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EFFECT OF MARKERTING ALLIANCE ON THE PERFORMANCE OF MICROFINANCE INSTITUTION IN RWANDA

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ABSTRACT

Performance of Microfinance in most countries especially Rwanda has been a challenge which is contrary to their vision on creation and more so their goals and that of the firm which is profit maximization that only comes true through various aspects of growth. The strategy of allying with other organizations has become increasingly prevalent in order to strengthen their market positions and improve on their financial performance. In Rwanda, the micro finance institution is cut throat competition, financial institutions have had to adopt a myriad of strategies in order to gain competitive advantage and stay afloat in the market. Many financial institutions have adopted got into alliance with other institutions informs of joint ventures, outsourcing among others. Of concern to the study, was to determine whether these alliances are of any importance to the performance of the micro finance institution. To achieve this, the objective of the study was to examine the effect of market alliances on firm performance. The target population was 491 SACCOS and MFIs. A sample size of 220 was determined using Slovin's formula. Primary data for the study was collected by use of questionnaires, interviews and observation using descriptive and inferential statistics to establish the relationship between the dependent and independent variables. Secondary data was obtained from previously published material such as books, magazines, newspaper, government reports, district reports and journal articles. Quantitative data was obtained from close ended questions were analyzed by using descriptive statistics. Narrative data was obtained from interviews and open-ended questions in the questionnaire was analyzed using qualitative approaches. Data collected was analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Descriptive and inferential statistics and content analysis was used for specific data. Analysis of variance (ANOVA) and Multiple Regression Analysis was used. The findings indicated that marketing alliance is significantly correlated to the micro finance financial performance ($r=0.681$, $p<0.01$). There is a Strong positive relationship between marketing alliance and Financial Performance of micro finance as indicated by correlation of 0.681. This shows that the sampled data can be applied to the general population across micro finance at 95% confidence level. An R squared of 0.282 indicates that 28.2% of the variances in financial performance of commercial banks are explained by the variances in marketing alliance in the linear model. The correlation coefficient of 68.1% indicates that the combined effect of the predictor variables has a positive correlation with financial performance. Result review that marketing alliance is statistically significant *in explaining financial performance of micro finance in Rwanda. An F statistic of 5.15 indicated that the combined model was significant. From the analysis, a p-value less than 0.05 (p-value =0.0000) was obtained. This implies that the simple linear model with marketing alliance as the only independent variable is significant.*

Keywords: Strategic Alliances, Market Alliance, Microfinance Institution, Performance.

1. INTRODUCTION

1.1 Background

For many years, the concept of microfinance programs have been increasingly established in a number of countries as a means to mitigate the key constraint of sustainable access to financial resources faced by micro and small enterprises; Microfinance programs extend financial services ranging broadly across savings, loans, payment services, money transfers, and insurance to enterprises generally owned by poor and low income households, a group long thought not to have the ability to save nor to utilize credit productively and repay loans at nonsubsidized interest rates (Thouraya, T. et al. 2013).

Strategic alliances are partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. The potential of strategic alliances strategy is enormous. If implemented accurately, some authors claim that it can significantly improve a firm's operations and competitiveness (Brucellaria, 1997). According to a survey conducted by Coopers & Lybrant, 54 percent of companies that formed alliances did so for joint their marketing and promotional purposes (Coopers Lybrant, 1997). Organizations are forming alliances to obtain, technology, to gain access to specific markets, to improve product and service quality, to reduce financial risk, and gain competitive advantage (Wheelen and Hungar, 2000) . However, while many companies often rush to jump on the bandwagons of strategic alliance, only few succeeded (Soursac, 1996) Malott, 1992; Thus, some of empirical studies demonstrate that the relationships between strategic alliances and business performance are mixed. The studies in the field are so few and were conducted by foreign authors with their background based on their companies in the advanced economies. There is, therefore a shortage of empirical studies in this field which focus on developing and none developed economies like Rwanda. Also studies on the viability of strategic alliance among firms and their supplies for the upstream value-added activities have been mainly anecdotal in nature.

