

**A SURVEY OF STRATEGIC ALLIANCES IN KENYA'S BANKING
INDUSTRY**

BY

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**A Management Research Project Submitted in Partial Fulfillment of the
Requirement of the Degree of Master of Business Administration , School of
Business, University of Nairobi.**

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DECLARATION

This research is my original work and has not been submitted for a degree in any other university.

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This management research project has been submitted with my approval as the University supervisor.

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DEDICATION

To my young family, dear wife Leah J Chepkwony and my children Emmanuel Kibet, Yvonne Chemutai, and Ivy Cherotich for their encouragement, patience and understanding and perseverance during my study period and absence at home in most times. To my Father and Mother for their tender care with little resources sacrificed to me during my entire period of my studies in all levels.

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ABSTRACT

Strategic alliances have become an important part of most company's portfolios. In an era of rapid technological change, the ever rapidly changing competitive landscape, and the globalization of competition more and more banks and companies are choosing to participate in alliances. Strategic alliances involve co-operation between two or more firms who pool resources together to create value proposition for the customers and within themselves. Often the decision to participate in alliances is not one of the companies own choosing. With their competitors entering into alliances, firms are often faced with few choices other than that of forming alliances to nullify the potential advantage of their rivals.

Banks are operating in a very competitive environment. The interest rates which hitherto formed the major source of incomes in most commercial banks are shrinking and have drastically reduced. With the enactment of Central bank amendment act which aimed at controlling the interest rates being charged on customers by banks, incomes are likely to be affected and reduce in the long run.

The objectives of the study were to establish the motives which have led to strategic alliances in the banking industry, establish the banks experiences in strategic alliances and to establish the key challenges faced by banks on strategic alliances. The research design led to gaining an in-depth understanding on banks forming strategic alliances. The population was composed of all the registered commercial banks in Kenya but mainly in Nairobi to enhance quick response from the respondents. Data was collected by means of a questionnaire which had open ended questions. The questions were administered to the respondents using hard copies sent by hand and soft copies sent via electronic mail. For those sent by hand, the "drop and pick later" method was used. The respondents were from, Marketing, Strategic Planning, and Business Development departments in the commercial banks. General information on strategic alliances in the banking industry was done in terms of measures of frequency, standard deviations or dispersion using SPSS software package. The results of analysis were presented in terms of pie charts, graphs, tables, and percentages.

The study indentified joint sales, improved distribution channels and technology transfers as the main purposes of entering into strategic alliances. The benefits banks derived from strategic alliances were; new business opportunities, customer satisfaction and increase convenience).

The research findings established that profitability, technology, customer satisfaction, competition and value addition as the main reasons as to why banks seek strategic alliances. It was noted that specific technology, culture in banks and benefits were the main challenges banks face when entering into strategic alliances

The study confined itself to strategic alliances in the banking industry only. This research therefore should be replicated in other industries and the results be compared so as to establish whether there is consistency among the industries in Kenyan economy. The study was also limited by the sample size of commercial banks spread countrywide hence adequate time of covering all. The researcher also encountered immense problems with the respondent's unwillingness to complete the questionnaires in time. Five respondents did not bother to return the questionnaires via email despite their earlier request that it's easier done on mail since it saves in time wastage. Because of the time constraint, the researcher did not extend the duration of the study so as to complete the survey on the strategic alliances in the banking industry in Kenya. Further research is therefore recommended on how to negotiate with relevant skills and on how to maintain the strategic alliances relationships in the banking industry.

CHAPTER ONE: INTRODUCTION

1.1 Background

Senior management faces ever-present challenges to maintain a competitive organization. Managers are constantly having to review the markets in which their organization operates the product and service they offer and the behavior of competitors. Attention to these problems and challenges calls for an external focus but, at the same time, senior management must keep a close watch on internal structuring to ensure that organizational objectives can be met. The internal issues can be summarized under the broad heading of organizational structure, technology, organizational size and principles of management. These are the most critical elements that influence the ability of an organization to sustain high levels of individual achievement and performance (Booz-Allen & Hamilton, 2007).

The idea that an organization's structure and processes should *fit* or match its environment has been around for a long time - and there is evidence that firms with good structure/environmental fit perform better than those without good fit (Habib and Victor, 1991; Ghoshal and Nohria, 1993). Changing market realities are forcing companies to restructure their business in dramatic ways. This need to change comes from such forces as competitive threats, stockholders expectations, or internal business requirements. The result is that companies are forced to "right size" or position the company more profitably. In attempting to get back to basis, some companies are reviewing their core competences, selling company divisions, and outsourcing processes. While others are reorganizing, their internal structures and processes to better meet the changing market realities. One of the most innovative solutions to arise from these new business models is the concept of strategic alliances (Habib and Victor, 1991).

