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RESEARCH PAPER

Strategies for Mitigating the Effects of Crisis in Microfinance Institutions (MFIs) in Ghana

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ABSTRACT

PURPOSE: The purpose of this qualitative, multiple case study was to determine strategies that Ghanaian microfinance managers applied to mitigate the effects of crises and remain sustainable.

DESIGN/METHODOLOGY/APPROACH: Participants included Ghanaian microfinance company (MFC) experts and consultants who were licensed MFCs, had extensive professional experience in an MFC operating in Ghana, possessed five or more years of successful operations within the study period, and possessed comprehensive experience in implementing strategies to mitigate the effects of crises and remain sustainable.

FINDINGS: Five themes emerged from the data analysis: governance, communication, fundraising, cost reduction, and business model strategies. The findings from this study could bring relief to the microfinance industry by enabling MFC leaders to develop strategies that mitigate the effects of crises on families. Small businesses that do not enjoy the services of traditional banks will have increased access to banking services.

PRACTICAL IMPLICATIONS: This study may ensure that sustainable MFIs contribute to the survival of families and small businesses that do not enjoy the services of traditional banks. In addition, crisis mitigation strategies in MFIs might reposition MFIs and prepare prospective institutions to survive potential crises.

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ORIGINALITY/VALUE: The implications of positive social change include the potential mitigation of crisis for successful microfinance management.

KEYWORDS: *Crisis Mitigation Strategies; Crisis Communication; Microfinance Crisis; Team Leadership; Crisis Management*

INTRODUCTION

The Bank of Ghana deregulated the financial services sector in 2011 to allow the establishment of financial institutions to make financial services available to the lower end market and boost the economy. As a financial regulator, the Bank of Ghana determined microfinance services were viable vehicles to provide service to the financially excluded through a sustainable process (Lassoued, 2017). Despite their potential, microfinance companies (MFCs) in Ghana have suffered several crisis situations leading to the collapse of a significant number of prominent institutions (Osei-Fosu and Osei-Fosu, 2017). While some of the institutions ceased operations of their own accord, as the regulator, the Bank of Ghana revoked some institutions' licenses for various reasons, including insolvency, excessive risk-taking, and persistent regulatory breaches (Bank of Ghana, 2019). For example, between 2011 and 2019, more than 489 MFIs in Ghana collapsed, either of their own or were closed by the regulator for one crisis or another (Bank of Ghana, 2019; Chikalipah, 2017). However, some Ghanaian MFCs were able to sustain their operations and protected shareholders' investments.

RESEARCH THRUST

The key research issue investigated in this paper asked what strategies microfinance managers could apply to mitigate the effects of crises to remain sustainable.

RESEARCH METHODS AND LIMITATIONS

A qualitative research method was employed based on the following criteria:

(a) the desire to gain an in-depth understanding of a group of individuals in existing settings;
(b) the ability to develop a complete detailed description of the phenomena under exploration;
(c) the ability to explore and address intangible aspects such as thinking, believing, and reasoning by observation; and
(d) the desire to establish an analytical conclusion based on the findings of this research.

To gather data, the paper used structured interviews and focus groups comprised of Ghanaian MFC experts and consultants who were licensed MFCs, had extensive professional experience in MFCs operating in Ghana, possessed five or more years of successful operations within the period of study, and had comprehensive experience in implementing strategies to mitigate the effects of crises and remain sustainable.

CONCEPTUAL FRAMEWORK

Situational crisis communication theory (SCCT) and the team leadership model (TLM) were the conceptual frameworks applied to this study. The SCCT guidelines entail the adoption of strategic communication with stakeholders to repair an organisation's reputation, reduce adverse effects, and prevent harmful behavioural intentions (Park, 2017). The proponents of TLM emphasised the ability of leadership to diagnose and select the appropriate tools and guidelines to mitigate a crisis.