This study is therefore intended to bridge this gap by conducting empirical research on the effect of strategic alliance on the performance of financial services small and medium enterprise. A strategic alliance has approximately doubled in the past ten years and is expected to increase more in the future (Booz and Hamilton, 1997), "More than 20, 000 corporate alliances have already been formed worldwide over the past two years. Also, the number of alliances in the USA has grown up by 25 percent each year since 1987" (Farris, 1999).

Furthermore, a survey published in electronic Business has shown that 80 percent of electronics companies have strategic alliances and most of them are planning or negotiating additional agreements (Vyas, Shelbum, & Rogers, 1995). According to a recently released study conducted by Abdrson consulting, 82 percent of executives agree that strategic alliance will be a prime vehicle for future growth (Kalmbach and Roussel, 1999). In additional, the study predicts that within five years, strategic alliances will also account for 16 -25 percent of medium company value and Haywood (2001) decried that more than a third of outsourcing contracts are never renewed so far, despite the cost of taking the contract back or transferring it to another provider. According to Das & Teng, (1998) alliances fail 60 to 70 percent of the time, to achieve their goals. Why are firms not reaping maximum benefits from their investments in alliance linkages?

According to (Uddin & Akhter 2011) Strategic alliances are a form of inter-organizational cooperation involving pooling of skills and resources to achieve common objectives of alliance partners but retaining their separate entities. (Kale, Dyer, & Singh, 2002) adds that strategic alliances are inter-firm collaborations, for the purpose of achieving a sustainable competitive advantage; they are long-term, enduring in nature, as compared to transaction type of relationships or interimistic relationships.

Strategic alliances are not simple or easy to create, develop, and support. Alliances take a number of forms and go by various labels. Alliances may be contracts, limited partnerships, general partnerships, or corporate joint ventures, or may take less formal forms, such as a referral network. Virtually all strategic alliances fit into three basic classifications of trading, functional‖ or dynamic operating alliances. A trading alliance is straightforward nothing more than buyers and sellers forming a largely passive sales and distribution, or export/import arrangement based on contractual terms (Baum, Calabrese, & Silverman, 2000).

A functional alliance integrates certain basic functions between the two parties by pooling efforts to attain specific goals and establish ongoing management relationships. These functional alliances are usually used to pursue or improve research and development projects, share costs, provide geographical market access and, generally, enhance distribution or sales activities. A dynamic alliance involves the hidden assets of the two parties in terms of the skills, knowledge and capacity necessary to deliver results (Bensimon, 2009).

According to Hitt et al (2006) strategic alliance technically falls under cooperative and collaborative strategic actions which technically can be formulated for both business level strategies as horizontal and vertical complementary alliances and also corporate level strategies for expansion and other objectives. Strategic maneuverability in this revolutionized milieu requires collaboration (Hamel & Prahalad 1989, Hitt et al 1998) and this collaboration is not a simple program to be quickly strategized and conducted but it has to be managed largely based on the mutual trust, constant communication and ability to learn and transfer knowledge and

other resources among partners in order to cultivate, develop, survive and thrive which in return gives rise to bilateral competitiveness (Kanungo 2005). To throw more light on this credo Drucker (1996) argued that the way in which future business is conducted is increasingly going toward partnership.

Considerable debates on inter-organization links surveyed the benefits and risks that these links bring. Kandemir, Yaprak, & Cavusgil, 2006) implied that the superior firm performance may work with how well firms extract alliances-related benefits. Cui & Jiao (2011) conducted an empirical study to explore the mediation effect of strategic alliance with stakeholders on the relationship between dynamic capabilities and sustainable competitive advantage in China, an emerging market, to give suggestions on how to manage corporate responsibility to address a rapidly changing environment. The results showed that opportunity-sensing capability, marketing capability and technological flexibility capability have significant impacts on organizational performance.

