interviews. The seven life-cycle stages emerged from a synthesis of each alliance’s chronology. The results capture the complex interaction between the various phases of the alliances’ life cycle and a series of both structural and process related factors and activities. The findings also demonstrate the inextricable linkage between the business of the alliance and the interpersonal relationships and their role in consolidating the business relationship.

Table 2.4. Alliance management through the life cycle approach

<table>
<thead>
<tr>
<th>Stages</th>
<th>Characteristics</th>
<th>Key Business Activity</th>
<th>Key Relationship Activity</th>
<th>Alliance Manager’s Role</th>
<th>Alliance Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Anticipation</td>
<td>Pre-alliance competitive needs and motivation emerge</td>
<td>Search</td>
<td>Dating</td>
<td>Visionary</td>
<td>Parallel</td>
</tr>
<tr>
<td>2. Engagement</td>
<td>High-energy complementary, congruence, strategic potential</td>
<td>Identification</td>
<td>Imaging</td>
<td>Strategic sponsor</td>
<td>Dyad</td>
</tr>
<tr>
<td>3. Valuation</td>
<td>Financial focus, business cases, analysis, internal selling</td>
<td>Valuation negotiation</td>
<td>Initiating</td>
<td>Advocate</td>
<td>Coordinating teams</td>
</tr>
<tr>
<td>4. Coordination</td>
<td>Operational focus, task orientation, coordination, division of labour, parallel activity</td>
<td>Integration</td>
<td>Interfacing</td>
<td>Networker</td>
<td>Work teams</td>
</tr>
<tr>
<td>5. Investment</td>
<td>Hard choices, committing, resource reallocation, broadening scope</td>
<td>Expansion growth</td>
<td>Committing</td>
<td>Facilitator</td>
<td>Allied entity</td>
</tr>
<tr>
<td>6. Stabilisation</td>
<td>High interdependence, maintenance assessment of relative worth and contribution</td>
<td>Adjustment</td>
<td>Fine-tuning</td>
<td>Manager</td>
<td>Entwined entity</td>
</tr>
<tr>
<td>7. Decision</td>
<td>Where now?</td>
<td>Re-valuation</td>
<td>Dialoguing</td>
<td>Mediator</td>
<td>?</td>
</tr>
</tbody>
</table>


Table 2.4 depicts a ‘formative phase’ through which the alliance dream begins to take shape entailing three stages from anticipation to engagement and to valuation. First, the vision imagined by the leaders of two or more firms begins to take hold in the minds of other senior managers and the wish for ‘what can be done’ becomes shared within the firms. Senior management in the partnering firms of each alliance shared a vision of competitive advantage attainable only via partnership (Spekman et al. 1996). These visions were linked to strategic intent. Then the senior managers looked for other areas of common ground as the basis of their strategies: past working experience with each other, similarities in corporate cultures, mutual respect and a basic grasp of each other’s capabilities. Out of this a set of common values emerged across the alliances.
Throughout this process, there were tensions, but the study shows the importance of the communication process where managers clearly articulate the vision and then effectively communicate it to line managers who are in the trenches. At these early stages senior managers began to realistically shape the expectations because alliances face problems when partners expect too much too soon. The valuation stage essentially involves the ‘hard analysis’ (e.g. competitive, market, financial, risk/reward) and partners begin to evaluate the worth of the alliance and each partner’s contribution to, and gain from, the alliances.

Spekman et al. (1996) refer to the second broad phase as essentially the ‘metamorphosis phase’ involving coordination and investment. This is where the alliance begins to take form and evolves its early structure and processes which affect the scope, domain and operational purpose of the alliance. Coordination describes the emergence of the alliance governance structure in which the integration points, processes and the division of labour between the partners is established. Each of the alliances established coordination committees to both oversee the evolution of joint working arrangements and to model the range of acceptable behaviours expected of partners. Some alliances involved consultants to guide the process. There were formal and informal steering committees. Coordinating teams acted more at the strategic level while work teams were in charge of operational issues and tasks to be undertaken in the trenches. Throughout this process Spekman et al. (1996) observe that frequent face-to-face communications between the committee members result in less confusion, serve to build trust and solidify crucial interpersonal relationships. In fact, the more successful alliances in Spekman et al.’s sample were not managed by telephone or fax, but by managers meeting on a regular basis.

The second stage in metamorphosis is investment where the business case translates to ‘bodies and budgets’. The degree to which a partner dedicates financial, human, physical and intellectual capital to the alliance signifies commitment. Spekman et al.’s (1996) sample shows that after 3 years or more in the alliance life cycle concerns begin to arise as to whether there is a gap between strategic vision and the management reality. It is important to properly understand the causes of any gaps so that remedial action can be undertaken. Such gaps often emerge from changing market conditions, changing technology and/or one partner’s changing financial picture or strategic direction. For fast-paced alliances such as those ‘forerunners’ documented by Doz et al. (1998) the task of re-shaping, re-configuring or re-calibrating the scope and direction of the alliance is often challenging.

The third broad phase comprise the stabilisation and decision stages. This is the ‘managerial phase’ where managers focus on staying the course and adapting the direction of the alliance to
reflect both internal and external pressures. From Spekman et al.’s (1996) study this phase is reached within 5 years from the alliance formation phase. The authors observe that problems emerge when the partners are unable or reluctant to confront each other and deal with issues as they occur. Much of the problems relate to issues of equity when partners attempt to equate effort with reward. In cross-cultural alliances culture acts as a major barrier here.

According to Spekman et al. (1996:350), successful alliances which stayed the course established a blameless review process in which parties agreed to periodic reviews to examine the state-of-the-alliance. This allows parties to openly raise critical issues since they feel that it is part and parcel of the management process. Although it is true that too frequent a review process can be dysfunctional, the merits of a blameless review process remains. In between there could be much more regular audit processes in which managers ask questions regarding strategic alignment.

The second stage in the managerial phase is the decision stage. Although it appears as Spekman et al.’s (1996) final stage, it can be reached at any stage in the life cycle. This stage represents a point at which partners decide (either jointly or individually) to redefine the relationship in its current form or opt to exit. This can be a wanted outcome of the blameless review or it can evolve as a natural occurrence in the growth/decline of an alliance over time. Deciding to quit an alliance once initial goals have been achieved should not necessarily be perceived as failure as indicated earlier in section 2.2.1 of this chapter.

Throughout the three evolutionary phases described by Spekman et al. (1996, 1998) from the formative phase, metamorphosis phase, and managerial phase, the importance and centrality of the alliance manager is recognised. The alliance manager is the person tasked with carrying the alliance forward at each stage in its life cycle. (S)he is the person responsible for the “care and feeding” of the alliance and serves as his/her firm’s key representative on the alliance management team (Spekman et al. 1996:352). Although the role responsibility of the alliance manager may change in response to the requirements and demands at each stage in the alliance’s life cycle, the importance of the manager does not diminish (ibid.). Therefore, the alliance manager being the ‘person-in-the-middle’ or ‘lynch-pin’ in the alliance management process must wear a number of different hats and play different roles as the alliance evolves. (S)he must strive to keep a balance between the partners and avoid being seen as very pro Company B or Company A, and so on.

Table 2.4 also depicts the various roles of the alliance manager at each stage. These roles are often played simultaneously as the situation demands rather than in a linear fashion. In the early
stages, the alliance manager who is among senior managers plays a number of roles. (S)he is a ‘strategic sponsor’, a combination of visionary and emissary. The manager must be able to translate and communicate the vision so others in the firm become converted to the dream. In rallying the requisite people to the dream the alliance manager also becomes an ‘advocate’. Once the alliance grows and coordinating activities becomes a must, the alliance manager naturally becomes a ‘net worker’ and a ‘facilitator’ who links functions, areas, people and partners in order to enhance, manage and direct the flow of timely alliance related information (Spekman et al. 1996:353). To effectively perform these tasks Spekman et al.’s data show that alliance managers had to heavily rely on informal networks and ties, the depth of which depends entirely on how far such networks and ties have been cultivated.

To resolve emerging problems or disagreements the alliance manager plays the role of the ‘mediator’. Naturally, this role is ensured by the existence of mutual interdependence, i.e. the pursuit of self-interest will almost automatically lead to the detriment of all the parties with vested interest. In any case, amicable resolution of conflicts is non-negotiable since the alliance manager is in fact the ‘manager’ who shoulders the ownership of both success and failure vis-à-vis the pursuit of goals and objectives.

Thus it is obvious that the roles expected of an alliance manager are far more than what is required of general managers (see also Child et al. 1998). Spekman et al. (1996) give the example of one alliance in their study that appointed an alliance manager primarily because of his management skills, to the exclusion of the other alliance manager role requirements. This manager focussed so strongly on the business aspects of the relationship such as controlling costs, that he neglected the vital role of building stronger interpersonal relationships. As a result confusion emerged in the minds of the partner who then perceived the need for a change in the direction of the alliance.

According to Spekman et al. (1996), too often successful line managers are rewarded with the alliance manager’s position. However, due to the diverse, and seemingly conflicting, set of role requirements, the transition for some is not easily made. Spekman et al. conclude from their study that too many alliances have managers who are good at number crunching but lack strong alliance management skills. Therefore, weak alliances require strong alliance managers. Spekman et al. (1996) point out that given the high rate of alliance failure there is a need to identify and develop alliance managers. Many companies fail to improve the dialogue between senior managers and the human resource managers in order to coordinate a proper set of work and educational experiences to ensure a cadre of skilled alliance managers. There is a danger of building the skill
through outside hires as a stop-gap-measure because these people lack the requisite internal networks and informal relationships.

Table 2.5. Alliance manager characteristics

<table>
<thead>
<tr>
<th>1. Unteachable Competencies</th>
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</thead>
<tbody>
<tr>
<td><strong>The alliance perspective – good managers ‘think’ and ‘see the world differently’</strong></td>
<td></td>
</tr>
<tr>
<td>Willing to change self to accommodate others</td>
<td>Virtual thinking</td>
</tr>
<tr>
<td>Willing to consider other person’s point of view</td>
<td>Optimistic</td>
</tr>
<tr>
<td>Simultaneously consider multiple points of view</td>
<td>Clever and creative</td>
</tr>
<tr>
<td>Learn from past but are not constrained by it</td>
<td>Eager to embrace other cultures</td>
</tr>
<tr>
<td>Willing to take losses in return for future gains</td>
<td>Pragmatic</td>
</tr>
<tr>
<td></td>
<td>Vigilant</td>
</tr>
<tr>
<td></td>
<td>Questioning</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Teachable Competencies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Functional</strong></td>
<td>** Earned**</td>
</tr>
<tr>
<td>Line skills</td>
<td>Credibility and respect</td>
</tr>
<tr>
<td>Staff skills</td>
<td>Extensive networks:</td>
</tr>
<tr>
<td>Educational background</td>
<td>- organisational</td>
</tr>
<tr>
<td>General knowledge</td>
<td>- alliance</td>
</tr>
<tr>
<td></td>
<td>- industry</td>
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Table 2.5 shows that there are competencies that are unteachable but measurable (Spekman at al. 1998) and there are others that are teachable. Under teachable skills, there are functional skills that can be taught, earned and a third set which appear to be ‘hard wired’ and seen to distinguish strong alliance managers from other good line managers. For example, one can be taught functional skills and managerial decision processes. Yet these skills require a cross-functional perspective and sensitivity to both strategic and operational concerns (Spekman et al. 1996).

Interpersonal competencies as they relate to social, process and cross-cultural sensitivities can also be taught. The human resource function can tease out the valid set of competencies and create a meaningful set of educational and developmental experiences through the career path. According to Segil (1996) an overseas posting can enhance cross-cultural sensitivities. However, other competencies relating to credibility, trust, and networking within the firm, in the alliance and in the partner company can only be earned through years of managerial experience. Spekman et al. (1996:354) echo Yoshino et al.’s (1995) views that the tradition of assignment rotation might be inherently dangerous to the health of an alliance: “[b]uilding trust, credibility, rapport and personal relationship all take time and should not be rushed”. 

88
Table 2.5 further implies that good alliance managers are different as they depend on key unteachable competencies. The alliance manager who has an innate alliance mentality sees the world as a series of connections. They can focus on process and yet not lose sight of the big picture, while drawing on bits of relevant information from different sources and at the same time operate on gut feel at times. Spekman et al. (1996:355) note that perspective taking is the hallmark of successful alliance managers: they can simultaneously consider multiple points of view, easily understand the position of their partner and be willing to listen. They are flexible and represent the best of a learning organisation. They learn from the past but are not constrained by it. They also embrace change and adapt easily to new cultures and new situations. The dangers posed to adaptation by Peters’ et al. (1982) strong corporate culture should be noted here. Overall, firms which are successful in alliances have a flexible culture that encourages and supports processes that develop alliance managers.

Spekman et al. (1998) further contribute to the literature on the role of the alliance manager by identifying further key issues that have been neglected. They quote Yoshino et al. (1995) to reinforce the point that firms that make the best use of alliances often assign responsibility for their management to a specific manager (see also Niederkofler 1991). The authors point out that effective alliance management depends on one’s ability to work outside of prescribed routes and routines. For these strategies to work, successful managers rely on persuasion and influence which is determined by the emergent social network. Compromise, influence and trust emerge as key operative terms as one cannot dictate. The ability to influence superiors, peers and subordinates requires political expertise, leadership ability, communication skills, cultural empathy, affability, sense of humour, creativity, and an ability to inspire and exhibit trust as well as personal traits such as honesty, integrity and sincerity (Parker et al. 1993, cited in Spekman et al. 1998:768; see also Limerick et al. 1998).

In addition to both strong functional and interpersonal skills, alliance managers must possess an ‘alliance mindset’. Research into managerial cognition and interpretation/social construction suggests that the job of a manager is also one of interpretation (Weick 1979, 1995; Seristo et al. 1999). As interpreters of social reality, managers bring a perspective or conceptual lens through which they perceive the world and subsequently translate events into managerial reality. Thus the continued success of alliances may be dependent on the mindset that managers have. This in turn depends on continuous learning (Argyris 1977; Weick 1979; Senge 1990). The complex linkages among strategies, structure and systems of partner firms and the alliance require that managers be creative, life-long learners and risk-takers. Managing laterally across organisations is no longer
enough. Put simply, the rules that apply to bureaucratic, hierarchical organisations no longer fit and so new managerial models and appropriate leadership are required (Kotter 1996, 1988).

Buono (1997a) reports findings from his study into designing intervention strategies to realign the processes and strategies of a strategic alliance. His study has crucial value for this thesis because it explores the actual processes as an alliance evolves and underpins how managers should respond to an alliance that is threatened with derailment.

Buono (1997a) utilises a longitudinal case-study approach to examine the partnership between a core firm (ComNet) and one of its manufacturing partners (ManCo). A multi-method field study approach was utilised in the period 1994-1995 to collect information on the two companies, the partnership-creation process, and the actual operation and relative success of the alliance. The next step was to gather specific data through lengthy interviews and discussions with the senior management teams and all organisational members assigned to the alliance. Transcripts of the interviews were examined for concepts and themes that characterised the two organisations and their processes using grounded theory (Glaser and Strauss 1967) and phenomenological approaches to organisational research (Sanders 1992). Emergent propositions were then tested using a process of iterative interviewing and discussions with key informants of the two companies to develop shared perceptions of each organisation, their cultures and orientations, and of the partnership. The participative research approach enabled key organisational members to interpret the data. Results of findings were fed back to the participants in a written report as well as orally during partnership workshops.

The core firm in this alliance is ComNet, a leading designer, manufacturer and supplier of fault-tolerant intelligent switching systems for facility and enterprise network computing. Established in 1983 the company is noted as a ‘pioneer’ in the switching industry by trade publications and is credited with introducing the hub architecture that defined the standard of today’s re-engineered global computer networks. At the time of Buono’s intervention study, Com Net had over 850 employees with 1994 revenues of $268 million from its worldwide operations.

ComNet has structured itself as a web-alliance, but maintains close control over the design of its various hub and switching products as its core competency. It has outsourced product manufacturing to three outside firms (referred to as ‘manufacturing’ cells), maintains close relationships with a world wide web of suppliers, and relies on an extensive network of domestic and foreign value-added resellers (VARs) for product distribution. ComNet has over the years placed significant emphasis on developing a ‘corporate culture’ that would facilitate creativity,
innovation, quality and people. Buono (1997a) deduced from his interviews that the firm’s top- and middle-management teams are viewed as strong and well-integrated, and there is a clear sense of participation and involvement throughout the company.

The partner, ManCo, is a service-based, electronics contract manufacturing firm with 1994 revenues of $85.8 million. The firm’s mission is to provide product quality and customer service levels unequalled in the contract manufacturing industry, through innovative problem-solving and action-oriented improvement. Like ComNet, ManCo has placed significant emphasis on developing a culture conducive to its quality and service strategy. ManCo is only 20 miles from the core firm in the New England region of the US. The company launched a successful initial public offering in 1995.

Buono’s consultancy with ComNet was to undertake a critical analysis of the partnership with four main goals in mind:

- to re-examine the underlying strategic rationale and business needs driving the ComNet-ManCo partnership
- to evaluate its performance to date
- to analyse the factors that have contributed to its relative success
- to generate learning that could be used to enhance this alliance as well as ComNet’s and ManCo’s other partnerships

At the operation level, Buono (1997a) undertook in-depth-examination of three integral components of the strategic alliance process: creation/strategic issues, maintenance/relationship issues, and performance/evaluation issues. Interview questions focused on how the partnership was evolving and on the important question of ‘What has not been done lately?’ (Anderson and Narus 1991). This in turn was guided by a conceptual understanding of partnering relationships and those variables that past research have indicated contribute to successful partnerships.

Findings from interviews quickly established from the outset that there was a strong shared belief that the partnership was succeeding on many levels. Members from both firms perceived a multi-tiered commitment - from senior management to the operational level - to the success of both organisations and the alliance. The alliance was thought to be more than just a traditional vendor-customer relationship based on transactional arrangements. This is despite the fact that the alliance was viewed as more buyer controlled than mutually controlled and that the relationship was strictly profit oriented following ComNet’s underlying model of price = cost of material + standard material overhead mark-up + fixed cost of labour. This strategy had filtered down to ManCo’s strategy with its suppliers leading to the success and profitability of both partners’ business.
At the process level, a number of key findings emerge categorised under (a) creation (strategic) issues, (b) maintenance (relationship) issues, and (c) assessment (performance) issues. First, under creation issues, Buono (1997a) found that the present strategies and orientations of the two companies were clearly understood across the organisations right from the beginning. This was because of two factors:

- ManCo’s responsiveness and willingness to absorb the way in which ComNet operated
- ComNet’s openness and willingness to deal with ManCo as a true partner

Second, under maintenance issues, a number of findings emerged. There was a general belief that members of both ComNet and ManCo would always act in the best long-term interest of their companies. However, these business interests were viewed as complementary, contributing to the mutual agenda perceived across the partners. It was also generally held that the firms were very open and honest with each other, ranging from strategic considerations (e.g. sharing forecasting data and new product planning) to interpersonal trust and confidence (e.g. each partner felt that their counterparts ‘want them to be successful’). Another key factor in the solidified working relationships was the continued existence of the ‘core team’ since the alliance’s inception. Over time, additional team members were recruited to the creation of ‘dedicated’ positions and liaisons, i.e. high calibre individuals assigned to specific inter-firm roles, which increased the sense of responsibility and commitment to the success of the alliance. Physical proximity enabled ongoing daily visits between the two companies.

Moreover, there was a high degree of cultural similarity and fit between the partners’ core values. This led to the smooth creation of a ‘partnership-based values’ statement, which reflected core values of the two organisations. Thus, although over time much strain was put on the cultural orientations, the need to maintain commitment to the core values was recognised. Furthermore, emphasis was placed on a number of symbolic actions and reinforcing, celebratory events which contributed to the pride, satisfaction and motivation associated with the partnership.

Third, Buono (1997a) observed a number of assessment (performance) issues. Although Buono’s (1997a) study was the first formal evaluation commissioned, a number of assessment criteria had already been undertaken as a natural part of the alliance. These are related to:

- manufacturing expertise
- quality
- on-time delivery
- accounts payable considerations
- engineering assistance
- purchasing assistance
• overall responsiveness

The two firms were actively refining and clarifying such performance criteria and to communicate the criteria more widely. Regular meetings between partner members and quarterly progress reviews were held, greatly facilitated by geographic proximity. The entire ComNet-ManCo team met on a weekly basis. A clear responsibility matrix further facilitated the amicable resolution of conflicts. And proprietary information was shared only with ‘dedicated’ people to the alliance. Even though, ManCo was also a contractor to one of ComNet’s major competitors, its emphasis on ethical business dealings and its reputation alleviated fears of information leakage.

Buono (1997a,b) made a number of recommendations towards further streamlining the alliance processes. Operational concerns focussed on continuing to improve communication, tying together information systems to reduce redundancy, improving the immediacy of data sharing, solidifying mutual goal setting, and jointly developing standards. Related considerations emphasised the need to further improve service levels (i.e. quality and delivery), and further enhancement of the relationships between key players associated with the alliance.

Re-engineering concerns related to the need to streamline and improve the technical processes and ‘hand-offs’ between the firms. For example, Buono’s (1997a) study uncovered that components which were completed at ManCo were shipped back to ComNet for repackaging before sending them to the end-user. Because there was little rationale for this process, Buono 1997a,b) then recommended that significant lead time and cost could be saved if ManCo could also assume the task of simply packaging components in ComNet boxes and directly shipping them out. This of course required that quality control which was housed at ComNet had to be moved to ManCo.

Strategic concerns related to further integration between ComNet and its three cell partners to enhance the outsourcing plans. ManCo and the other manufacturing cells desired greater involvement in ComNet’s load planning. Thus clarification was sought on:

• ComNet’s expectations for the three cell partners
• sharing and integration of design rules across the three cell partners
• increased sharing of long-range business plans
• integrated strategic planning which would allow ManCo and the other cells to ensure that their technology investments would be synchronised with the network’s emerging needs

93
Overall, a number of lessons emerged that could be adopted for alliance argument. At the outset, there are a number of factors that seem unique to the ComNet-ManCo alliance and therefore might not be easily replicated. These include:

- the initial timing of the relationship
- the high-level of mutual need in both firms
- the relative size and position of the companies (i.e. relatively small, emerging firms)
- the close proximity of the organisations
- the similarity of cultures
- the rapid growth in the industry

On a broader scale, a number of lessons can be gleaned from Buono’s (1997a,b) study:

1. Clear strategic fit and mutual agenda
   - seek out complementary core competencies
   - active collaboration of senior management to sponsor and initially structure the partnership
   - top management to clearly communicate the alliance strategy

2. Incremental process of involvement and sharing information
   - fully learn each other’s business
   - engage in joint planning and vision casting
   - assess the partners’ willingness to commit resources
   - engage in ongoing interpersonal contact and interaction, especially at operational levels
   - gradually move from operational to strategic integration

3. Cultural fit
   - seek out organisations with an underlying alliance orientation
   - look for clear partner commitment to customer service
   - examine a potential partner’s values statement and assess the extent to which these core values actually reflect organisational orientations and behaviours
   - assess willingness to jointly create and adhere to a alliance-based values statement

4. Proximity
   - physical proximity is more useful in some types of alliance than in others
   - the greater the physical distance between partners, the more initial investment needs to focus on relationship building
   - greater use of direct E-mail, internet connections and teleconferencing can be used to replicate the advantages of geographic proximity, but cannot replace consistent interpersonal contact via on-site representatives and liaisons for long term success

5. Interpersonal relationships and interaction

6. Role clarity and responsibility

7. Problem solving

8. Performance review

9. Celebration and reinforcement of alliance success
10. **Integration of partnerships**

Bruner and Spekman (1998) add an important dimension to this thesis as they provide an in-depth case study of a cross-cultural strategic alliance that collapsed from a strategic management point of view. The authors document their findings on the alliance of Volvo (Sweden) and Renault (France) which married the two largest enterprises in their respective countries for economic objectives. The authors draw on 20 interviews in Europe and the US of senior executives at Volvo and Renault, as well as knowledgeable observers in finance and business journalism who tracked the alliance closely. Unfortunately, three years after its founding, the allies split in a bruising argument. The authors identify six factors that undermined the Volvo-Renault alliance: misalignment of senior and operating managers, path dependence, alliance re-contracting, leadership style, cultural differences, and time. The ultimate demise of this alliance illuminates the darker side of alliances and evokes the issues of strategy, leadership, culture and control. These lessons are important for alliance managers and senior executives of corporate allies both in the West and non-Western countries. The lessons are elaborated on in the discussion that ensues.

Table 2.6. Elements of difference and complementarity between Volvo and Renault

<table>
<thead>
<tr>
<th></th>
<th>Volvo</th>
<th>Renault</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home country/region</strong></td>
<td>Swedish; Scandinavian; Anglo-Saxon</td>
<td>French; Latin; Continental European</td>
</tr>
<tr>
<td><strong>Language</strong></td>
<td>Swedish; (English dominant 2nd language)</td>
<td>French</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Investor-owned</td>
<td>State-owned</td>
</tr>
<tr>
<td><strong>Size/position</strong></td>
<td>Small niche player in cars; dominant in heavy trucks</td>
<td>Large, broad product line player; weak in heavy trucks</td>
</tr>
<tr>
<td><strong>Core values and competencies</strong></td>
<td>Safety Engineering</td>
<td>Styling Cost management</td>
</tr>
<tr>
<td><strong>Management structure</strong></td>
<td>Decentralised; easy flow of information</td>
<td>Centralised; formal flow of Information</td>
</tr>
<tr>
<td><strong>Market orientation</strong></td>
<td>Scandinavian, North America, Asia</td>
<td>Continental Europe</td>
</tr>
</tbody>
</table>


The Volvo-Renault alliance was established in 1990 through a complicated scheme of cross-share holdings, joint production and R&D agreements, and supervisory boards. The allies were acquainted with each other through 20 years of industrial cooperation. The motivation was two-fold. First was the desire to exploit synergies in joint product development, purchasing, quality and manufacturing. The second was to combine complementary firms in order to create economies of scale similar to that enjoyed by the Royal Dutch alliances (Dutch and British organisations). The two firms had complementary competencies in market positions, geographic regions, and core competencies (Table 2.6). However, Table 2.6 also depicts the huge challenge
facing the partners: bridging the cultural gulf between both firms. Key features of the alliance terms were (Bruner et al. 1998:139-140):

- Substantial cross-share holdings by each firm in the other, and a poison pill to discourage any moves to exit the alliance.
- Equality was evident in the equal division of management appointments to the joint operating committees, the creation of two alliance headquarters (Paris and Gothenburg), and in the choice of English as the neutral official language.
- Comprehensiveness as seen in a structure of 21 committees, clearly a European phenomenon.
- Maintained brand integrity, but emphasised operational focus.

At first sight, the alliance governance structure appears flexible, but the end story is such that flexibility suffered under the complex committee structure and the cooperation amongst equals slowed decision making and contributed to a growing sense of frustration at the operational level.

In terms of performance, many observers believed that by 1993 the alliance had exploited the easy gains. However, at the operational level, there were problems. First the language difference was a concern where Renault engineers reverted to speaking French in moments of conflict which upset the Swedes. Second, because the French prided themselves on styling and cost containment skills and likewise the Swedes in engineering and safety, this was a source of conflict at the engineering level. For instance, Renault worried that Volvo’s engineering gains came at great expense compared to the Japanese auto-makers (Bruner et al. 1998). Bruner et al. (1998) quote a leading business journalist in Sweden who reported that the French and Swedish engineers had frequent fights on the various committees over operational matters. The 50:50 control arrangement enabled both sides to veto decisions resulting in a stalled decision making process and wasted time. On industrial relations, Renault being a state-owned enterprise was more sensitive to job loss than Volvo. In the area of new model development, the two firms were protective of their respective brand identities. Unlike, for instance, Corning, a recognised alliance expert which views equal control as a positive force since partners are compelled to work harder to achieve espoused mutual gains and where issues of power and control are less dominant than fostering commitment and trust, issues of control and power predominated in the Volvo-Renault alliance. The Swedes felt that the French fought because of power-seeking.

Because things were not working out as expected after a two-year period, the CEOs of Volvo and Renault felt that a merger was the obvious solution. Both parties were impatient with the pace of joint work and integration arising from their approach of ‘management by committee’. Senior management of the alliance believed that through a merger, cooperative sentiments give way to a
more hierarchical structure where decision making can move faster (Bruner et al. 1998; see also Henderson and McAdam 2001). Serious merger talks between Volvo and Renault began in April 1993 resulting in a proposed merger formula of 65 per cent French Government ownership of the alliance and 35 per cent by AB Volvo. However, strong nationalistic sentiments in Sweden led to the Volvo Board’s recommendation that the merger be withdrawn. This was effected on 17 February 1994. The dissolution of the strategic alliance was costly to Volvo as under the poison pill catch, Volvo had to repurchase part of Renault’s share in Volvo and meet write-off of goodwill.

Bruner et al.’s (1998) research unearths crucial lessons for alliance managers. The authors’ interviewees attribute the failure of the Volvo-Renault alliance to mainly ‘process errors’, which immensely contributes to this section of the thesis on the management process of alliances. These errors arose from the failure to appreciate six classic points of vulnerability which can undermine well-intentioned management efforts. The lessons are: (1) alliances demand alignment, but breed misalignment, (2) beware of path dependency, (3) tinkering with the alliance contract is tempting, but highly risky, (4) alliances invite leadership by fiat, but they need a coach, guide and visionary, (5) blending businesses might appear easy, blending cultures is not, and (6) time is a double-edged sword.

Bruner et al.’s (1998) study of the failure of the Volvo-Renault strategic alliance demonstrates that much of the problems were experienced “at the interfaces of human behaviour: nations, cultures, allies, owners vs. managers, and senior managers vs. operating managers” (Bruner et al. 1998:149). The alliance manager’s task is to therefore manage both the business and the relationship. In this regard, it is important to keep time and continuous learning on one’s side.

**Insights from strategic management approach**
- It recognises the crucial point that outcome is inseparable from process management in strategic alliances. Therefore, a major cause for cooperative failure is managerial and can be positively impacted through managerial influences on the negotiation process, boundary-spanning process, and cooperative flexibility (Niederkofler 1991; Madhok 1995; Krajewski et al. 1999). Process management is an important system variable used in this thesis.

- It points out the need for alliance management to create and maintain both strategic fit at top-management level and operating fit at middle-management level; failure to maintain the latter may invite procedural, structural and cultural differences between organisations to threaten the alliance (Niederkofler 1991; Buono 1997a,b).

- It warns that the presence of inappropriate liaison managers or their absence will exacerbate the organisational differences stemming from size, culture, structure and procedural incompatibilities.
• It highlights the inextricable linkage between the business of the alliance and the interpersonal relationships that need to be managed such as the communication process, relationship capital, cultural sensitivity, management of meaning, and calculative and attitudinal trust leading to commitment (Spekman et al. 1996; Cullen et al. 2000; Bruner et al. 1998).

• It notes that alliance managers need to treat alliances as going through life-cycle stages undergoing complex interaction processes between the various phases of the alliance’s life cycle and a series of both structural and managerial related factors and activities (Spekman et al. 1996, 1998).

• It draws the line between qualities of a general manager and those of an alliance manager. Certain key competencies, namely thinking and perception conducive to the latter’s job, are unteachable; the alliance manager who has an innate alliance mentality sees the world as a series of connections – they can focus on process and yet not lose sight of the big picture (perspective taking), while drawing on bits of information from different sources and at the same time operate on intuition at times (Sepkman et al. 1996).

• It highlights the need for alliance managers to continuously keep a tab on alliance process issues at the operational level namely creation/strategic issues, maintenance/relationship issues, and performance/evaluation issues (Buono 1997a).

• It highlights from the failed Volvo-Renault alliance the following factors that can cause alliance failure: misalignment of senior and operating managers, path dependence created by alliance structure, alliance re-contracting, leadership style, cultural differences, power structures, and time pressures (Bruner et al. 1998).

• Tinkering with the alliance contract at stress-points in an alliance’s life cycle risks shattering the unwritten alliance spirit (Bruner et al. 1998; Miles et al. 1992, 1994, 1995).

• It points out that alliance management skills must be present simultaneously at the strategic, operational and interpersonal level if alliances are to succeed (Spekman et al. 1996).

• It notes that many of the alliance problems are experienced at the interfaces of human behaviour: nations, cultures, allies, owners vs. managers, and senior managers vs. operating managers (Bruner et al. 1998).

Limitations of strategic management approach

• Although the literature on strategic alliance management is beginning to account for human interface problems and the management of meaning, it remains focused on strategy, structure and control issues, hence is still overly transaction-based.

(ii) Network approach

The network approach as depicted in the extant literature espouses the work of researchers who focus on the impact of environmental uncertainty on organisations, interactions, alliance design, and alliance structure. The recent literature in this area now includes research on governance process, and portfolio management process. This section focuses on processes in strategic alliances as viewed from a network perspective.
Duyster, De Man and Wildeman (1999) report their findings on a network approach to alliance management based on research and consultancy reports. They identify three managerial challenges for managing networks. These involve (a) a different view on strategic choice, (b) managing alliances as a portfolio (and not as dyadic relationships), and (c) new tasks for top management. Practical tools for network management are also presented. The authors are critical of the literature on strategic management for treating agreements from a dyadic or firm level perspective only. They argue that the strategic value of alliances can only be fully exploited by giving attention to the overall network within which a firm is embedded. Put simply, the real strategic potential of alliances can only be realised when the network as a ‘whole’ is managed. For example, smart network management can enable a company to get access to a combination of complementary resources.

Duysters et al. (1999) point out from a network perspective that dyadic links of a single company are only part of a much broader picture. The authors quote Knoke and Kuklinski (1982:13) who note that “… the structure of relations among actors and the location of individual actors in the network have important behavioural, perceptual and attitudinal consequences for the individual units and for the system as whole.” It follows therefore that the position of an organisation in its network actually determines the firm’s ability to compete (Duysters et al. 1999). In this vein, it is actually the network that surrounds a company that determines its ability to control information flows, knowledge flows and financial flows. It is the quality of relationships with partners that determines the extent to which benefits can be reaped.

The first managerial challenge identified by Duysters et al. (1999) is for firms in an alliance to realise that they are no longer able to make strategic choices based solely on their self-interest. Because firms are surrounded by other partners, the strategic choices a firm takes must be mutually reinforcing. Failure to recognise this can incur cost, as the loss of one alliance partner can lead to the loss of other partners.

Another point connected to strategic choice is that companies have to decide to make a choice about their role in the network. In the dyadic perspective, firms make a choice as to the role they play in the market vis-à-vis competitors. In the network perspective, on the other hand, a company has to decide on its function in the network - either to choose a position of being an ‘integrator’ or as a ‘specialist’ (Duyster et al. 1999:184). An integrator combines various products into a complete offering for the client, e.g. Toyota. Specialists only supply a limited range of products to the network, e.g. Intel and Dunlop.
The second managerial challenge from the network perspective is to ensure that alliances are managed so as to ensure that the total set of alliances benefits. Whereas the traditional alliance management was confined to managing the relationship between the partners directly involved in the alliance, the network perspective requires that individual alliances have to be managed as being part of a portfolio of alliances (Duyster et al. 1999). There are three aspects to this new perspective of portfolio management.

Portfolio management has consequences for partner selection. Traditional partner selection focuses on researching the fit between two parties (organisational, cultural and personal fit). The network perspective, recognises the importance of this process, but extends it to include researching the fit in the alliance portfolio as well. The relevant question asked is whether a prospective partner enhances the mix of the network. Here, the selection process involves finding key strategic partners (elephants) and browsing for short-term partnerships focussed on narrow scope objectives (fruit flies) (Duyster et al. 1999:184). The aim is to capture resources for the networks as a whole and remove excess baggage.

Another aspect of portfolio management is leveraging knowledge. Traditional dyadic relationship involves the exchange of knowledge between partners, while in a portfolio approach leverage can occur across partners. This diffusion of knowledge over various partners goes to improve the quality of the entire network and ultimately the competitive strength of individual firms.

A further aspect of portfolio management stems from the difference between managing alliances as contracts and managing alliances as a set of competences. Dyadic relationships manage the contractual obligations, whereas the network perspective goes beyond the contract to manage alliances as a set of competencies. It is the combination of partner’s competences that create full potential rather than managing a single contract. In this regard the trend towards offering complete solutions instead of individual products is illustrative. For example, banks are moving towards offering complete financial packages to individuals, including saving, investing, mortgage and insurance. Whilst banks in the rest of the world are moving away from offering individual products, banks in PNG are still very much traditional. For solutions which cross industry boundaries alliances are even more important to plug the lack of competency of, for example, banks in the insurance business. According to Duyster et al. (1999:185) “access to a partner’s competences becomes more important than the ownership of certain knowledge or assets”.

100
The third managerial challenge from the network perspective lies in the role managers fulfil. This stems from differences in strategic choices between the dyadic approach and the network approach. The new strategic challenges require a different attitude towards alliances. The dyadic approach only involves the top manager as the initiator of the alliance and the evaluator. Once the alliance agreement is concluded, top management steps back and operational affairs are left to operational managers. Top management only reappear to manage the process of alliance termination. Network management on the other hand requires two additional roles for top management: moderator and prioritiser. Because a large number of alliances in a network spell the inevitability of conflicts and unchecked demands on network resources, top management will have to learn to moderate conflicts and prioritise value adding relationships.

Duyster et al. (1999) also offer practitioners three practical tools to manage the new demands of the network perspective. These are portfolio analysis, partner programmes and databases. They equip managers to optimise networks, maintain an overview and learn from their network. Their overall ability to make the right strategic choices, to manage their alliance portfolio successfully, and to moderate and prioritise in the network depends on the following management tools: (1) portfolio analysis, (2) partner programmes, and (3) databases.

Sharma (1998) introduces a model for governance in strategic alliances. Governance is an important aspect of alliances as a mode of organising and regulating transactions (Williamson and Ouchi 1981; Heide 1994). Like Duyster et al. (1999), Sharma (1998) point out problems with the current literature which has focused primarily on the dyadic relationship between the alliance partners to the neglect of the impact of secondary exchange relationships or the embeddedness of the alliance partners. Sharma (1998) emphasises that governance of alliance is contingent on the entire network of relationship in which the two partners are engaged. While some of the governance task is performed by the legal structure, alliance managers cannot depend on such legalism because it is based on discrete exchange relationships which presume that the benefits and costs of exchange are clearly delineated. Sharma quotes Ring and Van de Ven (1992, 1994) to point out that legal structures are inherently inadequate for alliance management as successful ones go beyond legal contracts. A sustainable governance mechanism must be able to address all aspects of the relationships and the dynamic nature of alliances.

Sharma (1998) recognises two schools of thought contributing to the governance structure of alliances. Common to both schools of thought is that firms operate in an imperfect market. Alliances are a response to environmental uncertainty and market imperfections rather than a strategic response to manipulate and influence the environment (Heide 1994). One school applies
the game theory and the transaction costs approach. This approach is suitable to routine situations and to static efficiency, but fails to capture important aspects of alliances such as creating legitimacy, learning and a rapid market. It also over-emphasises the structural aspects and neglects the procedural ones. Van de Ven and Walker (1984) found that excessive monitoring of the contract results in distrust and conflict. Moreover, according to strategic behaviour theory (Kogut 1988) firms enter into alliances in order to maximise long-term competitive position regardless of its effects on specific transaction costs. And Jarillo (1989) notes that firms can lower costs through alliances relative to rivals even if the transaction cost of alliance is higher than transaction through hierarchy.

The other school underpinned by strategic management theory, holds that firms rationally select an alliance to achieve their goals. Here, alliances are more than just instrumental arrangements; they evolve with multiple webs of technical, financial and social interactions (Kogut et al. 1992). Sharma’s (1998) approach to governance is more inclined towards this second school on governance.

To derive a model of governance, Sharma (1998) studied 12 international alliances between a Scandinavian firm and a partner from elsewhere. The author used the case study approach to collect data and information from executives in the firms over a period of 20 years. In each case, the partners in the alliance were repeatedly interviewed. In all the alliances the first interview was conducted within two years of the first contract between partners. Partners had no initial working relationship prior to entering into alliances and some alliances lasted for two decades. The Scandinavian partners were successful international companies that supplied technology and knowledge on the production process and products, organisational skills and marketing expertise. The counterpart brought to the alliance knowledge of the local market, human resource and contacts with local institutions. The prime motive of all the Scandinavian firms in the alliances was selling equipment and systems to the counterparts and were minority equity holders.

Any alliance governance model is designed to address three types of uncertainty: goal uncertainty as to where the partners’ goals are congruent or are apart, resource uncertainty as to what each partner actually possesses and is prepared to offer, and process uncertainty concerning the manner in which the resources of heterogeneous alliance partners can be combined to achieve a mission (Sharma 1998). Thus the key parallel network factors in Sharma’s alliance governance model are: (a) relational, (b) ethical, and (c) institutional. Relational factors involve understanding and commitment. Ethics provide a perception of fair and unfair, right and wrong and they are important in relationship governance. Ethical factors include promises, as promises are kept,
cooperation evolves and high risk behaviour is undertaken. Institutional factors emphasise the embeddedness of alliances. Its major factors are legitimacy and reputation. Overall, any governance structure should encapsulate the entire network relationships of alliance partners.

The first network factors of alliance governance that Sharma (1998) explores are relational factors entailing first of all, understanding. Partners in alliances gain understanding of each other’s goals, resources and competences through interaction. Interaction has four dimensions: frequency, surface area, variety, and the medium used. Interaction quality can be high or low. The more intensive and regular the interaction, the better the coordination of the production, transportation and legitimation activities (Sharma 1998:515). This trend has been proven by Parkhe (1993b) who found that there is a positive relationship between alliance success and frequent interaction between alliance partners. Sharma’s (1998) own work proves this too. In an alliance between Scandinavian Chemicals (ScanChem) and AsianChem, the author observed that frequent interaction, a wide contact area, and the use of information-rich media help to synchronise the perceptions of the alliance partners (Sharma 1998:516).

This facilitates the transferring of technical knowledge between alliance partners. Each partner firm had accumulated a vast amount of soft knowledge which is difficult to imitate because of team production, path dependence and causal ambiguity. Within ScanChem its soft knowledge was enveloped within the ‘Scandinavian management style’ underpinned by emphasis on team work, small power differences within organisations, decentralised but collective decision making, emphasis on group achievements, and an emphasis on training and education. As a result of the healthy degree of interaction, the alliances studied have been prolonged, with the area of cooperation enlarged to cover other areas.

Commitment is another aspect of relational factors that was explored. In alliances, commitment creates specificity and shows a desire by the alliance partners to rely on ‘voice’ rather than ‘exit’. Partners prefer to resolve their differences through discussions rather than by leaving the alliance (Sharma 1998). Committed partners are willing to invest valuable resources in a cooperation agreement and can be relied on to undertake essential functions in the cooperation. However, Sharma (1998) shows from her study that for this to happen, two conditions must be met. First, there must be a willingness by partners to pool their resources, and second the alliance partners must actually possess and be able to invest alliance-specific resources. Often conflict arises in alliances not because partners do not want to contribute, but because they do not possess the requisite resources. This arises partly because alliance managers either over– or under-estimate their own stock of resources (see also Cauley De La Sierra 1995).
Another component of commitment is that partners must be prepared to invest non-recoverable resources in matching each other’s resources. Alliance-specific investments occur as partners invest time and resources in building alliance-specific knowledge, installing hardware and machinery to facilitate exchange of resources with an alliance (Sharma 1998). This specialised commitment generates consistency of behaviour in alliances and strengthens the links between partners. As long as the alliance remains healthy, the commitment escalates thereby increasing switching costs to other alliances. Commitment acts as a barrier to competition because committed resources cannot be easily recouped.

The second network factor of governance in strategic alliances comprises ethical factors. Entry into an alliance implies making promises. According to Sharma (1998), promises define the permissible limits of behaviour, provide for flexibility and generate trust, through which partners can cooperate. Partners will promise to show reciprocity and to exchange resources on an acceptable basis without being opportunistic. Breaches of promise or malfeasance attract punishment in terms of lost business opportunities and a bad reputation. In all the alliances studied by Sharma there was a written contract specifying the purpose of the alliance, the contribution to be made by partners, and the arbitration procedures in case of disputes. Although contracts are an important building exercise, interviews with executives reveal that working strictly by the legal contract induces an element of rigidity in the alliance which is not conducive to achieving alliance spirit. Thus ScanElec, for instance, refused to enter into alliances because the counterparts asked for a number of written guarantees (Sharma 1998). A number of promises need to remain unwritten and communicated well to the other partner at the operational levels in day-to-day interactions.

Another example is ScanEq which took over the management of Arab Dairy for a period of 12 years. ScanEq, however, supplied no written guarantees concerning production level, capacity utilisation, profit, and return on investments (Sharma 1998:520). ScanEq did, however, supply an implicit promise to manage the firm in a prudential manner. ScanEq fulfilled its promises by earning a good return on the investment capital. It deployed professional managers to the alliance. In the same alliance, Arab Dairy also made implicit promises on its part. For example, by accepting ScanEq as its alliance partner, Arab Dairy accepted that ScanEq would be a major supplier of equipment for the project. This was fulfilled by the fact that ScanEq became the largest supplier of equipment to Arab Dairy. Sharma (1998) note that the same behaviour recorded here was also observed in another alliance that was studied, between ScanCem and
Builders. Implicit promises were given without codifying them in their basic contract, but were all fulfilled as the alliance evolved.

Sharma’s (1998) case studies illustrate that if partners can initiate cooperation and invest resources to implement alliances, a relationship may put on a life of its own, and norms of fairness and equity will evolve. Partners will realise profits and the alliance can linger on for years even after all set goals have been achieved.

The third network factor of governance in alliances involves institutional factors. Institutional factors are forces ‘outside’ the alliance partners themselves. Sharma (1998) point out that alliance partners are subject to scrutiny by the network actors, i.e. those network partners who supply resources to the alliance. In the case of Builders which used to be a public sector monopoly firm the national government was an important institutional factor. Throughout much of the 1980s, continuous flow of funds from the national government meant that there was little pressure to be efficient in its production of building material. Likewise, in the case of the privately-owned Arab Dairy, import restrictions meant that project costs were not an important matter to discuss amongst alliance partners (Sharma 1998). Legal courts also act against malfeasance. Thus institutional factors may act against opportunistic defection, and sanctions are imposed on possible defectors.

There are a number of lessons that emerge from Sharma’s (1998) study on international alliance governance. First, a part of the governance task is performed by the legal contract signed by alliance partners. Second, the rest of the governance task is enforced by three other factors: relational, institutional and ethical factors. Sharma’s (1998) case studies demonstrate that these factors provide alliances with stability. The factors ensure that partners continue to exchange resources in order to maintain and reinforce their own legitimacy and reputation and to keep their promises. The partners know that defection can lead to grave consequences for their business. Sharma notes that in the long term it is the ethics and institutional pressure that should be relied on for governance.

Finally, Sharma (1998) makes two observations that go against both the strategic management approach and dyadic network theory. One is that success in strategic alliances is achieved more by ‘interacting’ with the alliance partner than by the initial ‘strategic compatibility’ between the alliance partners. Sharma following the interaction approach of dynamic network theory (Hakansson 1982, 1987) argues that the success of alliances directly hinges on the ability of
alliance partners to interact and adapt. Although strategic compatibility is beneficial (Harrigan 1998; Cauley De La Sierra 1995), it is not crucial for alliance success.

Second, Sharma (1998) takes on the view postulated by researchers such as Kogut et al. (1992) that firms form alliances only with counterparts whom they are already familiar with, reflecting their past position in the network field. Sharma found that firms which were totally new to each other were still able to develop long lasting profitable alliances. However, Sharma’s results may be industry-specific requiring more research.

**Insights from network approach**

- It emphasises the importance of the alliance governance process and the portfolio management approach to managing relationship capital. Alliances need to be managed as a set of competences rather than as contracts in order to offer complete solutions rather than individual products.

- It proposes that alliances need to be managed as a portfolio and hence as a ‘whole’ rather than as dyadic relationships (Duyster et al 1999). Portfolio management requires top management to play the additional roles of being a moderator and prioritiser, and to undertake portfolio analysis, develop partner programmes to provide an overview and databases to facilitate organisational memory and learning.

- It points out that because firms are surrounded by other partners, the strategic choices a firm takes must be mutually reinforcing. Failure to recognise this can incur cost - the loss of one partner can have a domino negative effect leading to the loss of other partners.

- It highlights that unlike in the traditional strategic management approach to networks where partner selection focuses on the fit between two parties (organisational, cultural and personal fit) the network perspective extends beyond this process to include researching fit in the alliance portfolio as well (Duyster et al. 1999). The aim is to capture resources for the networks as a whole and remove unproductive relationships.

- It also points out the need to diffuse knowledge over various partners rather than merely exchange knowledge between partners. This will go towards improving the quality of the entire network and therefore enhance the competitive strength of individual firms.

- It offers an alliance governance model that addresses goal uncertainty, resource uncertainty and process uncertainty, and is based on (a) relational, (b) ethical, and (c) institutional network factors (Sharma 1998). Thus, any governance structure should encapsulate the entire network relationships of alliance partners.

- It demonstrates that alliance success is achieved primarily through ‘interaction’ processes (Hakansson 1982, 1987), rather than by the initial compatibility between partners as emphasised by others in the strategic management approach - compatibility can misalign over time.

**Limitations of network approach**

- Its proposition of diffusing knowledge over the entire network for the benefit of all partners can be unrealistic as not all relationships can be profitable, and especially in
high-velocity markets; there is not a lot of time to develop an entire set of collaboration (Eisenhardt et al. 2000; Bensaou 1999; Vollmann et al. 1998; Doz et al. 1998; Blois 1999).

(iii) **Relationship marketing approach**

Relationship marketing/management is used here as a generic approach that entails various terms in the extant literature seeking to capture the essence of retaining customers and clients for long term benefits. These terms include buyer-supplier relationships, value-chain analysis, export-buyer relationships, portfolio of buyer-supplier relationships, key account management, and so on.

Chonko (1999) presents the results of his case study on the Avon and Mattel selling alliance in the US. The alliance represents a blending of Avon’s sales expertise with Mattel’s high quality products, including the Barbie (R) product line. There are different types of alliances and Chonko (1999) quotes Magrath (1992) to identity four types of marketing alliances: selling alliances which include licensing of production rights; the joint marketing of complementary products, or the joint design, manufacture and marketing of a new product; promotional alliances where one company agrees to promote another company’s product or services; logistic alliances; and pricing alliances where two or more companies collaborate to offer some form of special pricing. Essentially, alliances arise because of specialisation in activities along the value chain of a product or service offering.

The Avon-Mattel alliance began a series of joint marketing initiatives in 1997. The joint initiatives included the sale of new Barbie (R) dolls and other Mattel products in the US as well as a new line of Barbie (R) cosmetics to be marketed internationally (Chonko 1999). The alliance was expected to generate US$100 million in sales to Avon in 1998. Avon and Mattel marketed two exclusively-for-Avon Barbie (R) dolls in 1997, a Spring Blossom and a Winter Velvet Barbie. The new Barbie dolls were designed by Mattel exclusively for distribution through Avon’s 440,000 US sales representatives (Chonko 1999). These dolls generated over $40 million in sales for Avon, making the dolls Avon’s largest selling gift product ever. The relationship can be seen as a product alliance for Avon and a promotional alliance for Mattel. Avon benefits from Mattel’s products and Mattel benefits from Avon’s sales expertise and both companies retain their independence. The two companies have benefited from synergy where the resulting whole must be evaluated to be better than the sum of its parts.

Chonko (1999) then evaluate the performance of the Avon-Mattel alliance against seven characteristics that are commonly associated with successful global ventures:
1. Global vision.

2. Managers’ international experiences.


4. Preemptive technology or marketing.

5. Unique tangible assets.

6. Closely linked product/service extensions.

7. Closely-coordinated worldwide organisation.

Chonko (1999) observes that the Avon-Mattel alliance is set to produce the following results: improved customer service quality, improved support of core business, improved employee performance, and improved operating procedures.

Drawing from the Avon-Mattel alliance experience and other studies (Wildeman 1998; Buono 1997a,b; Miles et al. 1995; Yoshino et al. 1995), Chonko (1999) identifies a number of process management issues which include:

1. Focus on achievable cost improvements through consolidation and elimination of redundancies before seeking alliance arrangements.

2. Communicate to all employees all the essential aspects of the alliance.

3. Assign a dedicated team of the ‘beat’ people to the alliance.

4. Ensure that some people participate in all phases of the alliance process particularly alliance manager/liaison managers to ensure continuity to communications and organisational memory.

5. Maintain good relationships with vendors.

6. Use multiple communication sources to explain why change is needed in order to avert change resistance.

Chonko (1999) notes that for strategic alliances to continue to grow, it is imperative that researchers and managers increase their understanding of the processes and dynamics so that alliances can continue to evolve and realise their expectations. He notes that alliance management requires a distinct set of management skills that goes beyond typical single firm relationships building. To ensure sustainable advantage, training and education should continue to emphasise broad-based skills and capabilities geared towards cross-functional, cross-cultural and team formation.
Vollmann and Cordon (1998) offer lessons in successful alliance management at the process level. They note that partnering companies often fail because of inadequate selection of customers and suppliers. The authors point out that the use of ‘demand chain management’ has the potential to improve company competitiveness. Whilst supply chain management is primarily concerned with improved purchasing, usually through applying muscle power to the suppliers, demand chain management starts with the customers, working backwards through the entire chain, to the suppliers of the suppliers (Vollmann et al. 1998). The objective is to create synergy in the overall chain to achieve higher benefits than are possible by each entity in the chain acting independently. In order to outperform competing chains, demand chain management requires considerable “care and feeding” as well as ongoing transformation (Vollmann et al. 1998:684). Thus the authors emphasise that the number of true partnerships should be limited. The critical task is to determine which business units are most appropriate partners and to leverage these partnerships to transform the competitiveness of the chain one is in.

Vollmann et al. (1998) studied the transformation of Heineken which used the demand chain approach. Heineken faced three discontinuities or major challenges which occurred concurrently: excess operational cost, poor profit performance on major product lines, including Heineken beer, and failure to reap proper value from its computer mainframe. These discontinuities resulted in a fundamental shift in the way Heineken did business. In response the company decided to restructure the organisation, along the line of ‘People Make Heineken’ by reducing the managerial layers and empowering the work force to take on more responsibility for the day-to-day operation of their breweries. Then the company together with Albert Heijn, its largest supermarket chain and customer in the Netherlands, decided to reduce the lead time from order placement to beer delivery from three days to one day and now to six hours (Vollmann et al. 1998). Next, to leverage value from its computer network, the company outsourced everything - computer, people, and systems. Heineken was able to offer its bundle of goods and services to their customers where costs in the overall supply chain have been significantly reduced.

Vollmann et al. (1998) outlines key concepts in demand chain management. One such tool is category management which gives rise to Efficient Consumer Response (ECR). This is where retailers outsource the management task to one supplier, ‘category captain’, to analyse the profitability and inventory turnover of a whole category of products in order to optimise the product assortment and promotion. Another form of demand chain transformation involves the use of vendor managed inventories, where in essence it is the responsibility of the supplier to have materials available for the customer’s use which are only invoiced as used by the customer.
(Vollmann et al. 1998). Early Supplier Involvement (ESI) is another method aimed at making the new product development cycle more effective.

However, demand chain management methods need to be evaluated on the extent to which benefits are realised and costs reduced. Thus selection of methods should be evaluated on the basis of cost reduction, value enhancement, the payoffs and additional infrastructure costs. Creating demand chain management practices almost always requires investment in new supporting infrastructure and efforts in developing people to manage these relationships, new exchanges of information, coordination of activities that were not formerly coordinated, and an ongoing quest for new improvements (Vollmann et al. 1998:688).

Vollmann et al. (1998) then offer a set of partner selection criteria based on the principle that not all parties in a supply chain are compatible or able to become partners. The first task is to select a portfolio of suppliers and customers. According to Vollmann et al. (1998:688) firms will be able to nurture genuine chain alliances with only a limited number of other firms, preferably 10. Such partnerships require an abiding trust, a long run commitment, a desire to achieve win/win situations, to foster mutual growth and support, and a willingness to go the extra mile in critical times. The issue of compatibility is also important here. The partners need to view each other as major suppliers and major customers, not minor ones. Vollmann et al. (1998) gives the example of Skanska, a Swedish construction firm which has developed 10 partnerships with key suppliers. The partners are major suppliers and Skanska is one of their most important customers. The concept of customer and supplier portfolios needs to be seen in an evolutionary context or life cycle (Spekman et al. 1996; Doz et al. 1998), where some partnerships will succeed while others not, and some will move up from the second or third tier to the customer and supplier relationships while others down. Eisenhardt and Galunic (2000) support this view when they assert that many managers especially in high-velocity markets fail to capture cross-business synergies because they are collaborating in too many areas or for too long, or they focus on the wrong opportunities.

The second task in selecting a partner for the portfolio of relationship is to ascertain the fit with demand-chain partners. Vollmann et al. (1998) depicts one way of thinking about selection criteria in an X and Y axis. On the extreme four corners of the XY axis are companies that are industry leaders (e.g. Intel and Microsoft) and monopolies with excellent product/process technology and high industry power, and start-up companies and commodity companies with low product/process technology and low industry power. The middle area seems to be the best recruitment ground for partners.
Additional criteria for choosing partners also include issues of size, integration and overall abilities of the partner. Another set of issues in partner selection criteria relates to the issue of outsourcing and insourcing. Vollmann et al. (1998) differentiates between outsourcing and subcontracting; as in the former the firms makes a deliberate choice to get rid of the assets, the infrastructure, the people and the competences. This is not the case in subcontracting where the decision can be easily reversed and the benefits of clear focus are not readily realised. Hard choices have to be made as to which competencies the firm should develop and what competencies should be outsourced. Finally, the ultimate objective in choosing demand chain partners is to choose ‘smart ones’. There are too many examples where suppliers have failed. Any partnership selection should involve getting to know the economic health of your partners. The above criteria should also be viewed from the perspective of the supplier.

Once the portfolio of partners has been selected, they need to be managed. Too many firms erroneously think that the critical task in demand chain management is to identify the partners and then to set up the agreement (Vollmann et al. 1998). The identified management lessons include:

1. Developing new infrastructure: true partnerships will always require new ways of coordinating the detailed activities of the partner companies, i.e. business process reengineering.

2. In-plant representatives: have employees of one company working in the other company.

3. Aggressive improvement agenda: rapid learning has to be the primary objective for improving value creation and cost reduction activities in the chain.

4. Pie sharing versus pie growing: best practice firms separate price negotiations and other forms of pie sharing from improvement activities and pie growing; rather than waste time and effort haggling over prices which requires continuous negotiations, efforts could be better devoted to making the pie bigger.

5. Confidentiality/exclusivity: demand chain partnerships work best when there are clear agreements in terms of confidentiality and exclusivity at the beginning.

6. Performance measurement: some of the variables that need to be measured in terms of overall effectiveness are the time to market, obsolescence, final customer complaints, damage, the flow time for cash out to cash back, the flexibility of the chain to overall changes in demand, security/safety, return on assets, mark downs, times to process transactions, hidden factory costs, environment variables and rates of learning.

7. Nurturing the partnership: the ‘soft’ side must be managed; successful partnerships rely on trust, openness, good will, clear communication, multiple channels of communication and an evolving mutual set of beliefs and culture.

Ojasalo (2001) provides further insights into the strategic management of portfolios of buyers and suppliers by highlighting for the alliance manager the efficacy of Key Account Management
(KAM) as a tool. The author draws from research and the extant literature on marketing management to identify the basic elements involved in a successful KAM and ultimately customer relationship that is profitable. KAM has its origins in the sphere of financial investment (Markowitz 1952, cited in Zolkiewski and Turnbull 1999) and its use as a strategic planning aid has developed into a more generalised management context (see Porter 1998, and Zolkiewski et al. 1999). McDonald, Millman and Rogers (1997:737) define KAM as “an approach adopted by selling companies aimed at building a portfolio of loyal key accounts by offering them, on a continuing basis, a product/service package tailored to their individual needs”. Moreover, “[k]ey accounts are customers in a business-to-business market identified by selling companies as of strategic importance” (McDonald et al. 1997:737). Key account manager is the person in the selling company who represents “the selling company’s capabilities to the buying company, the buying company’s needs to the selling company, and bring the two together” (McDonald et al. 1996:58).

Ojasalo’s (2001) research suggests that both successful KAM consists of four basic elements which need to be assessed both at the company and individual levels:

- identifying the key accounts
- analysing the key accounts
- selecting suitable strategies for the key accounts
- developing operational level capabilities to build, grow, and maintain profitable and long-lasting relationships with them

To identify key accounts, it is essential that the selling company considers what it primarily wants from accounts. Equally it is crucial to identify which accounts can meet the objectives, present or future. Ojasalo (2001) suggests that at the company level, this involves defining the criteria of strategically important customers and identifying existing and potential accounts that fulfil these criteria now and in the future. The criteria for determining strategically important customers can include (a) sales volume, (b) use of strategic resources, (c) age of the relationship, the supplier’s share of the customer’s purchases, and profitability of the customer to supplier (Campbell and Cunningham 1983). At the individual level, the person(s) holding the power to continue or terminate the relationship in the account organisation and person(s) listened to by the key decision maker(s) must be identified.

When analysing key accounts at the company level, it is important to analyse the account’s products/services, inputs, internal value chain, markets, suppliers, and economic situation (Ojasalo 2001:211). Also, it is important to analyse the history of the relationship with the key account, focussing on sales volume, profitability, investments and adaptations made in the
relationship, buying behaviour, information exchange, special needs, buying frequency, and complaints. Similarly, the seller should compare its own relationship goals with the ones of the account when making strategic decisions concerning the relationship. Moreover, it is vital to know or evaluate the account’s costs and possible interventions of replacing the selling company with another. Furthermore, for the future, the seller needs to know if the account is simultaneously buying from the seller’s competitors, and what the selling company’s position is among them.

At the individual level, it is crucial to undertake a political analysis to consider which person(s) in the account organisation gain personal advantage or possibly disadvantage from the relationship with the seller, and what these advantages/disadvantages may be (e.g. related to career opportunities, income, and ease of the job). Moreover, one needs to analyse whether there are conflicts of interest between individuals or ‘relationship promoters’ (Walter 1999) in the account organisation related to the relationship.

The key accounts are identified and analysed so that suitable relationship strategies can be selected. At the company level, this involves analysing the strategic alternatives in terms of the power position and the degree of goal congruence in the relationship (Ojasalo 2001). At the individual level, one needs to understand what personal-level, long-term benefits could be offered to key individual(s) in the account organisation. Key individuals need to know if the relationship will lead to an increase in their own competence and career opportunities.

In terms of developing operational-level capabilities, it is important to improve the quality of products and services continuously at the company level. It is equally important to know the qualifications of the key account manager, select a suitable person as key account manager, and continuously develop his/her skills (Ojasalo 2001). Moreover, information exchange and relationship routines are relevant areas of development. The organisational structure can also be designed to better meet the account’s needs. It is crucial to enhance the degree of trust between the selling company and the account. People and process management always require a control function to develop and implement acceptable mechanisms and measures for analysing and ensuring goal achievements.

Ojasalo (2001) suggests that at the individual level, it is important to facilitate the ease of the job of and interaction with key individual(s) in the key account organisation, as well as adapt to the interaction styles preferred by them. Social contacts and events outside of official dealings help build positive social capital upon which the relationship may be embedded. To enhance
commitment of key individual(s), Ojasalo (2001:212) suggests that they could be offered “something extra” such as small favours, gifts or advice which should be nevertheless within normal business ethics, laws and regulations.

To the extent that KAM is useful for maintaining a portfolio of relationship, the alliance manager would do well to adopt such a tool. Ojasalo’s (2001) work has helped this thesis by clarifying the meaning of KAM and portfolio analysis in relationship management (see Zolkiewski et al. 1999).

**Insights from relationship marketing approach**
- It contributes to this thesis lessons from selling/buying, promotional and pricing alliances and underpins the point that the ability to manage alliances at less cost is a core skill (Kotler 1999).
- It notes that building successful producer-distributor alliances requires (a) gaining a deeper understanding of distributor requirements, (b) building working partnerships, and (c) actively managing these partnerships. Building affective partnerships can take up to 3 years because they must be earned, not merely declared (Narus et al. 1986).
- It offers the tool of demand chain management to improve the selection of customers and suppliers into a portfolio of relationships (Vollmann et al. 1998), i.e. that the number of true partnerships should be limited preferably up to 10.
- It contributes to the extant literature on alliance management the need to adopt the KAM tool to enhance the management of a portfolio of relationships (Ojasalo 2001)

**Limitations of relationship marketing approach**
- RM in the West does not pay enough attention to cross-cultural issues (Leung 2000) and the relationship approach is mainly transaction-based.

**2.5.2 Alliance management in developing countries**

**2.5.2.1 Organisation environment in developing countries**

(i) **Strategic management approach**

Kohn and Austin (1996) provide an apt characterisation of the business environment in developing countries which poses additional challenges for local and overseas companies. This characterisation generally holds true for PNG as a small open-economy and democratic country since Independence in 1975. Kohn et al. (1996:2690) comment that developing countries’ contexts are complicated, continually in flux, and highly diverse. Therefore, the authors advise that in order to perform effectively and survive in developing countries, managers need to develop the capacity to scan, understand, and react to the environmental forces that surround the firm. For this purpose Kohn et al. (1996:2691) suggest the use of a ‘conceptual map’ or environmental analysis framework along the lines of that developed by Austin (1990).
conceptual map categorises external forces - economic, political, cultural and demographic - that affects the business environment at four levels - international, national, industry and company. Such a map helps to decipher systematically the critical contextual variables to examine and the analytical pathways and managerial implications of environmental forces.

The conceptual map led the authors to summarise environmental factors (Kohn et al. 1996:2692) which reveals that much of the high environmental turbulence in developing countries stems from a number of factors including (a) their transition from traditional and bureaucratic modes of industrial governance and business transacting, (b) the intrusion of politics into business affairs in conditions where there is often political instability at the macro-level and uncertainty because of rampant corruption both at the macro and micro levels, (c) distinctive cultural norms attached to rigid social structures, (d) rapid population growth and large flows of population into urban areas, (e) a high proportion of young people in the age structure often with distinct attitudes and motivations to their elders, (f) weak infrastructure and limited technological sophistication, (g) capital scarcity, and (h) exchange rate volatility and capital market restrictions.

A manager should therefore seek to continuously scan the environment from the perspective of the company or alliance level, so as to interpret the implications of a given piece of environmental analysis vis-à-vis the firm’s particular circumstances (Kohn et al. 1996:2691). The manager needs to assess how the international aspect of the country’s environment affects the national, industry and company dynamics. This requires an examination of ways in which a country is connected to others through cross-border flows of resources, bilateral agreements, multilateral agreements, and by the actions of multinational corporations (MNCs). At the national level, managers must interpret national development strategies and assess their efforts on the industries within which they operate and on their firms. At the industry level and using public policy analysis techniques, the managers need to evaluate how government actions affect the competitive dynamics and structure of industries. Managers need to take cognisance of how the current trend towards privatisation in developing countries such as PNG affects industry dynamics. Moreover, the actions, strengths and weaknesses of the other players, apart from state-enterprises, need to be monitored also - such as local firms and cooperatives, rural business groups, informal sector producers and retailers, and MNCs. Finally, at the company level, the manager needs to strategise on how to react to the environment’s impact on the firm.

The interaction between the environment and the firm has implications at the operational level. Since the environment is greatly affected by government, managers need to plan on how to manage business-government relations. Kohn et al. (1996) advise that “[d]ealing with the
government is often the key external relationship of a developing country firm”. In formulating strategies to manage such a relationship the manager must answer three questions: (a) What do I need from whom in the government? (b) What does the government entity need that I have and how much does it need it? (c) How should I interact with the government? According to Kohn et al. once the firm’s needs are clearly defined, the task of identifying and understanding the government’s needs begins. Given that the government is not a unitary force and hence there is a multiplicity of actors, a political map of actors becomes essential, e.g. national-level officials, bureaucrats, political party officials, labour leaders, state-owned enterprises, and pressure groups. Their interests and power need to be identified so as to assess how well the company may contribute to the actors’ needs in order to leverage one’s bargaining power. According to Austin (1990) the manager who can achieve company-government congruence is likely to succeed in negotiations with the government. A number of authors reviewed in section 2.5.1 emphasise the need for managers to learn political skills for alliance management (Limerick et al. 1998; Lorange et al. 1992; Spekman et al. 1998; Bruner et al. 1998; Ojasalo 2001).

The environment determines the firm’s financial management capacity because of inflation, exchange rate instability and capital scarcity. Inflation disturbs management control tools by giving rise to what Kohn et al. (1996:2699) terms ‘illusory profits’ when companies use ‘generally accepted accounting practices’. ‘Illusory profits’ leads to incorrect decisions and result in excessive tax burdens, leads to liquidity problems and complicates relations with suppliers, customers and employees. Closely tied to inflation is exchange rate instability arising from mainly export instability. Important items to monitor in the balance of payments statement include trade balance, debt-service payments, foreign aid and remittances, inflow of foreign capital, outflow of domestic capital and the level of foreign reserves and hence import cover.

A firm’s production capacity is affected by the environment because much of the technology is imported from the West. Governments often scrutinise technology transfer agreements. Lack of technological sophistication and absence of a competitive inputs market may affect supplier relationships and often a firm is required to embark on backward vertical integration and structured subcontractor assistance programmes (Kohn et al. 1996:2700).

Developing country environments poses severe constraints on the choice of marketing strategies. Product policy has to be adapted to demographic, economic, political and cultural factors. Pricing in the low per capita and inflationary environment poses special challenges. Promotion strategies are influenced by media availability, population distribution, literacy rates, mail and telephone service availability, and linguistic and cultural diversity (Kohn et al. 1996:2701). Distribution
channels are affected by infrastructure deficiencies and local customers and practices. Packaging has to be adjusted to climatic conditions, often tropical in nature.

Finally, the developing country environment determines three organisation issues facing a firm, particularly those seeking to enter. These are entry form, ownership strategy, and organisational design and processes.

Child et al. (1998) also evaluate the effects of emerging economies’ environments on alliance management. Following on the approach of Kohn et al. (1996), Child et al. explore the environments of China, India, Latin America and Eastern Europe. The authors comment that because emerging economies have a mixture of traditional and modern institutions, and a combination of bureaucratic and market-based economies, these economies are complex in the ‘crude sense’ (Child et al. 1998:261). More often than not, there are more authorities, organisations, norms, and rules to cope with in order to get things done.

At the procedural level, more difficulties are posed by the institutional structure of emerging economies. These stem from factors like the absence of a clear legal framework, uncertainty about the interpretation of the laws that do exist, vacillation in the policies of governments torn between the aims of inducing foreign investment and protecting local industries, the part played by personal connections and relationships in business transactions (e.g. guanxi, face, reciprocity, renqing and trust), the widespread presence of corruption, and the vagaries of transportation, power, telecommunication, and other parts of the infrastructure (Child et al. 1998). The difficulty is amplified by the pressure for the transformational change that governments in developing countries are urging their people to undergo (Dror 1983).

**Insights from strategic management approach**

- It underscores the idiosyncratic environmental factors that cause the higher degree of environmental turbulence for alliance management in developing country contexts, chief among these include the centrality of the governmental factor (Austin 1990; Kohn et al. 1996; Kavanamur 2001). Thus there is the need for managers to achieve company-government congruence to succeed in negotiations with governments. This requires training in political skills. Environmental turbulence greatly affects the work of alliance managers in developing countries.

- It highlights the major constraints to doing business in PNG, ranging from violent crime and theft, macroeconomic instability, to shortages of managerial and industrial skills (Kavanamur 2001; World Bank 1999).
Limitations of strategic management approach
- It falls short of linking many of the constraints to the cultural mind-sets of developing countries.

(ii) Relationship marketing approach
Epstein (2000) provides a glimpse into the PNG business environment constraints on fresh produce marketing from a holistic value chain perspective. Epstein’s study was undertaken as a consultancy project for the PNG Fresh Produce Corporation (FPDC), the agency responsible for promoting the production and marketing of fresh produce in the country. FPDC is funded by the PNG government and donors such as the New Zealand government and the European Union. The estimated annual demand by the formal market in PNG is over 15 million tonnes of fresh produce at a value of more than K26 million (FPDC, cited in Epstein 2000).

This study serves the purpose of this thesis well because it tries to analyse environmental constraints from the vantage point of the fresh produce growers, wholesalers/agents, informal urban open markets, retailers such as supermarkets, storage depots, transport and packaging firms, relevant government agencies, commercial banks, advertising agencies, and consumers. Epstein (2000) utilised the case study approach and focus groups as instruments in her research methodology. She also reviewed secondary sources of data done previously on aspects of fresh food marketing in PNG: transport of vegetables (Scott et al. 1989), storage and transportation (Burden 1998), strategic planning within FPDC (Kirwan 1999), among other documents. Epstein is critical of the dyadic approach of some of the reports and the subsequent strategic planning approach of the FPDC in its lack of marketing expertise and non-appreciation of wider environmental constraints.

Epstein’s (2000) study grapples with the causes and consequences of erratic and unreliable supplies of fresh produce from the Highlands region of PNG. First, she delineates the major causes of the erratic and unreliable supplies from the producer’s end. Epstein finds the problems to be mainly three-fold: (a) production problems, (b) transport problems, and (c) storage problems.

The report discusses the production problems. Epstein identifies a number of sub-problems that are responsible for this broader problem of unreliable and erratic supplies. The main one is the fact that there is a predominance of a subsistence culture mindset among growers and among the FPDC’s agriculturalists and horticulturalists. PNG farmers have hitherto been very fortunate to have access to fertile land and easily meet their subsistence needs and even produce a surplus that is either invested in large feasts and/or conspicuous consumption. This gives rise to a state of self-
sufficiency first referred to by E.K. Fisk (1982) as ‘subsistence affluence’. Thus with increased urbanisation and changed dietary preferences resulting in increased demands for a variety of different types of fruit and vegetables fuelled by advertising and the media, farmers have been slow in adapting to such demand changes. This is also despite the fact that there is now a mushrooming of supermarkets in Port Moresby, Lae and Kokopo to satisfy the emerging needs.

On the part of FPDC, although it has successfully encouraged, supervised and assist growers to not only cultivate non-traditional crops such as broccoli, cabbages, English potatoes, tomatoes and others but also to improve the productivity of traditional root crops like sweet potatoes, the predominant mindset at FPDC is still based on the assumption that there will be a demand at any price for whatever volume of a particular vegetable on offer for sale (Epstein 2000). FPDC “failed to realise that consumers decide how much of a particular item of food they are prepared to buy at what price, when and what intervals” (Epstein 2000:10). In short, FPDC’s approach was based on supply chain management rather than on demand chain management as recommended by Vollmann et al. (1998) in section 2.5.1.4. Thus, for example, Epstein (2000) found that Port Moresby supermarket managers interviewed complained about the erratic supply.

Epstein (2000) observes that the lack of relationship management between growers and wholesalers results in occasions where growers produce too much of a particular crop all at the same time which wholesalers find it difficult to buy at higher prices because of the refusal of growers to lower prices in response to glut situations. And when crops are allowed to rot, strained and sometimes even hostile relationships develop between growers and wholesalers on the one hand and between wholesalers and urban buyers on the other. This lack of relationship management causes supermarket managers to prefer buying imported produce, particularly from Australian suppliers where at the cost of a phone call the right quantity of a certain crop (e.g. broccoli) is delivered regularly every week in good condition and on time (Epstein 2000:11). Retailers lament that the same service cannot be expected from their PNG suppliers - “their supplies are erratic and unreliable” (ibid.).

Epstein (2000) then evaluates the causes of transport problems inhibiting the successful marketing of fresh produce. The main cause of transport deficiencies is due to the mountainous topography of the highlands area resulting in a poor road system and lack of consistent road maintenance. Country-wide, there is the problem of numerous islands resulting in a fragmented small domestic market that creates serious problems for an effective intra-country food distribution system. PNG does not have railways and so depends on road, sea and air transport, none of which offer cost-effective options to ensure satisfactory food supplies to Port Moresby.
There is only one highway between the Highlands and Lae with no road network linking Lae and Port Moresby. This results in the deterioration of the quality of fresh produce in Lae while waiting for shipment to Port Moresby. Even the regularity of shipping between Lae and Port Moresby is irregular despite demand for space exceeding availability (Epstein 2000:15). Neither is air freight a viable option because rates are prohibitively high.

Another serious problem that pushes the cost of transportation up is the high rate of highway robberies by bandits along the Highlands highway. This results in a high loss rate of transported products reflected in high transport insurance and freight rates. Epstein (2000:16) noted that it costs a minimum of K0.50 to send by surface 1kg of fresh produce from Mt. Hagen to Port Moresby. Airfreight is even more expensive, for example, one of the freight agents (Transair) charges rates to Port Moresby per kg of as much as K1.62 from Goroka, K1.73 from Mt. Hagen and K3.00 from Kokopo. A reduction of highway theft would help reduce insurance and freight rates, and improved highway maintenance would encourage competition in the trucking business and freight rates.

The final cause of the erratic and unreliable supplies of fresh produce is storage problems. The few wholesalers in Mt. Hagen, namely Alele, Kelta and VegMark complain about the lack of appropriate depots with cooler units to store fresh produce in transition in Mt. Hagen, Goroka, Lae and Port Moresby. Cool room depots and satisfactory consolidation facilities in the ports of transition and a de-consolidation depot in Port Moresby are necessary facilities because for many wholesalers it is cheaper to transport the produce by road than use expensive air freight which is also now unreliable. Currently with the absence of proper depots wholesaling is perceived as an unviable business activity because they play the unenviable role of being intermediaries between the producers and retailers in the urban areas. Wholesalers are unable to buy their own cool rooms because of current prohibitively high interest rates charged by banks on loans as the country has been under World Bank/International Monetary Fund-sponsored structural adjustment programmes for the last decade (Mawuli 1995; Kavanamur 1997, 1998).

