STRATEGIC ALLIANCES AND ORGANIZATIONAL COMPETITIVENESS AMONG COMMERCIAL BANKS IN KENYA: A CASE STUDY OF KENYA COMMERCIAL BANK

BY

DAVID NZYIMI MAKAU

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE, UNIVERSITY OF NAIROBI

NOVEMBER 2012
DECLARATION

This research project is my original work and has not been submitted for examination in any other University.

Signature: _______________________________ Date: 9 November 2012

DAVID NYIMI MAKAU
D61/8365/2006

This research project has been submitted for examination with my approval as a University Supervisor.

Signature: _______________________________ Date: _______________________________

DR. JAMES GATHUNGU
I owe a debt of gratitude to a great many people who helped and supported me during the process of preparing this project.

Dr. James Gathungu has been the ideal thesis supervisor. His wise advice, insightful criticisms, and patient encouragement aided the development of this project in innumerable ways.

I would also like to thank the Department of Business Administration, whose steadfast support was greatly needed and deeply appreciated. Specific appreciation to those who helped while I was chasing my coursework marks that had not been updated for a number of years.

I would also thank the entire University fraternity and my faculty members without whom this project would have been an idea withering away. I also extend my heartfelt thanks to my family and well-wishers who supported me in one way or another.
DEDICATION

I dedicate this project to a number of people who played one role or another along the way in encouraging me to do what I was supposed to do all along – just finish it! Your support made it happen. May God bless you abundantly. And to my dear wife Susan Maingi who constantly supported me even when I ran out of steam as I often did. Baraka tele!
TABLE OF CONTENTS

DECLARATION ................................................................................................................. ii
ACKNOWLEDGEMENTS ................................................................................................... iii
DEDICATION ......................................................................................................................... iv
LIST OF TABLES .................................................................................................................. vii
LIST OF FIGURES ................................................................................................................ viii
ABBREVIATIONS ............................................................................................................... ix
ABSTRACT .............................................................................................................................. x

CHAPTER ONE ...................................................................................................................... 1
INTRODUCTION ..................................................................................................................... 1
1.1 Background of the Study ................................................................................................. 1
1.1.1 Strategic Alliances ........................................................................................................ 1
1.1.2 Organizational Competitiveness .................................................................................. 3
1.1.3 Commercial Banking in Kenya .................................................................................... 5
1.1.4 Kenya Commercial Bank ............................................................................................ 5
1.2 Research Problem ........................................................................................................... 6
1.3 Research Objectives ........................................................................................................ 8
1.5 Value of the Study ............................................................................................................ 9

CHAPTER TWO ..................................................................................................................... 10
LITERATURE REVIEW .......................................................................................................... 10
2.1 Introduction .................................................................................................................... 10
2.3 Factors Fostering Strategic Alliance .............................................................................. 13
2.4 Effectiveness of Strategic Alliance ................................................................................ 15
2.5 Organizational Competitive Advantage ........................................................................ 17

CHAPTER THREE ................................................................................................................. 20
RESEARCH METHODOLOGY ............................................................................................... 20
3.1 Introduction .................................................................................................................... 20
3.2 Research Design ............................................................................................................. 20
LIST OF TABLES

Table 3.3.1  Target Population .................................................................21
Table 4.3.1  Types of Alliances Used .........................................................26
Table 4.4.1  Frequencies for Motivation Form Alliances .................................27
Table 4.4.2  Mean for Motivation to Form Alliances .....................................28
Table 4.5.1  Alliances Formed by the Bank ................................................29
Table 4.6.1  Frequency of Impact of Strategic Alliances .................................31
Table 4.7.1  Percentages of Competitiveness ...............................................32
Table 4.8.1  Correlation Analysis ...............................................................33
LIST OF FIGURES

Figure 4.2.1  Gender of Respondents .............................................. 24
Figure 4.2.2  Level of Education ...................................................... 25
Figure 4.2.3  Job Titles ................................................................. 25
ABSTRACT

ABBREVIATIONS

ATM  Automated Teller Machine
CBK  Central Bank of Kenya
CI   Competitive Intelligence
KCB  Kenya Commercial Bank
MNCs Multinational Companies

Strategic alliances provide opportunities for participating firms to tap into the resources, knowledge, and capabilities of their partners. They offer potential for a firm to gain sustainable competitive advantage over its competitors. The study sought to identify the types of strategic alliances established by firms and whether such alliances actually created value in the Kenyan financial services market. The study used a descriptive case study design where a convenience sample was used to create a sample frame where 33 respondents were considered. The study used structured and semi-structured questionnaires to collect data which was analysed using MS Excel Spreadsheet and correlation analysis. The study found that strategic alliances seek to create competitive advantage through collaboration rather than competition. Strategic alliances are also based on mutual trust of partners. The study also established that strategic alliances provide partners with an opportunity to tap into resources, knowledge, capabilities and skills of their partners to gain competitiveness. Finally, the study found that strategic alliances, especially non-equity strategic alliances, are positive and significantly correlated with organizational competitiveness. The study therefore concluded that strategic alliances create interdependence between the partner firms which bring benefits to the form of intangible assets and capabilities. These assets (superior skills) and capabilities (superior resources) are the main sources of competitive advantage for a firm.
ABSTRACT

Strategic alliances provide opportunities for participating firms to tap into the resources, knowledge, capabilities and skills of their partners. They offer potential for a firm to leverage its resource capabilities and gain sustainable competitive advantage over its competitors. The objectives of this study were to identify the types of strategic alliances that best enhance competitiveness of a firm and whether such alliances actually created competitiveness among commercial banks in Kenya. The study used descriptive case study design where a convenient sample was used to create a sample frame where 33 respondents were considered. The study used structured and semi-structured questionnaires to collect data which was analysed using MS Excel Spreadsheet and relationship among variables established using correlation analysis. The study found that strategic alliances seek to create competitive advantage through collaboration rather than competition. Strategic alliances are also based on mutual trust of partners. The study also established that strategic alliances provide partners with an opportunity to tap into resources, knowledge, capabilities and skills of their partners to gain competitiveness. Finally, the study found that strategic alliances especially non-equity strategic alliances are positive and significantly correlated with organizational competitiveness. The study therefore concluded that strategic alliances create interdependence between the partner firms which bring benefits in the form of intangible assets and capabilities. These assets (superior skills) and capabilities (superior resources) are the main sources of competitive advantage for a firm.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Strategic alliances are increasingly becoming popular in the business world. To achieve competitive advantage, firms need to combine their assets and capabilities in a cooperative policy that is termed as strategic alliance. Strategic alliance is considered as an essential source of resource sharing, learning, and thereby competitive advantage in the competitive business world. Management of alliances and value creation to attain competitive advantage is very important in strategic alliance (Ireland et al., 2002).