Likewise, Plazibat & Davor (2013) investigated the link between the Croatian companies entering into strategic alliances and enhancing its performance. The results of their study indicated that strategic alliances facilitate companies to enter into a foreign market and increase firm performance through experience and knowledge. Ireland, Hitt & Vaidyanath (2002) examine the importance and management of strategic alliances using the theoretical frames of transactions cost, social network theory, Resource dependence theory, strategic behavior theory and the resource-based view. Following on from its Vision 2020, in 2010, the Government of Rwanda (GoR) designed the MFI Policy framework aimed at guiding the implementation of a reasoned and coordinated policy to create conducive environment for the growth of the SME sector. It is proposed that the growth of the SME sector will increase non-farm employment, develop, sustain business and technical skills in the Rwandan workforce, support targeted value-added clusters, grow up the tax base, and stimulate industrial growth.

However, the criterion to be used for defining what constitutes an SME varies. Three major parameters used in this regard include the number of employees, the size of assets and ownership of the firm and annual financial turnover (Ubom, 2006; Beck & Demirguc-Kunt, 2006;Verhees & Meulenberg, 2004). For instance, Verhees & Meulenberg, (2004) emphasized on sole control of a organization by the owner as the defining characteristic of a small firm. Further, they assert that their concept of "small firm" should be treated as a sub-component of SMEs. Although the number of employees can be used to characterize SMEs, there are wide variations in terms of thresholds for this variable.

In Rwanda, MFI structure and characteristics are defined based on following dimensions: number of SMEs and employment, size of capital; sectoral composition and turnover; business registration; ownership, age and corporate governance (MINICOM, 2012). However, while many organizations often rush to jump on the bandwagons of strategic alliance, only few succeeded (Sourrsac, 1996); Malott, 1992; Michelet and Remacle, 1992). The failure rate of strategic alliance strategy is projected to be as high as 70 percent (Kalmabahi and Rouseel, 1999), and this failure rate is beginning to be discussed in leading business periodicals. The available studies in the field are so few and were conducted by foreign authors with their setting based on multinational companies in the advanced economies.

There is, therefore a complete or near complete absence of empirical studies in this field which focus on developing economies like Rwanda. Also studies on the viability of strategic alliance among firms and their supplies for the upstream value-added activities have been mainly anecdotal in nature. In order to fill this gap in Rwanda the study assessed the effect of marketing alliance on the performance of micro financial institutions in Rwanda.

1.2 Statement of the problem

Financing decisions result in a given financial structure and suboptimal financing decisions can lead to corporate failure (Chisti, Ali & Sangmi, 2013). A great dilemma to scholars, business managers, investors among other stakeholders is whether there exists an optimal financial structure that maximizes the stakeholders' wealth, as the core object of firms except public utility providers. Therefore, measuring the quality of any financing decision is to investigate the effect of such a decision on the firm's performance and in particular its impact on financial performance (Gill et al., 2011).

The microfinance industry has been growing at a significant rate in several countries and it has become an important sub-sector of the formal financial markets (Assefa, Hermes & Meesters, 2010). However, the microfinance industry, along with all the players in it, is quickly changing (Yenesew, 2014). The number of microfinance service providers has also increased considerably and with the growth of the industry and the saturation of markets, increased competition has been documented in many countries (Porteous, 2006). Many microfinance institutions have secured high loan repayment rates, but, so far, relatively few earn profits (Cull, Demirgüç-Kunt & Morduch, 2007). MFIs also face stringent competition from commercial banks; the growth of microloan activities of commercial banks may confront MFIs with increased competition for borrowers (Addisalem, 2015).

In Rwanda, the microfinance sector has experienced extremely high competition evidenced by the shifting market share and profitability. The competition is among the MFIs sector, mainstream commercial banks and the telecommunication money transfer platforms such as Mobile money (Musabe, 2015). According to AMFI (2013), while over the time credit-only institutions have been slowly improving, banks and DTM improved in 2010-2011 but then worsened slightly in 2011-2012. As such, Microfinance banks in Rwanda have also reported very high competitive pressure in terms of pricing since they have less flexibility to adjust prices due to their financial structure (IMFI, 2013). Thus, the need to investigate the effect of marketing alliance on performance of Microfinance institutions in Rwanda

More over Microfinance is seen as an important instrument in the implementation of the Government program to reduce the number of the people below the poverty line from 60% in 2000 to 30% in 2015 (MINECOFIN,2007). It's argued that microfinance can build the capacity of the poor population to create employment and generate wealth in a sustainable manner.