Second, Epstein (2000) identifies two major consequences of the core problem of erratic and unreliable supplies of fresh produce to retailers. These include the foreign exchange reserve strain that arises from continued dependence on food imports as a result of a lack of food security and marketing difficulties of local produce because of unreliable supply. The let down in supplies inhibits supermarkets from competitively marketing and displaying local produce because of the cost involved in the distribution channel and absence of major players as intermediaries or wholesalers. Epstein (2000) recommends that FPDC integrate the function of wholesaling
through a subsidiary to help plug this gap in the value chain due to adverse environmental factors that raise entry costs for new wholesalers.

The World Bank (1999:205) also makes the point that whilst private intermediaries - leading distributors, large retail stores and suppliers in the wider economy – have the expertise to manage the supply chain, they may not be willing, under current circumstances, to invest in permanent storage and collection facilities. Thus it recommends that the government ought to play a financing and catalytic role by identifying the best locations for collection and storage facilities, financing and management of these collection points, and so on. Over time it expects that ‘interfirm links’ in the supply chain will deepen (World Bank 1999:196).

Whilst wholesaling is a problem for fresh produce because growers are located in rural areas relative to retailers which are mainly based in urban areas and remote mining towns in PNG, wholesaling in the manufacturing sector is the most preferred activity by firms located in towns and cities relative to retailing (Chen et al. 2000). This is because industrial wholesaling involves minimal participation in the transportation/distribution channel, which is considered risky due to the environmental constraints of crime/theft, inefficient road networks and unreliable/costly freight runs and rates. In both situations, however, transportation and crime seem to be the major environmental constraints resulting in a problematic PNG distribution channel system.

**Insights from relationship marketing approach**
- It offers a holistic value chain perspective into the environmental constraints to marketing alliances in PNG (Epstein 2000). This finding is important for this thesis.
- It highlights culture as a major variable in the PNG business environment that the alliance manager has to account for. For example, one of the reasons for the unreliable and erratic supplies of fresh produce faced by retailers is the traditional cultural mind-set of producing for one’s subsistence needs and one off surplus for big ceremonial feasts rather than along mass production lines (Epstein 2000).

**Limitations of relationship marketing approach**
- It fails to show how a difficult business environment impacts on relationship management amongst value chain actors in the PNG fresh produce market.

**2.5.2.2 Organisation context in developing countries**

(i) **Strategic management approach**
Managing organisations in developing countries is made difficult because of the much greater instability and uncertainty posed by the environment. The environment impacts negatively on the availability of investment capital, choice of technology, marketing strategies, and organisation entry form, strategy, design and processes. Kohn et al. (1996) highlight three organisational issues
that companies need to address when entering a developing country market. One is ‘entry form’ with different levels of resource commitment and risk, ranging from exporting from the home country to licensing or subcontracting a local firm to foreign direct investment (FDI) in the host country (Kohn et al. 1996:2701). Kohn et al. (1996) recommend that the chosen form should depend on an evaluation of the country’s economic (market size, labour costs and skills, managerial capacity, infrastructure adequacy), political (stability, governmental receptiveness of FDI, regulatory environment), and cultural (compatibility) characteristics, the industry dynamics, and the company’s product, technology, managerial and financial resources, and globalisation strategy.

A second issue relates to ‘ownership strategy’. In the case of FDI, the firm must choose between a joint venture and a wholly-owned investment. Joint ventures can provide resources (capital, technology, and management know-how) needed by partners, can serve as political insurance, and create competitive advantage. Local partners can be cultural guides and provide political access (know-who). However, problems can arise from conflicting priorities, loss of control, and excessive costs of interaction and coordination (Kohn et al. 1996).

A third issue relates to organisational design and processes that need to be established accounting for cultural factors. Kohn et al. (1996) suggest that this can be done by relating cultural values, attitudes and behaviour to the organisational areas where they impact the most. For example, social structures will have an impact on organisational structures, societal relationships will influence manager-employee relations, interpersonal orientation will affect group processes, motivation will colour the nature of incentive and evaluation systems, and perception of space will affect office and factory layout (Kohn et al. 1996:2701). Thus cultural sensitivity together with economic acumen, political dexterity, and leadership are vital to successful management in developing country contexts.

Kanungo and Jaeger (1990) also discuss management in developing countries. They note that developing countries no longer represent the traditional agrarian society but are on the way to industrialisation and modernisation. The authors note that one of the major reasons for these countries’ higher degree of complexity is because of the non-availability of resources from the environment to meet the high aspirations for development (Kanungo at al. 1990:9). Generally, organisational means and goals tend to be incongruous and create difficulties for effective management. Because most countries represent certain characteristics of ‘loose societies’ organisational norms are not well developed. Thus the challenge facing the manager in a
developing country is qualitatively very different from that facing his/her counterpart in the developed world.

In response to the difficult environmental challenges in developing countries, organisations adopt various coping strategies including lack of planning for the future with a long-term goal perspective, lack of time management, lack of entrepreneurship and moderate risk taking, and behaviour reflective of a lack of trust ‘in the system’ (Kanungo et al. 1990:9). Such dysfunctional coping strategies act as barriers to organisational effectiveness. To make the environment more predictable and easy Kanungo et al. (1990) suggest the need for adequate supply of financing, quality vocational training programmes, technology development, political non-interference, and judiciary and executive reforms. At the organisational context level, there is a need for improved organisational behaviour, management training and development, time management, reward system reforms to reinforce appropriate behaviour, and so on.

Kanungo et al.’s (1990:9) views that developing country complexity is not just the result of what is, but ‘what is not’ supports the views of Etzioni (1968) and Dror (1983) that decision makers’ ability to manage and depend on the following conditions which are absent or underdeveloped:

- deeply rooted culture in favour of rationality
- clear cut-off horizons between long range and short range effects
- high quality human capital stock
- development of knowledge units
- greater knowledge capacities
- greater control and feedback mechanisms
- better transportation and communication facilities

Clearly, developing country managers need to enhance their capacities for rational decision making rather than settle for incremental change and inertia. There is also a need to reorganise work cultures and practices away from the Weberian model of bureaucracy and Taylor’s scientific management principles (Hughes 1998, Turner et al. 1997), the principles which are almost antithetical to a flexible management of a strategic alliance.

Particular country experiences with management provide further insights into the characterisation of developing country organisation context. First, Fashoyin (1996) reviews the management context in Africa. The author note that organisations in Africa fall into three categories: public enterprises, private indigenous enterprises many of which are in the informal sector, and foreign subsidiaries or joint venture organisations. The authors concentrate their evaluation on the first two forms of organisation since they better reflect the African management culture more than the third.
Fashoyin (1996) observes that management in Africa is strongly rooted in cultural beliefs and traditions where age, wisdom, a paternalistic authoritarian management culture, public enterprises, and sanctity of political decision makers predominate. Planning in organisations is no more than a gathering of statistics and other mundane activities and planning departments lack skilled staff with relevant training and experience in finance, operations, organisational development, management and statistics. A feature of authority and decision making which is inimical to alliance management is that African management does not tolerate the emergence of several power centers in an organisation (Fashoyin 1996:2646). Moreover, there is minimal formal integration of organisational objectives and human resource management. Human resource management in Africa is predisposed to ascriptive norms rather than merits (Fashoyin 1996) and is lacking in quality (Jones and Blunt 1996).

Furthermore, the authoritarian-paternalistic managerial style does not facilitate smooth communication between the varying cadres of management and between management and employees. Subordinates are not expected to demonstrate initiative and rather than communicate through the chain of command, top management tend to communicate directly with employees, either because they believe it is their right as ‘father’ figures, or because of the belief that middle management cannot effectively communicate with the employees. There is also little bottom-up communication. Overall, the authoritarian-paternalistic management style tends to inhibit the achievement of corporate goals and is inimical to alliance management.

Komin (1996) reviews the status of management in Thailand. He notes that Thai cultural values and expectations, as opposed to those of Western cultures, affect the whole managerial process in effective communication, motivation, leading, decision making, problem solving, conflict handling and managerial styles (Komin 1996:3070). Thailand is a constitutional monarchy and unlike PNG, its democratic political culture is still weak. The Thai political system is highly centralised through its powerful bureaucratic political system which has provided a stable, continuous and united mechanism of political and administrative control. The strong patron-client relationships used in building and maintaining a power base prevents radical changes to the status-quo which provides incentives for such relationships.

The Thai business system is dominated by family enterprises. Komin (1996:3071) notes that all small-scale (up to 20 employees) and medium-scale enterprises (20-300 employees) are family businesses accounting for over 90 per cent of the country’s total registered enterprises. Many large Thai companies are still run more on a patriarchal system rather than by professional
managers and a board of directors. Family enterprises are best characterised as ‘management by entourage’ (Komin 1996:3071) as almost all employees are relatives of the owner where family connections are paramount.

The Thai social system is highly hierarchical and relationship-oriented. The ‘class’ system is an important feature of Thai society and clearly reflected in the work place. Thai culture impacts on organisational behaviour and management. Komin (1996:3074-3078) highlights the key effects of this impact:

1. Smooth interpersonal relationships are more important, time is not important, and a ‘cut and dried’ aggressive approach is often less fruitful.

2. The Thai relationship-oriented culture renders personal communication, particularly face-to-face, much more effective and indicates respect.

3. Money and good pay is not everything to Thai employees; employees’ motivation is also related to the personality and style of the manager/leader; in a relationship-oriented culture supervisors’ performance cannot be evaluated by their subordinates.

4. Due to the Thai value system, the Thai seeks to avoid personal conflicts rather than address them; employees are reluctant to criticise or contradict others in meetings or in the work place and managers are reluctant to report negatively on subordinates for expatriate bosses.

5. Unlike managers in America and Holland who are expected to be participative problem solvers, Thai managers are seen as experts and are expected to make decisions and solve problems decisively; a leader must be ‘polite and non-aggressive’ in order to earn from employees Baramee (i.e. respect and love).

The brief review of African and Thai management depicts the important leverage played by environmental and national cultural factors on organisational components such as goals and values, human resources, structure and control, technology, and the managerial process in communicating, motivating, leading, learning, decision making, problem solving, conflict handling, and effective leadership.

PNG’s economy is dominated by the private sector (i.e., both formal and informal), accounting for 80 per cent of consumption and fixed investment, 95 per cent of gross domestic savings, and more than 90 per cent of employment (World Bank 1999). About 90 per cent of private enterprises are micro enterprises and informal enterprises. Their main economic activity is subsistence and market-based agriculture. These enterprises supply almost all domestically produced food, 70 per cent of coffee, 65 per cent of cocoa and copra, and 35 per cent of palm oil, and dominate the livestock sector.
The formal private sector is two-fold - large, foreign-owned natural resource firms and a non-mining private sector comprising small and medium-size enterprises. The structure of private enterprises can be broken down into four categories: (100,000-150,000), small (10,000-12,000), medium (4,000) and large (500-1,000) (PNG-Australia Development Cooperation Program 1996). The management styles at the different levels differ: no formal structure for micro, proprietary and self-employed for small enterprises, owner managed with professional help for medium enterprises, and formal management with expatriate senior management for large ones. Foreign participation is high with medium and large enterprises. A trained and productive workforce remains to be developed in PNG. The educational status of the employed population has not changed much: less than half of employed workers have completed secondary education (World Bank 1999:196). The situation is not very promising at the technical level. Industrial managers are aware of the importance of training their employees, but limited expertise and the small size of their business does not allow them to train their employees inside their own enterprise (Alikhani 1995).

At the supply chain level, Epstein’s (2000) study on the fresh produce value chain also uncovers a lack of skills in market research and general marketing expertise within many PNG companies and state enterprises to gear production to market demand. She notes that “[t]here is only one agency in Port Moresby that conducts market research. This seems symptomatic of the lack of market focus in the overall PNG economy” (Epstein 2000:13). There remains a gap in the literature on the organisation components and managerial process in PNG.

Quang, Swierczek and Chi (1998) contribute to this review of organisational components in developing countries as their study compares the leadership styles of international managers and their Vietnamese counterparts in managing partnerships in Vietnam. The authors attribute the slow implementation of joint venture projects in Vietnam to shortcomings in the leadership process of alliance management. Currently the failure rate of joint ventures in Vietnam is about 32 per cent.

Quang et al.’s (1998) study was designed on an ASEAN Perspectives on Excellence in Leadership (APEL) research project, which was undertaken by the University of Brunei Darussalam in 1991. The research used the same 94-item questionnaire designed for the APEL project to consider leadership styles in joint ventures. A total of 200 questionnaires were sent to local and international managers in Hanoi and Ho Chi Minh City. In total 127 managers working for 35 joint ventures returned the survey questionnaires. Over half were Vietnamese and a quarter of the respondents were female. The managers were mostly employed in companies with over
500 employees and had more than ten years’ experience in managerial positions. The data were analysed using factor analysis and t-test.

At the outset, the survey results showed that joint venture leadership in Vietnam should be open and fair in its managerial style and should pay equal attention to the competitive performance of the joint venture. The authors compared leadership characteristics (i.e. personal values, skills, beliefs, attitudes and behaviours of the manager). The study found that while international managers indicate a professional orientation based on education and experience, local managers are still at early stages of developing professionalism. They were still more inclined to reflect the past influence of the command economy and other influences, such as Confucian values. Vietnamese managers stressed the importance of ‘open communication’ and ‘being positive’ while their international counterparts considered ‘being practical’ and ‘ethical’ as more important. Both groups of managers agreed that the most important quality of leadership in cross-cultural situations is that they should accept responsibility. Essentially, Vietnamese managers stressed the importance of ‘process management’ (i.e. open communication, relationship management) while ‘structure’ (i.e. formal procedures to guide practice, task management) was emphasised by international managers (Quang et al. 1998). Ethics was not important for the Vietnamese managers.

In comparing leadership behaviour (i.e. values, attitudes, actions and styles of managers) Vietnamese managers stressed more time management and approaches to manipulate subordinates while international managers significantly emphasised decision making and delegation. Both groups of managers favoured the ‘people oriented’ and ‘team work’ approach in management. They also used specific decision making skills including logical approaches, objectives and specific details.

Although Vietnamese managers emphasise team work and delegation, their perception of these concepts do not amount to ‘sharing power’ as they do not perceive manipulation of subordinates as a negative behaviour but as a way of accomplishing objectives (Quang et al. 1998). Vietnamese managers’ managerial style is that of a ‘high power distance’ culture as they positively perceive the authoritarian style.

Managerial responses to organisational demands (i.e. goals, roles, rules, structures, demands, rewards and the requirements of performance) also differed. Seven factors were identified as critical for evaluating the leader’s adaptation to organisational demands: performance, strategic vision, adaptability, deadlines, productivity, long-term orientation and politics. While both groups
of managers did not differ on such factors as having a strategic vision and adaptability to the environmental conditions, Vietnamese managers placed less emphasis on organisational efficiency such as deadlines, productivity and long term goals. Vietnamese managers showed less concern for performance than international managers did, but this gap in leadership style was also related to the heritage of a command economy. The significant differences relate to time and productivity, which were not considered important by Vietnamese managers in the past system. Thus in implementing organisational change, resistance might be expected because Vietnamese managers do not have the same commitment to performance (Quang et al. 1998).

In terms of environmental awareness (i.e. of factors outside the organisation that have influences on the operation and success of the organisation) both groups of managers indicated an awareness of the organisational environment but emphasised different dimensions. Vietnamese managers emphasised the external political impact on the organisation while international managers focused on the need to develop a shared perspective of values and the need to create a common organisational culture which would be a blend of the local culture and international management perspectives (Quang et al. 1998). This means that organisational change might be very cautiously implemented as Vietnamese managers wait for the right political indicators or clues. This point underscores the predominance of politics in the minds of developing country managers (Kavanamur 2001).

Quang et al. (1998) offer their experience in working with joint ventures in light of the strong results. They note that the most problematic and least successful joint ventures are those that emphasise their own culture such as Korean and American and those that emphasise control or only a task orientation. The authors point out that successful joint ventures such as ABB and Unilever emphasise relationship building, creating a mutual understanding and shared values. In organisational change, they are more adaptive, focused more on team work and they provide a stronger role for local managers. Organisational learning of successful JVs is enhanced by promoting the management development of Vietnamese managers and reducing the involvement of expatriates.

Overall, the research shows that a multi-cultural approach will focus on the mutual understanding of the cultures involved, adapting the styles of the partners and relationship building is necessary for successful joint ventures. Building shared values in the joint ventures is critical to performance, to creating an appropriate organisational culture, and to accomplishing effective organisational change. The long term success of JVs in Vietnam requires a long term commitment and a vision for the JV which will be implemented by trained local managers with effective
leadership skills. Effective leadership is a key factor in successful JVs in developing countries where cultural integration is involved (Granell 2000).

**Insights from strategic management approach**

- It points out that the entry form, ownership strategy and organisational design and processes of strategic alliances are subject to cultural values, attitudes and behaviour in developing country contexts (Kohn et al. 1996). Thus cultural sensitivity, economic acumen, political dexterity and leadership are vital to successful alliance management and hence this thesis.

- It points out that one of the major reasons for the developing countries’ higher degree of complexity is the non-availability of resources from the environment as seen in shortage of quality human resources, technology, and so on. Thus organisational means and goals tend to be incongruous, creating difficulties for effective alliance management (Kanungo et al. 1990). And because countries such as PNG are made up of ‘loose acephalous societies’ organisational norms are not fully developed.

- It points out that most developing country alliance managers tend to be relationship oriented based on trust (Kotabe et al. 2000), or emphasise ‘process management’ based on open communication and relationship management (Quang et al. 1998), whereas international alliance managers tended not to reciprocate this, emphasising instead ‘structure’ (i.e. formal procedures, task management). Unlike international managers, developing country managers did not view ethics as important.

- It highlights the point that effective leadership in developing country alliances requires a multi-cultural approach and should lead to cultural integration (Quang et al. 1998; Granell 2000). Building shared values is critical to performance, creating an appropriate organisational culture, and effective organisational change.

**Limitations of strategic management approach**

- There is a need to recognise that the work cultures and practices of developing countries based on Weberian tenets and Taylorism or scientific management principles are antithetical to flexible alliance management.

- Strategic management implies tactical planning. However, the approach must also come to accept that in a developing country context, this may also include defensive coping strategies such as lack of planning for the future, lack of time management, lack of entrepreneurship and moderate risk taking; a lack of trust ‘in the system’ (Kanungo et al. 1990), and purposely remaining small (McCormick 1992). These dysfunctional coping strategies inhibit organisational effectiveness.

2.5.2.3 Management culture in developing countries

(i) **Strategic management approach**

Hofstede’s (1997 1980) and subsequent studies enhances this thesis’ understanding of organisational culture in developing countries. Table 2.7 depicts the value indexes of relevant developing countries with similar context to PNG.
Table 2.7. Hofstede’s value-index of five dimensions in selected developing countries

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Power Distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty Avoidance</th>
<th>Long-term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>104</td>
<td>26</td>
<td>50</td>
<td>36</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>94</td>
<td>32</td>
<td>64</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>78</td>
<td>14</td>
<td>46</td>
<td>48</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>64</td>
<td>20</td>
<td>34</td>
<td>64</td>
<td>56</td>
</tr>
<tr>
<td>West Africa</td>
<td>77</td>
<td>20</td>
<td>46</td>
<td>54</td>
<td>-</td>
</tr>
<tr>
<td>East Africa</td>
<td>64</td>
<td>38</td>
<td>41</td>
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<td>-</td>
</tr>
<tr>
<td>Arab countries</td>
<td>80</td>
<td>38</td>
<td>53</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>80.14</td>
<td>26.86</td>
<td>47.71</td>
<td>52.29</td>
<td>-</td>
</tr>
</tbody>
</table>


As shown in Table 2.7, the power distance indexes of developing countries are consistently higher than Western countries (section 2.5.1.3) both by individual country standard and by the average of the two groups of countries. As shown by earlier discussions on management in Africa, Thailand, Vietnam and Mexico, among others, Hofstede’s indices confirm that non-Western societies accept that power is unevenly distributed, collectivism is preferred over individualism showing that human ties are much tighter relative to those in Western countries, masculinity is lower relative to the West reflecting a generally lukewarm emphasis on performance and achievement oriented behaviour, and slightly higher uncertainty avoidance reflecting an inability to accept higher risk. Hofstede’s data on masculinity, uncertainty and long-term orientation should, however, be interpreted with caution as they are inclusive. For example, the difference between Western and Chinese cultures on masculinity is not significant enough due to rapid industrialisation (Leung 2000:113) and the Nordic countries tend to be more feminine than Anglo-Saxon countries. Also, while Chinese cultures may reflect a higher average score on long-term orientation compared to the West, it does not necessarily follow that all developing countries have a tendency for long-term orientation. These findings generally find support in the work of others in international management, particularly Punnett’s (1989) cluster analysis, Kluckhohn and Strodtbeck’s (1961) value orientation model, Hall’s (1976) high versus low context culture framework, and Gannon’s (1984) metaphors.

Although Hofstede’s study is useful generally for the purposes of this thesis it must be acknowledged that his findings may reflect only a snapshot of evolving cultures and because it was undertaken in 1980, it faces the danger of being dated. These points have been underscored by Mellahi’s (2001) study of 422 MBA graduates from a sample of 568 students from the UK, French, Indian, Arab and African students from four large business schools in the UK. Data collection was undertaken over two years and comprises the following: 121 were UK (42 per cent male), 66 were French (57 per cent male), 70 were Arabs (92 per cent male), 95 were Indian (73
per cent male) and 71 (76 per cent male) were Africans. All participants were under the age of 32 with a mean age of 25.8 years (Mellahi 2001:48). The instrument used was the Rokeach Value Survey (RVS) (Rokeach 1973).

Mellahi’s (2001) study supports a small but growing body of research that indicates that the importance of national culture in cross-cultural management is diminishing and suggests that the world is moving towards a single, global management culture that is basically Western or American (Barnet and Cavanaugh 1994). The study concluded that only three values were not significantly different across all cultures: ambitious, capable and honest. Regardless of culture, respondents viewed honesty as the most important value. Emphasis on honesty has been stressed by ASEAN and Vietnamese alliance managers (Selvarajah et al. 1995; Quang et al. 1998). Additionally, ambitious and capable were ranked as highly important across the five cultures. This shows that respondents from non-Western collectivist cultures are placing stronger emphasis on values that promote self-reliance which are emphasised more in western individualistic societies. Mellahi (2001:50) points out that contrary to Gopalan and Rivera’s (1997:116) statement that Indian managers have “lower level of ambition relative to Western cultures”, his research shows no significant differences between cultures in their ranking of this value. Also, surprisingly, contrary to what is widely reported in the literature, respondents from India and Africa ranked obedience as not important. This finding contradicts Hofstede’s study as it indicates that students from Indian and African cultures do not espouse values such as obedience that lead to high power distance attitudes widely reported in these cultures. These results are consistent with recent findings that there is a continuing decline in power distance observed among young managers in Russia (Viega et al. 1995), China (Ralson et al. 1993) and Japan (Lawson 1995). Convergence for the masculinity indexes for the Chinese countries (Hong Kong, Taiwan and Singapore) and Western countries have also been noted as a result of rapid economic growth in the past decades and Western influences on organisational cultures (Leung 2000:113-114).

Hess (2001) discusses the implications of aspects of PNG’s national culture at the organisational level. PNG is a nation of enormous ethnic diversity with over 800 languages and cultures. The bulk of the population (87 per cent) dwell in the rural areas, working in the subsistence economy. Social concepts which are common and have implications for organisations include wantok. The concept is defined as a system of relationships (or set of obligations) between individuals, characterised by some or all of the following: common language (wantok = one talk), common kinship group, common geographical area of origin, common social associations, common belief based on the principle of mutual reciprocity (Mannan 1978:200). At best the wantok system is
suitable for the more clannish social environment (Hess 2001) and has been referred to as a form of micro social capital (de Renzio et al. 1999).

Hess (2001) observes that wantokism influences work attitudes in modern work organisations. Its positive aspect may be that it provides “mutual support and cooperation within mutually acceptable rules of social and economic behavior” (Warakai 1989:45, cited in Hess 2001:14). On the other hand, because of its social obligations to render time and resources to unemployed relatives, it acts as a major disincentive to work (Monsell-Davis 1993:8) and therefore productivity. It has also been viewed as operating within organisations with “detrimental impacts on decision making, control and communication” (Hess 2001:15). Hess interviewed PNG informants who were among 200 students in management courses at the Australian National University and found that the tendency to favour wantoks in appointments and promotions and the strength of informal work groups based on regionalism limit effective managerial control.

Clearly, wantokism as a cultural orientation limits the motivation to work, inhibits organisational commitment, prevents recruitment on the basis of organisation objectives or performance, impairs rational decision making processes and problem solving capabilities, and is inimical to being proactive and to long-term planning for development, investment or saving. Kavanamur (2001) notes that PNG culture is generally less individualistic, has high uncertainty avoidance, high on associative thinking with less abstractive thinking, has a past-present oriented time perspective and has a passive/reactive task orientation. These are typical cultural orientations of developing country cultures (Kanungo et al. 1990; Hofstede 1997; Mendonca and Kanungo 1997), which alliance managers in PNG have to be aware of and tailor human resource management policies, managerial practices, and interpersonal communications to generate appropriate alliance cultures. Managers need to understand the society’s attitude towards human nature and towards work.

**Insights from strategic management approach**

- It offers a useful cultural framework for analysing cultures in developing countries and their attitudes to human nature, performance, time and space. This is important for this thesis as it illuminates how these factors condition alliance management in developing countries.

- It views organisational culture as a strategic issue with a direct impact on the success or failure of strategic alliances (Granell 2000).

- It underscores the point that culture should not only be treated as a macroenvironment variable because the influence of national cultures on international organisations may be changing (Mellahi 2001), it should be treated separately at the organisational level as a strategic issue, more so in developing countries (Granell 2000; Leung 2000; Buttery and Leung 1998).
Limitations of strategic management approach

- It shows that cultural frameworks such as those of Hofstede (1997) are at best snapshots of evolving cultures and therefore findings on some variables such as power distance may be dated (Mellahi 2001; Leung 2000).

- Hofstede’s (1997) scores should not be interpreted as an accurate description of the national culture as a whole; rather they should be viewed as an indication of the similarities and differences that one might expect to find among employees in an IBM type of organisation environment in different countries (Punnett 1996).

2.5.2.4 Management process in developing countries

(i) Strategic management approach

Kiggundu (1990) documents constraints to the application of socio-technical systems (STS) to developing country environments from a review of 25 studies in developing countries. These have important implications for alliance management process. The reasons for such difficulty can be summarised as follows (Kiggundu 1990:148):

- organisations in developing countries are managed as closed systems that are not responsive to environmental changes
- government plays a dominant and pervasive role and government bureaucrats are averse to taking risks
- organisations in developing countries display little structure, a low tolerance for ambiguity and great uncertainty
- motivation to work stems from different sources, including the need for individual rather than group recognition by one’s superior
- organisations in developing countries exhibit dysfunctional modes of conflict management, closer social and emotional interactions, intergroup rivalry, little capacity for openness, trust, and rational expression of feelings, and well-established hierarchical and social status barriers
- inadequate physical, managerial, and institutional frameworks exist for effective use of technological innovations
- organisations employ ambiguous, ill-defined, abstract and symbolic measurements of performance and organisational goals

It is also important to note that most managers of developing countries are not entrepreneurial and do not readily take risks. This point has relevance for the alliance management process in developing countries as entrepreneurship has been pointed out by Lorange et al. (1992) and Yoshino et al. (1995) as a critical quality of the alliance manager. More so, this point needs accounting for where an alliance involves a government agency. Kiggundu (1990:153) identifies some of the reasons for the propensity to risk aversion of manager:

- their positions already involve too many extra-organisational risks
• the organisation’s incentive system does not reward risk taking, for compensation is based on an individual’s rank, tenure, seniority, or age rather than performance

• organisations have multiple constituencies, all of whom cannot agree on a single strategy of innovation and commit the requisite resources

• most of these managers work for the government or for government agencies, and so are not entrepreneurs but bureaucrats

• they operate in inappropriate organisation forms, personnel systems, and management and administrative cultures that discourage initiative and risk taking, but the managers are powerless to change this

• they lack intimate understanding of the internal operations of their organisations and therefore are ill-equipped to choose the most appropriate change strategies

• they work for organisations characterised by conditions of imperfect competition, elaborate and tedious forms of inter-organisational relationships, and lack of management depth

• the managers’ interests are served by maintaining the status quo

The above scenario suggests that cultivating appropriate qualities for alliance management in developing countries and nurturing alliance managers to become ‘change masters’ (Kanter 1983) is not going to be easy. According to Jaeger and Kanungo (1990:289), effective management in developing countries requires tackling (i) deficiencies of resources, financial and human, (ii) turbulence of the environment, both for the organisation and the individual, and (iii) cultural values.

Blunt (1997) argues that the existence of a central core of committed organisational members who share the same set of positive values and beliefs is a necessary condition or imperative, for enhancing process management in developing countries. This point is crucial for this thesis since it implies that the alliance management process is dependent on the type of organisational culture that is invoked at different stages of the life cycle of the alliance. Blunt (1997) identifies a progressive series of models of organisational culture which are associated with different levels of organisational effectiveness and stages of economic development. He notes that shared values, what people genuinely believe to be good or bad, desirable or undesirable, acceptable or unacceptable, are the essence of organisational culture. Thus the more clearly articulated and widely shared these values, the more robust, effective and lasting the culture (Peters et al. 1982; Schein 1989).
The first stage of development of organisational culture in an organisation is referred to as the fragmented (negative) cultures. This is characterised by small isolated pockets of positive values and beliefs, which are not widely shared or interconnected and are disjointed from the overall organisational value system (Blunt 1997:1196). This is a typical description of many organisations in developing countries. Moreover, Blunt quotes Kotter (1988) to point out that these cultures lack strong, committed, transformational leadership. He notes that the pockets of positive culture which do exist may have been imported by individuals or small groups, such as professional employees, who derive their positive values from the professional associations of which they are members; or by those returning from overseas training. The chances of maintaining the positive values in isolation are not good as the general psychological climate is negative due to the presence of systemic corruption.

The second stage of development of organisational culture is known as the fragmented (inert) cultures. This type of culture possesses many of the same characteristics of the first, including the likelihood of weak leadership and isolated pockets of positive culture. However, rather than existing in a strongly negative and countervailing psychological climate, the setting is more uninterested, made up of employees who are neither very alienated nor committed (Blunt 1997:1197). Systemic corruption is less widespread because of strict legal codes and heavy punishments. Most former command economies of Eastern Europe are in this category.

The third type is fragmented (latently positive) cultures. This is differentiated by the greater likelihood of effective leadership in the strategic apex and a more benign psychological climate. This type of culture is representative of state-owned enterprises in China. A number of factors combine to produce this type of culture: a comprehensive system of welfare services is provided by the organisation; the socio-cultural environment of the nation is supportive of unified, disciplined, cohesive organisational systems and cultures (Hofstede et al. 1988); severe penalties for malfeasance; strong respect for and acceptance of authority (high power distance), less systemic corruption; and a reasonable degree of commitment and integrity at the top. The prospect for improvement to the pockets of positive culture is good.

The fourth type is embryonic cultures, characterised by a series of interconnected pockets of positive culture located in key parts of the organisation. A key feature of this form is the existence of strong transformational leadership at the top of the organisation, supported by a network of capable and like-minded managers. This network provides the framework for culture building. The prospects for cultural regeneration and improving effectiveness are good and positive change may occur rapidly.
The fifth type is the apex cultures found in Western industrialised societies and in subsidiaries of Western MNCs in developing countries. The key features are solid positive values and attitudes at the top and lower levels of the organisation. Such cultures exist in organisations with established formal systems and structures and heavily politicised and confrontational informal systems (Blunt 1997:1200).

The final stage is the synergistic cultures that exist in organisations which have achieved organisation-wide consensus about values and attitudes. There is complete harmony, unity of purpose and widespread commitment to, and belief in, the organisation’s mission and ways of doing things. Leadership is empowered, effective and transformational. Variations of this type of organisation are found in Japan, East Asia, and various non-government organisations such as Greenpeace, Friends of the Earth and religious movements. The danger of this type of organisation lies in its inward-looking approach that may breed complacency and stifle innovation (Blunt 1997:1201). However, allowing rebels within may prevent degeneration.

Process management is determined by the progressive series of organisational culture, with synergistic culture being the most desirable and the fragmented (negative) culture the least so. Blunt (1997) notes the key elements of the process of cultural progression to include the building of appropriate institutional frameworks in the wider society, the installation of committed transformational leaders, and the linking up of cultural fragments into mutually reinforcing cultural embryos. Progression to the synergistic culture may prove difficult but requires strategies to promote transformational leadership, authentic cultural behaviour, authority and accountability, and fair and consistent performance and rewards. Particularism which is not exclusive to developing countries should be eliminated.

Haley and Haley’s (1998) work on Asian business networks provides important insights into the process of strategic management with lessons for Western MNCs seeking to compete in Asian network environments. Haley et al. (1998) concentrate their study on two major overseas Asian business networks, namely the Overseas Chinese and the Overseas Indians, hereafter collectively referred to as ‘the Networks’. The Networks dominate and influence the competitive environments where they operate. The problem, according to Haley et al., is that foreign competitors find it difficult to effectively compete with them because the strategies of the Networks are unknown. However, for this thesis’ purposes this study provides insights into how alliances are managed in developing countries where social networks that have given rise to clusters of interconnected firms predominate. Indeed, business networks are particularly
predominant in Asia (Richter 1999) as well as the emergence of strategic alliances with foreign firms (Tan 1997; Tummala et al. 2000). First, Haley et al. (1998:302) identify key characteristics of Overseas Chinese and Overseas Indian business networks’ firms operating in South and Southeast Asia:

- little differentiation exists between controlling families and the firms
- the firms have very strong familial and informal networks
- the firms exhibit good relationships with the often enormous public sectors in these countries
- the firms appear highly diversified often undertaking unrelated diversification, thereby contravening mainstream, Western theoretical notions

Second, Haley et al. (1998) identify the strategic management practices and styles adopted by Asian top managers in the Networks to include the following: (1) hands-on experience, (2) lateral transfers of knowledge, (3) qualitative information, (4) holistic information processing, (5) action-driven decision making, and (6) emergent planning.

Overall, the strategic management of network processes in South Asia and Southeast Asia reflect the volatile and information-void environment that the Networks operate in as well as cultural orientations towards relationships. The Networks’ managers detect discontinuities, know their businesses intimately, manage patterns and reconcile changes with discontinuities. First, through their webs of associates, the managers determine potential changes in governmental policy or environments that can cause discontinuities and force strategic changes (Haley 1997). Second, the managers emphasise knowing their businesses through hands-on experience, and intimate participation in all aspects of their firm’s activities, products and markets. Third, the managers rely on perceptions of holistic information viewed as patterns; the patterns assist the managers to infer the firm’s present and future relationships with environments and to optimise benefits (Haley et al. 1998). Finally, these webs of associates, the managers seek to enhance patterns of change and continuity. Through the webs of associates, the managers also give preferential treatment to businesses and lobby for or against laws and regulations that threaten their privileged positions within desired markets and industries.

**Insights from strategic management approach**

- It points out that generally, organisation processes in developing countries are managed as closed systems that are not responsive to environmental changes; there is little perspective taking. This finding is important for this thesis.

- It shows that process management is not enhanced in developing countries because the criteria for measurements of performance and organisational goals are ambiguous, ill-defined, abstract and symbolic (Kiggundu 1990).

- It makes the point that because process management in developing countries has to be undertaken in an environment where positive organisation culture is still very much
fragmented and not shared by a central core of committed organisational members, the alliance manager has to work twice as hard to overcome organisational culture fragmentation (Blunt 1997).

- It notes that the key elements of the process of cultural progression necessary for alliance management includes building of appropriate institutional frameworks in the wider society, the recruitment of appropriate transformational leaders, and the linking up of cultural fragments into mutually reinforcing cultural embryos (Blunt 1997).

- It shows that network processes in countries rooted in strong relationship cultures like South Asia and Southeast Asia reflect the volatile and information-void environments.

**Limitations of strategic management approach**

- It reflects ambiguity between whether organisation processes in developing countries are managed as unresponsive closed systems on the one hand (Kiggundu 1990) and as strategically reflecting the broader volatile and information-void environment (Haley et al. 1998) or as coping strategies (Kanungo et al. 1990:9) on the other hand.

(ii) **Relationship marketing**

Roslin and Melewar (2000) explore the issue of relational bonding between retailers and suppliers within the grocery distribution channels in Malaysia. Their study reflects the relationship marketing concept in assessing interorganisational relationships in a developing country context. Few studies have been undertaken in the developing country context on channel relationships. The research method used by Roslin et al. (2000) to explore the cultural issues involved in relational bonding is the case study approach of 4 manufacturing firms and 4 retailer/distributor firms. The authors used a questionnaire survey to derive the relational issues that were then framed into questions for the in-depth interviews. The data was then triangulated and assessed first as within-case analysis and then as cross-case analysis. The importance of this work to this thesis lies in its exploration of cultural issues in the relationship bonding process and in its case study methodology as this is the method adopted in this thesis.

Roslin et al.’s (2000) study found that the grocery distribution channel in Malaysia is still very much a controlled network where retailers and suppliers interact closely with each other within the distribution circle. Relationship goes beyond mere exchange; ‘personal relationships’ are just as important as business. The development of personal relationships is in fact an interpersonal acknowledgement of each other’s contribution within the distribution channel (Roslin et al. 2000:71). This trend reflects the influence of Chinese cultural values such as *guanxi* in Malaysia. Thus, channel participants do not necessarily use low pricing and low profit tactics to enter the market or intensify competition for market share as is the behaviour of Western distribution channels. The Malaysian distribution channel is characterised by terms such as ‘personal relationships’, ‘connection’, ‘loyalty’ and ‘harmony’. The concept of harmony means everything
works in a circle: ‘you learn to take care of me, I take care of you’. Once the process has commenced, each partner is obligated to continue the process as malfeasance is quickly punished by those in the network. In the process heavy costs can be incurred by defaulters. A partner who is loyal and whose relationship has been established for a long time is seen as a ‘precious commodity’ (Roslin et al. 2000:68).

However, like many other countries in Southeast Asia, Malaysia is currently experiencing an influx of new foreign retail formats from Europe and the US such as the hypermarkets, superstores and shopping malls. Such new entrants threaten the status quo because they compete on price and short-circuit the local supply chain by importing cheaper products from places like Thailand. Such actions are considered unethical by leading local manufacturers, even including the practice of passing on the savings of price falls to customers because this threatens to undercut other partners in the network. For instance, one foreign cash-and-carry distributor who by-passed a Malaysian manufacturer’s product in preference of cheaper imports from Thailand was frowned upon and attracted the comment from a Group Distribution Manager “[t]hese big, foreign retailers don’t understand!” (Roslin et al. 2000:68).

Roslin et al. (2000) raise the question of whether the practice of defying the wishes of Malaysian channel partners, especially market leaders, by power retailers is sustainable in the long term or not as a strategy. Overall, the study’s value lies in its treatment of culture as a factor in distribution channels in developing countries, a hitherto neglected factor at the management process level.

**Insights from relationship marketing approach**
- It makes the point that culture is an important determinant of relationship processes in developing country distribution channels (Roslin et al. 2000). For example, in Malaysia concepts such as personal relationships, connection, loyalty and harmony are important. This finding is important for this thesis.

**Limitations of relationship marketing approach**
- It needs to be noted that in exporter-importer channels driven by price, not much relationship bonding can take place because of high buyer concentration. Relationship and learning processes can be better enhanced in the quality-driven market segment (Schmitz et al. 1999). Relationships are only strategic where qualitative and quantitative investments are exchanged (Bensaou 1999).

**2.5.3 Summary of alliance management in the West and developing countries**
Sections 2.5.1 and 2.5.2 have reviewed alliance management in the West and developing countries, respectively, concentrating on key systems variables: organisation environment, organisation context, management culture and management process. The review enables the
development of a holistic alliance management model in this chapter which will be compared with the one that emerges from PNG in Chapter 6.

**Environment context**

Alliance management in the West fully appreciates the influence that environmental changes bring to bear on alliance strategy, structure and process. Dominant strategies to alliance management such as the strategic management approach and the network approach appreciate the need for a culture of continuous learning, as environments evolve from stable to dynamic states, and vice versa. Managers in the West recognise that, increasingly, key skills and resources necessary for a company’s future success lie outside the firm’s boundaries. Through the network approach alliance managers perceive the environmental field to not only encapsulate factors such as politics and economics, but also other organisations with which an organisation must transact and hence, the overall pattern of relationships.

Unlike in the West, alliance management in developing countries like PNG has to contend with higher environmental turbulence, infrastructure deficiencies, inadequate input markets and a strong traditional culture of ‘subsistence affluence’. The governmental factor also strongly impacts on the business environment, demanding therefore, greater political skills from alliance managers.

This section has underscored the importance of environmental forces on alliance management in developing countries. For the purposes of this thesis a number of research questions are derived:

**Research Question 1:**

*What economic/technological, political/legal and cultural/social factors impact on strategic alliance management in PNG in terms of organisation context, management culture and management process?*

**Research Question 2:**

*What is the state of alliance management skills in PNG?*

**Organisation context**

Alliance managers in the West recognise the importance of leveraging organisation context variables such as strategic intent, people, structure design, and communication for relationship building and learning so as to ensure alliance success. Alliance management involves assigning the alliance management responsibility to a specific individual(s) or group who is expected to manage both the soft issues and hard processes. The alliance manager’s job is considered quite distinctive from that of a general manager as the job of the former is complicated by the presence of multiple principals and cultural heterogeneity. Certain key competencies namely thinking and
perception conducive to the alliance manager’s task are unteacheable (Table 2.5); the manager who inherently posses an innate alliance mindset views the world as a series of connections – they can focus on process and yet not neglect the need for perspective taking, while drawing on bits of information from different sources and at the same time draw on intuition at times. Alliance management also recognises the danger of overextending and overloading the network form beyond its operating logic.

On the other hand, alliance management in developing countries such as PNG is made more difficult relative to that in the West by the dysfunctional development of organisational components due to lack of requisite resources such as the lack of quality human capital. Also, cultural values, attitudes and behaviour at the organisational level condition alliance ownership strategy and organisational design and processes. Thus it is easy for alliance goals and strategic intent to misalign in the life-cycle of an alliance. Moreover, the traditional work cultures and practices based on inflexible Weberian and scientific management principles have to be overcome by alliance managers.

It is obvious that the alliance management in developing countries is made more difficult relative to that in the West by the dysfunctional development of organisational components due to lack of requisite resources. Therefore a third and fourth research question include:

**Research Question 3:**
*What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with?*

**Research Question 4:**
*How did the alliance manager in PNG manage the alliance in the context of these major shortfalls?*

**Management culture**
Alliance management in the West considers strategic intent as more important than cross-cultural managerial differences at the formation stage. However, culture heavily impacts alliance strategy implementation and so cultural-fit becomes important. Different cultural-fit strategies are offered including synergy or cultural integration of the partners, complete domination by a single partner, selective domination of certain alliance spheres by each partner according to competence, and complete withdrawal from the alliance if cultures radically differ. Overall, the Western cultural and communication mindset is inherently transaction-based rather than relationship-based.

On the other hand, culture plays a pivotal role at the management level in developing countries and invariably determines performance outcomes. This is because developing country societies
have high culture-contexts. Culture therefore cannot be treated as a residual factor to be relegated to backstage as merely part of the remote macroenvironment, but should instead be accepted as an important organisational component.

Organisational culture plays a crucial role in work organisations in developing countries like PNG because the organisation environment is a high culture-context. Therefore, a fifth research question is:

**Research question 5:**

*How important were PNG cultural elements such as wantokism in the management of strategic alliances?*

**Management process**

Alliance management in the West now appreciates the point that the structural features which relate to alliance strategy, contractual agreements, governance structure and consequent control and coordination requirements that relate to ownership issues are not sufficient for alliance success, although important. The management of dynamic processes and the soft issues involving relationship capital need to be managed too. This is primarily so because alliance outcome is inseparable from the quality of process management. Alliance managers appreciate that it takes at least 3 years to lay the foundations of a good relationship amongst partners. Process issues include recognising that there is a positive correlation between the presence of an appropriate manager and the management process, maintaining both strategic-fit at top-management level and operating-fit at middle-management level, developing appropriate alliance management skills for managing the interfaces of human behaviour, the need for alliance management skills to be present at all levels, the need to vary management practices at each stage of an alliance’s life-cycle, managing alliances as a portfolio of relationships and hence as a ‘whole’ rather than as dyadic relationships, the need for alliance managers to act as a moderator of conflicts and prioritiser of value adding relationships, the need to focus on interaction processes rather than rely on initial compatibility at the negotiation stage, utilisation of relationship management tools such as KAM and demand chain management, and the early recognition that not all relationships can be managed through strategic alliances.

Process management in developing country alliances is predicated upon factors such as the quality of organisation components including human capital, environmental instability, and strong cultural orientations to relationship building. Process management is particularly constrained by the volatile and information-void environment and absence of clearly established performance evaluation measures. It also suffers from difficulties in integrating pockets of positive organisational cultures as developing countries are made up of loose tribal cultures. Alliance
managers have to take cognisance of the coping strategies of organisations to deal with the volatile and information-void environment such as the need for managers to have a hands-on experience in order to make fast decisions without the benefit of detailed analysis of hard data and obtaining qualitative information via a network of trusted business associates.

Overall, process management in developing countries is conditioned by volatile and information-void environment as well as by the greater importance attached to the element of exchange obligation inherent in strong relationship bonding cultures. The shortcomings of process management tend to be indicated by dysfunctional coping strategies adopted by managers. Therefore a final question is:

**Research question 6:**

*How did alliance managers/liaison managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?*

### 2.5.4 Analytical model for alliance management

Section 2.5.3 summarises the key issues and strategies gleaned from alliance management in the West and developing countries. This section builds on this to map out a model development process that includes a general holistic conceptualisation of the alliance management process and a preliminary strategic alliance management model that will be used to evaluate against the one that emerges from the case studies in PNG.

The alliance management process can be conceptualised as taking the form in Figure 2.2. Its main management components revolve around the system components of environment context, organisation context, management culture, and management process.
The holistic conceptualisation of alliance management in Figure 2.2 facilitates the development of a preliminary strategic alliance management model that incorporates the experience of developing countries such as PNG (Figure 2.3). This model will be revised in Chapter 6 in light of the within-case and cross-case analyses in Chapters 4 and 5, respectively.

Figure 2.2 enables the author of this thesis to propose a preliminary strategic alliance management model, highlighting the strategic role of the alliance manager, alliance strategy, common constraints experienced in PNG and alliance outcome in Figure 2.3. This model is comprehensive and justifiable on the grounds of systems theory (Checkland 1981, 1999; Buttery 1988) and its key postulates in section 2.3, being the parent discipline of this thesis. The research questions have been arrived at with this model in mind.
Figure 2.3. Preliminary holistic strategic alliance management model

<table>
<thead>
<tr>
<th>ALLIANCE MANAGER</th>
<th>ALLIANCE STRATEGY</th>
<th>CONSTRAINTS</th>
<th>ALLIANCE OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOALS &amp; VALUES COMPATIBILITY</td>
<td>Clear strategic intent</td>
<td>1st string executives commitment</td>
<td>Outcome</td>
</tr>
<tr>
<td></td>
<td>Strategic intent, structure, planning &amp; control, culture, environment alignment</td>
<td>Monitor &amp; address gaps</td>
<td>Reassess strategic viability</td>
</tr>
<tr>
<td>HUMAN RESOURCE</td>
<td>Develop collaborative individuals</td>
<td>Exchange personnel</td>
<td>Manage meaning</td>
</tr>
<tr>
<td></td>
<td>Clear responsibility matrix</td>
<td>Harness knowledge in management, organisational skills, market &amp; technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Align appraisal, reward &amp; promotion to alliance mindset at all levels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRUCTURE &amp; CONTROL</td>
<td>Structure design interface &amp; legal contract</td>
<td>Balance core competence safeguards &amp; smooth information outflow/gatekeepers</td>
<td>Financial &amp; non-financial control</td>
</tr>
<tr>
<td></td>
<td>Preserve structure’s operating logic</td>
<td>Control aspects of alliance commensurate with competence</td>
<td>Monitor partner contributions</td>
</tr>
<tr>
<td></td>
<td>Balance control aspects of alliance commensurate with competence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RELATIONSHIP CAPITAL</td>
<td>Mutual trust &amp; commitment</td>
<td>Multi-level boundary spanning/synergies</td>
<td>Top-down commitment to learning</td>
</tr>
<tr>
<td></td>
<td>Relationship oriented culture</td>
<td>Cross-cultural sensitivity</td>
<td>Balance cooperation &amp; competition</td>
</tr>
<tr>
<td></td>
<td>Portfolio of relationships/KAM</td>
<td>Pragmatic problem-solving atmosphere</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strategic-fit/operating-fit</td>
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<td></td>
<td>Communication surface &amp; frequency</td>
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<td></td>
<td>Multi-level boundary spanning/synergies</td>
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<td></td>
<td>Cross-cultural sensitivity</td>
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<td></td>
<td>Pragmatic problem-solving atmosphere</td>
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<tr>
<td></td>
<td>Top-down commitment to learning</td>
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<tr>
<td></td>
<td>Balance cooperation &amp; competition</td>
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</tbody>
</table>

BARRIERS TO SUCCESS
- Failure to understand new alliance management skills
- Goal ambiguity & unclear performance measures
- Failure to adapt to volatile & information-void environment
- Dysfunctional organisational components
- Failure to learn & understand cultural & communication differences
- Overemphasis on structure & control to the neglect of process management
2.6 Summary

This chapter has met its objectives as outlined in section 2.1. It established a working definition of strategic alliance management and used its key components to categorise the extant literature that was reviewed. These variables include the environment organisation components, management culture and management process, being system components that run through the entire chapter. Then it reviewed the systems approach and strategic alliances as the parent and immediate disciplines of the thesis, respectively. The chapter undertook case reviews of alliance management gleaned from the extant literature in both the West and developing countries. The review was undertaken under the above four systems components using three different theoretical approaches namely strategic management, network and relationship marketing. This process was analytical rather than merely describe the extant literature (Perry 1994; Zuber-Skerrit et al. 1986), thereby fulfilling the requirement of theoretical triangulation (Yin 1994).

The literature review process gave rise to six research questions and a holistic conceptualisation of the strategic alliance management process. This led to the generation of a preliminary alliance management model. The review found that although there is a growing body of literature on alliance management the focus is only on either one or two of the system components and each theoretical approach focuses only on preferred managerial aspects to the neglect of others. Thus strategic management focuses on aligning strategic intent with resources, environment and structure; network approach focuses on overall interaction patterns per se and alliance design and structure; and relationship marketing zooms in on the actual building of relationship and its management using relationship building tools. Therefore this thesis seeks to plug this gap by analysing alliance management from a holistic perspective and synthesising the strengths of each theoretical approach.

The literature review unearths a list of research questions and gaps which this thesis seeks to address (section 2.5.3). Following on the advice of Perry (1994) the list of research questions and research gaps are outlined in this summary section.

Research questions:
1. What economic/technological, political/legal and cultural/social factors impact on strategic alliance management in PNG in terms of organisation context, management culture and management process?

2. What is the state of alliance management skills in PNG?
3. What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with?

4. How did the alliance manager in PNG manage the alliance in the context of these major shortfalls?

5. How important were PNG cultural elements such as wantokism in the management of strategic alliances?

6. How did alliance managers/liaison managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?

Research gaps:
1. Although strategic alliances are on the rise around the world not much empirical research has been undertaken on the causes of their high failure rate, currently around 70 per cent.

2. The alliance manager plays a pivotal managerial role in determining the outcome of alliances, yet not much research has been undertaken on this critical process.

3. There has been no empirical research into alliance management in PNG.

4. Present research on alliance management has focused only on preferred managerial aspects of strategic alliances to the neglect of a holistic approach to alliance managerial problems.

In addition to the research questions and gaps, this chapter has established that although it is possible to derive a general holistic conceptualisation of alliance management applicable to both the West and developing countries, there are vast differences in terms of the four key systems components analysed here, hence requiring different respective strategies. For example, because developing country alliances operate in highly volatile and information-void environments strong relationship cultures and political skills are required of alliance managers. Thus what appear at the outset to be dysfunctional behaviours of organisations may actually be coping strategies.

Overall, the purpose of the remaining chapters of this thesis is to close the research gaps and provide answers to the research questions. The fulfilment of these tasks will lead to solving the key research problem posed in section 1.2 concerning the need to inform the process of alliance management in PNG. The generation of research questions from the literature review essentially depicts the exploratory nature of this thesis using the case study approach as its research procedure (Perry 1994). The questions of ‘what’, ‘who’ and ‘where’ will be answered in Chapter 4, 5 and 6 not with a ‘yes’ or ‘no’, but with a description or discussion (Perry 1994). The importance of this chapter lies in the fact that it has established a conceptual context upon which the methodology (Chapter 3) is based.
CHAPTER 3    METHODOLOGY

3.1 Introduction

Chapter 1 outlined the reason for using the case study method to understand the relatively new phenomenon of strategic alliance. Chapter 2 then set out to review the extant literature on strategic alliance management, both in developed and developing countries, from which six research questions were derived.

The purpose of this chapter is to describe and justify the choice of methodology for this study based on the epistemological and ontological assumptions made in the context of the nature of the research problem. The chapter begins by juxtaposing the positivistic paradigm to that of the interpretivist paradigm. It then outlines the reasons for the selection of the interpretivist paradigm and its phenomenological orientation in the context of the research. This leads to the justification of the case study method. Research procedures are outlined to ascertaining the real and desired situations in PNG strategic alliance management. Data collection strategies are outlined, and issues of case selection, units of analysis, case studies, piloting of data collection instruments, are addressed. Lessons learnt from the pilot study of analysis techniques are also covered. Issues of research quality are considered and the measures adopted to optimise the reliability, validity and generalisability of data and findings are outlined. Issues of bias and triangulation are also discussed. Finally, the ethical issues involved in the study are discussed.

3.2 Justification for the paradigm and methodology

The choice of the interpretivist paradigm for this research is clear. Although it is not within the scope of this thesis to discuss at length the strengths and weaknesses of positivistic and interpretivist paradigms, it is important to establish why one paradigm is considered more appropriate than another. Thus the purpose of this section is to briefly differentiate the two paradigms.

It is important for researchers to recognise and understand their ontological and epistemological orientation within their personal paradigm as this will determine the entire course of their research project (J. Hussey and R. Hussey 1997:47). In fact a study has to be framed within the philosophical and theoretical perspectives (Creswell 1998). Philosophical points of view range from broad perspectives, such as epistemological and ontological assumptions, through
ideological stances, such as postmodernism and critical perspectives, to more narrowly defined theories comprising propositions and hypothesis (Flinders and Mills 1993, cited in Creswell 1998). Once a paradigm is chosen it is advisable for the researcher to remain within that paradigm in line with the Kuhnian tradition (Kuhn 1970), since it is difficult for the researcher to argue simultaneously that (s)he believes that social reality is separate and external, and that it is merely a construction of the mind. This researcher adopts a single paradigm although others have argued for a mixture under terms such as multiparadigm and metatriangulation (Gioia and Pitre 1990; Lewis and Grimes 1999). At the methodological level, however, mixing methodologies is possible for data collection (J. Hussey et al. 1997; Creswell 1994; Jick 1979; Gable 1994). Researchers must also demonstrate familiarity with controversies and positions taken by authorities within a corpus of knowledge (Perry 1995). It is imperative that researchers clearly outline the epistemological or philosophical basis for “claiming to know what we know; the substantive basis for our knowledge claims” (Easton 1998:73).

The two main research paradigms propounded in the literature are the positivist/quantitative and interpretivist/qualitative paradigms, although there is considerable blurring between the two (J. Hussey et al. 1997; Checkland 1999; Perry 1995; Pawson and Tilley 1997). The term interpretivist has been used interchangeably with the concept of phenomenological as a paradigm in the literature. However, to avoid confusing the use of the word phenomenology as a methodology with that of being a paradigm, this researcher has opted to stick with the Weberian concept of interpretivism. It is also important to note that although the obvious preference of this researcher is the phenomenological paradigm, it is advisable to regard the two paradigms as the two extremes of a continuum (J. Hussey et al. 1997:48). Thus, although positivism is associated with deductive reasoning and phenomenology with inductive reasoning, scientific and social inquiry in practice typically involves an “alternation between deduction and induction” (Babbie 1998:60). During the deductive phase, one tends to reason towards observations, during the inductive phase, one reasons from observations; both deduction and induction are routes to the construct of social theories. Wallace’s (1971) ‘wheel of science’ aptly depicts this alternation.

Creswell (1994) draws on a number of authors, including the work of Guba and Lincoln (1988), to delineate the assumptions of the two paradigms. He identifies five sets of assumptions against which differing traditions of inquiries, even within a qualitative inquiry, could be evaluated. These assumptions are related to the nature of reality (the ontology issue), the relationship of the researcher to that being researched (the epistemological issue), the role of values in a study (the axiological issue), the choice of language in research (the rhetorical issue), and the process of
research (the methodological issue). Table 3.1 depicts the contrasting assumptions of the two paradigms.

Table 3.1 Assumptions of the two key paradigms

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Question</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontological</td>
<td>What is the nature of reality?</td>
<td>Reality is objective and singular, apart from the researcher</td>
<td>Reality is subjective and multiple as seen by participants in a study</td>
</tr>
<tr>
<td>Epistemological</td>
<td>What is the relationship of the researcher to that researched?</td>
<td>Researcher is independent from that being researched</td>
<td>Researcher interacts with that being researched</td>
</tr>
<tr>
<td>Axiological</td>
<td>What is the role of values?</td>
<td>Value-free and unbiased</td>
<td>Value-laden and biased</td>
</tr>
<tr>
<td>Rhetorical</td>
<td>What is the language of research?</td>
<td>Formal</td>
<td>Informal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Based on set definitions</td>
<td>Evolving decisions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Impersonal voice</td>
<td>Personal voice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use of accepted quantitative words</td>
<td>Use of accepted qualitative words</td>
</tr>
<tr>
<td>Methodological</td>
<td>What is the process of research?</td>
<td>Deductive process</td>
<td>Inductive process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cause and effect</td>
<td>Mutual simultaneous shaping of factors</td>
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<tr>
<td></td>
<td></td>
<td>Static design categories isolated before study</td>
<td>Emerging design categories identified during research process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Context-free</td>
<td>Context-bound</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Generalisations leading to prediction, explanation and understanding</td>
<td>Patterns, theories developed for understanding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accurate and reliable through validity and reliability</td>
<td>Accurate and reliable through verification</td>
</tr>
</tbody>
</table>

Source: Adapted from Creswell (1994:5).

### 3.2.1 Strengths and weaknesses of the positivistic paradigm

The philosopher, Auguste Comte (Giddens 1974) was the first to coin the term positivism. Comte had envisaged that sociology was to be the apex of positivism: “the science of man completed the historical evolution of the hierarchy of the scientific disciplines, and for the first time made possible an adequate understanding of that evolution” (ibid.:1). Later Emile Durkheim was to vehemently defend Comte’s traditional version of positivism which was under attack; a version that accentuated the supremacy of logic and scientific knowledge as the paradigm of all valid knowledge, and the solution to the major practical problems facing mankind (ibid:1-2). Durkheim understood sociology to be the objective study of ‘social facts’; social facts were to be considered as ‘things’ (Checkland 1999:268). In an occasion dubbed as the ‘positivist dispute’ in German Sociology in 1960, positivism was used in a derogatory sense by the Frankfurt School to describe the assertions of Karl Popper that science offers the best method in the pursuit of objective knowledge (Giddens 1974; Checkland 1999), a tag that Popper resents (Popper 1994). Popper
describes the method of science not in the traditional sense, but as the “method of bold conjectures (hypothesis) and ingenious and severe attempts to refute them (falsification)” (Checkland 1999:57). Popper’s idea of pursuing objective knowledge through falsification is part of a broader tradition in ‘evolutionary epistemology’ or incrementalism of which he is the revered proponent as evident in his numerous classical works (Popper 1957, 1963a, 1963b, 1980, 1972, 1977, 1994). He argues that sociologists must adopt the procedural rules, standards and intellectual conventions of science and embrace the point that there are no such things as ‘truth’ other than conjectural, relative truth (Popper 1957).

To summarise, the basic tenet of positivism is that a science of society, comparable with natural science, is both possible and desirable. This proposition rests on three assertions: that the methodological procedures of natural science may be directly adapted to the study of human social actions, that the outcome of research in the social sciences will take the form of causal laws, and that the results of social research are value-free (Giddens 1974). The goal is to explain social ‘regularities’, ‘rates’, ‘associations’, ‘outcomes’, ‘patterns’ through an explanatory formula: “regularity = mechanism + context” (Pawson and Tilley 1997:71). Methodologies that avail themselves to this paradigm include cross-sectional studies, experimental studies, longitudinal studies and surveys.

The importance of positivism, particularly logical positivist explanation, is recognised as one of the most viable approaches available to explain a phenomenon. In the more recent evaluation research, logical positivism clearly forms the basis of ‘realistic evaluation’ or ‘scientific realism’ where programmes and policies demand realistic evaluation results (Pawson and Tilley 1997). Pawson et al. (1997) suggest that taking sides in the ‘paradigm wars’ maybe tautological. Babbie (1998) argues the place for positivism in social research and points out the interacting links between positivism and phenomenology by noting that “every observation is qualitative at the outset” (ibid.:36). However, the fact that “qualitative data seem richer in meaning is partly a function of ambiguity” (ibid.37). Babbie further argues that in social science, unlike in science, paradigms cannot be true or false, or even supplanted as in the Kuhnian tradition; as ways of looking, they can only be more or less useful (ibid.:43). R. Hussey et al. (1997) also point out the popularity of positivism in business research because the data used is highly specific and precise. However, the authors also point out that both paradigms should be viewed as being at the extremes of a continuum.

The strengths of positivism notwithstanding, there are weaknesses that undermine its usefulness to the subject matter of this research: that is strategic alliance management process in PNG. At the
outset, the positivist ontological position vis-à-vis reality that social reality exists independently of the researcher is not useful for this exploratory research as it seeks an understanding (*Verstehen*) (Schutz 1954) of the alliance managers’ varying perception and meaning (*Weltanschauung*) of the alliance management process. Objects, people, situations, and events do not, in themselves, possess meaning; meaning is conferred on these elements by and via human interaction (Berg 2001:9). There has been no previous research to quantify that reality out there. Similarly, the positivistic position on the epistemological question of ‘How do we obtain knowledge of that reality?’ is inappropriate, because it postulates that the act of investigating such a reality would have no effect on that reality. Therefore, its concomitant methodologies designed to establish fixed laws in a sequence of linear cause and effect are also less useful except in situations where triangulation is to be maximised.

In essence, the main criticism of the positivistic paradigm include the points that: it is impossible to treat people as being separate from the social contexts and they cannot be understood without capturing their perceptions of their own activities (J. Hussey et al. 1997); a strictly structured research design imposes certain constraints on the results and may ignore more relevant findings; because researchers bring their own interests and values to the research, they cannot be objective and they also become part of what they observe; and capturing complex phenomena in a single measure such as statistical variables can be misleading.

### 3.2.2 Strengths and weaknesses of the interpretivist paradigm

Interpretivism is the generic paradigm of the social sciences (Giddens 1979) comprising variants from phenomenological sociology, philosophical hermeneutics through to social constructionism. Interpretivism developed in reaction to the dominance of positivism in the 19th and 20th centuries, arguing that there were fundamental differences between the natural and human sciences. Defenders of interpretivism argued that the basis of distinction stemmed from the different aims—explanation (*Erklären*) versus understanding (*Verstehen*) (Schwandt 2000). Max Weber, a key proponent of this paradigm, argued that the social sciences seek to ‘understand’ social phenomena in terms of ‘meaningful’ categories of human experience and therefore, the ‘causal-functional’ approach of the natural sciences is not applicable in social inquiry (Schutz 1954). Weber recognised the nature of ‘subjectivity’ in studying humans, and noted that whilst physical systems cannot react to predictions made about them, social systems can. He pointed out that the ‘self-consciousness’ of human beings and the ‘freedom of choice’, which that consciousness entails, implies that an observer can never obtain an up-to-date account of the subject’s state of mind which would be correct for the agent to accept (Checkland 1999:70). The social scientist can only reveal ‘trends’ rather than ‘laws’ and that (s)he will be reduced to studying not exactly social
reality but only the logic of situations, producing findings of the kind: ‘In situation A, a likely outcome is B’ without any guarantee that this will hold in any particular situation (ibid.71). Weber’s interpretive social science based on the ‘attribution of meaning’ is closely related to Edmund Husserl’s (1999) work on phenomenology in the early 20th century.

In sum, the basic premise of the interpretivist paradigm is that unlike the physical sciences which deal with objects external to the researcher, the social sciences deal with action and behaviour which are generated from within the human mind (J. Hussey et al. 1997). Moreover, there is a clear interrelationship between the investigator and what is being researched. Verifying what actually exists in the social and human world depends on the researcher’s interpretation. According to Weber, any interpretative analysis of subjective meanings depends upon ‘empirical rules’ hence the development of his methodological tools, notably the typology of ‘rational action’ and the ‘ideal type’ (Giddens 1974:7). Methodologies most appropriate here include action research, case studies, ethnography, feminist perspectives, grounded theory, hermeneutics, and participatory enquiry.

Interpretivism is the most relevant paradigm for this research because in seeking to solve the research problem stated in Chapter 1, this author sought to ascertain what the general trend is in terms of international strategic alliance management practice and then to interpret what the envisaged goals were in PNG alliances and what the actual outcome was. Because alliance management involves senior executives and operational staff at many levels within partnering organisations, any methodology adopted to seek an understanding of the different perceptions must undoubtedly be within the interpretive paradigm, whatever that methodology might be. The fact that alliance management is a dynamic process or lived experience rather than a static reality to be captured using snapshot methodologies supports this. Strauss and Corbin’s position (1990:1) that qualitative methods are useful for unravelling and understanding what lies behind any phenomenon about which little is known is also supportive. Maxwell (1996:17-18) affirms this, noting that qualitative studies are useful for understanding meaning for participants in a study, the context within which the participants act, deciphering unanticipated phenomena and influences, generating new theories, understanding the process by which events and actions take place, and even developing causal explanations-contrary to the traditional view.

There are, however, a number of weaknesses in this paradigm. The first, which is illustrative of the politics of paradigms, is the accusation by those inclined to quantitative methods that qualitative research is ‘soft science’ and only exploratory, or subjective (Denzin and Lincoln 1994:7). Such criticisms are tautological since they fail to address the fundamental concerns
raised within this paradigm vis-à-vis the ‘fuzzy problem situations’ in social and managerial systems (Checkland 1985a:765). The point is also well put by Borman, LeCompte, and Goetz (1986:51, cited in Berg 2001:10): criticism of qualitative research arises out of an “erroneous equation of the term ‘empirical’ with quantification, rather than with any real defect in the qualitative paradigm itself”. Moreover, the positivist paradigm, which is based on linear methodologies, is less useful for understanding complex/chaotic situations arising from the ‘Lorenz attractor’ or ‘Butterfly effect’ first raised by Edward Lorenz’s 1961 computer weather model (Gleick 1987:23). Indeed, as Drucker (1974) points out, management is a practice rather than a science. Even proponents of the unity of science such as (Popper 1957), who assume that facts can be gathered in the social sciences in much the same way as in natural sciences, have unfortunately devoted little attention to the particular problems of social science (Checkland 1999:265-266). Overall, it must be accepted that “qualitative research is legitimate in its own right and does not need to be compared to achieve respectability” (Creswell 1998:75-76). What is actually happening is that the various paradigms are beginning to ‘interbreed’ and inform one another’s arguments (Lincoln and Guba 2000:164).

Nevertheless, there are genuine difficulties associated with qualitative research which include the time required to undertake qualitative research and the costs involved. Problems may also emerge in the analysis and interpretation of data, there is often difficulty in achieving validity and reliability in qualitative research, and there are ethical issues arising from the researcher’s intrusion into the ‘personal sphere’ of those being researched (Burns 1997:13; Easterby-Smith, Thorpe and Lowe 1991:32; Sarantakos 1993:52).

### 3.2.3 Phenomenology

Phenomenology is closely aligned to the interpretive paradigm. A phenomenological study revolves around the meaning of the lived experiences for participants in a study about a phenomenon. This approach explores the structures of consciousness in human experiences (Polkinghorne 1989, cited in Creswell 1998). Researchers seek the essential, invariant structure (or essence) or the central underlying meaning of the experiences, and emphasise the intentionality of consciousness based on memory, image and meaning (Creswell 1998:52). This line of inquiry originated from the questions Husserl (1999:41) posed in the early 20th century about the phenomenology of knowledge: “what is essentially contained and grounded in such a phenomena; from what factors are they constructed; what possibilities of combination do they found when they are taken essentially and as purely immanent; and what general relations flow from them?” In short, “what is the structure and essence of this experience for these people?” (Patton 1990:69). For Husserl, consciousness is always directed towards an object: “there is an
indissoluble unity between the conscious mind and that of which it is conscious” (Stewart and Mickunas. 1974:9). Once the problem of knowledge is solved then there are two additional problems for Husserl (1999:3): the first is one of ‘transcendence’–how can consciousness reach out beyond itself and ‘make contact’ with an object wholly external to it? The second is ‘correspondence’–how can we be assured of an agreement between the act of knowing and the object known? Husserl solves the first part of the problem through his theory of intentionality, an account of how acts of consciousness refer to objects, and the second problem by developing a phenomenological version of the correspondence relation between act and object (Husserl 1999:3-4).

Husserl was at great pains to differentiate his version of phenomenology from the Hegelian tradition which reduced reality to ideals. The central concept in Husserl’s phenomenology is ‘consciousness’ or the ‘essences of appearances’: an appearance is anything of which one is conscious (Stewart et al. 1974:3). Husserl rejected the positivist tendency to treat consciousness as an empirical phenomenon to be investigated by quantitative methods. Stewart et al. (1974:4) point out that quantitative methods are inappropriate in this regard for two reasons: first, consciousness itself is not an object among other objects in nature; and second, there are conscious phenomena which cannot be dealt with adequately by means of experimental science. This demonstrates that phenomenology does not limit its investigations only to those realities which are objective in a materialistic sense because it makes no assumptions, as does positivism, about what is, or not, real. At a philosophical level, phenomenology seeks a return to the traditional tasks of philosophy–one which rises above the proposition that all reality is capable of being investigated by empirical means, the search for a philosophy without presuppositions, the intentionality of consciousness, and to refute the subject-object dichotomy (Stewart et al. 1974:5).

Phenomenology is important for this research because its method of approach is rooted in the notion of the lived-world. The researcher acts in the social and human world rather than observes it as a disinterested scientist. It follows that the social sciences deal not with the reality of the world but rather with human relationships within this world. Thus intersubjective relationships and the question of knowledge of the other person are important in phenomenology (Stewart et al. 1974:126-127). Phenomenological data analysis proceeds by analysing specific statements and themes, and a search for all possible meanings. The researcher also sets aside all prejudgements through bracketing his or her experiences and relying on intuition, imagination and universal structures to obtain a picture of the experience (Creswell 1998). The data may be collected using case studies (Perry 1994).
Notwithstanding the strengths of the phenomenological approach to research, there are challenges. A phenomenological study may be challenged if the researcher does not possess a solid grounding in the philosophical precepts of phenomenology; participants in a study are not carefully chosen to reveal their experiences of the phenomenon; the personal experiences of the researcher are not adequately bracketed; and the researcher gives little thought to how, and in what way, his or her personal experiences will be brought into the study (Creswell 1998). The author is mindful of these limitations and has attempted to take them into account in the actual study. There is also an air of realism to this research on strategic alliance management in PNG where time, resources and space have imposed limitations on the research methodology. Use of soft system methodology (SSM) to guide the case study research and in the data analyses indicated the need for realism. Using case studies to generate case base knowledge claims also has parallels with the epistemology of realism in alliance management studies (Easton 1998:73). Even phenomenology is inherently realistic. As Pintrich and Schunk (1996:86, cited in Leedy 1997:161) say: “Individual’s personal and subjective self-perceptions are important … regardless of the ‘accuracy’ of the perceptions …”. Moreover, Patton (1990:69) agrees that the “subjective experience incorporates the objective thing and a person’s reality”.

Realism is concerned with searching for an understanding of a common reality for many (Perry, Riege and Brown 1998). This reality, although it may only be approximate to the unobservable, is justified by optimising the causal account of all evidence under specified circumstances. For Pawson et al. (1997:xiii), to be realistic is to acknowledge that there is no universal logic of evaluation, no absolute science of valuing, no general warranty of decision making applicable to all judgements. Thus, a basic realist formula in the post positivist sense is: mechanism + context = outcome. The aim is to generate incremental knowledge for programme implementation through adaptive learning and accommodation rather than solutions (Popper 1963a, 1980; Etzioni 1968; Dror 1983; Hogwood and Gun 1984; Checkland 1985a, b, 1999; Vickers 1965; Churchman 1971). That there is no absolute form of human knowledge in modern science (Popper 1980; Kuhn 1970, 1993) is relevant here (see also Bloor 1991).

### 3.2.4 Case study method

The justifications for choosing the case study method derive from the interpretive paradigm, the broad phenomenological nature and its realistic underpinnings, the exploratory nature of the research problem (Chapter 1) and the research questions derived from the literature review (Chapter 2). Although some methodologists prefer to avoid the influence of the paradigmatic debate on the choice of methodology, opting to begin only with the type of evidence to be collected, hence proper definition of the research questions (Yin 1994:7; Platt 1992:46; Stake
2000:435; Timney 1992), an awareness of the strengths and weaknesses of the positivist and phenomenological paradigms and their influence on the choice of methodology at PhD level has a beneficial effect on knowledge development (Perry 1995:21). To ensure that the choice of methodology is defensible the author has considered the importance of paradigm choice (Creswell 1994, 1998, Berg 2001; Easton 1998; Perry and Coote 1994) as well as the nature of the research problem, and the logic underpinning the design and questions, particularly the ‘how’ and ‘why’ questions (Yin 1994:1,7; Platt 1992:46; Stake 2000:435).

Thus the author believes that a defensible methodology should be based on the justification of the paradigm (interpretivism), the general methodology most consistent with that paradigm (phenomenology and realism), and the specific methodology (case studies and soft systems methodology) most relevant to the field under study (the strategic alliance management process and the alliance manager’s construction of meanings of this process which remains unexplored in PNG). The case study method is most useful for studying a phenomenon that cannot be detached from its contextual conditions. Yin (1994:13) provides the most authoritative definition of this method, “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident”. In addition, a case study is able to cope with the technically distinctive situation that has numerous variables of interest than data points, relies on multiple sources of evidence (triangulation) and is guided by prior development of theoretical propositions in its data collection and analysis strategies (ibid.). Case study research includes both single- and multiple-case studies, multi-sited or within-site, focus on a case or on an issue (intrinsic, instrumental) and can include quantitative evidence (Yin 1994; Stake 1995).

In choosing a case to study, purposeful sampling may be used. Data analysis may take the form of a holistic analysis of the entire case or bounded system, or an embedded analysis of a specific aspect of the case. From the data analysis, a detailed description of the case emerges, themes are analysed and the researcher makes an interpretation or assertions about the case. According to Mintzberg (1979:587) it is the responsibility of the researcher to abstract from the particular to the general and to develop concepts from his/her measurements in the field; the researcher “shirks” his/her responsibility when this task is left to the manager of an organisation. Where there are multiple cases, a detailed description of each case and the themes within must first be provided (within-case analysis), followed by a thematic analysis across the cases (cross-case analysis), as well as an interpretation of the meaning of the case (Yin 1994; Creswell 1998). In the final interpretative phase, the “lessons learned” from the case are reported by the researcher (Lincoln and Guba 1985, cited in Creswell 1998). In terms of the generalisability of the findings, Yin
notes that case studies, like experiments, are generalisable only to theoretical propositions rather than to populations. Like the experiment, the case study does not represent a ‘sample’, and the researcher’s goal is to expand and generalise theories (analytical generalisation) and not enumerate frequencies (statistical generalisation).

The utility of the case study method has been appreciated in a wide range of fields. It is a method that is being extensively used in social science research and practice-oriented fields such as management and even evaluation research, formerly the province of surveys and quasi-experiments (Yin 1994:xiii). The method is also a popular mode for PhD dissertation research in all these disciplines and fields (Yin 1994; Perry 1995; Timney 1992; Adams and White 1994; Martinsuo 2001; de Weerd-Nederhof 2001). Case studies have been useful for theory building (Eisenhardt 1989; Parkhe 1993a; Maxwell 1996) and are particularly useful for studying strategic alliances (Easton 1998; Lawrence and ul-Haq 1998; Parkhe 1993a) as well as general management and marketing (Milliken 2001).

Overall, the case study method is the most useful for the study of the role of the alliance manager in the strategic alliance management processes in PNG because it has the methodological features that are suitable for capturing the dynamism of alliances and the connectedness among and between actors in alliances where the boundaries between the phenomenon and the context are not clearly evident (Yin 1994, Easton 1998). More so, it is the epistemological and ontological justification for using case studies based upon realism that makes the argument for its use airtight.

3.3 Research procedures: data collection strategies

An overview of the selection procedures for the case studies used in the thesis and justifications for the adoption of the soft system methodology to complement the case study method is in order in this section.

3.3.1 Selection of case studies

A total of five case studies and one pilot case were involved in the research undertaken in PNG during the period March-May 2002. Since the focus of the study was on the role of alliance managers, it was compulsory that those performing these functions in the partnering organisations. However, where possible other actors such as operational personnel were also included in the interview schedule to complement secondary sources in triangulating data.
In-depth interviews were guided by a case study protocol that the author developed to enable consistency and data reliability across cases in the context of a holistic multiple-case design (Appendix 1). Using this protocol as a guide was useful since the aim was to derive an analytical model for alliance management in PNG. The protocol was optimised by a sense of the research environment in order to clarify answers to the six main research questions outlined in Chapter 2, which in turn seeks to solve the research problem stated in Chapter 1. The case study protocol offers the benefit of a set of specified rules to the researcher investigating phenomena that are often messy in the social and human world (Yin 1994). Although the protocol helps the researcher avoid the problems of a poorly designed research process, [s]he is not necessarily restricted to the guide questions. Here the author is endeavouring to discover and understand the respondent’s own rich meanings and subjective perceptions as well as the realistic context of the alliance from an alliance manager’s perspective.