Strategic alliances involve firms with some degree of exchange and sharing of resources and capabilities to co-develop or distribute goods or services (Kale et al., 2000). The achievement of competitive advantage is not easy by one firm operating on its own because it does not possess all required resources and knowledge to be entrepreneurial and innovative enough in dynamic competitive markets. Partnering with other firms creates the opportunity to share the resources and capabilities of firms while working with partners to develop additional resources and capabilities as the function for new competitive advantage (Kuratko et al., 2001).

1.1.1 Strategic Alliances

A strategic alliance is a formal and mutually agreed partnership arrangement between two or more enterprises or organizations. The partners pool resources together, exchange
and/or integrate selected resources for mutual benefit while they remain separate and entirely independent from each other. It is a cooperative arrangement which enables partners to achieve goals together that they could not achieve alone. Strategic alliances are viewed as mechanisms for producing a more powerful and effective mode for competing in a globalized world (COPAC, 2000). Strategic alliance relationships continue to be one of the leading business strategies as a result of increasing competition in the global market. However, strategic alliances can take different forms and as such are not limited to commercial spheres alone. It can be an alliance of strong partners who are direct competitors, alliance between strong and weak partners, alliance between those who are weak and seek to gain power, between complimentary equals, or even a merger that results in formation of a new organization altogether. The main goal of alliance is to add value with different focuses on trade, competence, information/knowledge acquisition or overcoming barriers (Gomes, 1996).

Presently, strategic alliances are a prominent phenomenon in the global economy among multinational companies (MNCs) and between companies in developing countries too. Peter Drucker (1996, p. 76) states that “the greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnerships”. Strategic alliances are therefore partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial to the parties. These strategic alliances present enormous potential to a business. A strategic alliance is an “agreement between firms to do business together in ways that go beyond normal company to company, but
fall short of a merger or a full partnership” (Wheelen and Hungar, 2000, p. 125). The alliances range from informal agreements commonly referred to as “handshake” to formal agreements with lengthy contracts in which the parties may also exchange equity or contribute capital to form a joint venture corporation. Typical strategic alliances are formed between two firms; however, increasingly these are trending towards multi-company alliances. A more common example is a six-company alliance strategically formed by Apple, Sony, Motorola, Philips, AT&T and Mitsushita to form General Magic Corporation to develop Telescript Communications software.

1.1.2 Organizational Competitiveness

Competitiveness relates to how effectively an organization meets the wants and needs of its customers in the marketplace relative to other organizations that offer similar products or services. Porter’s (2004) concept of competitiveness focuses on prosperity created from economic activity that creates value by providing products and services at prices above their cost of production. Porter uses productivity as the key factor in defining competitiveness. Porter defines the competitiveness of a location as the productivity that companies located there can achieve. He uses this definition of competitiveness to understand the drivers of sustainable economic prosperity at a given location.

According to Porter (1985) the principles of competitive advantage are low cost production, differentiation and focus. A firm will attain competitiveness if it is able to deliver its products or services at a low cost than its competitors. If the quality of such products and services are satisfactory, this translates into higher returns for the firm. A
firm also gains competitiveness if it is able to differentiate itself from competitors. Differentiation leads to offering a product or service which is unique and desired, which translates into premium pricing. This also leads to superior performance and higher margins. Porter further explains that competitiveness is attained through strategy based on scope. In this case the firm gains competitiveness through defining its segment (scope) in which the firm operates and focusing on it.

Organizational competitiveness refers to the ability of an organization to withstand various challenges in the operating environment. It is the various strategies that have been put in place to prepare an organization for eventualities as well as to make it better placed than its competitors to face an ever changing world of economic turbulence. Some organizations adopt technologies that are unique or advanced, while others invest in preparing their staff for all kinds of unforeseen changes. It is also common to use a strong brand as a tool to enhance competitiveness, especially where an organization deals with a product that has a large number of substitutes (Cobb, 2003).

Many organizations also use globalization as a tool for competitive advantage. Survival and growth in competitive environments require achieving global competitiveness. Since globalisation has changed and opened up the world as a market place for us, be it for products, people or financial resources, so to capitalize on this opportunity, organizations have to be moulded to become globally competitive (Varadajaran and Cunningham, 1995).
1.1.3 Commercial Banking in Kenya

Commercial banking in Kenya is estimated to have started around 1896 with the National Bank of India opening its first branch. This was followed by Standard Bank of South Africa, now Standard Chartered Bank opening its first branches in Mombasa and Nairobi in 1911. According to Ojung’a (2005) the Kenya Commercial Bank was established in 1958 after a merger between Grindlays Bank of Britain and the National Bank of India. The Cooperative Bank of Kenya was established by a group of farmers in 1965 with the mandate of providing financial services to Co-operative societies. This was followed three years later by the establishment of National Bank of Kenya.

The banking sector in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and prudential guidelines issued by the Central Bank of Kenya. The Prudential oversight is exercised by the Central Bank of Kenya, the Nairobi Stock Exchange and the Capital Markets Authority. Liberalization of the banking sector started in 1995 where exchange controls were subsequently lifted. There are 44 commercial banks in Kenya. The largest in terms of market share by deposits as at 2011 are Kenya Commercial Bank, Barclays Bank, Co-operative Bank, Standard Chartered Bank, CFC Stanbic Bank, and Equity Bank in that order (CBK, 2012).

1.1.4 Kenya Commercial Bank

The Kenya Commercial Bank has a wide branch network of 219 outlets in the region, and 168 within Kenya, and an ATM network of 325 Automated Teller Machines (685 including Pesa Point and KenSwitch partnerships) with operations in Kenya, Tanzania,
Uganda, Rwanda, Burundi and South Sudan. The Bank has five major subsidiaries in the five countries to offer commercial banking services in Tanzania, Uganda, Sudan, Burundi and Rwanda respectively. To accomplish its 5-year strategic plan, KCB will continue to expand in the region, with planned subsidiaries in Zambia and Democratic Republic of Congo (KCB Annual Report, 2011).

The KCB Board of Directors and management continue to pursue the principles of good corporate governance in running the bank. Since 1970, the bank has continued with good corporate governance practices with an emphasis on service and operating efficiency. The success of this strategy is reflected in pre-tax profits that have continued to rise over the years, placing the Bank at the top of profitability in the Banking Industry in Kenya. The profitability (profit before tax) trend for the 5 years from 4.2 billion shillings in 2007 to over 15 billion shillings in 2011. The bank created a Strategy and New Business Division headed by a director in 2011. This division works hand in hand with other divisions and subsidiaries in the bank in the execution of strategies for the entire bank group. In essence, the division drives strategy, innovation, research and project management for the bank with the key focus of developing and providing affordable services relevant to its target markets. (KCB Annual Report, 2011).