Despite that very few studies could have been done on microfinance and poverty reduction in Rwanda, literature and researches from elsewhere indicate inconclusive results on the effectiveness of microfinance as a poverty 15 reduction tool. Momoh (2005) points out that despite the fact that many developing countries, such as Bangladesh in Asia (The Gramean Bank) and Ghana in Africa, to name but two, have scored relative successes in using microfinance as an instrument for alleviating poverty, it has not been so for many other developing countries especially in Africa and some Asian countries. Rather than improve the conditions of the poor, most of the microfinance programs operated in these countries have left the so-called beneficiaries in debts.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to assess the effect of strategic alliance on the performance of financial service small and medium enterprise.

1.3.2 Specific objectives

This study was guided by the following research objectives:

- To examine the effect of marketing alliances on financial performance of microfinance institution in Rwanda.

2. CONCEPTUAL FRAMEWORK

A conceptual framework is a tool researcher use to guide their inquiry; it is a set of ideas used to structure the research, a sort of a map (Kothari, 2012). It is the researcher's own position on the problem and gives direction to the study. It may be an adaptation of a model used in a previous study, with modifications to suit the inquiry. Aside from showing the direction of the study, through the conceptual framework, the researcher can be able to show the relationships of the different constructs that he wants to investigate. The conceptual framework below, which depicts the relationship between the dependent and independent variables, guided this study. Figure 2.1 presents the conceptual framework in a form of a schematic presentation to explain the relationship between the independent variables (factors) and the firm performance while the independent variables are strategic alliance factors.

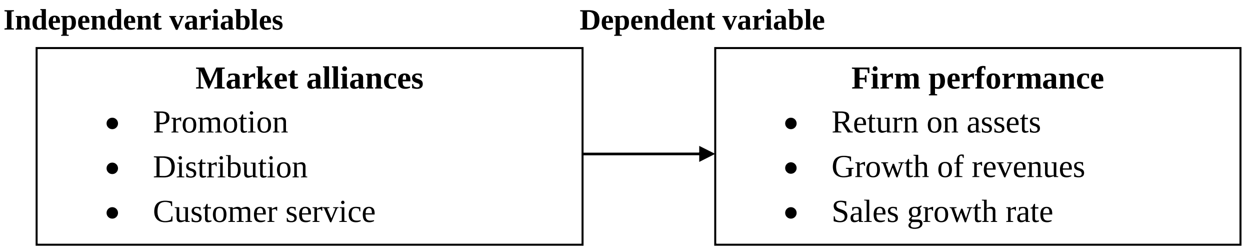

Figure 2.1: Conceptual framework

2.1 Market alliances

(Rindfleisch & Moorman 2001) defines marketing alliances as formalized collaborative arrangements between two or more organizations focused on downstream value chain activities. Consistent with recent research on the impact of marketing activities on firm value (Geyskens, Gielens, and Dekimpe 2002; Mizik and Jacobson 2003; Rust et al. 2004), we posit that marketing alliances can increase firm value in several key ways.

First, a marketing alliance gives the firm access to new markets (Bucklin and Sengupta 1993). For example, by forming an alliance with a well-entrenched retailer, a firm gains access to the retailer's customers. This access can increase the level and speed of firm cash flows. Second, a marketing alliance provides a firm with access to entire products, product features, brands, or services (Kalaignanam, Shankar, and Varadarajan 2007). Such access can help the firm create stronger offerings, which can increase customer acquisition, satisfaction, and retention and associated cash flows.

Third, a marketing alliance supplies a firm with access to new knowledge and skills (Rindfleisch and Heide 1997). Such access means that firms do not need to develop these internally. Thus, cash flow levels due to lower costs and cash flow speed increase because the firm is accessing existing resources.

In marketing, Houston and Johnson (2000) find that firm returns from governance choice (i.e., contract versus joint venture) in buyer–seller alliances depend on supplier investments and the ability to monitor partners. Kalaignanam, Shankar, and Varadarajan (2007) find that new product development alliances (some of which also involve marketing activities) improve firm shareholder value. In strategy, Das, Sen, and Sengupta (1998) find a null effect for marketing alliances, and Koh and Venkatraman (1991) observe a null effect for marketing joint ventures on firm abnormal returns.

