# STRATEGIC ALLIANCE PORTFOLIO DIVERSITY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

**ESTHER YOM MANGAR**

**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2017**

# DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature ……………………………………..      Date ……………………….

**Esther Yom Mangar**

**D61/74712/2014**

This research project has been submitted for examination with my approval as university supervisor.

Signature …………………………………….. Date ……………………….

**PROF. J. M.MUNYOKI**

**School of Business**

**University of Nairobi**

# DEDICATION

I am dedicating this research work to my loving husband, for his endless support and encouragement during the period of research work and to my children who understood the reason why I was not available during the research time.

# ACKNOWLEDGEMENT

First and foremost I would like to thank God for bringing me this far I would like to give my sincere gratitude to my supervisor Prof J. Munyoki for his guidance and assistance in the course of doing this research, I acknowledge his support and thank him for it.

My appreciation also goes to my family who gave me humble time to carry out this research work.

# ABSTRACT

Establishment of an appropriate level of diversity in an alliance portfolio has emerged as an important issue for managers if they have to steer business units in the unpredictable operating environment. This implies that firms that wish to leverage their competitive advantages through cooperation with other firms pursue strategic alliances as one of the viable options since it has been argued that a firm competitiveness level is influenced by the alliance that it forms. However, alliance formation among firms should generate the necessary synergy and towards this end, the diversity of the portfolio partners comes out prominently. The research aimed at establishing the relationship between strategic alliance portfolio diversity on firm performance of commercial banks in Kenya. Specifically, the portfolio diversity practices investigated include embeddedness, reciprocity and status similarity. The study adopted a cross-sectional descriptive survey design with the population of the study being the 42 commercial banks operating in Kenya. Primary data was collected using semi-structured questionnaire. The findings were that the bank embeddedness reduced the level of information asymmetry among the partners and consequently enabling the alliance bank partners to create a common problem solving approaches. The findings had that reciprocity among the banks is manifested by their willingness to share proprietary knowledge among the alliance partners to limit their tendencies to pursue opportunistic behaviour. The findings also show that alliance portfolio characteristics are significant moderators of the alliance portfolio diversity-performance relationship. Reciprocity positively moderates the relationship while status similarity is expectedly found to positively moderate this focal relationship. The study concludes that strategic alliance portfolio diversity practice is much necessary in any organization for better functioning of all of its categories and makes effective management of commercial banks.

# TABLE OF CONTENTS

# LIST OF TABLES

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Over the last two decades, the business environment and the consumer market demands have been changing at unprecedented rate. With these changes; there has been need for firms to establish full solutions rather than individual products or services. One of the ways in which firms respond to the market demands is to establish, inter-firm collaboration has become an essential component in the pursuit of firm competitive advantage (Grant & Baden-Fuller, 2012). The efficient management of organizational alliances creates pooling together of resources among the firms which to create a synergy and therefore becoming an integral part of competitive advantage and vital to the success of the business firm. Alliancing between organizations implies that some activities are divided up among the parties to the partnership and the distribution of right among the partners is a central factor in the alliance governance because it affects the possibilities for each partner to control the performance of activities within the boundaries of the relationship. Maguire and Philips (2010) point that when entering an alliance; each organization provides some of its rights and benefits others through either explicit or implicit contracts.

This study was anchored on the resource based theory and stakeholder theory. The resource based theory suggests that capabilities are an important contributor to organizational performance and that firms possess bundles of resources and capabilities that they combine in unique ways to generate superior performance (Barney,1991). Some strategy scholars have suggested that strategic alliance between firms is one such important capability (Alvarez & Busenitz, 2011; Teng, 2007) and that for banks; strategic alliance provides oneof the key capabilities for building an advantage. On the other hand, the stakeholder theory posits that organizations possess both internal and external stakeholders. Internal stakeholders such as employees are central to the realisation of the organization objectives since they participate in the operation of business. The attitudes of employees and support of corporate actions would be of critical interest to the management because employees are the success of organization (Spitzeck& Hansen, 2010). Similarly, external stakeholders such the customers, government and trade unions are important partners to the realisation of its goals.

Kenyan commercial banks have increasingly faced competition among themselves and mobile phone firms that have encroached to their traditional line of business such as settlement of payments and government capping of interest rates. In addition, the customers have become more enlightened and therefore aware of the availability of different options that they can transact without necessarily visiting the bank. Further, in recognition of the important role that commercial banks play in a country's' economy, there is need to determine all forms of strategies that need to be adopted and that will lead to an improvement of their performance. One such strategy that can be pursued is the forming of strategic alliance with other banks or non-bank actors. However, it is not enough to establish such a relationship but rather, a portfolio of alliances that will lead to the formation of optimum synergy. The benefits to the banks that might arise as a result of the firms'alliances include increased legitimacy, enhanced stability, and reduced risk (Cowan & Jonard, 2009). In addition, partnering with multiple firms can "provide a superior means to accessor acquire capabilities" and knowledge that firms cannot develop internally (Sampson,2007).

### 1.1.1 Concept of Strategic Alliance

Strategic alliances are cooperative agreements between firms involving exchange, sharing, or co-development of products, technologies, or services (Gulati, 1998). Norris-Tirell and Clay (2010) define strategic alliance as an intentional collective approach to address problems or issues through building of shared knowledge, designing innovative solutions and forging consequential change. Alliances building facilitate the sharing of information among firms on the best practices and other knowledge, to collaborate on joint problems, and to develop joint competencies. However, a new strand of study has been the realisation that it is not enough to just develop an alliance for increased organization performance but rather there is need to establish the optimal level of alliance portfolio diversity since it is seen as a driver of the type and extent of knowledge transferred and overall firm performance of the firms in the alliance (Vasudeva & Anand, 2012).

Ahuja (2010) highlight that alliance partners with similar knowledge enjoy greater success in learning, innovation, and performance because partner homogeneity may reduce conflict, facilitate knowledge sharing and assimilation, and enhance trust. This is because as the similarities increase, partners are more likely to share knowledge andto improve their innovation performance (Darr & Kurtzberg, 2009). Alliance formation assist firms to intercept the technology of another firm as well as closing the skill gaps faster compared to internal development. Strategic collaboration includes various types of collaboration ranging from low involvement, funding relationships all the way to high involvement, equity joint ventures.

Sarkar, Aulakh, and Madhok (2009) highlight the importance of firms forming alliances and suggest that though organization alliances offer the same benefits, not all firms benefit equally from alliance partnerships. Therefore, there is need to focus on alliance portfolio diversity as a driver of firm performance. In the collaboration between western firms and Asian firms, for example, the Western firms have technology to transfer while the Asian firms more often have competence. Therefore, for successful strategic alliance, SMEs need to hone their skills of finding strategic partners and understanding the contextual factors like competition, market situation, and existing knowledge base that will govern the relationship (Lambellet., 2008).

### 1.1.2 Concept of Portfolio Diversity

Portfolio diversity has been defined as is the extent of difference in a firm's alliance partners, functional scopes, and authority or governance structures (Jiang *et al*., 2010). The argument is that business partners having disparate knowledge, perspectives, technologies, and experiences can potentially learn more from each other, have a broader perspective, and be more innovative and creative, a process that will result in better performance than firms with more homogenous alliance portfolios. Homogenous partners are less able to take advantage of new opportunities and to generate innovative ideas and new capabilities because they share similar knowledge and resources which may be limiting (Hitt *et al*., 2011). Industry-related diversity is an important way to achieve technology transfer among the firms as well as a primary mechanism to successfully enter new market.

Alliance portfolio diversity has been operationalized as the need for heterogeneity of alliance type, technical knowledge, industry gel and partner nationality (Koka & Prescott, 2008). However, studies have shown both positive and negative effects of partner alliances in the sense that, while for example, Beckman and Haunschild (2012) found positive effects and attributed this to improvement in information accuracy and in innovativeness and creativity resulting from diverse knowledge. Goerzen and Beamish (2005) found that diversity, beyond very low or moderate levels, contributed to poorer performance and attributed this to coordination and integration costs that outweighed the benefits of diversity.