1.1.1 Strategic Alliances

A strategic alliance is a joint effort by two or more companies linked together in the supply chain to reduce the total cost of acquisition, possession, and disposal of goods and services for the benefit of all parties (Stephen & Graig, 2003). Developing strategic alliances partners may provide the strategic alliances with resources such as products, distribution channels,

manufacturing capability, project funding, capital equipment, knowledge expertise, or intellectual property. An alliance as a corporation or collaboration that aims for a synergy where each partner hopes that the benefits from the alliances will be greater than those individual efforts. The alliance often involves technology transfer (access to knowledge and expertise, economic specialization, shared expenses and shared risks. Strategic alliances take various stages namely: Strategic development; Partner assessment; Contract negotiations; Alliance operation, and Alliance termination. One of the fastest growing trends for business today is the increasing number of strategic alliances (Booz-Allen & Hamilton, 2007).

Strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliance (Mintzberg, 1998), argued that if all markets were equally accessible, all management equally skilled, all information readily available, and all balance sheets equally solid, there would be little need for collaborations among competitors. But, they are not, so companies increasingly benefit by trading on these “chips” across borders. Successful alliances partners follow several partners in handling the inherent tensions of arbitrating with potential competitors. They approach the negotiations phase with a win-win situation. As one executive said “Do not sit down to negotiate a deal but build links between the companies”. Successful partners have build in conflict- resolutions mechanisms, such as powerful board of directors (for alliances), and frequent communication between top management of the parent companies and the alliance.

Porter (1980) defined strategic alliances as a manifestation of inter-organizational cooperative strategies, entailing the pooling of specific resources and skills by the cooperating organizations in order to achieve common goals as well as goals specific to the individual partners. That strategic alliances are the gaining access to new markets, accelerating the pace of entry into new markets, sharing of research and development, manufacturing, and/or marketing costs, broadening the product line/filling product line gaps, and learning new skills are among the motives underlying the entry of firms into strategic alliances. During the last decades, an increasing number of firms have entered into strategic alliances with other firms within the same

industry, as well as within other industries. Some firms have progressed well beyond forming isolated alliances to establishing a web of intra- and inter- industry, and intra- and international strategic alliances.

The CEOs of the parent companies need to absolutely be clear on where co-operation is expected and where the “old rules” of competition applies. For small business, strategic alliances are a way to work together with others towards a common goal while not losing their individuality. Alliances are a way of reaping the rewards of team effort- and the gains from forming strategic alliances appear to be substantial. Companies participating in alliances report that at much as percent of their revenues comes from their alliances. But it is not just profit that is motivating this increase in alliances. Other factors include an increasing intensity of competition, a growing need to operate on a global scale, a fast changing marketplace, and industry convergence in many markets as in financial services industry, banks, and investment firms. More in particular when growing international marketing is becoming the norm, these partnerships is leveraging on business growth through alliances with international partners. Rather than take on the risks and expenses that international expansion can demand, one can enter international markets by finding an appropriate alliances with a business operating in the marketplace` one desires to enter.

A strategic alliance is essentially a partnership in which you combine efforts in projects ranging from a better price for supplies by buying in bulk together to build a product together with each of you providing part of its production. The goal of alliances is to minimize risk while maximizing your leverage and profit. An alliance is simply a business-to- business collaboration. Another term that is frequently used in conjunction with alliances is establishing a business network. Alliances are formed for joint marketing, joint sales or distributions, joint production, design collaboration, technology licensing, and research and development. Businesses use strategic alliances to achieve advantages of scale, scope and speed, increase market penetration, enhance competitiveness in domestic and/ or global markets, enhance product development, develop new business opportunities through new products and services, expand market development, increase exports, diversity, create new business, and reduce on costs (Pearce and Robinson,1997).