3. TARGET POPULATION

The study conducted a survey in Rwanda to collect empirical data for this study. It addressed micro finance institutions in financial sector (e.g: microfinance, SACCOs). The research considered each of five provinces of Rwanda. As it is indicated in the report of the Ministry of Finance and Economic Planning of August 2013[1], 416 SACCOs and 75 MFIs were registered, and this makes a total of 491 which is a research population

[1] National Microfinance Policy Implementation Strategy 2013-2017, A Roadmap to Financial Inclusion (https://www.bnr.rw/index.php?id=250)

3.1 Sample size and sampling procedure

The researcher could not investigate total population of 491, for the sample, it was selected using Slovin's sampling formula (Kothari, 2009).

Slovin's sampling formula: n= $\frac{N}{1+\mathrm{N}*(\mathrm{e})^2}$

Where:

n = Sample size

N = total population = 491

e = Level of confidence or error margin = 0.05

Using the formula above the sample size is calculated as follows:

n = $\frac{491}{1+491*(0.05)^2}$ = 220

4.4 Technological alliances on firm performance

Respondents were asked to state the extent to which you agree with the following statement relating to technological alliance on firm performance. Key: 5-Strongly disagree; 4–Disagree; 3–Indifferent; 2–Agree; 1–Strongly agree

Table 4.1: Respondents views on technology alliance on financial performance

Statements	**Disagree**	**Agree**	**Strongly agree**	**Mean**	**Std. Dev**
Promotion through market alliances increase institution return on assets	20%	20%	60%	3.7	0.7
Promotion through market alliances increase institution growth revenue	10%	40%	50%	3.8	0.9
Promotion through market alliances increase institution sales growth rates	20%	40%	40%	2.7	1.3
Distribution through market alliances increase return on assets of institution	20%	20%	60%	3.3	1.1
Distribution through market alliances increase growth revenue of institution	20%	40%	40%	3.8	0.9
Distribution through market alliances increase sales growth rates of institution	20%	20%	60%	2.7	1.3
The firm enhance its performance through customer service and thus positively affect its return on assets	20%	40%	40%	3.7	0.7
The firm enhance its performance through customer service and thus positively affect its growth of revenue	20%	20%	60%	3.8	1.0
The firm enhance its performance through customer service and thus positively affect its sales growth rates	20%	40%	40%	3.3	1.1

The study findings showed that 60% of the respondents strongly agreed that Promotion through market alliances increase institution return on assets. Promotion through market alliances increase institution growth revenue as indicated by a mean of 3.8. Moreover, most of the respondents indicated that Promotion through market alliances increase institution sales growth rates as accounted for by 40%. When asked to state whether Distribution through market alliances increase return on assets of institution as accounted for by mean of 3.3 supported by 60% who indicated that Distribution through market alliances increase return on assets of institution. In addition, the study findings showed that 40% agreed that the Distribution through market alliances increase growth revenue of institution. Further, 60% agreed that Distribution through market alliances increase sales growth rates of institution. 40% agreed that the firm enhance its performance through customer service and thus positively affect its return on assets. The firm enhance its performance through customer service and thus positively affect its growth of revenue as accounted for by a mean of 3.8 which was supported by 40% who indicated that the firm enhance its performance through customer service and thus positively affect its growth of revenue. Finally, 40% agreed that the firm enhance its performance through customer service and thus positively affect its sales growth rates.

From the findings of the study, it is further noted that responses to the statements used to measure performance ranged between the mean of 3.4 – 4.2 save for four items which had a mean of 2.6 -3.4 as reflected in Table 4.1. This shows that majority of the respondents were in agreement with the statements that were used to measure performance of micro finance institutions. Similarly, the standard deviation of majority of the items are in the range of 1.0. It could then be deduced that the responses to the items were not deviating much from the expected responses. It is, however, important to note that two items had a standard deviation of 1.3 each. This is expected since some of the respondents may not have had access to crucial information on where the company sources its supplies as well as cost cutting and efficiency programme used within the organization.