### 1.1.3 Firm Performance

The concept organizational performance has received varied definitions from different scholars and management practitioners because of what the term performance means to different organizations, be they public or private. Performance provides the basis for an organization to assess how well it is progressing towards predetermined objectives, identify areas of strength and weakness and deciding on how future initiatives are to be undertaken (Van Weele, 2006). Organizational performance includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target. A firms' performance measurement is done against expectations set earlier and is monitored, evaluated and recorded over time. From the feedbacks generated from time to time, the firm will be able to undertake corrective action and continuous improvement on the set targets. The performance of business units and functional areas in any business will affect the overall firm performance. Indeed, the allocation of resources in order to achieve business objectives in an organization is based on the expected results from the business units which will cumulatively determine overall performance of the firm (Chen & Paulraj, 2014).

Gibson *et al.,* (2010) are of the view that organizational performance is the final achievement of an organization and relates to the realization of set targets, has a period of time in achieving these targets and involve and an operating system that incorporates higher level of efficiency and effectiveness. Thus, organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. On his part, VanWeele (2016) suggests that organizational performance is the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. Qualitative measures can be considered under outcomes which have affective (satisfaction, commitment, turnover, role conflict and group social integration), cognitive (innovation, range of perspective, number and quality of ideas) symbolic (behavior of lower level employees) and communication (communication with group members) consequences.

The common measures of organizational performance for profit oriented firms are profits (or net income), return on investment and return on shareholder equity. The non-financial measures that are commonly used include public image and goodwill, quality of services and efficiency of operations. Kaplan and Norton (1996) developed the balanced score card as an integrated performance tool that assesses the performance of a firm from four different perspectives that include both financial and non-financial measures.

### 1.1.4 Commercial Banks in Kenya

A commercial bank is a financial institution that accepts deposits, making business loans, and offering basic investment products (Brooks, 2008). According to CBK (2016) there are forty one commercial banks operating in Kenya. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. Kenya’s financial landscape has considerably changed over the period 2006-2016 and the financial sector has grown in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' products. Among these innovations include moving from the traditional decentralized banking to one branch banking that has been enabled by integration of various business functions.

The CBK (2016) annual supervision report emphasizes that the financial institutions will need to cope continuously with changing business environment and a continuous flood of new requirements via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever (CBK, 2014).The banking industry in Kenya has found it necessary to embrace business integration as one way of responding to the changing needs of the customers. Contemporary customers have become more informed and require efficient and faster service delivery than before. Nyaoke (2015) indicates that there are several challenges that are encountered by the banking industry in Kenya such as money laundering, but such kind of challenges are easily overcome once banks embrace integration since various departments are able to share real time information. In a country where the financial sector is dominated by commercial banks, any failure in the sector has an immense implication on the economic growth of the country. This is due to the fact that any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations. Despite the banking industry's good performance in Kenya, there are a couple of banks declaring losses.

## 1.2 Research Problem

Strategic alliances is concerned with the embeddedness of exchanges between two independent firms who are looking for mutual benefits through collaborative partnerships to develop and to commercialise new products, processes, technologies, or services. This implies that firms that wish to leverage their competitive advantages through cooperation with other firms pursue strategic alliances as one of the viable options (Kale & Singh, 2012). Arend (2016) assert that strategic alliances improve the competitive position of a firm and enhance their survival rate implying that superior performance may work with how well firms extract alliances-related benefits. However, there is need not only for firms to form alliances without considering the differentiation capabilities of the different firms, but also the diversity of the alliance partners. However, Park and Ungson (2011) highlight that between 30% and 70% of strategic alliances do not match expectations of the partner firms and this is attributedto a non-alignment of the firms' interest. Therefore, there is need for strategic partners to first determine portfolio diversity of the alliance partners before entering into any collaboration (Elmuti & Kathawala, 2011).

Several studies have been done both locally and internationally on the aspect of organization strategic alliances. Cardilohn (2005) researched on collaborative commerce in Ho Chi Minh City and found that for firms struggling with inefficient practices forming alliances with other cities in the developed countries is one of the strategies that they can pursue to improve their service delivery. Though the study delved into alliance formation and its benefits, it did not consider the diversity of the alliance partners. Mohammed and Bilkis (2010) researched on inter-firm value creation: conceptualizing for the success and sustainability of strategic collaboration. The findings were that inter-firm value creation requires proper implementation of value creating methods such as information sharing, electronic collaboration, joint programs and joint cost management. Kathuria, Porth, Kathuria, and

Kohli (2010) while researching on firm alliances formation among Indian firms found that quality and delivery of services to be highly emphasised.

Locally, Chepsiror (2016) researched on the role of inter-organizational strategic alliance as a source of competitiveness among the major seed companies in Kenya and found that strategic alliance among the seed companies maximizes profit, reduce uncertainties of company internal structures and external environments as well as enlarge their market share. On his part, Kimani (2016) researched on the strategic collaboration and performance of small and medium enterprises in Nairobi central business district. The findings were that collaboration between the SMEs and other organizations was influenced by conflict resolution mechanisms between partners, partner resources, mutual trust and level of commitment of partners.

From the above studies, it can be concluded that the studies have focused on inert-firm alliances without giving attention to the diversity of the firms' portfolio. Further, while the existing body of research that investigated the relationship between alliance portfolio diversity and firm performance provided interesting insights, the limited and conflicting empirical evidence suggested that there are important moderators of the diversity-performance relationship that have not been studied. The existing research gap in this regard provides motivation for the current study. This therefore seeks to determine how strategic alliance portfolio diversity affects performance of commercial banks in Kenya.

**1.3 Research Objectives**

i. To determine the extent to which strategic alliance portfolio diversity is practiced among commercial banks in Kenya
ii. To determine the effect of strategic alliance portfolio diversity on firm performance of commercial banks in Kenya

### 1.4 Value of the Study

The study will influence policy makers, management practice, and academic decisions. From the study, the policy makers in the government, especially the National Treasury and regulatory authorities such as the Central Bank of Kenya (CBK), Capital Markets Authority (CMA) will be able to derive benefit from the study in the sense that the inter-organizational alliances will be able to be discussed in more detail and how they affect the bank performance will be explored. From the findings, the regulatory authorities will be able to be informed before sanctioning mergers or acquisition among the banks and other financial intermediaries. The study will advise on how alliances portfolio will enhance the level of competitiveness of firms and from the same suggest how the government can improve the process to the advantage of the players in the sector.

The findings of the study will benefit the management of the Kenyan banks and other organizations in the sector who will understand the influence of the need to diversify their alliances portfolios and its importance in improving a firm's performance and make the necessary adjustments to maintain the competitive advantage. Different cost-effective methods of achieving inter-organizational alliance will be discussed and therefore benefit the management in making the optimal decision on the firm connectivity process.

Scholars will find it necessary as the study will increase the body of knowledge in this area. Those carrying out research similar to this study will be able to get information concerning the importance of inter-organizational information system to organizations. For the academicians, this study will form the foundation upon which other related and replicated studies can be based on. Further, building on the RBV is theorized that since banks face a liability of foreignness when they expand abroad on their own, greater alliance formation will have higher international performance.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter reviews the relevant literature available on the concept of portfolio diversity alliance and performance. It covers the theories underpinning the study, discusses the characteristics of portfolio diversity and finally discusses the effect of portfolio diversity on firm performance.

## 2.2 Theoretical Foundation of the Study

This study discussed on resource based view theory and stakeholder theory and how they relate to strategic collaboration and performance.

### 2.2.1 The Resource Based View

Resource-Based View recognizes that the fundamental drivers to firms' competitive advantage and superior performance are attributes to the resources and capabilities which reside in the organization and are valuable and costly-to-copy (Peteraf& Bergen, 2003). According to Barney (1991), for a resource residing in a firm to be a source of competitiveness, then it needs to be unique and the combination of different organization uniqueness through formation of an alliance will create much higher level of competitiveness. On the basis that strategic resources are heterogeneously distributed across different firms and that these differences are stable overtime, then the pooling together of these unique resources among the alliance partners will create a synergy. The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (White &Lui, 2015).