The sample case study protocol in Appendix 2 contains copies of:

- a letter to the managing director, departmental head or senior executives explaining the nature of the study and seeking permission to use their respective alliance as a case in the study
- an introductory letter introducing the purpose of the study and author to the identified alliance manager/personnel who, in most cases, was also a senior executive responsible for overseeing the alliance in addition to other duties
- consent form to be signed by each participant
- an interview schedule profiling the participant and organisation

3.3.2 Checkland’s soft system methodology

The case study protocol that guided in-depth interviews was designed along Yin’s (1994) work on case study research and the systems approach. Taped interviews and written notes were then written out and corroborated with secondary documents collected in the field. The data analysis was then modelled using Checkland’s (1999) soft system methodology defined as a system-based methodology for making sense of real world problems in which known-to-be desirable ends cannot be taken as given.

SSM, unlike the ‘hard’ approach to problem solving based on a typical goal-seeking, static input-output model, accepts irrationality and is characterised by subjectivity, a qualitative approach using action research, systemic methodologies, a continuing learning or inquiring process, and accommodation of differing world views or Weltanschauung. It is interpretational in nature and
therefore complements the case study approach in seeking to understand ‘fuzzy problem situations’ in social and managerial systems. According to Checkland (1985:765):

The ‘soft’ tradition does not regard goal seeking as an adequate model for much of what goes on in human affairs; it does not assume that the rich complexity of the world can be captured in systemic models, and hence regards system models produced within the ‘hard’ tradition not as ‘models of X’ but only as ‘models of the logic of X’. Hence the ‘soft’ tradition regards system models as models relevant to arguing about the world, not models of the world; this leads to ‘learning’ replacing ‘optimizing’ or ‘satisficing’; this tradition talks the language of ‘issues’ and ‘accommodations’ rather than ‘solutions’.

Checkland’s main contribution to systems thinking is in the expression of human problem situations and in root definitions of relevant human activity systems using the CATWOE model as described in Figure 3.1. Defining root definitions following the CATWOE elements has proved popular in action research. The underlying principle here is a notion of criticism which goes beyond Karl Popper's idea of falsification or critical rationalism whereby in social affairs, unlike in natural science, truth cannot be established according to whether the hypothesis withstands falsification (Flood and Jackson 1991). Instead, people hold different viewpoints of which all are neither right nor wrong. Therefore, the critical intent of the ‘soft’ tradition is to unravel these different conceptions of reality, following Weber's 'attribution of meaning', Husserl's idea of 'intentionality' in the phenomenology analysis and Dilthey's 'hermeneutic circle' as to what is observed by human actors. The success of SSM in real situations, according to Checkland (1999:283-284), is its ability to grapple with 'social reality' defined as:

... the ever-changing outcome of the social process in which human beings, the product of their genetic inheritance and previous experiences, continually negotiate and renegotiate with others their perceptions and interpretations of the world outside themselves.

Figure 3.1 expresses the general shape of the SSM methodology and explains the mnemonic CATWOE. Also important, in the context of an increasingly uncertain global business environment, is Checkland's (1985a, 1985b) incorporation into 'soft' systems methodology of Sir Geoffrey Vickers' (1965) concept of an 'appreciative system', entailing relationship building and learning as opposed to the goal-seeking model of the hard tradition, as well as Churchman's (1971) 'inquiring systems'. Continuous learning in business networks is crucial to their successful management. SSM was used to build up the richest possible picture of the ‘real world’ situation.
3.3.3 Case study selection process

Purposeful sampling has been adopted for this research. This is because qualitative inquiry typically focuses in depth on relatively small samples specifically chosen for certain features, unlike quantitative methods which depend on larger samples selected randomly (Patton 1990). The logic and power of purposeful sampling lies in selecting information-rich cases for in-depth study. The researcher is advised to select information-rich cases from which much can be learned about issues central to the purpose of the research (Patton 1990). The selected information-rich cases should illuminate the questions under study and hence solve the key research problem. Whilst different purposeful sampling strategies may be considered, such as theory-based
sampling or purposeful random sampling (Miles and Huberman 1994:28), ultimately the sampling strategy must be selected to suit the purpose of the study, the resources available, the questions being posed and the constraints (Patton 1990). This point is also relevant for determining sample size.

The ideal sample size in qualitative research remains unresolved, and is never expected to be resolved because the researcher does not seek statistical generalisations but theoretical generalisations (Yin 1994; Miles et al. 1994). However, confidence in the findings can be optimised through sampling strategies such as maximum variation, extreme and deviant cases, within-case sampling, multiple-case sampling and theoretical/literal replication strategy (Creswell 1998; Miles et al. 1994; Yin 1994). Nevertheless, although the findings may be optimised, the issue of generalisability does not change. Miles et al. (1994:29) clarifies that: “[w]e are generalising from one case to the next on the basis of a match to the underlying theory, not to a larger universe. The choice of cases usually is made on conceptual grounds, not on representative grounds”.

Initially a minimum of six was selected for this study from 12 possible cases, excluding the pilot case as recommended by Perry (1994) for PhD research. However, only five alliances have been used in the data analysis because one decided to discontinue its participation in the study. Given the limited number of non-bank financial strategic alliance cases that could be realistically selected for research within the confines of scarce resources, the author settled for one case less than Perry’s (1994) recommendation. This is still justifiable for this study because the five cases represent 60 per cent of the non-bank financial strategic alliances in PNG, and four of the five cases represent the largest of these alliances. Further, an alliance involves a minimum of two partners, implying that a minimum of 10 alliance coordinators were interviewed, excluding those from other partners and opinion makers in the industry.

Considering that PNG is a small open, but dual economy, has a small financial market and 85 per cent of its people still in the subsistence economy, the sample size was deemed justifiable. As Patton (1990:185) says, the validity, meaningfulness and insights derived from such studies have more to do with the information richness of the selected cases and the observational/analytical capabilities of the researcher than with the sample size. Moreover, case studies of organisations serve the purpose of systematically gathering enough information about a particular organisation to allow the investigator to develop an insight into the life of that organisation (Berg 2001:233).
The sample includes three cases that might be considered as seeking to replicate the principles advocated in the extant literature and emulated by international alliance cases evaluated in Chapter 2; and two cases of less successful alliances shown by their near foreclosure and breakdown in mutual trust. To achieve variation in management experience, two of the cases were more than 10 years old (the oldest being 18 years), one was 8 years old and two were about two years old.

### 3.3.4 Selection of unit of analysis

As with case selection, clearly delineating the unit(s) of analysis is important to avoid over collection. A study that contains specific propositions or questions is more likely to stay within feasible limits (Yin 1994). Units of analysis can be an individual(s), some event, an entity, decisions, programmes, implementation process, or organisational change. Often defining the beginning or end points of the case is not an easy task. As a rule of thumb, the definition of the unit of analysis and therefore of the case relates to the way the initial research questions have been defined (Yin 1994:22). Where the unit of analysis is a small group the persons to be included within the group must be distinguished from those outside it. The same must also be done with events in a specific geographic area. And for any unit of analysis that might be chosen, specific time boundaries are needed to define the beginning and end of the case to be studied.

The unit of analysis of this study is the alliance manager of non-bank strategic alliances within the financial service sector of PNG. The requirements of this task may be actually performed by alliance coordinators or liaison officers. Their job is to coordinate amongst partners and undertake all the necessary management tasks as specified in Chapter 2.

Although the alliance manager appears to represent an ‘embedded’ rather than ‘holistic’ unit of analysis, the constraints exerted by an alliance’s business environment requires understanding. This has been accounted for by specific questions entailed in the case study protocol (Appendix 2). An embedded unit is amenable to in-depth examination of a specific phenomenon in operational detail, in contrast to holistic designs with no logical sub-units giving rise to abstract analysis and lacking any clear measures or data (Yin 1994:42). However, embedded designs also have major weaknesses, particularly when the case study focuses on the sub-unit level and fails to return to the larger unit of analysis (Yin 1994:44). Therefore, for this study the environmental context of alliance manager is pertinent to alliance management outcome, as the business environment in developing countries is highly volatile as noted in Chapter 2.
3.3.5 Case studies: site visits, interviews, piloting instruments

Site visitation of the cases took place on the following dates:

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Dates (2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GoPNG’s Credit Guarantee Scheme (CGS) (Treasury)♣</td>
<td>16/4, 26/4, 29/4, 1/5, 9/5</td>
</tr>
<tr>
<td>PNG Banking Corporation (PNGBC)♣</td>
<td>19/4, 7/5, 8/5, 14/11</td>
</tr>
<tr>
<td>SBDC’s Small Business Guarantee Facility (SBGF)♣</td>
<td>1/5, 2/5</td>
</tr>
<tr>
<td>Bank South Pacific (BSP)♣</td>
<td>8/11</td>
</tr>
<tr>
<td>ANZ</td>
<td>20/8</td>
</tr>
<tr>
<td>PNG-ADB Microfinance Project</td>
<td>9/5</td>
</tr>
<tr>
<td>FORD Inc.</td>
<td>1/5</td>
</tr>
<tr>
<td>RDB’s Smallholder Agriculture Credit Scheme (SACS)♣</td>
<td>20/5, 4/8</td>
</tr>
<tr>
<td>Coffee Industry Corporation (CIC)♣</td>
<td>13/8</td>
</tr>
<tr>
<td>Oil Palm Industries Corporation (OPIC)</td>
<td>19/8</td>
</tr>
<tr>
<td>RDB Goroka Branch Office♣</td>
<td>13/8</td>
</tr>
<tr>
<td>Bougainville Microfinance Scheme (BMFS)♣</td>
<td>8-10/8, 5/11</td>
</tr>
<tr>
<td>Australian Volunteers International (AVI)♣</td>
<td>8-10/8, 15/10</td>
</tr>
<tr>
<td>Maleny &amp; District Community Credit Union, Brisbane</td>
<td>8-10/8</td>
</tr>
<tr>
<td>Bougainville Commerce Division</td>
<td>9/8</td>
</tr>
<tr>
<td>AusAID</td>
<td>13/11</td>
</tr>
<tr>
<td>National Superannuation Fund (NASFUND)♣</td>
<td>24/4</td>
</tr>
<tr>
<td>AON Consulting (PNG) Ltd♣</td>
<td>8/11</td>
</tr>
<tr>
<td>ENB Savings &amp; Loan Society (ENBS&amp;LS)♣</td>
<td>5/4</td>
</tr>
<tr>
<td>BSP</td>
<td>6/4</td>
</tr>
</tbody>
</table>

Notes:
- ♣ Main partners in alliance under research
- ♦ Pilot case

Upon arrival in Port Moresby the author initially made contact with some of the organisations known to the author to request permission to study their alliances. Permission letters were also sent out to other possible participating organisations. After this the author then travelled to Rabaul to pilot test the case study protocol on the alliance between Bank South Pacific (BSP) and the East New Britain Savings & Loans Society (ENBS&LS). Adjustments were made specifically to the interviewing technique and some questions were redesigned as they were too broad.

Upon the author’s return to Port Moresby, the permission letters were followed up with telephone calls and field visits to obtain verbal confirmation. Names of alliance coordinators/managers were obtained and wherever possible, introductory letters were delivered. At the same time agreed interview times, contact details and venues often at company premises were obtained. Agreed dates were then confirmed with the participants’ personal secretaries by phone within the week. Frequently initially agreed times were cancelled due to unforeseen events affecting the participant, leaving the author to catch the participants as and when they were available. In the
interview process, meticulous notes were taken complemented by tape recording where permitted. In order for data triangulation to take place (Yin 1994; Patton 1990; Miles et al. 1994) the author ensured that company documentation was requested including Memoranda of Agreements (MOAs) effecting relationships.

During the interviews the author was conscious of the need to balance the extremes of possessing a predetermined theoretical framework (Yin 1994:46) on the one hand, and having no theory to test on the other (Eisenhardt 1989:536). This experience confirms that researchers take their own assumptions into the process and that they shape their interpretation of events (Allison 1971; Strauss and Corbin 1990, 1994). The author tried to balance out these assumptions by having an open mind, sensitised by the systems conceptual framework outlined in Chapter 2 and urged on by SSM to appreciate the actor’s Weltanschauung in order to improve both explanation (Erklären) and understanding (Verstehen) of the alliance management phenomenon in a developing country context. Miles et al. (1994) also advocate the use of conceptual frameworks moderated by the need to avoid over instrumentation in exploratory research. Patton (1990:69) points out that even the “subjective experience incorporates the objective thing and a person’s reality” regardless of such a perception’s validity. That researchers’ enter the research field with inherent biases is not beyond realism, what is important is such possibilities must be acknowledged in the research report.

3.4 Research quality issues

Discussions about quality standards and verification in qualitative research lead to the question: how do we know that a study is believable, accurate and right? Because truth is relative (Kuhn 1970), the possibility of any method being totally ‘objective’ is doubtful (Patton 1990:482). Accepting subjectivity, the researcher ought to accept that one’s perspective affects fieldwork, carefully document all procedures and be open in describing limitations of the perspective ventured. In the case study approach the research design, which is supposed to represent a logical set of statements, offers itself to a set of logical tests of quality that include trust-worthiness, credibility, conformability and data dependability (Yin 1994).

According to Yin (1994:33), tests that are applicable to establishing the quality of any empirical social research are relevant to case study research because it is a form of empirical research. These tests include: construct validity, internal validity, external validity and reliability.
3.4.1 Construct validity

This test seeks to verify whether a sufficient set of measures has been developed by the investigator to measure the concepts being studied, and how subjective judgements have been minimised in data collection. Although this test has been noted to be problematic in case study research (Yin 1994:34), it is incumbent upon the researcher to specify the variables relating to the original objectives of the study, and to demonstrate that the selected measures really do measure the concepts being studied relative to other measures.

Yin (1994:34-35) recommends three tactics for increasing construct validity. One is to collect multiple sources of evidence during data collection so as to encourage convergent lines of inquiry. Here the evidence is triangulated from different data sources. Second, is to establish a chain of evidence during data collection. A chain of evidence establishes the linkages between the research problem through to the study’s conclusions. To enable this, the researcher should ensure the accessibility of the field guide to data collection, the case study notes and ensure sufficient citation in the case report to the evidence contained in the database. The third tactic is to allow key informants evaluate the draft case study reports where it concerns them. This process is to ensure the accuracy of the evidence.

For this study the author ensured that the case study protocol raised questions that were relevant to the work of alliance managers as portrayed in the extant literature. The views of alliance managers were chequered by interviewing other respondents involved in the alliance within and by collecting secondary data through company reports, MOAs or newspaper articles. Where possible, other respondents in the network that played a peripheral role such as the regulatory function were also interviewed to comment on relevant questions in the protocol. To enhance the chain of evidence tactic, documents relating to the establishment of the alliances, including government documents where necessary, were also collected. Summary reports of cases were sent to informants for validating the evidence and, where possible, discussions on the findings took place during later field visits to certain sites. For example, the author had numerous discussions with the Rural Development Bank and Department of Treasury officials during a second visit to cross check observations.

3.4.2 Internal validity

Concerns about internal validity are strongest for causal or explanatory case studies where the investigator seeks to ascertain a causal relationship between two variables. If the investigator does
establish such a relationship without accounting for other more relevant factors (spurious variables) then the research design has failed to deal with external threats to internal validity (Yin 1994:35). Internal validity for case study research also has to deal with the broader problem of making inferences where an event (past) cannot be directly observed. Hence the questions raised include (Yin 1994:35): Is the inference correct? Have rival explanations and possibilities been considered? Is the evidence convergent? Does it appear to be airtight?

One tactic that addresses internal validity is that of pattern-matching (Yin 1994). Others include prolonged engagement in the field, persistent observation, triangulation, peer debriefing, negative case analysis, and member checks of data, interpretations and conclusions (Lincoln and Guba 1985:301-315).

In this study where possible, the pattern exhibited by a case was matched and compared with the existing literature reviewed in Chapter 2. The data was also cross checked with secondary documents and corroborated with information documented by other researchers on PNG and against notes in the author’s diary.

3.4.3 External validity
This test deals with the problem of ascertaining whether a study’s findings are generalisable beyond the immediate case study. In case study research the goal is not to generalise to a larger universe (statistical generalisation), instead the researcher is endeavouring to generalise a particular set of results to some broader theory (analytical generalisation) (Yin 1994:36). To satisfy the test of external validity, replication logic was adopted in the study which determined sample selection. Here cases are selected to replicate the underlying theoretical propositions. Whilst accepting that generalisations are not automatic as a theory must be tested through replications of the findings in more cases (Yin 1994), the results may nevertheless be accepted for other similar cases even if further replications have not been performed.

3.4.4 Reliability
The objective of this test is to ensure that the process of the study is consistent, reasonably stable over time and across researchers and methods (Miles et al. 1994:278). The issue is: can the research procedures be retraced by a latter researcher on the same case and expect to arrive at the same findings and conclusions? If this can be assured, then errors and biases will have been minimised. A prerequisite for this is the need to properly document the procedures followed in the earlier case, or to establish a clear ‘audit trail’. Yin (1994:37) recommends outlining as many
steps as possible and to conduct research as if someone was watching over you in order to satisfy this test. For this purpose, the case study protocol is a reliable replicable guide and typically includes the field procedures, the case study questions and a guide for case study report (Yin 1994). This is complemented by the case study database and individual case reports (Appendix 1).

For this study, the case study protocol is a central document for repeatability. The protocol derives from the analytical literature review, chequered using systems theory and later pilot tested in PNG using the ENBS&LS. Sources of documentary evidence entailing the case study database, field notes and secondary sources of data are stored in the School of Business Administration, University of Papua New Guinea.

3.4.5 Bias
There are a number of biases that may pose threats to the validity of conclusions. These include the selection of data to fit the researcher’s existing theory, the selection of data that stand out to the researcher, the effects of the researcher on the site or individuals (reactivity), the effects of the site on the researcher, and changes in the researcher during the course of the research (Miles et al. 1994:263; Patton 1990:473; Maxwell 1996:90-91). Although it is impossible to completely eliminate these biases, the researcher is required to explain his/her possible biases and how these biases will be minimised. Thus Maxwell (1996:91) quotes Fred Hess (pers. comm.) who points out that “validity in qualitative research is not the result of indifference, but of integrity”.

The author in the course of the research ensured that the standard of interviewing was maintained throughout the cases as much as possible. The author went through the introductory letter which the participant had been given in advance, and explained the purpose of the consent form. After this, an opening remark was made regarding the interest of the author in knowing more about the alliance. Throughout the interviews, the author talked little except where there was a need to probe further.

On two occasions, however, an interview was disrupted because the participant had to leave for an unscheduled meeting and the author had to return at another time convenient to the participant. When this happened, the interview environment and mood of the participants changed from when the rationale of the study was first explained. Unfortunately, a researcher has no control over such factors except to appreciate them. Moreover, before an interview the author read as much as possible background information about a case based on secondary data collected from newspapers, the Internet or annual reports collected during preliminary visits.
The author wishes to admit also that he knew some members of the focus group (section 3.4.7). This raises questions of possible biases creeping into the research, especially if they knew or could easily anticipate the researcher’s opinions or background. To minimise this possibility the author said little except to pose questions. The discussion was allowed to flow freely without the author expressing affirmative or negative views about the propositions being put forth. By recognising this possible threat to the validity of the findings the author fulfils the views of Fred Hess (quoted in Maxwell 1996:91) that holds that “validity in qualitative research is not the result of indifference, but integrity”.

3.4.6 Triangulation

The case study method is amenable to using many different sources of evidence unlike in research strategies such as experiments, surveys or histories (Yin 1994:91). The main benefit from using multiple sources of evidence is the development of converging lines of inquiry, for triangulation. This renders any finding or conclusion in a case study more convincing and therefore is more likely to be accurate. Patton discusses four types of triangulation:

(i) data triangulation (of data sources)
(ii) investigator triangulation (among different evaluators)
(iii) theory triangulation (of perspectives on the same data set)
(iv) methodological triangulation (of methods)

This study utilised all triangulation methods except for methods triangulation. This method was judged to be unfeasible because of resource constraints and where there were operational difficulties, respondents may have had different attitudes towards qualitative and quantitative research resulting in different answers being given. Also, qualitative and quantitative methods may end up measuring different things which may be difficult to reconcile into a single picture of the situation (Patton 1990:187-189).

Data were collected from different sources including documents and people’s perspectives. Although the nature of PhD research prevented using different investigators (Perry 1994) the author requested key participants to review the findings, as suggested by (Patton 1990). All the participants agreed with the interview transcripts sent back to them for review except for one, the PNGBC interviewee, who requested changes to the original transcript in order to protect his identity and those who may have been negatively implicated as this case was a sensitive one in terms of the relationship context of PNG. To eliminate the excesses of self-reporting the views of the alliance managers from one partner were put to the managers of the second partner to validate their claims during interviews. Theory triangulation was also applied during the literature review and data analysis phases of the research where different perspectives were used: (i) strategic
management, (ii) network approach, and (iii) relationship marketing. The research protocol, which reflects the different theoretical perspectives contributed to the triangulation process at the data collection stage. Overall, triangulation helps reduce system bias in the data and enhances the verification of findings and conclusions.

3.4.7 Focus group

To enhance the triangulation process and hence validity of the findings found in Chapter 6 the focus group method was used to evaluate the case reports in Appendix 1 and cross-case analysis data in Chapter 5. The use of focus groups is normally associated with a phenomenological methodology (Hussey et al. 1997:155; Buttery et al. 2002:136; Madriz 2000:835). This method is useful for gathering data relating to the feelings and opinions of a group of people who are involved in a common situation. The use of group interaction to produce data and insights provided the author with rich data that would not have otherwise be accessible without the interaction found in a group (Hussey et al. 1997:ibid.).

Figure 3.2 contains the list of people who participated in the focus group discussion invited by the author based on their management experience at varying levels – operational, middle and senior – and exposure to alliance management in both public and private organisations.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Professor T. Wolfer</td>
<td>Political Science, University of Wollongong, GoPNG consultant</td>
</tr>
<tr>
<td>2. Professor L. Hill</td>
<td>Biology, University of PNG, Extensive board level representation</td>
</tr>
<tr>
<td>3. Professor A. Mellam</td>
<td>Psychologist and Executive Dean, School of Business Administration, UPNG</td>
</tr>
<tr>
<td>4. Dr. H. Okole</td>
<td>Political Science, University of PNG</td>
</tr>
<tr>
<td>5. V. Malaibe</td>
<td>Mathematician, Registrar, University of PNG</td>
</tr>
<tr>
<td>6. J. Wemin</td>
<td>CEO, PNG Institute of Engineers and PNG Human Resource Institute</td>
</tr>
<tr>
<td>7. L. Michael</td>
<td>Human Resource Manager, Arnotts Biscuits (PNG) Ltd.</td>
</tr>
<tr>
<td>8. S. Peter</td>
<td>CEO, PNG Investment Promotion Authority</td>
</tr>
<tr>
<td>9. O. Tolopa</td>
<td>First Assistant Secretary, Policy, Lands Department</td>
</tr>
<tr>
<td>10. D. Aloi</td>
<td>Head, Public Policy Management Strand, University of PNG</td>
</tr>
<tr>
<td>11. L. Marai</td>
<td>Psychologist, Cross-cultural researcher, University of PNG</td>
</tr>
<tr>
<td>12. E. Kinkin</td>
<td>Cultural anthropologist, University of PNG</td>
</tr>
</tbody>
</table>

The author created a relaxing atmosphere and guided the discussion using a prepared list of 11 questions to ensure that all topics are covered. The assistance of two persons was enlisted to observe and record what was discussed. The recorded data forms part of the raw database for this thesis. Data from the focus group enhanced the writing of Chapters 4, 5 and 6 and generally validated and confirmed the findings of this thesis.
3.4.8 Software

The use of software to support the work of qualitative researchers is maturing (Weitzman and Miles 1995; Weitzman 2000). The range of available useful tools to support many different approaches to qualitative research is now available. However, this author decided to analyse the data manually with the help of the ‘Auto Summarise’ function in Microsoft Word 2000, a feature that aims to identify the most important concepts in a document according to word frequency. This decision was based on a number of reasons. The first reason relates to the cost of the software which was beyond the financial capacity of the author. The second reason relates to the length of time that the author would have taken to learn a selected package. According to Weitzman (2000:807), initially it takes time to learn to use a programme and then to prepare and set up the data for analysis. Although it is true that once the initial learning period has been undertaken, the speed of the computer quickly pays for that investment (Weitzman 2000:ibid.) the author felt that cost and time issues were prohibitive for such an exercise.

The third reason for not using software relates to the fact that there is no one best programme and so it is entirely up to the researcher to choose a software or an appropriate mix to accommodate the conceptual assumptions of the research. Given that this task had to be undertaken, the author chose to do the analysis manually in order to keep close to the rich data so that a certain degree of proficiency could be gained when it came to data analysis and interpretation particularly in Chapters 4, 5 and 6. This concern has been expressed by experienced researchers and is a valid concern (Weitzman 2000:816).

Finally, because the study is exploratory in nature and that observation and interpretation of the context within which alliance management took place was an important part of the analysis, the author felt that it was first important to use the thesis as a way of learning to undertake good analysis and observation rather than just use a programme, and then to later on learn how to use a software for future research. Weitzman (2000:817) recommends students to learn both manual analysis and software in order to become proficient in qualitative analysis.

3.5 Generalisability of findings

Whilst generalisation in qualitative research remains a thorny issue amongst qualitative researchers (Patton 1990:486; Maxwell 1996:96-97), this author wishes to limit discussion of this subject to the case study method described by Yin (1994) and adopted for this research. Yin (1994:30-31) differentiates between ‘statistical generalisation’ and ‘analytical generalisation’ or
Inference and Level Two Inference, respectively. In the former type, “an inference is made about a population on the basis of empirical data collected about a sample” (Yin 1994:30). In the latter type, inference is derived from replicated results from cases to the theory being tested and not to the population. It is crucial to understand that statistical generalisation is not the method of generalising the results in case studies because cases are not ‘sampling units’ (Maxwell 1996:96-97; Patton 1990:486). Thus, Yin (1994:32) recommends that the researcher should aim for Level Two Inferences as the use of theory becomes the main vehicle for generalising the results of the case study.

In this research a number of steps have been adopted to enhance the goal of achieving this type of generalisation as recommended by Yin (1994). First, evidence was collected from (a) documentation which includes MOAs, letters, memoranda, agendas and minutes, and newspaper cuttings, (b) archival records which includes organisational records, past annual reports, departmental reports and evaluation reports, and personal records, (c) open ended interviews, and (d) direct observation of alliance sites and proceedings. Although the author adhered to the research protocol in the field, access to data was contingent upon the willingness of firms and government officials to release data. To summarise, the research findings of this study can be evaluated against the general alliance management practices established from the literature in Chapter 2.

### 3.6 Ethical considerations

The issue of ethics in qualitative research is a cardinal principle and the author is committed to the highest standards. Researchers have to ensure they have adequately addressed the following issues in professional codes of ethics including the value of the project to society, competence boundaries, ensuring informed consent, avoidance of deception, an evaluation of harm and risk, ensuring privacy and confidentiality, and ensuring data accuracy and integrity, ownership of data and conclusions, and use and misuse of results (Christians 2000:138-140; Miles et al. 1994:290-297; Stake 2000:447-448). The researcher addressed these issues in his protocol application submitted to the University of Western Sydney Human Ethics Committee which was subsequently approved without condition at its meeting of 18 March 2002. Aspirations to these values continued into the design of the study, selection of methodology, data collection and reporting.
3.7 Summary

This chapter has adhered to the tasks set out for it as outlined in section 2.1. It considered the importance of paradigms to the research and justified the selection of the interpretivist/phenomenological paradigm. The selection of this paradigm is based on the exploratory nature of the research and the need to interpret meaning from rich data embedded in a cultural context. It then moved on to justify choosing the case study method for the research. The chapter adopted Yin’s (1994) approach to case study research because of its comprehensiveness and clarity on procedures. The method is a popular mode for PhD research in all fields and is useful for theory building particularly in strategic alliances (Easton 1998).

Following this, research procedures were outlined. The chapter contains the justification for using the soft systems methodology in the data analysis, and highlighted the importance of ethics throughout this intellectual journey. The chapter considered validity issues, including bias and triangulation and documents the use of focus groups to validate the findings from the actual research. It also justified why computer software packages for content analysis were not used in the data analysis. In terms of generalisations the chapter pointed out that the findings could only be generalised to theory rather than to a population.

The next chapter (Chapter 4) provides the results of within-case analyses of the five case studies and highlights the thematic issues for cross-case analysis in Chapter 5. The data found in Chapter 4 is based on raw data derived using the research paradigm and methodology laid out in this chapter.
CHAPTER 4 WITHIN-CASE ANALYSIS

4.1 Introduction

The purpose of this chapter is to undertake a within-case analysis of each of the five case studies outlined in Table 3.2. This process draws from data embedded in the case reports summarised in Appendix 1. This author has decided to present the individual case reports as part of the thesis in Appendix 1 as recommended by Yin (1994:134). The within-case analysis follows Yin’s (1994:106-109) technique of making a matrix of categories and placing the evidence within such categories.

Chapter 3 laid out the case study method used in this thesis. Key strategies for analysing case study evidence as postulated for this method by Yin (1994) are within-case analysis and cross-case analysis. The first is undertaken in this chapter, while the second is the subject matter of the next chapter (Chapter 5).

The within-case analysis follows a similar format for each case study, and generally reflects the research questions posed in Chapter 2 where several broad systems variables were evaluated:

(a) environmental context
(b) organisational context
(c) strategic alliance management culture
(d) strategic alliance management process

The evaluation used the following theoretical approaches:

(i) strategic management
(ii) network approach
(iii) relationship marketing

After a brief background to each case, the environmental context is evaluated (Research Question 1), the alliance manager characteristics are described (Research Question 2), and organisational context reviewed (Research Question 3).

Within the organisational context variable, four specific components are investigated:

(a) governance structure and control
(b) goals and values compatibility
(c) human resources adequacy
(d) extent of communication

The extent to which the culture of alliance partners and broader societal culture influence the alliance management process is then considered (Research Questions 5 and 1). The actual
management of the alliance management process is also reviewed (Research Question 6), as are the coping strategies adopted by alliance managers (Research Question 4).

In sum, the main variables analysed in each case are:

(i) environmental context
(ii) organisational context
(iii) alliance management skills
(iv) alliance management culture
(v) alliance management process
(vi) coping strategies

An analytical summary table is presented at the end of each case which aids the process of cross-case analysis and the theoretical discussions in Chapter 5. The answers being sought for the six research questions will, in the final analysis, provide answers to the research problem posed for this thesis in Chapter 1.

At the outset it must be noted that this chapter is based on in-depth interviews and secondary sources. Where references are made to an alliance manager without sources being immediately provided in the text the reader should read this as being from direct interviews undertaken during research. Sources that are not based on interviews are clearly referenced in the normal way. The background of each interviewee is footnoted at the beginning of each case reports. Extended versions of case reports presented in this chapter can be found in Appendix 1.

4.1.1 Categorisation of alliance performance

At the outset, it is important to lay out at the beginning of this chapter what constitutes a ‘weak’, ‘satisfactory’ and ‘strong’ strategic alliance in terms of performance. This is important because the thesis is about alliance management and there are lessons that could be derived from the PNG cases for theory, practice and policy. Figure 4.1 shows the layout of the criteria used and indicates where each of the alliances fit. The key indicators are derived from the extant literature and the theoretical underpinnings of alliance management as reviewed in Chapter 2. They are also derived from the case reports documented in Appendix 1. From the extant literature, the work of Yoshino et al. (1995), Cauley De La Sierra (1995, Doz et al. (1998), Niederkofler (1991), Spekman et al. (1996) and Ojasalo (2001) have important lessons for evaluating the performance of alliance managers. The actual cross-case evaluation and categorisation of the cases using categories laid out here is undertaken in Chapter 5 (Figure 5.1).
## Figure 4.1 Categorisation of alliance performance

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weak</th>
<th>Satisfactory</th>
<th>Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competencies:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal competencies</td>
<td>Seldom</td>
<td>Willing</td>
<td>Most willing</td>
</tr>
<tr>
<td>Perspective taking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Willing to change self to accommodate others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Willing to consider other person’s point of view</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simultaneously consider multiple points of view</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wiling to take losses in return for future gains</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Functional competencies</strong></td>
<td>Junior officer</td>
<td>Middle-level manager</td>
<td>Senior executive</td>
</tr>
<tr>
<td>Line skills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff skills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational background</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earned competencies</strong></td>
<td>Junior officer</td>
<td>Middle-level manager</td>
<td>Senior executive</td>
</tr>
<tr>
<td>Credibility and respect</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extensive networks: organisational, alliance, industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interpersonal competencies</strong></td>
<td>Junior officer</td>
<td>Middle-level manager</td>
<td>Senior executive</td>
</tr>
<tr>
<td>Social skills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process skills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tact/sensitivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross-cultural awareness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Seldom</td>
<td>Most of the time</td>
<td>Frequently</td>
</tr>
<tr>
<td>Interpersonal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multilayer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular reporting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Position of alliance manager</strong></td>
<td>Junior officer</td>
<td>Middle-level manager</td>
<td>Senior executive</td>
</tr>
<tr>
<td><strong>Cross-cultural exposure/training</strong></td>
<td>None</td>
<td>Exposure</td>
<td>Exposure/training</td>
</tr>
<tr>
<td><strong>Exposure to international management best practice</strong></td>
<td>None</td>
<td>Locally</td>
<td>Travel abroad/ overseas posting</td>
</tr>
<tr>
<td><strong>Staff exchanges</strong></td>
<td>None</td>
<td>Not more than one staff</td>
<td>More than one staff</td>
</tr>
<tr>
<td><strong>Team building skills</strong></td>
<td>None</td>
<td>Only at certain levels</td>
<td>All levels</td>
</tr>
<tr>
<td><strong>Resource contribution</strong></td>
<td>Initially</td>
<td>Minimum requirement</td>
<td>Maximum requirement</td>
</tr>
<tr>
<td><strong>Involvement of alliance manager at negotiation stage</strong></td>
<td>None</td>
<td>Partly</td>
<td>Key involvement</td>
</tr>
<tr>
<td><strong>Board of governance structure</strong></td>
<td>None</td>
<td>Committee level</td>
<td>Representation at board level</td>
</tr>
<tr>
<td><strong>Joint activities</strong></td>
<td>None</td>
<td>Only at certain levels</td>
<td>All levels</td>
</tr>
<tr>
<td><strong>Learning objective</strong></td>
<td>None</td>
<td>Informally</td>
<td>Formal systems</td>
</tr>
</tbody>
</table>

Throughout the discussion references will be made to cases as having weak, satisfactory or strong alliance management skills. Such evaluations will be based on the performance of an alliance with regard to the indicators set out in Figure 4.1. Generally, performing alliance cases are bound to have senior executives appointed as alliance managers, satisfactory personal competencies,
communicate regularly, have had cross-cultural exposure and training, some exposure to international management best practice, have had staff exchanges, propagate team building skills, commit resources, involve alliance managers in initial negotiation stages, have some form of governance structure, undertake joint activities and emphasise learning as an objective. Throughout the discussion, these features will be commented on in general terms in the context of environment context, organisation context, alliance culture, alliance process and coping strategies rather than in only one location of the thesis.

4.2 Case 1 – Smallholder Agriculture Credit Scheme (SACS)\(^5\)

4.2.1 Background
The Smallholder Agriculture Credit Scheme (SACS) represents a strategic alliance between the Rural Development Bank of PNG and the Coffee Industry Corporation (CIC). The alliance was established in 1996 based on a proposal from the CIC. Although the SACS has other commodity partners, they are not covered in this thesis due to space and time limitations. The RDB-CIC alliance represents 28 per cent of the SACS loan portfolio which is by far the largest when compared with other commodity bodies. RDB’s alliance manager observed that despite a downward trend in coffee prices the coffee sub-sector remained the leading sector and recorded the highest loan collections cumulatively, consistently increasing loan repayments over the last five years.

The alliance is essentially a revolving fund constituting K10 million in seed capital from the GoPNG via the Department of Agriculture and Livestock (DAL) for lending to smallholder coffee farmers. The revolving finance entails that the principal of loan outlaid is reinstated for further on-lending upon repayment, with the RDB retaining the interest portion to cover its administration costs. The maximum loan for any one project is K10,000 with interest charged at a subsidised rate of 5 per cent. Maximum loan term is 10 years with a 3-year grace period.

The RDB-CIC alliance clearly allots responsibilities to the partners; RDB is responsible for managing the funds, loan documentation, disbursement and collection of payments; DAL has overall control of coordinating and sourcing additional funding; and industry bodies such as CIC.

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\(^5\) This within-case analysis is based on data derived from in-depth interviews with alliance officials of both the Rural Development Bank and the Coffee Industry Corporation at varying times in 2002. Interviews were conducted with the RDB’s alliance manager, the Executive Manager (Lending) and economist (both based in Port Moresby), and the branch manager in Goroka. CIC’s alliance manager, who is the National Credit Manager, was interviewed at the CIC head office, Goroka. Secondary data sources helped triangulate the data.
appraise projects and provide localised extension services to loan recipients. Each partner has an alliance coordinator who is a member of the alliance’s Implementation Monitoring Committee (IMC), a body responsible for impact evaluation and planning future schemes. A tripartite memorandum of agreement (MOA) between the three parties governs the management of the alliance.

The RDB forms an important part of PNG’s financial sector and is the leading source of rural development financing in the country. The bank was established in 1967 following recommendations from the first World Bank mission to PNG in 1963. The RDB has undergone much restructuring in the 1990s as part of its ongoing attempts to make itself relevant and sustainable (Appendix 1).

The CIC represents one of PNG’s major export commodities. Coffee is a major export earner bringing in much needed foreign exchange for the country. PNG exported 1.35 million bags of coffee earning K451 million in 1998, 1.32 million bags in 1999 at a value of K421 million, and 1.043 million bags in 2000 worth K276 million. Part of the core functions of the CIC includes enhancing volume and quality of annual production and ensuring the industry’s efficiency and sustainability (Appendix 1).

A description of the alliance management outcome will put the overall performance of the alliance into perspective. The alliance managers of the two partners agree that their partnership has been satisfactory when compared with others in the same SACS network. Indeed, the relationship between the partners has been flagged as the model to be emulated by the other SACS partners.

RDB’s Goroka branch manager identified a number of factors which contributed to the success of the alliance, including open and regular communication, geographical proximity of the partners, CIC’s governance structure which ensured efficient alliance management and human and financial resources commitment, and the fact that the alliance coordinators were both senior executives. Although RDB’s alliance manager is based in Port Moresby, effective liaison is managed through RDB’s Goroka branch office. CIC’s alliance manager coincidently was the one who initially proposed the alliance back in 1996 to DAL while working as a consultant to the CIC. CIC’s governance structure also ensured that stringent loan screening procedures eliminated willful loan defaulters. The alliance was able to achieve initial positive results that enhanced the relationship building process at the early stages and encouraged partners to overlook minor frictions in the management process.
Given RDB’s current tight liquidity situation, CIC and its priority coffee farmers are being viewed as strategic to RDB’s core business. The SACS is also critical to CIC’s core business in that it is the only major source of rural financing available to its 250,000 coffee producing households. The alliance has only been able to lend to 1,294 farmers up to the end of 2001, which represents a mere 0.52 per cent of the total. The alliance plans to finance 6,000 additional farmers in the next five years from 2003-2007. This will require an additional funding of K17.304 million for the SACS.

4.2.2 Environmental context

Economical/technological
International demand for coffee determines its price worldwide. An increase in international demand for coffee pushes the price up for exporters with positive flow-on effects for smallholder farmers. For the RDB-CIC alliance this means improved capacity of farmers to repay loans under the SACS. In the recent past, coffee prices have been stable. However, there are signs that the current glut in the market is pushing prices downwards. RDB’s alliance manager pointed out that current decline in coffee production and export volume is due partly to falling prices.

The other major environmental constraint is the near dilapidated Highlands Highway as a result of lack of maintenance since Independence in 1975. The PNG economy has had three consecutive years of negative growth in the period 2000-2002. It is currently struggling with budget deficits of between 4-5 per cent, a lending interest rate of 14 per cent, a public debt ratio of 70 per cent of GDP, and serious internal revenue shortfalls. However, despite these problems, RDB’s alliance manager noted that coffee loan repayments under the scheme remain high compared with other commodities in the network such as cocoa and copra.

The alliance relies on the RDB’s lending technology and information system to administer loans. CIC is mainly responsible visiting farmers for extension and loan follow-up purposes. It is hoped that in the future the partners will have a common electronic information system for the purposes of the SACS.

Political/legal
Although there have been some political and legal threats affecting the two organisations as separate entities, none of these have had any significant effects on the management of the alliance itself. The CIC has had little political interference from the GoPNG and the CIC board has had a stable tenure with continuity in the position of the alliance manager who is also the National
Credit Manager. Whilst the RDB has also had some degree of continuity vis-à-vis the SACS alliance, it has lately experienced considerable political pressure demanding that it achieves a respectable degree of operational, institutional and financial sustainability. Following this, its board has once more experienced a change of personnel at the beginning of 2003.

**Cultural/social**

There are two socio-cultural factors that the alliance managers have noted as having a direct bearing on alliance management. One stems from a lack of understanding of the need to repay the principal loan and interest within a fixed period of time. This affects the repayment rate. CIC’s alliance manager observed that there are still a few farmers who think that only the principal loan needs repaying, not the interest. Thus the IMC, the coordinating body of the SACS, now requires that industry partners such as CIC actually indicate in their quarterly reports the number of actual visits undertaken by officers to mass educate farmers on credit management. This is because relationship building is best promoted through personal contact rather than through written communication.

The second socio-cultural factor relates to the public perception that the RDB is a conduit for government handouts. This is because throughout much of the bank’s history since 1967 the GoPNG used it mainly as a conduit for disbursing long-term subsided credit to farmers. This image generated the widespread problems of loan fungibility and moral hazard (Appendix 1). The RDB still has to rid itself of this pervasive view.

### 4.2.3 Alliance management skill

The two alliance managers are both members of the SACS network IMC. The Secretary of DAL chairs this body. Part of the IMC’s task is to undertake quarterly alliance reviews and provide policy advice to the network partners as outlined in the MOA between DAL and industry partners (Appendix 1). At the network alliance governance level, RDB’s alliance manager noted that coordination and communication amongst partners was proactive until 2001 when DAL, as the lead partner, began to falter in its role. The contributing factors to this breakdown were identified as frequent organisational changes taking place at DAL, thus resulting in a high staff turnover including that of the departmental secretary, and ambiguity relating to the function of the organisation.

However, despite the failure of DAL to play its role effective alliance management skills remains a characteristic of the partners’ alliance managers. In terms of relationship building, CIC continues to work closely with RDB’s Goroka branch manager and coffee farmers. Both parties
continue to submit quarterly reports to DAL as required under the tripartite MOA of the alliance. CIC’s alliance manager noted that its annual and quarterly reporting requirements are always submitted on time. Both partners maintain continuous farmer visitation and reflect key alliance management qualities through communication, open-mindedness, flexibility, self-confidence and sensitivity to each other. Social and economic bonds have been also developed. The parties appear to have managed the alliance beyond the MOA requirements.

4.2.4 Organisational context

Governance structure and control
The SACS governance structure is laid out in the MOA between RDB, CIC and DAL. The MOA allots clear responsibilities to each partner and provides for the establishment of the IMC which deals with issues of governance and control. At the operational level, the SACS is managed within the RDB as a separate profit centre using the resources of both the RDB’s Goroka branch office and the CIC head office, located in Goroka. Thus CIC’s alliance manager liaises directly with RDB’s Goroka branch manager and the bank’s national alliance manager in Port Moresby. Both partners have a team of dedicated lending officers, and extension service and credit officers on the ground who screen loans and help monitor borrowers.

Because the RDB heavily relies on the CIC credit officers and extension officers situated in districts to ensure farmers’ viability for loans and timely loan repayments, CIC’s governance structure is critical to the success of the alliance. RDB’s alliance manager and the branch manager in Goroka agree that CIC’s governance structure facilitates the smooth implementation of the SACS (Appendix 1).

Goals and values compatibility
The goals and values of the partners are compatible, in that both partners are in the business of providing rural finance to smallholder agriculture farmers in order to promote export volume growth. The CIC has a Coffee Guarantee Scheme through which the SACS is implemented and both partners share the view that while financial sustainability issues are important, lending to farmers should be at affordable interest rates; in the past, conservative commercial banks have withdrawn from the agriculture sector due to perceived risks. Both partners also agree that the current SACS allocation of K2.8 million for the coffee sub-sector needs to be increased in order to reach the credit demands of an additional 6,000 farmers yet to receive funding.

For both parties, the SACS alliance is critical to core business. CIC’s alliance manager, who played an important role at the design stage of the alliance, expressed an emotional attachment to
the alliance. He noted, “We feel that we own SACS”, while the RDB alliance manager commented, “This is the core business for all parties involved so the pressure is there to make it work”.

However, it must be noted that by early 2002 it suddenly dawned on the RDB that it had to achieve institutional, operational and financial sustainability as required by their respective boards and the GoPNG, which has been heavily subsidising the parent organisations of this alliance. Budgetary constraints affecting the GoPNG meant that further subsidisation of loans and operational costs would have to be re-evaluated.

**Human resources**

The SACS relies on the human contribution of the partners to keep the alliance operational. The tasks of project appraisal and loan supervision are carried out by CIC which allows for substantial cost savings to the RDB. The RDB commits to the SACS its national alliance coordinator, the bank manager in Goroka together with its lending officers in provinces where coffee is grown. CIC contributes 18 full-time staff to the alliance located in rural districts. Generally, both parties have had to retrench staff due to the ongoing pressures to attain institutional sustainability exerted by their respective boards.

The partners have attributed an increase in loan arrears, currently at 21 per cent, to staff shortages, among other factors. In response, CIC’s alliance manager noted that in order to reduce the arrears level to 10 per cent, more staff will be required and plans are underway to co-opt more extension officers to concentrate on credit management. This will boost the credit management staff from 18 to 148 (Appendix 1).

**Communication skills**

The SACS MOA allows for formal communication mechanisms. Both partners recognise the importance of both formal and informal communication in relationships. RDB’s alliance manager notes, “RDB has experience with relationship banking and has the network and resources to go out and offer service, not just behind the counter service. We have field officers who are experienced”. CIC’s alliance manager pointed out that he visits the local RDB branch through weekly, jointly monitoring clients and ensuring timely reporting. He points out that this facilitates cooperation, reduces the possibility of full-blown conflicts and enhances overall loan portfolio quality.
4.2.5 Alliance management culture

The RDB’s organisational culture has been largely shaped by its mandate to fulfil key Community Service Obligations (CSOs) in rural lending, helping citizens in their entrepreneurial endeavours. The CSO mandate has been used to justify the continuation of subsidised interest rates on loans under the SACS. Similarly, CIC’s organisational culture stems from its CSO goals, which is to improve smallholder coffee production and quality through the provision of subsidised mini credits, freight subsidies and the supply of coffee pulpers.

The interest rate subsidy culture of the alliance is shaped by a general societal culture in PNG that promotes dependence on government institutions for the provision of goods and services to the rural populace. This mentality permits government intervention in the market and acts against entrepreneurship and self-reliance. The alliance partners are currently devising ways to overcome this culture in order to develop a new culture that will promote institutional and financial sustainability goals. Sustainability goals result from financial pressures faced by the GoPNG which used to subsidise the operational cost of the parent organisations of the SACS alliance in the past. The pursuit of sustainability goals will complement the strong service culture of the alliance partners.

4.2.6 Alliance management process

A number of factors are responsible for the satisfactory alliance between the RDB and CIC. The key factor is PNG’s strong relationship-oriented culture that emphasises personal contact and reciprocity. The partners recognise this point, encouraging their operational personnel to establish close and harmonious working relationships both horizontally and vertically. Great importance is also attached to developing relationships with the loan recipients so as to ensure timely repayments. The alliance realises the positive relationship between personal visits and the rate of timely loan repayment (Appendix 1). The downside to an over-dependence on personal contact is that the partners will have to increase the number of operational personnel which is not possible under current pressures for organisational downscaling. The geographic terrain of the country also presents formidable problems for personal contact.

Another important factor in the alliance management process is the partners’ recognition of the need to develop negotiating skills and a strong political relationship with the DAL, the political sponsor of the SACS and third partner in the tripartite alliance. Through the Minister for the DAL, the partners know that additional funding for the SACS can be secured from donors and the GoPNG. Hence, despite the declining interest of the DAL in the scheme in recent times, both the
CIC and RDB have ensured that their reporting requirements under the MOA continue to be fulfilled.

A further factor relates to proximity between the partners which has helped to cultivate a degree of social capital between the participants, including the farmers. Due to road dilapidation, RDB’s branch manager in Goroka made the point that she has often helped farmers out by sending her official vehicle to transport coffee bags from clients to the buying depot in town, free of charge. This contributes towards trust-building and, importantly, helps farmers to take out repeat loans. The retention of known clients helps to reduce transaction costs incurred by all parties or intermediaries in such a financial alliance where the recruitment of new clients is concerned.

A final factor to note in the alliance management process relates to the use of qualitative information by the CIC and RDB when verifying whether a would-be borrower is a genuine farmer in need of a loan. Unlike normal commercial banking, where quantitative information, such as asset value verification, is heavily relied upon, qualitative information is much more useful for the partners. For example, because farmers cultivate communal land that is not titled, a land title cannot be used as collateral because the land is not owned individually and therefore cannot be registered. Instead, the partners have to rely on their own intuition and a character assessment of would-be borrowers. CIC’s alliance manager revealed that in order to initially verify if a would-be borrower is a genuine farmer, his credit officers ensure that when shaking hands with would-be clients the handshake is firm to enable a good feel of the palm because a palm that is rough and hard shows that the client is a real farmer, whereas a smooth palm reveals that the person is not a genuine farmer or is not a hard worker, and therefore the person is not to be further entertained.

**4.2.7 Coping strategies**

The partners have adopted a number of coping strategies in response to threats posed by environmental, organisational and cultural factors. One such strategy is to train CIC extension officers to perform credit management tasks as well. This multiskilling strategy is in response to shortfalls in human resources. A second strategy, in response to road dilapidation and declining operational funding, prompted CIC credit officers to conduct farmer visitations in rural areas using public transport rather than work vehicles which are in short supply. A third coping strategy encourages the partners to restrict lending to priority clients, focusing instead on client retention in order to reduce risks and transaction costs. A final coping strategy is where the partners rely heavily on qualitative information such as the hand shaking and character assessment to
determine if a farmer is genuine and to assess whether a loan should be given. This is in response to the extremely poor informational environment within which the alliance exists.

### 4.2.8 Case summary

A summary of the case findings is presented in Table 4.1.

#### Table 4.1 Analytical summary of case findings for the SACS alliance

<table>
<thead>
<tr>
<th>SACS Alliance Performance</th>
<th>Environment</th>
<th>Organisation</th>
<th>Alliance skills</th>
<th>Management culture</th>
<th>Management process</th>
<th>Coping strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Positive relationship between international coffee price and loan repayment: high coffee prices tend to improve repayment.</td>
<td>• Governance structure laid out in MOA between RDB, CIC and DAL.</td>
<td>• Satisfactory alliance management skills within RDB and CIC.</td>
<td>• Strong community service oriented culture.</td>
<td>• PNG’s relationship culture emphasises personal contact and reciprocity.</td>
<td>• Downsizing leading to multitasking.</td>
</tr>
<tr>
<td></td>
<td>• Alliance depends on RDB’s banking technology.</td>
<td>• MOA clearly allots responsibility and provides for IMC to oversee alliance.</td>
<td>• Alliance managers are senior and involved from negotiation stage.</td>
<td>• Culture largely shaped by Community Service Obligations.</td>
<td>• Close harmonious relationships are emphasised at operational level.</td>
<td>• Public transport used by loans/extension officers for client visits rather than work vehicles.</td>
</tr>
<tr>
<td></td>
<td>• GoPNG pressure on RDB and CIC to be sustainable resulting in elimination of budgetary support.</td>
<td>• Clear strategic intent and alignment at strategic and operational levels attempted.</td>
<td>• Weak alliance management skills within DAL.</td>
<td>• Subsidised interest rates shaped by societal culture of dependence on GoPNG.</td>
<td>• Positive relationship between timely loan repayment and personal contact.</td>
<td>• Sustainability pressures led to lending restrictions for priority clients.</td>
</tr>
<tr>
<td></td>
<td>• Road dilapidation threatens outreach services to borrowers.</td>
<td>• Compatibility of goals and values among partners.</td>
<td>• Not a cross-cultural alliance.</td>
<td>• SACS alliance critical to core business of partners.</td>
<td>• Proximity of partners enhances social capital in relationships.</td>
<td>• Information-void environment leads to reliance on qualitative information for decisions.</td>
</tr>
<tr>
<td></td>
<td>• SACS loans still being perceived by some clients as mere political handouts.</td>
<td>• Financial pressures causing realignment efforts.</td>
<td></td>
<td>• Relationship with partners maintained via personal visit.</td>
<td>• Dependence on qualitative rather than quantitative information for decisions.</td>
<td></td>
</tr>
</tbody>
</table>
4.3 Case 2 – GoPNG’s Credit Guarantee Scheme (CGS)

4.3.1 Background

The GoPNG’s Credit Guarantee Scheme (CGS) was established in 1976 and operated under the auspices of the Department of Treasury until 2002 when it was suspended. The CGS was designed to operate with strategic partners or Participating Financial Institutions (PFIs) under an MOA. In this case, one such partner which is the focus of this report was the Papua New Guinea Banking Corporation (PNGBC), a nationally owned bank which was merged with Bank South Pacific (BSP), a private sector bank, in early 2002 at the time of research.

The *modus operandi* of the CGS alliance stems from Section 37 of the *Public Finances (Management) Act 1995*, which permits the Treasury Minister to guarantee the repayment of a loan, including interest, made to any person or business organisation operating in a strategic area approved by the GoPNG. In this case, the CGS guaranteed up to 80 per cent of loans aimed at cultivating a cadre of national entrepreneurs tied to the national interest of the GoPNG. Thus the PNGBC agreed to participate in the alliance through a MOA by providing loan facilities to national entrepreneurs at market rates using normal prudential procedures. The GoPNG via Treasury undertook to guarantee 80 per cent of the loans plus interest not recovered in the event of default. Under the MOA, loan applicants under the scheme could enter through PNGBC and Treasury, but ultimate approval was the prerogative of the PNGBC. Upon satisfactory assessments of loan proposals, banks such as PNGBC proceeded to request the Department of Treasury to issue the necessary guarantees binding the GoPNG to pay the guarantee in the event of default before loans were disbursed.

The range of loan facilities made available included individual loans up to K50,000 and group, company and/or joint venture loans of between K50,000-200,000 per member, provided that there were at least five national shareholders. The loan repayment period was five years with monthly...
repayments. Borrower equity and security were not required under the scheme and loans were for any productive purposes. In the first year of the loan, a two per cent loan premium fee was charged on the principal amount. This fee was for the extra risks that banks incurred. An establishment fee, which varied with each bank, was also charged. The interest rate charged was the commercial banks’ prime lending rate and interest was calculated on daily outstanding amounts, according to Treasury’s alliance manager. Applications were made to commercial bank branches, which forwarded them to their respective head offices in Port Moresby. After screening, successful applications were then forwarded to Treasury for endorsement.

The PNGBC was a major alliance partner in the GoPNG CGS network because it was a state-owned bank established in 1974, had a market share of 60 per cent, and had a wide branch network up until 2002 when the GoPNG sold 75 per cent of its controlling share to BSP. PNGBC was an ‘all-finance’ bank geared towards providing the population of PNG with adequate financial services and products. Although the bank had to reduce its network of branches and agencies in the last decade due to security problems and to increase its profitability, by the turn of the century, PNGBC remained the single most successful financial institution in the country as far as the mobilising of small savings was concerned. As at September 1999, the bank administered more than 500,000 passbooks and transaction accounts, with an average deposit balance of less than K400.

PNGBC’s strong orientation towards the financial needs of the average population was not reflected on the credit side. As at December 1998, only 1.7 per cent of the bank’s loan portfolio belonged to Personal Loans, with a maximum credit size of K10,000. PNGBC’s success and experience is even more limited regarding the credit business with small and medium enterprises (Appendix 1). As at December 1997, PNGBC had about 400 outstanding loans in this market segment, with an estimated loan default rate of more than 40 per cent. This dismal performance rate is crucial to analysing the performance of the CGS, which was primarily aimed at nurturing local enterprises.

In terms of overall performance, both partners agree that the alliance performed relatively well in the first 10 years of its 28 years of operation. By the mid 1980s alliance review reports revealed a drastic decline in loan portfolio quality. Treasury began faltering in its guarantee commitments and PNGBC’s administration of loans under the scheme declined markedly as lending decisions were decentralised to local branches without the benefit of senior officer oversight. Borrowers, on the other hand, developed a culture of wilful default as loans were perceived as mere government
handouts. Two main problems identified world wide with such schemes are loan fungibility and moral hazard.

Overall, by March 2002 the First Assistant Secretary of the Commercial Investment Division (FASCID), which was the administering division within Treasury recommended that the alliance be terminated. The alliance managers of both partners agreed that the alliance had outlived its purpose and therefore had to be terminated.

4.3.2 Environmental context

Economical/technological
Papua New Guinea’s macroeconomic environment had a significant effect on the alliance’s performance. From the 1990s onwards, Treasury could not keep up with its commitment to settle called-up default guarantees due for payment to PNGBC. The declining capacity of the GoPNG to raise internal revenue resulted in lower budgetary allocations to Treasury for the CGS alliance. By 3 November 1997, loan arrears under the scheme from PNGBC that were over 90 days numbered 34 out of a total of 671 amounting to K2.250 million from a total of K16.179 million.

The decline in PNG’s macroeconomic situation in the 1990s that prompted the first World Bank/IMF sponsored structural adjustment programme negatively affected the business environment. As a result, many client companies and individuals that borrowed under the CGS went broke and the survivors’ capacity to repay declined drastically, according to PNGBC’s alliance manager.

Alliance banking technology was mainly provided by PNGBC for loan screening and credit management. Despite the presence of capable banking technology PNGBC’s alliance manager observed that the breakdown in prudential loan management culture from 1996 onwards within PNGBC rendered the adequacy of such technology nonsensical. The general atmosphere in that period was for the loan book to be increased without much consideration given to loan quality. Thus Treasury’s over-dependence on PNGBC to perform much of the loan administration and business advisory meant that it felt incapable to intervene in the deteriorating situation. Treasury even failed to install an adequate internal database system to keep track of loans and default-called-up guarantees. This is evident from the lack of up-to-date loan figures from Treasury.

Political/legal
Political influence was guaranteed a place in the CGS due to two facets of the alliance: the CGS was a political initiative initiated out of strong nationalistic feelings at Independence in 1975 to
harness national entrepreneurs; and both alliance partners were within the GoPNG’s sphere of influence. While PNGBC was a commercial bank it was wholly state-owned with the Department of Treasury the main government conduit for economic intervention in the economy. Appendix 1 details Treasury and PNGBC’s alliance managers’ examples of political influence. Treasury’s alliance coordinator told of a national politician using his ministerial position to secure loans under the scheme to purchase 19 vehicles for his village. PNGBC’s alliance manager revealed that political loan proposals were pushed from political entry points, at the cabinet level and at the PNGBC CEO level. This practice destroyed the prudential lending culture at the operational level of the bank. Thus PNGBC’s alliance manager noted:

With decentralisation, loans officers would put nice things on paper to the Department of Treasury justifying loan approvals. Three to six months later, they would advise banking executives of their intention to call-up loan default guarantees from the Department of Treasury.

Cultural/social
The alliance managers agreed that the CGS alliance was both victim and perpetrator of the ‘hand-out mentality’ that appears so pervasive in PNG. It is a prominent feature in the extant anthropological literature on traditional Melanesian society, including PNG, under the generic term of ‘cargo-cult mentality’, where material goods were expected to arrive on boats originating from places unknown to recipients (Kavanamur 1994). Key alliance players with Treasury have noted that this mentality is not only behind the high default rate, but also that the CGS was being widely perceived as integral to overall government handouts.

PNGBC’s alliance manager alleged that cultural and social obligations to relatives, known as wantoks, played a detrimental role in the lending process. He noted that when loans officers freely granted loans under the CGS to fulfil societal obligations, the approving loans officer’s social standing in the community is elevated.

4.3.3 Alliance management skills
Treasury’s alliance coordinator was not a high ranking officer at the time of interview although he had been with the department for eight years. He noted that because of his junior position he was unable to adequately perform his tasks as the alliance manager of the CGS. These tasks included undertaking financial appraisals of the recommended loan proposals from PNGBC and, to an extent, the GoPNG’s cabinet; help manage the lending, contact counterparts within PNGBC for information on an existing portfolio and interface with internal superiors. He revealed that there was little relationship building with PNGBC as the main PFI in the CGS network through personal contact, visits to PNGBC, joint meetings, joint monitoring, or social gatherings to
celebrate achievements. Moreover, at the time of interview he was the only one working on the alliance as another junior officer who was assisting him with data compilation had resigned from his post. Communication was more formal and conducted on an ad hoc basis only when loan repayments fell through. Towards the end of the interview, the alliance coordinator appeared to blame the failure of relationship building between the partners on PNGBC, “My job is to prepare and screen applications that come directly to us and from banks, conduct interviews and so on. The problem with PNGBC, however, is the high turnover of staff”.

PNGBC, however, despite having the senior executive manager for commercial lending as its alliance manager at the time of interview, very little relationship building was initiated with Treasury. However, the alliance manager explained that PNGBC had a satisfactory working relationship with its own strategic units and with clients under the bank’s different commercial portfolios. This was not extended to the relationship with Treasury in the CGS.

PNGBC’s alliance manager explained that communication and trust were quite developed amongst the partners in the early years of the CGS alliance, but by the early 1990s when he joined the bank the relationship quality had deteriorated. This point is captured in the alliance manager’s own words, “We only knew the Department of Finance [Treasury] by phone”. This was because over the years, trust was eroded by the inability of Treasury to promptly pay up the called-up default guarantee payments on inactive loans. PNGBC’s primary concern by early 2002 was to negotiate these default guarantee payments from the guarantor rather than entertain any further loans. To this end, the alliance manager was able to successfully negotiate a K11.4 million settlement. By 2003 there was still an outstanding amount of between K3-4 million which the newly merged entity, BSP, was continuing to negotiate for final settlement. The alliance manager noted, that Treasury in the recent past had lost control of the CGS with the result that PNGBC lost interest in the alliance.

4.3.4 Organisational context

Governance structure and control
A signed MOA between the partners sealed the alliance in 1974. This MOA called for joint monitoring and quarterly reports to manage controlling and realigning responses to changes in the environment. The MOA stopped short of calling for a joint governance structure to oversee the management of the alliance. The alliance was therefore entirely based on trust and on the reporting requirements specified in the MOA.
Given the lack of formal governance structure, the failure of the alliance resulting from lack of control and feedback mechanisms was predictable. All the interviewed alliance participants within Treasury placed the bulk of the blame for failure with PFIs such as PNGBC for not regularly reporting on the status of loans. Treasury’s alliance coordinator noted, “Treasury commits budgetary resources to the alliance, but PNGBC fails to adhere to the quarterly reporting requirement. The only time they contact us is when a loan hits the rock and now they want to remind us of the 80 per cent guarantee. This is ironic”.

Moreover, Treasury’s alliance manager complained that PNGBC was required under the MOA to first exhaust the usual loan recovery measures that it uses for its own loan portfolios if a loan was not performing well; instead it tended to prefer not to expend resources on loan-follow ups. Treasury accused PNGBC of opting for the easy way out by simply calling up the guaranteed value to avoid incurring further transaction costs.

From PNGBC’s perspective the MOA unnecessarily bestowed too much responsibility for the success of the alliance upon the bank with little responsibility, such as business advice on Treasury. PNGBC’s alliance manager observed that both parties paid lip service to the MOA, evident in the minimal efforts to make personal contact, hold joint meetings and poor communication. Reporting lagged behind as soon as the strategic intent of the partners started drifting apart in the late 1980s. PNGBC’s alliance manager noted that the CGS alliance was too insignificant to PNGBC, that it did not justify a formal governance structure of its own, nor did it warrant the exchange of staff for learning purposes between the partners.

**Goals and values compatibility**

At Independence in 1975, the GoPNG was keen to directly finance business activities in order to expand the involvement of citizens in the miniscule private sector. Treasury’s alliance coordinator observed that PFIs such as PNGBC were also enthusiastic about the original intent of the CGS alliance. Interviews with the first alliance manager, who still holds a senior position within Treasury, also revealed that the CGS was initially viewed as prestigious. However, as time went by enthusiasm waned due to a number of factors including a change in strategic direction so that it became unfashionable for governments to directly disburse loan funds for business promotion; increased loan defaults in the late 1980s due to loan fungibility and moral hazard problems, and the fact that PNGBC did not see the CGS as central to its core business, apart from a moral obligation to support the nurturing process of entrepreneurship.
Moreover, there was a fundamental difference in values between the partners; whilst PNGBC sought to give loans to proven entrepreneurs, Treasury was prepared, under the CGS, to let starters experiment with large amounts of money. Thus, from PNGBC’s perspective, the lack of requirement for collateral and little insistence on equity meant that there was insufficient pressure on the borrower to ever make the business work.

**Human resources**
By early 2002, Treasury was no longer serious about assigning senior executives to the CGS alliance, reflecting the perceived declining importance. By then, Treasury’s core business was mainly economic policy making, rather than loan management. PNGBC, on the other hand, assigned its loans officers and branch managers to administer loans under the CGS. However, due to a collapse in the lending culture of the bank from 1996 onwards, inexperienced managers and loans officers were allowed to disburse loans without proper executive supervision. The end result was a deteriorating loan portfolio, not only for the CGS but the bank’s core portfolio as well (Appendix 1).

**Communication skills**
The alliance managers of both partners agreed that communication was a serious problem. This situation was not helped by the deteriorating loan quality. Each partner accused the other for not doing enough to fulfil the reporting requirements and loan recovery procedures laid out in the MOA. The appointment of a junior officer as alliance coordinator by Treasury meant that the officer felt unable to communicate laterally with his counterpart who was a senior executive.

### 4.3.5 Alliance management culture
The CGS alliance fell victim to the hierarchical and bureaucratic culture based on Weberian management principles prevalent at Treasury. This culture prevented lateral networking and communication with PNGBC. The reward system also promoted vertical relationship building and inhibited the development of alliance management skills. Treasury’s alliance coordinator observed that there were no staff exchanges between partners to help bridge the organisational and culture gaps. Treasury alliance interviewees felt that the societal culture that perceives the GoPNG as dishing out free goodies generated a lax attitude amongst borrowers when it came to repaying government-sponsored loans in comparison with commercial bank loans.

PNGBC’s alliance manager also expressed the view that the bank’s organisational culture, one initially based on centralised control which suddenly changed to decentralised lending in the period 1996-1998, was aimed at rapidly growing the loan book, and was therefore responsible for
the poor quality of the loan portfolio. The alliance manager felt that given PNG’s societal culture, based on exchange obligation and one that promotes social standing, centralised lending control was necessary to maintain loan quality. Moreover, the push for growth in the bank’s loan book through decentralised lending occurred in an environment of poor staff credit management skills, high inflation and increasing fiscal deficits. The end result was an abuse of discretionary powers by politically appointed CEOs and lending officers who sought to reward their friends and relatives with give-away loans under the CGS. Appropriate credit management policies and risk management procedures were largely ignored.

4.3.6 Alliance management process

The importance attached to the CGS by the partners waned over a 28-year period as their strategic intents evolved. Treasury’s function in the 1990s shifted to a mere economic policy management role, while PNGBC’s moral obligation towards promoting local business was being viewed as a lesser justification for the CGS’s continued existence.

The minimal alliance management skills portrayed by the partners were evident in the poor communication amongst alliance managers, gatekeepers and senior executives. The CGS was marred by high loan defaults from the late 1980s onwards. PNGBC’s alliance manager noted, “The bank could not trust Treasury and Treasury could not trust us, each thought that the truth was never forthcoming due to the high default from borrowers and to the delay tactics of the guarantor when it came to settling default guarantees”.

4.3.7 Coping strategies

The partners adopted no significant coping strategies that would ensure the survival of the alliance. PNGBC, realising that borrowers were intent on wilful default, ceased all loan monitoring under the CGS and categorised all loans under the scheme as bad loans right from the day they were disbursed. Thus once loans were disbursed, efforts shifted to calling up the 80 per cent default guarantee from Treasury around three months later. Treasury adopted a minimalist approach by choosing to depend entirely on the goodwill of PFIs to ensure loan recovery and provide business mentoring. Eventually, as alliance trust dissipated, the partners had little choice but to suspend the alliance in 2002. There are no plans to revive this alliance.
4.3.8 Case summary

A summary of the findings is presented in Table 4.2.

**Table 4.2 Analytical summary of case findings for the CGS alliance**

<table>
<thead>
<tr>
<th>CGS Alliance Performance</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Macroeconomic instability prevented Treasury from fulfilling guarantor role.</td>
</tr>
<tr>
<td></td>
<td>• Difficult business environment caused 99 per cent of borrowers to default.</td>
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<tr>
<td></td>
<td>• Alliance depended on PNGBC’s banking technology.</td>
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<tr>
<td></td>
<td>• Breakdown in lending culture at PNGBC made alliance’s technology nonsensical.</td>
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<tr>
<td></td>
<td>• Two entry points for political loans destroyed operational lending culture.</td>
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<tr>
<td></td>
<td>• Alliance both a victim and perpetrator of handout mentality.</td>
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<tr>
<td></td>
<td>• Lending officers gave loans to <em>wantoks</em> to gain social prestige.</td>
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<td></td>
<td>• MOA did not allow for joint governance structure to oversee management.</td>
</tr>
<tr>
<td></td>
<td>• Control and feedback mechanisms broke down.</td>
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<tr>
<td></td>
<td>• Treasury blamed PNGBC for bulk of problems.</td>
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<td></td>
<td>• Treasury blamed for destroying trust in failure to settle called-up default guarantee.</td>
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<tr>
<td></td>
<td>• PNGBC blamed by partner for suffering from moral hazard problem.</td>
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<tr>
<td></td>
<td>• Commitment to alliance declined as strategic intent evolved and misalignment set in.</td>
</tr>
<tr>
<td></td>
<td>• Junior officers assigned to alliance as significance declined over the years.</td>
</tr>
<tr>
<td></td>
<td>• Inexperienced loans officers operated without senior oversight at PNGBC.</td>
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<tr>
<td></td>
<td>• Communication broke down when defaults increased.</td>
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<tr>
<td></td>
<td>• Weak alliance management skills within Treasury and PNGBC.</td>
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<tr>
<td></td>
<td>• PNGBC’s alliance manager was senior; Treasury alliance manager was a junior.</td>
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<tr>
<td></td>
<td>• None involved from negotiation stage.</td>
</tr>
<tr>
<td></td>
<td>• Not a cross-cultural alliance.</td>
</tr>
<tr>
<td></td>
<td>• Alliance fell victim to culture of reverence for hierarchy and red-tape.</td>
</tr>
<tr>
<td></td>
<td>• Hierarchy and lack of seniority at Treasury prevented lateral communication.</td>
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<tr>
<td></td>
<td>• Reward system did not promote alliance management skills.</td>
</tr>
<tr>
<td></td>
<td>• Strategic-, operational-, cultural-fit gaps widened by the early 1990s.</td>
</tr>
<tr>
<td></td>
<td>• Handout mentality promoted loan fungibility and moral hazard amongst borrowers.</td>
</tr>
<tr>
<td></td>
<td>• Decentralised lending to grow loan book at PNGBC did not account for <em>wantokism</em>.</td>
</tr>
<tr>
<td></td>
<td>• Casual attitude to building alliance management skills.</td>
</tr>
<tr>
<td></td>
<td>• High default rate and inability to settle default guarantees destroyed trust.</td>
</tr>
<tr>
<td></td>
<td>• Lack of direct liaison and staff exchanges to build linkages.</td>
</tr>
<tr>
<td></td>
<td>• No direct customer relationship with borrowers as main beneficiaries.</td>
</tr>
<tr>
<td></td>
<td>• Loans officers took out CGS loans as lending culture collapsed.</td>
</tr>
<tr>
<td></td>
<td>• No significant coping strategies adopted to save alliance.</td>
</tr>
<tr>
<td></td>
<td>• PNGBC moved to cut losses by simply calling up default guarantees.</td>
</tr>
<tr>
<td></td>
<td>• Treasury adopted minimalist approach to avoid business mentoring role.</td>
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<tr>
<td></td>
<td>• Partners agreed to terminate alliance in 2002.</td>
</tr>
</tbody>
</table>
4.4 Case 3 – Small Business Guarantee Facility (SBGF)

4.4.1 Background

The Small Business Guarantee Facility (SBGF) represents a strategic alliance between the Small Business Development Corporation (SBDC) and Bank South Pacific (BSP) which was operated between 1996 and 1999. There were other partners in the SBGF network but for the purposes of this thesis focus is restricted to the SBDC and BSP alliance.

The SBGF was a financial alliance that started in 1996 with an initial funding of K1.6 million by the GoPNG. The scheme had three types of bank guarantees: the Clean Loan Guarantee, Collateral Short Guarantee and Credit Risk Guarantee. Loan guarantees ranged from 50-100 per cent of the principal loan and eligible loan amounts ranged from K1,000-K100,000. Under an alliance agreement between the partners the - SBGF Participating Agreement - reached in 1996 - SBDC was required to deposit K500,000 in a term deposit with BSP at below market interest rates to act as a guarantee for lending by BSP to target clients.

Under the SBGF, lending was primarily to the small enterprise sector, which was thought to have the potential to create employment in PNG. PNG’s small enterprises account for 3.5 per cent of GDP and four per cent of formal sector employment compared with more than 50 per cent in other developing countries. Loans disbursed by the alliance have been drawn mainly for productive activities in wholesale/trading, industry, services, transport, manufacturing and fisheries. Many loans have been disbursed to firms in two of the country’s regions, Mamose and Highlands. The first loan under the scheme was made in December 1996, and up to March 1998 K840,000 loans were disbursed resulting in K662,095 being guaranteed under the financial alliance. BSP was the most active PFI with K546,900 worth of loans approved for 65 per cent of the guarantee portfolio.

By May 2002, the partnering alliance managers conceded that the alliance’s performance fell short of the high expectations; the actual number of loans disbursed up to 1999 was less than 30,

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This within-case analysis is based on data derived from in-depth interviews in Port Moresby with alliance officials of both the Small Business Development Corporation and Bank South Pacific at varying dates in 2002. Interviews were conducted with SBDC’s new alliance manager who is now the organisation’s Managing Director as well as SBDC’s Manager (Training). For BSP, interviews were conducted with its alliance manager who was the Manager of the Lending Centre tasked with overseeing the SBGF alliance.
despite four years of operation. Indeed, by mid 1998 a total of only 18 clients had taken out loans totalling K87,000. This was because PFIs such as BSP preferred to lend to firms requiring loan amounts above K10,000. SBDC’s alliance manager noted that the scheme was generally plagued by high default rates as banks like BSP tended to take the easy way out when borrowers defaulted by calling upon the guarantee to redeem outstanding loans beyond 30 days rather than a process of negotiation with the defaulting borrower.

The SBGF has, since 1999, not been operational since a sudden GoPNG decision to cease budgetary allocation to SBDC which sent its CEO to withdraw the guarantee deposits that were placed with PFIs effectively ending the alliance. BSP had to withhold portions of the deposits to act as a security against the remaining active loans. Borrowers took advantage of the announcement that SBDC would be abolished refusing to repay loans under the alliance scheme. This made the work of BSP difficult and heralded a break-down in trust between the partners as well as precluding any similar future public-private partnerships.

4.4.2 Environmental context

Economic/technological
Both partners agree that the adverse macroeconomic situation in PNG that affected much of the period during which the SBGF was operational, was a major debilitating factor. This supported by the less than 30 clients who took out loans. Of this, eight were served by BSP out of 20 applications. Of the eight, BSP’s alliance manager revealed that only one successfully repaid the loan, while the rest of the businesses failed and were therefore unable to make repayments.

A glance through BSP’s annual reports reveals grave concerns about the general decline in the PNG economy. The bank has expressed concerns about a growing unemployment rate, deteriorating law and order, an inefficient public service and a progressively dilapidated infrastructure. Thus the bank noted in 1997 that although interest rates fell and were low for most of the year, the private sector demand for credit did not pick up (Appendix 1). Other professional opinion makers such as the World Bank have concluded that there are few bankable projects in the PNG small and medium enterprises sector (Appendix 1).

According to BSP’s alliance manager, given the economic constraints to business, the failure of the SBGF alliance to increase outreach cannot be blamed on its banking technology. The

from 1996 to 1999. This person is now the Head of Consumer Business with BSP. Secondary data sources were used to triangulate the data.
problems of limited outreach and partner survival strategies had more to do with macro-
environmental factors and alliance skills than with the level of sophisticated technology.

**Political/legal**
The political influence on organisations within the GoPNG’s sphere of influence features
prominently in the PNG business environment. For instance, the political decision by the GoPNG
to cease funding of the SBDC in 1998 meant that the SBGF alliance would have to cease abruptly
without giving partners such as BSP much notice. At the organisational level, BSP’s alliance
manager said that government statutory bodies such as SBDC are prone to political interference
as their CEOs are, more often than not, political appointees. Indeed, SBDC had different CEOs
appointed during the period 1996-1999. This flowed on to a lack of management skills at the
SBDC, according to BSP’s alliance manager.

**Cultural/social**
The partners’ alliance managers conceded that the good intentions of schemes such as the CGS
alliance face a formidable obstacle posed by the country’s cultural attitude to business. PNG is
often characterised as having a predominantly social culture as opposed to a business culture.
Thus with practices such as wantokism, even the best designed credit scheme will fail, observed
SBDC’s alliance manager. In the words of BSP’s alliance manager, “We see this all the time,
borrowers just take the money and don’t bother repaying it. There is a major cultural hindrance to
repayment”.