According to Gulati (1998) strategic alliances have become a common strategy to businesses to enable them achieve mutually beneficial objectives. He went on to say that, strategic alliances reflect the desire of enterprises to achieve their independent business objectives cooperatively and the need to make business arrangements in order to gain competitive advantages among the fierce competitors in the market place. An enterprise may want to produce or enquire certain resources that it lacks in the knowledge, technology, and expertise. It may need to share capabilities that the other firms have. Other benefits include, gaining capabilities, easier access to target markets, sharing the financial risks, winning the political obstacle, and achieving synergy and competitive advantage. Synergy and competitive advantage are elements that lead business to greater success. An enterprise may not be strong enough to attain these elements by itself, but it might be possible by joint efforts with another enterprise.

The combination of individual strengths will enable it to compete more effectively and achieve better than if it attempts on its own (Gulati, 1998; Stuckey, 1993; Berg and Friedman, 1981). Approaching the wrong company without regard to strategic fit on business has lead to many break-up in business alliances and loss of precious resources on both sides of the alliance teams. Unclear partnership value proposition and not understanding corporate strategies are part of the pitfalls. Understanding the partners strategic intent helps in focusing the value proposition in a synergistic way. Lack of preparation and use of unclear and unrealistic positioning relative to competitors has effects on strategic alliances (Gulati, 1998; Stuckey, 1993; Berg and Friedman, 1981). Failing to understand partners' corporate culture and decision-making has become a natural tendency for most people although high-level support is important in high- tech companies. In summary, the pitfalls such as effective coordination are challenging and time consuming, language and cultural barriers and problem of mistrust exists. Relationships may cool and benefits never realized. Collaboration in competitively sensitive areas can be difficult and one firm may become too dependent on another firms capabilities.

Inter-organizational linkages have existed since the origins of firms as a production unit. This includes the firm and entrepreneur ties to credit institutions such as banks, trade associations, supplies of raw materials such as family farms, individual producers, and artisans. Contemporary firm's networks typically include diverse organizations such as suppliers, buyers, competitors,

regulatory authorities, financial and credit institutions; that together comprise the economic organization of production (Ghoshal and Barlett, 1990). Lorange and Roos (1993) likewise referred to multinational corporations (MNC) as networks of alliances that cross national borders and industrial sectors.

Dicken (1994), described production networks as a mix of intra-and interim structures of relationships, shaped by different degrees and forms of power and influence over inputs, throughputs, and outputs. The concentration of alliances within particular industries in the manufacturing sector and the heightened proclivity of larger firms to enter them led scholars to conclude that the quest for market was important motive for alliances. These arguments were refined to incorporate transaction cost as an inducement for certain types of alliances (Stuckey, 1993) and knowledge acquisition as a salient motive for many alliances (Berg and Friedman, 1981). Strategic alliances are not only trading partnerships that enhances the effectiveness of the partnership firms competitive strategies by providing for mutual resources exchanges like technologies, skills, or products. They are also new business forms that enable the partners to enhance and control their business relationship.

Powerful forces are driving the formation of strategic alliances between firms in the world economy. The movement towards globalization has opened many new opportunities to companies, triggering a desperate move towards the formation of strategic alliances. In the intensely competitive global arena, companies must identify their skills and competency gaps and fill them rapidly. Very often they find that the fastest way to fill them is with the capabilities of strategic alliances. The uncertainty inherent to the information economy, with myriad of new markets to create and emerging technologies to define, calls for alliances not only to serve the usual purpose of bringing together complementary strengths but also that of combining insight and understanding to reduce uncertainties accelerate learning for strategic alliances (Doz,1998).

Strategic alliances have become an important part of most company's portfolios. In an era of rapid technological change, the ever rapidly changing competitive landscape, and the globalization of competition more and more companies are choosing to participate in alliances. Often the decision to participate in alliances is not one of the companies own choosing. With their competitors entering into alliances, firms are often faced with few choices other than that of

forming alliances to nullify the potential advantage of their rivals. That said, studies report failure rates in alliances ranging from 30-70%. The high failure rates are mirrored in the demise of some alliances that have garnered widespread publicity. The failures of the Meiji- Borden alliance in China, the collapse of Corning's alliance with Vitro, and the early termination of Corning's alliance with Nestle are some salient examples of alliance failures. Some fail because of incompatibility of partners goals. Others are unable to navigate differences in national cultures among partner firms while some suffer from opportunistic behavior by their partner or the inability to effectively coordinate their activities. Yet others are the victims of changing environmental conditions that call into question the logic of the alliance. Still others suffer from the challenge of developing an alliance with a partner who may be their competitor. Given the diversity of causes underlying alliance failure, it is perhaps understandable as to why managers often consider alliances as an organizational form that maximizes rather than minimizes ambiguity. Ambiguity is intrinsic to alliances in that there are numerous variables that often come into play. These variables mutually influence each other and their interaction often occurs in an environment that is far from benign. For example, where the partner's objectives are or are perceived to be incongruent they may undertake actions that may surprise their partner. This, in turn, may cause the aggrieved partner to question the motivations of their partner. This will surely undermine trust and make cooperation among the partners exceedingly difficult. (Hamel, 1991).