1.2 Research Problem

Competitive advantages significantly influence the firm’s market place success. By using technological capabilities firms can ensure customer value and competitive advantage (Afuah, 2002). Rapid technological changes and the competitive global economy are
example of factors challenging firms to constantly upgrade current competitive advantages while they develop new ones to maintain strategic competitiveness (Geletkanycz, 2001). There are claims that strategic alliance, if well implemented can lead to organization’s improved operations and competitiveness. Companies continue to form alliances in order to obtain technology, to reduce financial risk, to reduce political risk, to gain access to specific niche markets, and to achieve competitive advantage (Wheelen and Hungar, 2000).

Despite the popularity and advantages associated with strategic alliances that have seen many companies rush to form strategic alliances, few have succeeded. It has been projected that the failure rate of strategic alliances could be as high as 70%. Studies have shown that between 30% and 70% of alliances fail; in other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide (Bamford et al, 2004). Alliance termination rates are reportedly over 50% (Lunnan & Haugland, 2008), and in many cases forming such relationships has resulted in shareholder value destruction for the companies that are listed on the stock exchange and engage in alliances (Kale, Dyer, & Singh, 2002).

In Kenya, most banks form strategic alliances in direct response to competition and to reduce uncertainty about the future. Kenya Commercial Bank has partnered with technology firms such as Kenswitch to increase the number of ATMs and telecommunication firms such as Safaricom for mobile banking and fee collection platforms. The review of literature shows that several studies have been conducted

Among these studies previously done none has been done on the competitiveness of strategic alliance by commercial banks in Kenya to the best of this researcher’s knowledge. A knowledge gap therefore exists and hence this study seeks to address this gap by investigating whether strategic alliances impact on the competitiveness of Kenya Commercial Bank in the increasingly competitive Kenyan banking industry. The study thus seeks to address the questions as to whether strategic alliances lead to competitiveness in the context of Kenya Commercial Bank and the common strategic alliances that the bank has since entered into?

1.3 Research Objectives

This study had the following specific objectives:

(i) To establish the type of strategic alliance that best enhances competitiveness in Kenya Commercial Bank.

(ii) To establish whether competitiveness has been created by the different forms of strategic alliances that Kenya Commercial Bank has entered into.
1.5 Value of the Study

This area of competitiveness of strategic alliances in the banking sector is still suffering from a dearth of information. Research in the various components in this area may help to unearth hitherto unknown information that may go a long way in facilitating further understanding of the factors that encourage formation of strategic alliances and what firms may do to gain competitiveness. It might also contribute to the existing body of knowledge and fill in the gap on the successes of strategic alliances among banks. It may also act as a source of reference materials to scholars.

Kenya Commercial Bank and other financial institutions may be enlightened on the important factors to consider while forming strategic alliances in the highly competitive banking industry. This information may help them in partnering with the right kind of firms to foster their competitiveness in the market.

The government and CBK may also find this information useful in formulating policies that may better guide the type of alliances and considerations before a firm decides on such cooperation. This is because as the financial sector grows the government has to come up with policies that address the various challenges within the sector so as to facilitate faster growth with minimum drawbacks.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presented information from other researchers who have carried out their research in the same and closely related fields of study. The specific areas covered here are theoretical review, empirical review, and conceptualization of the literature.

2.2 Strategic Alliances

Strategic alliances are widely considered as collaborative strategies formulated and implemented to meet shared objectives and develop superior resources cooperatively. According to Hitt et al. (2006, pg. 260) "strategic alliances are formulated for both business level strategies and corporate level strategies for expansion and other objectives". They define strategic alliance as a cooperative strategy in which firms combine some of their resources and capabilities to create a competitive advantage.

Porter and Fuller (1986) also refer to strategic alliance as a strategic coalition which needs a good partner to conduct a developing partnership, where organizational resources and capabilities are shared and new ones are acquired and developed. Porter and Fuller further explain that in strategic alliance participating firms pursue shared objectives and create value adding processes to gain competitive advantage.

Firms use cross-border alliances as a means to transform themselves and to take advantage of opportunities surfacing in the rapidly changing global economy. The
strategic alliances can be mostly summarized into three types: joint venture, equity strategic alliance, and non-equity strategic alliance (Porter, 1990). These three dimensions of strategic alliance contribute to competitiveness in different ways.

A joint venture is an alliance where two or more firms form a legally independent firm to share their collaborative capabilities and resources to achieve competitive advantage in the market. Joint ventures are effective in establishing long-term relationships and in transferring tacit knowledge from one firm to another (Berman et al., 2002). The different expertise and experience in particular fields that each firm brings into the alliance foster the sustainable competitive advantage.

Generally, firms in a joint venture share resources and participate equally in the operations management. As explains Orwell (2001) a good example is the relationship between Sony Pictures Entertainment, Warner Bros, Universal Pictures, Paramount Pictures, and Metro-Goldwyn-Mayer Inc. where each have a 20 percent share in a joint venture to use the internet to deliver feature films on demand to customers. Joint ventures are considered optimal forms of alliance where firms share and combine resources and capabilities. The participant firms combine coordination of manufacturing and marketing to allow ready access to new markets, intelligence data, and reciprocal flows of technical information (Hoskinson and Busenitz, 2002).

An equity strategic alliance is an arrangement where the ownership percentage of each firm in is not equal. In this particular case, two or more firms own the shares of a newly
formed company in proportion to their contribution in resources and capability with the main goal of developing competitive advantage. Strategic alliances focus on the linkages of management capabilities and operations activities between two or more different firms. As a result, two or more different corporate cultures are usually matched into one goal in the strategic alliances when equity strategic alliances occur. Many foreign direct investments such as those made by companies in developed economies like Japan and U.S. in developing economies are completed through equity strategic alliances (Harzing, 2002).

A non-equity strategic alliance is less formal than an equity strategic alliance and a joint venture. To ensure competitive advantage, two or more companies form an alliance on a contract basis without forming a separate company and therefore they don’t take equity shares. The main goal is to share their unique capabilities and resources to create competitive advantage. The relationship among partners is informal and requires less partner commitment than the other two forms of strategic alliances. These non-equity strategic alliances are easier to implement in comparison to the others (Das et al, 1998). Non-equity alliances do not require much experience neither do they require transfer of tacit or implied knowledge and expertise.