**4.4.3 Alliance management skills**
According to the current SBDC alliance manager, who became the CEO of SBDC shortly after
the interview in early 2002, SBDC lacked the requisite strategic alliance management skills and
qualities although it spoke of the need to build networks. Instead of appointing a senior officer to
fill the position of liaison officer, a junior officer was appointed. Thus there was little
relationship-building undertaken by the junior officer.

BSP knew that its lending through the SBGF was risk-free and therefore was under no pressure to
exhaust loan recovery measures to recoup outstanding loans. It would seem, therefore, that
although the SBDC had deposited guarantee funds as financial hostages with BSP, this token of
trust was insufficient to foster the development of a satisfactory alliance relationship.
4.4.4 Organisational context

Governance structure and control
The SBGF alliance did not have the separate governance structure which would have had representatives of parties to supervise the management of the alliance. Instead at SBDC, a junior liaison officer was appointed to administer the alliance, while at BSP a senior executive managed the SBGF from the Lending Centre, from his position as the Centre’s head during the SBGF’s lifetime. An earlier intention for the SBGF to be managed as a ‘special project’ out of SBDC detailed in an SBDC submission to cabinet never materialised due to financing shortfalls.

The main governance and control instrument was embodied in the SBDC Participating Agreement with BSP which appointed BSP as an agent of SBDC. According to BSP’s alliance manager, BSP tried its best to fulfil the reporting requirements of this agreement. However, this was not reciprocated by SBDC. Moreover, in terms of control mechanisms, BSP’s Lending Centre insisted that lending officers evaluate loan proposals under the scheme, but with the benefit of oversight of a senior manager. Thus loan quality was assured throughout the alliance’s short lifetime.

Goals and values compatibility
At the outset both SBDC and BSP shared the common goal of promoting Papua New Guinean owned and operated small-scale business. Whilst this goal was of central importance to SBDC’s core business, BSP was motivated by its moral obligation to the country and its endeavour to be a socially responsible corporate citizen. Thus while the partners shared a common goal, they had different motivations. Eventually, the bank’s primary goal of maintaining high quality credit resulted in only eight borrowers benefiting from the scheme. This caused SBDC to resent the bank and to accuse it of not being sympathetic to national business. Clearly, there was a huge gap between the prudential management values of BSP and the nationalistic values of SBDC.

Human resources
SBDC had anticipated that with further funding from donors and the GoPNG, more staff would have been recruited to work for the alliance and specifically to provide business mentoring to loan recipients. With the absence of additional funding, the additional staff never eventuated. The inability of SBDC to fulfil its business advisory obligation under the PFI agreement has been acknowledged by its alliance manager as a major failure. Moreover, SBDC staff on the ground did not reflect much alliance management skills.

BSP, on its part, managed the alliance from the Lending Centre in Port Moresby and the branches. Lending under the SBGF was managed by the current alliance manager (also the Centre
manager) with two lending officers specifically assigned to evaluate and manage loans. According to BSP’s alliance manager, all officers were well trained with the manager himself having 13 years of experience with BSP. The bank emphasise that its officers must have a minimum of six years before becoming loans officers. In sum, the bank felt that the value of business from the SBGF did not justify additional staff.

**Communication skills**
Clearly, there was little communication between the partners. Although BSP claims to have been up-to-date with its reporting requirement, SBDC thinks otherwise. It appears therefore that although there was some degree of formal communication, it did not extend to informal contact through social gatherings. The appointment of a junior officer as the alliance coordinator at SBDC did not help the situation. Junior officers may be able to communicate with peers, but find it difficult to communicate openly with senior executive such as that at the BSP.

### 4.4.5 Alliance management culture
SBDC’s organisational culture was shaped by its bureaucratic heritage because it remained a subsidiary of the GoPNG’s Department of Commerce and Trade. This culture influenced its relationship building with BSP. Despite this, it was able to develop a network culture for its business training function when it delegated the responsibility for entrepreneurship training to master trainers in the private sector. Small business training was a prerequisite for would-be borrowers before they could borrow under the SBGF. From the point of view of BSP’s alliance manager it was unrealistic to expect a borrower to be a successful entrepreneur overnight after a one or two week short course.

Because SBDC did not have a satisfactory credit management culture it left the entire alliance management of lending to BSP. In an attempt to distance the SBDC from the experience of the GoPNG’s CGS (see section 4.3 above), SBDC agreed that the alliance’s lending would be primarily shaped by BSP’s lending culture. As it turned out, the outreach goals that it had hoped to achieve using BSP’s branch network were slow to eventuate as BSP’s lending culture was premised on credit quality through its rigid credit analysis process. This is reflected in BSP’s low provisioning for bad and doubtful debts. From BSP’s experience with lending in PNG, lending officers’ discretion had to be supervised by senior staff as much as possible. Thus, for instance, if a wantok of a lending officer came in for a loan, that officer was required to declare any possible conflict of interest and step aside, allowing for the immediate senior officer to deal with the client.
4.4.6 Alliance management process

The alliance management process reveals little effort expended on relationship building. Although the alliance was based on a commercial relationship with much of the lending responsibility left to BSP, the PFI agreement specified avenues for the partners to jointly work on tasks such as monitoring and evaluation. SBDC had a business mentoring responsibility that required BSP’s input but there is little sign that it had any input into the business training courses that were offered as loan prerequisites through private training providers. According to BSP, therefore, it was unrealistic to expect too much entrepreneurial skills and business survival from short courses.

Moreover, the appointment of a junior officer as the SBDC’s alliance coordinator culturally precluded him from openly communicating with BSP’s alliance manager who is a senior lending executive. The partners also did not develop a relationship with clients who were supposed to be mentored in order to succeed in their businesses. That only one client successfully repaid his loan in the four-year operation of the alliance is evidence of the lack of relationship building. The manner in which the alliance was terminated also left little room for the partners to learn and adjust accordingly.

4.4.7 Coping strategies

The short life span of the alliance did not allow the partners to adopt coping strategies that would ensure the survival of the alliance. Only one such strategy is worth recording here.

In order to prevent the social phenomenon of wantokism from influencing the lending decisions, BSP’s alliance manager revealed that the bank required lending officers to declare any possible conflict of interest and ensured that all loan decisions were supervised by the next person in the hierarchy. The result was that lending under the SBGF was highly conservative which was often not to the liking of SBDC, itself being under political pressure to expand outreach and rapidly grow the loan book of the SBGF alliance.
4.4.8 Case summary

A summary of the findings is presented in Table 4.3.

Table 4.3 Analytical summary of case findings for the SBGF alliance

<table>
<thead>
<tr>
<th>SGBF Alliance Performance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
<td></td>
</tr>
<tr>
<td>• Macroeconomic instability in PNG during 1996-1999 constrained repayment.</td>
<td></td>
</tr>
<tr>
<td>• BSP concerned about effects of growing unemployment, law and order problems, inefficient public service and infrastructure dilapidation on lending environment.</td>
<td></td>
</tr>
<tr>
<td>• Despite fall in interest rate in 1997 BSP’s private sector demand for credit flattened.</td>
<td></td>
</tr>
<tr>
<td>• Political decisions affected operations of SBDC in terms of budget and appointments of CEOs.</td>
<td></td>
</tr>
<tr>
<td>• PNG predominantly has a social rather than business culture which SBDC is tasked at changing through business training and mentoring.</td>
<td></td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
<td></td>
</tr>
<tr>
<td>• No separate governance structure except for alliance managers to interface.</td>
<td></td>
</tr>
<tr>
<td>• BSP assigned Lending Centre to alliance while SBDC’s special project concept never eventuated due to lack of funding.</td>
<td></td>
</tr>
<tr>
<td>• Main governance and control instrument embodied in PFI Agreement.</td>
<td></td>
</tr>
<tr>
<td>• Little time and resources allocated for alliance realignment.</td>
<td></td>
</tr>
<tr>
<td>• BSP strict on lending with eight out of 20 applications approved.</td>
<td></td>
</tr>
<tr>
<td>• Partners shared a common goal of promoting small business but differed on pace.</td>
<td></td>
</tr>
<tr>
<td>• SBDC’s staff constraints inhibited its ability to provide business mentoring.</td>
<td></td>
</tr>
<tr>
<td>• BSP’s lending officers operated under strict supervision.</td>
<td></td>
</tr>
<tr>
<td>• Little communication between partners.</td>
<td></td>
</tr>
<tr>
<td><strong>Alliance skills</strong></td>
<td></td>
</tr>
<tr>
<td>• Weak alliance management skills within SBDC and BSP.</td>
<td></td>
</tr>
<tr>
<td>• SBDC’s alliance manager junior; BSP’s alliance manager senior.</td>
<td></td>
</tr>
<tr>
<td>• Only BSP’s alliance manager was involved at negotiation stage, but no direct input to MOA.</td>
<td></td>
</tr>
<tr>
<td>• BSP displays cross-cultural management skills but not used.</td>
<td></td>
</tr>
<tr>
<td><strong>Management culture</strong></td>
<td></td>
</tr>
<tr>
<td>• SBDC’s bureaucratic culture affected its interface with BSP.</td>
<td></td>
</tr>
<tr>
<td>• Alliance’s lending process shaped by BSP’s strict lending culture so that SBDC was under pressure to justify its existence due to slow outreach.</td>
<td></td>
</tr>
<tr>
<td>• Lending officers’ discretion was supervised to protect against wantokism.</td>
<td></td>
</tr>
<tr>
<td><strong>Management process</strong></td>
<td></td>
</tr>
<tr>
<td>• Alliance terminated prematurely with little room for learning and re-alignment.</td>
<td></td>
</tr>
<tr>
<td>• Relationship building did not extend beyond formal reporting.</td>
<td></td>
</tr>
<tr>
<td>• Little effort towards joint monitoring and evaluation.</td>
<td></td>
</tr>
<tr>
<td>• No sign of BSP input into SBDC’s business training courses being loan prerequisites.</td>
<td></td>
</tr>
<tr>
<td>• SBDC failed to develop mentoring relationship with clients.</td>
<td></td>
</tr>
<tr>
<td><strong>Coping strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• Short alliance life-span did not allow for coping strategies to be developed.</td>
<td></td>
</tr>
<tr>
<td>• To prevent wantokism, BSP insisted that lending officers declare any conflict of interest and all loan decisions be oversighed by senior officers.</td>
<td></td>
</tr>
</tbody>
</table>
4.5 Case 4 – Bougainville Microfinance Scheme (BMFS)\(^8\)

4.5.1 Background

The Bougainville Microfinance Scheme (BMFS) represents a strategic alliance between AusAID, its Australian managing contractor (AMC) the Australian Volunteers International (AVI), and the Bougainville Transitional Government (BTG) through the Bougainville Division of Commerce. The alliance partners created a separate entity known as the Bougainville Haus Moni (BHM) to achieve their main objective on Bougainville; financial intermediary to rebuild Bougainville after a 10-year war with the GoPNG. Essentially, AusAID is the main financial backer of the project alliance and capacity builder of the BHM via the AMC, while the Commerce Division was the main alliance initiator. The Commerce Division also provided finance for the project through counterpart funding. Australian Volunteers International, as the AMC, provides a team of advisers to BHM and visits Buka three times a year to supervise the implementation process.

This within-case analysis focuses on the relationship between AVI through the AMC and BHM. AVI’s involvement with the project started in 1996 when its current team leader was recommended by the BPNG at the invitation of the BTG, to help devise a rural finance scheme on the island. Phase 1 of the project alliance proper with the involvement of AusAID spanned the period 1997-2000 during which time project preparation and piloting was carried out. AMC’s team leader/alliance manager was able to convince AusAID in 1998 to finance a nine-month leadership and development education programme for pilot areas.

Phase 2 remains current and represents the design and implementation stage of the BMFS. This phase involves a microfinance specialist, a project design specialist, a gender specialist and a technical specialist. After the completion of the project design in 2001, an AusAID project specialist was called in to review it, resulting in major adjustments to the document to accommodate risk and budgetary constraints. AVI’s alliance manager noted that AusAID had sought an adjustment to the project’s initial operating logic aimed at increasing project outreach because it was not sure of the long term viability of the alliance. AusAID’s reservations were based on its involvement with a similar exercise that had failed in another part of the country due

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\(^8\) This within-case analysis is based on data derived from in-depth interviews with alliance officials of both the Australian Volunteers International as AusAID’s Australian managing contractor of the Bougainville Microfinance Scheme and the Bougainville Haus Moni at varying dates in 2002. Interviews were conducted in Bougainville, Port Moresby and Balmain, Sydney (Australia) with AVI’s alliance manager who is the team leader of the AMC and BHM’s alliance manager who is currently BHM’s project coordinator in Buka. Secondary data sources were used to triangulate the data.
to lack of capacity building. The review sought to correct this flaw by emphasising capacity building first at the BHM headquarter and at four specific pilot projects before spreading out.

The performance of the project alliance so far in terms of financial performance and alliance management skills is encouraging according to AVI’s and BHM’s alliance managers. Data in Appendix 1 shows that membership is growing and portfolio at risk is less than 50 per cent. Generally, in terms of alliance management outcome, the subject matter of this thesis, this alliance offers important lessons for other strategic alliance opportunities.

4.5.2 Environmental context

Economic/technological
A major economic factor affecting the alliance management process on Bougainville is that a 10-year war from 1989 to 1999 has destroyed the local economy. An important implication for the project alliance is that the current financial vacuum led to an increased demand for the financial services offered by the BMFS. There is currently only one bank branch on the island and the BMFS operates in a rudimentary environment comprising little locational amenities for business.

However, it must be noted that there is resurgence of business activity as the European Union (EU) and AusAID are funding the rehabilitation of the cash crop sector. There has been a 338 per cent increase in the number of BMFS Grassroots Microfinance Institutions (GMFIs) in the period 2000-2002 and a 236 per cent increase in membership in the same period (Appendix 1).

In terms of technology, only the island of Buka has utilities such as telephone, Internet, piped water and electricity. Buka is separated from mainland Bougainville and the location of the BMFS headquarters, that is the BHM.

Political/legal
The BMFS enjoys wide support from the former warring factions as well as the GoPNG and the Australian government. Being a cross-cultural alliance with the involvement of AVI, AusAID and the BTG Commerce Division, the project benefits from the partners strong political networks and negotiation skills.

However, although savings have been mobilised at the local level through the GMFIs there is no appropriate legal framework to legalise current deposit mobilisation which is deemed illegal under the current Banks and Financial Institutions Act. This legal vacuum constrains the extension of BMFS and prevents GMFIs from making deposits with the BHM head office. To get around this legal problem, the BHM management has instructed GMFIs to further on-lend their
deposits rather than keep them. An appropriate legal framework is necessary to protect deposit savings and differentiate genuine MFIs such as BHM from the money laundering pyramids that have plagued PNG since 1999.

**Cultural/social**
The alliance partners recognise the importance of cultural and social factors on Bougainville such as clans, and the positive aspects of wantokism as a prelude to broader forms of social capital based on associational life. The motto of the alliance at the design stages was ‘go isi’ (go easy) and ‘fitting custom with today’s change’. Thus, the partners have ensured that the alliance achieves a cultural-fit. The end result is a harmonious relationship between BHM and the GMFIs. There is indeed a sense of local ownership of the BMFS.

**4.5.3 Alliance management skills**
The alliance managers from both BHM and AVI agree that a certain degree of alliance management skills is being developed within the project. Both partners are acutely aware of the need to develop the alliance beyond the Deed of Agreement between the AMC and AusAID and MOA between the AMC and BHM.

At the same time, the alliance managers recognise their own weaknesses and are working towards addressing them. The BHM alliance manager pointed out his inability to communicate vertically with supervisors, lacked self-confidence and technical competence in areas such as strategic planning while the AVI alliance manager recognised that he needed to work more on his team leadership skills.

**4.5.4 Organisational context**
**Governance structure and control**
BMFS currently has a board and management structure with representatives from the three main regions of Bougainville - South, Central and North - plus three co-opted members. Although still at an interim stage the board performs an executive supervisory role over the project alliance. The management structure of BHM is under the control of its alliance manager. Both the board and management are being capably supported by the AMC. At the operational level there is a three-tier structure comprising GMFIs, district agencies and BHM. These are yet to be linked with proper management systems.

GMFIs are allowed to collect deposits and immediately on-lend these amounts in order to avoid being accused of illegally mobilising deposits. Interest rates charged by GMFIs range from 20 to
25 per cent. A vacuum remains at the district level as capacity building has yet to be extended to enable district coordinators to coordinate the activities of GMFIs and ensure timely reporting to BHM.

The partners’ alliance managers have raised a number of issues. First, AVI’s alliance manager points to the inability of the board to make fast and effective decisions due to cultural factors. He commented that:

The only inhibitive factor is hesitation to making the real hard decisions when culture is included. It’s a question of ducking the hard issues, when disagreements arise. The board has yet to learn how to manage and resolve conflicts instead of putting them off and hoping those problems will go away. There is still so much learning that needs to be done with internal conflicts and dissolving them.

Second, according to BHM’s alliance manager, AVI’s alliance manager tended to exert too much pressure on the board to make quick decisions without appreciating the intricate social and cultural factors that members have to consider. This, he argued, could cause the alliance to misalign and destroy the cross-cultural fit achieved so far. A third concern relates to the accuracy of GMFIs reporting to BHM. GMFIs whose workers are mainly volunteers are currently not reporting on time and concerns have also been raised about the quality of their loan books. BHM’s alliance manager suggested that GMFIs and district level staff might need more sophisticated training.

**Goals and values compatibility**
The Australian Volunteers International’s alliance manager revealed that promoting financial intermediation through MFIs prior to the project alliance was not central to AVI’s core business. In fact, the current AVI specialists on Bougainville were recruited from the Credit Union Federation Australia (CUFA). With AVI’s involvement in the BMFS project, the organisation has had to learn a lot from first-hand experience. Nevertheless, the strategic shift to microfinance promotion in developing countries such as PNG is in line with its overarching community orientation culture and the money made from such consultancy work contributes towards its own goal of institutional sustainability.

As for BHM, the project alliance is central to its core business. BHM is working with its partners to:

(a) enhance sustainability of the scheme
(b) source additional funding for expansion beyond the four pilot district MFIs
(c) draw up a strategic plan for the future.
As much as possible, the partners have highlighted their similarities and celebrated early success while maintaining a watching brief for emerging conflicts.

**Human resources**
Australian Volunteers International has specialist personnel to help train BHM staff and enhance capacity building. Much of the work of AVI is aimed at training the four BHM staff based at head office as well as training regional officers and providing educational awareness of the project at the village level. As has been noted, budgetary constraints have restricted much of the capacity building at the BHM head office and current results do not measure up to what was anticipated in the initial project design of 2001.

AVI’s alliance is directly responsible for training and mentoring BHM’s alliance manager. Although this person has learnt a lot, there are still issues that require resolution which have a direct bearing on the alliance management process. AVI’s alliance manager noted:

> We are not happy with the current people [BHM staff], but we inherited them. On the other hand, it does not appear they are any better than others who may be available so we have to work with them. They lack self-confidence and self-esteem.

**Communication skills**
Both partners’ alliance managers agree that formal reporting requirements have been satisfactorily met. Within BHM, staff meetings are regular and there is a quarterly meeting with district and regional coordinators. While GMFI’s reporting is encouraging, grave concerns remain with the quality of reporting delinquent borrowers. BHM’s alliance manager revealed that there appears to be about 8-10 per cent of loans falling beyond the 30-days arrear mark and which are not currently being captured in the reports from GMFIs.

Major differences of opinion exist also with the level of communication between AVI and BHM. Whilst BHM’s alliance manager is of the view that there do not seem to be communication difficulties, AVI thinks otherwise. AVI’s alliance manager noted difficulties in communicating with BHM staff, particularly with its alliance manager. He argued that the alliance manager, being a former public servant, had a strong sense of hierarchy and felt constrained when communicating with senior partner executives. AVI’s alliance manager also complained that he had difficulty in motivating the alliance manager to adopt the work ethic he considered appropriate for the success of the alliance.

**4.5.5 Alliance management culture**
The project alliance management culture has been predominantly influenced by AVI’s philosophy of building grassroots capacity including effective communication with all stakeholders,
sensitivity to local culture, local ownership of projects and gender balance. AVI has had to argue with AusAID on a number of occasions to have the BHM board remain dominated by local representatives and not to co-opt persons from the project funders to ensure a sense of local ownership.

BHM’s alliance manager observed that there is a growing professional work culture emerging within BHM. He noted that staff was more mission-oriented and see themselves as agents of change in the communities within which they worked.

Unlike in other alliances reviewed in this thesis, AVI insists that the positive aspects of societal culture such as volunteerism and clan orientation must be accounted for in alliance management so as to enhance local sense of ownership. Thus the project design for Phase 2 attempts to reach a cultural-fit between the partners’ culture as well as with the broader societal culture.

4.5.6 Alliance management process

Both alliance managers were keen to point out their excellent relationships with all stakeholders, including AVI’s head office in Melbourne, AusAID offices in Canberra and Port Moresby, and the Commerce Division on Buka. Reporting has been undeniably excellent among the partners however both alliance managers agreed that the alliance management process would further improve over-time.

Nevertheless, the partners raised a number of issues during interviews. First, the AMC is concerned that because AusAID pushed for a revision to the initial project design there is now a management capacity gap at the district level of the alliance. AMC feels this is vindicated by an independent Project Quality Assurance Team that recommended management capacity building be shifted from head office to the district and local level if the project goals of outreach and sustainability were to be achieved within the life span of the alliance.

Second, AVI’s alliance manager raised issue with the tendency of AusAID to bypass the AMC and go directly to BHM to assess the situation on the ground. According to the alliance manager the tendency to micromanage the project is contrary to the Deed of Agreement between the Government of Australia and AVI which states that the AMC will directly report to AusAID rather than AusAID seeking information directly from BHM’s alliance manager. This point underscores the tensions involved when alliance partners seek to manage alliances beyond the agreed parameters. According to BHM’s alliance manager, there is nothing wrong with AusAID directly seeking the views of BHM on the capacity of the AMC to fulfil its tasks and that the
AMC is being unreasonable over the issue. It can be seen that there are emerging personality differences between the partners’ alliance managers.

4.5.7 Coping strategies
Generally, the alliance management process has been smooth and thus far the alliance partners are satisfied. Lurking behind this picture is an uneasy feeling by some within BHM about the future in the event that capacity building is not complete and Phase 2 of the project is due to end in 2004. By 2004 AMC’s contract with AusAID will cease and the partners have expressed the need to further extend AMC’s role.

A major concern raised is the absence of a legal framework to legalise deposit mobilisation by MFIs in PNG, one with appropriate capital adequacy requirements. To get around this legal vacuum a copying strategy adopted by BMFS is for GMFIs to on-lend savings once taken in. This allows GMFIs to charge interest rates within the range of 20-25 per cent and pay interest on savings deposits of between 7-10 per cent. However, by lending out all the savings the danger of high loan delinquency is increased. A true picture of this rate cannot be gauged because of current concerns with the quality of GMFIs reporting.

4.5.8 Case summary
A summary of the findings is presented in Table 4.4.
### Table 4.4 Analytical summary of case findings for the BMFS alliance

<table>
<thead>
<tr>
<th>BMFS Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
</tr>
<tr>
<td>• A 10-year war from 1989-1999 left few locational amenities on the island.</td>
</tr>
<tr>
<td>• Financial vacuum left behind generates high demand on BMFS services.</td>
</tr>
<tr>
<td>• Cross-cultural alliance portrays strong political negotiations and networking skills.</td>
</tr>
<tr>
<td>• Absence of legal framework constrains outright deposit mobilisation.</td>
</tr>
<tr>
<td>• Evidence of cultural-fit.</td>
</tr>
<tr>
<td>• Pressure for gender equality to reflect matrilineal society.</td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
</tr>
<tr>
<td>• BMFS has a board and management structure.</td>
</tr>
<tr>
<td>• Capacity at board and management level promising.</td>
</tr>
<tr>
<td>• Vacuum in capacity building at district level.</td>
</tr>
<tr>
<td>• Constant realignment but slow due to absence of legal framework for deposit-taking.</td>
</tr>
<tr>
<td>• Accuracy of GMFIs reporting to BHM head office is a concern.</td>
</tr>
<tr>
<td>• Signs of compatibility between partners vis-à-vis rural financial intermediation goals and community service obligation.</td>
</tr>
<tr>
<td>• Alliance central to partners' core business.</td>
</tr>
<tr>
<td>• Budgetary constraints restrict capacity building to BHM only.</td>
</tr>
<tr>
<td>• Differences of opinion on communication effectiveness.</td>
</tr>
<tr>
<td><strong>Alliance skills</strong></td>
</tr>
<tr>
<td>• Satisfactory alliance management skills.</td>
</tr>
<tr>
<td>• AVI’s alliance manager senior; BHM’s alliance manager junior and under training.</td>
</tr>
<tr>
<td>• Both involved from negotiation stage.</td>
</tr>
<tr>
<td>• Cross-cultural tensions amongst alliance managers are manageable.</td>
</tr>
<tr>
<td><strong>Management culture</strong></td>
</tr>
<tr>
<td>• Alliance culture influenced by AVI’s philosophy of building grassroots capacity, effective communication with stakeholders, sensitivity of local culture, local ownership of projects, and gender balance.</td>
</tr>
<tr>
<td>• Growing professional work culture within BHM.</td>
</tr>
<tr>
<td>• AMC concerned with inability of board to make fast decisions.</td>
</tr>
<tr>
<td>• BHM concerned with AVI’s tendency to pressurise board in decision making reflecting differing cultural orientation.</td>
</tr>
<tr>
<td>• AMC feels BHM’s alliance manager is oversensitive to hierarchy being a former public servant.</td>
</tr>
<tr>
<td><strong>Management process</strong></td>
</tr>
<tr>
<td>• Partners optimistic that alliance relationship building has future.</td>
</tr>
<tr>
<td>• AMC feels AusAID’s revision to initial capacity building design hence operating logic has undermined district level capacity.</td>
</tr>
<tr>
<td>• AMC resents AusAID’s tendency to bypass it and micromanage the project.</td>
</tr>
<tr>
<td>• Project alliance being managed beyond the legal document and reflects tensions.</td>
</tr>
<tr>
<td>• BHM feels nothing wrong with AusAID liaising directly with it to verify AMC’s reporting accuracy.</td>
</tr>
<tr>
<td><strong>Coping strategies</strong></td>
</tr>
<tr>
<td>• Alliance management generally smooth.</td>
</tr>
<tr>
<td>• Absence of legal framework and security concerns prompted alliance to encourage GMFIs to on-lend bulk of deposit taken.</td>
</tr>
</tbody>
</table>
4.6 Case 5 – NASFUND-AON

4.6.1 Background
The final case study in this thesis represents a strategic alliance between the National Superannuation Fund (NASFUND) of PNG, formerly the National Provident Fund (NPF), and AON Consultancy (PNG) Ltd, a global corporation specialising in employee benefits administration. The alliance agreement was finalised on May 2, 2001 through an Administration Services Agreement (ASA) initially for five years. The alliance agreement stated that NASFUND would outsource its backroom operations to AON Consulting. This process left NASFUND with the key functions of compliance and client servicing.

NASFUND is a compulsory savings scheme for workers in the private sector established in July 1981 by the National Provident Fund Act Chapter 377 of the revised Laws of Papua New Guinea. NASFUND is the second largest in the superannuation industry which totals K1.2 billion (A$620 million). NASFUND is currently leading in best practice management for corporate governance after a period of mismanagement during 1998–2000. During this period, the company turned in its worst financial performance with a near financial collapse in 1998. Net asset value grew constantly from K100 million in 1991 to K284.451 million in 1997 then drastically fell by 40.6 per cent to K124.033 million in 1999 (Appendix 1). From period 1998 to 2000 the company recorded losses each year. Profitability was restored in 2001 after a new CEO was appointed in 1999 and some changes were made to the board.

Importantly, the turnaround in the company coincided with reforms in the superannuation industry, namely the privatisation of state-owned funds such as the old NPF. NASFUND was incorporated as a company under the Companies Act in 2002. This meant that political appointments of CEOs and board members could cease. The superannuation industry reforms also brought the NASFUND under the Banks & Financial Institutions Act, particularly its requirement of board members and senior executives meeting the ‘proper and fit person test’. The other relevant pieces of legislation that reigned in the management of NASFUND are the Superannuation Act 2000, Companies Act, Public Finance (Management) Act, and National Provident Fund (Financial Reconstruction) Act 2002.

This within-case analysis is based on data derived from in-depth interviews with alliance officials of both the National Superannuation Fund and AON Consulting (PNG) Ltd at varying dates in 2002. All interviews were undertaken in Port Moresby. Interviews were conducted with NASFUND’s alliance manager who is currently the General Manager and with its Managing Director. As for AON, its alliance manager responsible for the NASFUND portfolio was interviewed. Secondary data sources have been utilised for data triangulation.
The alliance now manages the employee benefits of 65,000 contributing members from over 932 employers as at April 2003. According to NASFUND’s CEO the decision to outsource to a major global company has brought the company financial results beyond expectations, even though the alliance is still in its early days with the company declaring profits since 2001. NASFUND’s primary goal is client service and is seeking to be the industry leader by 2003.

4.6.2 Environmental context

Economic/technological
Current stagnant economic growth has had a direct bearing on the growth of NASFUND’s total employee membership and assets. After the successful turnaround in the company’s financial fortunes, growth in core assets has been largely constrained by the current shrinkage in the private sector. Both NASFUND and AON have expressed grave concerns that the year 2003 will herald an increase in company closures and therefore a reduction in the contributing membership. NASFUND’s alliance manager pointed out that current financial contribution has stagnated at K5.5 million a month, an amount far below the Fund’s target of K8 million a month. This has implications for AON, because any fall in the membership contribution will trigger a fall in its fee schedule as this is charged on a membership basis.

The alliance has access to state-of-the-art technology for employee benefits administration offered by AON. NASFUND’s inadequacy in this area prompted the eventual outsourcing to AON. Apart from minor telecommunications problems, customer service turn-around has been faster than that of any competitor in the industry.

Political/legal
Appendix 1 details the extent to which NASFUND had to endure political interference between 1998 and 2000. As for the alliance itself, political interference is now a thing of the past. The ‘proper and fit person test’ principle applied to management trustees has ensured that only persons of a sound character and record nominated by stakeholders are selected for the Board of Trustees as well as at senior managerial level. The legal transformation of the old NPF from a government statutory body to a company has had a positive effect resulting in good corporate governance practices and financial prosperity for the membership and alliance partners. Legal reforms to the superannuation industry enabling the liberalisation of the market provides a healthy macroenvironment for competition and best practice management principles and technology.
Cultural/social
According to the NASFUND and AON alliance managers, the negative effects of the broader cultural and social environment have now been minimised by the alliance and therefore are not of immediate concern. NASFUND undertook a change management process from 2000 to 2002 and with the reforms to the superannuation industry, firewalls were built around the alliance. AON’s alliance manager noted that what matters the most is the organisational culture which she believes has been aligned to the partners’ goal of ‘efficient employee benefits administration’. Employees have been empowered, mindsets changed, and absenteeism and procrastination discouraged.

4.6.3 Alliance management skills
NASFUND’s and AON’s alliance management skills have been exceptional given that most alliances in PNG have been established without much thought about the requisite skills to manage the alliance beyond the formal structures and legal documents. The relationship building process between the partners has also been commendable with partners communicating frequently at both the strategic and operational levels, a high degree of mutual trust, and timely reporting as required under the Administration Services Agreement where AON reports directly to the NASFUND board, conflicts are resolved amicably, and partners are clearly also interacting on an informal basis.

The significant alliance management skills are attributable to a number of factors. First, NASFUND appointed its General Manager as its alliance manager. This manager has had 13 years at executive level with NASFUND and has a wide range of professional acquaintances and networking skills. Likewise, AON’s alliance manager was a former senior employee at NASFUND who moved over to AON as a result of the decision to outsource in 2001.

Second, both alliance managers have direct access to the CEOs and operational staff. The alliance has a policy of ‘management under open skies’ that allows for both lateral and vertical communication. Third, the alliance also has a policy of discussing problematic issues at an early stage before they become a crisis. Avenues for such discussions include the operational, CEO, and board levels. This policy is made easier because the 22 staff at AON working on the NASFUND portfolio were directly transferred from NASFUND as a result of the outsourcing decision and therefore have a history with NASFUND, its corporate culture and personnel.
### 4.6.4 Organisational context

#### Governance structure and control
The alliance’s governance structure is embodied in the ASA between the partners and NASFUND’s 5-year Strategic Plan 2002-2006. The former clearly spells out the responsibilities of the partners at the strategic and operational levels while the latter outlines the composition of the Board of Trustees which includes AON representatives. Both documents clearly state what constitutes reporting, its desired frequency and the penalties for non-compliance.

#### Goals and values compatibility
A major reason for the success of the NASFUND-AON alliance is the alliance’s importance to the core business of both partners. The outsourcing of back room operations to AON has derived early efficiency gains for NASFUND’s contributors and is expected to lower the Management Expense Ratio (MER). Moreover, the values of the partners centre on efficiency, top customer service and good corporate governance. For AON, the NASFUND portfolio represents 80 per cent of its total revenue in PNG.

#### Human resources
NASFUND has 49 staff while AON has 22 working on the NASFUND portfolio. Both alliance coordinators point out that the staff is well trained and highly productive. NASFUND’s CEO was quick to point out that after outsourcing, administration expenses fell by 18 per cent, and that the subsequent increase in 2001 by 8.3 per cent (K5.763 million) was due to retrenchment payouts and legal fees for the entity’s participation in the Barnett Commission of Inquiry (which sat throughout much of 2001 and 2002) into the mismanagement of the old NPF.

#### Communication skills
Communication skills of the alliance staff is considered by the partners’ alliance managers as being optimal. NASFUND’s alliance manager was keen to point out that communication is a key component of the training programmes offered in-house to its alliance staff. This is because the alliance agreement is specific about the need for multi-level communication and information sharing. He noted, “We require monthly reports from AON and from our own supervisors. Our business is such that communication has to be on a daily basis including visitation. This is made easier by my knowing of the staff at AON as well as AON’s CEO”.

AON’s alliance manager noted that the alliance participants had excellent communication skills and were in touch with each other at both managerial and operational levels almost on a daily basis. The sharing of a common client service intranet facilitates a smooth and open
communication approach. Strong interpersonal relationships help in the quick resolution of conflicts and in averting any emerging conflicts.

4.6.5 Alliance management culture

NASFUND’s CEO noted that prior to his taking up the job in PNG, NPF had a management culture that reflected the broader societal culture which demoralised staff and inhibited in-depth thinking and hence innovation. The change management programme he introduced in 2000 has improved the culture. Both NASFUND’s CEO and alliance manager are optimistic that recent reforms and management training has inculcated a new management culture to its alliance management staff who interface with AON. The CEO pointed to eight areas on which the new management has worked tirelessly:

1. laying the seeds of a corporate governance programme
2. ensuring the integrity and independence of the board
3. rallying the troops around a higher order purpose, that is, NASFUND to be the leader in superannuation industry in PNG
4. emphasis on innovation
5. client service or customer orientation
6. strategic planning
7. flatter structures and interaction-oriented management philosophy
8. protecting whistle-blowers in an environment where corruption has permeated society

AON has cultivated an organisational culture that is conducive to providing an efficient employee benefit service which results in both speed and accuracy. It believes that this will ensure the partners will renew their alliance agreement for a further period of five years. The alliance manager also observed that the negative effects of the wider societal culture, particularly wantokism, has been effectively prevented from influencing the work culture at AON. Absenteeism and the public service mentality, which postpones problem-solving have no place at AON.

4.6.6 Alliance management process

The alliance management process within the NASFUND-AON alliance is almost akin to that experienced world-wide in successful alliances. Alliance management skills are present at both strategic and operational levels of the alliance. Relationship building and mutual trust characterises the alliance. AON’s alliance manager cited the ASA as very accommodating to the partners’ strategic interest and core business resulting in mutual benefit and early positive results. She also noted that the solid personal relationships between the CEO and operational levels enabled the partners to manage the relationship beyond the scope of the legal document. Both partners are optimistic that the alliance agreement will be renewed after the initial 5-year agreement expires.
4.6.7 Coping strategies

NASFUND’s alliance manager noted that its alliance with AON is moving towards adopting international best practice because of AON’s international reputation. Thus its main coping strategy relates to protecting the alliance from any premature termination before the expiry of the alliance agreement that might be triggered by a return to the days of political interference. For example, during a second visit to the site in August 2002 there were rumours that the new Somare-Marat government elected in July 2002 was contemplating changes at NPF’s board and management levels to pave the way for political appointees. To avert such external threats, the designers of the NPF-AON alliance and reformers of NPF - including former Prime Minister Morauta and the Superannuation Reform Task Force that presided over reforms to the superannuation legal environment in 2000-2001 - ensured that good corporate governance mechanisms were in place to ward off political encroachment. For instance, the Superannuation Act 2000 requires that only stakeholders should sit on the board and the Banks & Financial Institutions Act administered by the Central Bank lays out a ‘proper and fit person test’ to be applied to all directors, trustees and senior executives. The current Chairman of the board also quickly engaged the media to expose the possible threats. The CEO aptly captured the essence of this coping strategy when he noted, “It is my view that there is no greater watchdog than an informed public”.

As far as AON is concerned, the fact that its part of the alliance work is very much routine means that the need to adopt coping strategies is less appealing. The alliance manager pointed at that there is no room for errors because this simply attracts penalty fees under Schedule B of the Administration Services Agreement.
4.6.8 **Case summary**
A summary of the findings is presented in Table 4.5

**Table 4.5 Analytical summary of case findings for the NASFUND-AON alliance**

<table>
<thead>
<tr>
<th>Environment</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Partners fear that current economic downturn will adversely affect growth in contributing membership as some companies may be forced to close in 2003-2004.</td>
<td></td>
</tr>
<tr>
<td>• Alliance has state-of-the-art technology offered by AON.</td>
<td></td>
</tr>
<tr>
<td>• NASFUND has come of age in overcoming political interference under old structure and legal framework.</td>
<td></td>
</tr>
<tr>
<td>• Negative effects of broader cultural and social environment have been minimised via firewalls, but with law and order concerns remaining an issue.</td>
<td></td>
</tr>
<tr>
<td>• Employment of women perceived to improve productivity because of nature of routine work.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Organisation</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alliance governance structure embodied in Administration Services Agreement and NASFUND’s 5-year Strategic Plan 2002-2006.</td>
<td></td>
</tr>
<tr>
<td>• AON is represented on NASFUND’s Board of Directors and Trustees.</td>
<td></td>
</tr>
<tr>
<td>• Reporting clearly spelt out in Agreement and thus far satisfactory.</td>
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<td>• Early positive results have pleased partners.</td>
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<tr>
<td>• Human resources well trained and more than sufficient.</td>
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<tr>
<td>• AON reemployed 24 of NASFUND’s staff to manage NASFUND’s portfolio within AON.</td>
<td></td>
</tr>
<tr>
<td>• Communication reflected at strategic and operational levels and considered optimal.</td>
<td></td>
</tr>
<tr>
<td>• Shared intranet facilitates smooth and open communication.</td>
<td></td>
</tr>
<tr>
<td>• Strong interpersonal relationships enhance conflict resolution.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alliance skills</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Excellent alliance management skills.</td>
<td></td>
</tr>
<tr>
<td>• Both NASFUND and AON’s alliance managers are senior.</td>
<td></td>
</tr>
<tr>
<td>• Both involved from negotiation stage.</td>
<td></td>
</tr>
<tr>
<td>• Presence of cross-cultural management skills.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management culture</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Change management programme introduced by NASFUND in 2000 has improved management culture.</td>
<td></td>
</tr>
<tr>
<td>• Strong service-oriented culture with improvements at front desk service.</td>
<td></td>
</tr>
<tr>
<td>• Strong corporate governance culture with emphasis on transparency with firewalls against corruption and political interference.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management process</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alliance management process akin to international best practice as confirmed by international rating.</td>
<td></td>
</tr>
<tr>
<td>• Alliance management skills present amongst alliance managers and at operational levels.</td>
<td></td>
</tr>
<tr>
<td>• Administration Services Agreement accommodates partners’ strategic interest.</td>
<td></td>
</tr>
<tr>
<td>• Solid personal relationships enable alliance to be managed beyond legal document.</td>
<td></td>
</tr>
<tr>
<td>• Partners’ optimistic that alliance agreement will be extended for another five years.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coping strategies</th>
<th>NASFUND-AON Alliance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Solid firewalls via good corporate governance mechanisms built around NASFUND as main alliance player against political interference from GoPNG.</td>
<td></td>
</tr>
<tr>
<td>• ‘Proper and fit person test’ is keeping out inefficient managers and board members.</td>
<td></td>
</tr>
</tbody>
</table>
4.7 Summary

This chapter has presented the results of within-case analysis for each of the five strategic alliance case studies. The analysis has linked the case studies to the six research questions as confirmed by systems approach (Chapters 2 and 3) and ultimately the research problem (Chapter 1) driving this thesis. Only the within-case analyses results are presented here, while the full case study data with specific responses to questions can be found in Appendix 1.

This chapter specifically addresses the questions of environmental factors affecting alliance management in PNG (Research Question 1), the presence or absence of alliance management skills (Research Question 2), and the adequacy of organisational components for alliance management (Research Question 3). Within the question probing organisational components, the analysis focused on issues of:

(a) governance structure and control  
(b) goals and values compatibility  
(c) human resources adequacy  
(d) degree and surface of communication

The analysis also highlighted results from the interfacing of organisational and societal culture and its effects on alliance management (Research Questions 5 and 1), the actual alliance management process in terms of relationship building skills (Research Question 6), and the adoption of coping strategies by alliance managers to counter challenges posed by the environment, culture and organisational components (Research Question 4).

In sum, the analytical case summaries located at the end of each case study in this chapter render the basis for the cross-case analysis to be presented in Chapter 5 which also synthesises the findings from Chapter 4 and international experience and theoretical trends (Chapter 2). This exercise will facilitate the final analysis and thesis conclusions to be reached in Chapter 6.
CHAPTER 5 CROSS-CASE ANALYSIS AND THEORETICAL DISCUSSION

5.1 Introduction

The within-case analysis of each of the five cases for this thesis was presented in Chapter 4. The purpose of this chapter is to compare and contrast the cases using the cross-case analysis approach (Yin 1994) to find themes in the cases. These themes are, in turn, linked to the theoretical findings of strategic alliances and their experiences in developed and developing countries in the final section of the chapter. The findings of this chapter create a holistic analytical model for strategic alliance management, which will be presented in Chapter 6. Thus important research gaps in the literature on alliance management will have been filled.

The analysis extrapolates from the analytical summary of each case presented in Chapter 4 based on primary data contained in Appendix 1. It also uses the same sub-headings used in that chapter consistent with the six research questions and hence the research problem of the thesis. The research questions were derived from the extant literature on strategic alliance management and are targeted at filling the research gaps identified in Chapter 2.

To facilitate the analysis and maintain consistency, discussion in each section revolves around a cross-case summary table of each theme outlined in the within-case summary tables in Chapter 4. Each thematic summary groups the alliance cases according to their performance; hence the three relatively satisfactory cases are placed ahead of the less satisfactory cases using the indicators set out in Figure 4.1 and actual evaluation in Figure 5.1.

5.2 Environmental context

Table 5.1 which is derived from Table 4.1 summarises environmental influences on alliance management across the five cases. Both developed and developing countries face the same challenges imposed by the business environment on alliance management. However, developing countries face an additional challenge due to the degree of volatility and the dominant role played by the governmental and socio-cultural factors.
Several themes and issues run across the five cases. First, all alliance managers identified the effects of a prolonged economic downturn since 1994 on the performance of their alliances. At least two of the cases, CGS and SBGF, had to be terminated because macroeconomic instability

<table>
<thead>
<tr>
<th>Alliance Environmental Context</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NASFUND-AON</strong></td>
</tr>
<tr>
<td>• Alliance mainly concerned with negative effects of three consecutive years of economic downturn on partner earnings.</td>
</tr>
<tr>
<td>• Alliance benefit from state-of-the-art technology offered by AON; NASFUND deficient in this competency, but trying to build in-house competency.</td>
</tr>
<tr>
<td>• Privatisation of NASFUND helped contain political interference.</td>
</tr>
<tr>
<td>• Firewalls through good corporate governance minimise negative effects of broader cultural and social environment.</td>
</tr>
<tr>
<td>• Law and order remains an issue.</td>
</tr>
<tr>
<td>• Women employees preferred due to high productivity.</td>
</tr>
<tr>
<td>• Macroeconomic instability has bearing on membership numbers.</td>
</tr>
<tr>
<td><strong>BMFS</strong></td>
</tr>
<tr>
<td>• A 10-year war from 1989-1999 left few locational amenities on the island.</td>
</tr>
<tr>
<td>• Financial vacuum left behind generates high demand on BMFS services.</td>
</tr>
<tr>
<td>• Cross-cultural alliance portrays strong political negotiations and networking.</td>
</tr>
<tr>
<td>• Absence of legal framework constrains outright deposit mobilisation.</td>
</tr>
<tr>
<td>• Evidence of emerging cultural-fit.</td>
</tr>
<tr>
<td>• Pressure for gender equality to reflect matrilineal society.</td>
</tr>
<tr>
<td>• Macroeconomic instability is a concern for local economy.</td>
</tr>
<tr>
<td><strong>SACS</strong></td>
</tr>
<tr>
<td>• International coffee price affects loan repayment: high coffee price improves repayment and vice versa.</td>
</tr>
<tr>
<td>• Road dilapidation threatens outreach to borrowers.</td>
</tr>
<tr>
<td>• Alliance depends on RDB’s banking technology.</td>
</tr>
<tr>
<td>• GoPNG pressures RDB and CIC to be sustainable, resulting in elimination of budgetary support.</td>
</tr>
<tr>
<td>• SACS loans still being perceived by some clients as mere political handouts.</td>
</tr>
<tr>
<td>• Problems of loan fungibility and moral hazard giving rise to high default culture.</td>
</tr>
<tr>
<td>• Macroeconomic instability is a concern.</td>
</tr>
<tr>
<td><strong>CGS</strong></td>
</tr>
<tr>
<td>• Macroeconomic instability prevented Treasury from fulfilling guarantor role.</td>
</tr>
<tr>
<td>• Difficult business environment partly caused the 99 per cent of borrowers to default.</td>
</tr>
<tr>
<td>• Alliance depended on PNGBC’s banking technology.</td>
</tr>
<tr>
<td>• Breakdown in lending culture at PNGBC made alliance’s technology nonsensical.</td>
</tr>
<tr>
<td>• Two entry points for political loans destroyed operational lending culture.</td>
</tr>
<tr>
<td>• Alliance both a victim and perpetrator of handout mentality.</td>
</tr>
<tr>
<td>• Lending officers gave loans to <em>wantoks</em> to gain social prestige.</td>
</tr>
<tr>
<td><strong>SBGF</strong></td>
</tr>
<tr>
<td>• Macroeconomic instability between 1996-1999 constrained repayment.</td>
</tr>
<tr>
<td>• BSP concerned about effects of growing unemployment, law and order problems, inefficient public service and infrastructure dilapidation on lending environment.</td>
</tr>
<tr>
<td>• Despite fall in interest rate in 1997, BSP’s private sector demand for credit flattened.</td>
</tr>
<tr>
<td>• Political decisions affected operations of SBDC in terms of budget and appointments of CEOs.</td>
</tr>
<tr>
<td>• PNG is predominantly a social rather than business culture which SBDC is tasked at changing through business training and mentoring.</td>
</tr>
</tbody>
</table>
had prevented a partner from honouring its financial commitment to the alliance. These partners were dependent on GoPNG budgetary support. The GoPNG has, since 1994, been grappling with a World Bank-supported economic reform programme aimed at curtailing the country’s susceptibility to balance of payments disequilibrium and increasing internal revenue shortfalls.

Second, all partners were compelled to enter into partnerships in order to have access to the technological competence of a partner. Of these, only NASFUND, the lead partner in the NASFUND-AON alliance, is seeking to retain a degree of technological competence in-house as a risk strategy against technological incapacity in the event the alliance is not renewed at the end of the current five-year agreement. Clause 13.3 of that agreement prevents the transfer to NASFUND of any software technology documentation.

Third, all cases noted the significant negative effects of the politico-legal environment, but only two of the alliance cases developed effective strategies to mitigate these effects. NASFUND, the most politically influenced entity prior to alliance formation, built an effective firewall to prevent political interference through its adoption of good corporate governance principles and by instigating reforms in the superannuation industry. The reforms facilitated its eventual privatisation and allowed it to only serve stakeholder interests.

Fourth, all cases identified dangers posed by PNG’s societal culture on alliance management. However, only two - NASFUND-AON and BMFS - developed strategies to cushion the negative effects of these factors, while the remaining alliances - SACS, CGS and SBGF - were adversely affected. Part of the reason for the SBGF and CGS performance failure was attributed to PNG being predominantly a social culture (wantokism); one that promoted loan fungibility and moral hazard thereby giving rise to a high loan default culture. SACS suffers from the same problems, but is using personal contact and educational awareness programmes to improve the loan repayment culture. Finally, only two of the cases - NASFUND-AON and BMFS - believed that women employees increased productivity and that gender equality improved the justification of alliance existence.

Overall, the alliance environment was dominated by concerns about the negative effects of government dominance and socio-cultural issues, a dominant component of which is wantokism. Only two of the alliances - NASFUND-AON and BMFS - could be identified as having developed effective strategies to cushion the effects of change management processes on alliance management. The primary reason for this can be attributed to the role alliance managers played, and the fact that both cases are cross-cultural alliances, with significant exposure to international best practice.
5.3 Organisational context

Adequate organisational components are critical to alliance effectiveness. In an alliance setting these depends on the partners’ contributions and the extent to which alliance managers leverage these resources and structures towards goal attainment. The organisational contexts of the five cases are summarised in Table 5.2. Findings in this table were derived from Table 4.2.
### Table 5.2 Cross-case summary – Organisational context

<table>
<thead>
<tr>
<th>Alliance Organisational Context</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NASFUND-AON</strong></td>
<td></td>
</tr>
<tr>
<td>• Governance structure embodied in agreement and Strategic Plan 2002-2006.</td>
<td></td>
</tr>
<tr>
<td>• AON is represented on NASFUND’s board of directors and trustees.</td>
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<td>• Alliance central to core business of partners.</td>
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<td>• Early positive results have pleased partners.</td>
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</tr>
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<td>• Human resource well trained and more than sufficient.</td>
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<td>• AON reemployed 24 of NASFUND’s staff to manage NASFUND’s portfolio.</td>
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</tr>
<tr>
<td>• Communication reflected at strategic and operational levels and considered optimal.</td>
<td></td>
</tr>
<tr>
<td>• Sharing of intranet facilitates smooth and open communication.</td>
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</tr>
<tr>
<td>• Strong interpersonal relationships enhance conflict resolution.</td>
<td></td>
</tr>
<tr>
<td><strong>BMFS</strong></td>
<td></td>
</tr>
<tr>
<td>• BMFS has a board and management structure.</td>
<td></td>
</tr>
<tr>
<td>• Capacity at board and management level promising.</td>
<td></td>
</tr>
<tr>
<td>• Vacuum in capacity building at district and regional level.</td>
<td></td>
</tr>
<tr>
<td>• Constant, but slow realignment due to absence of legal framework for deposits.</td>
<td></td>
</tr>
<tr>
<td>• Concern about reporting accuracy by GMFIs to BHM head office.</td>
<td></td>
</tr>
<tr>
<td>• Signs of compatibility between partners vis-à-vis rural financial intermediation goals and community service obligation.</td>
<td></td>
</tr>
<tr>
<td>• Alliance central to partners’ core business.</td>
<td></td>
</tr>
<tr>
<td>• Budgetary constraints restrict capacity building to BHM.</td>
<td></td>
</tr>
<tr>
<td>• Differences of opinion on communication effectiveness.</td>
<td></td>
</tr>
<tr>
<td><strong>SACS</strong></td>
<td></td>
</tr>
<tr>
<td>• Governance structure detailed in MOA between RDB, CIC and DAL.</td>
<td></td>
</tr>
<tr>
<td>• MOA clearly allocates responsibility and provides for IMC to oversee alliance.</td>
<td></td>
</tr>
<tr>
<td>• Clear strategic intent and alignment at strategic and operational levels attempted.</td>
<td></td>
</tr>
<tr>
<td>• Compatibility of goals and values among partners.</td>
<td></td>
</tr>
<tr>
<td>• SACS alliance critical to core business of partners.</td>
<td></td>
</tr>
<tr>
<td>• Financial pressures caused realignment efforts.</td>
<td></td>
</tr>
<tr>
<td>• Human resources constraints affected loan monitoring.</td>
<td></td>
</tr>
<tr>
<td>• Coordination and communication between partners proactive.</td>
<td></td>
</tr>
<tr>
<td>• Relationship with DAL currently under strain.</td>
<td></td>
</tr>
<tr>
<td><strong>CGS</strong></td>
<td></td>
</tr>
<tr>
<td>• MOA did not allow for joint governance structure to oversee management.</td>
<td></td>
</tr>
<tr>
<td>• Control and feedback mechanisms broke down.</td>
<td></td>
</tr>
<tr>
<td>• Treasury blamed for destroying trust through failure to settle called-up guarantee.</td>
<td></td>
</tr>
<tr>
<td>• PNGBC blamed by partner for suffering moral hazard problem.</td>
<td></td>
</tr>
<tr>
<td>• Commitment declined as strategic intent evolved and misalignment set in.</td>
<td></td>
</tr>
<tr>
<td>• Junior officers assigned to alliance as significance declined over the years.</td>
<td></td>
</tr>
<tr>
<td>• Inexperienced loans officers operated without senior supervision at PNGBC.</td>
<td></td>
</tr>
<tr>
<td>• Communication broke down when defaults increased.</td>
<td></td>
</tr>
<tr>
<td><strong>SBGF</strong></td>
<td></td>
</tr>
<tr>
<td>• No separate governance structure for interface except for alliance managers.</td>
<td></td>
</tr>
<tr>
<td>• BSP assigned Lending Centre to alliance while SBDC’s special project failed.</td>
<td></td>
</tr>
<tr>
<td>• Main governance and control instrument embodied in PFI Agreement.</td>
<td></td>
</tr>
<tr>
<td>• Little time and resources allocated for alliance realignment.</td>
<td></td>
</tr>
<tr>
<td>• Partners shared common goal of promoting small business but differed on pace.</td>
<td></td>
</tr>
<tr>
<td>• SBDC’s staff constraints inhibited its ability to provide business mentoring.</td>
<td></td>
</tr>
<tr>
<td>• BSP’s lending officers operated under strict seniority supervision.</td>
<td></td>
</tr>
<tr>
<td>• Little communication between partners.</td>
<td></td>
</tr>
</tbody>
</table>
Several organisational themes and issues run across the five cases. First, all five cases have alliance agreements signed by each partner. In terms of formal governance structures, three of the five cases - NASFUND-AON, BMFS and SACS - had a common structure from which alliance work was coordinated, while the remaining - CGS and SBGF - merely had an agreement which were managed from a distance by alliance coordinators. The cases reveal that the three cases with formal governance structures were relatively successful in alliance management, as partners interacted directly and interfaced with their clientele. Considering that PNG has a relationship-oriented culture, personal contact through governance structures appears to enhance the alliance management process. The two cases that managed their alliances from a distance complained of communication breakdown and engaged in finger pointing. The presence of formal governance structures also facilitated satisfactory alliance control and reporting mechanisms in the relatively satisfactory cases.

In terms of goals and values compatibility, the three cases with formal alliance governance structures scored well compared with the two without formal structures. Hence, for NASFUND-AON, BMFS and SACS their respective alliance businesses were central to the partners’ core businesses and efforts were expended on realigning their values and cultures. However, the CGS and the SBGF had partners which were poles apart in their goals and values compatibility.

It would seem that those cases with formal governance structures and which enjoyed goals and values compatibility are the ones most likely to continuously realign their strategic intents to establish and maintain structures, planning and control mechanisms, and foster a positive culture and environment.

Another important organisational component is human resources. The three satisfactory cases were satisfied with the skills possessed by their personnel in alliance management while interacting with each other, and with their respective clientele. The cases that were not so satisfactory complained of a lack of alliance management skills. They had junior officers appointed as alliance liaison officers whose credentials did not meet those of their counterparts, who obviously were senior executives.

On the question of whether alliances had sufficient numbers of alliance personnel, all cases complained of not having enough except for the most satisfactory case - NASFUND-AON - where the partners were actually reducing their staff size due to technological efficiency gained through partnering. All the cases that did not have sufficient staff cited budgetary constraints as a key reason.
The two weak cases - CGS and SBGF - cited two additional and significant reasons critical to alliance management:

(1) because their alliances were not considered as critical to their partners’ core businesses, increasing personnel was not justifiable
(2) as the strategic intent of the partners in each case drifted apart over the years, those with significant personnel at the early stages of respective alliances subsequently reduced staff numbers

As interest in the alliances waned, junior officers were appointed to manage the alliances, demonstrating a lack of commitment.

Communication can be measured in two ways: frequency (between alliance managers) and degree (depth of communication). Amongst all cases, the NASFUND-AON alliance recorded optimal communication at strategic and operational levels facilitated through partners sharing a common intranet facility, strong interpersonal relationships and informal ties amongst staff at the operational levels. All 22 personnel at AON working on the NASFUND portfolio were former NASFUND staff who was reemployed by AON.

Communication at BMFS and SACS was considered satisfactory, but personality differences emerged at BMFS, and there was a breakdown in communication at SACS between the RDB-CIC and the third tripartite alliance partner, DAL. Nevertheless, both RDB and CIC were up-to-date in reporting to DAL. However, for CGS and SBGF communication break down complicated the alliance management process.

In sum, it appears that formal alliance governance structures greatly enhance the work of alliance managers and the overall alliance-management process. Only the cases that considered respective strategic alliances as strategic to their core businesses established formal governance structures. These cases also continuously realigned strategic intents to structure, plan and control their culture and environment. All cases, except for NASFUND-AON, did not consider their human resources as adequate, attributing the cause to financial constraints. A minimal level of communication was maintained at the three satisfactory alliances while the weak cases experienced a complete breakdown with a prevalent culture of blame.
5.4 Alliance management skills

The alliance manager plays a pivotal role in determining alliance outcomes. The extent to which the alliance environment is managed, organisational components leveraged towards goal attainment, culture managed and alliance management process developed, directly depends on what the alliance manager does in the alliance’s life cycle. Table 5.3 summarises the characteristics of alliance managers across the five cases based on the findings arrived at in Chapter 5 and summarised in Table 4.3.

**Table 5.3 Cross-case summary – Alliance management skills**

<table>
<thead>
<tr>
<th></th>
<th>Alliance Management Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASFUND-AON</td>
<td>• Strong alliance management skills.</td>
</tr>
<tr>
<td></td>
<td>• Both alliance managers were senior</td>
</tr>
<tr>
<td></td>
<td>• Both involved from negotiation stage.</td>
</tr>
<tr>
<td></td>
<td>• Presence of cross-cultural management skills.</td>
</tr>
<tr>
<td>BMFS</td>
<td>• Alliance culture influenced by AVI’s philosophy of building grassroots capacity, effective communication with stakeholders, sensitivity of local culture, local ownership of projects, and gender balance.</td>
</tr>
<tr>
<td></td>
<td>• Growing professional work culture within BHM.</td>
</tr>
<tr>
<td></td>
<td>• AMC concerned with inability of board to make fast decisions.</td>
</tr>
<tr>
<td></td>
<td>• BHM concerned with AVI’s tendency to pressurise board in decision making reflecting differing cultural orientation.</td>
</tr>
<tr>
<td></td>
<td>• AMC feels BHM’s alliance manager has an over-sensitive sense of hierarchy being a former public servant.</td>
</tr>
<tr>
<td>SACS</td>
<td>• Satisfactory alliance management skills within RDB and CIC.</td>
</tr>
<tr>
<td></td>
<td>• Weak alliance management skills within DAL.</td>
</tr>
<tr>
<td></td>
<td>• Alliance managers are senior and involved from negotiation stage.</td>
</tr>
<tr>
<td></td>
<td>• Not a cross-cultural alliance.</td>
</tr>
<tr>
<td>CGS</td>
<td>• Weak alliance management skills within Treasury and PNGBC.</td>
</tr>
<tr>
<td></td>
<td>• PNGBC’s alliance manager senior; Treasury alliance manager junior.</td>
</tr>
<tr>
<td></td>
<td>• None involved from negotiation stage.</td>
</tr>
<tr>
<td></td>
<td>• Not a cross-cultural alliance.</td>
</tr>
<tr>
<td>SBGF</td>
<td>• Weak alliance management skills within SBDC and BSP.</td>
</tr>
<tr>
<td></td>
<td>• SBDC’s alliance manager junior; BSP’s alliance manager senior.</td>
</tr>
<tr>
<td></td>
<td>• Only BSP’s alliance manager involved at negotiation stage, but no direct input to MOA.</td>
</tr>
<tr>
<td></td>
<td>• BSP displays cross-cultural management skills but not used.</td>
</tr>
</tbody>
</table>

At the outset, Table 5.3 shows that at the outset, satisfactory to strong alliance management skills were present in the three relatively successful cases - NASFUND-AON, BMFS and SACS - while the CGS and SBGF portrayed weak alliance management skills. The criteria for measuring weak, satisfactory and strong alliance management skills were set out in Figure 4.1 in Chapter 4.
In the satisfactory cases, each partner appointed senior executives as alliance managers with at least 10 years of experience and industry knowledge in their respective organisations (Appendix 1). There was, therefore, continuity in the position of alliance managers allowing for corporate, or institutional memory, and continuous learning. Seniority also enabled multiple and multilayer communication with partners, whereas in the less satisfactory cases, the junior officers who were appointed did not match the skills and experience of their counterparts, who were often senior executives.

Appointing a junior officer as an alliance manager conveys a lack of commitment to the alliance. For instance, in the CGS and SBGF alliances, the lead partners, Treasury and SBDC, appointed junior officers with no networking skills and managerial experience to enable them to confidently interface with the senior banking executives of PNGBC and BSP. These appointments did not recognise the steep hierarchical structures of PNG’s organisations and cultural mindsets that reveres ‘bigmanship’ and seniority. Nor did they account for the marked organisational cultural gaps between public and private sector partners.

A second point is that in the three satisfactory cases all alliance managers were involved at the negotiation stages of their respective alliances, whereas in the CGS and SBGF not all alliance managers were involved from the start. Certainly in the CGS, none of the current alliance managers were involved in the early stages, although the author did interview the first alliance manager at Treasury who was now working elsewhere within the organisation as well as the current alliance manager at SBDC who is now its acting CEO. The extant literature on strategic alliance management recommends that it is good alliance management practice to involve the potential alliance manager in the early alliance negotiation stages so that the person can become the alliance’s ambassador (Yoshino et al. 1995; Lorange et al. 1993; Cauley De La Sierra 1995).

A third point relates to the presence of cross-cultural management skills. There were cross-cultural management skills present in the most satisfactory alliance, NASFUND-AON, as well as with the SBGF and BMFS. It appears cross-cultural skills are partly responsible for the success of the NASFUND-AON alliance and to an extent at the BMFS. This is despite that in BMFS there were cross-cultural differences beginning to emerge at the time of research in terms of management style and personality between the alliance managers. Although BSP uses cross-cultural skills for internal management, it did not appear to have used this to overcome difficulties with its relationship with SBDC.
Finally, AVI’s alliance manager in the BMFS case pointed out that BHM’s alliance manager suffers from an exaggerated view of hierarchy, possibly because of being a former public servant. Given that the weak alliances entailed at least one public sector organisation as a partner it would seem that public-private sector alliances present special challenges for overall alliance management. These stem from the hierarchical Weberian management principles prevalent in public sector organisations that are opposed to the flexible and less hierarchical management principles necessary for alliance success. In this regard, partners that are exposed to international management best practice and cross-cultural management are better placed to manage alliances, but the problems pertaining to public-private sector alliances are not necessarily insurmountable.

To summarise, alliance management skills determine the success of an alliance. A common theme across the cases shows that management is enhanced by the commitment of senior executives rather than junior officers. It is also important that alliance managers are involved right from the negotiation stages. The presence of cross-cultural management skills and exposure to international management best practice also greatly enhance alliance management. Finally, it is important to note that public-private sector alliances present particular challenges that have to be resolved through change management and cultural change programmes, based on a shift away from Weberian principles to flexible or post-Fordist management principles.

Figure 5.1 summarises the cross-case classification of alliance managers’ skills based on the criteria set out in Figure 4.1. The actual rating of the cases is based on the discussion in this chapter, which in turn draws from the case reports in Appendix 1. Figure 4.1 must be read together with Figure 5.1 in order to understand the definitions of the indicators. Data confirms the findings of this research that the cases – NASFUND-AON, BMFS and SACS – do possess satisfactory alliance management skills, while the cases – CGS and SBGF – fall in the category of weak performance.
### Figure 5.1 Cross-case classification of alliance managers’ skills

<table>
<thead>
<tr>
<th>Criteria</th>
<th>NASFUND-AON</th>
<th>BMFS</th>
<th>SACS</th>
<th>CGS</th>
<th>SBGF</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal competencies</strong></td>
<td>Willing</td>
<td>Willing</td>
<td>Willing</td>
<td>Seldom</td>
<td>Seldom</td>
</tr>
<tr>
<td><strong>Functional competencies</strong></td>
<td>Senior executive to middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level to junior officer</td>
<td>Middle-level to junior officer</td>
</tr>
<tr>
<td><strong>Earned competencies</strong></td>
<td>Senior executive to middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level to junior officer</td>
<td>Middle-level to junior officer</td>
</tr>
<tr>
<td><strong>Interpersonal competencies</strong></td>
<td>Senior executive to middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level to junior officer</td>
<td>Middle-level to junior officer</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Frequently</td>
<td>Frequently</td>
<td>Frequently</td>
<td>Seldom</td>
<td>Seldom</td>
</tr>
<tr>
<td><strong>Position of alliance manager</strong></td>
<td>Senior executive to middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level manager</td>
<td>Middle-level to junior officer</td>
<td>Middle-level to junior officer</td>
</tr>
<tr>
<td><strong>Cross-cultural exposure/training</strong></td>
<td>Exposure</td>
<td>Exposure/training</td>
<td>Exposure</td>
<td>Exposure-one partner</td>
<td>Exposure/training -one partner</td>
</tr>
<tr>
<td><strong>Exposure to international management best practice</strong></td>
<td>Travel abroad</td>
<td>Travel abroad</td>
<td>Travel abroad</td>
<td>Travel abroad-one partner</td>
<td>Travel abroad-one partner</td>
</tr>
<tr>
<td><strong>Staff exchanges</strong></td>
<td>More than one staff</td>
<td>More than one staff only from AVI</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Team building skills</strong></td>
<td>All levels</td>
<td>All levels</td>
<td>Only at certain levels</td>
<td>Only at certain levels</td>
<td>Only at certain levels</td>
</tr>
<tr>
<td><strong>Resource contribution</strong></td>
<td>Minimum requirement</td>
<td>Minimum requirement</td>
<td>Minimum requirement</td>
<td>Initially</td>
<td>Initially</td>
</tr>
<tr>
<td><strong>Involvement of alliance manager at negotiation stage</strong></td>
<td>Key involvement</td>
<td>Key involvement</td>
<td>Key involvement</td>
<td>None</td>
<td>None-only one partner was</td>
</tr>
<tr>
<td><strong>Board of governance structure</strong></td>
<td>Representation at board level</td>
<td>Representation at board level (advisory)</td>
<td>Committee level</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Joint activities</strong></td>
<td>All levels</td>
<td>All levels</td>
<td>All levels</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Learning objective</strong></td>
<td>Formal systems</td>
<td>Formal systems</td>
<td>Informally</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Overall classification</strong></td>
<td>Strong</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Weak</td>
<td>Weak</td>
</tr>
</tbody>
</table>

### 5.5 Alliance management culture

The importance of alliance management to an organisation’s culture is confirmed in the extant literature. Culture has significant impact on alliance implementation and performance, much more
than on strategy formulation. Table 5.4 summarises issues of culture across the five cases. Table 5.5 is in turn derived from Table 4.4.

### Table 5.4 Cross-case summary – Alliance management culture

<table>
<thead>
<tr>
<th>Alliance Management Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NASFUND-AON</strong></td>
</tr>
<tr>
<td>• Change management programme introduced by NASFUND in 2000 has improved management culture.</td>
</tr>
<tr>
<td>• Strong service oriented culture with improvements at front desk service.</td>
</tr>
<tr>
<td>• Strong corporate governance culture with emphasis on transparency through implementing firewalls against corruption and political interference.</td>
</tr>
<tr>
<td><strong>BMFS</strong></td>
</tr>
<tr>
<td>• Alliance culture influenced by AVI’s philosophy of building grassroots capacity, effective communication with stakeholders, sensitivity of local culture, local ownership of projects, and gender balance.</td>
</tr>
<tr>
<td>• Growing professional work culture within BHM.</td>
</tr>
<tr>
<td>• AMC concerned with inability of board to make fast decisions.</td>
</tr>
<tr>
<td>• BHM concerned with AVI’s tendency to pressurise board in decision making reflecting differing cultural orientation.</td>
</tr>
<tr>
<td>• AMC feels BHM’s alliance manager has an exaggerated sense of hierarchy being a former public servant.</td>
</tr>
<tr>
<td><strong>SACS</strong></td>
</tr>
<tr>
<td>• Strong community service oriented culture.</td>
</tr>
<tr>
<td>• Culture largely shaped by Community Service Obligations.</td>
</tr>
<tr>
<td>• Subsidised interest rates shaped by societal culture of dependence on GoPNG.</td>
</tr>
<tr>
<td>• Partners aim to cultivate a new market-oriented culture to lending.</td>
</tr>
<tr>
<td><strong>CGS</strong></td>
</tr>
<tr>
<td>• Alliance fell victim to culture of reverence for hierarchy and red-tape.</td>
</tr>
<tr>
<td>• Hierarchy and lack of seniority for Treasury’s alliance manager prevented lateral communication.</td>
</tr>
<tr>
<td>• Reward system did not promote alliance management skills.</td>
</tr>
<tr>
<td>• Strategic-, operational-, cultural-fit gaps widened by the early 1990s.</td>
</tr>
<tr>
<td>• Handout mentality promoted loan fungibility and moral hazard amongst borrowers.</td>
</tr>
<tr>
<td>• Decentralised lending to grow loan book at PNBC did not account for wantokism.</td>
</tr>
<tr>
<td><strong>SBGF</strong></td>
</tr>
<tr>
<td>• SBDC’s bureaucratic culture affected its interface with BSP.</td>
</tr>
<tr>
<td>• Alliance’s lending culture shaped by BSP’s strict lending culture that SBDC was under pressure to justify its existence due to slow outreach.</td>
</tr>
<tr>
<td>• Lending officers’ discretion was supervised by senior staff to cushion against wantokism.</td>
</tr>
</tbody>
</table>

Key themes and issues of management culture run across the cases. Most involve the challenges alliance face in developing a culture-fit between the partners’ organisations and with the dominant societal cultures. A common theme that emerges is that all alliance management processes were affected by the negative influence of PNG’s societal culture including corruption, political interference and wantokism. These influences interfere with decision making, are apparent in slow decision making at management board level, and reflect strong social culture rather than business culture, emerging loan default culture and ‘bigmanship’ resulting in strong respect for hierarchy.
It must be noted here that in relation to issues of corruption, it is not really the dangers of PNG’s social culture per se that gives rise to corruption. Rather it is corruption and the lack of transparency that poses the gravest problem for alliance management because it is allowed under the guise of PNG’s social culture captured in the concepts of ‘bigmanship’ and ‘wantokism’ (Kavanamur and Okole 2004; Okole and Kavanamur 2004; see articles in www.transparency.org).

Alliance managers who devised strategies to filter these influences or blend the positive aspects of societal culture with organisational culture were able to improve alliance performance. In the NASFUND-AON alliance, NASFUND, given its excellent alliance management skills, undertook a change management process that improved the organisational culture prior to entering into its alliance with AON, a global company. During the course of alliance implementation firewalls were implemented for protection from political interference that often gave rise to corruption. Thus, whilst the negative influences of societal culture was filtered out, the partners developed a strong cultural-fit that revolved around a strong service-oriented culture, with improvements in front desk service and strong corporate governance culture with an emphasis on transparency. The firewalls, built by NASFUND being the lead partner, entailed separation of board from management and the outsourcing of the following functions: Chairman of the Audit & Remuneration Committee to PW Coopers, Investment Fund Manager to Capital Brokers/ANZ joint venture, Chief Accountant to Deloittes, external auditors to KPMG and Fund Controller to AON Consulting.

To remove political interference, NASFUND became a private company after being a government statutory body since its inception in the 1980s. Conflicts of interest were minimised by having board members declare any such conflicts at the beginning of meetings and to promote transparency, board minutes are published on the NASFUND website, www.nasfund.com.pg. This website also posts the employment terms and conditions of staff, from CEO to desk officer.

In the BMFS alliance, the strong community service orientation and grassroots culture of AVI seemed to have dominated the alliance. The partners used local societal structures such as clans and used the positive aspects of wantokism, such as sharing, to develop local trust and derive a sense of ownership of the GMFIs that were multiplied at the local grassroots level. However, in terms of work culture and ethics, AVI continued to inculcate a professional work culture and networking skills at BHM.
Likewise, at the SACS the alliance has developed a strong community service oriented culture. The main challenge for SACS now is to take this CSO culture forward and integrate it with a new market-oriented culture towards lending, brought about by pressures exerted on the parent partners to achieve financial sustainability.

In the weak cases, evidence abounds showing that the partners’ organisational cultures were at opposing poles. There were no efforts made to achieve cultural-fit. In the CGS and SBGF, the commercial banks’ cultures were different from the government agencies’ cultures main source of conflict. However, in one of the banks, the state-owned PNGBC, the banking culture succumbed to societal influences such as wantokism and political interference, resulting in a break down in the lending culture between 1996-2001. It is noted in this thesis that in this situation the breakdown in lending culture rendered PNGBC’s superb lending technology irrelevant because such technologies could easily be manipulated. A final point is that the failure to achieve cultural-fit is bound to prevent the achievement of strategic- and operational-fit.

A common thread can therefore be observed across all cases, revealing that cultural-fit between partners could be reached where there are shared values. Thus, for the NASFUND-AON, BMFS and SACS, there were common goals that accelerated the process of building cultural-fit. However, organisations that are poles apart in terms of values are less likely to achieve cultural-fit. In this regard, public-private sector alliances present special problems and cross-cultural alliances add further challenges to the work of alliance managers. Moreover, when one adds the pressures of societal culture on alliance management, the task of alliance managers looks even more challenging and unenviable in a developing country environment.

5.6 Alliance management process

Organisation environment, organisation context, and management culture are all important to strategic alliance management. However, dynamic processes and the soft issues of relationship capital also need to be managed because alliance outcome - success or failure - is inseparable from the quality of process management. Table 5.5 contains the management process themes and issues across the five cases. These findings were derived from Table 4.5.
Table 5.5 Cross-case summary – Alliance management process

<table>
<thead>
<tr>
<th>Alliance Management Process</th>
<th>NASFUND-AON</th>
<th>BMFS</th>
<th>SACS</th>
<th>CGS</th>
<th>SBGF</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alliance management process akin to international best practice as confirmed by international rating.</td>
<td>• Alliance management skills present amongst alliance managers and at operational levels.</td>
<td>• Partners optimistic that alliance relationship building has future.</td>
<td>• PNG’s relationship culture emphasises personal contact and reciprocity.</td>
<td>• Casual effort to building alliance management skills.</td>
<td>• Alliance terminated prematurely with little room for learning and re-alignment.</td>
</tr>
<tr>
<td>• Administration Services Agreement accommodated partners’ strategic interest.</td>
<td>• Solid personal relationships enable alliance to be managed beyond legal document.</td>
<td>• AMC feels AusAID’s revision to initial capacity-building design, hence operating logic, has undermined district level capacity.</td>
<td>• Close harmonious relationships are emphasised at operational level.</td>
<td>• High default rate and inability to settle default guarantees destroyed trust.</td>
<td>• Relationship building did not extend beyond formal reporting.</td>
</tr>
<tr>
<td>• Partners’ optimistic that alliance agreement will be extended for another five years.</td>
<td>• Partners relegate this function to junior officers and often did not even perceive them as performing such roles.</td>
<td>• AMC resents AusAID’s tendency to bypass it and micromanage the project.</td>
<td>• Positive relationship between timely loan repayment and personal contact.</td>
<td>• Lack of direct liaison and staff exchanges to build linkages.</td>
<td>• Little effort towards joint monitoring and evaluation.</td>
</tr>
<tr>
<td>• BMFS</td>
<td>• Project alliance being managed beyond the legal document but reflects tensions.</td>
<td>• Project alliance being managed beyond the legal document but reflects tensions.</td>
<td>• Proximity of partners enhances social capital in relationships.</td>
<td>• No direct customer relationship with borrowers as main beneficiaries.</td>
<td>• No sign of BSP input into SBDC’s business training courses as loan prerequisites.</td>
</tr>
<tr>
<td>• SACS</td>
<td>• Dependence on qualitative information rather than quantitative information for decisions.</td>
<td>• BHM feels nothing wrong with AusAID liaising directly with it to verify AMC’s reporting accuracy.</td>
<td>• Loans officers took out CGS loans as lending culture collapsed.</td>
<td>• Mentoring relationship with clients failed to be developed by SBDC.</td>
<td>• BSP strict on lending with eight out of 20 applications approved.</td>
</tr>
</tbody>
</table>

Key themes run through the cases. First, all cases had persons appointed to perform the task of the alliance manager. In the three satisfactory cases senior executives were appointed to perform this task, while in the weak cases some partners relegated this function to junior officers and often did not even perceive them as performing such roles.

Second, those cases that placed emphasis on relationship building skills had more favourable alliance outcome than those which did not. All cases recognised that PNG’s relationship culture is characterised by personal contact and reciprocity, or exchange obligations. Partners in the NASFUND-AON, BMFS and SACS alliances derived benefits from their investment in personal relationships, which were aided by geographic proximity of personnel on the ground. In fact, as
the SACS case demonstrates, there is a positive relationship between timely loan repayment and personal contact, and that the proximity of partners enhances the development of relationship capital.