1.1.2 The Banking Industry in Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members. According to CBK (1995) there are forty-six bank and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned,

though some are partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange.

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (Pricewaterhouse Coopers 2006, 2007).

Pricewaterhouse Coopers (2006) and CBK (2008) reported that changes in the regulatory framework where liberalization exists, but the market continues to be restrictive, declining interest margins due to customer pressure, has led to mergers and reorganizations in the banking sector. The increased demand for non-traditional services including the automation of a large number of services and a move towards emphasis on the customer rather than the product; and Introduction of non-traditional players, who now offer financial services products, is poised for significant product and market development that should result in further consolidation and alliances of the banking sector.

However, it has been boom time for the Kenyan banking sector, which has experienced steady growth in tandem with the economy over the last four years. Overall, the banks Pre-tax profits rose by 34.2% to Ksh 29.8 billion by end of October 2007 compared with Ksh 22.2 billion by October 2006. According to CBK, the banking sector had a total of 575 branches in 2006, and 617 ATM machines countrywide as at October 2007. Nairobi, Central and Rift valley regions control 70% of all bank branches (401 out of 575 branches), while Nairobi alone controls 42% (239 branches). The banking sector has also recorded significant growth in consumer lending and the resultant credit expansion, which has influenced positively on the economy. This is evidenced by the growth in real private sector credit of 17.7% by May 2007. This has brought significant benefits to the economy. This growth overall continues to be sustained by the aggressiveness adopted by banks in the development of new products and services, increase in the number of branches, improvement in the automation of the delivery systems and customer care and doing business alliances (Central Bank Kenya 2007).

The banks focus attention on the needs of local families, businesses, and farmers. Conversely, many of the banks are structured to place a priority on serving large corporations. Unlike many larger banks that may take deposits in one state and lend in others, community banks channel most of their loans to the neighborhoods where their depositors live and work, helping to keep local communities vibrant and growing. Many banks are willing to consider character, family history and discretionary spending in making loans. The banks nimble decision-making on business loans, because decisions are made locally. Because banks are themselves in businesses, they understand the needs of small business owners. Their core concern is lending to small businesses alliances.

Various banks have entered into business partnerships with various parties in order to diversify their outcomes and products. Examples include Barclays Bank and KPLC where the two partnered together for service delivery. The two signed an agreement that will enable customers to pay their electricity bills at Barclays. BBK is offering KPLC a customized collection solution that will meet their specific needs. KCB and Brookside have partnered together so as KCB to provide a credit boost for farmers. This will strengthen the services to be offered in Uganda and Tanzania. KCB and HELB partnered and KCB has opened a HELB KCB Collection Account where those who benefited from the loans are repaying HELB Loans through this account. The account is available in all the KCB's 140 branches countrywide. One can also access a KCB Personal and Check Off loans and clear their entire debt in one go. Equity & Ministry of Agriculture-has launched a credit facility for grain farmers to help them in purchasing farm inputs. The facility will benefit both large and small scale grain farmers to attain commercial farming. The initiative is called "Kilimo Biashara" and is a joint venture involving Equity Bank, the ministry of agriculture, the International Fund for Agricultural Development and the Alliance for a Green Revolution in Africa (Economic Intelligence 2009, Standard Group Ltd, 2008)

Gulf African Bank & Qatar Airways; the bank has partnered with the airways to enhance the account package by making available additional benefits for the Hajj traveler, including special fare. The airline operates five weekly flights to Jeddah via Doha. The partnership will provide customers with convenient way of saving, traveling, and accommodation logistics. Gulf African Bank & ZAIN- Kenya; the bank has partnered with mobile service provider Zain- Kenya that

will see its customers' access communication at subsidized rates. Gulf African customers will receive free SIM cards and a mobile phone. The postpaid services will be open to customers and an account with a minimum deposit ranging from Kshs. 30,000/= to Kshs 50,000/=operated. Customers will also have unlimited calls from 6am to 6pm at Kshs 65 and Kshs 8 per minute on all other networks (Nation Media Group, 2008).