SITUATIONAL CRISIS COMMUNICATION THEORY

Coombs (2007a) derived the SCCT theory from attribution theory and explained that stakeholder attributions of crisis responsibility have effective and behavioural consequences for an organisation's leadership. The words that management uses and the actions they take affect how people perceive an organisation during a crisis (Coombs, 2007a, 2007b). In turn, those perceptions shape evaluations of organisational reputation, as well as stakeholders' emotional response towards future interactions with the organisation. The proponents of SCCT provided guidelines for matching crisis response strategies to crisis types to best restore organisational reputations in times of crisis. According to SCCT, a crisis consists of four elements that are used to assess its potential threat to the organisation's reputation: crisis type, damage severity, crisis history, and relationship history. There are four response strategies that are useful in post-crisis communication: deny, diminish, rebuild, and reinforce. The response strategies have three objectives relative to protecting reputations: shape attributions of the crisis, change perceptions of the organisation in crisis, and reduce the negative effect generated by the crisis.

TEAM LEADERSHIP MODEL

The team leadership model stemmed from the functional leadership approach by McGrath in 1962 (Northouse, 2016); this emphasised the diagnosis, selection of the appropriate tools, and the guidelines to mitigate the crisis. The main assertion to a functional approach to team leadership is that the leader's main job is to implement what the group requires to remain successful (Marathe *et al*., 2017).

LITERATURE REVIEW

Authors have expressed their thoughts and findings that form the basis and the body of knowledge that underpin the current research. The primary focus in this research, therefore, included discussions on the arguments surrounding crisis management and crisis communication relative to crisis mitigation strategies, and the discourse on leadership during crisis and crisis mitigation strategies.

CRISIS DEFINITION

Crisis connotes a variety of negative situations and experiences of different disciplines and professions. Some researchers suggested there is no consensus in crisis definition (Sarkar and

Osiyevskyy, 2018), while Coombs (2007a) defined crisis as a negative event that leads stakeholders to assess crisis responsibility and evoke sympathy or anger, leading to negative word of mouth. Arora (2020, p.3) described an organisational crisis as unprecedented and inapprehensible developments and events.

CRISIS MANAGEMENT

Crisis management is a critical organisational process that covers pre-crisis, during crisis, and post-crisis activities. Aljuhmani and Emeagwali (2017) described crisis management as the art of making decisions to mitigate the effects of an event or occurrence that threatens the entelechy of goals and could harm the continuous operation of an organisation. In fact, crisis management proliferates many disciplines and, although diverse, there are also similarities in relation to the crisis management strategy steps that have dominated the literature, including (a) signal detection, (b) preparation/prevention-planning, (c) containment/damage control, (d) business recovery, and (e) learning (Stam *et al*., 2018). While Çakar (2018) referred to three main stages of crisis management involving post-crisis response, recovery, and learned lesson stages, Bundy and Pfarrer (2015) emphasised three main phases involving pre-crisis, crisis response, and post-crisis. While there is an appearance of differences regarding the phases and stages, there is some level of consistency in the pre-crisis, during the crisis and post-crisis scenarios. The post-crisis phase concentrates on mitigating the negative effects of the disaster, the acute and chronic phases of the crisis focus on the sustenance and recovery, and the third stage emphasises the pre-crisis phase showing how stakeholders can learn lessons from the devastating results of former crises to be prepared for future events.

CRISIS COMMUNICATION

Communication plays a critical role in crisis effect mitigation, using a combination of activities to both manage information and manage meaning before, during, and after a crisis (Liff and Wahlström, 2018). While there are varying views on how crises are managed, a well-constructed crisis communication strategy for both employees and customers is more likely to overcome the crisis much faster, retrieve the company's threatened reputation, and help to maintain its favourable image during and after a crisis (Brown, 2019). Although crises appear similar, there are no best practices since no two crises are the same; there is no 'one size fits all' in crisis management (Brown, 2019).

The underlying reasoning of the importance of crisis communication could best emanate from the fact that stakeholder's perceptions of the crisis event versus reality influence crisis management (Marynissen and Lauder, 2020). More importantly, the information available to stakeholders plays a major role in the collective engagement of the stakeholders (Steigenberger, 2016). For example, the strategies involved in building a consensus in dealing with the effects of a crisis can only reach the parties through some form of communication (Steigenberger, 2016).