Moreover, all the satisfactory cases demonstrated that solid personal relationships at both the strategic and operational levels enable alliances to be managed beyond the legal documents. Indeed, the existence of an alliance governance structure tended to facilitate such close interactions. Close personal ties tend to cause partners to overlook minor conflicts and enables alliance managers to focus on the big picture while keeping track of operational issues. Personal ties also breaks down barriers to communication, encouraging partners to deal with emerging conflicts early.

Third, all cases had alliance agreements in place. The difference in performance arises, however, when such agreements are juxtaposed with the presence of alliance management skills. Those that did not inculcate alliance management skills at all levels only paid lip service to such agreements and failed to manage beyond these documents. Such cases suffered from accusations and counter-accusations.

A final theme relates to the NASFUND-AON alliance. This is that those cases whose business entails lending and interfacing with borrowers and would-be borrowers tended to be heavily dependent on the use of qualitative rather than quantitative information for loan decisions. Character assessments, the views of opinion makers and use of reference groups were used to form lending decisions. SACS, in particular, used firm handshakes with would-be borrowers as a filtration mechanism in order to determine whether a farmer was genuinely employed in the coffee business.

In addition to the common themes, a number of issues emerge from the cross-case analysis table. The first relates to cross-cultural exposure. In the NASFUND-AON alliance it seems that cross-cultural exposure enabled alliance managers to better understand managerial issues peculiar to PNG and therefore design strategies to overcome barriers. However, whilst cross-culture exposure enhanced the BMFS alliance, certain conflicts emerged arising from the difference in culture between the alliance managers. For instance, AVI’s alliance manager resents the slow progress of the BHM board in making decisions with resulting postponement of issues into the future. He also disagrees with the BHM alliance manager directly liaising with AusAID and bypassing him in the process and disagrees with the tendency of AusAID (Port Moresby) to micromanage the BMFS project alliance. He is also of the opinion that BHM’s alliance manager
was slow to learning strategic management skills and that he has not positively responded to motivation training. He argues that this is borne out by the fact that the BMFS was still without a strategic plan by the time of fieldwork in August 2002. At this stage, it is unclear if there is link between cross-culture and personality differences.

Another issue is that a satisfactory alliance outcome does not necessarily depend on initial partner compatibility. Instead, what matters most is the actual management of the interaction process as postulated by network theory in Chapter 2. Thus, in the case of the two weak cases, their well-designed alliance agreements did not save them from failure because the alliance management process faltered as partners started defaulting on their commitments such as paying out on default-guarantees. However, if one reviews the BMFS case, the alliance simply evolved over a period of five years until a formal agreement was signed much later. Even after the project design was approved it was then reviewed with the initial operating logic adjusted to accommodate budgetary constraints. Therefore, even though the alliance has not fully achieved its goals, these tensions have been adequately managed and there seems to be a general perception that continuous realignment is a given rather than an option in such a volatile and information-void environment. This point underscores the critical role of alliance managers in the actual management process.

A final issue relates to the unpredictability of the government in the business environment. It is particularly felt when an alliance involves a government agency as a partner. Governments in developing countries are faced with severe financial constraints and this precludes them from fulfilling long-term resource commitments to alliances of which they are a part. The SACS, CGS and SBGF cases show that to depend entirely on government funding leaves one in a precarious situation. The abrupt termination of the SBGF alliance in 1999 as a result of the termination of budgetary allocations to the SBDC is a case in point. BSP had to deduce from the local newspapers that the alliance had been terminated as a result of the GoPNG’s action. Moreover, lead partners in the above cases could not honour their resource commitments to their respective alliances because of financial shortcomings. When this happened, the government agency alliance managers went underground and paid lip service to their reporting and communication obligations.

To summarise, the role alliance managers play in the alliance management process can never be undervalued. In volatile and information-void environments such as that prevalent in PNG, the demands on their skills and patience is much more pronounced than on their developed country counterparts. As demonstrated by the cases in this thesis, what matters most are not the nicely
worded legal agreements and initial partner compatibility, but how interaction is actually managed, because continuous realignment in the strategy needs to be a given rather than an option.

It is important for an alliance to demonstrate some early satisfactory results so as to keep partners on side. Generally, it is plausible to note from the cases that alliances in volatile business environments should have a clear sun-set clause and should be terminated once goal attainment is reached. They should also have shorter alliance agreements between three and five years because of the imminent danger of strategic drift in volatile business environments (Kavanamur 2002b:90). The CGS alliance shows that longevity does not necessarily mean that an alliance is successful, as institutional barriers may prevent early termination despite obvious negative results.

5.7 Coping strategies

A typical developing country context requires alliance managers to adopt coping strategies in order to overcome deficiencies in the business environment. Table 5.6 documents the coping strategies adopted across the cases based on the discussion in Chapter 5 and Appendix 1.

Table 5.6 Cross-case summary – Coping strategies

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Coping Strategies</th>
</tr>
</thead>
</table>
| NASFUND-AON | • Solid firewalls via good corporate governance mechanisms built around NASFUND as main alliance player against political interference from GoPNG.  
• Proper and fit person test is keeping out inefficient managers and board members. |
| BMFS | • Alliance management generally smooth.  
• Absence of legal framework and security concerns prompted alliance to encourage GMFIs to on-lend bulk of deposit taken. |
| SACS | • Downscaling leading to multiskilling.  
• Public transport used by loans/extension officers for client visits rather than work vehicles.  
• Sustainability pressures led to lending restrictions to priority clients.  
• Information-void environment leads to reliance on qualitative information for decision-making. |
| CGS | • No significant coping strategies adopted to save alliance.  
• PNGBC moved to cut losses by simply calling up default guarantees.  
• Treasury adopted minimalist approach to avoid business mentoring role.  
• Partners agree to terminate alliance in 2002. |
| SBGF | • Short alliance life-span did not allow for coping strategies.  
• To prevent *wantokism* BSP insisted that lending officers declare any conflict of interest and all loan decisions be supervised by senior officers. |
Most of the coping strategies the partners adopted were aimed at overcoming environmental challenges as well as organisational component deficiencies. A point to note at the outset is that whilst the satisfactory cases adopted coping strategies to ensure the survival of their alliances, the weak cases adopted strategies primarily to cut losses.

NASFUND, being the lead partner in the NASFUND-AON alliance, had to build solid firewalls via good corporate governance mechanisms to prevent political interference from the GoPNG. Such political interference led to massive corruption in the old NPF prior to 2000 that nearly decimated the organisation. A coping strategy adopted by BMFS was to avoid breaking the strict banking laws of the country, which considers deposit mobilisation without a license, illegal. This entails the on-lending of deposit funds by GMFIs at interest rates of between 20-25 per cent. The practice allows the GMFIs to earn interest income and at the same time avoids the legal constraints imposed on its operations. For the moment, the BPNG is turning a blind eye to this practice because an appropriate legal framework to regulate microfinance activities throughout PNG has been set in train. At the SACS alliance, the partners have adopted cost cutting measures and staff multiskilling so that extension officers can also handle credit management tasks. The partners have also restricted lending to priority clients to cut administration and transaction costs incurred when dealing with new clients and have resorted to using public transport for their personal visitation programme. The latter strategy is necessary because the wear and tear on work vehicles has been excessively high due to the poor state of the roads.

All the cases, including NASFUND-AON to an extent, agreed that given the volatile and information-void environment in which they have had to operate, alliance managers have had to rely on qualitative information and/or use of business associates and reference groups to derive such information or to drive a strategic choice. Another coping strategy worth mentioning is that because wantokism is inimical to the prudential lending culture of banks, BSP in particular insists that lending officers declare any conflict of interest early and requires that all loan decisions be supervised by their immediate senior officers. Given the embryonic loan repayment culture in PNG, this strategy appears plausible.

As has been alluded to earlier, the two weak cases adopted coping strategies in order to cut losses while waiting for their respective partners to pay up default-called-up guarantees. In the CGS case, PNGBC having disbursed a loan under the scheme would immediately prepare documentation to Treasury requesting payment of 80 per cent of the total loan outlay as default-guarantee, without exhausting the loan recovery measures. Treasury likewise adopted a minimalist approach to avoid costs incurred in its business mentoring role for the alliance.
Eventually the partners agreed, albeit belatedly, to terminate the alliance in 2002. Institutional constraints prevented earlier termination. An amount of K3-4 million in default-guarantees remained outstanding at the time of writing. The same can be said of the SBGF alliance where SBDC reneged on its business mentoring task, while BSP claimed early default-guarantee rather than incur further costs in pursuing loan recovery measures.

In sum, the alliance cases adopted a range of coping strategies in order to source and/or cut losses given environmental turbulence, complexity, and organisational component dysfunctions. The threats and shortcomings included political interference and therefore corruption where a partner remained within the public sector sphere, absence of appropriate legal framework, an information-void environment, road infrastructure dilapidation and wantokism.

5.8 Cross-case summary

Eighteen relatively recurring themes emerge from the cross-case analysis. These themes are discussed in the context of alliance environment, organisation component, alliance management skills, alliance management culture, alliance management process, and coping strategies.

(1) Strategic alliances in developing countries face much more volatile business environments with dominant roles played by the governmental and social-cultural factors. For alliance partners within the public sector political interference becomes acute.

(2) All five cases were compelled to enter into partnerships in order to access the technological competence of their partners. This is clearly the driving force behind alliances in PNG, given that the availability of sophisticated technology in the business environment is fairly limited. Only one case, NASFUND-AON, showed signs of a partner entering into an alliance with a learning objective. The NASFUND alliance manager revealed that the company was seeking to build a degree of technological competence in-house and felt that once this was achieved they would reconsider the alliance with AON at the end of the alliance’s first life cycle.

(3) The success or failure of an alliance critically depends on the role that the alliance manager plays in leveraging the organisational components of an alliance. These include the goals and values, human resources, governance structure and control, and financial resources.
Alliances with formal governance structures, where partners can meet regularly both at the strategic and operational levels and undertake joint tasks such as monitoring and evaluation, are more likely to progress towards goal attainment than those that do not. Therefore, it can be seen that an alliance agreement is an insufficient mechanism for the effective management of alliances beyond legal documents without the presence of governance structures to manage the interaction. PNG has a relationship-oriented culture and it has been shown that, personal contact through governance structures enhances the alliance management process. Formal governance structure also facilitates effective alliance control and enhances the regularity of reporting. Only cases that consider their alliances as central to core business are likely to consent to such structures. Further, governance structures allow partners to regularly re-align their strategic intents for structure, planning and control mechanisms, culture and environment.

Alliance managers in the majority of cases complained of not having sufficient resources at their disposal due to increasing pressures for these organisations to achieve financial sustainability. Only the NASFUND-AON case willingly retrenched staff through technological efficiency gains arising directly from partnering.

The surface and depth of communication are enhanced by formal governance structures, shared intranet facilities, strong interpersonal relationships and informal ties both at the strategic and operational levels. The first sign of a communication breakdown emerges when a partner begins to default on its reporting requirements. A widespread problem in PNG, confirmed by the cases studied, is that alliance managers tend to go underground when their organisations begin to default on their resource commitments with the hope that problems will simply disappear. Culturally, PNG managers find it difficult to admit failure and face up to problems early.

The extent to which alliance management skills are propagated within an alliance is integral to the performance outcome. For instance, because NASFUND-AON, BMFS and SACS enjoyed satisfactory alliance management skills they were relatively successful. Each partner in these cases appointed senior executives with more than 10 years employment in their organisation to perform the role of alliance manager. Thus, alliance management skills were complemented with industry knowledge, seniority and continuity. Cases that had junior alliance officers did not take into account the steep
hierarchical structures of PNG’s organisations and cultural mindsets that have deep reverence for ‘bigmanship’ and seniority.

(8) It is good alliance management practice to involve a potential alliance manager, alliance staff and senior executives in the negotiation stages of an alliance as depicted in Figures 4.1 and 5.1. This ensures that the alliance has supporters throughout its life cycle.

(9) Exposure to, and training in, cross-cultural management skills enhances the alliance management process. This allows partners to appreciate differences and to work on common interests, rather than to focus on faultfinding. The ability to focus on the big picture, while simultaneously tracking operational or process issues, is an art alliance managers need to master by alliance managers. The strategic management approach reviewed in Chapter 2 calls this process ‘perspective taking’.

(10) Public-private sector strategic alliances present special challenges to alliance management because there are wide culture gaps and institutional structure differences. The CGS case demonstrates that even when such alliances were not achieving their goals after more than 10 years, alliance termination was constrained by institutional factors. Governments may argue for the continuation of these alliances on the grounds of community service obligations. In such a scenario, the private sector partners frequently tend to tag along using the consolation argument that it is their moral obligation to do so.

(11) Culture has more impact on alliance implementation and performance than on strategy formulation. Developing culture-fit between partners’ organisational cultures and societal cultures becomes a paramount task for alliance managers and senior executives. All cases have had to contend with the negative influence of PNG’s societal culture dominated by wantokism, seemingly slow decision making at board level, and tolerance for corruption. Cases that devised strategies to filter these influences were able to improve alliance performance.

(12) Cultural-fit between partners is easily realised where there are shared values. However, organisations with opposing values are less likely to blend. Thus public-private sector alliances present special problems. Cross-cultural alliances provide additional challenges to the work of alliance managers.
The management of the dynamic processes and the soft issues of relationship capital are critical to alliance success. This is because alliance outcome - success or failure - is inseparable from the quality of process management. Therefore, the cross-case analysis reveals that relatively successful cases appointed senior executives to manage this process whereas those that failed relegated this task to back-stage by appointing junior officers.

Solid personal relationships at both the strategic and operational levels enabled alliances to be managed beyond the legal documents and caused partners to overlook minor conflicts in consideration of the bigger picture. Joint activities enhance these personal ties and breaks down communication barriers.

Alliances in developing countries have relied predominantly on the use of qualitative information than on quantitative information for decision-making. Such information is usually sourced from business associates, reference groups, observation and experience. The information-void environment does not provide reliable data or printed documents, and therefore quantitative analysis. Governments’ ability to process and release government statistics is incapacitated by lack of skilled personnel and the huge cost involved in collecting timely data. The availability of secondary data in the market necessary to fulfil the task of marketing intelligence is simply not available. Constraints to marketing research such as difficulties in conducting telephone interviews or soliciting a significant response rate from questionnaire surveys have been noted by Buttery and Richter (2002:135-145).

Satisfactory alliance outcomes do not entirely depend on initial partner compatibility. Instead, it is the actual management of the interaction processes, as postulated by network theory and relationship marketing that is crucial. Initial compatibility tends to misalign in volatile and information-void environments making process management a paramount task.

Given the difficulties in managing alliances in developing countries, it would seem that clear sun-set clauses should be included in legal documents, and alliances should have clear short-term goals, say within a period of at least three to four years. This confirms with the relationship marketing approach view that it takes at least three years to lay the social infrastructure for the development of satisfactory alliance relationships. Early positive results are required if such alliance agreements are to be achieved beyond the initial lifespan. The cases demonstrate that longevity does not necessarily mean success,
as institutional barriers may prevent early termination. When this happens, an alliance overextends its initial operating logic allowing failure to set in.

(18) Alliances in a typical developing country such as PNG have to adopt coping strategies in order to overcome deficiencies in the business environment and dysfunctions in organisational components. While the satisfactory cases adopted coping strategies to ensure survival, the weak cases did so to cut their losses. This story contrasts with developed country environments where environmental deficiencies are not as acute and therefore use of coping strategies are not as common.

To summarise, although the cases comprised private-to-private sector and public-to-private sector organisations with differing alliance structures, several common themes and issues are apparent. The final chapter of this thesis evaluates these against the theoretical underpinnings of the approaches considered in Chapter 2, with important implications for the research questions and therefore research problem.

5.9 Theory and cross-case discussion

The theoretical contributions of the strategic management approach, network approach, and relationship marketing approach to the extant literature and theoretical underpinnings of strategic alliance management are summarised in Table 5.7. Table 5.7 is based on the summary of authors entailed in Table 2.1 which represents the classification of theoretical approaches to alliance management for this thesis. Findings in the table are juxtaposed with the findings that emerged in this chapter.
Table 5.7 Theoretical summary

<table>
<thead>
<tr>
<th>Theory</th>
<th>Developed Country Summary</th>
<th>Developing Country Summary</th>
</tr>
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<tbody>
<tr>
<td><strong>Environmental Context</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Management</td>
<td>• Complex environment requires better design of organisation structure and a learning culture.</td>
<td>• Demanding environmental conditions.</td>
</tr>
<tr>
<td></td>
<td>• Skills and resources now lie outside the firm’s boundaries and control.</td>
<td>• Dominance of governmental factor.</td>
</tr>
<tr>
<td></td>
<td>• Demanding environmental conditions.</td>
<td>• Resource input deficiencies.</td>
</tr>
<tr>
<td>Network</td>
<td>• Organisations with which a firm must transact and overall pattern of relationships important.</td>
<td></td>
</tr>
<tr>
<td>Relationship (RM)</td>
<td>• Alliance form faces overloading.</td>
<td></td>
</tr>
<tr>
<td><strong>Organisational Context</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Management</td>
<td>• Alliance manager must leverage key interrelated subsystems to achieve strategic intent and strategic competitive advantage.</td>
<td>• Alliance entry form, ownership strategy, design and processes conditioned by values, attitudes and behaviour at organisational level.</td>
</tr>
<tr>
<td></td>
<td>• Alliance executives’ leadership and management qualities crucial.</td>
<td>• Dysfunctional components due to poor resource availability causes misalignment.</td>
</tr>
<tr>
<td>Network</td>
<td>• Alliances can fail if social ingredients are missing even if strategic ingredients present.</td>
<td></td>
</tr>
<tr>
<td>RM</td>
<td>• Focus on relationship building</td>
<td></td>
</tr>
<tr>
<td><strong>Management Culture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Management</td>
<td>• Emphasis on cultural-fit.</td>
<td>• High culture-context and hence culture considered as strategic issue bearing on performance.</td>
</tr>
<tr>
<td></td>
<td>• Communication embedded in culture.</td>
<td>• Relationship-oriented culture.</td>
</tr>
<tr>
<td><strong>Alliance Management Process</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Management</td>
<td>• Positive relationship between alliance manager and process.</td>
<td>• Process management suffers from volatile and information-void environment and less clear goals.</td>
</tr>
<tr>
<td></td>
<td>• Strategic- and operational-fit vital to avoid strategic drift.</td>
<td>• Coping strategies adopted.</td>
</tr>
<tr>
<td>Network Approach</td>
<td>• Importance of governance process.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Portfolio management approach.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Interaction process rather than initial compatibility.</td>
<td></td>
</tr>
<tr>
<td>RM</td>
<td>• Invest in process reengineering and relationship capital.</td>
<td>• Relationship process matches relationship-oriented and high culture-context.</td>
</tr>
<tr>
<td></td>
<td>• Portfolio relationship management.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Takes up to 3 years for satisfactory relationship.</td>
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</table>

The findings arising from the cross-case analysis are briefly evaluated against the theoretical summary derived from Chapter 2 in Table 5.7. The discussion reviews the theoretical contributions of the strategic management approach, network approach and relationship marketing approach to the extant literature on alliance management, both in the West and
developing countries following the main systems variables in Table 5.7. This is then followed by insights from the cross-case analysis. This exercise is important because a thesis such as this, which uses the case study method, is aimed at deriving theoretical generalisations rather than statistical generalisations (Yin 1994). This process also fulfils theory triangulation to complement the process of data triangulation (Yin 1994:91-92; Patton 1990) undertaken in the actual research. The cross-case analysis and theoretical summary provide the empirical and theoretical base for the conclusions to this thesis in Chapter 6. It should be noted from Table 5.7 that the alliance management literature in developing countries remains deficient with wide gaps. One of the purposes of this thesis is to help plug this literature gap.

**Environment context**

Several important themes emerge from the evaluation of theory summary in Table 5.7 and the cross-case analysis. The environment context features prominently in the extant literature. An important contribution of the strategic management approach is that given the degree of complexity and turbulence in the business environment, better designs for organisational structures such as the network structure are required to meet these challenges (Johnson et al. 1999). Survival in this type of high-velocity environment requires a learning culture. This approach also offers tools for identifying the key drivers of change.

The strategic management literature on developing country environments concurs with the literature in the West, in that it agrees that the business environment now demands increased energy and attention from alliance managers and senior executives. But more than developed country environments, developing country environments are idiosyncratically deficient in resource inputs and are dominated by the government factor (section 2.5.2.1). This, in turn, places extra demands on alliance managers to invest time and resources in managing government-business relations (Austin 1990; Kohn et al. 1996; Kavanamur 2001; World Bank 1999). To succeed in negotiations with governments greater political skilling is required. More generally, “[o]rganisations which pay attention to their environments have a much greater chance of performing well than those which ignore environmental scanning” (Turner et al. 1997:24).

The network approach literature in the West also contributes to discussions on the environment context. It makes the point that the organisational field of alliances should also include organisations with which a firm must transact and the overall pattern of relationships among them (Nohria 1992:5). DiMaggio and Powell (1983:143) refer to this as the ‘interorganisational field’. The network approach also warns that the use of the network form faces overextension and overloading if abused (Miles et al. 1992).
For developing countries, particularly PNG, the relationship marketing approach offers a holistic value chain perspective on environmental constraints to marketing alliances (Epstein 2000). It notes that the constraints of culture, infrastructure dilapidation and a small inputs market affect the distribution channel.

The cross-case analysis confirms the point, made by the strategic management literature in developed and developing countries, that the alliance environment presents formidable problems for alliance management because of the high degree of volatility and resource deficiency. Almost all cases complained of difficulties in obtaining financial and human resources and have had to scale back operations. Two cases - CGS and SBGF - had to be terminated due to financial constraints limiting their ability to fulfil alliance resource commitments.

The cross-case analysis contributes to the literature on alliance management by providing empirical evidence confirming the dominance of the governmental factor in developing country business environments. Alliances in PNG are concerned about the negative effects of such a dominating role, which often results in corruption where an alliance is a public-private sector mix. However, it makes the original contribution that such business environments are also dominated by negative socio-cultural issues such as the concept of wantokism in PNG. A difference that emerges from this discussion is that, unlike in the West where emphasis is placed on learning as a strategy for keeping up with environmental turbulence, developing countries place emphasis on coping strategies. This is confirmed by the cross-case analysis and by the work of Haley (1997) and Haley and Haley (1998) on Asian business networks and their coping strategies. Thus, formal learning mechanisms are not common in developing countries compared with the West.

**Organisation context**

The strategic management approach recognises the importance of the organisation context to alliance management. It points out that it is the task of the alliance manager to leverage key interrelated subsystems to achieve strategic intent and strategic competitive advantage. The onus is on the alliance manager’s leadership and management qualities to ensure that this task is performed with some degree of success. In developing countries, the organisation context is characterised by poor resource availability, thereby increasing the susceptibility to misalignment in alliance goals and strategic intent (section 2.5.2.2).
In addition, the Western network approach literature concurs that alliances will fail in the highly relationship-oriented cultures of developing countries if social ingredients such as trust are missing, even when strategic ingredients are present. This point is also emphasised by the RM literature in the West which recognises that the alliance manager needs to focus on relationship building as the alliance evolves. The literature on RM and network theory in developing countries remains underdeveloped, as can be seen in Table 5.7.

The cross-case analysis confirms the important role that an alliance manager must play in leveraging organisational components for goal attainment and preventing strategic and operational misalignment. Cases that did not appoint senior alliance managers failed to achieve set goals and suffered from massive strategic drift as shown by the CGS and SBGF alliances.

The cross-case analysis also offers concrete evidence and important contributions on alliance organisational components. First, it shows that although the network approach highlights the importance of relationships in developing countries, the cross-case analysis provides the view that relationships in alliances are overly sensitive to hierarchy, ‘bigmanship’ and exchange obligations. In other words, relationships do not just get developed overnight; they have to be developed by persons who are considered equals amongst equals. Second, the cross-case analysis provides empirical evidence to support the view that although PNG has a relationship-oriented culture, the establishment of formal governance structures are still necessary to enhance the alliance management process if tangible results are to be derived. A relationship-oriented culture is not necessarily conducive to goal attainment in modern management. Only partners who consider their alliances as critical to their core business will achieve their goals.

Third, the cases show that the development of alliance management skills in PNG takes time, as the dominant management principles that are prevalent originate from Weberian management principles as well as Taylorism. The cases show that those alliance managers who played a role in the negotiation stage became good ambassadors of their respective alliances. Moreover, the presence of cross-cultural management skills and exposure greatly enhance alliance management. Finally, public-private sector alliances present particular alliance management challenges in developing countries because of institutional differences and values incompatibility. The CGS and SBGF cases failed partly because of culture and value differences, differences in work ethics, and technological incompatibility.
Management culture
From the strategic management approach alliance management in the West focuses on establishing cultural-fit between the partners’ organisational cultures and societal culture. It also recognises that communication is essentially embedded in culture. Moreover, it recognises the fact that because developing countries are a high-culture context, culture becomes a strategic issue with a direct bearing on performance. Generally, therefore developing countries are highly relationship-oriented (section 2.5.2.3).

The cross-case analysis confirms the importance of culture to the alliance management process. Even though it may be true that PNG has a relationship-oriented culture and a high culture-context that may be conducive to alliance management, these traits make it difficult for alliances to reach a cultural-fit between organisational cultures and societal cultures. All the cases were concerned with the negative influence that PNG’s societal culture places on process management. These influences comprise political interference leading to corruption, wantokism which prohibits discretion in decision making, slow decision making processes, a predominantly social culture rather than a business culture, widespread loan default culture, and ‘bigmanship’ which reveres indiscriminant respect for (tribal) status.

The cross-case analysis contributes empirical evidence to the alliance management literature confirming that a cultural-fit between partners could be reached where there are shared values. Based on the NASFUND-AON case, it demonstrates how the negative effects of societal culture could be filtered. It also points out that whilst cross-cultural exposure enhances the alliance management process, cross-cultural alliances themselves add one more challenge to the process in a country such as PNG where international exposure is limited amongst its people and where the adult literacy rate is far lower than most developing countries. Another point to emerge from the cross-case analysis is that when negative aspects of cultural traits such as wantokism predominate, technological sophistication becomes nonsensical. The case of the CGS attests to this point where the breakdown in lending culture made lending technology less effective in protecting the quality of loans.

Alliance management process
The strategic management approach places the actual alliance management process under the auspices of the alliance manager; the alliance outcome is inseparable from those processes. Complexities in the environment and organisational component dysfunctions mean that alliance managers need to consistently ensure that strategic- and operational-fit are maintained to avoid strategic drift. In developing countries, the strategic management approach recognises that
process management suffers from highly volatile and information-void environments with goals being less clear (section 2.5.2.4). Thus, unlike in the West, the use of coping strategies in such environments is necessary for survival.

The network approach contributes the point that what matters in process management is how the interaction process is managed by the alliance manager. Although initial compatibility is a vital chemistry ingredient, this could easily erode if strategic drift occurs. Likewise, the RM approach emphasises process-reengineering to enhance the building of relationship capital, and notes that the method that should be adopted is based on portfolio relationship management, or key account management. It also notes that in developing countries, relationship processes match their relationship-oriented cultures and high culture-context.

The cross-case analysis confirms that alliance managers are critical to the alliance management process and that alliance outcome can only be as good as the processes within. It also provides empirical evidence to support the view expressed in the strategic management literature that process management in developing country environments are greatly affected by turbulence and lack of appropriate information and consistent government policies. Moreover, it confirms the network approach position that what matters most in process management is the management of interaction.

The cross-case analysis makes a number of important observations for alliance management in developing countries. First, personal contact and reciprocity characterises relationship building in PNG. This is greatly enhanced by the proximity of partners or their personnel and the existence of a formal governance structure. Second, the difference in alliance performance derives not from adherence to legal agreements and initial partner compatibility, but from the inculcation of alliance management skills at all levels and the management of interaction between partners in a network of alliances. The latter is important because continuous realignment in strategy is a necessity rather than an option. Finally, unlike in the West, alliance managers in developing countries have to develop coping strategies based on experience and gut feeling. The cases show that whilst satisfactory cases adopted coping strategies to ensure survival, the weak cases did so to cut losses.

To summarise, this section has undertaken the important task of comparing and contrasting the theoretical insights with the results from the cross-case analysis. The literature review in Chapter 2 revolved around four systems variables, namely organisation environment, organisation component, management culture and management process. These variables were then discussed
with data for each from the cross-case analysis and analysed in the context of three main theoretical approaches to alliance management: strategic management, network and relationship marketing. The two additional variables from the cross-case analysis - alliance management skills and copings strategies - were blended in to the evaluation and will be further considered in the next chapter.

5.10 Summary

In the last part of this chapter, the process of theoretical synthesising was undertaken. This process was then extended to a process of juxtaposing the theoretical insights gained from the literature review against the findings from the cross-case analysis. In so doing, the chapter has fulfilled an important requirement of the case study method, namely the processes of data and theory triangulation. The approach that guided the choice of variables around which the discussion revolved was the systems approach, being the parent discipline of this thesis.

The following are key findings from each of the system components:

Environmental context
- alliance managers have had to contend with a high degree of volatility and the dominant role played by the governmental and socio-cultural factors relative to the West
- macroeconomic instability has been a concern to all alliance managers
- technology was a major motivating factor for entering into alliances
- the negative effect exerted by the politico-legal environment was significant
- all cases identified the dangers posed by PNG’s societal culture

Organisation context
- formal alliance governance structures greatly enhance the work of alliance managers and the overall alliance management process

Alliance management skills
- alliance management skills determine the success of an alliance

Alliance management culture
- cultural-fit between partners could be reached where there are shared values

Alliance management process
- the role played by alliance managers in the management process can never be undervalued in volatile and information-void environments
Coping strategies

- alliance cases adopted a range of coping strategies in order to survive and/or cut losses given environmental turbulence, complexity, and organisational component dysfunctions

The study’s conclusions, together with answers to the six research questions and main research problem, can now be elucidated in Chapter 6. Implications for policy, practice and future research will also be considered.
CHAPTER 6 CONCLUSIONS

6.1 Introduction

Chapter 1 introduced the purpose of the thesis and defined the main research problem. The extant literature on strategic alliance management in the West and developing countries was reviewed in Chapter 2, resulting in the identification of six research questions and a preliminary holistic conceptual alliance management model. Chapter 3 then identified phenomenology as the appropriate paradigm for this research and subsequently the case study method as the most appropriate strategy for finding answers to the research questions, and therefore the research problem. The justifications for the selection of paradigm and method stemmed from the need for specific research that produces rich data to explain the high alliance failure rate worldwide; research on the role that alliance managers play in determining alliance outcome; the fact that no empirical research has been hitherto undertaken on alliance management in Papua New Guinea; and that present research has focused only on preferred managerial aspects of strategic alliances to the neglect of a holistic approach to alliance managerial problems. The within-case and cross-case analysis of the research data was presented in Chapters 4 and 5.

The purpose of this chapter is to present the study’s conclusions to the six research questions and main research problem. The implications for policy and practice are also presented and a holistic conceptual model, modified from that presented in Chapter 2, for strategic alliance management deriving from the study is presented in section 6.4 which goes towards the thesis’ contribution to theory. The study’s limitations are discussed and potential areas for future research identified.

This chapter brings the results emerging from the within-case, and cross-case analysis and the theoretical evaluation in Chapters 2 and 5, to bear on the six research questions and research problem. The presentation of a holistic conceptual model in Figure 6.1 completes the thesis process cycle. In so doing, the thesis fills a major research gap on the subject matter, specifically about developing countries such as Papua New Guinea where no research has been conducted, and generally on the international alliance management process.
6.2 Conclusions to research questions

6.2.1 Research Question 1
What economic/technological, political/legal, and cultural/social factors impact on strategic alliance management in PNG in terms of organisation context, management culture and management process?

The volatile business environment, dominated by the government, and socio-cultural factors have affected the Papua New Guinea financial sector alliances studied. For public-private sector alliances such as the CGS, SBGF, SACS and, to a lesser extent BMFS the government influence is acute. Even so, for private-private sector cases such as the NASFUND-AON this factor is also a concern as these alliances operate within an environment where government public policies and laws relating to infrastructure and banking and superannuation regulations have a direct bearing on performance. Indeed, it is the well-documented history of the old NPF that highlights the negative results of government influence, originating from a highly charged political environment, on an organisation in PNG.

Further effects are also evident. First, PNG has had three years of negative economic growth with no sign that this is abating. This, coupled with the current prolonged international economic recession, has implications for the financial performance of the alliances. Already two cases - CGS and SBGF - have been foreclosed due to financial constraints facing the lead partners, which are government agencies that rely on the GoPNG for budgetary support. Two additional cases - SACS and BMFS - previously received government funding but have been forced to reduce financial dependency. At the organisational level, the implications are that staff has to be reduced and, at the management process level, operational funds necessary for maintaining personal contact with the clientele have to be cut back, thereby affecting the quality of the loan portfolio.

Second, the availability of sophisticated technology in the business environment is limited. All five cases were partly compelled into alliances in order to access the banking and benefit fund administration technologies of their partners. Technology affects the process management of alliances and has direct implications for level for performance levels. At least one case - NASFUND-AON - has begun reaping financial benefits from technological efficiency gains resulting in further staff reductions.

Third, certain aspects of the PNG political and socio-cultural dimensions negatively affect alliance management. Politics forced a high turnover in CEOs at the former NPF (now NASFUND), SBDC, DAL, and PNGBC, all partners within four of the five cases (Table 3.2).
The NASFUND case demonstrates that excessive political involvement fosters official corruption and it nearly decimated the organisation. In terms of the socio-cultural dimension, *wantokism* means that those appointed as CEO and board chairman are frequently persons not qualified under the ‘fit and proper person test’ entailed in the *Banks & Financial Institutions Act* and *Superannuation Act 2000* that governs such entities. The case of the CGS shows that the advent of political appointees as CEOs of the former PNGBC (now merged with BSP) in the period 1996-2002 corrupted the prudential lending culture.

Finally, there were no significant demographic factors highlighted in the cases, except for the NASFUND-AON and BMFS. The former believed that employing women directly improved productivity, while the latter believed that encouraging women to handle loans greatly improved loan repayment and standards of living for families (Appendix 1).

### 6.2.2 Research Question 2

**What is the state of alliance management skills in PNG?**

The development of alliance management skills in PNG is still in an embryonic stage with the exception of a small number of cases where staff possess the requisite skills. This slow development must be viewed against the backdrop of a management culture that has been hitherto dominated by Weberian management principles inculcated throughout developing country bureaucracies and management training institutions (Turner et al. 1997; Hughes 1998).

From the five cases, the research in Figure 5.1 identified three alliances with satisfactory alliance management skills according to the criteria set out in Figure 4.1: the NASFUND-AON, BMFS and SACS alliances. Strong alliance management skills were portrayed by the NASFUND-AON case which involved senior citizen and expatriate managerial personnel. In the BMFS case, satisfactory skills were portrayed by AVI’s alliance manager who was required, under the AVI-AusAID Trust Deed, to impart strategic management skills to his counterpart at BHM. This counterpart is a former bureaucrat steeped in hierarchical management principles. The SACS also portrayed satisfactory alliance management skills, but only between two of the three partners in the network, the RDB and CIC. As for the SBGF and CGS, the absence of alliance management skills amongst the partners was evident in the high degree of animosity and failure to undertake basic interfacing tasks.

This study evaluated the degree of alliance management skills in terms of regularity of communication, staff exchanges, appointment of first-string executives, cross-cultural exposure and training, sensitivity of local culture, team building skills, perspective taking, regular
reporting, involvement of alliance management at the negotiation stage, joint activities, board of governance structure, learning objectives, social networks, personnel ties both at strategic and operational levels, and exposure to international management best practice (Table 4.1).

Empirical evidence from the study shows that the cases which entailed partners with satisfactory alliance management skills had satisfactory performances. Additionally, cases with at least the lead partner possessing satisfactory alliance management skills tended to positively influence the other partner’s behaviour to adopt satisfactory alliance management practices (Figure 5.1).

6.2.3 Research Question 3

What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with?

Alliance management in PNG is undermined through the difficulty in finding personnel graduating from the educational institutions steeped in strategic alliance management skills. As has been noted, it is only recently that PNG educational institutions have begun to move towards teaching modern management techniques and principles. The University of Papua New Guinea, which is the premier learning institution of the country, has not offered an MBA programme since Independence in 1975, is evidence of the lag in management education. Because there is a shortage of senior managerial expertise in the country, junior officers are often appointed to alliance management posts, particularly within public sector agencies. Alliance cases have had to settle for less experienced managers with little industry exposure and business networks.

Another dysfunction relates to the often meagre availability of data management technology. Client records at some partners’ offices are still being manually processed and stored which can result in important client files going missing, as was the case in the CGS (Kavanamur 2000, 2002b).

A further dysfunction relates to lack of financial resources being committed to alliance management. In cases that depended on government funding for operational costs, financial shortages have resulted in staff scale backs and therefore a reduction in client outreach programmes. Because PNG’s relationship-oriented culture is mainly underpinned by personal contact, a reduction in client visitation programmes often result in high loan defaults. The SACS case demonstrates that there is a relationship between loan repayment and frequency of personal visits by credit management officers and rural extension staff (Appendix 1).
Overall, the root cause of organisational dysfunctions in many of PNG’s alliances can be traced back to environmental turbulence and deficient resources available within this environment. This makes the task of the alliance manager all the more challenging in a typical developing country setting.

6.2.4 Research Question 4
How did the alliance manager in PNG manage the alliance in the context of these major organisational shortfalls?

The research shows that because lack of finance is a major cause of these shortfalls, the alliance manager’s only response was improvise and resort to limited process re-engineering and organisational restructuring. However, it is obvious that these are limited-measures as nothing can really substitute for the lack of money and resources, including skilled personnel as shown by the weak CGS and SBGF cases. Although the CGS has been foreclosed, an outstanding amount of between K3-4 million in default called-up guarantees remains outstanding. How coping strategies addressed managing the deficiencies in process management is the subject of Research Question 6 and goes towards answering this question too.

6.2.5 Research Question 5
How important were PNG cultural elements such as wantokism in the management of strategic alliances?

The research confirmed the significance of cultural elements such as wantokism and its influence on attitudes to work, time and decision making in strategic alliance management. In fact, all cases were apprehensive about the negative influence of PNG’s socio-cultural environment on the alliance management process.

Alliance managers highlighted the significance of cultural factors and its many aspects such as a widespread political interference in management issues, a general trend towards endemic corruption, wantokism which prevents discretion in decision making, slow decision making at board level, a predominance of social culture over business culture, emerging loan default culture and ‘bigmanship’ resulting in a strong respect for hierarchy.

Alliances that involved a government agency partner were more susceptible to the direct influences of wantokism and political interference. The CGS illustrates this where loan applications not only entered through the bank counters, but also through two political entry points - at the PNGBC CEO level and at the National Executive Council or cabinet level. Usually, such loan applications were approved outside the normal prudential banking guidelines. It must
be noted here that this practice was not isolated to the CGS, but was also prevalent throughout the lending culture of the bank as the PNGBC was, until 2002, a state-owned commercial bank.

These cultural factors made the development of cultural-fit between partners that could not change the cultural mindsets of people within their own organisations, much more difficult. In cases where cultural mindsets were difficult to change, the end result – failure - of these alliances was never in doubt. The CGS is typical, in particular when the PNGBC lending officers and Treasury officials deliberately approved loans to improve their social standing in the community or to reward a wantok or clan as part of the exchange obligation process. This culture meant that, the sophisticated banking technology that PNGBC possessed could not protect loan quality, rendering it nonsensical given the socio-cultural and political objectives that were being pursued by PNGBC loans officers and their CEOs, Treasury officials, and politicians. Indeed, PNGBC’s prudent lending culture deteriorated in the period from 1996 to 2001 (PNGBC Limited 1999, 2000).

A few alliances such as NASFUND-AON were able to filter out the negative influences of PNG’s societal culture by building firewalls around their alliances through good corporate governance principles and legal reform to their industry. However, for NASFUND, this strategy depended on a change management programme adopted by senior executives and the direct backing of the country’s prime minister who was promoting economic and public sector reform.

6.2.6 Research Question 6
How did alliance managers/liaison managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?

Answers to this question are two-pronged, entailing strategies that were adopted by alliances to manage the process issues, and the adoption of coping strategies to make up for deficiencies in the business environment, organisation component, and management culture.

Alliances adopted a number of strategies to manage process issues. The key strategy was for alliance managers to interface with partners and staff within the present organisations. The three satisfactory cases - NASFUND-AON, BMFS and SACS – all appointed senior executives as alliance managers, while the two weak cases – CGS and SBGF - had paired senior with junior alliance managers, for instance, both banks - PNGBC and BSP – signalled their commitment by appointing senior-lending executives while the government agencies settled for junior officers. The cases that committed senior executives to alliance management obtained reasonable
performance results, while those that did not eventually failed. It is clear that the seniority of an alliance manager meant they were in a position to effect realignment strategies in response to strategic drift since they had direct access to the decision making processes on resource allocation.

Appointing senior executives recognised the importance of relationship building in alliances. PNG’s relationship culture is characterised by personal contact and exchange obligations (Epstein 1968). All satisfactory cases demonstrate that solid personal relationships at both the strategic and operational levels enable alliances to be managed beyond the legal agreements and alliance structure (Figures 4.1 and 5.1). It is also clear that the successful cases had designed governance structures to facilitate these close interactions. The importance of governance design and information technology for interfacing is confirmed in the work of Doz et al. (1998:127-140). At the same time Doz et al. (1998) make the point that few alliance managers understand how to actually move beyond the deal and the structural aspects of alliance design to the active management of alliances in order to create value. This point is showing up in the cases studied for this thesis.

Another strategy is that all cases had alliance agreements in place. However, the differences in performance between alliances arise when such agreements are juxtaposed with the presence of alliance management skills. Cases that inculcated alliance management skills at all levels succeeded, while those that did not failed to obtain satisfactory performance results (Figure 5.1).

Moreover, there were other strategies adopted to manage process issues. These included heavy dependence on the use of qualitative information rather than quantitative information to inform lending decisions, cross-cultural training and exposure in order to make alliance personnel sensitive to other cultures, and the development of coping strategies to survive the negative effects of the government influence, societal culture and resource deficiencies both at the organisational and environmental levels.

To aid the alliance management process, alliance managers adopted coping strategies. Two types were prevalent: one set was adopted by performing cases to weather the environmental challenges and organisational deficiencies, and a second set was adopted by those merely muddling through in order to cut losses and eventually exit the alliance.

The satisfactory cases adopted strategies which included building firewalls via good corporate governance mechanisms and principles to prevent political interference; generating the perception
of a crisis through the effective use of the media in order to instigate regulatory reforms to the immediate industry; improvising with qualitative information obtained from business associates and reference groups to make decisions and to drive a strategic choice; and emphasising the need for loan officers to declare conflicts of interest early, requiring that all loan decisions be supervised by senior officers.

The weak cases’ strategies ranged from short-circuiting the procedures for loan recovery entailed in alliance agreements, shirking extra responsibilities to cut costs, to increasing the loan threshold to above K10,000 in order to avoid the excessive transaction costs incurred when dealing with small loan amounts requested by would-be entrepreneurs. Clearly, the strategies of the non-performing alliances were self-defeating vis-à-vis alliance goals. In a way, these were exit strategies adopted when it became clear to alliance managers that their future in the alliances was in jeopardy.

The adoption of coping strategies by alliance managers is consistent with previous research findings from studies on Asian business networks (Haley 1997, Haley and Haley 1998). Such strategies tend to evolve over-time from within organisations rather than following a formal rational plan, confirming the view of Mitzberg and Quinn (1996) on emerging strategy. Developing country environments tend to encourage improvisation because of resource deficiencies and high environmental turbulence (Dror 1983).

6.3 Conclusion to the research problem
How do strategic alliance managers/liaison managers strategically manage strategic alliances in the Papua New Guinea financial services sector?

The research has revealed a number of common strategic alliance management strategies that have been adopted by alliance managers and senior executives in the context of alliance environment, organisational component, alliance management skills, alliance management culture and coping strategies. These strategies have been illustrated in the cross-case analysis in section 5.8 and theory and cross-case discussion in section 5.9.

All cases were apprehensive about the idiosyncratic business environment in PNG which is highly volatile plagued by resource deficiencies, and information-void. The research has demonstrated that governmental and socio-cultural factors predominate in the national and local environments. Thus lack of government resources forced those partners dependent on government funding to look elsewhere and to simply cope with political appointments to senior executive positions for management and board levels. Socio-cultural factors such as *wantokism*, one that
guides appointments, customer service, performance objectives and relationship management have often been at odds with modern management practices for modern organisations such as those which adopt the network design.

In response to these threats, alliance managers in all cases, except for NASFUND-AON and BMFS, did not adopt rational plans for environmental analysis in order to identify drivers of change, or even to adopt formal learning mechanisms as do their Western counterparts. Instead, alliance managers tended to allow for coping strategies to evolve naturally, confirming the view of Mintzberg and Quinn (1996) on emergent strategy. Such strategies are discussed below, but do not allow for alliance managers to act in time in order, for instance, to prevent strategic drift. These strategies do not emphasise timely learning, resulting in alliance life cycles being prolonged beyond their-use by dates and are inimical to satisfactory alliance management practice. The SBGF and CGS cases demonstrate that timely learning and realignment of strategic intent to structure, control, culture and environment were missing. Institutional factors also prevented the effects of misalignment to be fed through the system in a timely way which prevented early action, despite clear performance failures. The CGS was therefore never reformed in its entire operational life cycle from 1976 to 2002, despite admittance by alliance staff of obvious performance failure.

The research also found that the organisational components in the cases were generally characterised by resource deficiencies and, given the environmental factors noted above, susceptibility to misalignment in strategic intent and structure was greatly increased. In response to these threats, the cases adopted strategies that are akin to those of their counterparts in the West. One such strategy was that the majority of cases appointed senior executives as alliance managers leading to relative success in their respective alliance performances, while those that did not suffered failure and eventual termination. Those that appointed first-string executives did so for the obvious reasons revealed in the extant literature, but additionally, in the context of PNG, this can be deemed as recognising the strong relationship-oriented culture prevalent in that society.

Moreover, the majority of alliance managers also established governance structures to formalise such relationships, in addition to alliance agreements. The research confirms the views of Doz et al. (1998:127-140) that formal governance structure and design greatly enhance the process management involving joint tasks, productive relationship building, reporting, planning and control, communication, boundary spanning, implementation and the propagation of alliance management skills both at strategic and operational levels. The research revealed that alliance
agreements are insufficient mechanisms for effective alliance management and that governance structures ensures the management of interaction.

The research found that the development of strategic alliance management skills in PNG is still at an embryonic stage with the exception of a small number of cases including that of the NASFUND-AON, SACS and BMFS. The low critical mass of alliance management skills should be viewed against the backdrop of a country with a management culture still being dominated by Weberian management principles (Turner et al. 1997:82-104; Hughes 1998). The fact that the University of Papua New Guinea is just gearing up to launch the country’s first MBA programme in June 2003 attests to the state of management training in the country (Post Courier May 6, 2003: 45). Thus, a strategy in response to this lag in management education is that the alliance managers who were appointed in the majority of cases were those who had been involved in the negotiation stages. Such managers had at least 10 years of managerial experience and extensive industry knowledge. These managers were exposed to cross-cultural management environments as well as international management best practice. Indeed, the alliance managers of the success cases have had overseas exposure and training and at the time of research continued to do so. For instance, the BHM alliance manager attended the World Credit Summit in New York in November 2002 after an interview session with the author.

Cases that appointed junior alliance managers did not take cognisance of the hierarchical structures of PNG organisations and cultural mindsets which hold ‘bigmanship’ and seniority in high regard. As a result, these junior officers had minimal interface with their counterparts who were, more often than not, senior executives, resulting in massive communication breakdowns. In PNG when this happened the junior alliance managers tended to go underground in the hope that the problems would simply dissipate. When their alliances began defaulting on resource commitments to the alliance, the problem was made worse and any degree of trust that might have been achieved quickly dissipated. Culturally, it has been noted that PNG managers find it difficult to tell the truth and face up to problems early, rather continuing to make empty commitments (Mitchell 2002a, b, c).

In addition, the task of alliance managers is made more difficult when an alliance involves a public-to-private sector partnership. This is because there are wide culture gaps and institutional differences between the two sectors. In such situations the cases showed that allowing the dominant role of the partner with advanced alliance management skills to influence the culture of the alliance increases the chances of alliance survival. However, this strategy alone cannot be considered in isolation from the other strategies, such as involving all alliance managers and
senior executives in the early negotiation stages and inculcating alliance management throughout the operational level. The BMFS case, which involves AusAID through the AMC/AVI and the GoPNG through the Bougainville Commerce Division, in its alliance network, demonstrates this point, where the AVI’s culture of community service and emphasis on local grassroots ownership was embraced by all parties.

The research confirms the views expressed in the extant literature that developing countries are high culture-context with strong relationship-orientation as depicted in Table 2.7. Therefore, it is recognised that culture is a strategic issue with a direct bearing on alliance management performance. Increasingly, there is a need to establish cultural-fit between the partners’ organisational cultures and with societal culture. The cross-case analysis found, however, that alliance managers found it difficult to establish cultural-fit between public-private sector alliances and between the partners’ culture and societal culture.

There were also concerns about the negative influences that societal culture posed for alliances. For instance, the CGS case shows that when the cultural trait of wantokism predominated over the prudential lending culture of the PNGBC (a state-owned bank prior to mid-2002), its advanced banking technology, which should have been a real asset, became a redundant as it succumbed to the overwhelming influence of societal culture.

The research reveals that only those alliances that built effective firewalls around their alliances, such as NASFUND-AON, were able to filter out the negative cultural influences, whereas those that failed to do so or which were constrained by institutional factors, limped along most of the time that they were operational. Those alliances that tried to adapt the positive aspects of culture to improve a sense of local ownership of the project alliance, or to improve loan repayments, achieved some positive results, for example, the BMFS and SACS alliances. The former achieved early cultural-fit between the project alliance and societal culture through education, adoption of clan structure based on matrilineal lines for the project alliance’s grassroots microfinance institutions (GMFIs) and the principle of ‘go easy’ (go easy), while the latter emphasised personal contact through visitation programmes in order to enhance the loan repayment rate.

The research confirms the views expressed in the extant literature that highly volatile and information-void environments buffet alliance process management in developing countries. The cross-case analysis reveals that alliances which adopted formal governance structures were able to effectively manage the process issues of relationship building and process-reengineering in order to make alliance management more effective.
The research also confirms the theory of networking, confirmed in the research by Buttery (1992, cited in Buttery et al. 1994:23-24), that posits that there are five imperatives for networking success, and each need to be operational in tandem in the networking situation. These are: (a) domain overlap, (b) something to offer, (c) motivation to join the network, (d) appropriate business climate, and (e) bonding. Importantly, the research shows that in developing country contexts the fourth requirement about appropriate business environment cannot be always guaranteed and may actually prove intractable for alliance managers.

Finally, the research was able to show that as part of the management process, developing countries’ alliance managers, more than their developed country counterparts, extensively adopted coping strategies to manage their alliances. These strategies evolved naturally and were not the product of rational comprehensive plans. Coping strategies were adopted for two purposes:

- to enhance alliance survival by the satisfactory cases using criteria set out in Figure 4.1
- to cut costs in the less satisfactory alliances and eventually as an exit strategy

To summarise, this thesis contributes a holistic approach to the study of strategic alliance management both in developed and developing countries. The thesis has provided answers to the research problem from a systems perspective by laying out the alliance management strategies adopted by cases in the PNG financial sector relating to the alliance environment, organisation component, alliance management skills, alliance management culture, and alliance management process. The thesis underscores the utility of systems thinking (parent discipline) and specifically contributes to the immediate discipline of strategic alliance management by noting that alliance managers in developing countries have had to adopt coping strategies that include an emphasis on qualitative information rather than on quantitative data analysis due to the highly turbulent and information-void environments. In this environment, conventional methods of strategic management have not yet been well developed, but at the same time questions must be asked about their utility, given that the validity of information has a short life span.

6.4 Implications for theory

A new holistic conceptual model for strategic alliance management is presented in this section, modifying the preliminary conceptualisations presented in section 2.5.4 (Figures 2.2 and 2.3) in Chapter 2. This model is based on the systems approach (parent discipline) of this thesis and synthesizes the theoretical findings of the strategic management approach, network theory and
relationship marketing approach on strategic alliances (immediate discipline) presented in Chapter 2.

Important additions to this model presented in Figure 6.1, emerge from the primary data presented in the Case Reports in Appendix 1 and evaluated in Chapters 4 and 5. The role alliance manager’s role is central to this model, since the research confirms the point made in Chapter 1 that a major cause of business network failure is related to management, particularly where partners are involved (Niederkofler 1991). The model also underscores systems components and strategy. It contributes a new dimension to alliance management by adding the importance of coping strategies adopted in developing country contexts for the purpose of enhancing performance, or as an exit strategy, as exemplified in the cases.

The model shows that the management of the alliance depends on how the alliance manager makes sense of the organisation environment, organisation context, management culture, and management process. For each of these components a strategy emerges, developed either rationally (Glueck 1976), or incrementally (Mintzberg 1979; Mintzberg and Quinn 1996). The cases reveal that in developing country contexts, barriers to alliance management abound which elicits coping strategies from alliance managers. Such strategies are either used for coping with environmental and organisational deficiencies with the intention of continuing the alliance, or as means for cutting losses where institutional barriers prevent early termination, eventually acting as exit strategies.
A description and rationale of the major components of the model is undertaken in the remaining part of this section.

**Alliance manager**

The central role of alliance managers in alliance management is confirmed by insights from the strategic management approach (Limerick et al. 1998:91-96; Lorange et al. 1993; Yoshino et al. 1995; Cauley De La Sierra 1995; Child et al. 1998; Doz et al. 1998). Niederkofler (1991:245) notes that the presence of inappropriate liaison managers exacerbates organisational differences between larger and small firms and public and private organisations such as cultural, structural and procedural incompatibilities. Further Niederkofler (1991:246) specifically notes that alliances which faced difficulties in maintaining strategic- and operating-fit, had liaison managers who did not possess the appropriate position and skills, or even worse - no liaison manager was appointed. Spekman et al. (1996:347) identified the different roles that alliance managers have to perform in the various stages of the alliance cycle as shown in Table 2.4, and key alliance manager characteristics as shown in Table 2.5.
The research shows that alliances which appointed first-string executives as alliance managers produced relatively satisfactory results, whereas those that had a mixture of senior and junior alliance managers produced weak results (Table 5.3 and Figures 4.1 and 5.1). Examples of the former include NASFUND-AON, BMFS and SACS, and the latter, CGS and SBGF. In developing countries such as PNG, where society is highly relationship-oriented and with a high culture-context, selecting an alliance manager of suitable rank must recognise these factors. The cases also illustrate the importance of involving would-be alliance managers early in the negotiation process, the importance of cross-cultural management skills, and the full backing of parent organisations. Alliance managers in public-private sector alliances face steep challenges because of cultural and institutional differences.

**Environmental context/strategy**

The challenges posed by the alliance environmental context to alliance management were discussed in sections 5.2, 5.9, 2.5.1.1 and 2.5.2.1. These discussions confirm that environmental turbulence directly affects alliance management (Glueck 1976; Buttery et al. 1998; Johnson et al. 1999:100; Porter 1980; Ohmae 1989; Hamel et al. 1994; Cauley De La Sierra 1995; Doz et al. 1998; Nohria 1992:2; DiMaggio et al. 1983:143; Miles et al. 1994). Further, Austin (1990), Kohn et al. (1996) and Manning (1999) note that volatility in developing countries makes alliance management is made more difficult. The research reveals that such a volatile environment is characterised in PNG by the dominance of governmental and socio-cultural factors.

The cases show that only those alliances that develop strategies to cushion the negative effects of the alliance environment are able to survive (Table 5.1). Only two of the five cases – NASFUND-AON and BMFS - developed strategies to curtail the influence of political interference and *wantokism*, a key feature of the socio-cultural factor. Cases that had a government agency as a partner seemed to have few strategic options because they were dependent on the GoPNG for financial resources which imposed legal and institutional constraints. Business strategies that are developed to take into account environmental influences are themselves highly influenced by environmental factors as has been succinctly put by Wildeman (1998:97).

**Organisational context/strategy**

Adequate organisational components and the ability of alliance managers to leverage these resources and structures are critical to an alliance’s success. The importance of organisational components was discussed in sections 2.5.12, 2.5.2.2, 5.3 and 5.9. Adequate organisational components depend on the partners’ contributions, their ability to do so depends, in turn, on the degree of sufficiency of resources within the alliance environment. In developing country

The cases show that those that achieved a relative degree of success developed organisational strategies that took alliance management beyond the formal agreements and focused on the actual management of interaction (Table 5.2). The NASFUND-AON, BMFS and SACS alliances developed formal governance structures from which alliance work was coordinated were better able to manage interaction, while CGS and SBGF which were managed from a distance without a formal strategy faced interaction difficulties and hence eventual termination. The cases show that due to PNG’s relationship-oriented culture, personal contact through governance structures enhanced the alliance management process.

The cases also show that those that inculcated alliance management skills at both strategic and operational levels were able to interface effectively. Developing communication infrastructures were also vital to alliance management. NASFUND-AON had a common intranet facility, while BMFS had access to Internet facilities installed at the BHM head office, despite a general deficiency in locational amenities after a protracted 10-year war.

Management culture/strategy
Culture significantly affects alliance implementation and performance rather than strategy formulation. The challenges faced by alliance managers in developing culture-fit between partners’ organisational cultures and with the dominant societal cultures were discussed in sections 2.5.1.3, 2.5.2.3, 5.5 and 5.9. The analysis of culture at the organisational level and differentiation between Western and developing country cultures have been mainly captured in Hofstede’s Value Survey Model undertaken in 1980 and later updated in 1984 (Hofstede 1980, 1997; Hofstede and Bond 1984). The works of Trompenaars (1993), Gannon (1984) and Hall (1976) have also exemplified the importance of culture in management.

In the context of cross-culture alliances the work of Elashmawi et al. (1993), Segil (1996), and Lorange et al. (1993) highlight the challenges posed by culture. The influence of culture in PNG is elucidated in the work of Hess (2001) and Hess and Imbun (2003), particularly the influences of the *wantok* system. Hess (2001:15) makes the point that the *wantok* system may be suitable for the more clannish social environment, but overall, may not be compatible to work attitudes in modern commercial organisations because of the social obligations that it generates.
The cases confirm the concerns of Hess (2001) about the negative influence of PNG’s societal culture on the alliance management process. These influences include political interference, social obligations generated by wantokism, slow decision making and reverence for ‘bigmanship’ or hierarchy (Table 5.4). Thus, alliance managers who purposely devised strategies to filter these influences or blend the positive aspects of societal culture with organisational culture were less affected. NASFUND, the lead partner in the NASFUND-AON alliance, was able to implement a strategy of change management that transformed its organisational culture from one based on bureaucracy to one that was more conducive to alliance management and a strong service-oriented culture prior to its partnering with AON in 2001.

Another set of strategies were adopted by BMFS, where the positive aspects of societal culture and social structures such as clans were adopted to generate trust and rally support for the establishment of GMFIs that were multiplied at the grassroots level. This process took BMFS five years of working to increase awareness and mass training through a development educator course. Likewise, in the case of SACS, a strategy of personal visitation has actually helped to generate loan repayments because the PNG culture is highly relationship-oriented.

Management process/strategy

The actual process management in alliances, whereby alliance managers attempt to leverage key components and resources within, to create and capture value for the partners and customers was discussed in sections 2.5.1.4, 2.5.2.4, 5.6 and 5.9. Whilst structural features relating to alliance strategy, contractual agreements, governance structure and consequent control and coordination requirements are important, the actual alliance management process is not complete without an appreciation of the dynamic processes and the soft issues entailed therein (Madhok 1995:100). A key aim of a process management strategy in alliance management is maintaining both strategic-fit at top management level and operating-fit at middle-management level. Because alliance problems emerge mainly where human behaviour interfaces, it underpins the need for alliance management skills to be present simultaneously at the strategic, operational and interpersonal level.

In terms of managing relationships, the extant literature on process management, reviewed in section 2.5.1.4, proposes that alliances need to be managed as a portfolio, and hence as a ‘whole’ rather than as dyadic relationships. Such a strategy identifies the alliance manager as a moderator of conflicts and prioritiser of value-adding relationships, compelling managers to undertake portfolio analysis, develop partner programmes and databases to help manage a portfolio of
relationships (Duyster et al. 1999). Other tools that could be used for relationship management include KAM and demand chain management (Vollman et al. 1998; Ojasalo 2001; Bensaou 1999). The whole idea is to have a strategy for managing the interaction process.

The research demonstrates that environmental deficiencies and complexities as well as organisational component deficiencies, challenge alliance managers ensure a reasonable strategic- and operational-fit. The cases show that the NASFUND-AON, BMFS, SACS alliances which perceived their alliances as central to core business, ensured that first-string executives were appointed as alliance managers (Table 5.5). Such managers were also chosen based on their involvement in the initial alliance negotiation stages.

Those who also took their alliances seriously ensured that formal governance structures were also established to facilitate the process of interaction. PNG’s relationship culture is based on personal contact and reciprocity. In this regard, the proximity of alliance partners enhances the relationship building process. The importance of personal relationships is evident in the NASFUND-AON and SACS alliances. In the former, personal relationships were strong because the 22 personnel who were managing the NASFUND portfolio at AON were all former employees of NASFUND; while in the latter case, loan repayment is being enhanced through a personal visitation programme.

**Barriers to success/coping strategy**

The literature on alliance management processes in developing countries shows that organisation processes are generally managed as closed systems and that they are often not responsive to environmental changes as there is little-perspective taking. Process management is constrained by ambiguous criteria for performance measurement and organisational goals (Kiggundu 1990). Process management also has to be undertaken in an environment where positive organisation culture is still very much fragmented, volatile and information-void.

In response to such environments, Haley et al. (1998:302) point out that the predominance of strong relationship cultures act as a major tool for coping strategies. Typical coping strategies in Asian business networks include top managers placing emphasis on hands-on experience to make fast decisions within minutes without the benefit of detailed analysis of hard data; lateral transfers of knowledge to unrelated business areas; use of qualitative information; holistic information processing as analytical models often prove unworkable; action-driven decision making; and emergent planning where strategies bubble-up.
The cases show a number of coping strategies confirming the findings of Haley et al. (1998) and therefore contributing a major component to the holistic conceptual model for alliance management. This component may not be a major feature of alliance management in the West, but in developing country contexts, coping strategies are necessary for survival and some times as exit strategies (Table 5.6). Such strategies are often based on experience-based intuitive models, rather than analytical models where formal data collection and analyses is emphasised. Instead, external sources of qualitative information, which are subjective and obtained from friends, business associates, government officials and others, whose judgement and character they trust, are preferred. Moreover, site visits to check information is preferred to relying on secondary data.

The coping strategies adopted in these cases are presented in Table 5.6 and include building firewalls via corporate governance mechanisms to prevent political interference and hence corruption (NASFND-AON); deposit mobilisation and on-lending strategy to avoid legal requirements (BMFS); personal visitation programmes to boost loan repayment (SACS); dependence on qualitative information for lending decisions (BMFS, SACS and CGS); emphasis on immediate senior officer oversight in lending decisions (SBGF); and using business associates and political friends to pursue strategic choice (NASFUND-AON), and increasingly so given increased vagaries in the business environment, shorter alliance agreements (NASFUND-AON).

**Strategic alliance outcome**

Any strategic alliance outcome cannot be considered as inseparable from the processes within. The research shows that the NASFUND-AON, BMFS and SACS alliances which developed strategies, either formerly or through emergent planning, to manage the alliance environment, organisational components, alliance culture and alliance processes made progress towards their goals. However, those that failed to do so – CGS and SBGF - faced eventual foreclosure.

The research also demonstrated that where there is goal ambiguity and institutional barriers to termination, the alliance could muddle on for decades, particularly when a public sector agency is involved – CGS. However, there may also be situations where an alliance involving a government agency is abruptly terminated as a result of ill-conceived decisions, without the courtesy of informing the other partner - SBGF. Lessons can be derived from the model for alliance performance, however, it is up to the alliance managers to lay down the necessary learning infrastructures. The research reveals that formalising learning has been undertaken by only a few cases.
6.5 Implications for policy and practice

Several implications for private sector managers as well as for public sector analysts and managers arise from this research.

Implications for private sector managers abound. The research findings could be used to design alliance management strategies for new strategic alliances in both developed and developing countries. At the same time, alliance managers could directly use the findings derived herein for realigning strategic intent to governance structure, control, culture and environment in order to avoid strategic drift. Findings are also specifically useful for deriving strategic- and operational-fit.

Overall, the thesis provided a model of best practice, as detailed in section 6.4 (Figure 6.1), based on the theoretical underpinnings of the strategic management approach, network approach and relationship marketing approach, as well as on the practical experiences of alliance management in PNG. The model also offers insights into how alliance managers develop coping strategies to survive the idiosyncratic environment in PNG, and therefore in other developing countries. The lessons are holistic in nature, because the model has been informed by the systems approach, which is the parent discipline of this thesis.

The research also offers considerable data for public sector analysts and managers, which could be used to enhance the alliance business environment, correct organisational component deficiencies, review public sector organisations’ management culture, process management, and therefore reduce the need for coping strategies. A pertinent policy lesson has to be the need to improve management education in PNG, where there should be a clear shift away from management training based on Weberian and Fordist management principles, to more post-Fordist management principles based on flexible specialisation. This would better facilitate strategic alliance management or cooperative behaviour. Addressing this concern could result in an increased availability of potential alliance managers in the country.

The findings from this thesis offer a good start to the design of alliance management education in PNG, either through short courses or more institutional-based education programmes. An appreciation of the relationship-oriented and high culture-context of the PNG environment goes a long way towards educating alliance managers about the challenges and about the appropriate strategies that they should adopt. The findings from this thesis have already been used to inform government, non-government organisations and international donor agencies operating within the
South Pacific region concerning development cooperation strategies and strategic alliance practices in the non-bank financial sector.

The author was invited to present preliminary findings of the research at the ‘Development Research Symposium: South Pacific Futures’ (22-24 July, 2002) held at the University of Queensland, Brisbane, organised by the Foundation for Development Cooperation (FPDC), and the Australasian Development Studies Network based in Canberra.

The Conference proceedings can be found at http://www.fdc.org.au/files/kavanamur-2.pdf and an abbreviated version of the paper was subsequently published by the organisers in the Development Bulletin No.60, December 2002, a journal widely circulated to partners of the Development Studies Network throughout Australasia. Preliminary research findings also informed the framing of the GoPNG’s national Medium Term Development Strategy for the period 2003-2007 when the PNG National Planning and Monitoring Office invited the author in August 2002 to provide a background paper on strategic alliance management in rural financing (Kavanamur 2002a). The author was also invited by the PNG-ADB Microfinance Competence Centre in Port Moresby to brief a workshop for microfinance practitioners on alliance management and microfinance in February 27, 2003 at the Institute of Banking and Business Management (IBBM). Moreover, the author was invited on May 28, 2003 to brief a round table discussion on development cooperation for European donors in Madang (PNG) organised by the German Development Service (GDS).

A key recommendation in these conferences ventured by the author is that because microfinance institutions tend to involve more than two partners, 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. Therefore, MFI training programmes in the South Pacific would do well to include strategic alliance management best practice principles in their training programmes in order to reduce the managerial constraints that MFIs have had to contend with (Kavanamur 2002b:90).

At the most practical level the School of Business Administration at the University of Papua New Guinea has requested the author to devise a new course sequence in strategic management with a leaning towards educating future managers in strategic alliance management skills. A core component of this course sequence is strategic alliance management. PNG has a shortage of
managers who are steeped in strategic alliance management skills necessary for strategic positions in organisations in both the private and public sectors (World Bank 1999, Post Courier May 12, 2003:39). Most organisations are operating with little understanding of strategic-, business- and marketing-plan designs.

Finally, the research offers important policy lessons aimed at developing a more formal approach, together with appropriate systems for learning. The conceptual model based on the research reveals the neglect of continuous and formal learning both by alliance cases and government policy makers in PNG. Figure 5.1 shows that very few alliances actually have laid down systems for learning because learning as an objective has not been regarded highly.

### 6.6 Limitations

Section 1.8 outlined major limitations of the research that were deliberately incorporated into the research plan. This section discusses other limitations that have become apparent during the course of the research.

The pilot and actual cases explored alliance management processes and practices only in six PNG non-bank financial alliances involved in guaranteeing to lenders a certain percentage of loans to borrowers in the event of default. These were dominated by government and semi-government agencies and only one alliance represented a private-private sector alliance. The findings are limited to those alliances studied and it is therefore left to readers to familiarise themselves with other cases and to draw their own inferences about other strategic alliances in different contexts and industries.

Researching strategic alliances for a PhD using the case study method is quite challenging and such research is not complete without seeking the views of at least another partner in a network. This research has done well, in that although it only has a sample of five alliances, in effect the study has covered 10 organisations. Despite this, the research did not incorporate the clientele into the study so as to complete a holistic evaluation of alliances. Budgetary and time limitations confined the author to the alliance partners and relied on documentary evidence to gauge the views of customers.

According to Yin (1994), a minimum of six and maximum of ten cases is appropriate for a PhD research following the case study method, in order to generate compelling evidence of a social phenomenon. However, as has been alluded to above and mentioned in section 1.8, time and
resource limitations restricted the number of cases to five excluding the pilot study, three of which had satisfactory performances while two represented weak performances. Ideally therefore, the sample size should be increased to 10, not necessarily to satisfy sample requirements as in positivistic research, but to generate compelling evidence and illustrate the theories of strategic management, network approach and relationship marketing.

6.1 Implications for further research

This research has contributed to a general effort worldwide aimed at deciphering the causes of strategic alliance failure, which are currently 60-70 per cent within the first year of business (Rackham et al. 1996; Wildeman 1998; Cauley De La Sierra 1995) and 40-50 per cent within five years (Bleeke et al. 1993). By focusing on the role of the alliance manager in alliance management, the thesis has satisfied Niederkofler’s (1991) concern that although it was clear a major cause of alliance failure was managerial, little research was being directed at this aspect. The research has also plugged a major gap in alliance research in PNG in that it is the first empirical study of its kind. In terms of its contribution to the thesis’ immediate discipline of strategic alliance management, the research has incrementally contributed to the corpus of knowledge by offering a holistic conceptual model for strategic alliance management and, in particular, this conceptualisation has been undertaken in the context of a developing country. In such contexts where environments are turbulent, complex, resource deficient and highly information-void, alliance managers commonly adopt coping strategies to prevent strategic drift and drive strategic choice - a practice not common in developed countries where conditions are relatively conducive.

However, having made the above contributions, future research along the positivistic paradigm is required to further extend the frontiers of knowledge in the strategic management of alliances and to generalise the findings. Such a research should not only focus on PNG cases in the financial sector, but also include cases from around the South Pacific region and draw from a cross-section of industries. The sample should also be representative of private-private sector cases and public-private sector cases.

Although the research succeeded by studying at least two partners in an alliance, the need to incorporate the clientele into a future study would complete the holistic conceptual model presented in section 6.4. Future research should also increase the number of cases to 10 as recommended by Yin (1994) and perhaps be undertaken by a number of researchers in order to share the work load, but undertaken in a standardised approach as much as possible.
A point that emerged from the research is that alliance managers were concerned about the perceived negative influences of PNG’s societal culture on alliance management and that the few cases that survived were the ones able to filter out these influences using various strategies (sections 5.2, 5.5, 5.9, 6.2 and 6.4). At the same time, the research also found that cross-cultural training and exposure enhances alliance management (section 5.9). The importance of culture in management has been emphasised in the work of Hofstede (1997), Trompenaars (1993), Hall (1976), Gannon (1984) and Peters et al. (1982). However, in the context of PNG it is clear that no major empirical study has yet been conducted in this area. This could be a major research opportunity for future PhD candidates and researchers, building on the findings of this thesis.
APPENDIX 1 CASE STUDY REPORTS

Appendix 1 contains the case study report which forms a part of the case study database as a way of recording the “evidentiary base of the case study” (Yin 1994:128). This report contains much detail that does not necessarily fit the main text, particularly Chapters 4 and 5. Table A1 outlines the five case studies three of which are relatively successful strategic alliances while two are not so successful. The case reports provide the basis of within-case analyses for each alliance provided in Chapter 4, and cross-case analyses in Chapter 5. The findings of the sample are provided in Chapter 6.

Table A1 Strategic alliance case

<table>
<thead>
<tr>
<th>Case</th>
<th>Alliance/organisations</th>
<th>Industry</th>
<th>Successful?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Smallholder Agriculture Credit Scheme (SACS)</td>
<td>Agri-business financing</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Rural Development Bank of PNG (RDB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coffee Industry Corporation (CIC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>GoPNG’s Credit Guarantee Scheme (CGS)</td>
<td>Business financing</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Department of Treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PNG Banking Corporation (PNGBC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Small Business Guarantee Facility (SBGF)</td>
<td>Business financing</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Small Business Development Corporation (SBDC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank South Pacific (BSP)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Bougainville Microfinance Scheme (BMFS)</td>
<td>Microenterprise financing</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Bougainville Commerce Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Australian Volunteers International (AVI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>NASFUND-AON</td>
<td>Fund management</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>National Superannuation Fund (NASFUND)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AON International</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion of each case follows the format outlined in the case study protocol (Appendix 2). The outline is also the same for Chapter 4:
1. Organisation background.
2. Importance of strategic alliance to the partners’ core business.
3. Presence of alliance management skills.
4. Clarity of strategic intent of alliance and extent of alignment between this and organisational structure, planning & control, culture and environment.
5. Influence of environmental factors on alliance management process: economic/technological, political/legal, and cultural/social factors.
6. Adequacy of internal organisational components for alliance management: governance structure and control, human resource component, continuity, communication skills, adequacy of technology used, feedback mechanisms, and coping strategies.
7. Influence of organisational and societal culture on alliance.
8. Management of relationship capital/soft issues as part of alliance process management.
Case Study No. 1.  Smallholder Agriculture Credit Scheme (SACS)

Partner 1.  Rural Development Bank of Papua New Guinea (RDB)\(^{10}\)

1.1.1 Background

The Bank of Papua New Guinea (BPNG) distinguishes four ‘tiers’ among institutions comprising the formal financial system in PNG (BPNG 1998). The Rural Development Bank (RDB) is part of Papua New Guinea’s small financial sector.

The first tier is the base and entails the central bank or BPNG; the source of reserve money. The second tier comprises commercial banks or trading banks, of which there are four: Westpac, Australia and New Zealand Bank (ANZ), Bank South Pacific (BSP) and Maybank. These four commercial banks dominate the financial sector, accounting for about 90 per cent of bank assets (AusAID 1998, cited in Conroy 2000:217).

The third tier comprises ‘bank-like’ institutions including finance companies, merchant banks, and savings and loans societies (S&LSs) or credit unions. These financial intermediaries, mobilise savings and channel credit to private borrowers, but are not allowed to offer checking services (Conroy 2000:218). There are five finance companies, three of which are subsidiaries of commercial banks, and four merchant banks. The S&LSs were part of the colonial heritage and they emerged in the 1960s.

The fourth tier comprises nonbank financial institutions. These include investment and pension funds, insurance companies and brokers, stockbrokers, and the Rural Development Bank. The RDB is classified in this category because it does not have a banking license that allows it to mobilise deposits.

The RDB was established in 1967 as the Development Bank of PNG, following recommendations by a World Bank mission in 1963. The bank was renamed the Agriculture Bank of PNG in 1985 to reinforce its focus on the development of small-to medium-scale agricultural projects and enterprises (BPNG 1998:145). In 1994 a second restructure took place. The bank was renamed the Rural Development Bank of PNG. Further restructure in 1998 made the RDB a subsidiary of the state commercial bank, the Papua New Guinea Banking Corporation (PNGBC). This reform made the bank a Rural Development Bank Limited, established under the PNG Companies Act 1997 (RDB 1998b). However, following further restructure to prepare the PNGBC for privatisation, the RDB reverted to its standalone status, but retained its status as a limited company.

RDB activities have been concentrated in the larger urban centres of PNG, namely Port Moresby, Lae, Mt. Hagen, Kokopo, Goroka and Buka. By 2001, the RDB had selectively suspended retail lending to high-risk long-term agriculture projects and was concentrating on the collection of overdue loans (RDB 2002). It has since been re-positioning itself for privatisation and has been seeking BPNG approval for a banking license that will allow it to mobilise term deposits as security for loans.

From its inception in 1967 through to 1998 the RDB was used mainly a as a conduit for rural development lending by both donors and the GoPNG. Total loans disbursed in the 1967-2000 period amounted to K500 million. Its current overall bad debt stands at around K90 million.

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\(^{10}\) This case report which forms part of the database is based on in-depth interviews with RDB’s alliance manager, Executive Manager (Lending), an economist within the Corporate Services Department, and the Goroka branch manager. Interviews were undertaken in Port Moresby at the following times: March-May and August 2002. Secondary sources have also been used as cited in the reference to triangulate the data.
1998, the bank incurred a net loss of K20.89 million as a result of a general provisioning of K20.7 million made for non-performing loans, but in more recent years (1999-2001) the RDB appears to have recorded net profits of K2 million which it attributes to rigorous loan collection, reduction in overhead costs and interest on income earned on equity investment (RDB 2002).

A net profit of K0.5 million is projected for 2002 due to declining interest income on loans and term deposits. However, these estimates do not account for repayment obligations to the GoPNG as part of its K90 million bad debts. Its inclusion (K39.74 million as at 31 December 2002) will automatically eliminate any profit projections from the picture. Concerns have also been raised with the accounting practice of treating interest earned on invested portions of seed capital as profits as this should be part of the proprietor’s equity contribution.