Despite the shortcomings of non-equity strategic alliances, firms increasingly use this type of alliance in many different forms such as licensing agreement, distribution agreements and supply contracts (Folta and Miller, 2002). These partnerships are motivated by factors like uncertainty regarding technology and complex economic
environment. Competition from rivals encourages greater commitments with partners. Strategic alliances in the form of cooperative strategies are on the rise among firms because of complexity in operations and the competitive business environment. Outsourcing of services is one key example of non-equity strategic alliance. Many companies outsource services such as cleaning, marketing, catering to gain certain competitive advantage (Uddin and Akhter, 2011).

2.3 Factors Fostering Strategic Alliance

Economic factors have been identified as the key reason why firms partner in strategic alliances. Companies find cooperative strategies more and more important for economic success. Technology based firms and those that are capital intensive are more eager to form alliances to ensure success. It is not practical for many firms to acquire technology fast enough on their own and therefore partnering is considered essential (Kelly et al, 2002). Strategic alliances are therefore expected to enable firms enter new markets more quickly and to create value that they could not develop by acting independently among other benefits. Cooperative strategies are hailed as profitable and large firms are noted to account for more than 20 percent of the revenue from strategic alliances. Dent (2001) has predicted that in the near future strategic alliances will account for as much as 35 percent of revenue for most companies in developed economies.

The other factor motivating firms to form strategic alliances is the entry restriction and slow-cycle market position. The restrictions on entry affect how a firm will enter into new markets or establish franchises in new markets. Kumari (2001) notes that the
restriction into India’s insurance market prompted American International Group (AIG) to form a joint venture called Tata AIG with Mumbai-based Tata Group. Tata AIG is presently considered one of the largest conglomerates in Indian market. Competitive advantage is not sustainable in fast-cycle markets because the firm’s capabilities that contribute to competitive advantage are not shielded from imitation. They are high-velocity environments that place immense pressure on top management to make quick strategic decisions. Firms in industries such as mobile phones and PC vendors are forced to constantly look for sources of new competitive advantages which are best provided by strategic alliances. Sometimes, companies establish venture capital programs to facilitate efforts to build operational capacity and efficiency (Chesbrough, 2002). However, standard-cycle markets make use of economies of scale and large volume orientation as key areas of competitive advantage where they form strategic alliances to complement their resources and capabilities (Uddin and Akhter, 2011).

Socio-political factors also affect strategic alliances. Despite China’s formal entry into the World Trade Organization (WTO), most foreign firms that have entered China as a result of huge potential China’s markets presents, find it difficult to establish their legitimacy (Ahlstrom and Bruton, 2001). This is most likely due to most Chinese opposition of property rights where local authorities and the Communist Party feel private enterprises undermine socialist ideals. As a result, taxes and licenses imposed on private firms are punitive. It is therefore noteworthy that the social orientation and political factors prevalent in each economy will affect the types of strategic alliances that can be established.
Cost of production is another determinant factor for strategic alliances. Most firms will establish businesses in other countries to lower the cost of production. Easy access to low-cost labor, energy and other natural resources are the motivating factors behind such establishments. Location of facilities needed for production also foster strategic alliances. Attractive location allows a firm to gain full advantage of strategic alliance (Bernstein and Weinstein, 2002). For example, Africa is a prime location for major multinational companies the same way in Eastern Europe, Hungary is a prime location for many manufactures. Africa has lower labour costs the same way Hungary is considered in Eastern Europe (Wilson, 2001).

2.4 Effectiveness of Strategic Alliance

Literature on empirical evidence on the effectiveness of strategic alliances has been presented over the past. Strategic alliances are the result of collaboration between firms designed to foster competitive business and cooperative relationships (Uddin and Akhter, 2011). Strategic alliances allow partners to focus on what they can do best in order to provide value to customers. Bierly and Coombs (2004) argue that most alliances have greater chances to terminate if they are formed early or late in the product development cycle. However, there is a higher chance of success in mid-stages of product development. Alliances are therefore correlated with the product development cycle.

Scientific capabilities of a firm, firm location, and experience of top management have considerable relationship with the amount of capital that can be raised through
international strategic alliances (Coombs and Deeds, 2000). In a study, Soh (2003) observed that technological collaboration with partners and repeated interaction with new and existing partners improved new products' performance. Using a sample of 132 biotechnology firms, Dees and Hill (1996) studied the association between new product development and strategic alliances and a positive relationship was observed.

Most of the researchers emphasized on transaction cost theory and resource-based view to analyze the alliance formation feasibility study. Initially firms focus on access to resources of partners followed by shortening of time to develop or market products. Cost reduction is the focal point for some strategic alliances in the initial stages of formation. But in high technology industries resource-based view prevails over the transaction cost theory (Yasuda, 2005). Chang (2004) examined how Internet startups' venture capital financing and strategic alliances affect these startups' ability to acquire the resources necessary for growth. The study found that three issues positively influenced a startup's time to IPO: the better the reputations of participating venture capital firms and strategic alliance partners were, the more money a startup raised, and the larger was the size of a startup's network of strategic alliances.

Several studies continue to examine the relationship between strategic alliance and performance. Rothaermel and Boeker, (2008) investigated whether the number of competitors linked to the firm will be negatively related to the level of firm performance, whether the number of long-term horizontal alliance agreements a firm enters into will be negatively related to the firm's performance, and why firms with high performance will
tend to concentrate their alliances with competitors within boundaries of a sub-network, whereas firms with low performance will not. They found that higher levels of performance are negatively related to the number of alliance agreements that firms enter into, that poor performance caused firms to seek additional cooperation with competitors, and that performance differences did not affect the degree to which firms concentrated cooperation within a single sub-network.

Kale, Singh, and Bell (2009) sought to find out to what extent inter-firm strategic technology partnering affects the profitability of companies engaged in such joint efforts. The results showed that joint venture activity tends to have a significant negative short-term impact on profitability in chemicals and mechanical engineering industries but insignificant effects in the resource-processing sector. No significant long-term effects of joint venture activity on profitability were found in any industrial sector. Despite research attention to strategy and performance of strategic alliance individually, little research examines the relationship of those factors and their affects on the whole.

2.5 Organizational Competitive Advantage

Porter’s (1990) diamond model suggests that some nations and organizations are more competitive than others in the globe. The argument is that the national home base of an organization provides it with specific factors which potentially create advantages on a global scale. The diamond model consists of four determinant factors which include factor conditions; demand conditions; related and supporting industries; and the firm strategy, structure and rivalry.
Factor conditions are those that can be exploited by organizations in a given country. A company can therefore exploit and build on these factors to advance competition. The factors include highly skilled labour, availability of raw materials and natural resources. Demand conditions are brought about by large and more demanding home markets as opposed to foreign markets. This creates global competitiveness of the local companies. Porter further explains that related and supporting industries and suppliers can determine a company’s competitiveness by making the company cost efficient and helping it to get more innovative parts and products. Similarly, a firm’s structure and rivalry potentially affect its competitiveness. Porter (1990) explains that the five major forces could endanger a firm’s position within a given industry if they are not tackled in the best way possible to achieve and maintain competitive advantage in the industry.