Rumelt (2004) assert that an inter-industry difference in profits exceed intra-industry differences in profits and strongly suggests the importance of resources versus industry effects. From the perspective of firm internal organization, it is noted that when firms possess very rare and imitable resources, they can achieve sustainable competitive advantage by implementing fresh value-creating strategies that competing firms will bring on board. Further, in the alliance formation strategy, a firm can extend its knowledge base by taking ownership of another firm with a remotely related business as well as enhance its established knowledge by entering into an alliance with a firm that is closely related closely related in operations (Ahuja &Katila, 2001). It is expected therefore that a firm’s performance will vary with the configuration of alliance formation and across the internal organization, alliance, and acquisition modes.

Artzand Brush (2010) highlight that the act of reciprocity in an alliance portfolio is argued to affect the relationship between alliance portfolio diversity and firm performance in the sense that a firm that violates norms can be collectively punished by numerous alliance partners or selectively punished by individual firms. This action causes partnering firms to concentrate activities that improve the alliance-firm relationships and in the process discourage self-serving behaviors. Thus, firms are more willing to share proprietary knowledge, invest in alliance specific assets, and engage in joint activities to integrate knowledge. Therefore as Barney (1991) opine, the basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature and the more diverse these capabilities are, the higher the level of competitiveness.

### 2.2.2 Stakeholder Theory

Stakeholder theory was advanced by Freeman (1994) and suggests that firms possess both explicit and implicit contracts with various constituents and are responsible for honouring all contracts if it has to realise its objectives. Consequently, the capacity of firm to manage organizational relationships is a firm's very important resource which in absence of the same, it cannot acquire the supplies it needs, solve customer problems and generate revenue. As recognized by Hsiao, Tsai, & Lee (2012) in today's competitive environments firms should increasingly focus on the creation of valuable knowledge to remain competitive and because a single firm has limited set of resources in its possession to create such knowledge, it is imperative that it develops appropriate alliances with other firms to leverage on each other's strengths. Therefore, it may benefit from collaborating with other actors to create unique knowledge during the innovation process, for example.

Wang (2006) argues that every legitimate organization that participate in the activities of a firm do so to obtain benefits and that for optimal results to be obtained from an alliance, for example, a firm should only enter into a collaboration venture with partners that will increase the relationship synergy. To analyse its stakeholders, Johnson (2010) assert that a firm should be able to identify clear the type of stakeholders to enter into an alliance,their interests in the business or project, support required from them, risks associated with them, their attitudes and actions required to address the their needs .

In a subsequent step, rather than only acknowledging stakeholder needs, firms increasingly involve multiple stakeholders in their decision making process (Waligo*et al*., 2014).Stakeholders alliance have become critical partners of driving the adoption new market demands and also seeing stakeholder integration as a fundamental right of those stakeholders. However, in recent years, firms have realized that stakeholder integration may benefit the firm in a more active way where empowered stakeholders are potential sources of unique knowledge during the innovation process. The manager's job is to keep the support of all of these groups, balancing their interests, while making the organization a place where stakeholder interests can be maximized over time. External stakeholders can indeed be considered as valuable knowledge resources for a firm (Garcia-Castro & Aguilera, 2014). By co-creating with these specific stakeholders, a firm can gain access to very specific resources that would be otherwise unattainable. Even if a firm has the financial assets to invest in a wide range of resources, some resources are not readily available through market transactions. Access to such resources during the alliance will help in building up exploitative and exploratory knowledge.

### 2.3 Portfolio Diversity Characteristics

Business firms are expected to benefit from portfolio diversity since in the initial stages, diversity results in increased benefits as alliance become diverse and this benefit will be more when the alliance partnerships are marked by frequent and intense interactions (White & Lui, 2015). Therefore, certain alliance portfolio characteristics are noted to moderate the effect of portfolio diversity and firm performance. Embeddedness, the extent to which exchanges between partnering firms are shaped by social relations, directly influences the amount and quality of knowledge available via these partnerships. The common features of portfolio diversity that influence firm performance are the degree of embeddedness, reciprocity and extent of status of similarity.

#### 2.3.1 Reciprocity

Firm-to-firm embeddedness facilitates reciprocity in which firms will act in a way that is consistent with expectations while not receiving any direct benefit in return. According to

Uzzi, B., & Gillespie, J. J. (2012), reciprocity is the act in which partnering firms make "quid pro quo exchanges within the group" (p. 449). If reciprocity exists, the risk of opportunistic behavior is lowered significantly, coordination costs are reduced, and the likelihood of cooperation is enhanced. In an environment where parties in an alliance, violate an existing partnership norm, other firms have a reciprocal retaliation right to demand payment of injuriousor otherwise undesired acts by one partner. This means that opportunistic behavior by one party in the alliance can be met by opportunistic behavior by the other party in the contract. Similarly, cooperation can be met with cooperation. Reciprocity increases a firm's willingness to incur short-term disadvantages since they are confident that future opportunities to recoup any concessions will result (Uzzi, 2006).

The level of reciprocity in a portfolio is found to moderatethe relationship between alliance portfolio diversity and firm performance. This is because as Parkhe (2003) noted a firm that violates norms can be collectively punished by numerous portfolio partners or selectively punished by individual firms and this tends to streamline operations of the partnership. The possibility of reciprocal behavior causes partnering firms to focus on actions that enhance relationships and discourage self-serving behaviors (Artz& Brush, 2000). Thus, portfolio firms are more willing to share proprietary knowledge, invest in alliance specific assets, and engage in joint activities to integrate knowledge. Thus, fear of damaging the firm's reputation is often a motivating factor to abide by reciprocity expectations.

### 2.3.2 Status Similarity

A portfolio partners tend to pursue partnership that differ in some dimensions, but are similar in others. Differences in technologies, knowledge andother capabilities between organizations can provide complementarities that create significant value (Hamel, Doz, &Prahalad, 2009). With increased diversity among partner firms, it becomes difficult to realize increased synergy because of communication and coordination difficulties. As a result, firms have a tendency to also seek partners who are similar on some dimensions, as these similarities encourage social bonding, build trust and facilitate knowledge sharing. Thus, portfolio are most successful when partners possess some complementary resources and capabilities, yet are similar enough to facilitate the social bonding necessary for effective coordination (Kim & Higgins, 2014). A firm status refers to the ability to exercise power and influence over other partners and this is determined by patterns of affiliations and previous exchanges that exist and how potential partners view a firm’s capabilities, quality, and reputation (Swaminathan & Moorman 2009). However, there exist moral hazards that arise out of the partner relationship.

According to Gulati and Sytch (2007), there might arise opportunistic behaviour whereby a partner, for example, steal a partner technology and this makes alliance formation risky. Despite the challenge, one of the ways to alleviate these threats is through the development of close ties, because extensive relations promote trust. Through the development of close ties, partner firms are able to allow firms to deeply understand each other’s capabilities and thereby develop shared norms, evaluation processes, and knowledge sharing routines. Extensive relations between portfolio partners encourage each party to commit significant relationship-specific investments that only have value if a productive relationship between the parties is maintained. Close ties also promote joint problem-solving and the transfer of detailed knowledge.

Chung, Singh and Lee (2010) opine that partnering firms of similar status creates close relationship that can enhance trust, facilitate knowledge sharing and moderate the portfolio diversity-performance relationship. In the case of the high-status firms, they tend to be very selective in their choice of partners, as their status, reputation, and performance can suffer greatly from affiliations from disreputable partners. Consequently,  high-status firms tend to form alliance with firms of similarly high status and this has been attributed to the fact that firms of similar status assume that knowledge acquired is accurate and relevant, encouraging more exchanges of more fine-grained knowledge, depends further the partner ties. On the other side, knowledge from firms with a lower status position is frequently less trusted and valued by other firms (Westphal & Zajac, 2014). Status similarity also lessens the power differential between partners and promotes mutual dependence meaning that the action of one partner is increasingly influenced by the actions of the other.