Safaricom, the local telephone service provider, has recently entered into agreements with several banks including Postbank, KCB, and other banks with wider branch network to facilitate its M-Pesa services which is widely used in sending and receiving money locally with over seven million subscribers enjoying the service in Kenya. Most banks have also entered into partnership with PesaPoint and Kenswitch independent ATMs back borne providers that has increased their penetration into areas without physical banking facilities (CBK, 2008)

1.2 Statement of the Research Problem

Strategic alliances are becoming more and more in the global economy and are a crucial component in the success of any organization be it for profit or non-profit .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 strategic alliances (Drucker, 1996).

Strategic alliances are becoming an essential driver of superior growth in the banking industry. Due to the maturation of global trends such as, intensified competition, shortened period of product life cycles, soaring cost of capital, including the cost of research and development, and the ever growing demand for new technologies, alliances are becoming an alternative business strategy and hence the formulation of strategic alliances in the banking industry . A survey published in Electronic Business, showed that 80% of electronics companies have strategic alliances and most are planning or negotiating additional agreements. 82% of the executives believe that alliances will be a prime vehicle for future growth. (Kalmbach & Roussel, 1999).

Wachira (2003) carried out a survey on strategic alliances in Pharmaceutical drug development. A case study of three strategic alliances at Eli Lilly and Company. According to Koigi (2002), carried out a survey on the Implementation of Strategic alliance experience of Kenya Post Office Savings Bank (KPOSB) and Citibank. Kamanu (2005) emphasized that strategic alliances

among development of NGOs in Kenya are a crucial component in the success of any organization for-profit or non-profit in the world today. While, Serem (2002) did a survey of the outsourcing of human resource services by banks in Nairobi. Little research has therefore not been done on the strategic alliances in the banking industry in Kenya since all the above studies dwell on strategic alliances on different fields.

Due to these financial competitions, banks are now formulating and strengthening strategic alliances in order to counter the stiff competition, apart from improving their resource base in the market. For them to remain relevant in the competitive business environment, most of these banks have now resorted to innovative ideas relating to these strategic alliances with competitors. The study will seek to explore the factors which have driven banks to strategic alliances and the challenges they are experiencing. More specifically, the study will seek to answer questions pertinent to strategic alliances and how banks have perceived these strategic alliances in relation to their business strategy and firm performance. The study will seek to answer questions such as: what has driven the banks to move towards strategic alliance? What do banks gain from these strategic alliances?

1.3 Objectives

The objectives were to:

- i. Establish the motives which have led to these strategic alliances in the banking industry.
- ii. Establish the banks experiences in strategic alliances in the banking industry.
- iii. Establish the key challenges faced by banks on strategic alliances and how they have been overcome.

1.4 Significance of the Study

Today, organizations operate under increasingly competitive and ever changing environment. In order for the banks to deliver on its services effectively, they require getting into strategic alliances with other players for the benefit of their organizations. Various banks set goals which are short-term and long-term and all strive to strategically meet the objectives within the

stipulated time. However, in implementing this goal, banks face challenges which slow down on realization of the set targets. While considerable research has been done on other strategic alliances on other fields like NGOs, little has been done on strategic alliances amongst banks in Kenya.

There is therefore need for more research in this area to unveil on the strategic alliances in the banking industry in Kenya and the motives behind it. The study is important to the banks in strengthening the strategic alliances in the business environment. It will help the scholars in their academic understanding of strategic alliances and motivate them to do more research in order to provide vital information to bridge the gap in knowledge on strategic alliances in banks. It will help make recommendations on how to sustain, implement and overcome the challenges on strategic business alliances in the banking industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

Whittington (2005) defined strategy as the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. Strategic decisions are complex in nature especially in organizations with wide geographical scope, such as multinational firms, or wide range of products or service. Strategy is made up of three levels which comprises of corporate level strategy concerned with the overall purpose and scope of an organization and how value will be added, the business level strategy which is about how to compete successfully in particular markets. The third level is a strategic business unit for which there is a distinct external market for goods or services.