Evidence shows strategic alliances formed at complementary business levels, especially vertical ones, have the greatest probability of creating a sustainable competitive advantage. This has resulted in a large number of companies entering into alliances to gain competitive advantage (Uddin and Akhter, 2011). Similarly, strategic alliances designed to respond to competition and to reduce uncertainty can also create competitive advantage. However, the advantage created through complementary (both vertical and horizontal) strategic alliances are more permanent than the others that tend to be temporary. Complementary alliances are perceived to be more competitive primarily because they have a stronger focus on the creation of value compared to competition,
thereby reducing uncertainty while competition alliances tend to be formed to respond to competitors’ actions rather than to attack competitors.

The participants of corporate-level strategies can also use the strategies to develop competitive intelligence (CI) through knowledge management. Knowledge management is crucial for the firms to gain maximum value from this knowledge. Competitive intelligence involves gathering, analyzing, and applying information about products, customers and competitors for the short term and long term planning needs of an organization (Blenkhorn and Fleisher, 2003). Indeed, competitive intelligence can be viewed as a “process for supporting both strategic and tactical decisions, and in order to support CI, organizations need systems and processes to gather and analyze reliable, relevant, and timely information that is available in vast amounts about competitors and markets” (Cobb, 2003, p. 81).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. It was the overall scheme, plan or structure conceived to aid the researcher in answering the raised research questions. Therefore in this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This was a descriptive case study aimed at examining the effects of strategic alliances on competitiveness of Kenya Commercial Bank, where the context was the bank staff in Strategy and New Business Division of the bank. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enables the researcher to generalise the findings to a larger population. This study therefore was able to generalise the findings to all the commercial banks in Kenya.
3.3 Target Population

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Population studies are more representative because everyone has equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda (2003).

The population of interest consisted of the management bank staff in Strategy and New Business Division of the bank that deal with strategy issues on a day to day basis. Additional respondents were the bank directors who naturally would possess sufficient knowledge on issues to do with strategic alliances entered into by the bank and their impact on the bank. The population characteristic is as summarized in the table below.

Table 3.3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>26</td>
<td>79</td>
</tr>
<tr>
<td>Senior Bank Managers</td>
<td>7</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: KCB 2012

3.4 Data Collection

The study used both secondary data from other sources and primary data collected using questionnaires to carry out the study. The questionnaires consisted of structured and unstructured questions and were administered through drop and pick method to respondents. The structured questions were used in an effort to conserve time as well as
to facilitate easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing any information.

With unstructured questions, respondents' response may give an insight to their feelings, background, hidden motivation, interests and decisions and give as much information as possible without holding back. At the same time, with the use of structured questions, if the researcher is after information that he finds easier for administration purposes, he would use this method since the questionnaires and interviews are followed by alternative answers (Manoj, 2006). Similarly secondary data sources were employed whereby use of previous document or materials to support the data received from questionnaires that included newspapers, books, journals and magazines available in the libraries and online information through websites were visited.

3.5 Data Analysis

Data collected was mainly quantitative in nature. The descriptive statistical tools helped the researcher to describe the data and determine the extent to which it may be used. Analysis was done both quantitatively and qualitatively by use of descriptive statistics. This included frequency distribution tables, percentages, mean and standard deviation. In addition, advanced statistical techniques (inferential statistics) were also considered. This was mainly correlation analysis which was used to test any relationship between the variables in the study. This also helped to identify any serial correlations between the independent variables. The results were interpreted in terms of Pearson correlations, r, and the p-values. Significance was tested at 5% level.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and interpretation of study data. The research study was descriptive in nature and aimed at establishing the types of strategic alliances that best enhance competitiveness in commercial banks in Kenya and the kind of competitiveness created by such alliances. The results of the survey are expressed in terms of mean, standard deviation and percentages. These are represented in tabular form and also by use of graphs. A questionnaire was used to collect data for this study. The questionnaire gathered information on perceptions of Kenya Commercial Bank officers' on forms of strategic alliances entered into by the bank, reasons for forming such alliances, effectiveness of such alliances, and the contributions of such alliances towards competitiveness of Kenya Commercial Bank. Likert-format items were presented with 5-point scales, where 1 = "strongly disagree," 3 = "neutral," and 5 = "strongly agree". Out of 17 questionnaires sent out, a total of 11 filled questionnaires were received back. This represented a response rate of 66% (per cent).

4.2 General Information

The respondents were requested to indicate their gender and the level of education attained. Further they were also requested to indicate the position held within the organization. The responses were as presented below:
The results to the question of gender were as represented in figure 4.2.1 above. According to the findings, majority of the respondents (61%) were female while (39%) were male. The study had more female respondents than male either as a result of more female employees currently occupying the positions of manager and credit officer, or owing to the fact that women were more willing to fill and return questionnaires.

**Figure 4.2.1: Gender of Respondents**

![Gender of Respondents](image)

Source: Research data

---

The results to the question of education were as presented in figure 4.1.2 above. According to the findings, 72% of the respondents had a first degree, 23% had postgraduate degrees, while only 5% had secondary school certificate qualifications. This depicted that respondents who were better able to complete the questionnaire and who have studied at least a first degree in management could be better in understanding the study.

**Figure 4.1.2: Level of Education**

![Level of Education](image)

Source: Research data
From the findings on the level of education attained by the respondents, 73% had a first degree from universities. Another 27% had postgraduate degrees, while none of the respondents only had secondary school certificate qualification. This depicted respondents who were well informed and better able to comprehend the questionnaire and also showed that the bank only employed staff who have attained at least a first degree in the management cadre.

Fig 4.2.3: Job Title

![Pie chart showing job titles](image)

Source: Research Data

As depicted in figure 4.2.3 above, 64% of the respondents were in the rank of manager while 36% indicated they were senior managers. None of the respondents was a clerk. The findings could mean that managers were more willing to respond to the questionnaire than those in the level of senior manager or that there are fewer people in the rank of senior managers in the bank.

4.3 Types of Strategic Alliances

Respondents were also asked to indicate the most common types of strategic alliances that the bank had entered into in the last 5 years. As depicted in Table 4.3.1 below, ninety
one (91%) percent of the respondents indicated that the bank frequently entered into outsourcing agreement with partners followed by licensing agreement at 64%.