### 2.4 Effect of Portfolio Diversity of Firm Performance

The debate on the nature of portfolio partners has been varied. Ahuja (2010) posit that, portfolio partners with similar knowledge enjoy greater success in learning, innovation, and performance than those with diverse knowledge. The argument is that partner homogeneity reduces conflict, enhance trust, and facilitate knowledge sharing and assimilation. Some research on individual alliances has provided support for this perspective, finding that as similarities increase, partners are more likely to share knowledge and to improve their innovation performance. However, Hitt, Bierman, Shimizu & Kochhar (2011) are of the view that homogenous partners may be less able to take advantage of new opportunities and to generate innovative ideas and new capabilities because sharing similar knowledge and resources may be limiting. Portfolio partners having varied knowledge, perspectives, technologies, and experiences can potentially learn more from each other, have a broader perspective, and be more innovative and creative, resulting in better performance than firms with more homogenous portfolios. These arguments have also been confirmed by empirical research that found that firms with a wide range of partners outperform those with more homogenous portfolio partners(Baum et al., 2000).

Rodan and Galunic (2014) point out that as the number of portfolio diversity  increase, firms should experience improved performance due to the benefit of having access to complementary stocks of knowledge. This knowledge can be combined in meaningful ways witha firm's existing knowledge, enabling the firm to capture new operational efficiencies, redesign their products and processes, and enhance product/service features. However, the relationship is expected to eventually become negative as the knowledge acquired via the portfolio of alliances becomes so diverse that it is increasingly difficult for partners to communicate and combine their knowledge and capabilities.

Jiang *et al.,* (2010) note that diversified portfolios facilitate sharing between firms by establishing communication conduits that led to effective interactions between partnering firms to share best practices and other knowledge, to collaborate on joint problems, and to develop joint competencies. In addition, knowledge gained from portfolio partners can enhance firm performance by increasing innovativeness and adaptability and by helping firms to recognize new opportunities.

Diversified firm portfolios have become an important key in firm performance. The strategic collaboration of a firm enables creation of improved efficiencies by minimizing the performance of superfluous work and promoting effectiveness (Ellram, 2008). In the practice of developed firms the strategic partnership and performance has already reached the significant level, and has no tendency of further growth. In the practice of developed countries, the enterprises that have chosen to apply these conceptions instead of growth by themselves achieve the significant competitive advantage on the global market. By uniting the skills of complementary partners are in a position to better answer demands of consumer through provision of wide range of quality products.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter discusses the methodology, which was used in the study in order to achieve the research objectives. The section covers research design, population of the study, data collection procedures and data analysis.

## 3.2 Research Design

A research design is a strategic blueprint for the collection, measurement and analysis of data whose choice is dependent on the stage to which knowledge about the research topic has advanced(Gill and Johnson, 2006). This research design provided both qualitative and quantitative information from all the chosen population. It also enables the researcher to understand the characteristics of a group gauge a situation and assemble data around possible change.

The study adopted a cross-sectional descriptive survey design. A survey is deemed appropriate as it enabled the researcher to collect data by obtaining opinions, attitudes, behaviors, beliefs or answers from selected respondents in order to understand the group or population represented. In addition, this research design is deemed appropriate for this study because it allowed the researcher to draw conclusions about the variables under the study without the respondent being manipulated and thus allow the measurements to be fully controlled.

## 3.3 Population of the Study

A study population is the complete group of individuals or companies that the researcher wishes to investigate (Sekaran & Bougie, 2010). It is defined in terms of availability of elements, time frame, geographical boundaries and topic of interest. The population of the study comprised of all commercial banks operating in Kenya. According to Central Bank of Kenya (2016) there are 42 commercial banks operating in Kenya (Appendix 1). Since the number of commercial banks is small, then the study was a census survey.

## 3.4 Data Collection

The study used primary data which was collected using semi-structured questionnaire. The questionnaire consisted of both open and closed-ended questions. Open-ended questions are intended to allow the respondents to answer questions in the way they want while the closed ended questions will help the respondents to respond quickly. The target respondent in the banks were Business Development Managers and Marketing managers. These respondents are deemed to be involved in the establishment of various forms of alliances and also its implementation. The questionnaire consisted of three sections. Section A covered respondents' and the bank demographic information while section B sought to establish the alliance portfolio diversity practices adopted by the banks. Section C attempted to link the relationship between alliance portfolio diversity and bank performance. The questionnaire was administered through the "drop and pick" latter strategy and target the business development and strategy managers, marketing managers and finance managers of the commercial banks. Mugenda (2003) notes that the use of questionnaire ensure that confidentiality is upheld, saves on time and is easy to administer. The respondents gave their responses in a five point Likert scale.

### 3.5 Data Analysis

Once the data is collected, the questionnaire was edited for accuracy, consistency and completeness. The responses were coded into numerical form to facilitate statistical analysis. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance).

Data was analyzed based on the questionnaires results. In particular mean scores, standard deviations, percentages and frequency distribution was used to summarize the responses and to show the magnitude of similarities and differences. Results were presented in tables and charts. Descriptive analyses was conducted to provide the mean and standard deviation. Regression analysis was used to test on the relationship between the variables of the study. The regression equation assumed the following form:

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + .......+ \beta n Xn \quad + \alpha$

Where:

Y - Bank performance;

$\beta_i$ - Regression coefficients

$X_1 ....Xn$ - Indicators of Portfolio diversity

Έ - Error Term

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The research objective was to establish the effect of strategic alliance portfolio diversity and performance of commercial banks in Kenya. This chapter presents the analysis, findings and the discussion with regard to the objectives. A total of 42 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 42 questionnaires distributed, 32 were returned. The returned questionnaires' represented a response rate of 76% and this response rate was deemed to be adequate in the realization of the research objectives (Mugenda & Mugenda, 2003).

## 4.2 Demographic Characteristics

The demographic information considered in the study related to both the respondent and the commercial bank characteristics. The respondents' demographics related with the level of education and the length of continuous service. The finding is presented in Table 4.1.

**Table 4.1: Demographic Characteristics**

| **Level of Education** | **Frequency** | **Percent** | **Cumulative Percent** |
|---|---|---|---|
| Post graduate | 15 | 46.9 | 46.9 |
| University | 17 | 53.1 | 100.0 |
| Total | 32 | 100.0 | |
| **Length of Continuous service** | | | |
| Less than five yrs | 3 | 9.4 | 9.4 |
| 5-10 yrs | 22 | 68.8 | 78.1 |
| 10-20 yrs | 5 | 15.6 | 93.8 |
| Over 20yrs | 2 | 6.3 | 100.0 |
| **Total** | **32** | **100.0** | |

**Source: Research Data (2017)**

The results with regard to the respondents' education level indicate that majority (53.1%) of the respondents' university level of education and a further 46.9% of them had attained post graduate qualification. The findings show that indeed all the respondents were graduates and this implies that, ceteris paribus, they are knowledgeable to understand well the research questions and answer more appropriately the same. Effective answering will guarantee the realisation of the research objectives.

With regard to the respondents work experience, the study found that over two-thirds (68.8%) of the respondents had worked in the bank for a period of between 5-10 years, while 15.6% of the respondents indicated that they have worked in the bank for a period of between 10 and 20 years. Cumulatively therefore, over 80% of the respondents had worked in the banking industry for over 5 years and considering that they all had university level of education, they are presumed to knowledge with regard to the banks operations and more so the alliance portfolio diversity practice.

The banks demographic information that was sort included the operational period and the number of employees. This information acted as the control variables in the research and the results are presented in Table 4.2.

**Table 4.2: Commercial Banks Demographic Information**

| Length of commercial Banks Operation | Frequency | Percentage | Cumulative Percentage |
|---|---|---|---|
| 10-20 yrs | 11 | 34.4 | 34.4 |
| 20-30 yrs | 4 | 12.5 | 46.9 |
| Over 30 yrs | 17 | 53.1 | 100.0 |
| **Total** | **32** | **100.0** | |
| **Number of Employees** | | | |
| 200-500 | 16 | 50.0 | 50.0 |
| 500-1000 | 6 | 18.8 | 68.8 |
| Over 1000 | 10 | 31.3 | 100.0 |
| **Total** | **32** | **100.0** | |

**Source: Research Data (2017)**

As indicated in Table 4.2, (53.1%) of the banks had been in operation for over 30 years while 34.4% had been in operation between for between 10 - 20 years and the rest of the banks having operated between 20-30 years. Therefore over two-thirds of the banks sampled had operated for over 10 years and this implies that they will be conversant with concept of strategic alliances with other firms as a source of competitiveness. With regard to the banks workforce, the findings shows that majority (50%) of the banks had between 200 and 500 employees while a third of all the banks had over 1000 employees. The medium size workforce could be as a result of the adoption of information technology by the banks which leads to downsizing of the banks staff levels.