A critical concern in crisis communication is how an organisation can provide adequate, factual and timely information to stakeholders in a crisis to be able to reduce the negative effect of the crisis. Jin *et al*. (2018) explored ethical factors and described ethical communication during a crisis as the discipline of communicating with transparency, responsibility, honesty, accountability, clarity, with full awareness and intention to provide the most complete information possible to the public and to resolve the crisis in a timely manner. Conversely, Kim (2016) asserted that ethical crisis communication would focus on accurate information based on the philosophy that stresses what is right, fair, just, and moral.

CRISIS RESPONSE STRATEGIES

Crisis response strategies require a good analysis of crisis categories. Coombs (2007b) proposed crisis response strategies under primary and secondary categories, while Tasic *et al.* (2020) emphasised the multiple level operationalisation in four phases, including analysing and assessing responses as well as strengthening capabilities. A company will therefore benefit from the secondary response strategies if they have an impressive reputational power bank to fall on. Kriyantono and McKenna (2019) concluded that a company with two crisis clusters should choose the relevant crisis response strategy in accordance with the type of the cluster in the public domain. Therefore, business managers will not only have the responsibility to choose appropriate strategies but will need to ensure ethical dynamics and consistency in their communication to achieve the desired goal.

LEADERSHIP DURING CRISES

Leadership comes under intense pressure during a crisis and often needs to justify their capabilities to handle crisis situations. The leadership role in crisis management is yet to be disputed. From the studies of Alzoubi and Jaaffar (2020) and the proponents of TLM concepts (Firestone, 2020), leaders are responsible for diagnosing any problems that could potentially impede the attainment of group and organisational goals as well as generating and planning appropriate solutions. Bhaduri (2019) stated that each phase of a crisis contains an obstacle that leaders must overcome to improve the structure and operations of an organisation (no matter the size of the economy or organisation), while AlZgool *et al*. (2020) concluded that leaders' emotional intelligence influences workers' performance. Bowers *et al*. (2017) proposed a combination of the element of organisational culture with individual leadership styles to match a given crisis with the best possible crisis response leader.

CRISIS EFFECT MITIGATION

Any sort of crisis has varying effects on organisations and their stakeholders. Crisis leaders will either design mitigation strategies to reduce the probability of the event occurring, reduce the magnitude of associated consequences, or both (Firestone, 2020). In addition, no matter how complicated a crisis appears, a deliberate strategy of adopting at least one significant action involving strategic, technical and structural, evaluation and diagnostic, communication psychological and cultural activities that are inherent in every crisis system could cushion an organisation during a crisis (Bhaduri, 2019). Also, the effect of a crisis can be addressed from preventive, proactive, and reactive perspectives, depending on the phase or stage of the occurrence (Bhaduri, 2019). Crisis mitigation, therefore, cannot happen until organisations purposefully adopt suitable strategies and timing to communicate with and among stakeholders.

RESULTS

The overarching research question for the study was: what strategies do microfinance managers apply in mitigating the effects of crises and remain sustainable?

The emerging themes involved corporate governance, communication with customers, mobilisation of funds, control of expenditure, and business model definition.

Emergent Theme 1: Governance Strategies

Corporate governance structures of microfinance play a critical role in the survival of an organisation. The sub-themes that emerged from the study include adherence to corporate governance principles, board and management skillsets, and leadership presence. These sub-themes resonate with the team leadership conceptual framework and the crisis management dynamics literature.

Compliance with Governance Structures: The importance of leadership establishing the framework and regulatory compliance during a crisis is, therefore, not in doubt. Both owner-managers and consultants mentioned that given the crisis did not happen overnight, the governance structures supported their institutions. Consequently, adopting good governance practices in crisis is indeed critical, especially in a regulatory crisis when the survival of an institution rests not only in the hands of customers but also the regulator.