Since 1999 the RDB has literally been forced to restructure itself because the government funding it once received has dried up. Part of the restructure process entailed reducing staff strength from 443 personnel in 1998 to 218 by 2002 through retrenchment, termination and natural resignations (RDB 2002). The bank has also adopted a ‘Performance Management Program’ (PMP), which link salary to a performance bonus system; Bottom-up Portfolio Management Strategy; profit centres and an earmarked K1.6 million for a new stand-alone Management Information System (MIS).

Of the K513 million that the RDB lent in the period 1967-2000, 47 per cent was lent to the agriculture/livestock/fishery sector, while the 53 per cent balance went to the commercial/service/industrial sector (RDB 2002; Rumints 2001). Of the agricultural loans, coffee and cocoa received 10 per cent each while the service sub-sector received the bulk of commercial funding (25 per cent). Lending for smallholder agriculture under SACS is budgeted mainly to rehabilitate existing crops. For example, a typical CIC loan for cash flow would be for tools, pulpers, knapsack sprayers and herbicides, drying materials, labour costs and transport (CIC 2002b). CIC also prefers short-term loans of five years with a one-year grace period, although the SACS MOAs allows for 10-year loan terms with a 3-year grace period.

The RDB went through three phases of lending in its history. During 1967-1979 commerce and the industrial sector were emphasised. The 1980-1988 period in turn saw an emphasis on agriculture tree crops. Finally, the 1989-2002 period shifted lending back to the commercial and industrial sector. Over-exposure to the tree crop sector in the 1980s is said to have been responsible for the bank’s huge non-performing loans incurred as a result of the depressed commodity prices that were apparent at the end of the 1980s and early 1990s. Compounding the problem was the black pod disease that decimated the redevelopment projects in the cocoa industry.

The 1990s saw the RDB together with key stakeholders such as DAL instituting a number of innovative schemes that were aimed at overcoming much of the transaction costs that had plagued its operations. These included the Women & Youth Mini Loan Scheme, Smallholder Agriculture Credit Scheme (SACS), Oro Small Business Credit Scheme, District Credit Scheme (DCS), and the planned Microcredit Scheme Through Intermediaries. While many of these schemes thus far have failed, the lessons are crucial for the development of sustainable financial products. Although the RDB reconfigured the operational strategy into using network partners, it felt constrained by interest rate caps imposed by its mandate to deliver loans at ‘affordable’ rates.

One such scheme that offers key lessons for a successful reform of the RDB is its Smallholder Agriculture Credit Scheme, which was initially initiated by the Coffee Industry through the Minister for DAL (David Mai) and has been operational since 1997. The importance of the scheme lies in its attempt to root the programme in the private sector with annual recapitalisation expected from commodity bodies (DAL 1996). Alliance partners in the scheme include DAL and
eight commodity industry bodies. These are coffee, cocoa, oil palm, copra, livestock, food crops, spices and rubber.

With an initial funding of K10 million from the GoPNG through DAL, the scheme commenced operation on a revolving finance basis whereby the principal of loan outlaid is reinstated for further on-lending upon repayment. The RDB retained the interest portion to cover its administrative costs. The seed money given is only half of a K20 million grant that was initially agreed to by the GoPNG in a National Executive Council (NEC) Decision No. 184/95 of November 7 1995. The maximum loan for any one project is K10,000 with interest charged at a subsidised rate of 5 per cent (RDB 1998a). Maximum loan term is 10 years with a three-year grace period. The loan to each of the commodity sector is secured by the general guarantee provided by the seed capital itself. No collateral is required from the borrower. The success and/or failure of the scheme, therefore, rest entirely on the repayment and rate of default. For instance, a high rate of default and repayment will automatically allow the sun to set on the scheme, as the seed capital will be eroded leaving behind little loanable funds.

Responsibilities were clearly allotted to the partners. RDB was responsible for managing the funds, loan documentation, disbursement and collection of payments. DAL had the overall responsibility of co-ordinating and sourcing further funding; and industry bodies were tasked with appraising projects and providing localised extension services to loan recipients. Each partner had a co-ordinator and was represented on the scheme’s Implementation Monitoring Committee (IMC), which was responsible for impact evaluation and planning future schemes. The operations of the scheme were governed by tripartite memorandum of agreements (MOAs) between DAL, RDB and respective industry bodies. For instance, the tripartite MOA between DAL, RDB and CIC is entailed in a document signed by the Chief Executives Officers (CEO) of the three parties on 19 October 1996 (DAL, RDB and CIC 1996).

The MOAs outlined the responsibilities and obligations of the partners involved, and several agreements have been finalised (DAL 1996). Individual MOAs between DAL, RDB and industry bodies specifically called for the latter group to inject annual allocations to their respective revolving funds. At the time of the review it was clear, however, that this had not been adhered to. There was an apparent tendency for the industries to rely solely on the seed capital. Industries such as cocoa and copra that were being subjected to intense political interference would have been in no position to do so, even if they were compelled. They were already finding it difficult to pay their dues to the Cocoa & Coconut Research Institute (CCRI).

Loans up to K10,000 are given to individual farmers at a subsidised 5 per cent over a maximum period of 10 years. This reflects the development nature of the scheme and its clientele. Loans are granted for new agricultural development, expansion, crop rehabilitation and processing facilities.

Table A2 shows the distribution of the K10 million seed capital as set out by NEC in 1996. The major recipients have been coffee, cocoa and food crop farmers with those in the spices and rubber industries being the least recipients.
Table A2 Distribution of SACS’ Seed Capital of K10 million

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Seed Capital (K m)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>2.8</td>
<td>28</td>
</tr>
<tr>
<td>Cocoa</td>
<td>1.4</td>
<td>14</td>
</tr>
<tr>
<td>Food crops</td>
<td>1.4</td>
<td>14</td>
</tr>
<tr>
<td>Oil Palm</td>
<td>1.2</td>
<td>12</td>
</tr>
<tr>
<td>Coconut</td>
<td>1.2</td>
<td>12</td>
</tr>
<tr>
<td>Livestock</td>
<td>1.0</td>
<td>10</td>
</tr>
<tr>
<td>Spices</td>
<td>0.5</td>
<td>5</td>
</tr>
<tr>
<td>Rubber</td>
<td>0.5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


1.1.2 Importance of strategic alliance to core business

The establishment of SACS stemmed from a general decline in rural financing in the late 1990s both for small, medium and large enterprises. The National Planning & Monitoring Department of PNG notes that total agricultural lending from commercial sources is currently no more than 10-15 per cent (Kavanamur 2002:1). In fact, BPNG data shows this to have actually fallen for the main commodities (coffee, cocoa, coconut products and palm oil) – comprising only 10 per cent of total advances to the overall business sector and 8.7 per cent of total lending by commercial banks as at December 2001 (BPNG 2001). Thus following several representations to PNG’s National Executive Council (NEC) by the Department of Agriculture & Livestock (DAL) SACS was eventually established in 1996. This came through a number of NEC undertakings: NEC Decision No. 68/92 on agriculture strategy (30/1192) called for a review and improvement of the existing agricultural credit delivery system, NEC Decision No. 94 (29/11/94) endorsed the need for improved delivery of agricultural services, including the provision of credit to rural communities; NEC Decision No. 184/95 (7/11/95) approved the establishment of the agricultural credit scheme; and NEC Decision No. 36/96 (15/03/96) reaffirmed the implementation of the agriculture credit scheme.

In its bid to re-position the RDB and re-emphasise its importance in agricultural lending, the then Managing Director of the RDB, Kenneth Bromley (1996:10) urged managers of profit centers within to “develop good working relations with relevant Industry Bodies in order to ensure the smooth operation and eventual success of the SAC Scheme”. According to the Executive Manager – Lending, “agriculture is our core business and SACS is close to our heart”. The alliance coordinator of the SACS at the RDB confirmed this view; “this is the core business for all the parties involved so the pressure is there to make it work”. Clearly, the RDB has been at pains trying to make the SACS work in order to stem mounting criticisms of its irrelevance in promoting agri-business, management inefficiencies and declining loan portfolio quality. Interviews with its economist, Executive Manager (Lending) and SACS alliance coordinator revealed a consensual point that SACS was the best thing that ever happened to RDB in the 1990s as it averted its imminent abolishment.

1.1.3 Presence of alliance management skills

The initial designers of the SACS (DAL), RDB and Coffee Industry Corporation (CIC) assumed the presence of strategic alliance management skills and qualities amongst the partners to the scheme. NEC Policy Submission No. 121/96 (20/05/96) submitted by the DAL Minister together with the original NEC Decision (184/95 of 07/11/95) designed the operations of the scheme to be governed by tripartite memorandum of agreements (MOAs) between DAL, RDB and the relevant commodity industry bodies (DAL 1996:2). The MOAs outlined the responsibilities and obligations of the parties involved. By 1996 four such MOAs had been finalised for coffee, oil palm, cocoa and copra. Relevant lending guidelines for each industry based on RDB lending
policies were entailed therein. Such guidelines spelt out the scope of lending, type of projects to be financed, repayment period, and interest payable on each loan.

The success of the scheme was premised on the existence of an organised commodity oriented extension service. Currently, only coffee and oil palm extension services are well established with the other sub-sectors such as cocoa and copra yet to consolidate theirs. Table A2 shows the break-up of funds under the scheme. The bases for deciding on the percentage loan portfolio for each commodity include:

- capacity of industry to supervise and monitor funded projects
- adequacy of existing infrastructure to ensure project accessibility to support services such as markets and transport services
- ability of industry to contribute to employment and to agricultural Gross Domestic Product (GDP) share
- size of industry to farming population and overall economic impact

The initial design structure anticipated that commodity industries would eventually contribute annually to their respective schemes to ensure sustainability and root it in the private sector with a diminished government role over time.

The initial design structure also provided for alliance coordinators representing RDB, DAL and respective industry bodies who were expected to play an active role in alliance management. To oversee the overall performance of the scheme an Implementation Monitoring Committee (IMC) was established under the auspices of the DAL as the lead agency (DAL 1996). The IMC comprises the Secretary of DAL (Chairman), Managing Director of RDB (Deputy Chairman), Chief Executives of Industry Boards (Members), Secretary of Treasury (Member) and Secretary of Prime Minister and NEC (Member). The committee is to meet on a quarterly basis and the coordination and administration of the IMC is to be facilitated by the Resource Planning Unit of DAL, with the Chief Resource Planner of DAL as its secretary. IMC’s terms of reference (TOR) include:

- undertake quarterly reviews of loan disbursements and repayments based on physical and financial reports by the RDB and relevant industry boards
- decide on the fate of defaulted loans and recovery measures
- monitor all credit funds, replenishment of accounts from repayments of principal, interest earning from term deposits from each revolving fund and from new capital injection from industries and GoPNG
- provide policy advice to RDB and industry on the supply and delivery of future agriculture credit schemes

The presence of alliance management skills is not yet widespread in the network, except for those portrayed by alliance coordinators of the RDB, CIC and OPIC. According to the alliance manager at the RDB DAL is supposed to be the lead agency coordinating the quarterly meetings of the IMC as outlined in the MOA. Whilst coordination and communication amongst partners in the past was regular, the relationship between DAL and its partners has been broken since 2001. According to RDB’s alliance manager, “DAL is the lead agency, but last year the relationship broke down. There has [sic] been too much organisational changes taking place at DAL. There is a high turn over of staff and that of its coordinator and the position of the Secretary is a political matter …from Dr. John Kola, Utula Samana, Ted Sitapai, etc., etc. …The coordinator has
changed three times...there is high turnover and there is little coordination anyway from their side. DAL’s coordinator Wesley Nukundj went to stand for national elections without resigning. DAL is not providing proper leadership. DAL’s coordinator’s role is now vacant, DAL needs permanent staff!"

1.1.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment
The purpose of the SACS, which is to promote the smallholder agriculture sector by alleviating their inaccessibility to commercial sources of loans, is clear and compatible with the strategic intent of the RDB, which is to provide financing for small and medium enterprises and projects in the agriculture sector. The smallholder sector predominates in agriculture contributing 85 per cent of the PNG agricultural export earnings. Because the SACS is dependent on commodity boards for initial screening and extension service provision to funded projects, it relieves the RDB off heavy transaction costs that would have been incurred if it were to depend entirely on its limited and cash strapped branch network. Thus extension officers of commodity industries assist RDB branch officers to jointly supervise and monitor loans. Where there are no RDB loans officers, the extension agents of commodity boards take sole responsibility of loan management.

On the other hand, the involvement of commodity boards as partners - whilst helping to facilitate loan screening throughout the country - may also have inadvertently add pressure on the RDB to loosen control over the rate at which loans are disbursed. Certain commodity industries tend to be more sympathetic to would-be borrowers in their respective industries. For example, within a five year period (1996-2001) more than K12 million worth of loans were committed, exceeding the initial K10 million seed capital with cumulative interest earnings, and of which K11 million has been disbursed to a total of 3,856 farmers (Auntari 2001:2). The first two years of implementation saw over 66 per cent of seed capital (K10 million) committed with a general decline in the last three years to December 2001 due to critical low cash flow levels.

The RDB notes that the high rate of disbursement did not match the rate of repayment indicating weak control mechanisms of the scheme in the initial stages. Low cash flow prompted the RDB to suspend lending in early 19999 for certain commodity sectors. This lending control measure allowed commodity extension and credit officers to take stock of loans and assist the RDB in assisting customers to repay overdue loans. Repayment rate severely declined in the years 2000-2001 partly due to a combination of factors such as worsening commodity prices, lack of market access arising from road dilapidation and hence high transport costs, and scale-back of extension services as a result of cost cutting measures adopted by commodity boards. The rate and quantity of loans approved under SACS has even surpassed RDB’s own smallholder type loan product. Total repayment made to end-December 2001 was only 57 per cent of what the bank had expected (K5,447,621) with the balance K2,350,480 tied up in loan arrears (Auntari 2001:3).

In terms of alignment between strategic intent and culture and the environment the need for further alignment remains. The RDB has recently instituted measures to align pay with staff performance through the offering of bonuses and treatment of SACS as a profit centre.

1.1.5 Environmental influence on alliance management process
Economic/technological
The state of the world economy, particularly the commodities market has a direct bearing on the capacity of borrowers to repay loans. Both the oil palm and coffee sub-sectors have been good partners of the RDB under the SACS because of relative price stability, apart from their optimal organisational structures vis-à-vis loan delivery and collection methodology. RDB’s alliance coordinator pointed out that a key factor affecting repayment in 2000-2001 has been declining commodity prices with the exception of coffee. The alliance coordinator notes that “[d]espite the low Coffee prices the statistics … shows that on performance Coffee is the leading sector under
the SAC Scheme” (Auntari 2001:4). Coffee under the CIC recorded the highest loan collections cumulatively and consistently increased loan repayments over the last five years since implementation (ibid.).

**Political/legal**
Being a state nonblank financial institution the RDB remains susceptible to political influences. In its past life the RDB disbursed subsidized loans to politicians, civil servants and large businessmen rather than small farmers (Conroy 2000:226). Also, there is still a perception out there that holds that loans from the RDB do not necessarily have to be repaid, as they are being perceived as government handouts.

Because the RDB is not a deposit taking institution, its survival depends on government and donor funds. This often gives leverage to the GoPNG to influence the direction of lending and loan portfolio management. Since 1999, however, the bank has not received any funding from the state and so has depended solely on managing its loan portfolio and undergoing internal organisational restructuring to save costs.

The transformation of the RDB into a more operational and financial sustainable institution depends on legal factors. Its Executive Manager for Lending points out that the bank has applied for a banking license, without which survival would increasingly become difficult. He notes that “RDB is going through a reform process from 500 staff to 220 staff over a period of 6-7 years of reform. RDB has also applied for a financial license to take in deposits. Benny Popatai [one of two Deputy Governors of BPNG] is against the license but Flora Caruthers [the other Deputy Governor] is more for it”. The bank believes that once it is privatised and a financial license is granted, donors such as the Asian Development Bank (ADB) will be willing to lend through the SACS.

There have been numerous attempts to restructure the RDB in the recent past including name changes, but without much success primarily because it is difficult to successfully restructure an organisation while its immediate organisational environment, mandate and therefore strategic intent and ownership structure remain unchanged. There is a limit to how far internal reorganisations and delayering can be achieved under these circumstances. In any organisation undergoing process re-engineering, attention must be given to the structure and organisational culture that inherently shape process management and therefore organisational outcome.

**Cultural/social**
The RDB is keen to transform its old organisational culture, an undertaking to move away from being perceived as merely a conduit for directed subsidised credit since 1967 to more market oriented lending. In the process it wants to forsake its past image as a handout institution. This image led to widespread problems of ‘loan fungibility’, where loans were spent on activities other than the original purpose for which they were obtained, and ‘moral hazard’, whereby pressure to repay loans diminished because of the perception that the government would simply replenish the capital of the bank in the event of default.

Increasing social problems in PNG such as high crime levels have been of concern to RDB. Theft and vandalism play a role in the scaling back of bank branches. This problem does not only affect the RDB, but commercial banks too. Widespread theft and armed holdups also affect production levels and hence the capacity of borrowers to make timely loan repayments.

**Demographic**
At the outset, it has been estimated based on capital turnover that there are about 100,000-120,000 microenterprises, 12,000-15,000 small businesses, 3,000-3,500 medium enterprises and
700-800 large enterprises\textsuperscript{11} in PNG that could potentially provide the customer base for microfinance, small-medium-large scale financing schemes (PNG-Australia Development Cooperation Program 1996; Hardin and Associates 2000). However, based on the criteria of commitment and capacity to grow, track record and viable business plans or diversification plans, the potential customer base could only be 20,000-27,000 SME enterprises throughout the country and in a variety of industry sectors (but with agriculture, wholesale/retail dominating (Hardin and Associates 2000). The most common loan requirements will range from K2,000 to K30,000\textsuperscript{12} with some of the larger small businesses able to absorb up to K100,000 loans for fixed assets such as heavy-duty vehicles. Most of these loans will have to be provided against ‘projected cash flow’ as most customers will not have sufficient security.

1.1.6 Adequacy of internal organisational components for alliance management

\textbf{Governance structure, control & feedback mechanisms}

SACS is managed within the RDB as a separate profit center, but using the lending resources of the RDB including provincial branches which are treated as profit centers as well. The Lending Department assumes much of the responsibilities allotted to the RDB in the respective commodity MOAs and the initial SACS design structure. The bank manages the revolving funds allocated to each sub-sector. It approves loan applications based on the recommendations of industry bodies and its lending guidelines, provides loan documentation facilities, release funds based on information provided by the relevant industry bodies and collects loan repayments with the assistance of industry bodies (Bromley 1996:2). Maximum loan amount is K10,000 per loan at a subsidised interest rate of 5 per cent. Part of the seed capital (i.e., 25 per cent one month deposit and 50 per cent 12 months deposits in year 1 with this declining to 15 per cent and 35 per cent in year 2 and 15 per cent and 18 per cent in year 3, respectively) is invested in term deposits and Treasury bills to earn interest income. Earned interest income helps recapitalise the fund because of forgone income incurred by the subsidised interest rate of 5 per cent. It also serves to cushion the fund against the corrosive effects of inflation currently at around 14 per cent.

RDB requires that once a loan is approved the applicant together with a loans officer or extension officer jointly open a loan account with a commercial bank preferred by the borrower to facilitate draw down and supervision. Relevant industry bodies are bound by respective MOAs to provide extension and supervision services. If the officer in-charge at an RDB branch deems the inadequacy of such services to ensure loan recovery then the Executive Manager (Lending) ought to be informed in writing so that corrective measures may be instituted. Officers in-charge are also required to report the details of accounts that are in arrears for more than three months (90 days) to the Executive Manager Lending in Port Moresby on a monthly basis using a specified form. The reporting should entail the account numbers in arrears, causes for default, and recommended actions.

Whilst the bank has endeavoured to minimise loan arrears beyond the 90 days time zone, it finds that this can only be effectively done with the cooperation of industry bodies. It found that industries with high default rates such as cocoa, copra, livestock, food crop, spices and rubber lack effective extension services, optimal board structures, weak loan screening procedures, and ineffective loan recovery methodologies. Success industries such as coffee and oil palm have benefited from stringent loan screening procedures and the application of an irrecoverable order (IO) authorizing automatic deduction at the point of sale by the buyer. The latter works well in oil palm where smallholder farmer blocks are built around a lead company who provides a market and sundry inputs following the nucleus estate model. Overall, the success of partners critical hinges on the governance structure design.

\textsuperscript{11} The bulk of large enterprises are corporate clients of commercial banks and the majority (400 companies) is in Port Moresby, which is being competitively targeted by banks according to industry sources.

\textsuperscript{12} The SBDC estimates a conservative credit demand for small businesses ranging from K1,000-10,000 (Kaul 1998).
**Human resource component & continuity**

Because SACS depends on its partners for its implementation and management, the human resource pressure is manageable. According to Bromley (1996:9-10) “… the cost of funds and credit risks are not borne by the Bank. In addition, the tasks of project appraisal and supervision are carried by the relevant Industry Bodies, and thus there are substantial cost savings to the Bank. This is not the case with projects funded under the External Lines of Credits”. The only full time staff working on the SACS is the alliance coordinator who is based at the head quarters in Port Moresby. The Lending Office Division and provincial branches with its 17 staff are involved with the SACS as part of their routine tasks.

In terms of staff capacity at the bank to handle the routine tasks there has been pressure on existing personnel to lift productivity. With the absence of government funding since 1999 the bank has been forced to cut costs. In the process staff numbers have been reduced from 443 personnel in 1998 to 218 in 2002. Failure to secure further external funding in the near future may result in more staff being retrenched. The situation is not helped with staff retrenchment exercises being undertaken by commodity bodies due to financial pressures too. However, there is room for staff sharing, as allowed for in the initial SACS design (Bromley 1996:8-9). Depending on loan volumes, the RDB may request industry bodies to second staff to the bank to help coordinate lending activities relating to respective industries.

**Communication skills**

SACS blueprint and MOAs allow for formal communication mechanisms. However, what matters is how this is actually played out in the life cycle of the alliance. RDB’s alliance coordinator recognises the importance of communication skills in relationships. He maintains communication with his counterparts at DAL, industry bodies, provincial DAL advisers, provincial loan screening committees and coordinates with RDB’s provincial branches. RDB’s alliance coordinator notes that “RDB has experience with relationship banking and has the network and resources to go out and offer service, not just behind the counter service. We have field officers who are experienced”.

There are, however, emerging strains on communication channels as partners grapple with loan defaults caused by exogenous factors such as road dilapidation and low world commodity prices. High turnover of staff at DAL is not helping either. Some degree of confusion has also emerged at the provincial government level arising from reforms instituted in 1995. Provincial DAL advisers no longer have the administrative powers they used to enjoy prior to the provincial government reforms in 1995 necessary to get things done. RDB, according to its alliance coordinator, finds itself unable to effect the smooth implementation of SACS where provincial governments are involved “because DAL advisers act only as consultants with little influence over the local administration”. He also pointed out that “in the past you knew them [i.e. DAL provincial officers] and they responded”.

**Technology**

The main technological implication of the alliance relates to RDB’s management information system (MIS). In 1995 RDB entered into a share/lease basis with the former PNGBC in order to have access to its information system. In addition, the two parties entered into a Service Level Agreement that allowed PNGBC to lease computer hardware and computer network infrastructure to RDB branches (RDB 2002:12). Moreover, in order to synchronise the operations of human resources between the merged entities under the former Finance Pacific Group, RDB amalgamated its human resource and payroll system with PNGBC’s CHRIS Human Resource/Payroll system.
The lease agreements with PNGBC expired on 30 June 2002 due to the privatisation of PNGBC and its integration into its buyer BSP. Because RDB reverted to its standalone status prior to the privatisation of PNGBC, it made the decision to purchase and install its own MIS system at a cost of K1.6 million. The migration of Human Resource & Payroll System back in-house was accomplished in August 2001 (ibid.). RDB has also implemented a Local Area Network at its Head Office, which complements its (ACPAC) accounting software and the CHRIS Human Resource/Payroll system. RDB realises that MIS is critical to the management of loan files amongst partners and for loan application standardisation.

Coping strategies
Under the SACS the bank has undertaken a number of coping strategies to cope with uncertainty. These threats include declining terms of trade (TOT) of the tree crop sector due to world prices, discontinuity of GoPNG funding, deteriorating law and order conditions, road infrastructure dilapidation leading to high transaction costs, commodity board institutional weaknesses, and domestic macroeconomic instability (RDB 2002; Rumints 2001). Coping strategies include restricting loan approvals for both commercial and agriculture (including under SACS) to priority clients, efforts aimed at the retention of quality and experienced clients, reverting to short term lending as opposed to high-risk long term agricultural lending, organisational restructure including branch closures, adoption of the profit center concept, application to BPNG for a banking license to enable deposit mobilisation, elimination of interest rate caps, refraining from new capital expenditures, active pursuit of loan recovery of K17.48 million arrears together with those under SACS with a view to reducing it to 10 per cent of active loan portfolio of K53.15 million, and development of new loan products (Kavanamur 2002).

1.1.7 Organisational and societal culture influence on alliance
RDB’s organisational culture has been largely shaped by its mandate to fulfill key Community Service Obligation (CSO) in rural lending and helping citizens in their entrepreneurial endeavours. This mandate has been used to justify subsidised interest rates on loans since 1967 as well as the funding of projects that may not necessarily be commercially viable. It also has constrained efforts by the bank to transform itself into a commercially viable financial entity through the setting of performance targets for its workers. Thus efforts aimed at making the RDB a sustainable financial institution will have to overcome the argument being continuously ventured by its management that RDB’s core business is within the framework of its CSO and that its privatisation will not adequately serve the interest of the bulk of the 80 per cent of rural dwellers engaged in agricultural and small commercial activities (RDB 2002).

Since the drying up of government funding for the RDB in 1999 the bank has had to grapple with the dilemma of trying to fulfill its CSO mandate on the one hand and trying to survive as an organisation on the other. Thus corporate strategies such as cost cutting and priority banking aimed at attracting large corporate entities and retaining repeat clients appear to depict a misalignment between the CSO goals and the realistic situation at hand. Attempts to change the banking culture will require strong leadership and mindset changes. For example, Ennenbach (2000:17) observes that the bottom-up management strategy that was adopted in 1998 to improve the portfolio quality by the application of a bonus system for loan officers has had little resonance at the operational level. Ennenbach (ibid.) notes, “The Branch Manager [Goroka] still perceives the loans of the RDB as government grants to stimulate rural development. According to him, the institutional culture of the RDB won’t allow the application of strict loan recovery policies”. RDB itself has had frequent changes to its managing director. The current one is still on an acting basis.

Societal culture also has some bearing on the performance of the alliance, particularly where it relates to loan repayments and management. Loan performance under the SACS has not been optimal. The RDB notes that one of the reasons for this lack lustre performance relates to the general repayment culture in PNG that is still at nascent stages. For example, Rumints (2001:5-
6,8) identifies unwillingness to repay loans, social conflict such as tribal fights and group differences, *Wantokism* (i.e. relationship network based on exchange obligation amongst ethnic groups) and lack of awareness about the need to repay loan principal plus interest within a fixed period of time. The loan repayment culture in PNG must be viewed against the backdrop of the country’s relatively short historical contact with the international economy, the absence of a full-fledged monetary system in the traditional economy, and the still uncompleted process of monetising subsistence economic activities on which 87 per cent of the population continues to depend (Conroy 2000:219).

**1.1.8 Management of relationship capital/alliance process management**

As the lead agency in the SACS alliance, DAL has been responsible for much of the negotiation between the partners since inception in 1996. It was responsible for all the policy submissions noted earlier to the GoPNG’s cabinet or NEC that included the securing of the K10 million seed capital. However, the original SACS design document anticipated that once the scheme was rooted in the private sector, the role played by DAL would diminish. Thus besides DAL the RDB has played a more active role in the implementation stage of the alliance primarily because it is the main implementation agency. This role has not been trouble-free for RDB because of liquidity pressures arising from the low quality of its overall loan portfolio other than those under the SACS and because of declining government and donor funds for on-lending and operational cost subsidies as well as external pressures from these sources for its abolishment.

In addition, a more fundamental problem that has recently driven a wedge in the relationship between RDB and DAL is the latter’s attempt to develop a separate credit scheme outside of the SACS alliance structure. In part the move stemmed from RDB’s amalgamation with PNGBC under the Pacific Finance Group Limited. However, this was not received well by the implementing partner: “Now DAL is trying to develop their own credit scheme, they had two consultants to replicate a Philippine model worth a K120 million funding facility. It was the consultants who proposed these changes to DAL, but they don’t have the capacity” (RDB’s General Manager Lending).

**1.1.9 Alliance management outcome**

From the perspective of RDB’s alliance coordinator, alliance management with one of their main partner, CIC has been exceptionally good relative to that with others, including the lead agency DAL. With CIC the relationship has been consistent and enthusiastic at a consistent level since inception in 1996. According to coordinator the same can be said of that with OPIC, but not with say DAL. Initially DAL was enthusiastic and initiated the alliance design. However, as repayment rates faltered over time particularly with the other sub-sectors such as copra and livestock, and as overdue loans beyond the 90 days category rose, DAL’s enthusiasm dropped markedly. There were other contributing factors as well such as a high staff turnover and a general perception by industry bodies of increasing irrelevance of DAL’s strategic role in agricultural development. DAL resented being pushed by stakeholders including donors such as the Food and Agriculture Organisation (FAO). It has played a more minimalist role in agriculture, allowing for the private sector to take center-stage (Fingleton 2002). DAL over the years had hived off many of its responsibilities such as extension services, research and quarantine monitoring to stand-alone commodity bodies and statutory agencies.

Communication and general relationship building between RDB and CIC has been consistently enhanced by RDB’s alliance manager based at headquarters and by RDB’s Goroka branch manager in Eastern Highlands Province where CIC’s headquarter is located. According to the branch manager, “Coffee is the economic life line for half the country’s 5 million people who live up here in the highlands and to make SACS work for them I have to be in daily contact with CIC”. The CIC alliance manager as the national credit manager confirmed this view during interviews in August 2002 in Goroka.
Because of the optimal structure of CIC and its efficient management of its SACS component, RDB was recommending the replication of the CIC model to the other commodity bodies which were operating below par. RDB was also keen to re-capitalise CIC’s initial 28 per cent of the initial seed capital. CIC offered important lessons for RDB and the other partners in terms of relationship building, contribution of additional credit officers to support SACS as well as financial resources. Its stringent loan screening procedure ensured willful defaulters were excluded. Thus initial positive results enhanced the relationship and encouraged partners to overlook minor frictions. Given the tight liquidity position of the RDB, CIC and its priority coffee farmers are viewed by RDB as strategic to its core business.

**Partner 2. Coffee Industry Corporation (CIC)**

### 1.2.1 Background

The Coffee Industry Corporation Limited is RDB’s major commodity industry partner under the SACS alliance, taking 28 per cent of the initial seed capital allocation. In fact, the original SACS concept came from CIC as a proposal to DAL as the lead agency in agriculture in December 1994 (CIC 2002b:5). CIC originally had in mind a Coffee Credit Guarantee Scheme (CCGS) for its two million smallholder coffee growers (CIC 2000c:4). The current alliance manager who was interviewed for this study was a consultant then who was engaged by CIC to design the SACS and recommend it to DAL (CIC 2000a). DAL then expanded on the concept to derive SACS for the rest of the commodity and livestock sector in the country. To date, SACS is implemented through CIC’s CCGS within its extension services division with a staff of 18 and its own resources.

Coffee is a major export earner bringing in much needed foreign exchange for the country. PNG exported 1.35 million bags earning K451 million in 1998, 1.32 million bags in 1999 at a value of K421 million, and 1.043 million bags in 2000 worth K276 million. Over the years there has been a decline in volume and value due to a number of factors that are highlighted in subsequent sections. Briefly, there is glut in the coffee market due to increased production in Brazil and the entry of Vietnam, producing 40 million bags and 13 million bags respectively (Post Courier 26 September 2002). The decline in production is due to environmental constraints, including disappearance of the plantation sector, increasing coffee thefts, infrastructure dilapidation and high debt servicing commitments (CIC 2000c).

The core functions of CIC as stated in its corporate plan include:

- enhance volume and quality of annual production
- enhance the efficiency and sustainability of the industry
- control coffee pests and diseases
- achieve efficiency and effectiveness of the corporation
- represent PNG in the world trade in coffee so as to ensure that legality, fairness and positive relationships rule at all times
- promote interest coffee growing among young people
- enhance financial returns to growers through encouraging competition and new securing new market opportunities
- facilitate the effective involvement of all industry sub-sectors in the management and control of the industry

CIC had a financial surplus of K31 million in 2000 with net assets of K129 million compared to a surplus of K97 million in 1999, K65 million in 1998 and negative assets situation in 1997 (CIC 2000).

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13 This case report is based on in-depth interviews with CIC’s alliance manager undertaken at CIC’s headquarters, Goroka (PNG) in August 2002 as well as secondary reports that were furnished.
Government funding for CIC ceased in 1999 as with all other industry bodies including its partner the RDB. CIC operates a stabilisation fund for coffee and several farmer incentive programmes such as the expansion programmes in non-traditional coffee producing provinces, coffee nursery, coffee credit scheme, and freight subsidy scheme. CIC collects a levy of 18 toea per kilogram for its stabilisation fund. The fund’s balance by December 2000 stood at K27 million.

Under SACS, CIC is responsible for overall project management related to each loan provided by RDB. This entails the selection of recipient farmers and supervision of their expenditures. Farmers operate their loan accounts at a commercial bank of their choice, but with joint signatures with an assigned CIC extension officer to ensure that procurement are in line with approved activities. CIC is also required to furnish DAL and RDB with an updated quarterly report on the performance of funded projects.

For its project supervision and monitoring function, CIC has one national credit manager based in Goroka, three regional coffee credit managers, 12 provincial coffee credit officers, and a secretary and records clerk based at headquarters (CIC 2002b:9). CIC has a total of 86 agriculture extension officers to support farmers. At the end of December 2001, CIC had 1,294 loan beneficiaries who took out a total loan value of K3.731 million at average loan size per farmer at K2,884. However, the total loan repayment at the end of that year, and dating back to 1997, stood at K846,506 (Auntari 2001:4). This represented 27.3 per cent for the overall disbursed loans totalling K11.063 million by December 2001. SACS loan terms are up to 10 years with 3 years grace period at 5 per cent interest and collateral-free. Over 3,856 farmers from all sub-sectors had benefited from SACS by end-December 2001.

1.2.2 Importance of strategic alliance to core business

Because the original idea behind SACS came from CIC, the CIC alliance manager felt that the scheme was a central pillar to its core business. This is captured in the alliance manager’s comments, “We feel that we own SACS”. It is significant to note that the current alliance manager was the local consultant engaged in October 1994 by CIC to design an earlier version of the scheme for recommendation to DAL (CIC 2000a:8). He also mentioned that CIC’s compliance with the reporting requirements was up to date reflecting its enthusiasm for the scheme. CIC has committed 18 staff to work on the scheme. It also assists the RDB with the development of new lending and repayment methodologies. One such example is cooperatives or cluster establishments whereby clans are encouraged to work farms within close proximity to each other. This improves both the provision of extension services and loan monitoring as transaction costs are likely to be minimised. This is significant in a country such as PNG where villages live in hamlets, many of them being sparsely located in rugged terrain.

CIC estimates that its current seed capital of K2.8 million under SACS is insufficient. Since the SACS programme for coffee was suspended between 2001 and August 2002 due to insufficient liquidity, CIC’s National Credit Manager (alliance manager) gathered from site visitation that 427 applications from the coffee growing provinces worth K1.2 million remained to be processed. Nonetheless, these applications have not been evaluated to ascertain viability, and they have since been sent back to applicants for revisions except for the priority applications (CIC 2002a:6). The manager pointed out that credit demand from smallholders is increasing. Of 300 applications received yearly by CIC, only 100-150 loans are financed as the 3-layer centralised screening is quite stringent. Small-scale loans are required for coffee rehabilitation, pruning, weeding and drainage.

CIC argues that its SACS allocation of K2.8 million needs to be increased to K17.304 million (CIC 2002b:3). This amount is required as it proposes to target 6,000 small growers who require average loans of K2,884. The overall aim is to increase production of coffee and hence foreign
exchange. CIC is separately negotiating for the extra amount, which will be administered under the existing SACS scheme using RDB banking systems.

As for the large-scale blocks and plantations, CIC observes that the potential for them to grow requires little financial help from the GoPNG and donors. However, government assistance will be required if there are avenues for expansion, redevelopment of existing blocks and plantations, and development of new large projects. Existing blocks or plantations could be sub-divided into smaller portions. Provided that sufficient seed capital is made available, CIC intends to expand the scope of SACS to include large blocks and plantations, as the large holders are complementary to smallholders rather than competitors.

Overall, and given the financial constraints, the least CIC would need is an additional K2 million per year for its priority coffee farmers under the SACS.

1.2.3 Presence of alliance management skills

CIC’s alliance manager portrays key alliance management skills. First, in terms of relationship building, CIC works closely with the local RDB branch, DAL and farmers. The alliance manager explained, “We have a good working relationship with RDB and DAL; our quarterly reports are up to date … Our success is also due to our relationship with farmers where we try to maintain continuous visitation”. Indeed, the alliance manager’s statement is corroborated by copies of annual and quarterly reports collected during the field visit. Quarterly reporting to DAL was current at the time of field visit in March 2002. However, close contact with loan recipients has been hampered by resource constraints. For example, in the first quarter of 2002, a mere 36 out of 1,250 funded-farmers or 2.8 per cent were visited (CIC 2002a:3). The previous quarter (September–December 2001) had no recorded visits.

Second, CIC and RDB have instituted a joint award certificate programme to reward successful farmers under SACS, and they sought to promote this through a newsletter. The partners also work closely in implementing educational awareness programmes aimed at educating farmers about the use of SACS credit and its guidelines or application flow chart. Eligibility guidelines are entailed in a pocket book published in both English and Pidgin English, the local vernacular (CIC 1996). The current CIC alliance manager initially drew up the guidelines. Both parties have also gone out of their way to help transport coffee bags from remote locations that are cut off by poor road conditions.

1.2.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

There is congruence between the objectives of CIC and SACS in that both seek to provide credit to smallholder rural farmers at subsidised rates. CIC (2002b:6) recognises that these farmers will continue to face difficulties in accessing loans from commercial banks because of stringent collateral and equity requirements. SACS is implemented by CIC’s Coffee Credit Guarantee Scheme (CCGS) housed in the Extension Services Division. This division entails not only 18 staff involved in credit management, but a team of 108 extension officers as well. There is also an alignment between the current organisational culture of both the CIC and RDB in implementing SACS. Both partners pride themselves in the culture of subsidising loans and assuming that farmers cannot meet collateral and equity requirements. The Pocket Book 1/96 on eligibility criteria produced by CIC depicts these sense of pride in helping farmers by pointing out to the farmers punch lines such as the following: “Interest to be charged is the lowest you can be proud of – 5% simple per annum”, and “It will take up to a maximum of three (3) years to draw funds from the bank without even repaying” (CIC 1996:5; emphasis added).

CIC’s three-stage loan screening procedures reflects the high risk nature of such loans with the absence of any collateral and equity requirements. The main screening committee in the process
is the provincial/regional committees, which comprise the regional manager, local CIC director, RDB representative, and blockholder representative. This committee sends approved applications to the general manager of the extensions services division for vetting and finally to the RDB local branch. The application itself would have gone through about three earlier CIC layers involving mainly extension officers, divisional supervisors and area managers. Of 300 loan applications received annually, only 100-150 loans are granted. The emphasis on mass education about the use of loans and repayment schedules underscores CIC’s desire to align strategic intent with repayment culture. The same desire is also observed in the emphasis placed by CIC’s alliance manager on the relationship between close contact and repayment success. Writing the first quarterly report to DAL for 2002, both the alliance manager and his assistant (CIC 2002a:3) made the following points:

This Credit Scheme loan is more primitive & informal suited to PNG Melanesian culture. Therefore loan supervision and monitoring plays key functions in the implementation of this scheme. The success entirely depends on how often the loan supervisor makes visits to the project or contacts the farmer. Close contact will definitely bring the loans home safely but currently the role of project supervision and monitoring is not to expectation due to mobility as the major constraint. Writing letters to individual farmers with arrears did not have much effect unless we physical visit them [sic].

Whilst strategic intent may have been aligned to CIC’s loan subsidisation culture and borrower’s embryonic repayment culture prior to 1999, the cessation of government funding in 1999 towards 50 per cent of operational cost gave rise to a misalignment between strategic-, operational- and cultural-fit in the ensuing years. CIC found itself in a difficult financial position and could not fulfill much of its obligations under the alliance tripartite agreement. While CIC wants to continue to support farmers with subsidised credit, it could not effectively do so because the GoPNG now requires it to be self-financing. Like the RDB, CIC has had to undergo organisational restructuring, downscaling the extension services division and is contemplating its merger with the research and development division (R&D).

CIC does not directly derive any financial benefits from SACS. The 5 per cent interest from farmer loans accrues to the RDB together with another 5 per cent interest earned on a portion of the SACS seed capital invested in treasury bills at the BPNG.

Other than donor funding for its specific projects, CIC has to survive on an administrative fee of eight toea per kilogram of coffee exported, as commodity organisations do not charge farmers interest or management fees. CIC is currently seeking further donor funding towards its new investment projects and to recapitalise its allocation under SACS with K17.304 million. CIC requires this amount to effectively service an additional 6,000 smallholder farmers with an average garden size of 1.26 hectares requiring average loans of K2,884 over a five year period (CIC 2002b:4). Currently, its K2.8 million allocation under SACS revolves to K4.090 million out of which K2.887 million is outstanding as its loan portfolio and K1.202 million as loanable cash (CIC 2002b:5). The rest is invested as treasury bills, the interest from which goes towards RDB’s management fees and fund recapitalisation.

After almost six years of operation it appears that CIC has come to realise that its continued survival requires realignment between its strategic intent, structure, planning and control, and organisational culture to a changed environment starting in 1999 when government budgetary support for 50 per cent of its operational costs ceased altogether. Current fiscal and current account deficit facing the country provides little incentives for the resumption of operational subsidy. According to alliance manager CIC has drawn up a strategic plan that entails restructure, cutting operational costs by half, and seeking K17.304 million from donors to recapitalise its component of the SACS. He noted that the ownership of the revolving fund would be CIC, but
administration would be through RDB because of its banking systems. The funds would be deposited into a CIC Imprest Account in a commercial bank.

1.2.5 Environmental influence on alliance management process

Economic/technological

Both international and domestic economic fundamentals equally affect the management of the alliance and present alliance managers with the enormous task of aligning strategic intent, organisational design structure, processes and culture to an increasingly volatile environment. First, international coffee prices have been depressed for sometime due to a glut in the market. This is reflected in declining earnings from coffee. According to CIC’s alliance manager, the next best strategy is to increase volume in order to maintain earnings recorded in previous years, but this too have declined, from a peak of 1.35 million bags in 1998 to a figure slightly below a million bags in 2001. A key international factor involved is lack of motivation arising from the flow on effects of depressed prices.

Second, domestic macroeconomic management has not been able to reduce fiscal deficits and increasing inflation and provide sufficient funding for maintenance work on the Highlands Highway, which link the five coffee producing provinces in the interior of mainland PNG. Road dilapidation has prevented farmers from transporting their produce to the market place, and domestic inflationary pressures increase purchase of coffee technology to improve output. National fiscal deficit also inhibits early capitalisation of SACS resulting in farmers being unable to finance working capital and fixed-asset investment requirements. The alliance has only been able to lend to 1,294 farmers up to end-2001, which is a mere 0.52 per cent of 250,000 coffee producing households (CIC 2002b:4). The alliance plans to finance 6,000 additional farmers in the next five years from 2003-2007. CIC notes that this will require K17.304 million, which it is currently negotiating on behalf of the alliance from the EU and other donors.

The key technology for the management of the alliance such as information systems remains with the RDB. CIC is mainly responsible for physical visitation of farmers. The issue of network link up to RDB’s banking system vis-à-vis SACS loans will be considered once the additional capital is negotiated for SACS according to both CIC’s and RDB’s alliance managers. This will improve operational coordination between CIC’s coffee credit guarantee scheme and the SACS profit center within RDB.

Political/legal

CIC is one of the few partners under SACS that has had little political interference from the GoPNG in its operations with direct implication for SACS. Its board has had stable tenure and there has been continuity in the position of the alliance manager who is the National Credit Manager. However, there were few political and legal challenges that were repelled by the CIC board in 2000-2001.

One was mainly a perceived rather than real threat. CIC’s board chairman alleged in the 2000 annual report that “The political challenges from the political arena were the FAO reforms [that were] trying to dismantle the industry for political convenience” (CIC 2000c:2). Further research by this author established that the consultancy report by FAO did not call for the abolishment of commodity industries. Instead, the report called for a downsized DAL and for it to concentrate on strategic planning matters leaving the private sector to have the main say in the management of agriculture. By then, industry matters had already been hived off to commodity bodies such as CIC. According to Fingleton (2002), the recommendations of his team of consultants was twisted by people with vested interest within DAL who resisted a scale back to their powers and functions to manufacture the argument that commodity bodies were to be abolished and their management centralized to a single commodity board. This led to factions within CIC including their farmers who rallied to support DAL in its fight against its further loss of power.
Second there was a major legal action brought against CIC by a coffee exporter, which entailed a lawsuit for K25 million. Such actions, if successful, will drastically reduce CIC’s capacity to fulfill its obligations under SACS given the already tight liquidity position the scheme is in.

**Cultural/social**

CIC’s alliance manager concurs with RDB’s Goroka branch manager that farmers still need to understand the difference between principal loan and interest and repaying within fixed periods of time. Often farmers are of the view that only the principal needs to be repaid. This underscores the importance of regular visitations and educational awareness. In fact, the IMC is now requiring industry partners to actually state in their quarterly reports the number of actual visits undertaken by officers undertaken. Culturally, relationship building is more effective through personal contact rather than written communication. Letters can be viewed by farmers as adversarial and can be misinterpreted. Many farmers are illiterate anyway.

Social problems in the Highlands of PNG also have a direct bearing on the management of the alliance. The main social problem relates to tribal fights where warring clans can fight for months and even years until such feuds are resolved customarily through compensation and feasts. Tribal fights often result in coffee farms and infrastructure being destroyed. This makes it difficult for borrowers to operate continuously and therefore repay loans. In addition, crime rates, particularly coffee theft in plantations has resulted in the drastic decline of the plantation sector resulting in the decline in production volumes.

**Demographic**

To reiterate 50 per cent of PNG’s five million people live in the highlands. Land pressures can result in less land being used for farming and frequent feuds amongst clans about who owns what. SACS is also unable to adequately cater to the credit needs of the 250,000 coffee producing households because of its capital inadequacy.

1.2.6 Adequacy of internal organisational components for alliance management

**Governance structure, control and feedback mechanisms**

Both the RDB and CIC agree that CIC’s governance structure facilitates the smooth implementation of SACS. CIC has a dedicated team of credit managers and officers directly overseeing the implementation of its responsibilities of the alliance. In addition to these, it has a team of extension officers not only overseeing husbandry matters, but also loan monitoring and supervision.

Would be borrowers are directed to see a CIC extension officer in their respective districts to inquire about the scheme and lodge an application provided they are qualified. A standing control practice used by extension officers is described by the alliance manager; “When farmers enquire about loans, the extension officers are asked to first shake hands with the farmers and feel the palm of the hand. If his palm is very rough with scars or blisters which is a physical indicator for constant use of his hand then he is a genuine coffee grower and most hard working person so he should be interviewed, carry out garden assessment and check other eligibility guidelines and process the loan application without further delay. If the palm is very smooth, this is a false applicant, therefore, should be advised on the sport that he is not eligible and should not waste officers’ time in processing the application” (CIC alliance manager).

In some cases, however, the alliance manager says that extension officers tend to collude with the applicant to circumvent the procedures, resulting in a number of deficient loan applications being recommended by the officer for funding. The alliance manager continues, “When the farmer falls into arrears, we trace the application back to the processing officer and take disciplinary action if
it was a false application, but if it was caused by external factors such as low price of coffee, law and order and infrastructure problems, we revise the cash flow for repayment variation”.

Respective provincial screening committees under the chairmanship of the CIC regional manager or provincial coffee coordinators screen loan applications at the provincial level. Thereafter, all screened loan applications are forwarded to the national coffee credit manager (NCCM). He checks all the loan applications to ensure that cash flow projections are properly done, forms are in order, and selection criterion adhered to. The NCCM, who is the alliance manager then certify the applications, produces a loan summary and then passes them on to the CIC executive management meeting for endorsement. The applications are then sent to respective RDB branches for approval and funding. At this final stage RDB ensures that applicants with existing loans with them are declined, and those requiring further clarifications are referred back to respective provinces for reassessment or declined.

Upon approval of a loan by RDB, CIC creates two files for each farmer, one for CIC’s head office and the other for the province where the applications were initiated. Joint signatories to loan accounts are encouraged involving the farmer and CIC credit officer or a RDB loans officer to ensure loans are drawn as per the original cash flow. This method is also used to educate the farmer about the wise use of money and to ensure the project is sustained over time.

In terms of loan supervision and monitoring, it is provincial coffee credit officers that are responsible. These officers are based in 12 coffee producing provinces. Each province has one such officer each, except for two of the leading coffee producing provinces which have two each. Currently there are three regional coffee credit managers and 12 provincial coffee credit officers in the field.

A major constraint at the operational level, however, has been lack of efficient and cheap transport. Most of the officers are currently using public motor vehicles for visitation. CIC has only three credit scheme vehicles, all based in the highlands. CIC is currently seeking to increase its credit scheme staff from 18 to 148. It is also seeking to utilise the 77 technical extension officers in the districts to assist the credit scheme officers rather than just concentrate on general extension work because work relating to the loans has doubled in line with loan volume (K3.629 million). The workload entails loan implementation, loan draw down control, loan repayment supervision and monitoring, loan arrears follow-up and reporting requirements. Reporting entails the following:

- Loan application preview report
- Loan application screening report
- Loan inspection review reports for funded farmers
- Next of kin review reports for old aged borrowers
- Arrears review reports for revised cash flows
- Priority application inspection report for second borrowing
- Quarterly review reports
- Annual review reports
- Monthly returns for credit farmers co-operatives (2 pilot provinces)
- Non-coffee credit guarantee scheme farmers eligibility assessment report

Upon receipt of these reports from the provincial coffee credit officers (PCCOs), the NCCM or alliance manager and his assistant then furnish quarterly and annual reports to DAL, RDB and CIC.

**Human resource component and continuity**

CIC is the only alliance partner amongst SACS industry bodies to have committed human resources to the management of its part of the bargain. It currently has 18 staff and because of
their incapacity to provide effective loan monitoring and supervision, CIC is contemplating increasing this number to 148. It also plans to utilise 77 of the extension officers on credit management. The alliance manager lamented the current practice where “86.5 per cent of the extension staff have been directed to do other things” other than farmer training and credit management. He also pointed out: “We are constrained by lack of resources, the coffee levy ought to be doubled to K0.60. We are now faced with budgetary constraints and we have to retrench some of our extension officers, if there is less training and extension services then that will affect the credit scheme via SACS. CIC’s overall budget is K8 million, but we’ve had to cut this back to K5 million”.

CIC’s alliance manager attributes the current arrears level at 21 per cent to lack of personnel and operational resources. In order to reduce the arrears level to 10 per cent, more staff will be required. Towards this end, the alliance manager has been contemplating the establishment of a project management division to replace that of extension services. Under this programme, extension services will be reduced to 20-25 staff and combine with another organisation with the industry concerned with research, the Coffee Research Institute to conduct farmer training only. The rest of the extension officers will concentrate on credit management. This will boost the credit management staff from 18 to 148 (CIC 2002b:10).

The recruitment of extension officers to undertake credit management functions will require the retraining of many officers. The last training of extension service officers by credit managers was in 1996 through the use of a CCGS Training Manual, Volume 1. This was followed by farmer awareness conducted by extension officers who explained the availability of funds and application procedures. However, few extension officers have been trained in credit management. According to the alliance manager, the next training programme is aimed at multi-skillling extension officers so that they can perform credit management duties as well.

In terms of continuity in the position of the alliance manager, CIC portrays stability. The current alliance manager has been in the position since the inception of SACS 7 years ago. This is an important factor in effective alliance management.

**Communication skills**

CIC’s alliance manager understands that communication is critical to the success of SACS. The manager and his assistant engage on a weekly basis with the local RDB branch through personal visitation, joint monitoring of clients and reporting. The alliance manager points out that this facilitates cooperation, reduces the possibilities of full-blown conflicts and enhances loan portfolio quality.

As a professional organisation, the CIC accepts communication is a central component to its internal operating environment. Hence, “…CIC is nothing if it cannot communicate effectively” in view of its primarily service orientation (CIC 1998:27, original emphasis). Moreover, “all professional officers must not only be capable communicators, they must also be committed to communication as an objective” (ibid.)

However, a major constraint in communication is borne out in the difficulties faced due to resource constraints when dealing with farmers. Because farmers are located throughout the sparsely inhabited coffee producing provinces with little service amenities, effective communication through personal visitation incurs high transaction costs. Due to high illiteracy amongst farmers and cultural preference, word of mouth and face-to-face communication requires that CIC credit and extension officers to be physically present in the villages and farms in order to convey messages. To an extent, radio broadcasts has helped communication with farmers but the information is merely restricted announcements for people to come to the district office or that officers will be visiting during particular dates.
Technology
As mentioned earlier, much of the technology for managing the alliance is under the control of the RDB such as MIS. To date there is still no computer network link-up with CIC to help align repayments made by farmers to either of the partners as this is still done manually. Thus, if a farmer made repayments to RDB, CIC would not be able to reconcile this in their books until files are compared much later on a quarterly basis. This creates confusion and possibly wastage of resources. This point was underscored during interviews and is alluded to in CIC’s quarterly reports (CIC 2002a:2):

Loan Repayments for first quarter 2002 was K25,135.22 and progress to date is K870,871.94. Total number of farmers making repayments this quarter is seventy two (72) and progressive total to date is seven hundred and fifty two (752) including thirty nine (39) finalized accounts. … However, there can be discrepancy caused by farmers making direct payments to RDB which we do not have the records and also farmers who repaid in the previous quarter whom we did not register are included in this quarter as well. Plus salary advance through Irrevocable Authority (IO) (sic).

Overall, technology required by CIC therefore is less sophisticated and mainly involves basic transportation and communication requirements to enable it to fulfill its physical supervisory and monitoring requirements out in the field.

Coping strategies
CIC has shortfalls in terms of human resources, financial resources and computer network integration with RDB. The shortfall in human and financial resources prevent timely visits to clients, whilst the absence of network-link up with the RDB gives rise to duplication in loan recovery efforts and/or inertia that may arise from lack of communication.

CIC has had to scale back by retrenching up to 42 officers from the extension services division that houses the Coffee Credit Guarantee Scheme, 32 of whom were extension services officers. And because the number of farmer visitation has not been optimal leading to an increase in loan defaults the alliance manager plans to graft 77 extension officers onto credit management duties. Credit officers are now also using public transport rather than ‘official’ vehicles to conduct visitations. In the selection of genuine clients, firm handshakes to verify if the applicant is a farmer or not are used to complement CIC’s focus on repeat borrowers who are considered priority farmers.

1.2.7 Organisational and societal culture influence on alliance
As with the RDB, CIC’s organisational culture stems from its CSO objectives, which is partly to “improve smallholder coffee production and quality through the provision of subsidised pulpers, mini credits and freight subsidies” (CIC 2000c:4). However, this seem to be antithetical to another of its objectives relating to the management of the organisation itself, that is, “to operate the Corporation effectively, efficiently and in a self-sustaining manner” (CIC 2000c:3). This dilemma is currently being borne out by CIC’s struggle to survive by reducing its operational costs and double the export levy.

The interest subsidy mentality relates to a general societal culture commonly referred to in PNG literature as the ‘hand-out mentality’ that prevents hard work and self-reliance. To accommodate these pressures CIC’s alliance manager noted the following; “We do allow for some portions of the loans to be used for haus lain commitments such as communal feasts, compensation payments to settle tribal feuds and school fees, so the loans not only goes towards farmer commitments”. This contradicts lending-guidelines that clearly state, “Any spending Must Fall Within the original cash flow projection” (CIC 1996: section 7,d, emphasis in original).
The tension between market interest rates and subsidies, corporate management and CSO obligations reflect the tensions between organisational and societal cultures as well as the actual realities that farmers have had to contend with everyday. For example, lack of rural infrastructure prevents CIC from adhering to prudential financial management principles, and the danger posed by tribal fights erupting if feuds are not timely resolved presents the danger of funded coffee farms being obliterated. This gives rise to remote possibilities that loans may never be repaid at all.

### 1.2.8 Management of relationship capital/alliance process management

Management in PNG has a strong relationship-oriented culture that emphasizes personal contact and reciprocity stemming from strong traditional exchange obligations that have crept into modern management practices. CIC does recognize this point and so calls on its credit managers to establish good working relationships with their counterparts at the RDB. CIC is also on the priority list of DAL as a key strategic partner because of the economic importance of the industry to the national economy. In terms of its relationship with farmers, CIC also recognizes that without personal contact loan repayment will lag behind. Thus, the most effective way to ensure that outstanding loans are repaid is for personal relationships between credit officers and farmers to be reestablished and enhanced.

However, although this understanding is present resource constraints have been a concern resulting in a rise in default loans. For example, in the first quarter of 2002 only five visits was made by the alliance manager and his assistant in addition to the regular visits undertaken by the three regional coffee credit managers and 12 provincial coffee credit officers. Visits by the alliance manager and his assistant are usually for reviewing loan accounts in provinces, attend to disciplinary charges, resolve management disputes, and review farmer awareness programmes. Moreover, the alliance manager has to be physically present at the SACS implementation committee meetings in Port Moresby to maintain regular contact with the other alliance partners and review the progress of the scheme.

### 1.2.9 Alliance management outcome

CIC’s relationship with RDB has been flagged as the model to be emulated by the other SACS partners. Relationship building is being recognized by CIC’s alliance manager as important to the success of SACS within its cultural context. The underlying principle of rotating the seed capital to farmers upon which SACS is based originated from CIC and the alliance manager has a close and emotional association to SACS. SACS is also a critical component to the achievement of CIC’s core business. Thus CIC is separately negotiating K17 million from donors and the GoPNG to recapitalise its seed capital. If successful this will be implemented through SACS specifically for coffee. The alliance manager notes that “although we have our own credit guarantee scheme through which we could channel new funds from donors and operate it independently of SACS, we feel we don’t have the banking systems, RDB has this and a long history in lending so we still want to be committed to the RDB in the long term”. The alliance manager also notes that there have been key lessons learnt from the SACS alliance.
Case No. 2: Government of Papua New Guinea’s Credit Guarantee Scheme (GoPNG CGS)

Partner 1. Department of Treasury

2.1.1 Background

The PNG Department of Treasury plays a crucial role in economic management in any country. In PNG Treasury plays a key role in public finance management, fiscal policy and commercial investment. Although the PNG economy is open and free from government intervention, government has had an interest in nurturing a cadre of national entrepreneurs through a number of financial incentive schemes. One such scheme is the GoPNG’s Credit Guarantee Scheme (CGS), which is aimed at promoting national participation in the private sector.

The GoPNG instituted a number of financing facilities that come under the rubric of CGS in 1976 and early 1980s, which include the CGS guarantee of up to 80 per cent of loans, Stand Alone Guarantee (SAG) of up to 100 per cent cover, Housing Loan Guarantee Scheme (HLGS), Housing Loan Interest Subsidy Scheme (HLISS) and a National Investors Scheme (NIS). The operating logic of these schemes required that they be managed on a partnership basis with commercial banks. Under the CGS, for instance, banks such as PNGBC were required to lend to borrowers within set guidelines and the GoPNG through Treasury guaranteed to repay 80 percent of defaulted loans. Likewise under the NIS the GoPNG would support a project if a commercial bank including the RDB were willing to fund at least 50 percent of the total project cost without a government guarantee. A borrower was required to make an equity contribution of K10,000 or five per cent of project costs, whichever is greater, towards the project and demonstrate sound management acumen.

This case report only covers the experience of the GGS so as to focus attention on alliance management issues particularly with the former PNGBC, but the lessons will be applicable to any evaluation of the other related schemes administered by Treasury.

The CGS was established in 1976 and operates under the auspices of the Department of Treasury. Legislative provisions for the scheme emanates from the Public Finances (Management) Act 1995. Section 37 of this piece of legislation provides for the Treasury Minister to guarantee the repayment of a loan including interest made to any person or business organisation where the loan was made for the purposes approved by the Head of State (Governor-General) on advice of the PNG cabinet or National Executive Council.

Strategic alliance partners or PFIs (participating financial institutions) under these schemes include the PNGBC (now merged with BSP), Westpac Banking Corporation, Australia and New Zealand Banking Group (ANZ) and Bank South Pacific (BSP). Each of these partners agree to participate in the alliance by providing loan facilities at market rates using normal assessment procedures and the GoPNG undertakes to guarantee 80 per cent of the loan and interest not recovered. Upon satisfactory assessment of loan proposals banks proceed to request the State

14 This case report is based on in-depth interviews with the alliance coordinator in the Department of Treasury, Vulupindi Haus, Waigani as well as secondary data. Interviews were also undertaken with the former alliance coordinator, Assistant Secretary Treasury within the Economic Policy Unit Division, Assistant Secretary General Investment in the Commercial Investment Division, First Assistant Secretary CID, and Acting Assistant Secretary Domestic Debt Management Branch and a Senior Financial Analyst responsible for debt recovery for failed CGSs and investments.
The range of loan facilities available include individual loans up to K50,000 and group, company and/or joint venture loans of between K50,000-200,000 per member, provided that there are at least five national shareholders. Loan repayment period is five years and repayment is on a monthly basis. Borrower equity and security are not required under the scheme and loans are for any productive purposes. In the first year of the loan, a two per cent loan premium fee is charged on the principal amount. This fee is for the extra risks that banks incur. An establishment fee, which varies with each bank, is also charged. The interest rate charged is the commercial banks’ prime lending rate. The interests charged are calculated on daily amounts outstanding, according to Treasury’s alliance manager. Applications are made to PNGBC branches, which forward them to the respective bank head offices in Port Moresby. After screening, successful applications are then forwarded to Treasury for endorsement (Department of Treasury, n.d.).

To gauge a picture of the CGS alliance, according to the A/S Macroeconomics and on the basis of a review of the alliance he undertook in 2000, performance has been mixed since 1976 (Wosae 2000:5). The senior officer further explained that the success factors were due to: (a) borrowers being able to repay promptly and consistently, (b) default arrears were low by PNG standards, ranging between 30-40 per cent of the total loans stock, and (c) educational awareness programmes were mounted to extend the services to as many people as possible.

The setbacks include:

- when borrowers become aware that loans they have obtained were going to be repaid in full by the national government a culture of willful default set in
- tribal fights especially in the highlands of PNG and lack of proper infrastructure caused a scale-back of business operations hence making loan repayments difficult
- according to CID since loans were guaranteed by the State, banks decided not to follow up loans, i.e., the problem of moral hazard

Despite the mixed results Treasury increased the loan ceiling under the CGS from K20,000 to K50,000 for individual loans and for business, from K100,000 to K200,000 in 1989 (Wosae 2000:2). By end-1998 there were 930 approved applications guaranteed by the GoPNG amounting to K25 million with PFIs in the event of default. Of these there were a total of 26 outstanding default loans amounting to over K3.214 million (12 per cent) with interest accruing on a daily basis. By 30th April 2000, the total domestic loans’ default called-up guarantees placed on the main alliance partner, the GoPNG, stood at K17,303,910.08 (Wosae 2000:5).

The A/S Macroeconomics noted that the cost of maintaining the default guarantees is very high given the high failure rate of projects, and that the default guarantees accrue interest daily. Government budgetary allocations to meet these costs have not been forthcoming as expected. The alliance manager pointed out that budgetary allocations have declined from K743,300 (2000), K2.8 million (2001), to K464,800 (2002). This is due to increasing fiscal deficits. Note that allocations for 2001 and 2002 are projections and not actuals, and that during these two years the annual budgets had to be revised. Due to high default rates and failure of the main alliance partner to honour default-called up guarantees, the CGS, including all other financial facilities alluded to earlier in this section, ceased operations by the of 2001. The FASCID noted that there
were no plans to revive them, except to salvage scrap value of outstanding loans to meet default obligations to PFIs.

2.1.2 Importance of strategic alliance to core business
At Independence in 1975 the GoPNG was keen to finance business activities directly in order to expand the involvement of nationals in the miniscule private sector. Treasury’s alliance coordinator observed that PFIs were also enthusiastic about promoting business through government loan guarantees. Interviews with the first alliance manager who now holds a senior position as an A/S within Treasury also reveals that the CGS was viewed as prestigious and was housed within the Economic Policy Unit. This reflected its importance to the main core businesses of Treasury. Then in 1988 the scheme, together with the other financing facilities, were transferred to the Commercial Investment Division, reflecting the separation of the investment function from EPU.

As the strategic intent of Treasury shifted in line with the macroeconomic environment the responsibility for coordinating the CGS was transferred to a junior investment analyst who is referred to here as the alliance coordinator. This officer rose up from a lower rank and is still undertaking diploma studies in commerce by extension at the University of PNG. The officer however has been with Treasury for eight years.

Interviews with the alliance coordinator’s superior officers reveal declining enthusiasm for the CGS by early 2002. The immediate superior (A/S General Investment) concluded that the only beneficiaries of the alliance are the borrowers. His supervisor (FASCID) in turn was more forthright; “It is no longer the core business of the division, our purpose now is more policy-oriented rather than operational…The strategic intent of Treasury has shifted away from dishing out loans to promote entrepreneurship to strictly policy development.” This statement from the FASCID is important and significant. He is the person used to be the FAS of EPU in the early days of CGS and has been an employee of Treasury for 23 years with stints in almost all of the divisions within. Overall, the strategic intent of Treasury has shifted over time in line with current international development thinking that is opposed to direct government intervention in the economy.

2.1.3 Presence of alliance management skills
As has been noted, Treasury’s alliance coordinator is not a senior officer in the organisation. His main responsibilities include undertaking financial appraisals of the recommended applications from PFIs, help manage the lending, contact counterparts in PFIs for information concerning the loan portfolio, and interface with superiors within. The alliance coordinator stated that there was little relationship building with PNGBC as the main partner. There was very little personal contact, no visits to PNGBC and no social gatherings to complement formal relationships. He added that he used to have another officer working with him, but this person was recently terminated. Communication is more formal through phones, letters and reports. The magnitude of work pressure made it difficult for him to expend efforts on relationship building. The alliance coordinator commented: “the regularity of meetings within Treasury to deal with loan applications under the scheme depends on loan applications coming in from the banks, otherwise communication with our partners is strictly formal and routine as in the normal course of business”. He continued, “my job is to prepare and screen applications that come directly to us and from banks, conduct interviews and so on; the problem with PNGBC, however, is the high turnover of staff there”.

The alliance coordinator has no such discretionary powers as he is required to report and refer decisions to his superior, the A/S for Direct Investment. This otherwise reflects the existing bureaucratic culture of Treasury and generally the Public Service. The A/S has the power to approve or reject loan applications, and decide on payments of called-up guarantees of defaulted
loans. Nevertheless, more often than not, the alliance coordinator’s opinion is often taken into account in deciding on the suitability of loans. Overall, there have been little alliance management competencies that have been displayed by the alliance coordinator. Being a junior officer makes it difficult for him to engage at executive level in the partner organisations. The coordinator also has had minimal exposure to these skills and banking. There has been no job exchange with PFIs in order to blend the cultures of the partners.

2.1.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

Although the strategic intent of the alliance is to provide collateral-free loans to national entrepreneurs, the guidelines on who should benefit has been less clear. This has allowed for political networks to dominate the scheme. This has resulted in high default rates in the recent past decade. The current A/S Treasury who conducted a review of the alliance in 2000 underscores the consequences of such a lack of guideline clarity, “Government did not have a set of guidelines in place from day one for the CGS; they relied heavily on commercial banks for reporting, monitoring and administration and this was a big mistake”. And in reference to the dangers of political loans, “generally, those loans that were approved and assisted by Treasury and PFIs were better controlled than those that came through NEC. These were political loans to politicians and their cronies. This practice has incurred so much cost to the government”.

Because the vague guidelines were open to abuse, issues of structure, planning and control remained academic. The ambiguity of the guidelines allowed for multiple loan entry points, at cabinet level, Treasury and PFIs, thus rendering a loose alliance structure, which then invalidated planning and control mechanisms. According to the immediate superior of the alliance coordinator (A/S Direct Investment), “right from the beginning the system was at fault”. Given this scenario, a ‘default culture’ immediately set in. This has been hitherto difficult to correct. Thus the realignment of strategic intent to structure, planning and control, culture and environment has been a moot point since alignment at the beginning of the alliance cannot be assumed.

2.1.5 Environmental influence on alliance management process

Economical/technological

Treasury’s alliance coordinator mentioned the importance of the wider economy on the alliance management process. Declining capacity of the PNG economy to raise internal revenue and reduce fiscal deficits has resulted in lower budgetary allocations to cover the increase in called-up default guarantees over the years. For example, by 3rd November 1997, loans in arrears under the scheme from PNGBC that were well over the 90 days category numbered 34 out of a total of 671, and they amounted to K2.250 million out of a total of K16.179 million (Anis 1997:1). Overall macroeconomic factors, and particularly the inflation and exchange rate, determine the success of borrowers and hence their capacity to repay.

In terms of technological influence on the alliance, this is a more prominent issue for PNGBC as Treasury relies solely on its PFIs they possess key banking technology. Even then Treasury failed to put in place an adequate internal database system to keep track of loans.

Political/legal

Since the CGS was initiated in reaction to strong nationalistic feelings immediately after Independence in 1975 there was always going to be a place for politics in its management. Both the alliance coordinator and the FASCID gave examples of political influence. The coordinator gave the example of a Member of Parliament who used his position as Lands Minister to secure CGS loans to buy 10 public motor vehicles (PMV) for his village. Within months of the loan three of the vehicles had fallen into the default category. The alliance coordinator explained, “In this situation the Secretary and the Lands Minister got entangled in political loans. The cultural
system of Wantokism can be clearly seen at work here”. The FASCID also had examples, “One prominent figure had borrowed K600,000 and other loans from PNGBC that were still outstanding, yet PNGBC allowed him to take another dipping from the CGS”.

There have also been grave legal implications for the alliance. By not promptly honoring default claims issued by PFI’s, Treasury is liable under the signed MOAs between respective parties. The A/S Direct Investment gave the example where one of the partners had obtained a court order to get Treasury to pay up.

**Cultural/social**
The CGS alliance is both a victim and also a perpetrator of the ‘hand-out mentality’ that seem pervasive amongst its borrowers. The hand-out mentality is a prominent feature in the extant anthropological literature on traditional Melanesian society under the generic term of ‘cargo-cult mentality’ where material goods were expected to arrive on boats from no where without the notion that only hard work can give rise to goods and services (Lawrence 1964, 1967; de Renzio and Kavanamur 1999). Key alliance players within Treasury have pointed out that this factor is not only responsible for the high default rate, but has also strengthened the perception that the CGS is part and parcel of overall government handouts.

**Demographic**
Due to a lack of proper record keeping at Treasury, it was difficult to verify the total number of beneficiaries from the scheme as well as other demographic factors. Nonetheless, from the figures provided by the alliance coordinator, it could be estimated that up to 31 December 1996, total loan approvals stood at 671 (K16.179 million) for PNGBC, 195 (K5.212 million) for Westpac, 53 (K2.513 million) for BSP, and none for ANZ. These added up to a total of 919 beneficiaries. Between 1997 and 1998, there were 51 loan approvals while none was approved in the period 1999-2001; the CGS had effectively ceased operations by 1998. The total for the entire life-time of the scheme from 1976 to 2002 is 960 approvals. It is important to note, however, that the total figure potentially includes repeat loans. The alliance coordinator made mention of the fact that those who have benefited are the well-to-do of society and those who are ‘street-wise’. This perhaps explains the point made by the A/S Macroeconomics within EPU that there were no set criteria since the scheme’s inception specifying that loans should be based on for instance, gender, equity, sustainability, and so on.

### 2.1.6 Adequacy of internal organisational components for alliance management

**Governance structure, control & feedback mechanisms**
A signed MOA between the partners seals the alliance between Treasury and PNGBC. The alliance does not, however, have a formal governance structure to monitor the performance of the alliance as is the case with the other alliances discussed in this thesis. It is therefore entirely based on trust between the alliance manager at PNGBC and his counterpart at Treasury.

Borrowers approach PNGBC branches to enquire about the CGS. Once their applications have been collected the PNGBC Lending Department screens and decides on the viability of applications. Approved applications are then forwarded to Treasury for endorsement. The actual supervision and monitoring of loans is left to PNGBC. Subsequently, PNGBC is required to report on the status of loans on a quarterly and yearly basis to Treasury.

According to the alliance manager, Treasury and NEC can also sponsor loan applications if would-be borrowers approach them directly. Often loan applications coming through NEC are politically sponsored. Because PNGBC was a state-bank prior to its sale during the course of the research for this thesis in early-20002, loan applications use to enter through its board level as well. Treasury’s alliance manager observed that loans with political overtones were usually assessed on criteria other than viability-indicators such as cash flow, equity, contribution and
asset documentation. This category of loan almost immediately falls behind the repayment schedules within three months. The alliance coordinator lamented that, “When big people borrow they default so when the small people see this, the pressure for them to repay lessens”.

Given the lack of a formal governance structure, the story concerning control and feedback mechanisms becomes almost predictable. All the alliance players within Treasury placed the bulk of the blame with PFIs such as PNGBC for not reporting the status of loans on a regular basis. As the alliance coordinator explained; “Treasury commits budgetary resources to the alliance, but PNGBC fails to adhere to the quarterly reporting requirement. The only time they contact us is when a loan hits the rock and now they want to remind us of the 80 per cent guarantee. This is ironic!” He also observed that PNGBC and other PFIs are required under the MOA to first exhaust the usual loan recovery measures before calling upon the guarantee. Instead, PNGBC prefers not to expend resources on loan-follow ups. Treasury is of the view that PFIs tend to choose the easy way out by simply calling up the guarantee rather than incur further transaction costs.

Human resource component and continuity
The number of personnel working directly on the CGS alliance decreased over the years to only one junior officer who is the current alliance coordinator. By August 2002 when the researcher revisited Treasury, this officer had left for another position. The CGS had effectively ceased operations after in-depth interviews in early 2002. CGS functions were to be transferred to the Loans & Revenue Division for debt collection and eventual foreclosure.

According to the alliance coordinator, the CGS became a neglected unit after major cracks in the alliance began to emerge. Its capacity to monitor loans was limited and had to “heavily rely on irregular reporting from banks” (Treasury Alliance coordinator). There were no personnel assigned to specific accounts to help banks follow-up loans and build relationship. Moreover, there was no continuity in the CGS staff resulting in a loss of institutional memory over time (A/S Direct Investment). More seriously, alliance personnel had not received training in alliance management resulting in the absence of any relationship building process throughout much of the life-time of the scheme. It was obvious that the bureaucratic culture of Treasury prevented effective lateral communication and coordination.

Communication Skills
All the personnel within Treasury interviewed reveal that there was little communication between the partners. Although some degree of trust had been cultivated during the early days of the alliance, this eroded with time and thereby causing a shift in the strategic intent of Treasury, particularly in CID. According to the A/S Direct Investment, “Trust has been eroded because the frequency of defaults is higher and Treasury has been three to few years behind in honoring default payments under the MOA”. The senior officer further observed; “There is no close working relationship between us and the PFIs. The only time we spoke to each other was when there were problematic loans. Discussions would only be at formal level and nothing at informal level. There is no informal interaction and there is no reporting from the banks on the commercial accounts. Really, it is the system which is at fault. Now we are seeking a review while the scheme remains suspended”.

Technology
The use of technology for record keeping and monitory by Treasury was a neglected area in the life-time of the alliance despite its availability. The A/S Macroeconomics observed that Treasury failed to build up an accessible database for reliable storing and retrieving information necessary for timely decision making and loan tracking. Indeed, loan files would often go missing (Wosae 2000; Department of Finance 1996a,b, 1998). Prudent management through careful record-keeping, loan application evaluation, monitoring and liaison with stakeholders, and the assiduous
pursuit of clients for repayments have been acutely absent due to the neglect of technology and staff shortages.

**Coping Strategies**
The inadequacy of internal organisational components led Treasury to adopt a minimalist approach by choosing to depend entirely on the good-will of banks to monitor loans and provide business advice to borrowers. Eventually, as alliance trust dissipated the partners had little choice but to suspend the entire scheme. There was little reason for Treasury to be initiating communication with PFIs when the country’s macroeconomic situation precluded it from honouring its default obligations.

2.1.7 Organisational and societal culture influence on alliance
The CGS seems to have become a victim of the hierarchical and bureaucratic culture of Treasury as built on Weberian management principles. This culture prevented horizontal/lateral networking and communications with the banks. The reward system, which is based predominantly on vertical relationship building, has also been an inhibitive factor in this regard.

Treasury’s alliance coordinator noted that there were no staff exchanges between the partners to help bridge the organisational cultural divide between PNGBC and Treasury. Thus the opportunity to understand each other’s culture and work towards possible cultural-fit through meaningful communication and networking was not taken. The management of soft issues has been proven to be vital ingredients in strategic alliance management, as it oils the relationship resulting in mutual trust which can facilitate the prompt resolution of conflicts (Lorange and Roos 1992; Yoshino and Rangan 1995; Buttery, E. and Buttery, A. 1994).

Treasury alliance officials who were interviewed also felt that the societal culture that perceives the state as the principal source of goodies generated a lax attitude amongst borrowers when it came to repaying government-backed loans relative to commercial bank loans. According to the A/S Direct Investment, “Borrowers benefit more from the scheme, then the other parties. Borrowers claim to borrow money for productive activities, but people have become smart; within say six months of the loan they choose to willfully default. Clients no longer borrow for productive activities and the banks do not monitor and control the loans anymore”. Generally, Treasury officials felt that there was an increasing default culture throughout the country vis-à-vis government backed loans.