## 4.3 Alliance Portfolio Diversity

This section was concerned with determination of various alliance portfolio diversity practices by the banks. The researcher started by seeking to establish the extent to which different forms of alliance portfolio diversity had been implemented by the banks. The results are presented in Table 4.3.

**Table 4.3 : Forms of Alliance Portfolio Diversity**

| Diversity Characteristic | Mean | Std. Deviation |
|---|---|---|
| Reciprocity meaning that firms will behave in a consistent manner that meets the expectation of partnering firms | 4.156 | .574 |
| Status similarity in that firms with different competencies are pursued | 4.156 | .987 |
| Degree of Embeddedness which implies how the firms social interaction determine the alliance | 3.375 | 1.207 |

**Source: Research Data (2017)**

The results as presented in Table 4.3 shows that the act of reciprocity whereby banks will behave in a consistent manner among themselves in meeting their mutual was agreed to a large extent to be a dominant characteristic in the alliance (M= 4.156, SD=0.74). The low standard deviation implies that there was a concurrence among the respondents to the position that reciprocity takes in the bank alliances. Similarly, the bank status similarity in which banks with diverse competencies formed alliance was to a large extent a common characteristics among the banks (M=4.156). To a moderate extent, the results show that the banks form alliances based on their social interaction (M=3.375, SD=1.207).

## 4.4 Alliance Portfolio Diversity Practices

This section sought to determine the operationalization of the various portfolio diversity practices namely; embeddedness, reciprocity and status similarity. The range was 'Not at all' (1) to 'very great extent' (5). The scores of disagreeing have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale ;( 0≤ S.D <2.4). The scores of 'Neutral' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E. <3.4) and the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; (3.5≤ S.A. <5.0). A standard deviation of > 0.9 implies a significant difference on the impact of the variable among respondents.

### 4.4.1 Embeddedness of Partners

Organization embeddedness is concerned with the ability of the partnering firms to mutually gel in their operations and also have the capacity to seamlessly combine their operations. The results are presented in Table 4.4.

**Table 4.4: Embeddedness of Alliance Partners**

| **Statement** | Mean | Std. Deviation |
|---|---|---|
| Information asymmetry among the bank partners has been reduced | 4.368 | 1.040 |
| The banks have created common problem definitions and solving approaches | 3.938 | .801 |
| Ability to enter into future alliances among the banks is enhanced | 3.906 | 1.689 |
| Increased opportunity of retaliation to a partner if they pursue opportunistic behaviour ensures that alliance members cooperate | 3.206 | 1.177 |
| Repeated exchanges among the banks built the level of trust and hence improve the stability of the relationship | 2.750 | 1.603 |
| **Overall Mean** | **3.634** | |

**Source: Research Data (2007)**

The findings in Table 4.4 show that the bank embeddedness reduces the level of information asymmetry among the bank partners (M=4.368, SD=1.040) and consequently enabling the alliance bank partners to create a common problem solving approaches (M=3.938, SD=0.801). The low standard deviation that is lower than 1.0 implies that the respondents concurred on the role of bank embeddedness in improving the partnering banks problem solving capacity.  It was found that bank embeddedness improves the capacity of the alliance partners to enter into future collaboration among themselves (M= 3.9063) and this ability is enhanced due to the capacity of partners to retaliate to a partner that pursues opportunistic behaviour that affects optimality of the alliance as a whole. However, the findings shows that the repeated exchanges among the banks had, to a low extent, built increased level of trust among the alliance partners (M=2.750, SD=1.603). However, the high standard deviation that is greater than 1.0 implies that there was less agreement among the respondents.

### 4.4.2 Reciprocity Characteristic

Reciprocity is the act of partnering firms to act in a way that is consistent with expectations of other partnering firms while not receiving any direct benefit in return. Reciprocity is the expectation that partnering firms will make “quid pro quo exchanges within the group” and in the process take actions that is to the benefit of all the partners in the alliance. The results on the existence and practice of reciprocity among the banks are presented in Table 4.5.

**Table 4.5: Reciprocity Characteristic**

| Statement | Mean | Std. Deviation |
|---|---|---|
| Banks in the alliance are more willing to share proprietary knowledge among the group members | 3.935 | 1.116 |
| The risk of opportunistic behaviour among the partnering banks is lowered | 3.474 | .751 |
| Alliance partners are hesitant to damage their reputation because they are aware of the retaliatory action by the other banks in the partnership | 3.375 | 1.393 |
| The risk of opportunistic behaviour by some members is low in the alliance group because of a retaliation from other members | 2.644 | .919 |
| Cooperation by a partnering bank is met by cooperation by other banks | 2.615 | .870 |
| **Overall Mean** | **3.209** | |

**Source: Research Data (2017)**

In reference to Table 4.5, reciprocity among the banks is manifested by their willingness to share proprietary knowledge among the alliance members (M=3.935, SD=1.116) due to the ability of the diversified alliance members limiting their tendencies to pursue opportunistic behaviour among the partnering banks is lowered and alliance partners are hesitant to damage their reputation because they are aware of the retaliatory action by the other banks in the partnership (M=3.375, SD=1.393). However, the results also show that the cooperation by partnering banks is, to small extent, met by cooperation by other banks in the alliance (M=2.615, SD=0.87).

### 4.4.3 Status Similarity

Firms, have a tendency to seek partners who are similar on some dimensions, as these similarities encourage social bonding, build trust and facilitate knowledge sharing. The practice of ensuring that partner semblance is achieved through the alliance is referred to as status similarity. The findings on the extent of status similarity practice in the bank alliances are presented in Table 4.6.

**Table 4.6: Status Similarity**

| Statement | Mean | Std. Deviation |
|---|---|---|
| The knowledge acquired by the banks within the alliance is accurate and relevant | 3.875 | .793 |
| Differences in knowledge and technology capabilities among the partnering banks create important complementary | 3.750 | .9504 |
| A necessary social bonding result from the effective coordination alliance diversity | 3.286 | .8206 |
| Alliance partnership lessens the power differential between partners and thus promotes mutual dependence | 3.056 | .486 |
| There is increased status within a bank by belonging in an alliance grouping | 2.965 | .759 |
| **Overall Mean** | **3.386** | |

**Source: Research Data (2017)**

From the finding respondent believed that the knowledge acquired by the banks within the alliance is accurate and relevant (M=3.875), differences in knowledge and technology capabilities among the partnering banks create important complementary (M=3.750) and a necessary social bonding result from the effective coordination alliance diversity (M=3.687). The result also indicated that alliance partnership lessens the power differential between partners and thus promotes mutual dependence (M=3.656). The respondent further indicated that there is increased status within a bank by belonging in an alliance grouping (M=3.563). From the finding, it can be concluded that knowledge generated by the commercial banks in line with alliance is of accuracy and vital.

### 4.5 Effect of Alliance Diversity on Organizational Performance

To determine the relationship between alliance portfolio diversity and performance of the commercial banks, the researcher first sought the respondent's perception and also established the regression using the means in section 4.3 and also section 4.4. Table 4.7 represents the ranking of the performance measures. The range was 'strongly disagree' (1) to 'strongly agree' (5).