Table 4.3.1: Types of Alliances Used

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Alliance</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Joint venture</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td>2</td>
<td>Equity strategic alliance</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>3</td>
<td>Licensing agreement</td>
<td>7</td>
<td>64%</td>
</tr>
<tr>
<td>4</td>
<td>Outsourcing agreement</td>
<td>10</td>
<td>91%</td>
</tr>
<tr>
<td>5</td>
<td>Distribution agreement</td>
<td>3</td>
<td>27%</td>
</tr>
<tr>
<td>6</td>
<td>Supply contracting</td>
<td>4</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: Research data

The principal agent theory in finance literature argues that the form of institutional incorporation has an effect on behaviour of its managers and shows how they are influenced by external stakeholders. The bank seemed to prefer non-equity strategic alliance to all other forms of partnerships. Supply contracting came third at 36% while joint ventures that the bank had entered into came last at 9% and equity strategic alliance was fifth at a paltry 18%. Given the long-term nature of joint ventures and the fact that firms transfer tacit knowledge from one to another, it seems the bank avoided more of such partnerships given the non-disclosure clause through which banks operate in Kenya. Equally, equity strategic alliance may prove hard for a bank given the fact that there is need for formation of a new company by two or more firms where they control its operations in proportion to the shares held in the new outfit. Non-equity strategic alliances such as outsourcing, licensing and supply contracting are possibly favoured
because of the ever changing economic environment coupled with uncertainty surrounding each business operation.

4.4 Reasons for Forming Strategic Alliances

This study used eight-factor index to measure the main reasons commercial banks enter into strategic alliances with other partners. Using Likert-scale of 1-5 where 1=Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly Disagree, the respondents were requested to indicate the main motivating factors for the bank to enter into strategic alliances. The frequencies of the responses are presented in Table 4.4.1 while the mean and standard deviations using Cronbach’s alpha value of 0.862 are represented in Table 4.4.2 below.

Table 4.4.1: Frequencies for Motivation to Form Alliances

<table>
<thead>
<tr>
<th>Reasons for forming alliances</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>To manage and minimize costs/risks</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>To minimize market price uncertainties</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>To provide superior customer value</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>To maximize profits for the bank</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>To share and gain tacit knowledge</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>To protect and enlarge market share</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>To compliment/gain resources and capabilities</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>To acquire technology</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Research data

Table 4.4.2: Mean for Motivation to Form Alliances (α = .862)

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Mean</th>
<th>std.Dev</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>To manage and minimize costs/risks</td>
<td>4.11</td>
<td>0.437</td>
<td>11</td>
</tr>
<tr>
<td>To minimize market price uncertainties</td>
<td>3.46</td>
<td>0.702</td>
<td>11</td>
</tr>
<tr>
<td>To provide superior customer value</td>
<td>4.87</td>
<td>0.341</td>
<td>11</td>
</tr>
</tbody>
</table>
To maximize profits for the bank | 3.27 | 0.845 | 11
To share and gain tacit knowledge | 3.98 | 0.532 | 11
To protect and enlarge market share | 4.66 | 0.375 | 11
To compliment/gain resources and capabilities | 4.43 | 0.398 | 11
To acquire technology | 3.65 | 0.687 | 11

Source: Research data

The lowest standard deviation was recorded for the need to provide superior customer value at 0.341 as the main reason the bank formed strategic partnership with other organizations. This was followed by the need to protect and enlarge market share and the desire by the bank to compliment or gain resources and capabilities with standard deviations of 0.375 and 0.398 respectively. This showed that these reasons were the main motivating factors as they equally generated the highest mean values.

Conversely, high standard deviation of 0.845 and 0.702 were recorded for the need to maximize profits for the bank and minimizing market price uncertainties. The high standard deviations indicated that data points were widely dispersed from the mean showing the impact of these variables were low. The study therefore found that profitability was not the main driver for formation of any form of cooperative alliance by the bank. The need to minimize market price uncertainties could have also registered low mean values due to the fact that pricing of bank products is a factor of many variables including inflation and regulation by Central Bank of Kenya.

4.5 Key Alliances Formed by the Bank

The respondents were also required to provide description of specific strategic alliances that the bank had formed in the last 5 years. Various alliances were mentioned as having
been formed in the period requested. However, seven of the alliances which seemed key
to the bank were repeated by nearly all the respondents. The summary of the findings are
presented in table 4.5.1 below.

Table 4.5.1: Alliances Formed by the Bank

<table>
<thead>
<tr>
<th>Type of Alliance</th>
<th>Alliance Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-Karo</td>
<td>Partnership with Safaricom/Mpesa - fee collection platform.</td>
</tr>
<tr>
<td>ATMs</td>
<td>Partnership with Kenswitch to provide extra ATMs.</td>
</tr>
<tr>
<td>Card Solution</td>
<td>Alliance with Visa/Mastercard to provide Credit/Debit Card.</td>
</tr>
<tr>
<td>KCB Mobi</td>
<td>Mobile phone banking partnership with CEVA where subscribers can transfer money through mobile phone to any network in Kenya and globally.</td>
</tr>
<tr>
<td>KCB Mtaani</td>
<td>Partnership with various retail outlets to provide agency banking services.</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sale provision in partnership with Tracom to enable merchants to swipe debit and credit cards.</td>
</tr>
<tr>
<td>HSNP</td>
<td>Partnership with DFID/FSD to distribute funds to nomadic families in North Eastern.</td>
</tr>
</tbody>
</table>

Source: Research data

As indicated in the table above, nearly all the cooperative alliances mentioned fall under
non-equity strategic alliances aimed at providing better service solution for the bank. M-
Karo is a licensing agreement with Safaricom’s Mpesa to enable clients to pay school
fees directly into schools' bank accounts using the mobile money transfer platform. The
bank also entered into a franchising agreement with Visa and Mastercard to issue debit
cards, credit cards and prepaid cards to clients. The bank also had an outsourcing
agreement with Tracom for card acquiring business where the bank provided point of sale
(POS) to merchants. The findings further reinforced the perception of the respondents
that the bank preferred non-equity strategic alliances to equity alliances and joint
ventures.
4.6 Effectiveness of Strategic Alliances

This study found that strategic alliances enhanced the effectiveness of the participating firm’s competitive strategies by providing organizational learning and competence which included internalization of tacit knowledge and embedded skills, improving performance through profit maximization and growth of customer base. The partnerships were also effective in cost and risk related issues due to potential to reduce and diversify risks and sharing of costs thereby minimizing some costs like marketing and those involved in research and development. These alliances were also effective for strategic reasons which are product, competition and technology related. The respondents indicated that the bank expanded its market position, gained access to new technology and achieved competitive advantage over its rivals. The findings are presented in Table 4.6.1 below.