Leadership skillset advantages: The ability of an MFI leadership to manage the effects of a crisis depends on the calibre of the board and key management personnel. We determined that competent boards and management personnel having the requisite skillsets were able to mitigate the effect of a crisis. The skills include legal, fundraising, information technology, public relations, regulatory knowledge, microfinance business model, governance and board operations, as well as financial management. Many participants emphasised the need for a well-informed board who are committed to the course of the MFI, while several participants intimated the need to also develop new skillsets of their remaining staff to survive the crisis. From the study, the teams needed specific skills at certain times of their businesses that the team leaders outsourced or developed internally, such as collection officers. Alzoubi and Jaaffar (2020) and Bartsch *et al.* (2020) identified that crisis leadership requires specific competencies and strategic management, while others (e.g., Bundy and Pfarrer, 2015) found that the skill, trait, and capabilities of a leader play a significant role on the crisis effect mitigation process. Consequently, selecting competent board members and key management was identified as a key strategy in mitigating the effect of the crisis in MFIs.

Leadership presence strategy: The paper determined that leadership presence and availability in an organisation during a crisis play a significant role in reducing the effect of a crisis in MFCs. While approximately half the focus group participants emphasised leadership-client engagement, the majority of MFC managers stressed the physical presence, strategic direction, and exemplary disposition. Different authors endorsed the importance of leadership style, trait, calm, and the need to be present in dealing with crisis effects (König *et al*., 2020). These characteristics played significant roles in the crisis mitigation, including strategic direction and motivation to employees as demonstrated by the owner-managers.

Emergent Theme 2: Communication Strategies

One important strategy that permeated the conversation with the various owner-managers and focus group members was how management communicates with staff and how management and staff team up to communicate with external customers. With respect to communication, five subthemes emerged: customer engagement, transparent communication, client advocacy, negotiation, and prompt payment.

Customer engagement: From a focus group perspective, members mentioned the need to engage their customers as much as possible to reduce panic withdrawals and the stress on the business; all owner-managers adopted a diverse form of interaction during their respective crisis seasons. Customer engagement involves the connection between a customer and an organisation to the extent of creating satisfaction, commitment, trust, and loyalty that result in a positive reaction towards the organisation (Seraphin, 2021). From the experiences of the consultants and MFC owner-managers, visits and telephone calls prevented adverse reactions from aggrieved customers. Engaging both internal and external stakeholders, therefore, confirms Coombs' (2007a) communication strategy in reducing the adverse reaction of customers during crises in MFIs.

Client advocacy: Another sub-theme that emerged from owner-managers' responses was client advocacy. Approximately two-thirds of managers interviewed referred 10 times to an intervention. They identified that customers played a significant role by speaking to other aggrieved customers on their behalf, thereby contributing to their survival during the crisis. Consequently, in cases where management was able to engage customers and clients convincingly, some customers then assumed the role of advocate for the crisis-stricken institutions. Both customers and managers adopted the concept of telling others of the 'good old days' of an institution in crisis to help reduce the effect of the crisis. Sweeney *et al*. (2020) established that, in most cases, a third-party source of information is more acceptable as creditable and incites more supportive behaviour than organisational spokespersons. Shah and Khan (2021) also proposed that intentionally creating advocates may represent a good investment given the power of word-of-mouth on financial services marketing.

Transparent communication: Transparent communication was another important crisis mitigation strategy. Participants admitted they adopted open and honest discussion regarding their inability to honour their repayment obligations to customers. A3 provided a notice indicating that the loan applications they received could only be processed after three months, and management placed an announcement in the customer area so the loan customers were not left in the dark about the process. In the focus group perspective, several focus group members raised the point of transparent communication during a crisis. They suggested managers must demonstrate a realistic and open approach with depositors and regulators to reduce the effect of crisis on the organisation. Paixão *et al*. (2020), Boman and Schneider (2021), as well as Eldridge *et al*. (2020) emphasised the right-to-know and honesty are vital for successful recovery strategies.

Negotiation: Both the owner-managers and microfinance consultants referred to strategic payment negotiations eight times in the study. The successful managers and business consultants assumed full responsibility of the crisis and resorted to negotiation of payment terms when timely payment became an illusion in their operations during the crisis. Negotiation is an inherent human phenomenon that helps in a settlement in critical situations (Doern, 2021; Thorgren and Williams, 2020). Northouse (2016) listed negotiations as a critical external leadership action towards team effectiveness; this becomes even more important in times of a crisis.