2.1.8 Management of relationship capital/alliance process management
Clearly, there has been little effort put into relationship building processes resulting in a complete break-down in trust between the guarantor, banks and borrowers. Treasury officials who were interviewed admitted to their own shortcomings and laid some of the blame at the foot of bank officials too. The lack of commitment to the alliance by senior officials as evident in the CGS, where a junior official acted as the alliance coordinator, pointed to declining enthusiasm of the lead-partner in the alliance since the 1990s. Most importantly, the skills for alliance process management were conspicuously absent.

2.1.9 Alliance management outcome
Whilst the CGS alliance may have had some success in the 1970s and 1980s in terms of loan quality and relationship building process, as pointed out by the scheme’s pioneer alliance manager, this perceived high degree of performance dwindled from the 1990s onwards. In the end both parties fell behind in their financial and human resource contributions to the alliance. Treasury has accused PNGBC for shirking in its responsibilities in loan monitoring, supervision and debt recovery, and Treasury remains a debtor to PFIs under the scheme, owing over K17 million in default called-up guarantees. The financial health of the alliance was such that it was already under suspension during the time of in-depth interviews and by mid-2002 the scheme had
ceased operations altogether with its alliance coordinator taking up another government department. The task of clearing up the debts left behind is now the responsibility of the Loans & Revenue Division within Treasury.

Partner 2. Papua New Guinea Banking Corporation (PNGBC) - BSP

2.2.1 Background
The Papua New Guinea Banking Corporation, now part of the Bank South Pacific since early 2002, is a major PFI of the GoPNG CGS. The PNGBC was established in 1974, with the transfer of the operations of the Commonwealth Banking Corporation of Australia to GoPNG ownership. The PNGBC became corporatised in 1998 under the umbrella of the Finance Pacific Group and then was bought off by Bank South Pacific in 2002 as a result of ongoing privatisation process of government owned financial services.

The PNGBC was the only commercial bank with an extensive network throughout the country. It also controlled 60 per cent of market share in line with its mission as an ‘all-finance’ bank geared towards providing the population of PNG with adequate financial services and products (Ennenbach 2000:27). Although the bank had to reduce its network of branches and agencies in the last decade due to security problems and in a bid to increase its profitability, the PNGBC remained the single most successful financial institution in the country by the turn of the century, in as far as the mobilising of small savings was concerned. As at September 1999, the bank administered more than 500,000 passbooks and transaction accounts with an average deposit balance of less than K400.

PNGBC’s strong orientation towards the financial needs of the average population was not reflected on the credit side. As at December 1998, only 1.7 per cent of the bank’s loan portfolio belonged to Personal Loans, with a maximum credit size of K10,000 (Ennenbach 2000:27). PNGBC’s success and experience is even more limited regarding the credit business with small and medium enterprises. As at December 1997, PNGBC had about 400 outstanding loans in this market segment with an estimated loan default rate of more than 40 per cent. This dismal performance rate is crucial to analyzing the performance of the CGS, which was primarily aimed at nurturing local enterprises.

The bank’s market share steadily declined in between 1990 and 1998 and profitability was on the decline over much of its history resulting in very low dividend payments to the GoPNG (World Bank 1999:139). Low profitability compared with PNG competitors despite a large market share mainly reflected a high cost structure. Personnel cost ratios were one-and-a-half times that of competitors (World Bank 1999:139). Expenses related to premises were also high. PNGBC had the highest number of staff per branch (56) and the lowest level of assets per branch in the banking industry. Non-performing loans were also high resulting in substantial write-offs made in 1992-93 and again in 1998 due to overexposure to a few corporate clients.

Lending growth picked up in 1998 after corporatisation, but with a large part being attributable to loans with political objectives, some non-commercial (World Bank 1999:139). Profitability improved in 1998, but so too did profits of its competitors many of which reaching record levels. A return to profitability of K19.135 million in 1998 mainly resulted from equity trading and rental income from properties acquired through the implementation of GoPNG decision (NEC 4/98) effecting the corporatisation process in preparation for privatisation (PNGBC Limited 1999:3). The underlying core banking business remained weak as in the following year (1999)

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15 This case report is based on in-depth interviews with the former alliance manager of PNGBC who was prior to the merger between PNGBC and Bank South Pacific in early 2002 was the Executive Manager – Commercial Lending. The report is also based on secondary data.
when net profit after tax was only K5.178 million. In 2000 the bank recorded a net loss after tax of K30.971 million, reflecting bad debt provisioning of K45.3 million and non-core business expenses associated with the balance sheet review and operational restructuring totaling K23.7 million (PNGBC Limited 2000:2). Overall, despite PNGBC’s 60 per cent market share the bank managed only 40 per cent of PNG’s banking assets.

2.2.2 Importance of strategic alliance to core business
PNGBC being a state bank was expected to fully participate in the CGS. The bank saw the CGS as a loan product geared towards fulfilling its social objectives. The CGS was not therefore seen as related to PNGBC’s core business. Although its goals were clear to the bank, lending officers saw it as a chance to get away from stringent loan security issues. The Executive Manager (Lending) explained, “This facility was seen as a help and not as a money making loan. Treasury Department (GoPNG) would often write us letters to say that they would be willing to consider the loans they had approved, often not viable, if recommended by us”. Both the Treasury Department and the bank would normally undertake loan approvals.

The CGS formed only a small compartment of the bank’s loan products. PNGBC’s core banking business was fulfilled through its (a) transaction products, (b) investment products, (c) commercial loan products, and (d) other services.

2.2.3 Presence of alliance management skills
The management of the CGS came under the direct responsibility of the Executive Manager (Commercial Lending). The commercial loan portfolio, which involved small business lending up to K5 million, entailed the CGS.

The alliance manager explained that PNGBC tried to maintain a good working relationship within and with clients under the different portfolios. He pointed out that by 1999 several committees were established to facilitate the feedback process within the bank and to adjust accordingly to environmental risk factors. They were the Assets and Liabilities Committee, the Audit and Compliance Committee, the Credit and Business Risk Committee and the Investment Committee. Relationship management skills were being developed within the bank and this flowed on to the bank’s dealings with corporate clients or priority clients.

In dealing with the Department of Treasury, communication and trust were developed in the early years of the CGS arrangement. However, by the early 1990s when the alliance manager joined the bank relationship quality had deteriorated. The alliance manager noted; “We only knew the Department of Finance by phone”. The bank’s primary concern in early 2002 was to negotiate called-up default guarantees from the Department of Treasury. The alliance noted that in 2000 he was part of a team that successfully negotiated outstanding default guarantee payments of K11.4 million. An outstanding amount of K3-4 million remains outstanding. According to the manager, the Department of Treasury over the recent past years simply lost control of the GGS as it no longer was a priority for the GoPNG.

2.2.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment
According to the alliance manager, the strategic intent of the CGS was well appreciated when the scheme was first started. However, over time the bank lost control of the CGS. In the period 1997-98 PNGBC experienced high CEO turnover as the GoPNG replaced one political appointee after another. During this period prudential centralized lending was repudiated in preference for decentralised lending decision making. The alliance manager recalled; “In 1997-1998 the focus was on increased loan approvals rather than loan control. Approval of CGS loans shifted from Head Office to branch offices. The loans officers focused on attack rather than defense”. The end result was a marked deterioration in the quality of the CGS loan portfolio.
Overall, this deterioration in loan quality was reflective of the general decline in governance and management capacity within the PNGBC. The alliance manager explained on hindsight; “The CEO had a high discretionary loan amount for approval as well as the power to veto or override the decisions of loans officers. Given the high delegation authority the “banking culture got destroyed - the culture that preserves the spirit of sound and prudential lending. The period 1996-1997 saw deposits being used for operational costs”.

2.2.5 Environment influence on alliance management process

Economic/technological

The alliance manager reasoned that the general decline in PNG’s macroeconomic situation in the 1990s which prompted the first World Bank/IMF sponsored SAP in 1990 negatively affected the business environment. Many client companies went burst and the capacity for borrowers to repay declined drastically. As national budget deficits increased and the ability to collect internal revenue declined, the GoPNG found it difficult to repay default-called up guarantees to PFIs under the CGS. By 2000, the CGS was no longer central to the strategic intent of all the partners, including other private PFIs. In effect, although the CGS alliance had become ineffectual, the GoPNG refused to allow the sun to set on it much earlier.

In terms of technology, PNGBC had in place the necessary technology for administering the scheme. However, the breakdown in management capacity from 1996 onwards, which resulted in the repudiation of prudential lending culture, meant that the importance of technology in loan control management became nonsensical. The general atmosphere was to increase the loan book regardless of loan quality.

Political/legal

Because of the nature of the CGS and the fact that the PNGBC was wholly state-owned, political pressures for loan approval marred the scheme’s alliance management process. Loan proposals were pushed from two political entry points, at the NEC level and at the PNGBC CEO level. At the operational level of PNGBC, loans officers tended to support or favour loan proposals from relatives and business associates. The alliance manager noted; “With decentralisation, loans officers would put nice things on paper to the Department of Treasury justifying loan approvals. Three to six months later, they would advice banking executives of their intention to call-up loan guarantees from the Department of Treasury”.

Cultural/social

Culture and social obligations to relatives or Wantoks played a detrimental role in the management of the alliance management process. When loans officers grant loans under the CGS to fulfill societal obligations, the approving loans officer’s social standing in the community is elevated. The Executive Manager (Lending) recalls cases where both bank staff and Department of Treasury officials borrowed under the scheme for property and business investments, a good number of staff (10-15) actually benefited.

Demographic

From the bank’s point of view demographic issues such as gender were not important to their core business. The banks role under the scheme was mainly to screen, verify, approve or reject loan proposals, and manage the portfolio.

2.2.6 Adequacy of internal organisational components for alliance management

Governance structure, control and feedback mechanisms

PNGBC saw the governance structure and processes of the alliance with the Department of Treasury as mainly being embodied in the MOA. The MOA, however, bestowed much of the work on the bank. According to the alliance manager, both parties paid lip service to the MOA as
seen in very little personal contact and communication between the two partners. Reporting 
lagged behind as the strategic intent of the partners drifted apart over time.

Within the bank, serious governance issues were raised in the 1999 Annual Report vis-à-vis the 
composition of its Board. Because of serious breaches of capital adequacy requirements in the 
period 1996-1998, NEC Decision 4/98 directed that PNGBC be prepared for corporatisation. By 
2000, the PNG Privatisation Commission was given a mandate for the privatisation of PNGBC 
and its associated entities (PNGBC Limited 1999). By 6 September 2000 the Bank of PNG 
(reserve bank) acted pursuant to powers vested by the Banks and Financial Institutions Act 2000, 
by removing all the directors due to concerns regarding corporate governance and prudential 
deficiencies including capital adequacy. A new group of directors was appointed with the 
mandate to restructure the organisation. The end result was the eventual sale of 75 per cent of 
PNGBC to BSP.

For much of the lifetime of the CGS, the lack of bonding both at the governance and operational 
levels of the partners led to the eventual collapse of the CGS alliance in early 2002. Alliance 
management control and feedback mechanisms were weak and both partners operated in isolation 
from each other. According to the Executive Manager (Lending), the CGS alliance was too 
insignificant to PNGBC that it did not justify a formal governance structure of its own nor did it 
arrant the exchange of staff for learning purposes between the partners.

**Human resource component and continuity**
The most important human resource contribution from PNGBC to the alliance was loans officers 
and branch managers. The alliance manager noted that prior to 1996 extensive experience was an 
important criteria used in appointing managers. After 1996 political interference with the 
operations of the bank resulting in a loosening of prudential banking guidelines resulted in the 
promotion of inexperienced managers and loans officers. The end result was a deteriorating loan 
portfolio quality, including that of the CGS.

With the political appointment of CEOs, continuity in positions within the bank became 
problematic. The alliance manager gave his personal account as a case in point, where he was the 
Executive Manager (Lending) for only three years; whereas in the past a staff would remain in 
that position for much longer.

**Communication skills**
The alliance manager noted that communication skills within the bank and particularly amongst 
senior executives were excellent. Weekly meetings were conducted by the different committees 
managing credit risk, foreign exchange risk, liquidity risk, operational risk and interest rate risk. 
In terms of the CGS alliance, communication within and with the Department of Treasury 
remained excellent up to the late 1990s. The emphasis on increased lending by the politically 
appointed CEO in the late 1990s to increase the loan book to managers and loans officers 
neglected the need to keep diaries and proper lending records. The alliance manager recalled a 
famous remark of the politically appointed CEO to his team of executive managers; “I am not 
excited when we lend to K20 million to Air Niugini, but I am excited when we lend to a 
vegetable farmer in a province like Kundiawa”.

**Technology**
PNGBC had the technology in place for tracking loans. But according to the alliance manager, 
this was insufficient given the type of corporate culture and political environment that was 
affecting the bank. The emphasis of the bank in the late 1990s was to increase the loan book, 
resulting in the repudiation of prudential banking practices and principles of good governance at 
Board level.
Coping strategies
The influence of political, cultural and social forces on the CGS alliance management process resulted in a 99 per cent failure rate towards the dying stages of the alliance. The alliance manager revealed that the best PNGBC could hope for was to salvage scrap value of its outstanding loans. This strategy entailed minimal recovery of loans from clients and maximum pursuit of the 80 per cent guarantee on loans under the scheme from the Department of Treasury. The alliance manager noted that PNGBC realised that there was no point in incurring transaction costs in loan follow-ups.

2.2.7 Organisational and societal culture influence on alliance
The CGS alliance management outcome has been highly influenced by the type of organisational culture that was cultivated within PNGBC. A major shift away from centralised control in lending in the period 1996-1998 in preference for decentralized lending, which aimed at growing the bank’s loan book relative to its competitors was to prove disastrous. This push for growth occurred in an environment of poor credit management skills of the staff, high inflation increasing fiscal deficit resulting in tight monetary policy settings, including a high interest rate regime (PNGBC Limited 2000:3). The change in management culture towards granting more discretionary powers to branches and lending officers was undertaken without proper appreciation of the influence of the PNG societal culture. The end result was an abuse of discretionary powers both by the politically appointed CEO and lending officers who sought to reward their relatives and business associates with give-away loans. In such an environment, appropriate credit policies and risk management processes were largely ignored.

2.2.8 Management of relationship capital/alliance process management
The PNGBC did not view the CGS alliance as strategic to its core business so as to warrant extensive relationship building with Treasury officials. There was little communication amongst alliance managers, gatekeepers, and senior executives. The CGS was marred by high default from the late 1980s onwards. According to PNGBC, this was due to the nature of the scheme, being a government-backed loan facility. Accordingly, the alliance manager revealed that a strategy adopted by the bank was to treat loans once disbursed as being a bad loan requiring 80 per cent of its value to be immediately reimbursed by the guarantor. This approach was inimical to relationship building and created animosity between the partners. The alliance manager continued; “The bank could not trust Treasury and Treasury could not trust us, each thought that the truth was never forthcoming due to high default from borrowers and the delay tactics of the guarantor when it came to settling default guarantees”.

2.2.9 Alliance management outcome
By early 2002 the CGS alliance had collapsed with a remaining called-up guarantee default payment of K3-4 million remaining to be paid out to PNGBC. According to the alliance manager the very design of the CGS as a loan facility was highly faulty. This model was based on an 80 per cent guarantee of all loan defaults. It was primarily security-based and had social objectives. Therefore, it inherently laid the basis for the problem of moral hazard on the part of both the borrower and lender.
Case Study No. 3. Small Business Guarantee Facility (SBGF)

Partner 1. Small Business Development Corporation (SBDC) 

3.1.1 Background
The Small Business Development Corporation is the lead partner in the Small Business Guarantee Facility alliance. The other partners are the Bank South Pacific and the Australian and New Zealand Banking Group. However, this case report focuses only on the partnership between SBDC and BSP in the period 1996-2002 due to space and time constraints bearing upon the thesis.

The SBDC came into existence in 1990 with the enactment of the SBDC Act 1990. The piece of legislation empowers SBDC to develop credit and business advisory service schemes aimed at promoting small business. The Act not only established SBDC as a statutory government entity, but also presented the organisation the possibility of it becoming a financial institution. SBDC since its inception has presided over the conception and development of a number of financial incentive schemes such as the working capital and raw material assistance programme, the small equipment learning assistance programme, venture capital investment, small-scale credit funds, and micro-credit facilities.

The focus of this case report is primarily on the SBGF alliance. The SBGF was instituted in 1996 with initial an funding of K1.6 million by the GoPNG. There are three types of bank guarantees under the SBGF. They are the Clean Loan Guarantee, Collateral Short Guarantee and Credit Risk Guarantee. Loan guarantees range from 50-100 per cent of principal loan and eligible loan amounts ranging from K1,000-K100,000. Under an agreement called the SBGF Participating Agreement of 1996 between SBDC and BSP SBDC was required to place K500,000 in a term deposit with BSP at below market rates to act as a guarantee for lending by BSP to targeted clients (SBDC and BSP 1996). This guarantee fund was later increased in line with the number of disbursed loans and default claims.

SBDC and BSP agreed that to help reduce default risk to the banks and ensure a reduction in interest cost to borrowers earmarked at 10 per cent, only 4 per cent would be paid on the SBDC guarantee deposits (Kaul 1998:32). The first loan under the scheme was made in December 1996, and up to March 1998 K840,000 worth of loans were disbursed. This resulted in K662,095 that was guaranteed under the financial alliance. BSP was the most active PFI with K546,900 worth of loans approved for 65 per cent of the guarantee portfolio.

The SBGF lending is primarily to the small enterprise sector, which is thought to have the potential for employment creation in PNG. PNG’s small enterprises account for 3.5 per cent of GDP and 4 per cent of formal sector employment relative to more than 50 per cent in other developing countries (SBDC 1995). Loans disbursed by the alliance have been drawn mainly for productive activities in wholesale/trading, industrial, service, transport, manufacture and fisheries (Kaul 1998). Much of the loans have been disbursed to firms in two of the country’s regions, Mamose and Highlands.

SBDC’s alliance manager, who became its Managing Director after the interviews in May 2002, concedes that the alliance’s performance fell short of high expectations. The actual number of loans disbursed up to 1999 was less than 30. Indeed, by mid-1998 a total of only 18 clients had

\[16\] This case report is based on in-depth interviews with SBDC’s alliance manager in March-May 2002 as well as secondary data. The alliance manager then became the Managing Director soon after interview. Interviews were also undertaken with the manager responsible for SBDC’s training programme.
taken out loans totaling K87,000 (Kaul 1999). This was because PFIs such as BSP preferred to lend to firms requiring loan amounts above K10,000. SBDC’s alliance manager pointed out that overall, the scheme has been plagued by a high default rate as commercial banks took the easy way out in cases of default by simply calling upon the guarantee to redeem outstanding loans beyond 30 days.

SBDC’s alliance manager revealed during interviews that since 1999 no new loans have been disbursed by the alliance. A sudden decision by the GoPNG to cease budgetary allocation to the SBDC in 1999 caused a temporary closure. Thus in a panic move to retrench staff, the guarantee deposits placed with PFIs, which by now had included PNGBC, were withdrawn and used for retrenching SBDC personnel. Both BSP and ANZ had to withhold portions of the deposits as cover for outstanding loans. The announcement itself that SBDC would be abolished was taken advantage of by some borrower who decided to cease repayments altogether (SBDC’s alliance manager). This made the work of the banks difficult, which led to a break down in ‘trust’ between the strategic alliance partners.

The situation at the SBDC had not improved by early 2002, prompting aid donors and the GoPNG to advise SBDC to shift its core business away from credit management, and instead concentrate on business training, an area it was generally perceived to be succeeding in through its training network partners. In his evaluation report on the SBDC, Kaul (1998) found a number of weaknesses within SBDC. Salient amongst these was a lack of ‘responsibility’ over the years by staff in the conception, implementation and monitoring processes of the organisation’s various financial programmes, particularly with the raw material assistance and leasing schemes.

Kaul (1998) also found that the high default rates experienced under the SBGF was due to the unworkable relationship between the banks and SBDC as banks were unwilling to commit resources towards the monitoring of loans and was less prepared to share risk factors. Kaul’s view was that the SBGF should have been brought in-house to give more control over loan monitoring and advisory support to clients. SBDC also had major weaknesses in its institutional capacity as evident in its lack of project design, implementation and monitoring capacity.

3.1.2 Importance of strategic alliance to core business
The SBGF’s main objective is “to promote Papua New Guinean owned and operated small scale businesses and projects” (SBDC and BSP 1996: Section 8.1). The scheme is based on the premise that this category of business enterprises finds it difficult to access loans from commercial sources of finance because of shortfalls in collateral requirements and asset quality. The idea, therefore, is to help elevate this category of businesses to formal sources of financing by initially helping to establish clients with a maximum guarantee of 80 per cent coverage on loans obtained from accredited financial institutions against the risk of default (SBDC and BSP 1996: Schedule 4 Section 1.1). Given the primary purpose for the establishment of the SBDC stated in the SBDC Act 1990, which is to promote small business, the SBGF alliance was initially deemed central to the core business of the SBDC. However, overtime, and after evaluation of the performance of the SBDC and the abrupt budget cuts in 1999 that resulted in a major shift in the strategic environment of SBDC, strategic intent shifted towards business training. SBDC’s alliance manager explained; “Our core business has shifted away from credit management to just training as encouraged by the ADB and other donors, upon which we rely on for funding”. The abrupt decision to terminate the SBGF alliance was unilateral and it inconvenienced partners or agents such as the BSP and left behind a bad track record for SBDC.

3.1.3 Presence of alliance management skills
SBDC’s alliance manager noted that there was some degree of networking skills and relationship building between the partners at the executive level. Prior to his taking over of the task of
networking with the partners there was a junior officer in the job who acted as the liaison officer. However, prior to the junior officer’s appointment there was no such position.

According to the current alliance manager, although SBDC spoke of building network partnerships, it lacked the requisite strategic alliance management skills and qualities. There was little relationship building effort by both alliance partners. However, this neglect was more pronounced on the part of SBDC because the SBGF was more critical to the achievement of its strategic intent than to BSP. The latter naturally tended to commit more resources to its regular clients. SBDC’s alliance manager noted; “Up to October 1999, there was a liaison officer here, but he was useless. Banks on their part knew that their lending through the scheme was risk-free and as such were under no pressure to recover defaulted loans or exhaust the loan recovery procedures. Their efforts at relationship building were also just like ours”. Clearly, although the SBDC had deposited guarantee funds as financial hostages with PFIs such as BSP, the token of trust was insufficient. Relationships have to be managed over time. Since organisational outcomes are inseparable from processes, the outcome of SBDC’s efforts should not be detached from what was going on within.

3.1.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

SBDC’s alliance manager stated that the strategic intent of the SBGF was clear to all parties involved. He backed his by providing a copy of the SBGF Participating Agreement between SBDC and BSP. This document spells out the goals and responsibility matrix. The agreement is between BSP Ltd a company incorporated under the laws of PNG which operates as a registered Financial Institution under the provision of the Banks and Financial Institution Act Chapter 137, and the SBDC a statutory corporation established under the SBDC Act 1990.

Under the agreement the Department of Treasury vowed to make available monies to the SBDC for the purpose of the scheme. SBDC in turn will establish an Interest Bearing Term Deposit (IBTD) within BSP as an 80 per cent guarantee fund to enable BSP to extend loans to its eligible customers upon executing an agreement. After assessing a proposal for a project or business eligible for guarantee BSP shall submit the details to the SBDC in a specified form. Upon receipt of the application for guarantee, SBDC will then determine the type of guarantee sought by BSP under which the client should be covered. SBDC shall then advice BSP to advance a loan against the guarantee fund held within. BSP is also required to pay SBDC a 2 per cent guarantee fee, which is calculated from the guaranteed portion of the principal loan amount. Interest charged by BSP and other PFIs is at market rate.

Section 8 of the agreement which spells out the obligations of BSP, calls for the partner to “solicit investment proposals from customers and from the general public, and encourage and promote the development of small businesses wholly owned and operated by Papua New Guineans”. However, sub-section 8.2 notes that the agreement should not be construed as a direction to BSP on how it should make its investment decisions in relation to any businesses or projects available for funding. Therefore, BSP should assess each project proposal under normal commercial terms and banking practices. Likewise, under SBDC’s obligations, the agreement prevents it from any involvement in determining how BSP should assess the commercial viability of a business or project and the decision whether to fund such activities under the scheme. Although SBDC can help with the training of would-be borrowers and assist in their application proposals, the ultimate decision on whether or not to fund a business proposal rests entirely with BSP.

Upon execution of a loan, BSP will be responsible for loan monitoring and supervision. In the event of a default by the customer, BSP will have (a) the option to restructure the loan, (b) materialise all securities or assets pledged by the customer to recover the total loan outstanding, or (c) if the materialisation of the securities and assets is not sufficient to recover the loan BSP has the option to
call on the guarantee to recover its outstanding loan. The agreement also specifies guidelines for
terminating the agreement, review options after 12 months initially and default or conflict
resolution procedures. Although the agreement looked good on paper, operational shortcomings and
environmental factors precluded the achievement of the goals of the alliance. Principally, SBDC’s
strategic intent had to be adjusted to a change in its strategic environment, which eventually led to
the foreclosure of the alliance. SBDC’s alliance manager pointed out the following constraints:

- were obtained reflecting the problem of ‘fungibility’
- although the SBDC spoke of building strategic alliances, it lacked the requisite strategic
despite huge amounts of money that were disbursed through the scheme, the actual number of
loans were no more than 30 by the end of 1998
- the scheme has been marred by high default rate due to lack of stringent screening and loan
monitoring by both the SBDC and PFIs
- due to the risk-averse nature of commercial banks, PFIs continued to insist on over 50%
security from clients and often decided not to exhaust loan recovery measures
- the low level of lending under the SBGF over the past 12 years can be explained by the fact
that banks were determined to reduce their transaction costs, and only loans over and above
K10,000 were considered for approval
- SBDC’s limited service delivery network meant that high transaction costs did not justify the
provision of a one-to-one consultancy service for borrowers
- borrowers on their part were not genuine in using the loans for the purposes for which the
loans alliance management skills and qualities to effectively do so
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330
3.1.5 Environmental influence on alliance management process

Economic/technological
The alliance was supposed to receive an initial capitalisation of K8 million at the inception stage in 1996. As it turned out only the GoPNG contributed its share of K1.6 million while K6.4 million that was supposed to come from the Asian Development Bank never materialised. Despite this setback, the alliance did not require recapitalisation in its short life-time as only less than 30 clients had benefited from the scheme. The small number of beneficiaries illustrates the stringent evaluation procedures of PFIs such as BSP as well as the fact that would-be borrowers must first undergo SBDC courses such as the Start Your Own Business (SYOB) and Improve Your Business (IYB) as prerequisites. In addition, a more fundamental constraint to outreach arising from economic factors is the assertion by the World Bank (1999:137) that there are generally few bankable small-scale businesses/projects in PNG given more fundamental and structural constraints prevalent in the wider economy and society. These include road dilapidation, a lack of local amenities necessary for business growth and lack of market access. Thus it follows that a key constraint facing the alliance is low levels of credit demand rather than supply constraints.

Moreover, budgetary constraints in 1998 that led to the adoption of austerity measures led to the temporary closure of SBDC because operational cost could not be met beyond 1999. SBDC’s alliance manager explained, “From 1998 to 2002, there was no board of management to oversee the organisation and those of us remaining were integrated into the Investment Promotion Authority as a division.” By August 2002 a new board was in place and NEC appointed the current alliance manager as the new MD of SBDC. The alliance was no longer in place and the focus of SBDC shifted to business training.

As far as SBDC is concerned, technology is not so much a constraint facing it because, as under the GoPNG’s CGS, PFIs are depended on to provide the banking technology.

Political/legal
A number of political factors have been identified by SBDC’s alliance manager as having had a large influence on the management of the alliance. One is the fact that the 1998 budget cut was a political decision of the government of the day that did not appreciate the significance of supporting small businesses and their potential contribution to a country’s economy. The flow-on effect of this decision was the withdrawal of the guarantee funds deposited in term deposits with PFIs.

A second factor relates to the government’s prerogative in the appointment of SBDC’s MD. From 1990 to 1998 there was continuity in that position, but after Alois Lavu was removed as MD, uncertainty surrounded the SBDC and different political appointees took turns to run the organisation. For example, “the current CEO (as of May 2002) was brought in from outside in October 1999. He has no qualification to enhance the function of SBDC. His reward far exceeds his performance… The new CEO was unprofessional and the lack of a Board to oversee and evaluate his performance complicates things here”. The alliance manager pointed out that the MD was a political staffer for the Minister of Trade & Industry, the parent Ministry of the SBDC. Apparently, at the time of interview the CEO was out on the campaign trail for the 2002 national elections. The alliance manager pointed out that it was improper for the Minister to appoint the MD as this was the responsibility of the Board. However, since 1998 when the SBDC was temporarily abolished there had been no Board. This paved the way for political appointments and interference with the operations of the SBDC. That alliance management was negatively affected was almost a natural occurrence.

With the abolishment of the SBDC in 1998, the agreement between SBDC and BSP that was signed in 1996 ceased immediately to take effect. The alliance manager pointed out that both customers and PFIs, took advantage of this situation. Customers decided to willfully default and
PFIs took the easy way out by simply calling upon the guarantee fund rather than pursuing defaulting clients. In the end, whatever modicum of trust that was being built simply dissipated.

Cultural/social
As with the other case reports in this appendix the cultural practice of *Wantokism* was noted by the SBDC’s alliance manager has having exerted a certain degree of negative impact on the alliance. Typically loans taken out were not always spent entirely on the original purposes specified in cash flow proposals. The alliance manager gave family obligations as one of the main contributing factors of loan defaults. He also made the point that “even the best designed credit scheme would fail if the default rate remains high arising from cultural and social obligations”. Personal interview done with the CEO of ANZ in August 2002, which is also a PFI in the CGS alliance, lends credence to the negative effects of culture. ANZ’s CEO said; “A major problem is that small business borrowers take the money under the arrangement (SBGF) and do not bother paying it back. Even when the banks attempt to exercise their mortgage rights, the legal process is cumbersome and adjournments are, more often than not, the rule of the day”. ANZ concurs with the view expressed by Treasury officials documented in the GoPNG CGS case report. The credit culture has deteriorated to a point where it is difficult for banks to return business to certain areas of the country such as rural areas.

Demographic
The purpose of SBDC is to help graduate small businesses into more formal sources of finance. Hardin and Associates (2000) estimate that this scale of business number between 12,000 and 15,000 in the country. The bulk of their credit demand is mainly within the range of K2,000 – 30,000 with an average loan size of K3-5,000 (Hardin and Associates 2000; Kavanamur 2002). The SBDC estimates the credit demand of small businesses to be quite modest, falling somewhere within the range of K1,000-10,000 (Kaul 1998). Against this backdrop, it can be stated that the SBGF’s performance has been dismally with limited outreach. It had reached about 30 customers only within a 4-year period. The declining networks of both the SBDC and BSP do not help in this regard.

3.1.6 Adequacy of internal organisational components for alliance management
Governance structure, control and feedback mechanisms
SBDC’s alliance manager pointed out key sources that stipulate the alliance governance structure. These included SBDC’s NEC Submission Policy No. -/95 which initially specified the parameters for the establishment, management and operation of a small business guarantee fund. It also called for SBGF to be established as a ‘Special Project’ that would “enable the project to be a step removed from the ‘day to day’ operations of SBDC, with the Project Manager of the Project liaising and providing regular progress reports to SBDC Board and Senior Management as well as representatives of Government,” establishment of Imprest Account Arrangements to be opened with the PNGBC and to be known as the ‘Small Business Guarantee Fund Imprest Account’, staffing implications for the ‘Special Project’ requiring a liaison officer with the banks and /or financial institutions, service bureau officer or technical officer to assist small businesses acquire loans, and legal officer to assist small businesses with registration and review of legal agreements with banks, and funding requirements with initial funding of K1.6 million from the GoPNG and K6.4 million from the ‘Private Sector Window Financing’ of the ADB as well as from the EU (US$10 million) to be taken over from an existing facility (SBDC 1995:2-6). The other important governance source documents include the SBDC Participating Agreement with BSP which appoints BSP as an agent of SBDC, lays out operating procedures, specifies the obligations of each partners, provides an exit clause and conflict resolution mechanism (SBDC and BSP 1996).

As it turned out, while the governance structure looked good on paper, the actual adherence to the structure was found wanting and key assumptions relating to financing and staffing did not eventuate. First, only the GoPNG was able to provide its K1.6 million funding while the ADB,
which initially expressed interest in participating in the scheme, never provided the additional K6.4 million (SBDC 1995:4). Second, SBDC failed to recruit a qualified liaison officer who would capably interface with the banks. Third, in the design of the governance structure there was no evidence of involving parties such as BSP as the SBGF structure was a direct transplant from a Filipino model that had a capitalisation of US$42.6 million; BSP was seen merely as an agent. Fourth, although SBDC spoke of making SBGF as a special project with the implication that it would eventually reach a ‘standalone’ status, funding constraints prevented this strategic possibility. Fifth, SBDC’s alliance manager alluded to the point that alliance management skills were glaringly absent from day one.

In terms of control and feedback, the alliance manager pointed out laxity in control, first, by SBDC in helping to provide business extension services because of resource constraints, and second, by BSP in its irregular reporting. There is no evidence that SBDC sought to exercise the terms and conditions in the agreement perhaps because of its own incapacity to dispense its own obligations. SBDC’s alliance manager pointed out that “the Banks’ reporting was dismal. Documentation of evidence has thus been very poor. Banks on their part know that their lending through the scheme is risk-free and there is no pressure to recover the loans or exhaust the loan recovery procedures”. The alliance manager speculated that Banks did not thoroughly screen the loan proposals and may simply be rewarding their preferred clients at the expense of SBDC.

**Human resource component and continuity**

SBDC’s liaison manager noted that SBGF was conceived within SBDC as a ‘Special Project’ that was supposed to have four full time staff; a Project Manager, a liaison officer with the banks, a service bureau officer, and legal officer. Whilst the Bank liaison officer, Service Bureau Officer and Legal Officer were earmarked for positions available within SBDC’s staff ceiling and/or organisation structure, the services of a Project Manager, together with other institutional strengthening arrangements such as the training of staff, were to be funded under the K200,000 operating budget of the SBGF Guarantee Fund and deposited in an Imprest Account within PNGBC. This included the conduct of a study mission to the Philippines and review of PNG’s financial arrangements. The establishment of an Imprest/Trust Account is provided for under Sections 15 and 16 of the *Public Finances (Management) Act of 1986*. The SBGF was also going to draw on human resources located in its nine provincial locations for extension service provision.

However, it turned out that funding fell short and the alliance personnel recruited lacked broad industry skills and more acutely, alliance management skills. The skills of the alliance liaison officer has been described by the current alliance manager as “useless”, and the CEO appointed in October 1999 as “unprofessional” and “lacking industry knowledge”. Current staff strength fell from 54 prior to 1999 to only 21 at the time of research.

The structure now in place resulted from the work of a consultant. Under the new structure the current alliance manager is now focusing on the provision of business training. He is quite well versed with networking. Since he is a senior executive within SBDC and an accountant by profession, the alliance manager has been able to network at executive level with master trainers, banks, government departments, business houses and clients. From interviews it was clear that his emphasis was on customer-driven rather than supply-driven strategies. Thus, for example, whereas in the past SBDC was using generic training material, this has now shifted to more tailor-made training modules to meet sectoral needs and specific demands of clients. Due to resource constraints as well, the alliance manager is now shifting focus to “priority areas”.

As with the alliance manager of CIC, the current SBDC alliance manager has had international business exposure. He has had short attachments in Japan and with USAID in the US. He also has worked with the SBDC for more than 15 years and serves as part of its institutional memory. He
hopes to use these skills to ensure that SBDC realise its newly reconfigured strategic intent as a result of major environmental shifts.

**Communication skills**
According to the current alliance manager, the recruitment of a junior and inappropriate liaison officer prior to 1999 and during much of the life-time of the SBGF alliance has affected the whole process of alliance management, which included communication. There was little communication between SBDC and BSP. Communication was merely formal and did not have a positive spillover effect into the social realm. Whilst this may now appear to have been corrected, such a development can only benefit the revised strategic intent, but the lessons learnt from the previous experience has been most useful.

**Technology**
Technology has not been a major consideration with SBDC since the SBGF alliance depends entirely on partner PFIs such as BSP for banking technologies and skills. Consultants such as Kaul (1998) have called for the re-integration of the SBGF into SBDC and for the latter to be transformed into a finance corporation. However, given the lack of management capacity and banking technology this strategy would have been futile.

**Coping strategies**
Within the short life span of SBGF and the failure to demonstrate early beneficial gains for all parties, the writing on the wall was such that when the GoPNG was deciding on candidates for its downscaling exercise, SBDC’s lack of track record in this regard helped flagged it as an early casualty. Thus by November 1998, when the budget priorities committee decided on the 1999 budget, it had no difficulty in recommending SBDC for abolishment. Given the situation, there were few coping strategy options for SBDC. The only one noted by its alliance manager was that of a complete reliance on BSP to monitor clients since SBDC could not effectively provide a one-to-one mentoring programme due to high transaction costs. The result was the world-wide phenomenon problem of moral hazard both in the behavior of BSP and customers. This resulted in a high default rate.

### 3.1.7 Organisational and societal culture influence on alliance

SBDC’s organisational culture is more focused on credit management and business training. SBDC is convinced that its role in credit management is one of assisting small businesses to graduate into commercial sources. In this regard, it has not attempted to wholly subsidise the interest rates charged by PFIs like BSP. In the meantime SBDC alliance manager acknowledged that providing loans to small businesses without giving them the requisite training would result in high default rates. Thus, he makes the point that perhaps one of the reasons for the low outreach of the SBGF alliance is because clients had to undergo SBDC training courses as a prerequisite under the scheme. The alliance manager poses the following question, “Even if outreach is low because of the training requirement, what choice do we have given the fact that PNG has a predominant social rather than business culture?” SBDC with one of its partners have an ongoing Personal Viability Course that is aimed at the grassroots. The course basically seeks to inculcate into the minds of participants including grassroots the need to be viable in terms of time management, usefulness to society, self-reliance and entrepreneurship.

### 3.1.8 Management of relationship capital/alliance process management

As the lead partner in the alliance SBDC initiated the SBGF along a similar scheme in the Philippines and Indonesia (SBDC 1995). It drew up a policy submission to the NEC in 1995 as well as a standard Participating Agreement with PFIs and signed the first with both BSP and ANZ in 1996. Evident throughout these documents is the lack of any visible input from PFIs such as BSP. Such is the case despite the fact that PFIs are obligated under their respective agents to
perform much of the task required to operationalise the alliance relationship and submit the following to SBDC in support of their guarantee cover:

- bank approval of the loan
- copy of an authority from the borrower authorizing the PFI to release information and other related loan documents to SBDC
- copy of Bank Evaluation Report on the project/feasibility study
- background investigation report/bank opinion on the borrower
- appraisal audited/unaudited financial statements of borrower

Given the minimal input from the PFIs and despite the deposits of financial hostages to the tune of K500,000 in each PFI, the parties failed to manage the relationship beyond the formalities. The consequences of this failure are captured well in Chapter 2 of this thesis. When the soft issues were neglected the worldwide problem of loan fungibility and moral hazard in loan management naturally set in.

### 3.1.9 Alliance management outcome

From the perspective of SBDC’s alliance manager the SBGF alliance was not managed according to expectations, even though it looked promising on paper. He cited flaws both from within and without. SBDC could not meet its extension/mentoring obligations due to the limitations of its delivery methodology and BSP failed in submitting regular reports as specified in the PFI agreement. SBDC admits that outreach staggered because of the need to prepare clients properly prior to taking out loans, but it also indicated that BSP’s strategy of limiting transaction costs and risks by only preferring clients wanting K10,000 and above was a major reason. SBDC’s alliance manager admits to its failure in appointing a suitable alliance liaison coordinator from day one. This had a negative flow-on effect. When the problems of loan fungibility and moral hazard set in, the default rate and shirking of responsibilities was difficult to reverse.

For the future, SBDC’s alliance manager notes that the lessons learnt will be useful for the management of its reconfigured strategic intent aimed at business training. Alliance management skills will now be inculcated into its network trainers and partners.

### Partner 2. Bank South Pacific (BSP)

#### 3.2.1 Background

Bank South Pacific commenced operations on 1 May 1957 in Port Moresby as a branch of the National Bank of Australasia Limited (NAB). Branches were later established in other centers of the then Australian Territory of Papua New Guinea. On 1 October 1974 it was incorporated as Bank South Pacific Limited, a wholly owned subsidiary of the Australian parent, with a paid-up capital of K2 million (BSP 1997:2). BSP fully became a PNG-owned company on 25 October 1993 when The National Investment Holdings Ltd of PNG acquired 87 per cent of BSP Limited that was held by the NAB.

BSP is a growing and vibrant bank in PNG. In 2001, it had total deposits of K656.134 million, total assets of K768.410 million, shareholder’s funds of K77.434 million, and a net profit after tax of K18.971 million (BSP 2001:6). Staff numbers as at 31 December 2001 stood at 462, of which 28 were non-citizens. By early 2002, BSP had acquired 75 per cent of its major competitor, the state-owned PNGBC, thus making it the dominant player in the market with a 60 per cent market share.

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This case report is based on in-depth interview with the Head of Consumer Business of the Bank South Pacific Ltd at the Boroko Banking Centre. This senior executive was the Manager Lending Centre of the bank in 1996-1999 and was the key alliance manager for the SBGF alliance.
BSP prides itself in its continued high level of asset quality. It noted in its 1996 Annual Report; “The Bank is prepared to accept criticism for a traditionally conservative lending policy. With a selective approach to asset growth and a strong focus on the critical serviceability factor, management skills and security cover, asset quality will remain uncompromisingly high. The Bank’s credit risk management is based on a rigid process of assessment, recommendation, approval and overview by a higher level of authority” (BSP 1996:4). Delegated lending authority is certainly granted, but is strictly commensurate to the level of lending skills of management and the needs of the customer base.

BSP considers itself as the market leader in the area of promoting loans to small businesses. It was the first of the commercial banks to forge an alliance with the Small Business Development Corporation to market its Guaranteed Loan Scheme, namely the SBGF. BSP promoted this scheme for three primary reasons: (a) to promote lending to small, new and developing business, (b) to positively contribute to the growth of the economy, and (c) to boost BSP’s lending in the small business sector. BSP’s Lending Centre team of 19 staff in 1997 was tasked with handling the borrowing requirements of small to medium sized enterprises and all consumer lending. The current alliance manager who was interviewed for this thesis headed this unit. The current alliance manager is now the Head of Consumer Business with 13 years experience with BSP. In 1996 the SBGF Participating Agreement was signed between BSP and SBDC.

3.2.2 Importance of strategic alliance to core business
Clearly the SBGF alliance is not critical to the core business of BSP. BSP alliance manager reveals that the bank’s involvement in the alliance was primarily to fulfill its moral obligation to the community and to help grow the PNG economy. It was interested particularly in promoting lending to the small business sector where homegrown entrepreneurship was being cultivated.

Apparently, moral obligation to the community is absent from the bank’s key goals entailed in its strategic plan, which includes (a) high quality asset book, (b) highest quality service to customers, (c) maximum shareholder wealth through the provision of a sound investment return, and (d) a pre-eminent position in the PNG financial industry (BSP 2000:5). In this regard the goal of promoting potential entrepreneurs does not align with the bank’s goal of maintaining high credit quality. The bank points out that it endeavors to “maintain uncompromisingly quality standards through its rigid credit analysis process” (BSP 1997:6). Indeed, this is reflected in the bank’s low level of specific provisioning for bad and doubtful debts.

3.2.3 Presence of alliance management skills
The alliance manager noted that there are excellent alliance management skills within BSP, but this was not being developed with SBDC. He revealed that under the scheme BSP approved eight loans, of which only one was successfully repaid. BSP was up to date with its reporting requirements and worked on developing a trust-based relationship with SBDC and clients. However, SBDC was unable to reciprocate the good will. BSP’s alliance manager blamed bad management at the SBDC. The crunch for the alliance came when SBDC made a move to withdraw its guarantee deposits from BSP, and the latter resisted this move. BSP ensured that default guarantees were first deducted before the SBDC could be reimbursed. Communication was a ‘one-way-traffic’ from BSP; SBDC never communicated with BSP and yet expected the latter do all the work.

3.2.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment
BSP’s alliance manager noted that the strategic intent of the SBGF was very clear from the beginning. This clarity in intent was the reason for BSP to back the alliance. He observed; “The strategic intent was clearly defined on paper. It was well done and the alliance was poised for
success. Every one knew what they had to do. At our end we took up the alliance and was managed at executive level and communicated throughout our Lending Centre of which I was the head”. BSP’s Lending Centre had 19 staff in the head office who were responsible for the SBGF products, amongst the things that were on offer.

Because SBGF loans were no different from the bank’s other loan products, stringent commercial criteria were applied on loan evaluation. Thus the rate of loan approvals was slow but in the best interest of the alliance. When only one out of eight clients was faithful in repayment, the future of the alliance was deemed bleak by the bank. The bank felt that there was an increasing loan default environment out there and expected the SBDC to go out and conduct business mentoring to support the loans. However, SBDC admittedly did not have the capacity to undertake this task as specified in the SBGF alliance agreement. In the end, the strategic intents of the partners diverged leading partners to point fingers at each other to the eventual detriment of the alliance.

3.2.5 Environment influence on alliance management process

Economic/technological
BSP’s annual reports since 1996 reveal a general decline in the PNG economy. In 1996 BSP noted that “the continuing major difficulties, such as growing unemployment, law and order problems, an apparent inefficient public service and major infrastructure requirements were giving an adverse impact on development” (BSP 1996:5). In 1997, BSP observed that although interest rates remained relatively low for most of the year, with ample liquidity available, demand for credit within the private sector did not pick up (BSP 1997:12). By 2000, the structural constraints to the economy were such that the likelihood of any sharp increase in private sector activity was remote (BSP 2000:18). The degree of credit risk as perceived by the private sector in 2001 amidst continuing tight monetary control by the Central Bank, prevented both customers with adequate cash flows and those without to drastically reduce debt. Hence, there was less demand for loanable funds (BSP 2001:9). BSP concluded that given the prolonged depressed economic conditions, BSP concluded that business failures were to occur in 2002. Those most affected were involved in primary industries, construction and transport. Accordingly, the bank’s loan portfolio remained static throughout 2001.

Given the continuing dismal economic environment international financial institutions such as the World Bank concluded that there were few bankable projects in the PNG small and medium enterprises sector (World Bank 1999). The World Bank (1999:183) observed that recent microcredit schemes, such as the Credit Guarantee Scheme, had the same features as past failed credit programmes and was likely to meet the same fate. It noted also that the obstacles to business development include the country’s remoteness and semisubsistence focus, low-density rural populations, high communication costs, reluctance to pay high interest costs, and lack of experience by potential implementing agencies.

In terms of banking technology, the alliance manager said that BSP had the technology in place, and that the failure of the SBGF alliance was not a result of this factor.

Political/legal
As far as BSP was concerned, as explained by its alliance manager, political factor was a major concern for the SBDC. This was because the SBDC had experienced constant changes to the position of the CEO. This flowed on to a lack of management skills at the SBDC. An overall lack of political stability and clear vision at the national level also complicated macroeconomic management, which resulted in a lack of macroeconomic stability throughout much of the lifetime of the SBGF alliance. The final blow came in 1999 when the GoPNG cut budgetary supply to the SBDC.
As far as the legal environment was concerned, the signed MOA between the parties ensured the protection of BSP when SBDC decided to withdraw from the terms of the MOA. BSP blocked the wholesale withdrawal of guarantee funds for the scheme held in a trust within BSP.

**Cultural/social**
Generally, the banking industry in PNG is of the view that there is a high loan default environment in PNG (Kavanamur 2002). As explained by the BSP alliance manager, “We see this all the time, borrowers just take the money and don’t bother repaying it. There is a major cultural hindrance to repayment”. This confirms the view of the World Bank, which observed that misappropriation and non-payment of obligations have become “common and socially acceptable” (World Bank 1999:183).

**Demographic**
The alliance manager did not consider the demographic environment as having exerted a significant impact on the alliance management process.

### 3.2.6 Adequacy of internal organisational components for alliance management

#### Governance structure, control and feedback mechanisms
As a commercial bank that emphasised increased returns for shareholders, BSP did not see any justifications for a separate governance structure for the SBGF alliance. The amount of money involved in the alliance was deemed too insignificant to BSP’s core business. Nevertheless, lending under the SBGF was undertaken through the Lending Centre. BSP kept proper records and was up to date in its reporting to SBDC.

In terms of control mechanisms, the Lending Centre insisted that lending officers evaluate loan proposals under the scheme, but with oversight from a senior manager. Thus loan quality was assured at all times. In the process, BSP developed a coping mechanism to minimize the impact of the pervading negative culture on the loan quality whereby, if a *wantok* of a loans officer was seeking a loan, it was mandatory that the officer was required to pass on the application to the section head as a secondary overview process. The bank emphasised that its officers should serve a minimum of six years before becoming loans officers. This is crucial because loans officers are the ones who grow the business in any bank.

#### Human resource component and continuity
The SBGF alliance was managed through the Lending Centre in Port Moresby and the branches. Under the current alliance manager, who was the head of the Lending Centre, two lending officers were specifically assigned to evaluate and manage loans under the scheme. All officers were well-trained with the alliance manager himself clocking up 13 years of experience with BSP. The alliance management stated that the amount of workload did not justify additional staff. Of a total of 20 applications only 8 were approved. Staff continuity was more of a problem for SBDC than BSP. Moreover, two BSP staff had earlier resigned to work with SBDC on the SBGF alliance. However, the alliance manager said that they were of low quality.

BSP’s alliance manager pointed out that the problem of low loan quality in the scheme had nothing to do with the quality of human resource, but everything to do with the managerial capacity of the entrepreneur and the impact of the broader environment. He also added that given the cost of business input in PNG, a mere K10,000 from the scheme was not enough to run a successful small business. Moreover, he challenged SBDC’s view that a week’s short course on entrepreneurship was sufficient for a would-be entrepreneur to be transformed overnight.

#### Communication skills
The alliance manager noted that communication skills were not a problem for BSP. Loan status reporting was done on a regular basis by BSP as per the MOA between the parties. However,
problems arose when BSP would call on SBDC to approve draw down from the guarantee trust account to compensate for loan defaults by clients. SBDC had a tendency of burying its head and would continue to insist that BSP exhaust all loan recovery measures. Given that loans under the scheme were seen as originating from the government, BSP was of the view that recovery measures would only exacerbate transaction costs which eventually would have to be paid out from the guarantee trust account to the detriment of the alliance. There was a clear clash and lack of trust between the partners.

**Technology**

The alliance manager pointed out that BSP was continually upgrading its evaluation and lending technology. Thus he felt that this was not a major issue. If anything, it was SBDC who should have adopted some form of technology to help its business mentoring programme in a bid to support the alliance.

**Coping strategies**

A number of coping strategies was adopted by BSP. One was related to the need to reduce transaction costs. Since SBDC felt that small loan amounts ran up such costs, it insisted that borrowers under the SBGF borrow a minimum of K10,000. Second, to prevent the socio-cultural phenomenon of *Wantokism* influencing the decisions of lending officers, the alliance manager made it a requirement that officers concerned were to declare any conflict of interest and made it mandatory that all loans were to be approved by an higher authority. Third, when BSP realized that loan default under the scheme was on the rise, it refused to incur further transaction costs by choosing not to exhaust the loan recovery strategies where it deemed not feasible. To be fair, BSP did restructure loan under the scheme which it thought had a high repayment potential. The alliance manager insisted that had SBDC met its obligations under the alliance agreement of providing mentoring service, loan arrears would be minimal.

### 3.2.7 Organisational and societal culture influence on alliance

BSP’s organisational culture is characterized by an uncompromising emphasis on credit quality through its rigid credit analysis process. This is reflected in the low level of provisioning for bad and doubtful debts. This culture is also evident in the establishment within BSP of a team of specialist lending staff who are assigned to manage impaired loans (BSP 1997:7). The group is headed by the Manager Lending Support. This culture has had an influence on the alliance resulting in very cautious loan evaluations and loan risk management. It is not surprising therefore that of 20 applications received only 8 were approved in the entire life time of the alliance. BSP’s perception of a growing default culture in the PNG society, exacerbated by other environmental constraints, acted to support its conservative stance towards the alliance.

### 3.2.8 Management of relationship capital/alliance process management

It is obvious from the foregoing that very little attempt was made by both parties to build relationships. There is no evidence of alliance process management skills being developed by both parties. According to BSP, staff members at the SBDC were not up to standard and that SBDC’s junior alliance officer felt culturally constrained in communicating with BSP’s senior alliance manager. Moreover, BSP said that SBDC’s public service mentality was inimical to alliance management.

### 3.2.9 Alliance management outcome

The alliance was terminated in 1999 when SBDC’s funding from the GoPNG ceased. It would seem that the strategic intent of the partners were not fulfilled, and hence that of the alliance.
Case Study 4. Bougainville Microfinance Scheme (BMFS)

Partner 1. Australian Volunteers International (AVI)\textsuperscript{18}

4.1.1 Background
Australian Volunteers International (AVI) is one of three partners in the Bougainville Microfinance Scheme (BMFS) located on Buka, Bougainville. The other two partners involved are the Bougainville Transitional Government’s (BTG) Division of Commerce, the main project alliance initiator, and AusAID, the main financial sponsor of the project. AVI performs the function of the Australian Managing Contractor (AMC), which manages the project on behalf of AusAID (BMFS 2001a). As the AMC, AVI provides a team of advisers to a local implementing team who are employees of the BMFS located on the ground at Buka. AVI’s advisers visit Buka three times a year to oversee capacity building and the implementation process.

The aim of the microfinance project alliance is to provide financial intermediation services to the people of Bougainville who virtually has had no access to formal financial institution services for over a decade since fighting broke out in 1989. Bougainville used to be PNG’s most productive province and was home to one of the world’s top 10 copper mines prior to 1989. It has been estimated that Bougainvilleans had hoarded at least K10 million since the break-out of war in 1989 (BMFS 2001a:19).

AVI’s involvement with the project alliance commenced in 1996 when its current AMC Team Leader was recommended by the BPNG at the invitation of BTG to help devise a rural finance scheme to fill the financial intermediation gap on the Island. Although the Team Leader had initially gone in as a Credit Union Foundation Australia (CUFA), official internal politics within that resulted in the organisation’s withdrawal from key projects in PNG led to the network broker switching affiliations to AVI in 1998.

AVI’s team leader or network broker was involved in the initial project preparation starting with an initial workshop held on Buka in October 1996. The workshop was held mainly for members of the Bougainville bureaucracy and key opinion leaders such as small businesses. Following this initiative, a series of awareness and needs workshops were held in Buka from May 1997 to July 1998. From these workshops emerged a mission statement which affirmed AVI’s philosophy of promoting development from the grassroots upwards. It acknowledged the diversity of Bougainvillean cultures, and contained key design words for future project development such as “fitting custom with today’s change” (BMFS 2001a:2; Newsom 2002:1).

Phase 1 of the project preparation and piloting (1997-2000) resulted in the decision not to rush the project development but to go isi or (go easy) and 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 pilot project areas. The network broker’s negotiation with AusAID in 1998 resulted in a nine-month AusAID-funded project covering leadership training for pilot areas and BHM initial capacity building project which began in April 1999, with AVI first assuming the role of AMC (BMFS 2001a:2).

Phase 2 of the project alliance comprised 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 (i.e., Project Manager of AMC) and a CUFA Technical Specialist who had

\textsuperscript{18}This case report is based on in-depth interview with AVI’s Australian Managing Contractor Team Leader at Balmain, Sydney. The Team Leader is effectively AVI’s alliance manager to the Bougainville Microfinance Scheme and has had an active involvement with the project since commencement in 1996.
been in PNG at the same time for activities under Phase 1 of the project. The project design team also met with key stakeholders on Buka.

After appraisal by AusAID the project design was further adjusted to one that emphasized the need to reduce the scale of the project to three years duration. It also made mention of the role of women in the project activities, project budget reduction, but 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 since it was not sure of the viability of such an exercise. In 1998 it AusAID had got embroiled in another microfinance alliance in another part of PNG with partners like the UNDP. The alliance gave rise to Liklik Dinau Credit Scheme in the Eastern Highlands Province, which failed to reach sustainability. Thus what the project design team did was to emphasize capacity building at the BHM head office and within the four pilot projects first at the expense of outreach. It increased headquarter staff and trimmed field staff.

4.1.2 Importance of strategic alliance to core business
During interviews AVI’s network broker revealed that financial intermediation through microfinance institutions or other forms has not been part of AVI’s core business. This is because the organisation is based on placing volunteers in a wide variety of public sector and non-government organisations, including (a) government departments and authorities, (b) education and health institutions, (c) community and private welfare organisations, and (d) other voluntary and similar agencies (AVI 2001). The bulk of AVI’s volunteers are in developing countries, particularly PNG.

AVI’s involvement in project management such as in the BMFS reflects the organisation’s strategy to diversify its activities and therefore a stretch on its strategic intent. The network broker commented: “BMFS is very peripheral to AVI’s core business, but it is a new means of identifying a new NGO mission in the field. Despite this, it is still within AVI’s community orientation culture”. He further noted that AVI commits project management time and expertise to the project alliance for a fee as the AMC, but was not sure of its profitability to the organisation.

4.1.3 Presence of alliance management skills
AVI’s network broker said that the project alliance affected the networking skills of all the three partners. AVI had an extensive development network in PNG; AusAID had access to the “movers and shakers in PNG’s decision making process” and an extensive link with opinion makers and NGOs on Bougainville, while the Commerce Division particularly through its Assistant Secretary possessed exceptional advocacy skills and a rapport with both the BTG and the leadership of the rebel element of the Bougainville Revolutionary Army. For AVI, however, it initially lacked the requisite project management skills needed for such a project except for its core competency in volunteer supervision and placement. Thus it had to learn fast. Even the current network broker admitted that while he himself was skilled in MFI networking and technical management skills, had shortcomings in team leadership skills, which he had to acquire in the process.

The network broker who was also the Project Team Leader for the AMC and involved in appraising of the eight BMFS staff (including the Project Manager or alliance manager), admitted that the current local alliance manager had limitations in alliance management skills. Apart from deficiencies in project management skills, the network broker explained that the alliance manager had failed to effectively liaise with all the partners involved in the project to secure funding or simply to maintain the relationship building process. Project management skill was reflected in the slow progress towards the development of a strategic plan using a bottom-up approach even though sufficient guidelines has been hitherto provided. The network broker said that his counterpart at the Bougainville Commerce Division had also expressed these views.
4.1.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

When AVI commenced Phase 1 of the project alliance 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 as reflective of the need for ‘cultural adaptation’ expressed in “fitting custom with today’s change” (BMFS 2001a:2). In this starting phase, the goal was to undertake a series of awareness and needs workshops (May 1997-July 1998), and undertake a series of planning and introductory policy workshops for the leadership of pilot areas from mid-1998 to October 1998. Then a nine month AusAID-funded project, covering leadership training for pilot areas and BHM initial capacity building project, commenced from April 1999 with AVI assuming the AMC role. An AusAID review team that visited the scheme in December 1999 recommended that the project was viable for further extension followed the first phase.

Phase 2 of the project entailed project design work on the project from 20 March to 28 April 2000. The review team after discussions with all stakeholders recommended that the project design be adjusted to align the structure with budget limitations and for the scope to be restricted to the four pilot projects and capacity building at BHM (BMFS 2001a:2-3). More specifically the review team sought a balance between AVI’s strong social mission and strong grassroots orientation and AusAID’s preference for institutional and financial sustainability. From AusAID’s earlier involvement with a failed scheme in another part of PNG, Liklik Dinau Abitore Trust in Goroka, the review team thought that capacity building at the center (BHM) had to be built first before further operational outreach could be embarked upon. Thus, it was apparent to the network broker that these new developments were a departure from the original vision formulated in 1997, one that sought to build capacity and extend outreach along a bottom-up approach.

Thus the organisational structure that emerged reflected the revised project design discussed above. BMFS adopted an institutional approach with a three-tier structure reflecting AusAID’s preference to build capacity at the center first. It was decided that BMFS should have three hierarchies of microfinance institutions, namely grassroots MFIs (village, clan) district MFIs (BMFIS) and BMFI or Bougainville Haus Moni (BHM) as the peak organisation to support institution development and growth of the two lower tiers (BMFS n.d.).

Under Phase 2, AusAID funding for the four projects was extended to 2004. An interim BMFS board of management has been established comprising four representatives from the pilot project areas and three co-optees who were mainly skilled local people. The Board Chairman was a former secretary of the Department of Personnel Management. AVI has insisted that none of the external partners should be on the Board to allow the grassroots greater leverage in decision making.

In mid-2002 the network broker revealed that an AusAID Quality Assessment Group was set up to review projects such as the BMFS. The group found that the project alliance was slow in meeting its key objectives and was critical of the revised project design. It found that too much money was being spent at the center with little capacity building at the grassroots level. It then recommended that financial resources be redirected to the district level as initially hoped for in the original 1997 project design. In the previous six months from the day of the interview, BMFS was again redesigned. The strategy was to build capacity at three regional offices rather than at the BHM headquarters only. This was to involve a redeployment of staff from Buka to the regional offices, leaving a skeleton staff with key accounting technologies at BHM mainly for record keeping and management purposes. Moreover, the monitoring and evaluation function was now being built into the project design structure.
4.1.5 Environment influence on alliance management process

Economic/technological
The ten-year Bougainville crisis resulted in the closure of the Bougainville copper mine that was operated by CRA and the exodus of the expatriate business community. However, there has been an emerging indigenisation process of the private sector which needed to have access to sources of financial facilities. At the time of research, there was only one bank branch of the BSP/PNGBC on Buka which nevertheless was always cash strapped and suffered from a lack of locational amenities on the island such as constant power supply. For people traveling from mainland Bougainville to Buka, travel costs far exceeded the value of money they wanted to deposit. This situation prompted the Bougainville leaders through the Commerce Division to request the establishment of BMFS in 1996 (Kinani n.d.; Newsom 2002; BMFS 2001a).

According to AVI’s network broker, a lack of financial institutions on the island and restoration of cocoa and coconut plots in the villages that were supported by aid funding from the European Union and AusAID has given rise to increased cash circulation in the local economy. This is borne out in the 338 per cent increase in the number of BMFS MFIs in the period 2000-2002 and the 236 per cent increase in membership in the same period. In this period savings has far outweighed disbursed loans. Thus there is pressure on the alliance to contribute additional resources for the enhancement of capacity building at the district and village levels to assure the security of deposits. This also has technological implications where there is a need to upgrade the basic MYOB accounting package based on the BHM office on Buka.

Political/legal
The emergence of the BMFS alliance in 1996 would not have been possible without the bipartisan support of the various warring factions on Bougainville, namely the BTG and BRA. By 1996 it became obvious to these parties that peace was imminent and that efforts would now have to be diverted to a peace building process of which BMFS was conceived to be a central element.

The alliance benefited from the political network and alliance negotiation skills of Australian development advisers who had strong links with Australian NGO’s and elements of the BRA/BTG. The future of the project alliance was also secured through security assurances of the development workers from Moses Havini who was the rebels’ (BRA) emissary in Australia (Newsom 2002:1).

AVI’s network broker revealed that legal issues become prominent for the alliance when the GoPNG and the BPNG exposed an illegal money-laundering scheme, UVistract that originated in Bougainville. This pyramid scheme then spread throughout PNG promising depositors 100 per cent returns (Kavanamur and Turare 1999). It dawned on the alliance partners that they too were illegally mobilising deposits without a certificate of approval from the BPNG and therefore needed to differentiate BMFS from the pyramid scheme. This was obtained well after UVistract had made serious inroads into the savings deposits of BMFS. AVI’s network broker estimated the withdrawal by members in favor of UVistract to be around 45 per cent of total BMFS deposits, which reduced the fund from K95,000 to K50,000. This, however, was restored within a year according to the network broker.

Cultural/social
AVI’s network broker noted an important cultural lesson while conducting initial design workshops in 1996. A traditional chief pulled him aside and advised him that BMFS would fail if it was not grafted onto existing traditional structures and that “people like himself (Chief) would oppose the project alliance”. Thus the fundamental message conveyed was the need for a “fundamental cultural-fit between project management culture and traditional culture”. As a result, the organisational structure of BMFS subsequently utilised Bougainvillian social structures and cultures. There was a clear sense of ownership of Grassroots Microfinance
Institutions (GMFS) by respective clans. The result has been an increase in both membership and savings.

A positive cultural factor on Bougainville that network broker noticed, and one that had aided savings mobilization, was the high propensity to save by Bougainvilleans. The network broker explained; “When the question of what needed to be prioritised first during the workshops came up, savings was the number one priority, this was a non-issue. Local people hoarded money during the crisis and had a wealth of experience with savings schemes in the past”. The high propensity to save in rural PNG has been noted to be higher than in other developing countries (Fernando 1990, 1991).

Demographic

BMFS membership by June 2002 was 14,363 people. Under the current organisational structure 184 GMFIs exist in eight districts, the bulk of which are on Buka (47), followed by Siwai (37), Bana (31), Kunua (27), Central (16), Nissan (15), Tinputz (7), and Buin (4). BHM branch offices are located in three main districts based on population size: South, Central and North Bougainville. A major demographic issue has been the need to increase the female membership as well as their holding of executive positions in MFI governance structures. Currently, males dominate all executive positions except for that of treasurers, secretaries, and bookkeepers.

4.1.6 Adequacy of internal organisational components for alliance management

Governance structure, control and feedback mechanisms

BMFS currently has a Board of Management in place comprising representatives from the three main regions of Bougainville - South, Central and North - as well as three co-optees. However, at this stage all structures both at the Board and management levels, are still viewed as at interim stage because under its Phase 2 arrangement, capacity building is confined to the four pilot projects and at the BHM head office. In time BMFS will transit towards a good governance structure. At the management level, the three-tier system - GMFIs, District Agencies, and BHM - was yet to be linked up with proper systems.

GMFIs currently collect deposits and disburse loans. At the district level, a vacuum remains as capacity building has yet to be undertaken to enable district agencies to coordinate the activities of GMFIs and report to BHM. Moreover, there is still no savings reserve formula which could be applied by GMFIs where they will be required to place a certain percentage of deposits with BHM. GMFIs have for the time being been encouraged to lend all deposits out because of security concerns with handling cash. AVI’s network broker pointed out that GMFIs’ reporting has been up to date despite the vacuum at the district level, but this has been at the excessive cost of traveling to Buka.

At the Board level, the network broker raised issues in line with the inability of the Board to make fast and effective decisions due to cultural factors. He notes; “The only inhibitive factor is hesitation to making the real hard decisions when culture is involved. It’s a question of ducking the hard issues, when disagreements arise. The Board has yet to learn how to manage and resolve conflicts instead of putting them off and hoping these problems will go away. There is still so much learning that needs to be done in dealing with internal conflicts and dissolving them”.

Human resource component & continuity

AVI is responsible for providing management and technical assistance to BHM personnel on Buka as well as to district and grassroots officials. At BHM AVI’s network broker since 1996 has been providing management and planning assistance towards the project. His colleague provides training in bookkeeping skills and software package installation. AusAID on the other hand is responsible for project funding, monitoring and evaluation. Interviews with AVI personnel both in Melbourne and Sydney reveal a tendency for AusAID to be overly preoccupied with reporting
and accountability requirements reflecting increasing demands by its constituency, the Australian taxpayers. Although AVI would like to expand its capacity building outreach, the strict accountability requirements by AusAID continuously restricts such a process.

AVI’s network broker reveals that the skilling of BMFS alliance manager on Buka thus far has been unsatisfactory; “We are not happy with the current people, but we inherited them. On the other hand, it does not appear they are any better than others who may be available so we have to work with them. They lack self-confidence and self-esteem”. He further noted that while the rest of the staff members were progressing in their training, the alliance manager was particularly a difficult person to deal with and needs major “attitudinal changes”. He added that the alliance manager was aware of the need for attitudinal changes as revealed during staff appraisal sessions.

The alliance manager lacks initiative even though he has been provided a management handbook, for example, to help him draft a strategic plan. The network broker further noted; “He [alliance manager] is the GM of BMFS and has a coordinating role. However, because he was transferred from the public service, he has a strong sense of hierarchy which causes him to only communicate laterally rather than vertically as well. He communicates laterally only with those known to him or are his equivalents because of respect for hierarchy. He is the public relations person and needs to keep communicating with all the senior executives of the partners to advance the interest of the project alliance”.

Communication skills
AVI’s network broker has had difficulty communicating with the BMFS staff, particularly the alliance manager than with the Board and prominent Bougainvillean leaders. He attributes this to a strong sense of hierarchy at the rank and file level. At the same time the network broker also feels that he needs to do more in harnessing the communication skills of staff as well as in relationship building. At this stage, he is not sure of how much effort is required to improve the situation. For example, he has had difficulty in motivating the alliance manager to develop a strategic plan. He explains; “If the project is to be viable, local management must take over and operationalise work programmes. At the moment they are just waiting for directives from us. There is a lack of motivation and display of inertia”.

Technology
The accounting package currently used at BHM is sufficient for the pilot programme and training purposes. However, as the project size increases in the next 12 months, there is a need for a more sophisticated technology. The need for linking up the districts to headquarters is also looming.

Coping strategies
The current business environment on Bougainville is fluid and there is an information-void. The peace-building process also has not yet been fully extended to all parts of Bougainville. This situation is not helped by the continuous pressures applied by AusAID to cut costs. This has led to a continuous modification of organisational structure designs. For example, as a result of AusAID’s quality assurance review conducted in 2002, district officers’ positions at BHM were to be abolished with staff redeployed to the three main regions of the province where capacity building was planned to commence in the near future. However, for this to happen, AVI’s network broker has advised AusAID that this proposal must be put to the BMFS Board for a decision. He pointed out that because BMFS is a people organisation, any change must depend on the choice and support of people, an inherent principle of democracy. Although this does not fit in with AusAID’s log frame schedules, it had no choice but to wait for a Board meeting that was scheduled for December 2002.

Another viable coping strategy of the alliance can be observed through BHM’s decision to encourage GMFIs to promote the lending of all their deposits in response to security concerns vis-
à-vis the handling of large cash amounts and high travel costs involved in traveling from mainland Bougainville to the only bank on Buka. The result is that loans are increasingly reaching the grassroots as the average loans size fell over the period September 2001 (K157) to June 2002 (K118).

4.1.7 Organisational and societal culture influence on alliance

The project alliance has been influenced by AVI through its philosophy of building grassroots capacity, wide communication with all stakeholders, cultural-fit between project and indigenous cultures, local ownership of projects/problems, gender, appropriate project strategies and operational and financial sustainability of projects. However, the network broker pointed out that AVI’s involvement with microfinance management through BMFS had no precedent. AVI’s concerns with social development goals in addition to sustainability goals have partly circumvented the project outreach rate. However, this integrated approach has ensured that the repayment rate has been exceptionally high with only two delinquencies reported thus far (Kavanamur 2002:8).

Societal culture is an important factor that AVI has been at great pains in encouraging AusAID as the project financiers to take on board in its decision making because there has been a tendency for the latter to be overly concerned with institutional sustainability issues. The project design for Phase 2 reflects societal culture in its emphasis on flexibility in the model to allow for “cultural fit” and the elevation of women in management roles. The BMFS model is based on local social cleavages such as clans/subclans and village structures, and reflects the supremacy of women as the local society is based on maternal lives. It is women who own the land and resources and therefore need to play key roles at the management and governance levels.

4.1.8 Management of relationship capital/alliance process management

The network broker as the Team leader of the AMC maintains a good working relationship with all the other stakeholders such as AVI’s head office in Melbourne, AusAID offices in Canberra and Port Moresby, and the Commerce Division on Buka. He noted that reporting has been up to date and even though BMFS’ alliance coordinator on Buka has been slow to assume managerial functions, he has been patient with him. But obviously this cannot be allowed to go on for too long as the project reputation is at stake and there are only two years left in AMC’s bid to build local capacity.

The network broker noted that both AusAID and the Commerce Division have been forthcoming in their funding of the project. He was, however, concerned with AusAID’s tendency to constantly push for revisions to the project’s original design. He explained; “At first they (AusAID) asked as to concentrate on capacity building under Phase 2 at the BHM head office so we had to revise our design in 2000. Now the Project Assurance Quality Team has vindicated us by saying that there is a management capacity gap at the District level. Therefore we have to revert back to the original design of building capacity from the bottom up”.

Another alliance process management issue raised by the network broker is the tendency for stakeholders in the past to “hold their cards closer to their chest during Project Coordinating Group (PCG) meetings”. Recently, however, signs of members opening up have been noticed. During a recent PCG meeting in May stakeholders spoke openly while discussing one of the review reports. He noted that “the good thing is from now on any changes has to be brought before the Board of Management allowing for a check and balance mechanism”. As far as AVI is concerned we are always keeping an open line for communication.

A final alliance process management issue raised by the network broker stems from AusAID’s decision to decentralise its project management functions in PNG to its Port Moresby post away from Canberra. This has inadvertently resulted in a tendency for Port Moresby to “micromanage”
BMFS with “AusAID officers dealing directly with BMFS staff and in the process by-passing AVI”. Because AusAID Port Moresby is mainly staffed by Papua New Guineans, there is the danger of “Papua New Guineans interfering with the performance of Papua New Guineans on Bougainville”.

4.1.9 Alliance management outcome
In terms of the overall outcome of the alliance, AVI’s network broker is of the view that although the project is still at interim stages with two more years to go in their AMC contract, the future looks promising. He said that any MFI should achieve some degree of sustainability after a minimum of three years operation. By 2004, he hopes to see a 30 per cent sustainability rate. Provided pressure for rapid outreach is not applied and the Bougainville economy continues to grow strongly, higher sustainability goals can be achieved by 2007.

Further information provided by AVI staff and BMFS alliance coordinator highlighted key positive results as well as challenges. Amongst the positive results were (a) success in community mobilisation and grassroots development, (b) integration of traditional social mechanisms into the design of the project such as the use of the Wantok system, (c) internal training has successfully developed GMFIs, and (d) GMFIs are performing a major role in promoting money-management skills within the community.

The challenges otherwise included the following: (a) there are problems with the quality of reporting from the villages with regard to both timelines and accuracy requiring improvements in the information system, (b) there is no very clear concept on how to develop financial sustainability at the district and provincial levels, (c) the interim system is still informal and fragile, and requires continuous support from the apex body (BHM). Those findings point to a hollow in the organisational design in management capacity at the district level. It has been pointed out by informants at the AVI head office in Melbourne that AVI’s network broker has been overloaded with the additional functions of Project Director, Team Leader and Microfinance Adviser. This overload underestimates the time needed for crucial inputs at the district level. Therefore, it is suggested that the capacity building and systems development function should be given to another person who will act as Senior Adviser to conduct intensive field visits and continue operational capacity building. It is hoped that this will free up the network broker to focus on supervision, governance, strategic planning and project management support in PNG as well as perform his Project Director duties in Australia.

AVI’s network broker hoped that the BMFS alliance has given all stakeholders an avenue for continuous learning.

Partner 2. Bougainville Haus Moni

4.2.1 Background
Bougainville Haus Moni is at the center of the Bougainville Microfinance Scheme project alliance. The Australian Managing Contractor which is providing management support to Bougainville on behalf of AusAID, has focused much of its efforts on building capacity at the BHM head office on Buka since Phase 2 of the BMFS project that began in 2000. The purpose of the BMFS alliance project is to support the development of the BHM so that it will provide appropriate microfinance services for Bougainvilleans on a sustainable basis, but with particular

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19 This case report is based on in-depth interviews with the current acting manager of BMFS who is being seconded from the Commerce Division as well as interviews with the Assistant Secretary of the Commerce Division. These managers also provided secondary data. The data was triangulated through an in-depth interview with AusAID’s liaison officer based in Port Moresby.
focus on disadvantaged groups. Work put into BHM now concentrates mainly on establishing management capacity.

The resident project coordinator at the BHM head office is the alliance manager. The manager is tasked with the job of coordinating the work of different players within BHM and interfacing with the AMC, AusAID and Bougainville Commerce Division. The alliance manager is a public servant who is being seconded from the Commerce Division and financed through counterpart funding from the GoPNG.

4.2.2 Importance of strategic alliance to core business
BHM’s alliance manager said that the core business of the alliance partners centred on the need to provide financial services to grassroots people who were low-income earners. BHM was working with its partners at the project stage to concentrate on building capacity at three levels; BHM head office, regional offices and Grassroots MFIs. The alliance manager stated that he was working with the key management capacity building partner, AMC, to (a) enhance sustainability of the scheme, (b) secure funding from AusAID for expansion beyond the initial four pilot district MFIs, and (c) draw up a strategic plan for BMFS.

The alliance manager was pleased to note that to a large extent capacity building was already taking place in-house within BHM as well as at the district level. Overall, the success of the BMFS was very strategic to the core business of the partners.

4.2.3 Presence of alliance management skills
BHM’s alliance manager noted the presence of alliance management skills that was increasingly being developed within. He understood these skills to comprise vertical and horizontal communication with all stakeholders, cooperation maintenance amongst partners, mutual trust development between partners, sensitivity to partners’ cultures, partner goal alignment, clear process for information dissemination, and clear dispute-resolution mechanisms. The alliance manager further added that these skills were best enhanced when the alliance manager was open-minded, flexible, self-confident, being sensitive to others and had a multicultural experience. However, he also pointed out that there were three constraints that he as the alliance manager needed to overcome, and these were vertical communication with superiors, self-confidence and technical competence in areas such a strategic planning and management.

These constraints had a bearing on the alliance manager’s work that involved (a) coordinating and monitoring the implementation of the project, (b) coordinating the team of advisers on the ground, (c) liaising with the provincial government authority, and (d) drawing up strategic plans and aligning the project goals and implementation process. According to the alliance manager, there were two major shortcomings of the project alliance; firstly, monitoring by BHM of the Regional and Grassroots MFIs, which was lagging due to time constraints on his part and the lack of prompt reporting from the GMFIs; secondly, the absence of specialist training on issues relating to the core business (such as strategic management) was affecting capacity at all levels. In terms of training, the alliance manager noted that there was a need for specialist training in product development, financial planning and modeling in microfinance, and strategic planning and management. He argued that the AMC did not have the capacity to offer advance courses and that the contractor had realized this constraint on its part.