**Table 4. 7: Effect of Alliance Diversity on Organizational Performance**

| | Mean | Std. Deviation |
|---|---|---|
| The level of the banks innovation has been enhanced due to the alliance portfolio diversity | 4.094 | .734 |
| The banks have been able to acquire technology transfer from the alliance | 4.000 | 1.372 |
| Repeated exchanges within the alliance has build trust and improved both the stability of relationships and knowledge sharing among the partnering banks | 3.969 | .740 |
| Foreign market entry is made easier due to the partnering banks sharing business opportunities | 3.881 | .757 |
| The banks managers are able to gain access to timely and relevant knowledge beyond what their firms can obtain alone by establishing communication conduits | 3.750 | 1.322 |
| Alliance diversity formation among the banks create a greater industry bargaining power | 3.750 | .622 |
| **Overall Mean** | **3.907** | |

**Source: Research Data (2017)**

The banks innovation was strongly perceived by the respondents to have improved as a result of the alliance portfolio diversity (M=4.094, SD=0.734) and this was attributed to the banks being able to acquire appropriate technology transfer from other alliance partners. Examples of the technology transferred that was identified recently to have been introduced in many banks is the customer queuing management system. In addition, the repeated exchanges within the alliance have build trust and improved both the stability of relationships and knowledge sharing among the partnering banks. The improvement in the bank's operations was identified as an ingredient to the increased performance of the banks as measured by customer level of satisfaction, quality of service and profitability. To a moderate extent, the results show that alliance portfolio diversity among the banks and other partnering organizations lead to had created a greater industry bargaining power and improved the capacity of the banks to gain access to timely and relevant knowledge beyond what their firms can obtain on their own.

### 4.6 Regression Analysis

To determine the relationship between alliance portfolio diversity and the performance of the banks, the researcher adopted a regression analysis approach. To determine the same, the relationship between the overall mean of each of the three alliance portfolio diversity practices namely; embeddedness, reciprocity and status similarity was regressed with the resultant mean from the bank performance measure. The result is presented in Table 4.8.

**Table 4.8: Simple regression Analysis**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.053 | .985 | | -0.054 | .452 |
| | $X_1$ | .187 | .166 | .162 | 1.122 | .272 |
| | $X_2$ | .644 | .166 | .559 | 3.869 | .001 |
| | $X_3$ | .238 | .149 | .213 | 1.596 | .122 |

a. Dependent Variable: Bank performance

**b.** Predictor Variable: (constant); $X_1$ = Embeddedness; $X_2$ = Reciprocity; $X_3$ = Status similarity

From the model summary above, the resultant regression equation becomes;

$Y = -0.753 + 0.162X_1 + 0.559\ X_2 + 0.213X_3$

The value of the intercept ($B_o$) indicates that the value of bank performance when all the explanatory variables are zero is -0.053. This implies that were the banks to withdraw from their existing alliances with other partners, then the current performance level will reduce by 0.053%. The coefficient of independent variables is positive, and this implies that strategic alliance diversity by the banks positively increases the overall performance level. A regression coefficient of 0.559 for the reciprocity variable, for example, results in an average increase in the bank performance by 0.559%. On the other hand, a unit increases in the embeddedness will result in 0.162% increase in the level of bank performance while status similarity practice will result in an increase of 0.213% in bank performance. This means that bank performance is affected by the form of alliance portfolio diversity established. However, the embeddedness and status similarity variable is not significant at 5% significance level because the p-value is greater than 0.005.

To determine the combined effect of embeddedness, reciprocity and status similarity on the overall bank performance, a model summary was determined as presented in Table 4.8.

**Table 4.9: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .747[a] | .558 | .492 | .61679 |

a. Dependent Variable: Bank performance
b. Predictor Variable: (constant); $X_1$ = Embeddedness; $X_2$ = Reciprocity; $X_3$ = Status similarity

Table 4.8 indicates the model summary of the simple regression equation that predicts bank performance in totality. The correlation coefficient (r) value of 0.747 indicates existence of a strong positive relationship between bank alliance portfolio diversity and its performance. The coefficient of determination ($r^2$) value of 0.558 explains the proportion of variation in the bank performance attributed to alliance portfolio diversity. This means that 55.8% of the bank performance is explained by the form of alliance portfolio diversity entered by the banks. However, the coefficient of determination ( $r^2$ ) often overstates the true value of explanations due to the unadjusted degrees of freedom and to eliminate such, the adjusted $r^2$ value of 49.2% shows the actual variation in the bank performance attributed by alliance portfolio.

**ANOVA of the Regression**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .662 | 3 | .221 | .244 | .865[b] |
| | Residual | 25.338 | 28 | .905 | | |
| | Total | 26.000 | 31 | | | |

From the ANOVA statistics, the study established the regression model had a significance level of 0.1% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The model summary also indicates that the regression model predicts the dependent variable significantly well. The F test indicates the statistical significance of the regression model that was run. The P=0.865, which indicates that, overall the regression model statistically and significantly predicts the outcome variable that is good fit for the data.

**4.7 Discussion of the Findings**

In a competitive economy with the banking sector customers being faced with abundant choices, a bank can only win by fine-tuning its alliance characteristics with an aim of increasing the synergy from the collaboration. The dominant alliance portfolio diversity practices that was investigated, and propagated by Collins and Riley (2013) include embeddedness, reciprocity and status similarity characteristics.

Firm embeddedness is concerned with the ability of the partnering firms to mutually operate and have the capacity to seamlessly combine their operations with a resultant high performance than if they operate in isolation. The findings were that the bank embeddedness reduced the level of information asymmetry among the partners and consequently enabling the alliance bank partners to create a common problem solving approaches. To a moderate extent, the findings showed that bank embeddedness improves the capacity of the alliance partners to enter into future collaboration among them. The need for an alliance partners to be strongly embedded is explained by Uzzi and Gillespie (2012) to facilitate the exchange of high quality, complementary stocks of knowledge. Further Cowan and Jonard (2009) posit that being highly embedded leads to close and detailed interactions, enabling firms to create common languages, problem definitions, and problem solving heuristics. Hence, the study findings that alliance diversity reduces the level of information asymmetry supports the position held by the above researchers.

Reciprocity was the second portfolio diversity characteristic discussed and was found to be the expectation that partnering firms will make “quid pro quo exchanges within the group” and in the process take actions that are to the benefit of all the partners in the alliance. The findings were that the act of reciprocity among the banks is manifested by their willingness to share proprietary because of their ability of the alliance partners to limit their tendencies to pursue opportunistic behaviour. In addition, the alliance partners are hesitant to damage their reputation because they are cognizant of the retaliatory action by the other banks in the partnership if one deviates from the expected norm. This finding supports the position held by Westphal and Zajac (1997) who found that opportunistic behavior by one party in the current period can be met by opportunistic behavior by the other party in the next. Similarly, cooperation can be met with cooperation. Consequently, reciprocity increases a firm’s willingness to incur short-term disadvantages since they are confident that future opportunities to recoup any concessions will exist (Artz & Brush, 2000).

Firms tend to pursue alliance partners that differ in some dimensions, but are similar in others (Kim & Higgins, 2007). From the findings the knowledge acquired by the banks within the alliance is accurate and relevant; and differences in knowledge and technology capabilities among the partnering banks create important complementary and a necessary social bonding result from the effective coordination alliance diversity. Status, which is determined by patterns of affiliations and previous exchanges, strongly influences how potential partners view a firm’s capabilities, quality, and reputation (Podolny, 1994).

The findings here added evidence to the growing number of studies that have examined the relationship between alliance portfolio diversity and overall firm performance. The findings of this study support the position that alliance portfolio diversity and firm performance are in line with Sampson (2007), despite the fact that her study used and innovative performance measure, post-alliance patents, and the focal study used a financial performance measure. Another significant contribution of this study is that the findings showed that alliance portfolio characteristics (reciprocity and status similarity), were significant moderators of the alliance portfolio diversity-performance relationship.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of the key findings of the study as well as the conclusions, limitations of the study, and recommendations for further research.

## 5.2 Summary of Findings

The main intent of this research was to establish the effect of alliance portfolio diversity on the performance of commercial banks in Kenya. The alliance portfolio diversity constructs investigated were partner embeddedness, reciprocity and status familiarity. Bank embeddedness was found to reduce information asymmetry among the partners and create a common problem solving approaches. In addition, it was found that bank embeddedness in an alliance improves the capacity of the partners to enter into future collaboration among them and this facilitate the exchange of high quality, complementary stocks of knowledge. the research findings was that highly embedded alliance partners results in a close and detailed interactions, enabling firms to create common languages, problem definitions, and problem solving heuristics.