Prompt payment: Promptness in taking steps to meet customers' needs came out strongly in mitigating the effect of crisis management in a microfinance crisis. The managers who experienced panic withdrawals admitted that prompt payment of depositors' funds was able to instil confidence in customers and reduced the effect of panic amongst depositors. The run on banks and financial institutions normally stemmed from fears that depositors may lose their money, either in full or part. Since more than 400 financial institutions were closed in Ghana between 2011 and 2019, the impact of non-payment of deposits was sufficient to turn communities against their preferred financial service provider. To manage those circumstances, there was no better remedy than making prompt payments to instil confidence in depositors. The logic in the timing of a crisis response was therefore critical in managing the crisis (Im *et al*., 2021). Huang and DiStaso (2020) concluded that the effect of response timing on organisational trust was mediated by perceived credibility of the crisis response. In crisis situations, therefore, especially where perceptions drive reactions, the effect of promptness could not be underestimated. In this study, we confirmed prompt action could prevent an escalation of a panic withdrawal crisis.

Emergent Theme 3: Fundraising Strategy

Participant interviews and focus group discussion referred to fundraising activities as deposit mobilisation, capital injection, and loan recovery; these were mentioned 91 times in the study. The detailed activities that the MFCs undertook involved injecting fresh capital alongside deposit mobilisation and intensified loan recovery.

Capital injection: Both groups admitted that capital injection from shareholders was critical in a liquidity crisis and panic withdrawal, while the possibility of raising debt facilities were not omitted. While some managers sold their assets, others introduced new shareholders to raise additional capital. Debt financing opportunities were explored where, having reviewed the terms and conditions, the Board of Directors needed to approve to support their operations. For example, Soenen and Vander Vennet (2020) confirmed that capital provides a buffer to absorb operational losses and ensures solvency in adverse conditions. The ability of owner-managers to pull in fresh capital during crises to support the operations of the microfinance business could undeniably sustain the business when there were no other regulatory barriers. Therefore, the ability of an MFI to survive a financial crisis requires a sound capital base and mix.

Intensive loan recovery: Loans granted to customers in the financial intermediation process are the major cash outlay in MFCs. Having realised the implications of non-performing loans on their businesses, managers took steps to intensify loan recovery to improve liquidity situations. Mia *et al*. (2019) identified that repayment default was identified as a cause of MFI failure; however, the literature related to the intensive loan recovery process as a crisis mitigation strategy was not evident. In this study, all managers interviewed referred to intensive loan recovery processes led by senior management. In fact, loan recovery represented the most referred to strategy in this study.

Beyond the institutional employees, some manages also involved institutional law enforcement agencies to retrieve collateral and enforce the repayment of the loans.

Emergent Theme 4: Cost Reduction Strategies

Three of the six owner-managers admitted to using cost reduction strategies involving the reduction of staff number and emoluments, closure of branches, and restructuring of deposit products aimed at reducing interest expense. Although the focus group agreed on cost reduction strategies, they warned such steps could frustrate growth potential. However, cost cutting activities could prevent organisations' leaders from implementing repositioning strategies, weaken the business's competitiveness and reduce its economic stability. They suggested countercyclical investments in technology and innovation, new products, processes, new markets, and new customers that would strengthen the company and allow them to be more competitive in achieving sustainability.

Emergent Theme 5: Business Model Strategies

The last crisis effect mitigation identified was the business model definition strategies. Both individual participants and focus group members outlined collaborative activities to repackage deposit products and redefine target markets. The idea of taking steps to remodel or restructure operations is critical in mitigating the impact of crises. Firms that explore new market prospects and adapt their business model in the face of emerging threats could be better positioned to subsist business pressures and ensure long-term success (Saebi et *al*., 2017). Most managers who survived an MFI crisis re-defined their value propositions and profitable business partners. Consequently, the inability to adopt an appropriate business model could spell doom for an enterprise. When considering repackaging deposit products, some participants ceased on-demand deposit products while other participants structured their deposits to ensure a longer term commitment.

In addition, other participants renegotiated existing fixed deposits for lower interest rates and longer maturity dates. Successful managers, therefore, remodelled their MFC operations to survive the crisis effects.

A summary of the various strategies adopted by participants in this study are listed in Figure 1.