4.4.1 Correlation Analysis on cash management

Correlation analysis was conducted to empirically determine whether marketing alliance was a significant determinant of financial performance.

Table 4.2: Correlation Analysis on marketing alliance

		Marketing alliance	Performance
	Pearson Correlation	1	
Marketing alliance	Sig. (2-tailed)		
	N	148	
	Pearson Correlation	.681**	1
Performance	Sig. (2-tailed)	.000	
	N	148	148

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.2 indicate that marketing alliance is significantly correlated to the micro finance financial performance ($r=0.681$, $p<0.01$). There is a Strong positive relationship between marketing alliance and Financial Performance of micro finance as indicated by correlation of 0.681. This shows that the sampled data can be applied to the general population across micro finance at 95% confidence level.

4.4.2 Regression Analysis – Marketing alliance and Financial Performance

Regression analysis was conducted to empirically determine whether marketing alliance was a significant determinant of financial performance. Regression results in Table 4.3 indicate the goodness of fit for the regression between marketing alliance and financial performance was satisfactory in the linear regression.

An R squared of 0.282 indicates that 28.2% of the variances in financial performance of commercial banks are explained by the variances in marketing alliance in the linear model. The correlation coefficient of 68.1% indicates that the combined effect of the predictor variables has a positive correlation with financial performance.

Table 4.3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.209[a]	.298	.282	.65724

a. Predictors: (Constant), Marketing alliance

Result review that marketing alliance is statistically significant in explaining financial performance of micro finance in Rwanda. An F statistic of 5.15 indicated that the combined model was significant. From the analysis, a p-value less than 0.05 (p-value =0.0000) was obtained. This implies that the simple linear model with marketing alliance as the only independent variable is significant.

Table 4.4: ANOVA results showing the effect of marketing alliance on financial performance ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	12.14	1	12.14	4.17	.000[a]
1	Residual	28.684	49	.476		
	Total	40.824	50			

b. Dependent Variable: Financial Performance
c. Predictors: (Constant), Marketing alliance

Correlation coefficients show that marketing alliance (X2) is significant (p-value = 0.0000) in influencing financial performance (Y). The results of the analysis are shown in Table 4.4 and the fitted model from this analysis is shown below:

$Y= 0.755 + 0.342X2$

Table 4.5: Coefficient results showing the relationship between marketing alliance and Financial Performance Coefficients (a)

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	0.755	.698		6.365	.000
	Marketing alliance	.342	.152	.308	2.663	.000

a. Dependent variable: Financial performance

5. CONCLUSIONS

The study found out that strategic synergy had a positive statistically significant effect on marketing alliance in MFIs. Sharing risks and expenses, sharing knowledge and skills and effectiveness of strategic partnerships were key contributors of corporate growth in MFIs. In effect, firms taking advantage of strategic partnerships can utilize other company's strengths to make both firms stronger in the long run. Strategic partnerships have the potential to address challenges and opportunities that could not have been handled in the same way outside of a partnership. As a result, managers are challenged to cultivate strategic synergy in their partnerships with other firms.

6. RECOMMENDATIONS

With reference to the findings and conclusions made in this study, the researcher makes policy recommendations which can be adopted for betterment of the micro-financial sectors performance, as explained below. The results on the competition influence on the financial performance of MFIs suggest that competition policy in the financial sector is more complicated than perhaps thought. In part, this may be because financial services industries have been undergoing rapid changes, triggered by deregulation and technological advances. Thus, to ensure competitiveness of the sector, policies should be implemented which foster innovation in the products being offered to the customers, and those that shall ensure fair competition to the young micro finance institutions hence facilitating their growth. Therefore, developing proper competitiveness tests and methodologies will remain an important area of research and policy focus.

7. AREAS FOR FURTHER RESEARCH

The main objective of this study was to establish the effect of marketing alliance on performance of selected MFIs in Rwanda. This study recommends that a further study should be carried out to establish the specific effects of corporate vision on corporate growth. Secondly, further research should be done to examine the effect of strategic management determinants on corporate growth in other industries, sectors and subsectors both in the private and public domain especially on the competitive sectors like the Small and Medium sized Enterprises, the manufacturing sector and the education sector.

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