Table 4.6.1: Frequency of Impact of Strategic Alliances

<table>
<thead>
<tr>
<th>Effectiveness of Strategic Alliances</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improves the bank’s ability for profit maximization.</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Helps the bank acquire specific competencies</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Enhances the bank’s relationship with its customer base</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Helps in adaptation thereby minimizing various risks</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Helps the bank to keep and expand its market position</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Manages dependency on certain key resources</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Poor performance causes a firm to seek cooperative alliances</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Acquisition of new technology influences cost leadership of the bank</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Enhances capacity utilization thereby affecting its sales volume</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Technological change positively affects competitive advantage</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Research Data

From the findings, strategic alliances contributed more in keeping and expanding the market position of the bank which had a frequency of 10 agreeing and strongly agreeing
with the statement. This was followed by the impact of enhancing capacity utilization of the bank thereby affecting its sales volume at a combined tally of 9. The attribute which sought to know if poor performance caused the firm to seek cooperative alliances had the least approval at a frequency tally of 2 only. This showed the bank was not compelled to form alliances due to poor performance.

4.7 Strategic Alliance and Competitiveness

Respondents were also asked to assess the contribution of strategic alliances towards the competitiveness of the bank. Majority of the respondents felt that strategic alliances had helped the bank to offer superior services to their customers and helped to build a strong brand name in the Kenyan banking industry at an approval rate of 78% each.

Table 4.7.1: Percentages of Competitiveness

<table>
<thead>
<tr>
<th>Competitiveness Variables</th>
<th>% 1</th>
<th>% 2</th>
<th>% 3</th>
<th>% 4</th>
<th>% 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior service delivery to customers</td>
<td>0</td>
<td>12</td>
<td>10</td>
<td>48</td>
<td>30</td>
</tr>
<tr>
<td>Higher profit margins to the bank</td>
<td>8</td>
<td>20</td>
<td>15</td>
<td>31</td>
<td>26</td>
</tr>
<tr>
<td>Satisfactory bank products and services</td>
<td>5</td>
<td>13</td>
<td>19</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>Products and services are offered at a lower cost to the bank</td>
<td>10</td>
<td>19</td>
<td>11</td>
<td>36</td>
<td>24</td>
</tr>
<tr>
<td>Differentiated products (unique and desired by customers)</td>
<td>29</td>
<td>34</td>
<td>5</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>Helped to build strong brand name</td>
<td>0</td>
<td>18</td>
<td>4</td>
<td>42</td>
<td>36</td>
</tr>
<tr>
<td>Focused and defined scope of operations</td>
<td>19</td>
<td>23</td>
<td>3</td>
<td>33</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Research Data

The research study further revealed that strategic alliances had not helped the bank to come up with differentiated products and services. This attribute got an approval rating of
32% only which showed the respondents could not point out the unique products/services that stood out in customers’ minds.

4.8 Correlation Analysis

As indicated in research objectives, this study was interested in finding the competitiveness created by strategic alliances formed by the bank. As a result, various variables that determine the impact of strategic alliances on a firm were analysed to find out if any form of linear relationship existed. According to Bierly and Coombs (2004), this relationship can be tested by calculating the correlations between the types of cooperative strategic alliances formed by a firm and the impact such alliances had on the firm. From the Pearson Correlation analysis, given a set of data \((x_i, y_i)\) with \(n\) data points, the slope, y-intercept and correlation coefficient, \(r\), can be determined using the following formula:

\[
r = \frac{n \sum (x_i y_i) - \sum x_i \sum y_i}{\sqrt{[n \sum (x_i^2) - (\sum x_i)^2] [n \sum (y_i^2) - (\sum y_i)^2]}}
\]

The correlations in this study were calculated using a simple MS Excel sheet to generate the correlation coefficient, \(r\). The illustrations of the correlation calculations are represented in Table 4.8.1 below based on the 7 key strategic alliances formed by the bank in the past 5 years.

Table 4.8.1: Correlation Analysis (significance @ 5% level)

<table>
<thead>
<tr>
<th>Effectiveness of Strategic Alliances</th>
<th>Pearson Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improves the bank’s ability for profit maximization.</td>
<td>0.6447</td>
</tr>
<tr>
<td>Helps the bank acquire specific competencies</td>
<td>0.7431</td>
</tr>
</tbody>
</table>
From the analysis, there are generally positive and significant relationships between the total number of key strategic alliances formed by the bank and the effectiveness of such alliances, implying a positive relationship between strategic alliances and organizational competitiveness. This is evidenced where all but one variable returned positive correlation coefficient with some as near to 1 (one) as 0.7939 for the variable where strategic alliance helping the bank to expand its market position. One item returned a negative correlation – poor performance causes a firm to seek cooperative alliances (-0.1932). This showed that this variable did not trigger the formation of cooperative partnership in the bank and therefore was insignificant.

### 4.9 Discussion

Firms undertake strategic alliances for many reasons which include enhancing their productive capabilities, to reduce uncertainties in their internal structures and external environment. Many others will form strategic alliances to acquire competitive advantages that enable them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their output (Webster, 1999). The literature review further emphasized that others will form strategic alliances to achieve
higher control and more operational flexibility and realization of market potential. Operational flexibility results from reaching out to new skills, knowledge, and markets through shared investment risks. This current study found that the bank formed strategic alliances with other firms for various reasons ranging from the need to provide superior value to clients, to protect and enlarge market share, to resources and capabilities and even to minimize costs and risks.

The motive for strategic alliances is therefore driven by the desire to address internal organizational problems, economic benefits, the need to engage in strategic positioning and political manoeuvring with governments and market rivals. This study however noted that firms forming alliances in the banking industry are driven less by internalized organizational issues such as costs and benefits as opposed to the current market positions of each firm, their joint resource capabilities and technological asymmetries relative to the firms engaging in such transactions. A firm is therefore driven to form an alliance mainly by is strategic intentions to position itself in the market rather than the economic rationalities.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Among patterns of cooperation between firms, strategic alliances are becoming more and more popular owing to its high strategic flexibility. Despite the fact that literature has documented failure rate of strategic alliances as high as 50% which should make participants worried, the success rate and effect of such alliances are on the rise globally. The study had the following findings:

Strategic alliances are formations that seek to achieve organizational objectives through collaboration rather than through competition and thus making such partnering firms to gain competitive advantage over their rivals. Partnering firms should guard against such failures since they carry negative effects including wasted time for manpower, financial and material resources.

Strategic alliances should be based on mutual trust of partners which can help reduce or avoid paying several types of transaction costs. If the alliance proves not to be beneficial for attaining participating firm’s objectives and instead turns into constraints that impede performance, then one is inclined to terminate the alliance before it is too late.