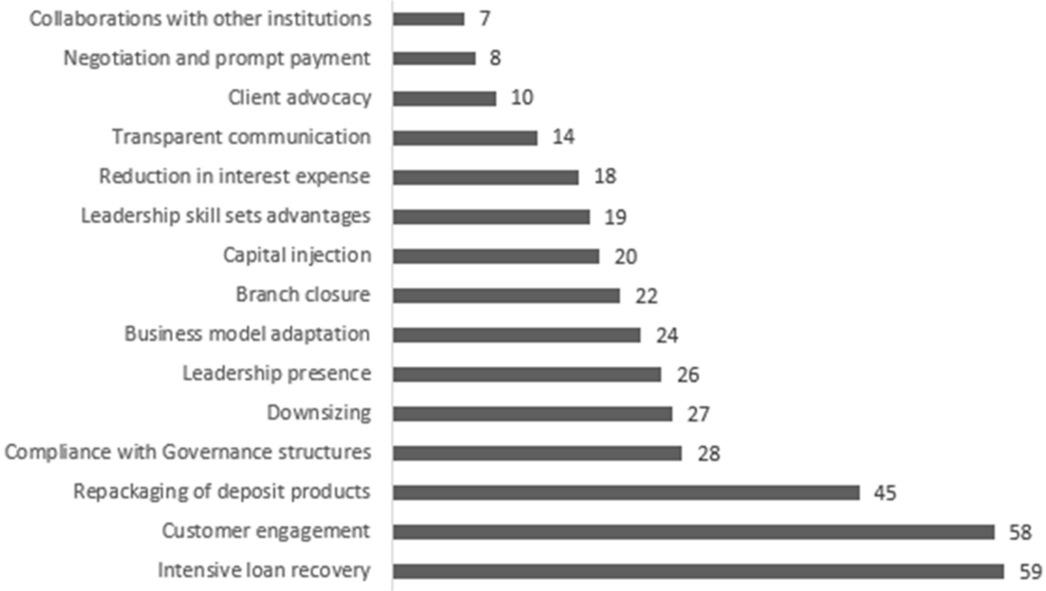

Figure 1: Summary of Various Strategies Owner Managers of Microfinance Companies Adopted to Mitigate the Effect of the Crisis from the Research

Source: Ahiafor (2019)

DISCUSSION

Applications to Professional Practice

The effect of a financial crisis can be disastrous, not only on institutional shareholders and regulators, but also on the entire financial services sector of an economy. Undoubtedly, crises disrupt organisational operations and damage reputations; there is no protection for any microfinance company against such a crisis, whether regulator or customer driven. Leadership should ensure presence and good composure during crises, monitor the company's activities, and, where appropriate, take corrective steps, including adopting crisis communication strategies and creating an atmosphere for win-win solutions. Furthermore, leadership needs to diagnose existing funding sources. They should also review business models and re-align the business approach to reflect a changing environment in order to remain sustainable.

Recommendations for Further Research

Future research could expand the number of cases to involve more successful MFI institutions to include rural banks, savings and loans companies, finance houses, microcredit, and small savings collectors since the experiences of other MFIs might bring different perspectives on crisis effect mitigation. Additionally, future research could reflect a more inclusive diversity of management positions to include employees who adopted localised strategies to mitigate pressure from customers. Since microfinance crises are varied in nature and companies experience an identity crisis or mission drift crisis, future studies could explore specific crisis types to allow in-depth investigations and analysis of the relevant approach to gain a greater understanding of the crisis phenomena.

CONCLUSIONS

Although MFI failure rates continued to surge between 2011 and 2019, some MFIs survived the crisis. In this study, we determined that the owner-managers who survived the microfinance crisis in Ghana focused on their governance structures, the skillsets of their human resources, and the availability of their leadership to manage during the crisis. Successful MFIs had leadership that adopted crisis communication strategies, engaged customers, used client advocacy strategies, implemented transparent communications, negotiated, and delivered prompt payments to repair their organisational image. In addition, owner-managers further engaged in strategic fund-raising activities to inject additional capital, used special deposit mobilisation, and implemented aggressive loan recovery tactics to remain sustainable during a crises.

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