Reciprocity practice among the portfolio partners was found to be a common practice among the alliance partners and aimed at facilitating mutual benefit among the banks. The findings showered that the act of reciprocity among the banks is manifested by their willingness to share proprietary knowledge without the fear of any partner pursuing an opportunistic behaviour due to the fear that a member divergent behaviour will be met by similar behaviour and this aligns partner member interest. The study reinforced the position that a partner an opportunistic behavior can be met by opportunistic behavior by the other party in the next transaction. The findings found out that reciprocity increases a firm's willingness to incur short-term disadvantages because of certainty that future opportunities will recoup any concessions made at present.

The research findings show that status similarity within the bank alliance was accurate and relevant; and the differences in knowledge and technology capabilities among the partnering banks create important complementary and a necessary social bonding result from the effective coordination alliance diversity. Status, which is determined by patterns of affiliations and previous exchanges, strongly influences how potential partners view a firm's capabilities, quality, and reputation.

## 5.3 Conclusion

Strategic alliance portfolio diversity in commercial banks is a key for the functioning of the organization. From the findings, it was established that alliance portfolio diversity practices in commercial banks reduce the information asymmetry among the bank partners and enables problem definitions and solving approaches. Any commercial bank that enters the market must practice strategic alliance portfolio diversity effectively to enable good performance and meet the expected demand of the customers.

The management of commercial banks should adopt the reciprocity characteristics which contribute to share proprietary knowledge among the group members and reduction to risk of opportunistic behaviour among the partnering banks. In addition, status similarity facilitates the accurate and relevant knowledge within the bank. On other hand, the commercial banks have improved on level of innovation as a result of alliance portfolio diversity. Therefore, strategic alliance portfolio diversity practice is much necessary in any organization for better functioning of all categories which makes effective management and high performance in the commercial banks.

## 5.4 Limitations of the Study

One limitation of this study is the lack of control for technological complexity of the banks covered in the study. Certainly the nature of the knowledge utilized within a given alliance can vary greatly. Further, the study focused on alliances with local banks while forming alliances with other firms in foreign markets (third-country or home-country firms) would also provide the banks with access to certain resources, thus potentially reducing resource dependency. However such alliances might have only a limited impact in helping the banks overcome liabilities of foreignness because such ventures provide less country-specific knowledge.

The study used different multidimensional measures of firm performance and although they are based on previous research and provide an improvement on past studies, additional work could still be done. Developing better measures of firm performance would help gain greater insights about how these performance measures can be measured most effectively.

## 5.5 Recommendations for Policy and Practice

The study established that the commercial banks that have to adopt the strategic alliance diversity in order to have good performance and achieve their goals. The study found out that the commercial banks that have adopted alliance portfolio diversity practices which have resulted in improved performance of the banks. It is therefore recommended that the study adds greater comprehensiveness of the strategic alliance portfolio diversity and their impact on performance. The study further recommends that the management in commercial banks should develop further its ability to marshal resources needed to support its strategies.

### 5.6 Suggestion for Further Research

Based on these contributions to the alliance literature, several suggestions for future research can be made. Future work could further the understanding of factors that positively and negatively impact alliance portfolio diversity. In addition to variables such as number and strength of social capital connections held by a firm's key executives, it also would be worthy of study to test whether specific governance mechanisms, organizational structure, or resource configurations have an impact on alliance portfolio diversity. The organizational context within which firm-level choices are made surely has an influence on firms' alliance partner selections and will therefore be worth undertaking. Therefore, examining that context could provide an even richer understanding of alliance portfolios.

Future work could also further the understanding of factors that positively and negatively impact alliance portfolio diversity. In addition to variables such as number and strength of social capital connections held by a firm's key executives, it also would be worthy of study to test whether specific governance mechanisms, organizational structure, or resource configurations have an impact on alliance portfolio diversity.

The study was undertaken on the strategic alliance portfolio diversity and performance of commercial banks in Kenya. It is recommended that future research studies can examine on the strategic alliance portfolio diversity and performance. A similar study should therefore be done on other sectors to compare the findings. The study recommends that a further study should be carried out to establish the challenges facing the adoption of strategic alliance portfolio diversity in organization.

# REFERENCE

Ahuja, G. (2010) Collaboration networks, structural holes, and innovation: A longitudinal study. *Administrative Science Quarterly, 45,* 425-455.

Ahuja, G. &Katila, R (2001) Collaboration networks, structural holes, and innovation: A longitudinal study. *Administrative Science Quarterly, 45*, 425-455.

Alvarez, S.A. &Busenitz, L.W. (2011) The entrepreneurship of resource-based theory. *Journal of Management*, *27*(6), 755–775.

Arend, R.J. (2016) SME-supplier alliance activity in manufacturing: Contingent benefits and perceptions, *Strategic Management Journal*, 27(8), 741–763

Artz, K. W., & Brush, T. B (2010) A transaction cost examination of performance in collaborative strategic alliances. *Journal of Economic Behavior and Organization*, *41,* 337-362.

Barney, J. (1991) Firm resources and sustained competitive advantage, *Journal of Management*, *17*(1), 99–120

Brooks, C (2008)*Introductory Econometrics of Finance*, 2nd ed., the ICMA Center, University of Reading, Cambridge University press.

Cardilohn, W (2005) Collaborative commerce in Ho Chi Minh City, *Strategic Management Journal, 21*, 1-22

Chen, R. &Paulraj, B. (2014) Business performance measures and alignment impact on strategy-the role of business improvement models, *International of Operations and Production Management*, 22 (9-10), 972-96.

Chepsiror, S (2016). *Role of inter-organizational Strategic alliance as a source of competitiveness among the Seed companies in Kenya*. Unpublished MBA Project, University of Nairobi

Chung, S., Singh, H., & Lee, K. (2010) Complementarity, status similarity and social capital as drivers of alliance formation, *Strategic Management Journal, 21,* 1-22

Collins, J. D. (2013) Social capital as a conduit for alliance portfolio diversity, *Journal of Managerial Issues, 25*(1), 62-78

Cowan, R., &Jonard, N. (2009) Knowledge portfolios and the organization of innovation networks. *Academy of Management Review, 34*(2), 32-342.

Elmuti, D., &Kathawala, Y. (2011) An overview of strategic alliances. *Management Decision*, 39(3), 205–217

Garcia-Castro, R., & Aguilera, R. V. (2014) Incremental Value Creation and Appropriation in a World with Multiple Stakeholders, *Strategic Management Journal, Forthcoming*

Gibson, Z. Donnel, M., Ishii J, Metrick A (2010) A contingency model of the association between strategy, environmental uncertainty and performance measurement: impact on firm performance, *International Business Review*, 13 (4), 485-502

Gill P.and Johnson T.(2006). *Exploring Corporate Strategy*, 8th edition, England: Pearson education limited

Grant,. W.W, & Baden-Fuller, J. (2012) Network dynamics and field evolution: the growth of inter-organizational collaboration in the life sciences. *American Journal of Sociology* **110**: 1132–1205.

Gulati, R., (1998). Where do inter-organizational networks come from? *American Journal of Sociology, 104*(5), 1439-1493.

Gulati, R., &Sytch, M. (2007) Dependence asymmetry and joint dependence in inter-organizational relationships: Effects of embeddedness on a manufacturer's performance in procurement relationships,*Administrative Science Quarterly, 52,* 32-69

Hult, G.T.M., Ketchen, D.J., Griffith, D.A., Chabowski, B.R., Hamman, M.K & Dykes, B.J., (2011) An assessment of the measurement of performance in international business research. *Journal of International Business Studies*, *39*, 1064–1080.

Hirt, M., Smit, S., &Wonsik, Y. (2013). Understanding Asia's conglomerates, *McKinsey Quarterly, 1,* 8-12

Hitt, M. A., Bierman, L., Shimizu, K., &Kochhar, R. (2011) Direct and moderating effects of human capital on strategy and performance in professional service firms: A resource-based perspective. *Academy of Management Journal, 44*, 13-28

Jiang, R. J., Tao, Q.T., & Santoro, M. D. (2010) Alliance portfolio diversity and firm performance,*Strategic Management Journal*, *31*, 1136-1144

Kale P, Dyer JH, Singh H. (2012) Alliance capability, stock market response, and long-term alliance success: the role of the alliance function. *Strategic Management Journal* **23**(8): 747–767.