The study also found that strategic alliances are trading partnerships that enhance the effectiveness of the participating firms’ competitive strategies by providing technology, skills and products exchanges. They also enable partners to enhance and control their
business relationships. Alliances provide opportunity for participating firms to tap into the resources, knowledge, capabilities and skills of their partners. They offer potential for a firm to leverage its resources capabilities.

Finally, the study established that strategic alliances, especially non-equity alliances are positive and significantly correlated with organizational competitiveness in terms of improving the organization’s ability for profit maximization, expanding market position as a result of growth in customer base, and increasing sales volume.

5.2 Recommendations

The study recommends that the bank should include competitive intelligence in its strategic alliance practices. Especially the impact of technological intelligence will have huge benefits in the level of automation, cost reduction and efficiency in service delivery that the bank can achieve. The bank should therefore adopt instruments to gather market intelligence, product intelligence, technological intelligence, and strategic alliance intelligence to complement its strategic alliance practices to ensure it positions itself strategically as the most competitive bank in terms of innovation and customer value-add as compared to rivals.

The bank should also form strategic alliance driven by the need to differentiate its products and services within one or a number of target market segments. It was not clear whether the bank formed strategic alliances in order to serve any differentiated market segment. Use of strategic partnerships geared towards differentiated strategy will help the
bank to gain more competitive advantage compared to its competitors in terms of market capture.

5.3 Suggestions for further research

Since the results of this study are based on strategic alliances and the competitiveness they bring to an organization, the similarity versus complimentarity in a partner choice should be investigated if strategic alliances are basically about gaining access to useful resources not possessed by one firm in order to gain competitive advantage over competition at the end. It should therefore be investigated to establish which organizational attributes hold key in choosing partners – is it products, market positions, technologies, human resources, managerial styles, or reputation of an organization?

5.4 Limitations of the Study

This study sought to explore strategic alliances in the banking sector in Kenya and to identify the extent to which they contributed to organizational competitiveness in the sector. Research was however limited only to one bank in Kenya and to a specific department within that bank.

It was therefore only possible to confirm the above in the context of the one bank, while the desired result would have been to corroborate or dispute the findings from an industry perspective. It would also have been useful to get the views of different parties in the bank, as opposed to only working with the department that specifically deals with matters of policy and strategy.
5.5 Conclusion

When legal or economic constraints prevent a firm from using hierarchy or full ownership as a solution, it will opt for an alliance to counteract certain market forces that might threaten its well being. Alliances therefore combine assets and capabilities with uncertainties and liabilities of all partners. Strategic alliances involve two or more partner firms. The firms share benefits and managerial control over performance of assigned tasks. The firms are also legally independent and they make contributions in certain strategic areas such as technology and product processes. Strategic alliances therefore create interdependence between the partners which bring benefits in form of intangible assets. Various studies have documented positive outcomes for companies engaged in strategic alliances. These include higher return on equity, better return on investments and higher success rates compared to companies that integrate through mergers and acquisitions.

Strategic decisions are driven by the evaluations of present and future benefits that a firm stands to gain. On the other hand operational decisions are based on transaction cost calculations. Strategic alliances are not driven by the expected direct impact on costs, profits, and other tangible benefits but by indirect positive outcomes from their intangible benefits. These intangible benefits where a firm ends up gaining dominant or leadership position in the market lead to their competitiveness in terms of superior service delivery, differentiated and unique products and even profitability.
REFERENCES


APPENDICES

Appendix 1: Questionnaire

I am a student at the University of Nairobi pursuing a Master of Business Administration degree in Strategic Management. I have designed this questionnaire to collect information for a research project in partial fulfillment for the award of MBA degree in Strategic Management.

Kindly take a few minutes and answer the following questions regarding strategic alliances by Kenya Commercial Bank.

Please note the following while filling the questionnaire:

- Do not write your name.
- Your individual responses are confidential and anonymous.
- Your views are important and valued by this researcher.

Respondent Information

1. Kindly indicate your gender.
   Male [ ] Female [ ]

2. Please indicate your level of education.
   Secondary [ ] Graduate [ ] Post Graduate [ ]

3. What is your position in the bank?
   Clerk [ ] Manager [ ] Senior Manager [ ]

Strategic Joint Ventures by KCB

Please mark with an (X) the option(s) which best describes alliances by the bank.

4. Which type of alliance has the bank entered into in the last 5 years?
   - [ ] Joint Venture
   - [ ] Equity Strategic Alliance
   - [ ] Licensing Agreement
5. What was the main objective for the bank to enter into the alliance(s) mentioned in number 4 above? (Please mark your answer with an (X) using the scale 1-5, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

<table>
<thead>
<tr>
<th>Reasons for forming alliances</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>To manage and minimize costs/risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To minimize market price uncertainties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To provide superior customer value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To maximize profits for the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To share and gain tacit knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To protect and enlarge market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To compliment/gain resources and capabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To acquire technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Kindly list any key alliances that the KCB has entered into in the last 5 years.

<table>
<thead>
<tr>
<th>No.</th>
<th>Partner</th>
<th>Alliance Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Please mark with an (X) the extent to which you agree or disagree with the following statements as regards your perception of strategic alliances entered into by KB.
(Please mark your answer with an (X) using the scale 1-5, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

<table>
<thead>
<tr>
<th>Effectiveness of Strategic Alliances</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic alliance improves the bank’s ability to meet strategic objectives, especially profit maximization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic alliances help the bank acquire specific competencies in the banking industry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic alliance enhances the bank’s relationship with its customer base.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It helps the bank to adapt to uncertain environments thereby minimizing various risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic alliance helps the bank to keep and expand its market position in the competitive industry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It manages dependency on certain key resources that are not available in the bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor performance causes a firm to seek cooperative alliances with other firms.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of new technology influences cost leadership of the bank thereby reducing its marketing expenditure.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic alliance enhances capacity utilization of the bank thereby affecting its sales volume.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological change positively affects competitive advantage of the bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. In your opinion, how would you assess the contributions of these strategic alliances towards competitiveness of Kenya Commercial Bank? (Please mark your answer with an (X) using the scale 1-5, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)
Competitiveness Variables

<table>
<thead>
<tr>
<th>Competitiveness Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior service delivery to customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher profit margins to the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfactory bank products and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products and services are offered at a lower cost to the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiated products (unique and desired by customers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helped to build strong brand name</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focused and defined scope of operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. In your opinion, which alliance has best served the bank's interests and objectives?
   Joint Venture [ ] Equity Alliance [ ] Non-Equity Alliance [ ]