4.2.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment
BHM’s alliance manager was of the view that there was no question about the clarity of the strategic intent. The goals of the project were also being continuously realigned to the structure, planning and control mechanisms, culture and environment of the project alliance. He pointed out that alignment process to the strategic intent was a continuing process. The alignment process was
important to AusAID, the main financier of the project, which did not want the project. AusAID was involved earlier with another project in another part of PNG (Kavanamur 2002). The alliance manager observed; “AusAID which has provided up to A$2,215,086 million to the project cannot accept project failure. Because of the failure of the Liklik Dinau in Goroka, Eastern Highlands Province, it initially had reservations about backing BMFS. Therefore, its present emphasis was on capacity building rather than depending entirely on foreign consultant’s advice”.

Since project commencement in 1996 there have been a number of external reviews to realign the initial project design to budgetary constraints and environmental factors. The partners insist on timely and regular reporting. A number of key reports have been undertaken to realign project components, which included BMFS Field Mission Report (BMFS 2000), BMFS Project Design Document (BMFS 2001) and BMFS scope of services for Phase 2 (AusAID 2001).

4.2.5 Environment influence on alliance management process

Economic/technological

BHM, being at the center of the capacity building goals of AusAID through the AMC and the Bougainville Commerce Division, relies primarily on financial grants from its parent partners at least during much of the project years from 1996-2004. Eventually BHM will have to be self-funding as it works towards enhancing its deposit taking capacity. Currently, the signs are good with membership growing and savings far exceeding loans. With the current economic rehabilitation programme on Bougainville, it is hoped that economic activity would stimulate demand for financial services and therefore posed a positive effect on BHM.

The overall lack of sophisticated technology on the island is having some negative effect on the performance of the alliance. However, BHM is able to access internet services, telephone, electricity and other locational amenities. At the GMFI level, access to most of these services is absent and therefore is a constraint on timely reporting and communication.

Political/legal

BHM’s alliance manager observed that whilst there was strong political support for the BMFS, the progress of deposit mobilisation has been hindered by the absence of an appropriate microfinance regulatory framework that would have allowed for the Central Bank to monitor and supervise deposit taking institutions such a BHM. A legal framework was necessary to protect deposit savings and differentiate genuine MFIs such as BHM from money laundering pyramid schemes that plagued the island in the period 1999-2000.

Cultural/social

BHM’s alliance manager pointed to the positive effects of recognizing the importance of culture in the design of the BMFS and also the recognition of local social structures. He also mentioned the need for partners, particularly AMC, to be more sensitive to local decision making styles. He was satisfied that thus far efforts towards aligning ‘local custom with today’s change’ has enabled a harmonious relationship between BHM and beneficiaries in the four pilot districts.

Another social factor on Bougainville that is affecting the operations of GMFIs is the absence of law enforcers on most parts of the island. This creates security risks for savings deposits. Therefore, BHM advises GMFI’s to lend as much as they can so as to avoid being targeted by thieves.

Demographic

Bougainville is a matrilineal society where clan inheritance is passed on to women or aunts. In this sense, women at least have control over and access to clan properties such as land and economic crops that are passed on through them. However, much of the decision making power relating to money and the right to education remains within the domain of men. Thus, boys are
likely to be given priority to schooling over girls who are required by culture to stay home and do household chores. Against this background, the BMFS project alliance has specifically appointed a gender specialist to the AMC team. A woman trainer is also on the staff of BHM understudying the gender specialist. BHM believes that accounting for gender issues will ensure cultural and social balance on the island. The women membership of BHMS is now 50 per cent.

4.2.6 Adequacy of internal organisational components for alliance management

Governance structure, control and feedback mechanisms
The BMFS now has a management board, BHM management, regional offices, and GMFIs. Coordination and communication between these units is satisfactory according to the alliance manager. However, there are two concerns that remain to be addressed. First, the alliance manager feels that the team leader of the AMC or AMC’s alliance manager tends to exert too much pressure on the Board to make quick decisions without appreciating the cultural factors that may prevent board members in reaching clear-cut decisions in certain situations. Because of the pressure to fast track the project, the BMFS project alliance risks misaligning the cultural fit established so far between the partners. This point is important because the project has to manage cross-cultural issues between the PNG and Australian partners.

Second, the alliance manager pointed to a recent independent review report that raised concerns with the low quality of reporting from the villages at the GMFI level. Villages are currently not reporting on time and accurately, raising further questions about the quality of loan books. The alliance manager suggested that perhaps the GMFIs and district level staff need more sophisticated training.

Human resource component and continuity
BHM currently has four full time officers, with five positions still vacant. The positions are project coordinator, administration manager, senior trainer and a gender development officer. Plans are the underway to provide support to GMFIs from three regional offices. Each region will have three personnel with whom GMFs will interact. The alliance manager is of the view that given that BHM is relying on grants at this capacity building stage, staffing levels is currently adequate. However, the vacant positions will have to be filled as outreach expands. A major set back that BHM faces now is the lack of specialised training. If this is not provided, the management capacity will be a serious constraint to continuity, particularly once the AMC contract expires in 2004.

Communication skills
Contrary to the view expressed by the AMC alliance manager, that the ability to communicate was a problem within BHM, the alliance manager stated that communication between BHM and its partners was excellent. Within BHM, staff meetings were regular and there was a quarterly meeting with district and regional coordinators. While GMFIs’ reporting was encouraging, what remained was a concern with the quality of delinquency reporting. The alliance manager noted that there appeared to be about 8-10 per cent of loans falling beyond the 30 days arrears mark, which is not being currently reported.

Technology
The alliance manager is satisfied with the adequacy of technology at this stage of the operation. BHM has access to internet technology which s being funded by the Bougainville Commerce Division. BHM also uses Quick Books for accounting. However, there is now a need to build capacity at the regional level as the focus shifts to increased outreach. This means that the regional offices will have to be networked and a Microfinance Programme Software is acquired to handle large volumes of transactions and functions.
Coping strategies
As a way around the lack of a legal framework that authorizes MFIs such as BHM to take deposits, BHM encourages GMFIs to take deposits but on-lends most of it so as to avoid being seen as operating illegally. This also serves the purpose of avoiding being the target of armed hold-ups as the peace process remains fragile on the island.

GMFIs do not only lend to clients but to other GMFIs as well that run out of loanable funds. GMFIs pay interest on deposits at rates between 7-10 per cent and charges interest on loans at rates ranging from 20-25 per cent.

4.2.7 Organisational and societal culture influence on alliance
The alliance manager noted that there was a growing work culture within BHM that was conducive to alliance management. He observed that staff attitudes were changing, and timelines and clear goal-orientation were setting in. He added that staff were more mission-oriented because they were committed to serving the grassroots. Staff viewed themselves as agents of change; “Microfinance is more than banking, we are agents of change”. As a result, beneficiaries were more conscious of their spending and were keen on increasing savings. The practice of waiting for government handouts was increasingly being shunned as people strived to be more self-reliant.

4.2.8 Management of relationship capital/alliance process management
BHM’s alliance manager observed that the relationship building process with AMC and Bougainville Commerce Division was becoming smoother. He as the alliance manager liaised on a regular basis with the partners and all parties were working towards enhancing the early results that have been achieved. However, there were a few issues that remained to be resolved. One was the issue of prompt counterpart funding from the Bougainville Commerce Division. In 2002, the Division only provided K100,000 out of an expected K300,000 due to financial constraints. This shortfall prompted AusAID reviewers to readjust the project design and shifted the emphasis from district to regions. AusAID has been fully committed to the project alliance, providing K850,000 in Phase 1 (1996-1997) and K2.14 million for Phase 2 (2000-2004).

Another issue was related to AMC’s increasing disappointment with AusAID in relation to its tendency to directly communicate with BHM. The Deed between the Commonwealth of Australia and AVI in relation to BHM specified that the AMC would directly liaise with AusAID (Commonwealth of Australia and Overseas Service Bureau 2002). Clearly, if this agreement were to be interpreted in the narrow legal sense it would leave little room for BHM to openly interface with AusAID. AMC was of the view that AusAID was micro-managing the project alliance without going through AMC because the latter in effect was supposed to manage the project on behalf of AusAID. The BHM’s alliance manager explained; “AMC’s thinking does not promote checks and balances in the alliance. AMC feels threaten that AusAID might uncover its weaknesses. I have a right to inform AusAID of the reality on the ground since AMC’s formal reporting paints a glowing picture that at times can be unrealistic about the situation on the ground”.

The alliance manager also commented about his perceived inadequacy of the role of AMC’s team leader; “I feel that the adviser should be doing more in terms of working closely with respective staff to strengthen capacity building and fully developing the organisation within this final phase of the project”. He felt that the AMC team leader lacked coaching skills, and that he was not forthcoming in transferring skills. He also thought that AMC’s visit to Buka four times a year was not sufficient for capacity building.
4.2.9 Alliance management outcome
Despite conflicts and tensions which were part of the management process, the alliance manager felt that the project alliance was achieving significant results. He went on to express hope that the MFIs’ legal framework for monitoring deposit mobilisation be in place by 2003. Furthermore, the alliance manager wanted the capacity building assistance provided by AMC to be upgraded as soon as possible to make it more useful and meaningful. Overall, he lamented; “It has not been easy to manage and liaise with the different partners, but it has been a challenge and needs open mindedness. It needs understanding with all the partners, understand their policies and processes. And for an alliance manager coming from Melanesia we are tied into our cultures and need to balance that with modern management processes. And that understanding ought to prevail with all parties – there is a need for a cultural fit and management fit”.

Case Study 5. NASFUND-AON Alliance

Partner 1. National Superannuation Fund Limited (NASFUND)\textsuperscript{20}

5.1.1 Background
On February 2001 the Board of Trustees of the National Provident Fund (NPF) of Papua New Guinea made a decision to outsource few of its core business functions, including employee benefits and administration or backroom operations to AON Consulting (PNG) Ltd. On 2 May 2001 an Administration Services Agreement between the NPF and AON sealed the strategic alliance between the two partners for a period of 5 years. By August 2001 NPF’s Administration outsourcing to AON was finalised. The other key functions outsourced by NPF included Internal Auditor to PriceWater House-Coopers, Chief Accountant to Deloittes and Investment Management to a joint venture between ANZ Bank and Capital Stockbrokers. The decision for investment outsourcing was actually reached later in November 2001. This left the NPF with the functions of Compliance and Client Servicing.

The NPF is a compulsory savings scheme for workers in the private sector. It was established in July 1981 under the \textit{National Provident Fund Act} Chapter 377 of the revised Laws of Papua New Guinea (NPF n.d.) Its primary purpose was to provide its members financial protection at retirement, loss of employment, death, disability for work or when the normal flow of income abruptly ends. NPF’s alliance manager was its General Manager who was until 2001 the Compliance Manager and has been with the organisation for more than 15 years. The alliance manager explained that there were 20 other private superannuation funds in the industry apart from the NPF and the Public Officers Superannuation Fund, the two key centrally-located players with wide reaches in the market. The market size of the superannuation industry in PNG is worth K1.2 billion (A$620 million).

The NPF has undergone rapid changes since inception with a near financial collapse in 1998. Net asset value grew constantly from K100 million in 1991 to K284.451 million in 1997 then drastically fell to K124.033 million (-40.6 per cent) in 1999 (NPF 2001b:10, 1999). The worst financial performance of the NPF was in the period 1998-2000 with straight losses in those years. Profitability was restored in 2001 after a new CEO was appointed in 1999. The near collapse of the NPF was caused by a myriad of factors that included management incompetence, a corrupt Board of Trustee and Chairman, lack of corporate governance, and weaknesses in the superannuation regulatory environment. Management incompetence in particular stemmed from the former General Manager making over 120 equity transactions without Board approval, derivative transactions entered into without Board approval, bank accounts set up with external

\textsuperscript{20}This case report is based on in-depth interviews with NASFUND’s alliance manager, who happens to be also the company’s General Manager as well as with the Managing Director. It is also based on secondary data from the company.
parties without Board approval, investments conducted overseas outside the foreign exchange provisions and certain investments overseas that were deliberately construed to avoid both the *Public Finances Management Act* and the *Foreign Exchange Regulation Act* (Mitchell 2002b:4, c). The former NPF Board and management over exposed the Fund to debt finance equity by borrowing K154 million, a strategy well outside of the trust deed parameters. What was apparent was that no power existed for NPF to borrow and all of the members’ funds were to remain unencumbered. The near collapse of the NPF attracted the GoPNG to institute a Royal Commission of Inquiry into the NPF in 2001 that was carried over into 2002. Subsequently, a major overhaul of the superannuation regulations resulted in the passage of the new *Superannuation Act 2000*.

In tandem with this, the new NPF management team severed NPF links to the government to prevent political interference by transforming the NPF, being a public entity, into a private entity, which today is known as The National Superannuation Fund (NASFUND). NASFUND, unlike the former NPF, was incorporated as a company under the *Companies Act* in 2002. This meant it was no longer controlled and influenced by the government. Seven private sector interest groups represent the shareholding of the NASFUND on behalf of 58,673 contributors. The shareholders who also constituted the Board of Directors were the Employers Federation of PNG, Manufacturers Council of PNG, Rural Industries Council of PNG, Chamber of Mining & Petroleum, PNG Chamber of Commerce, PNG Banking & Financial Institutions Workers Union and PNG Trade Union Congress.

The main reason underlying the emergence of the strategic alliance between NASFUND and AON was the absence of key competencies within the former to be able to effectively and efficiently perform its core business of employee benefits administration and to achieve respectable fund growth. The NPF’s CEO, the man behind the alliance, “Outsourcing is simply the process whereby a certain management/administrative function is transferred to a professional outside firm to do. The benefits to the Fund from outsourcing even in its early days have been beyond expectations. With the outsourcing contracts going to major international companies with a strong local presence, we have moved from the bottom of governance practice three years ago, to the top of governance practice today”.

As part of the strategy to restructure the NPF, the GoPNG and the new NPF management and Board of Trustees formulated a rescue package in December 2000 resulting in the *National Provident Fund (Financial Reconstruction) Act 2000*. The Act applied to all employers contributing to the NPF as at 31 December 1999, imposing an additional 2 per cent levy. The levy is expected to raise K27.750 million by 31 December 2004. The Act also entailed a State grant of K58 million, which NPF expected to be fully paid in by 2016 and indexed to CPI movements. These monies in the meantime were to be included as assets in the Fund as at 31 December 2001 (NPF 2001b:27). Another important component of the restructure was a member write-down of statements by 15 per cent and an 11 per cent interest withdrawal undertaken in January 2001.

### 5.1.2 Importance of strategic alliance to core business

The core business of NASFUND is to provide its membership of 61,000 as at April 2003 from 932 active employers financial protection at retirement and efficient employee benefits administration. Considering this, the outsourcing of its employee benefits administration services to AON actually means that its core business has been handed over to its strategic alliance partner. This is similar to its outsourcing of its investment function to a Fund Manager (ANZ-Capital Stockbrokers joint venture) while requiring that all investments should only be undertaken if the internal rate of return (IRR) projection is greater than 15 per cent with a preference for a more balanced fund portfolio (Mitchell 2001).
NASFUND’s alliance manager observed that whilst it may be argued that we have almost put ourselves out of business by outsourcing our core business, one has to view their decision against the near collapse of the organisation and the level of political interference with management functions in the context of PNG. He pointed out that the 2001 NPF inquiry revealed horrendous Board of Trustee and management incompetence and a breakdown in good corporate governance principles resulting in a 15 per cent write down of NPF’s assets by the new management. Thus, for NPF to retain market share and the confidence of its contributing membership and employers, the alliance had to be forged. There was a confidence factor involved. NASFUND’s Managing Director who is a strong supporter of outsourcing points out; “NPF’s decision to outsource was recognition that we do not have all the answers, all the skill sets, nor the strong capital base of technological infrastructure to deliver world-class outcomes”. The CEO went on; “When NPF outsourced the administration comprising withdrawal claims, we discovered to our horror that over 15,000 member claims going back years had been hidden away by staff because they were deemed “problematic” in terms of processing. An unfortunate part of Papua New Guinea culture was being exposed in that if the matter is too difficult, put it in the bottom draw and hopefully it will go away. I have experienced this same attitude almost daily when dealing with one or two government departments. I often feel that their attitude is, if it cannot be simply fixed, then we do not want to know about it”.

5.1.3 Presence of alliance management skills
NASFUND’s current alliance manager is a senior official of the organisation and thus signifies the importance of the importance of the alliance to the organisation’s core business. He actually takes control of the alliance management and oversees the implementation of the Administration Services Agreement and the management of relationship. AON directly reports to NPF’s alliance management who is also the GM, and he in turn reports to NASFUND’s Board of Trustees. Reflecting the alliances policy of “management under open skies”, AON also reports directly to NASFUND’s Board. Under the Administration Services Agreement, AON is required to attend four Board meetings in a year to clarify specific issues. All NASFUND staff working on the alliance, totaling about 49, report directly to the alliance manager and take instructions from him.

In terms of experience, the alliance manager worked for over 13 years as the Compliance Manager and two years as the alliance manager. He explained; “I personally know the staff and they know me, the staff know the system and I have confidence in them. About 22 of my staff were transferred to AON to work on the backroom operations. I communicate on a daily basis with my counterpart there for at least two hours per day”.

The alliance manager noted that his job was to manage the relationship on a daily basis, particularly to clarify requirements under the alliance agreement, negotiate the contract fees, which varied with the number of contributors, oversee the installation of compatible software infrastructure between the partners and ensured that deadlines are met. The alliance manager pointed out that at this early stage he was not yet concerned with bottom line issues as efficiencies would be derived once the system was fully in place. He also pointed out that cost savings of K400,000 per year would be realised in the third year of the alliance.

The alliance manager had considerable training at the University of PNG, the PNG National Research Institute (NRI), received corporate governance training in Auckland, New Zealand and, at the time of the interview, was undertaking a correspondence course in Financial Planning with the Security Institute of Australia.

In terms of networking skills the alliance manager said that he had developed many professional acquaintances who had actually helped him and the MD in ‘whistle blowing’ within the organisation, which resulted in the successful bail out of NASFUND. However, he added that he had to rely on the MD for political skills in dealing with government departments because the
MD had direct access to the Prime Minister who was very much reform-minded. This helped in the transformation of NASFUND and in alliance building and management.

5.1.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

The strategic intent of NASFUND is to consistently make a profit in the years to come. NASFUND’s vision reads; “The first choice provider of superannuation and other financial services in Papua New Guinea” (Mitchell 2002b:10). NASFUND has given itself a five-year timetable for that plan. The MD asserts that at the 2.5 years mark, the organisation is on target to achieve the vision (ibid.).

NASFUND has ensured that its strategic plan, which it considers as a basic level governance tool, is supported and aligned to appropriate structures. According to the MD, the last strategic plan NPF prepared was in 1995. He explained that the NPF strategic plan was developed using the traditional SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) from which objectives and action plans were derived (see NPF 2001a). He explained; “The Board ratifies the five year plan and in doing so that becomes the ‘road map’ for management to follow in terms of meeting the objectives of the organisation. It consolidates both at Board level and management, the road that the organisation will follow, so that all are focusing efforts on the same points of reference, same objectives and an agreed timetable. But it does not stop there”.

To achieve the strategic intent, NASFUND outsourced its core functions including the administration function to AON and set in place sound corporate governance practices and disclosures. This included a competent Board of Trustee, appointment of an independent Chairman of the Audit & Remuneration Committee, outsourcing of Chief Accountant’s position, developing Code of Conduct with an emphasis on ethical standards, publishing all Board Minutes on its website, www.nasfund.com.pg, publishing staff remuneration, promoting external engagement by communicating with the public through the media, and reforming management technique aimed at empowering staff and creating a leaner organisation. These reform measures were aimed at building firewalls around the organisation to prevent corporate corruption and achieve the strategic intent.

With regard to the Administration Services alliance, the partners have signed an agreement that will directly contribute to the achievement of efficient employee benefits administration. The alliance agreement specified a Fund Controller to be appointed by the Administrator to take responsibility for the administration of the Fund and to deal with the NPF on routine administrate tasks. The agreement also laid out in Section 3 the services covered by AON’s Administration Fee namely for (a) administration, (b) assistance to employers, and (c) annual report to members.

The agreement also specified services not covered by AON’s Administration Fee. Thus, the NPF agrees to pay for the following additional services, which were to be calculated on a time cost and/or costs incurred, (a) actuarial, (b) legal, (c) investment, (d) insurances, and (e) information technology and records

Moreover, the agreement specifies the NPF’s and employer’s responsibilities. The initial term of alliance agreement is 5 years until 2 May 2006 (Administration Services Agreement Section 6).

5.1.5 Environment influence on alliance management process

Economic/technological

NASFUND’S alliance manager complained that lack of growth in the domestic economy had affected the ability of existing employers to expand business and therefore recruit more employees who could then be potential members of the Fund. The period 1997-1999 saw NPF had a membership of over a 1000 active employers with the total member of active members

355
peaking at 74,164 in 1999 for the period 1995-2001. By 2001 there were only 58,673 active members. The alliance manager attributed this decline to a fluctuating exchange rate, which penalised companies dependent on imports, and thereby stagnating employer growth and members’ fund contribution. The alliance manager pointed out that at the moment financial contribution had stagnated at K5.5 million per month, an amount far below the desirable K8 million per month. This had implications too for AON since its fee schedule was charged on a membership basis.

In terms of technological influences, it was NASFUND’s inadequacy in this area that prompted the eventual outsourcing to AON. The alliance manager explained that it was AON’s international reputation in employee benefits administration technology that prompted NPF to appoint it as its partner instead of other bidders such as Kina Finance.

Political/legal
NASFUND’s alliance manager noted that the former NPF was a statutory organisation established by an Act of Parliament and as such it was an organisation that operated within the political sphere of the government of the day. He added that because there was a strong fascination with politics as an activity that permeated public and private spheres in PNG, the NPF was subjected to frequent political appointments to constitute its Board of Trustee and likewise the Managing Director position. The result was incompetent Boards and CEOs over the years who presided over the rapid decline of NPF’s net asset. Due to political interference, the current management was prompted in 2001 to prepare the organisation for privatisation and the subsequent outsourcing of its key functions, including backroom operations to AON.

NASFUND’s CEO was more forthright in his commentary on the influence of politics on the Fund. He contended that corruption had saturated the political environment in PNG. This was borne out in the mismanagement and outright theft of assets of the former NPF prior to 1999 (Mitchell 2002a, 2002b). The CEO revealed that from 1997 to 1999, the years of political interference under the regime of former Prime Minister Bill Skate, powerful personalities dominated the Board and management. They hijacked the “decision making process to where a Board became just a rubber stamp”. He cited the findings of the Barnett Commission of Inquiry into the NPF in 2001-2002 that revealed that the selection process of both Board members and senior managers was flawed, which resulted in the appointment of the Board Chairman and trustees who had no experience in superannuation/investment matters and most had no university education. The Chairman was appointed by the State rather than the Board; “the Managing Director was chosen ipso facto through the State control over who could sit on the NPF Board” (Mitchell 2002b:2; see also Commission of Inquiry National Provident Fund of Papua New Guinea 2002). The result was predictable: lack of good corporate governance principles, failure to disclose conflict of interest, blurring of the roles of Board and management, lack of proper record keeping, unaudited management accounts because of the failure to prepare accounts for the years 1997 and 1998, deficiencies in member accounts, absence of tender process, absence of strategic plan, ignorance of superannuation laws, absence of dedicated client service, excessive overhead costs, flawed investment decisions resulting in overexposure to debt finance, and high employer non-compliance at 15 per cent.

The CEO summarized the political/legal environment influences on alliance management in PNG this way, “The NPF experience of poor management, corruption combined with a dangerous mix of political interference suggests a major flawed structural environment in the way not only NPF operated but probably how all statutory bodies in Papua New Guinea currently operate within” (Mitchell 2002b:12).

When the Morauta Government came to power in 1999 after Bill Skate resigned from his prime ministership ahead of an impending vote of no confidence, a new management was appointed at
NPF to correct systems flaws and undertake legal reform to the superannuation legal environment. The new NPF management, including the alliance manager and others in the industry, contributed towards a new legal framework. It was called the *Superannuation Act 2000*. This Act effectively removed the supervision function from Finance & Treasury Department and laid it at the doorsteps of the independent Central Bank of PNG. The Central Bank now was to ensure that service providers with proper credentials were allowed into the industry on the basis of a ‘fit and proper persons test’ applied on management trustees (Mitchell 2002a). Moreover, only shareholders would sit on the Board, with government representatives completely eliminated.

**Cultural/social**

The pertinent cultural and social factors that directly impinged on NASFUND, as highlighted by both the alliance management and CEO, were related particularly to leadership, corruption where Board members failed to differentiate between public and private interest, overall lack of management skills, absence of proactive management, lack of self-confidence and general lack of communication skills. The CEO noted that generally Papua New Guineans lack management skills for senior positions, and where such skills are present, they lack self-confidence. Thus, there was a predominant perception which he referred to as the “expatriate phenomenon”. It entailed the erroneous belief embedded in the following maxim, “They come from overseas so they must be good” (Mitchell 2002b:3). The CEO continued; “We do not have faith in our abilities and we wrongly assume that anyone from overseas has the ability to resolve all problems. We, therefore, abrogate responsibility to people who do not necessarily have the skillsets to do the task. I have seen in my short time, horrendous decisions made by expatriates. I have seen too numerous examples of the hand of an expatriate behind corruption undertaken by Papuan New Guineans”(ibid.).

NASFUND’s alliance manager also identified culture in the continuous appointment of political cronies or mates into preferred positions. Thus, when it came to cases where the NPF dealt with government departments, it helped if one knew somebody within to expedite requests. The alliance manager on occasions had to resort to personal networks to undertake NPF work when dealing with Treasury and Finance Departments. Often he had to bypass the bureaucracy and head straight for the PM’s office to expedite processes.

**Demographic**

The pertinent demographic factors influencing the alliance was related to the decline in the number of contributory employers over the years from a high of 1,030 in 1999 to 925 in 2001. The decline was due to the widespread perception that corruption was prevalent at NPF and the prolonged economic recession that the country was enduring. This was also related to the dwindling number of active members which peaked at 74,164 members in 1999 and declined to 55,307 in 2000 (NPF 2001b:10). However, this has picked up again in more recent times with 58,673 members recorded 2001. With the engagement of AON for backroom operations work, many employers have shown indications that they were willing to return to NPF.

5.1.6 Adequacy of internal organisational components for alliance management

**Governance structure, control & feedback mechanisms**

NASFUND’s alliance manager and CEO agreed that the current governance structure instituted in 2001 was optimal in that it promoted good corporate governance and alliance management with AON. The governance structure comprised a Board of seven Trustees. The Board included senior management, the outsourced Chairman of the Audit & Remuneration Committee from PW Coopers, the outsourced Investment Fund Manager from Capital Brokers/ANZ joint venture, the outsourced Chief Accountant from Deloittes, KPMG as the external auditors and the Fund Controller from AON Consulting (NPF 2000:10-11, 2001:12-14). Section 3.1.7 (e) of the alliance agreement required the Fund Controller to attend up to four NPF board meetings each year at the
request of the NPF and meet from time to time with NPF to discuss matters not covered in the agreement. In addition, the Board posted its Board minutes on the Internet at www.nasfund.com.pg and adopted several codes of conduct relating to the conduct of Trustees, Executives and staff. This included conflicts of interest and confidentiality agreements. NPF also subscribed to the code of conduct that was published by the PNG Institute of Directors.

The alliance partners have also ensured that the alliance agreement clearly spelt out the reporting and control mechanisms. Section 3.1.2 outlined AON’s reporting requirements to members and NPF, including preparation of a Benefit Statement to members following each Annual Review, a Benefit Payment Statement, a claim Report to the NPF in cases of death or disability, a report to the NPF dealing with administrative affairs of the Fund as well as highlighting areas of concern or possible improvement, a monthly status report to NPF, and so on (NPF and AON 2001). AON was also required to prepare and issue Annual Reports to Members (Section 3.3). Likewise, NPF was compelled by the agreement to supply all membership applications to AON, salary and contribution details and timetables agreed between AON and itself and advising employers, promptly recruiting member and employer contributions to AON, and distributing annual benefit statements each year (Section 5.1). Moreover, the alliance agreement entailed service standards, indemnity and liability specifications, confidentiality, compliance and conflict resolution procedures.

The alliance manager noted that because of his ranking at NPF he had no problem liaising directly with the senior executives at AON. Thus far the management of the alliance has been smooth and the partners always sought to understand each other’s position.

Human resource component and continuity
The number of staff at NPF peaked in 1997 at 106 then fell to 93 in 1998. In 1999 this again increased to 100 staff. Thereafter increasing concerns with administration expense and the initial moves to outsource back-room operations saw the number drastically cut to 66 staff. By August 2001 the outsourcing of administration to AON was finalized with 22 from the 66 staff retrenched and subsequently reemployed by AON to perform backroom operations for NPF, and thereby leaving the entity with 49 staff. According to NASFUND’s CEO, administration expenses fell by 18 per cent in the period 1999-2000, and that it subsequently increased in 2001 by 8.3 percent (K5.763 million). This was due mainly to legal fees incurred for its participation in the Barnett Commission of Inquiry into NPF in the period 2001-2002 as well as redundancies from outsourcing (NPF 2001b:10-11). Overall, the CEO pointed to the continuing fall in the Management Expense Ratio (MER), a financial ratio that measured as a percentage, administration expenses against the net asset value of the Fund. This was estimated to fall from 2.11 per cent (2001) to 1.72 per cent (2002). The CEO, at the time of the interview, said that NASFUND had an existing five-year plan to reduce these to 1 per cent.

NASFUND’s alliance manager was of the view that his alliance staff who were interfacing with AON had been adequately trained and were acclimatized to a profit-oriented corporation environment away from the bureaucratic culture that almost crippled the former NPF.

The alliance manager pointed out that they now have a CEO who has an economics degree from Melbourne University with 15 years work experience in applied finance at the National Australia Bank (NAB). The team leader at the operational level has management and financial qualifications and has networking skills. There was also continuity of personnel at the alliance level and the reward system at NPF was performance oriented.

As for the 22 staff transferred to AON, the alliance manager noted that they have also gone through multiskilling programmes prior to the transition. This was because NASFUND’s philosophy revolves around training and the promotion of a strong managerial culture. Their
exposure to AON’s international work culture and best practice technology would result in skill transfer. However, the alliance manager added that the staff could later on experience bottlenecks at AON. The top position at AON vis-à-vis backroom operations was that of the Fund Controller (Clause 3.1.7e).

Communication skills
NASFUND’s alliance manager was keen to point out that communication is a key component of training programmes offered in-house to its alliance staff. This is because the alliance agreement is specific about the need for multilevel communication and information sharing. He noted, “We require monthly reports from AON and from our own supervisors, our business is such that communication has to be on a daily basis including visitation. This is make easier by my knowing of the staff at AON as well as AON’s CEO”.

The CEO complemented the views of the GM-alliance manager; that NPF “has turned into the legendary phoenix, rising from the ashes to become a PNG success story” through four identifiable philosophies. These include (a) strong people leadership and executives who passionate about employees, (b) higher order purpose reflected in NPF’s mission statement, “the number one financial service provider within five years”, (c) identifying talented workers and giving them extra training and promotion, and (d) using culture and values to drive the business such as NPF’s tough line against corruption and NPF’s emphasis on staff communication via its weekly full staff meetings to air issues. The CEO understood the importance of communication by noting that he had cited an international business survey which found that successful organisations communicate about 31 times a year with employees relative to 8-9 by less successful companies.

The CEO said that open communication was a problem in PNG organisations which led to inertia. He gave an example in relating to the former NPF, upon his arrival from Melbourne; “[We] discovered to our horror that over 1,500 member claims going back years had been hidden away by staff because they were deemed ‘problematic’ in terms of processing. An unfortunate part of Papua New Guinea’s culture was being exposed in that if the matter is too difficult, put it in the bottom draw and hopefully it will go away. I have experienced this same attitude almost daily when dealing with one or two government departments… The moral of the story is that problems do not go away, they only compound and manifest all sorts of further problems. These 1,500 members who we failed to serve properly at the beginning have suffered from frustration and they have in turn passed on their negative attitudes of the organisation to others. The remedy when we discussed the problem was to form a small group to resolve these 1,500 problem claims within a set three-week timetable… a problem shared is a problem halved and a problem on the way to resolution”. The CEO observed that open communication in PNG has been largely constrained by the stiff PNG social structure, which sees “the boss” as being separate from staff and management.

Technology
The absence of a “strong capital because of technological infrastructure to deliver world-class outcomes” was a key point in the decision to build an alliance with AON, according to NASFUND’s CEO. He emphasized that the alliance had enormous flow on effects for PNG; “It brings world best practice to our shores, the introduction of latest technologies, capital infusion and the modernisation of organisations like NPF. Of importance is the knowledge and skills transfer to local workforces, which builds a better-educated and therefore stronger Papua New Guinea”.

The alliance manager noted, however, that although it has been a year since alliance formation, technology integration was yet to be completed. He was of the view that there was some
reluctance on the part of AON to protect its core technology by “taking its time in teaching our people on how to operate the system”. The protection of proprietary technology was clearly enshrined in the agreement under Clause 13.1 which stated that the following; “AON shall own all existing and future intellectual property rights (including without limitation copyright) in respect of the Software Package or Software Packages and the Documentation (including any documents, computer software, data collection or processing system and any other material stored by any means) developed or owned by AON to complete its obligations under this Agreement” (NPF and AON 2001). The alliance manager indicated that it would perhaps be wise to develop some technological capability within NPF because the alliance agreement specified that upon termination of this agreement, AON would not be required to deliver to the NPF or any nominee of the NPF any Software Package, Software Packages or Documentation (Clause 13.3).

Coping strategies
NASFUND’s alliance manager noted that its alliance with AON was moving towards adopting best international practice because of AON’s international reputation. Thus, its main coping strategy was related to cushioning the alliance from premature termination before the expiry of the alliance agreement that could be triggered by a return to the days of political interference. For example, during a second visit to the site in August 2002 there were rumors that the new Somare-Marat Government that came in after the 2002 election in July was contemplating changes at NPF’s Board and management levels. To avert such external threats the designers of the NPF-AON alliance and reformers of NPF - including former Prime Minister Morauta and the Superannuation Reform Task Force that presided over reforms to the superannuation legal environment in 2000-2001 - ensured that good corporate governance mechanisms were in place to ward off political encroachment. For instance, the Superannuation Act 2000 required that only stakeholders were sit on the Board and the Banks & Financial Institutions Act was to be administered by the Central Bank. This laid out a proper and fit person test to be applied to all Directors, Trustees and senior executives. This has worked in that possible political appointees to NPF were precluded. The current Chairman of the Board also quickly engaged the media to expose the possible threats. The CEO aptly captured the essence of this coping strategy this way; “It is my view that there is no greater watchdog than an informed public”.

5.1.7 Organisational and societal culture influence on alliance
Both NASFUND’s CEO and alliance manager were optimistic that recent reforms and management training had inculcated a new management culture to its alliance management staff, those who interface with AON. The CEO pointed out eight areas that the new management has worked tirelessly on: (a) laying the seeds of a corporate governance programme, (b) ensuring the integrity and independence of the Board, (c) rallying the troops around a higher order purpose, i.e., NASFUND to be the leader in Superannuation, (d) emphasis on innovation, (e) client service or customer orientation, (f) strategic planning, (g) flatter structures and interaction-oriented managerial philosophy, and (h) protecting whistle-blowers in an environment where corruption has permeated society.

The CEO noted that before his posting to PNG, NPF had a managerial culture that reflected the broader societal culture which demoralised staff and inhibited independent thinking and hence innovation. He made the following observations; “When I first arrived at NPF, on of the most apparent failures by the existing senior management at the time was their interaction with the staff. While there tends to be an, ‘us’ and ‘them’ mentality in most organisation, I was appalled at the total lack of interaction by managers with their staff. I have since come to the conclusion that this may be a byproduct of colonial times and the ‘bigman’ or ‘chief’ syndrome that Papua New Guinea tends to unfortunately slavishly follow. The general staff lived in fear of their managers. Evidence uncovered earlier on suggested intimidation, cover ups, in one case a history of sexual harassment and all parts of techniques adopted to remove serious discussions about company issues. I know I was struck by the total acceptance of the staff to anything a manager said. The
staff had been brow beaten by their seniors for so long that they no longer had views and just did what they were told”.

The alliance manager expressed the same sentiments as those of the CEO. However, he said that in terms of culture change the values of those staff transferred to AON have been far refined than of those who were retained at NPF. He made the following observation; “Yes, the values of the staff at AON have been well developed, there is a difference in attitude to work, there is no chewing of buai (beetle nut for leisure) during work times. However, here [NASFUND] there is still some degree of slackness”.

In terms of social culture, the alliance manager explained that this was at play when management was deciding on the downsizing of NPF. He noted that “culture was accounted for during the retrenchment exercise. Nobody was retrenched, even the ones that did not deserve to be retrenched, were instead all transferred to AON. We were a State institution and felt socially responsible for the plight of these people. We feared there was going to be repercussions in terms of payback and union strike. Staff were paid out then transferred to AON. We personally know AON’s CEO so he agreed on this. However, whatever happens there in terms of their security is outside of our control”.

5.1.8 Management of relationship capital/alliance process management

Both the CEO and alliance manager portray wide networking skills. The alliance manager said that he is in touch with AON’s CEO and Fund Controller on a daily basis since the alliance is still at incipient stage. Also, when dealing with government departments he has had to use his personal network to get things done. Moreover, staffs were encouraged to communicate directly with the counterparts at AON citing as an example the daily interaction between AON’s computer specialists and NPF’s software expert in the installation of the electronic network platform.

The open communication lines had enabled the prompt resolution of conflicts at executive level. He gave an example where AON staff were initially unwilling to process housing advance as this was deemed to be outside of the agreement. This was resolved after NASFUND’s alliance manager contacted AON’s CEO and pointed out that this function was also implied in the alliance agreement. He observed that trust was being built not only through formal means but also via informal gatherings. However, he pointed out that it would take time for Papua New Guineans to openly interact with expatriates in the business community because this requires self-confidence.

5.1.9 Alliance management outcome

In terms of alliance outcome, NASFUND’s alliance manager felt that at this stage it was still too early to make a full judgment except to make preliminary observations. He explained that since the decision to outsource to AON on February 2001 the process had yet to be completed by the time of the interview in March 2002. Moreover, staffs were encouraged to communicate directly with the counterparts at AON citing as an example the daily interaction between AON’s computer specialists and NPF’s software expert in the installation of the electronic network platform.

A related issue raised by the alliance manager was that once the technology was installed, it was going to take time for NPF staff to be trained on AON’s softwares. Up until then, staff kept reverting back to the old system because of the delay. A thorny issue that he was attempting to grapple with was to get around Clause 13 rights in the alliance agreement that preserved AON’s propriety rights vis-à-vis software packages. There was a need for flexibility and for NPF to develop some degree of competency within. In this regard the onus was on NPF to catch up with its learning capacity.
In terms of results, the CEO pointed out in the 2001 NPF Annual Report (NPF 2001b:11) that although there were a lot of questions asked about the cost of outsourcing, the alliance had in fact shown early cost reduction benefits. NPF’s Management Expense Ratio revealed early falls in administration costs from 5.25 per cent in 1999 to 2.11 per cent in 2001; 1.72 per cent is envisaged for 2002. Management had a five-year plan to reduce this expense to 1 per cent. The management alliance agreement will expire on 2 May 2006.

Partner 2. AON Consulting (PNG) Ltd

5.2.1 Background
AON Consulting has been providing employee benefits services to Papua New Guinea since the early 1980s. In 1997, AON Consulting established an office in Port Moresby to service its rapidly increasing client base in PNG. This office at present operates under AON Consulting (PNG) Ltd. AON Consulting is part of the global AON Corporation, acknowledged leaders in insurance broking and risk management. AON Consulting’s international team of specialists provide employee benefit programmes, pension and superannuation services as well as investment and actuarial advice to over 20,000 individual and corporate clients worldwide. The AON Group’s expertise is spread over 550 offices in 100 different countries (AON n.d.).

On 2 May 2001 AON Consulting (PNG) Ltd signed an Administration Services Agreement with the National Provident Fund Board of Trustees (NPF) or as it is now known as the National Superannuation Fund Ltd (NASFUND). Effectively, this means that AON is the administrator of NASFUND, taking control of its backroom operations. AON, as the Fund Administrator, is responsible for the following functions (a) process annual reviews, (b) report to the membership and NASFUND, (c) process new entrants, (d) calculate benefit payments, (e) provide benefit quotations, (f) effect rollovers in or transfers from other funds, (g) provide assistance to employers, (h) and provide annual reports to members. The strategic alliance between NASFUND and AON is significant to both parties because NASFUND is the second biggest player after the state-owned Public Officers Superannuation Fund (POSF) in the K1.2 billion (A$620) superannuation market in PNG (NPF 2001b:19). The alliance is also significant because AON now handles on behalf of NASFUND a growing membership of 58,673. NASFUND’s primary goal is client service and is seeking to be the industry leader by 2003.

5.2.2 Importance of strategic alliance to core business
AON’s alliance manager revealed that the NASFUND portfolio constituted 80 per cent of total income for AON and, therefore, the NASFUND-AON alliance was critical to AON’s core business. The Superannuation Act 2000 liberalised the superannuation industry in PNG for the first time since 1975 in that it removed government control and required players to outsource the functions of the Fund Administrator, Investment Manager, Audit and Remuneration, and Accounting Services. Thus far AON the reforms could not have come at a better time as AON had previously been unable to secure business from a highly government controlled and enclosed industry.

Prior to the reforms, AON only had two clients, the Air Niugini Superannuation Fund and PACRIM, but now looking forward to learning from its management of the NASFUND portfolio. Section 2.5 of the Administration Services Agreement between the partners does not prevent AON from providing similar services to any of NASFUND’s competitors. Section 2.6 also specifically stated; “The NPF and AON agree that for the purposes of this agreement AON is not under any duty of trust to the NPF or to any of the Members”.

5.2.3 Presence of alliance management skills
AON’s alliance manager liaises directly with NASFUND’s General Manager (GM) and Managing Director (MD) as well as AON’s MD. Relationship building with NASFUND is made
easier by the fact that the alliance manager was formerly an employee of NASFUND. The alliance manager pointed out that the relationship is both formal and informal; “We communicate by phone or in person and we are obliged under the Administration Services Agreement to report monthly to our partner”. She added, “At the operational level NASFUND’s officers call me up anytime if they have queries regarding client accounts. I know these guys so it is easier and we understand each other”.

The alliance manager noted that initially the value of queries from NASFUND was higher as the partners sought to resolve issues surrounding the backlog of bad member accounts. However, by the end of 2002 much of these were resolved. She went further to say that the only time there was friction in the relationship was when a member was not satisfied with the service; “This is when NASFUND pushes us to work beyond our limits, often finger pointing occurs, but we are always able to resolve these issues”.

The alliance manager observed that one of the causes of slow account processing arose from the placement of AON’s information technology (IT) backup and support services in Sydney, AON’s Australasian head office. She noted; “I have to communicate with the Sydney office every time there is an IT problem. This slows down things up here. An IT specialist should be based here rather than in Sydney. When the IT is down clients are told to come back the next day or week which makes our partner a bit tense”.

5.2.4 Strategic intent clarity & alignment to structure, planning & control, culture and environment

The strategic intent of AON is to derive a profit from the relationship through the provision of efficient service to NASFUND’s contributors. The Administration Services Agreement clearly allots responsibilities to each partner. AON is responsible for the (a) accuracy of benefit payments, (b) accuracy of benefit statements, (c) issuing new member certificate, (d) providing written benefit quotes, (e) providing and posting annual member statements, (f) accommodating changes in member records, (g) providing benefit statements, (h) allocation of contributions, (i) furnishing monthly administration report, and (k) processing death and disability claims with insurer (NASFUNDPF and AON 2001:18). The alliance agreement clearly specifies the standard of service required and the penalty as a percentage of monthly fee.

AON’s alliance manager pointed out that the alliance agreement clearly spelt out the structure and control mechanisms for ensuring that the alliance’s strategic intent was fully realized. To further reduce the turnaround time AON now insists that employers submit their records in electronic format rather than manual posting. Electronic posting was going to eliminate the current 2 weeks turnaround time to 2 days, as was the experience with Air Niugini and PACRIM. The alliance manager argued that NPF should advise and educate its clients to transit to electronic posting. Currently, only Air Niugini and PACRIM have standalone agreements with AON. Their conversion to electronic posting has greatly reduced room for errors. Once all employers were compliant with this requirement, AON would then further reduce its current 20 staff handling the NASFUND portfolio. So far only two staff have been retrenched.

AON’s alliance manager observed that reporting has been up to date. Because NASFUND had already inculcated a new management culture to the staff before being transferred to AON, cultural fit has been achieved without difficulty. The change in the regulatory environment brought about by the Superannuation Act 2000 has been favourable to AON’s operating environment.
5.2.5 Environment influence on alliance management process

Economic/technological
The economic environment in PNG has been depressed to date with tight monetary policies aimed at controlling inflation and stabilizing the exchange rate. A major concern for AON was if companies found it increasingly difficult to cope then this could result in layoffs, thus reducing NASFUND’s membership base and the revenue accruing to AON. The alliance manager felt that withdrawals would be experienced in 2003 as companies close. Section 7.2 of the alliance Services Agreement states that AON reserves the right to make changes to its administration fee basis by giving 3 months notice in writing to the NPF in order to compensate for a fall in the number of active members below 20,000. Currently, NASFUND has 58,673 contributors. Reflecting economies of scale, the Administration Fee Schedule commencing on 1 January 2001 reflected falling member fees charges as the membership grows.

In terms of technology, the PNG environment did not avail much sophisticated technology for employee benefits administration. This resulted in AON relying on its Sydney head office for its information technology requirements. However, occasionally this presented problems when there were telecommunications problems in PNG or in Sydney resulting in slower customer service. The alliance manager pointed out that there was a need for an IT specialist to be based in the Port Moresby office rather than in Sydney.

Political/legal
The political environment in PNG is fairly fluid and has been an ongoing concern to AON for sometime, according to AON’s alliance manager. She argued that companies like AON literally require a stable environment with consistency in policies in favour of foreign investment. She accepted that the recent liberalisation of the superannuation industry and the promotion of the Central Bank as the industry regulator has been a favorable step. In the past public servants in the Treasury Department of the GoPNG were controlling the regulatory environment. For government controlled superannuation funds this meant that many board members were politically appointed resulting in inefficiencies.

Cultural/social
AON’s alliance manager noted that because AON’s task was mainly an operational one, she did not think that the broader social and cultural environment had any greater influence on this aspect of the alliance. What mattered the most was the organisational culture which she believes have been aligned to the goal of ‘efficient employee benefits administration’. She gave the example where unlike in the general work place in PNG, employees were not allowed to chew bettlenut as a past time activity at the AON workplace. Absentism and procrastination at the workplace has been discouraged too.

Demographic
In terms of gender, the majority of AON’s staff working on the NASFUND portfolio were women. In any case, the alliance manager noted that their work is more routine data entry and employee benefits processing.

5.2.6 Adequacy of internal organisational components for alliance management

Governance structure, control and feedback mechanisms
NASFUND’s Board of Trustees provides for AON as the Fund Controller to attend up to four board meetings each year upon request (Section 3.1.7e of the Agreement). However, AON does not see it as a necessity to be fully represented on the NASFUND Board. This allows AON the leeway to develop business relationships with other competitors of NASFUND. The control and feedback mechanisms of the alliance are fully safeguarded by the Administration Services Agreement and to date AON has not defaulted on any of its commitments. The consulting fees are very specific as well as the penalties calculated as a percentage of monthly fee if AON defaults on
any of the tasks laid out in the alliance agreement (Section 5.2.4, Administration Services Agreement).

**Human resource component and continuity**

According to the alliance manager, NASFUND’s portfolio comprises the bulk of AON staff, a total of 20. AON has two stand-alone portfolios, Air Niugini and PACRIM, both of which only have 5 staff. As it stands the NASFUND portfolio has excess staff because of the current practice of manual postings. This number will be reduced once all contributing companies to NASFUND adopt electronic posting. Generally there has been continuity with only two staff deciding to leave in 2002.

There were minimal training requirements as all the current staff were transferred from NASFUND. The staff were well versed with the actual operational processes which took the following steps: applications go to NASFUND’s client service centre, NASFUND on-sends the list to AON as both partners share a common network, then AON administers membership allocations or withdrawals. AON does not directly answer client queries, these are handled by NASFUND’s client service center, and only applications that require AON to deal with are reach AON. It is NASFUND’s responsibility to deal with bad accounts. The result is (a) timely allocations of contributions within 5 working days, and (b) timely processing of withdrawals within 2 days. The alliance manager observed that there has been increased productivity and efficient service provision compared to that experienced under the old integrated NPF.

**Communication skills**

The alliance manager noted that the alliance had excellent communication skills and were in touch with each other at both at managerial and operational levels almost on a daily basis. The sharing of a common client service intranet facilitated a smooth and open communication approach. Strong interpersonal relationships helped in the quick resolution of conflicts and in averting any emerging conflicts.

**Technology**

AON’s main contribution to the alliance was its key software technology that it brought to employee benefit administration. According to the alliance manager, AON possessed state-of-the-art information technology and expertise. The software system that the NASFUND portfolio benefited from was built in Sydney and protected by Section 13 of the Administration Services Agreement on Ownership of Software. The Port Moresby office has its own internet server that was linked to NASFUND’s head office at Boroko and its aerial offices in Mt Hagen, Lae and Kokopo.

AON provided training to NASFUND staff, but ensured that ultimate control of the system rested with it in order to protect its proprietary skills. NASFUND staff access the system strictly to answer client queries but were barred from entering sensitive sites within the system. The alliance manager explained that the system had a built-in Audit Trail History, revealing user name, date, time and item accessed. This prevented any possible system tempering.

The existence of an email system also enabled direct communication with NASFUND staff at all levels on a daily basis. This service was not made available by the old NPF.

**Coping strategies**

Because of the nature of the work done by AON, which was very much routine that followed standard operating procedures, the alliance manager noted that there were no coping strategies. She pointed out that there is no room for errors because any slight error would incur a penalty fee as stated in Schedule B of the Administration Services Agreement.
5.2.7 Organisational and societal culture influence on alliance
AON has cultivated an organisational culture that is conducive to providing an efficient employee benefit service that results in both speed and accuracy. It believed that this would ensure that the partners would renew their alliance agreement for a further period of 5 years. The alliance manager also observed that the negative effects of the wider societal culture particularly *Wantokism* has been effectively cushioned from influencing the work culture at AON. Absentism and the public service mentality, which promoted the postponement of problem solving into the future, has no place at AON.

5.2.8 Management of relationship capital/alliance process management
Relationship management between the partners appeared healthy at this stage. The alliance manager did not cite any conflict that was beyond resolution. She cited the Administration Services Agreement as very accommodating to the partners’ strategic intent and core business resulting in mutual benefit. She also noted that solid personal relationships both at the CEO and operational levels enabled the partners to manage the relationship beyond the scope of the legal agreement. Personal relationship was identified as a major ingredient in the prompt resolution of tensions experienced thus far.

5.2.9 Alliance management outcome
AON’s alliance manager indicated that a number of positive indications characterised the alliance management outcome. First, AON has learnt a lot from the management of NASFUND’s portfolio where it hoped to extrapolate to the management of other portfolios opened up by the *Superannuation Act 2000*. Second, clear gate keeping and proprietary technology protection has minimised conflicts. Third, because of the efficient employee benefits administration, NASFUND has been able to retain and secure new membership as well as make a profit in 2002. Fourth, NASFUND through the alliance has clearly reduced its management expense ratio (MER). In the long run, AON’s alliance manager believed that the alliance would survive.

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APPENDIX 2  CASE STUDY PROTOCOL

A. Overview

This protocol is based on the holistic strategic alliance management model derived from a review of the extant literature found in Chapter 2 of the thesis. This model synthesizes the lessons for alliance management derived from cases in both developed and developing countries. It shows that successful alliance management depends on how alliance managers leverage key subsystems such as environmental context, organisational context, management culture and management process. How these factors should be leveraged in a developing country such as Papua New Guinea in light of specific barriers to alliance success is what this protocol is concerned with. The lessons derived from the thesis contribute theoretical value for strategic management and practical lessons for alliance managers particularly in the context of developing countries. This is the first empirical study into strategic alliance management to be undertaken in PNG.

B. Purpose

The purpose of the research is to determine how alliance managers can strategically overcome managerial problems experienced by strategic alliances in the PNG financial services sector.

This being the major research problem, the protocol acts as an instrument and provides a procedural guide to the researcher in the context of a holistic multiple-case design. In so doing, it increases the reliability of the case study research. Using this protocol, the researcher solves the research problem via a set of 6 research questions derived from the analytical literature found in Chapter 2 of the thesis and conceptualised in the preliminary holistic strategic alliance management model. These research questions are:

1. What economic/technological, political/legal and cultural/social factor impact on strategic alliance management in PNG in terms of organisation context, management culture and management process?

2. What are the characteristics of alliance managers in PNG?

3. What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with in order of criticality?

4. How did the alliance manager in PNG manage the alliance in the context of these major shortfalls?

5. How important were PNG cultural elements such as Wantokism and attitudes to human nature, work, time, space, performance objectives, and so on, in the management of strategic alliances?

6. How did alliance managers/liaison managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?

The protocol is based on a basic premise upon which the thesis is based, that the high failure rate (60-70 per cent) of strategic alliances the world over mainly stems from managerial barriers (Niederkofler 1991; Spekman et al. 1996).
C. Key features of the case study method

An integral feature of the case study method is the protocol which contains field procedures, case study questions reflecting the actual inquiry, and a guide for reporting the data after the data has been collected. This helps avoid the situation in which the evidence collected does not address the initial research questions. The investigator must strictly be guided in the fieldwork by this protocol so as to optimise reliability. The protocol also leaves behind logical steps for anyone seeking to repeat the study. Such protocols are highly desirable when the researchers are using a multiple-case design.

The protocol enhances the reliability of the case study method as a separate strategy with its own research design within the qualitative approach to research by implicitly requiring that the investigator be an active researcher and of high quality in order to extract information in an interactive manner and keep proper records of the interview, the investigator upholds business ethics at all times because of the confidentiality of the information sought, the researcher present questions in a sequential manner, and the researcher make himself/herself presentable to interviewees, many of whom are senior company personnel.

D. Field procedures

Field procedures for data collection are important for the case study method because it seeks to study events within their real-life contexts. Unlike in experiments within controlled confines or the structured limitations of a rigid questionnaire, the investigator using the case study method must learn to integrate real-world events with the needs of the data collection plan; the investigator has no control over the data collection environment (Yin 1994). Therefore, patience, adaptability and being ‘street-wise’ are required skills to overcome the difficulties of field research such as the unwillingness of interviewees to fully cooperate. The investigator therefore needs to emphasize the field visit schedule, be equipped with some knowledge of the case organisation/policy/programmes, verify access procedures, and access special documents.

1. Preparation of field visit

Studying strategic alliances requires the consent of not only one partner, but also another partner in the business network. This point is crucial for the current study because if only one organisation is examined, one cannot draw accurate conclusions about inter-organisational partnerships. If this occurs, this would reflect a major flaw in the research design rather than in the work plan (Yin 1994). Thus it is important that at least two partners agree to participate. Once this is secured, the investigator must request an interview date, time and clearly indicate to the interviewee the minimum time required for the interview so that this could be factored into the busy schedule of the interviewee.

This is vital, as the interviewees do not only include alliance managers/liaison managers, but also involves boundary spanners, gatekeepers, government departmental secretaries and general managers. Flexibility on the part of the researcher is required as often appointment dates and time may be changed upon arrival at the meeting venue.

It is crucial that the researcher familiarise oneself with background information about the company such as annual management reports in addition to the components of the alliance management model derived from the literature review in Chapter 2 of the thesis. In the actual interview the researcher should demonstrate proficiency by memorizing the research questions and then probing further, but strictly following the desired pattern. The researcher should also portray a professional image to the interviewees who themselves are executives. In this regard,
having all required resources available will help such as having sufficient business cards, written reply from that organisation to ease access procedures, sufficient stationery, a tape recorder if allowed, and any acceptable documents about the company help zero in on questions.

A word on the selection procedures is in order here. All the strategic alliances to be interviewed are based in Port Moresby, Lae and Mt. Hagen and engage in the offering of financial and business advice services. To enlist their support for the case study exercise, an introductory letter will be sent to ten known alliances to the current researcher. Of this only six alliances will be selected as this meets the requirement for a PhD thesis (Yin 1994). It must be noted that because the case study method generates analytical generalisations rather than statistical generalisations, the sampling logic stressed by other methods is irrelevant here. Instead, it is hoped that a few cases (two) would be literal replications of the holistic model, whereas the rest would be theoretical replications.

The introductory letter will be followed up with a telephone or site visit to obtain verbal confirmation and at the same time obtain an agreed interview time and venue. A confirmatory letter would then follow this up. The interviewees or their personal secretaries will be contacted a day before the interview to confirm the time and venue.

2. Training of field investigator

Only the current researcher will be involved in the administering of the case study protocol. The researcher is experienced in conducting research surveys and case studies in PNG and is cognisant of the need to conceptually link the theoretical issues being studied with the data being sought. The researcher is aware of the need to optimise the following skills (Yin 1994:56):

- be able to ask good questions and interpret the answers which may be culture-laden
- be a good listener including observing and sensing and is not easily offended
- be adaptive and flexible to newly encountered situations
- have a firm grasp of the issues being studied
- be unbiased by preconceived notions, including those derived from theory and be sensitive, tolerant and responsive to contradictory evidence

E. Case study protocol and questions

The set of questions in this section are aimed at optimising and clarifying answers to the six main research questions derived from Chapter 2 of the thesis which in turn seeks to solve the research problem stated in Chapter 1. It must be noted, however, that the interview questions are not necessarily derived from the research questions, rather their selection depends on the actual research situation and what will work most effectively in that situation to elicit the data needed to answer the research question (Maxwell 1996:710). The researcher must be guided by these questions in the interview and clarified by other sources of documentation. Questions asked are at varying levels, for instance, convey the attributes of the interviewee or alliance manager (Level 1), about the individual partner (Level 2), questions across partners (Level 3), questions of strategic alliances generally in PNG (Level 4), and normative questions about managerial strategies to address the problem (Level 5). During the interview, the issue of triangulation should be borne in mind.
Q1. Describe the general nature of your business.

*Sources of data:*
- Alliance manager/liaison manager
- Managing Director
- Company documents

*Sample strategies:*
- Describe your core business in terms of product, national scope, and future vision.
- Describe your business in terms of current profitability, market share, position in industry, and growth.

Q2. Describe the importance of the strategic alliance to your parent company’s core business or strategic intent.

*Sources of data:*
- Alliance manager
- Managing Director
- Company documents, press releases, magazines

*Samples strategies:*
- Describe the nature of the alliance.
- How did you come to choose the current alliance partner, e.g. through past acquaintances?
- List the number of alliances you have with different partners and rank the one being investigated in terms of importance against the others.
- State the percentage of your parent company’s resources committed to the management of the alliance, in terms of capital, number of personnel, and other resources.
- State the percentage of profit that the alliance contributes to your parent’s business.
- State the degree of involvement of senior executives in the alliance’s life cycle, e.g. negotiation stage, management stage, exploration of opportunities.

Q3. Describe your suitability for the job as the alliance manager.

*Sources of data:*
- Alliance manager
- Managing Director/General manager
- Magazines/Company documents

*Sample strategies:*
- Obtain or draw an organisational chart that shows the location of the alliance manager
- List the key functions of your job.
- To whom does the alliance manager report?
• Who reports to the alliance manager?
• Whom does the alliance manager supervise?
• What kinds of decisions does the alliance manager have to formally sign off and with whom?
• List type of discretionary decisions undertaken by alliance manager and type of decisions referred back to parent partners.
• Have you had an overseas assignment?
• List the suitable managerial skills and mindset required to perform your job.
• Comment on the following competencies for alliance management and state the extent to which you believe you possess them:
  a) Willing to change to accommodate others
  b) Willing to consider other person’s point of view
  c) Simultaneously consider multiple points of view
  d) Learn from past but not constrained by it
  e) Willing to take losses in return for future gains
  f) Willingness to work in teams
  g) Optimistic
  h) Eager to embrace other cultures
  i) Pragmatic
  j) Industry skills
  k) Extensive networks, e.g. business associates
  l) Political skills
• Are there areas that require improvement/training?

Q4. Describe the clarity of the strategic intent of the alliance and the extent to which the organisational structure, planning and control, culture and environment have been made to align with this intent.

Sources of data:
• Alliance manager
• Managing Director
• Press releases, magazines, company reports
Sample strategies:
- State the strategic intent of the alliance and the extent to which they are measurable.

- Describe the extent of support both partners have given to the goals of the alliance.

- Describe the extent to which there are clearly defined objectives, clarity of purpose, clear responsibility matrix for each partner.

- State the type and amount of resources committed by parent firms to the alliance (both financial and non-financial).

- Describe any delays in the implementation of aspects of the alliance and identify the causes of the delay relating to structure, planning and control, culture, and environment.

Q5. What economic/technological, political/legal and cultural/social factor influences alliance management process?

Sources of information:
- Alliance manager
- Managing Director
- Press release, magazines, company reports

Sample strategies:
- List the motives behind this alliance.

- List the number of government departments/agencies you have had to deal with and the reasons for involving them.

- How would you describe your relationship with these government agencies in terms of efficiency factors such as time, reliability and outcome?

- Identify any problems you have had in dealing with government officials.

- Describe the environmental pressure being exerted on the alliance, e.g. macroeconomic stability, taxation regime, exchange rate, etc.

Q6 (a). Describe the adequacy and quality of the organisational components of the alliance.

Sources of information:
- Alliance manager
- Managing Director
- Company documents, magazines, press release

Sample strategies:
- Does the alliance manager command the respect of the senior executives of the major partner(s), his/her equivalent in the partnering organisations, and within the operational levels of the partner organisations and within the alliance itself (if it is free standing)?

- Describe the level of alliance management skills portrayed by the senior executives of the partners, middle managers, and operational managers.
• Apart from the alliance manager, are there people specifically appointed by each partner to act as gatekeepers and boundary spanners, if so describe their level of alliance management skills including communication skills?

• How many alliance managers, gatekeepers and boundary spanners have you had since the inception of the alliance? Is there continuity in the players?

• Detail the control mechanisms built into the alliance to protect proprietary information.

• Describe the adequacy of the technology used.

• Map out the communication processes and profile within the alliance and between partners.

• Describe the frequency of communication with your equivalent and meetings concerning alliance matters and social events.

• Describe the mechanisms put in place to promote feedback and learning, e.g. workshops, evaluation reviews, suggestion box, joint training, etc.

• How did you manage the organisational shortfalls?

Q6 (b). Elaborate on the adequacy of the human resource component of the alliance.

Source of information:
• Alliance manager
• Managing Director
• Company documents, magazines, press release

Sample strategies:
• List the number of people employed by the alliance (if stand-alone), the number of people committed by each partner to work on the alliance and their designations, and the number of exchange personnel.

• Describe any conflicts arising from role ambiguity or role conflict.

• Describe the nature and frequency of any training programmes aimed at harnessing knowledge in alliance management, organisational skills, or market and technology.

• Describe any appraisal and reward system put in place to promote alliance mindset at all levels.

• Describe the career planning prospects in the alliance.

Q6 (c). Elaborate on the adequacy of structure and control mechanisms within the alliance.

Source of information:
• Alliance manager
• Managing Director
• Company documents, magazines, press release

Sample strategies:
• Describe the alliance governance structure, e.g. board of executives.
• Are the board executives active in the parent’s own business?

• Is the alliance a (i) ad hoc pool alliance, (ii) consortium strategic alliance, (iii) project-based joint venture, or (iv) full-blown joint venture?

• Ask for alliance legal contract, MOU, policy guidelines, code of ethics, etc.

• Describe the gatekeeper’s role in ensuring smooth information outflow.

• Describe particular aspects of the alliance controlled by each partner and identify the basis for such control, e.g. competence/skills.

• Describe the monitoring of partner’s contributions.

• Describe any dispute-resolution mechanisms in place and state whether key issues are raised early and acted on promptly.

Q7. Describe the influence of organisational and societal culture on the alliance.

Source of data:
• Alliance manager
• Managing Director
• Company documents, magazines, press release

Sample strategies:
• Describe the extent to which cultural-fit is promoted.

• Describe the extent to which cultural elements such as Wantokism and Melanesian attitudes to time, work and performance enhance or inhibit alliance management.

• Describe the influence that culture has on the communication processes.

• Describe the influence that culture has on performance evaluation and degree of control.

• To what extent has the alliance promoted a culture of its own symbols, hero, rituals and values.

• How important is cross-cultural sensitivity?

Q8. Describe how relationship capital/soft issues are managed as part of the alliance process management.

Source of data:
• Alliance manager
• Managing Director
• Operations managers
• Boundary spanners
• Gatekeepers

Sample strategies:
• How is mutual trust and commitment harnessed?
• State the degree of trust amongst partners.

• How does the PNG relationship oriented culture facilitate/inhibit the development of mutual trust/commitment amongst partners?

• Describe the level of commitment at all levels.

• Is there a misalignment of fit between strategy and operations, if so how is this resolved?

• Map out the web of interpersonal relationships developed with personal within the alliance, parent partner, other parent partners, and external associates e.g. government, business, etc.

• Map out the communication links within the alliance, parent partner, other parent partners, external entities e.g. government, professional association, and state the frequency of such communications.

• Describe the adequacy of channels of communication at all levels.

• Identify and describe any social gatherings attended by partners and frequency.

• Describe type of relationship portfolio techniques used by parent partners.

Q9. How would you rate the alliance management outcome?

Source of data:
• General manager/managing director
• Alliance manager

Sample of strategies:
• restate the objectives of the alliance.

• rate the overall satisfaction (+/-) for each of these criteria and secure explanations.

a) profitability (before & after)

b) market share (before & after)

c) acquisition of technology

d) synergistic gains

e) marketing skills/knowledge

f) community service

g) customer satisfaction/coverage

h) alliance management experience

i) future investment intention
• State the extent to which the alliance gains have been mutual.
• Is the value of the alliance apparent to your customer? How?
• Explain how the alliance has enhanced (best in class) or hindered your competitive advantage.
• Comment on the extent to which the operations, risks, and rewards are balanced.
• Do partners continue to maintain a shared vision?
• To what extent is the alliance success or otherwise due to the job of the alliance manager?
• Describe any shifts in strategic intent in the life cycle of the alliance. If yes, what factors (e.g. environment, organisational, process management or culture) are responsible for these shifts?

F) Outline for case study report

1. Company background
   • strategic intent links to core business

2. Alliance manager’s qualities
   • suitability
   • presence of teachable and un-teachable skills

3. Alignment between strategic intent, structure, planning & control, culture and environment
   • ranking of gaps, e.g. expectation gap

4. Environmental influence on alliance management process
   • ranking of environmental pressure on alliance

5. State of organisational components of the alliance
   • adequacy of organisation components, e.g. technology
   • degree of dysfunction
   • adequacy of human resource component
   • adequacy of structure and control mechanisms
   • financial and non-financial control mechanisms

6. Effects of culture on alliance management process
   • extent of cultural-fit amongst partners
   • effects of culture on the communication process

7. Management of relationship capital as process management
   • relationship-oriented culture
   • strategic- and operational-fit alignment

380
• web of interpersonal relationships and communication links

8. Alliance management outcome
• overall satisfaction level
• learning experience
• future investment intention

9. Within case analysis
• suitability of alliance manager
• alignment between strategic intent, structure, planning and control, culture and environment
• environmental influence on alliance management process
• state of organisation components
• effects of culture on alliance management process
• process management and effect on outcome
• alliance outcome

10. Conclusion on strategic alliance management process in PNG
Appendix 3  Permission Letter to Organisations

March --, 2002

The Managing Director

Dear Sir/Madam

Permission to Study Your Alliance as a Case Study for a PhD Thesis

I am writing to seek your permission to use your existing alliance as one of 6 case studies of similar alliances currently being studied as part of my doctoral research at the University of Western Sydney, Australia. Your company has been chosen for the study because of your invaluable experience with strategic alliances. I am specifically requesting your permission to interview staff within your organisation who are involved in managing the alliance and to make clear that their individual responses to questions will not be made available to management so as to establish trust with interviewees. In the process of the research a staff may decide to withdraw without any explanation even if they initially agreed to participate. In the event that this situation arises any previous data collected from the participant will not be used in the data analysis unless (s)he has given permission for its inclusion.

Ultimately, by means of this case study approach, I intend to identify and document answers to such questions as: What are the characteristics of alliance managers/liaison managers in Papua New Guinea? What economic/technological, political/legal and cultural/social factor impact on strategic alliance management in PNG? What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with? How important were PNG cultural elements such as Wantokism and attitudes to human nature, work, time, space, and performance objectives in the management of strategic alliances? How did alliance managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG?

This study is vital to the advancement of management training in PNG because of the fact that there is no documented empirical research into strategic alliance management in PNG to date. Moreover, the benefits of such a study would not only be theoretical, but also have practical relevance for alliance managers.

After the case study report of your organisation has been compiled a copy will be immediately sent back to the managers who participated in the study to add or delete any misconstrued information. You are hereby assured of the confidential keeping of information obtained from your company. This is an important requirement of the UWS’s Human Ethics Protocol governing research of this nature. Data obtained would be primarily for the purposes of the thesis.

For the successful completion of this study, I once again request permission to personally interview your staff, including senior executives. I look forward to your positive response and cooperation.

Faithfully,

David Kavanamur (PhD candidate)
Kavanamur@hotmail.com

NOTE: This study has been approved by the University of Western Sydney Human Research Ethics Committee. If you have any complaints or reservations about the ethical conduct of this research, you may contact the Ethics Committee through the Research Ethics Officer, University of Western Sydney, Locked Bag 1797 Penrith South DC NSW 1797, Australia. Any issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.
APPENDIX 4 LETTER OF INTRODUCTION TO INTERVIEWEE

To Whom It May Concern

This is to introduce myself (Mr. David Kavanamur) to your office for the purposes of an in-depth interview process in the coming months that will take place at a time convenient to you regarding your involvement in the current alliance your organisation has with your partners. This study forms the very basis of my PhD candidature at the University of Western Sydney, Australia.

Essentially, I intend to identify and document answers to such questions as: What are the characteristics of alliance managers/liaison managers in Papua New Guinea? What economic/technological, political/legal and cultural/social factor impact on strategic alliance management in PNG? What are the major organisational component dysfunctions that the alliance manager in PNG has had to contend with? How important were PNG cultural elements such as Wantokism and attitudes to human nature, work, time, space, and performance objectives in the management of strategic alliances? How did alliance managers strategically manage the process issues of relationship bonding, trust, communication, boundary spanning, problem solving, learning, and cultural orientations in PNG? Your sincere answers to these questions will directly aid our understanding of how to capably manage alliances in PNG.

This letter is written to senior company executives, senior government executives, alliance/liaison managers, and operational managers including gatekeepers and boundary spanners. I sincerely request that you would be able to give your time, experience and patience towards the in-depth interviews. Your cooperation is most essential if the case studies are to meaningfully contribute to our understanding of alliance management in a developing country such as PNG.

After the case study report of your organisation has been compiled a copy will be immediately sent back to you to add or delete any misconstrued information. You are hereby assured of the confidential keeping of information obtained from you and I must stress that there will be no management threat to your job arising from the information you give in good faith. Individual comments will not be made available to management. This is an important requirement of the UWS’s Human Ethics Protocol governing research of this nature. Data obtained would be primarily for the purposes of the thesis.

In the course of the research a participant is free to withdraw from the study without explanation even if (s)he gave consent for the interview. In the event that this situation arises any previous data collected from the participant will not be used in the data analysis unless (s)he has given permission for its inclusion.

I wish to express my gratitude for your assistance and look forward to arranging an appropriate time and venue for the interviews.

Sincerely,

David Kavanamur (PhD candidate)
Kavanamur@hotmail.com

NOTE: This study has been approved by the University of Western Sydney Human Research Ethics Committee. If you have any complaints or reservations about the ethical conduct of this research, you may contact the Ethics Committee through the Research Ethics Officer, University of Western Sydney, Locked Bag 1797 Penrith South DC NSW 1797, Australia. Any issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.
APPENDIX 5  CONSENT FORM

UNIVERSITY OF WESTERN SYDNEY
CONSENT FORM – STUDENT RESEARCH

I __________________________ agree to participate in the research project ‘Exploring strategic alliance management issues in the services sector in Papua New Guinea’ being conducted by David Kavanamur of the University of Western Sydney, Blacktown campus, Quakers Hill NSW, as part of his PhD (Management) being undertaken at the University of Western Sydney, Australia.

I understand that the purpose of this study is to explore and understand the managerial issues in strategic alliance management in PNG.

I understand that my participation in this research will involve a number of tasks. These are being interviewed for up to 1 1/2 hours and providing any relevant alliance related documents. I understand that in-depth interviews will be audio taped and that I may ask for the taping not to be allowed or to stop at any stage. There are no risks, however, the major inconvenience to participants is the time involved to take part in the study. I also understand that my responses to interviews will not be made available to management.

I am aware that I can contact David Kavanamur, telephone 02 9852 4186 (Sydney) or 326 7299 (Port Moresby), or his supervisor Professor Alan Buttery, telephone 02 9852 4143, if I have any concerns about the research. I also understand that I am free to withdraw my participation from this research project at any time I wish and without giving a reason. Such withdrawal will not prejudice my future career.

I agree that David Kavanamur has answered all my questions fully and clearly.

I agree that the research data gathered from this project may be published in a form that does not identify me in any way.

____________________________________       ____/____/____
Signed by

____________________________________       ____/____/____
Witnessed by

NOTE: This study has been approved by the University of Western Sydney Human Research Ethics Committee. If you have any complaints or reservations about the ethical conduct of this research, you may contact the Ethics Committee through the Research Ethics Officer, University of Western Sydney, Locked Bag 1797 Penrith South DC NSW 1797, Australia. Any issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.
# APPENDIX 6 ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ABB</td>
<td>Asea Brown Boveri</td>
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<tr>
<td>AIM</td>
<td>Australian Institute of Management</td>
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<td>AMC</td>
<td>Australian Managing Contractor</td>
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<td>ANZ</td>
<td>Australian and New Zealand Bank</td>
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<td>APEL</td>
<td>ASEAN Perspectives on Excellence in Leadership</td>
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<td>ASA</td>
<td>Administrative Services Agreement</td>
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<td>ASEAN</td>
<td>Association of South-east Asian Nations</td>
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<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<td>AVI</td>
<td>Australian Volunteers International</td>
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<td>BHM</td>
<td>Bougainville Haus Moni</td>
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<tr>
<td>BMFS</td>
<td>Bougainville Microfinance Finance Scheme</td>
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<td>BPNG</td>
<td>Bank of Papua New Guinea</td>
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<td>BSP</td>
<td>Bank South Pacific</td>
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<tr>
<td>BTG</td>
<td>Bougainville Transitional Government</td>
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<tr>
<td>CATWOE</td>
<td>Customers, Actors, Transformation process, Weltanschauung, Owner, Environmental constraints</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CGS</td>
<td>Credit Guarantee Scheme</td>
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<td>CIC</td>
<td>Coffee Industry Corporation</td>
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<td>CID</td>
<td>Commercial Investment Division</td>
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<td>CSO</td>
<td>Community Services Obligation</td>
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<td>CUFA</td>
<td>Credit Union Federation Australia</td>
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<td>DAL</td>
<td>Department of Agriculture &amp; Livestock</td>
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<td>ECR</td>
<td>Efficient Consumer Response</td>
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<tr>
<td>ENBS&amp;LS</td>
<td>East New Britain Savings &amp; Loans Society</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FASCID</td>
<td>First Assistant Secretary Commercial Investment Division</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FPDC</td>
<td>Fresh Produce Development Corporation</td>
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<td>GDS</td>
<td>German Development Service</td>
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<td>GMFI</td>
<td>Grassroots Microfinance Institutions</td>
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<td>GOPNG</td>
<td>Government of Papua New Guinea</td>
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<td>GST</td>
<td>General Systems Theory</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<td>IBM</td>
<td>International Business Machine</td>
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<td>IJV</td>
<td>International Joint Venture</td>
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<td>IMC</td>
<td>Implementation Monitoring Committee</td>
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<td>IMP</td>
<td>Industrial Marketing Purchasing Group</td>
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<td>Joint Venture</td>
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<td>Key Account Management</td>
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<td>MBA</td>
<td>Masters of Business Administration</td>
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<td>Management Expense Ratio</td>
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<td>Microfinance Institution</td>
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<td>Multinational Corporation</td>
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<td>MOA</td>
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<td>NASFUND</td>
<td>National Superannuation Fund</td>
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<tr>
<td>NEC</td>
<td>National Executive Council</td>
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<tr>
<td>NIH</td>
<td>Not-invented-here factor</td>
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<td>NPF</td>
<td>National Provident Fund</td>
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<td>OPIC</td>
<td>Oil Palm Industry Corporation</td>
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<td>PFIs</td>
<td>Participating Financial Institutions</td>
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<td>Acronym</td>
<td>Description</td>
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<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
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<tr>
<td>PNGBC</td>
<td>Papua New Guinea Banking Corporation</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
</tr>
<tr>
<td>RDB</td>
<td>Rural Development Bank</td>
</tr>
<tr>
<td>RM</td>
<td>Relationship Marketing</td>
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<td>SACS</td>
<td>Smallholder Agriculture Credit Scheme</td>
</tr>
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<td>SBDC</td>
<td>Small Business Development Corporation</td>
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<td>SBGF</td>
<td>Small Business Guarantee Facility</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>SSM</td>
<td>Soft System Methodology</td>
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<td>TCG</td>
<td>Technical and Computer Graphics</td>
</tr>
<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<td>University of Western Sydney</td>
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<td>VARS</td>
<td>Value-added Resellers</td>
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<td>VMS</td>
<td>Vertical Marketing System</td>
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<td>VSM</td>
<td>Value Survey Model</td>
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