Kaplan, R. S., & Norton D. P (1996) The Balanced Scorecard: Translating Strategy into Action. Boston, MA: Harvard Business School Press.

Kathuria, R., Porth, S.J., Kathuria, N.N., &Kohli, T.K. (2010) Competitive priorities and strategic consensus in emerging economies: Evidence from India. *International Journal of Operations & Production Management*, 30(8), 879–896

Kim,D.G & Higgins, P (2007). The past and the future of international entrepreneurship:A review and suggestions for developing the field. *Journal of Management*, *35*(3), 600–633.

Kimani, D. (2016). Strategic Collaboration and Performance of Small and Medium Enterprises in Nairobi Central Business District, Unpublished MBA Project, University of Nairobi

Mohammed, L.K &Bilkis, T (2010) Inter-firm value creation: conceptualizing for the success and sustainability of strategic collaboration, *Organization Science* **14**: 227–243.

Park, S.H., &Ungson, G.R. (2011)Interfirm rivalry and managerial complexity: A build to last conceptual framework of alliances failure. Organization Science, 12(1), 37–53

Peteraf, M. A. & Bergen G (2003) The cornerstones of competitive advantage, *Strategic Management Journal*, 14(3), 179–191.

Rodan, S., &Galunic, C (2014) More than network structure: How knowledge diversity influences managerial performance and innovation. *Strategic Management Journal, 25*(6), 541-562

Rumelt, R. P. (2004) *Toward a strategic theory of the firm*. In R. B. Lamb (Ed.), Competitive strategic management, N.J.: Prentice-Hall.

Sampson, K (2007). An assessment of the measurement of performance in international business research. *Journal of International Business Studies*, *39*, 1064–1080

Swaminathan, V & Moorman, C (2009) Marketing alliances, firm networks, and firm value creation. *Journal of Marketing, 73*(5), 52-69.

Teng, B. (2007). Corporate entrepreneurship activities through strategic alliances: A resource-based approach toward competitive advantage. *Journal of Management Studies*, *44*(1), 119–142.

Uzzi, B., & Gillespie, J. J. (2012). Knowledge spillover in corporate financing networks: Embeddedness and the firm's debt performance. S*trategic Management Journal, 23*(7), 595-618.

Van Weele, A. J. (2006). *Purchasing & Supply Chain Management: Analysis, Strategy, Planning and Practice* (4th ed.). Australia: Thomson

Vasudeva, G., &Anand, J. (2012) Unpacking absorptive capacity: A study of knowledge utilization from alliance portfolios. *Academy of Management Journal, 54*(3), 611-623.

Waligo, V. M., Clarke, J., & Hawkins, R. (2014). The 'Leadership–Stakeholder Involvement Capacity' nexus in stakeholder management *Journal of Business Research, 67*(7), 1342-1352

Westphal, J. D., &Zajac, E. J. (2014) Defections from the inner circle: Social exchange, reciprocity, and the diffusion of board independence in U.S. corporations. *Administrative Science Quarterly, 42*(1), 161-183.

White, S., &Lui, S. (2015) Distinguishing costs of cooperation and control in alliances. *Strategic Management Journal, 26,* 913-932.

# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

Date……………………………

To…………………………………….
……………………………………..

Dear Sir/Madam,

**RE: <u>COLLECTION OF RESEARCH DATA</u>**

My name is Esther Yom Mangar, an MBA student in Business Administration – Strategic Management option at The University of Nairobi. Currently, I' am carrying out a research on the "Strategic Alliance Portfolio Diversity and Performance of Commercial Banks in Kenya".

I 'am in the process of gathering relevant data for this study. You have been identified as one of the collaborators and respondents in this study and kindly request for your assistance towards making this study a success.

I therefore kindly request you to take some time to respond to the attached questionnaire. I wish to assure you that your responses will be treated with confidentiality and will be used solely for the purpose of this study.

I thank you in advance for your time and responses. It will be appreciated if you can fill the questionnaire within the next 5days to enable early finalization of the study.

Yours Sincerely

Esther Yom Mangar

**<u>Student Reg No:</u> D61/74712/2014**

## APPENDIX II: QUESTIONNAIRE

### Section A: Demographic Characteristics of Respondents

**1.** Name of the commercial bank (Optional)……………………………………

**2.** What is your highest level of education qualification?

a) Post graduate level ( ) b) University ( )

c) Tertiary College ( ) d) Secondary ( )

**3.** Length of continuous service with the commercial bank?

a) Less than five years ( ) b) 5-10 years ( )

c) 10 - 20 years ( ) d) Over 20 ( )

**4.** How long has your commercial bank been in operation in Kenya?

a) Under 10 years ( ) b) 10 – 20 years ( )

c) 20 – 30 years ( ) d) Over 30 years ( )

**5.** How many employees does you bank have?

a) Less than 200 ( ) b) 200 - 500 ( )

c) 500 – 1000 ( ) d) Over 1000 employees ( )

### Section B: Alliance Portfolio Diversity

**6.** To what extent has your bank adopted the following forms of alliance portfolio diversity? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

| **Diversity Characteristic** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Degree of Embeddedness which implies how the firms social intera determine the alliance | | | | | |
| Reciprocity meaning that firms will behave in a consistent manner meets the expectation of partnering firms | | | | | |
| Status similarity in that firms with different competencies are pursued | | | | | |

**7.**Below are some of the alliance portfolio diversity practices employed by Kenyan commercial banks. Please indicate the extent to which the various alliance diversity practices are adopted by your bank.

**Key**: 5) Very great extent ( ) 4) Great extent ( ) 3) Moderate extent ( )

2) Low extent ( ) 1) Very low extent ( )

| | **Embeddedness of Partners** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|---|
| 1 | Repeated exchanges among the banks built the level of trust and hence improve the stability of the relationship | | | | | |
| 2 | The banks have created common problem definitions and solving approaches | | | | | |
| 3 | Information asymmetry among the bank partners has been reduced | | | | | |
| 4 | Increased opportunity of retaliation to a partner if they pursue opportunistic behaviour ensures that alliance members cooperate | | | | | |
| 5 | Ability to enter into future alliances among the banks is enhanced | | | | | |
| | **Reciprocity Characteristic** | | | | | |
| 1 | The risk of opportunistic behaviour among the partnering banks is lowered | | | | | |
| 2 | Cooperation by a partnering bank is met by cooperation by other banks | | | | | |
| 3 | Banksin the alliance are more willing to share proprietary knowledge among the group members | | | | | |
| 4 | Alliance partners are hesitant to damage their reputation because they are aware of the retaliatory action by the other banks in the partnership | | | | | |
| 5 | The risk of opportunistic behaviour by some members is low in the alliance group because of a retaliation from other members | | | | | |
| | **Status Similarity** | | | | | |
| 1 | Differences in knowledge and technology capabilities among the partnering banks create important complementary | | | | | |
| 2 | A necessary social bonding result from the effective coordination alliance diversity | | | | | |
| 3 | There is increased status within a bank by belonging in an alliance grouping | | | | | |
| 4 | The knowledge acquired by the banks within the alliance is accurate and relevant | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5 | Alliance partnership lessens the power differential between partners and thus promotes mutual dependence | | | | | |

**Section C: Effect of Alliance Diversity on Organizational Performance**

**8.** Below are the benefits associated with alliance portfolio diversity among the commercial banks firms. Please indicate the level to which you agree with the statements.

5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree

| **Statement** | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| The banks have been able to acquire technology transfer from the alliance | | | | | |
| Foreign market entry is made easier due to the partnering banks sharing business opportunities | | | | | |
| The level of the banks innovation has been enhanced due to the alliance portfolio diversity | | | | | |
| The banks managers are able to gain access to timely and relevant knowledge beyond what their firms can obtain alone by establishing communication conduits | | | | | |
| Repeated exchanges within the alliance has build trust and improved boththe stability of relationships and knowledge sharing among the partnering banks | | | | | |
| Alliance diversity formation among the banks create a greater industry bargaining power | | | | | |

**THANK YOU SO MUCH FOR YOUR TIME**