Pearce and Robinson (2003) defined strategy as large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. That a strategy is a company's game plan although that plan does precisely deploy the involvement of people, finance, and material, but does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when, and where it should compete, against whom it should compete, and for what purpose it should compete. Strategic management therefore involves the planning, directing, organizing, and controlling of strategy-related decisions and actions. Strategy exists at many different levels in any organization. In government, there are world trade, national economy, treasury department, military spending, investment, fiscal, monetary supply, banking, regional development, and local re-employment strategies, all related to, each other (Mintzberg, Quinn, Ghoshal, 1998). Similarly, business has numerous strategies from corporate levels to department levels within divisions. However, genuine strategy is always needed when the potential actions or responses of intelligent opponents can seriously affect the endeavors desired outcome regardless of that endeavors organizational level in the total enterprise. This condition almost always pertains to their important actions taken at the top level of competitive organization (Mintzberg, et al, 1998). For firms to take specific actions to out-manuever competition, they need to have strategic intent. Strategic intent encompasses an active

management process which includes focusing the firm's attention on the essence of winning, motivating the people by communicating the value of targets, encouraging individual and team contribution, and providing direction as circumstances in the environment change (Hull & Jones, 2001).

Strategy is the direction and scope of an organization over the long term, which achieves advantage through its configuration of resources within a changing business environment and to fulfill stakeholder (customers, competitors, creditors, government etc.) expectations. The consequences of these characteristics according to Johnson and Scholes (2002: 10) include the fact that strategic decisions are likely to be complex in nature, and that this complexity is a defining feature of strategy and strategic decisions; that strategic decisions may also have to be made in situations of uncertainty whereby the decision makers may involve taking decisions with the view of the future about which it is impossible for managers to be sure.

Strategic decisions are also likely to demand an integrated approach to managing the organization. Unlike functional problems, there is no one area of expertise, or one perspective, that can define or resolve the problem. They went on to say that managers, therefore, should have cross-functional and operational boundaries to deal with strategic problems and come to agreements with other managers who, inevitably, have different interests and perhaps different priorities; Additionally, managers perhaps change relationships and networks outside the organization, for examples with suppliers, distributors and customers; and that strategic decisions will very often involve change in organizations which may prove difficult because of culture (Johnson & Scholes (2000).

2.2 Competitive Business Environment

A consensus has emerged among scholars and practitioners alike that the business environment has become more competitive than in the past because of globalization (Khatri, 2000, Becker & Gerhart, 1996). In order to survive in this new era, businesses have to focus even harder on their competitive strengths more specifically on strategic alliances business so as to develop appropriate long-term strategies. Khatri (2000: 336) said that old practices and systems that

have evolved over time in a relatively stable environmental context are inadequate to meet the challenges posed by the complex and dynamic business environments of today.

The issue of how to counter the dynamic environmental forces falls in the domain of strategic management research (Khatri, 2000). Broadly, strategic management attempts to match (or fit) an organization with its environment Kotler (2000). Strategic fit according to Johnson & Scholes (2000) is developing strategy by identifying opportunities in the business environment and adopting resources and competences so as to take advantage of these. The same has been echoed by Smith (1991) and they said that environmental analysis is one of the most critical elements of strategic planning and management. Smith (1991) and Kotler (2000) noted that firms that properly analyze the environment are much more likely to succeed than those that do not. Conversely, a major mistake, such as assuming that environmental conditions will not change, is very likely to seriously harm the firm (Smith, et al 1991: 85-172; Johnson & Scholes, 2002; Kotler, 2000).

According to Smith et al (1991) the outcome of proper environmental analysis should be an understanding of the situation confronting the company. Whereas setting objectives addresses where the firm wants to go, environmental analysis addresses what the firm is facing and allows managers to select strategies that will lead to the reaching of objectives hence strategic fit (Smith et al, 1991), Kotler (2000). The argument is based on the premise that changes in the external environment trigger business strategic responses that in turn trigger business alliances between organizations.

No company can go it alone. For industry giants and ambitious start-ups alike, strategic partnerships have become central to competitive success in fast-changing global markets. More than ever, many of the skills and resources essential to a company's future prosperity lie outside the firm's boundaries, and outside management's direction control.

2.3 Motives of Strategic Alliances

There is great need for critical mass, which alliances can achieve by forming partnerships with competitive complementary products in the market. This has led to cost reduction and an

improved customer offering and allowing each partner to concentrate on activities that best match their capabilities.

Alliances are used to enter new geographical markets where an organization needs local knowledge and expertise in distribution, marketing and customers support. Similarly, alliances with organizations in other parts of the value chain as suppliers and distribution are common. Learning from partners and developing competences is key in strategic alliances and to the public sector, Whittington (2005).

2.4 Governance Structure of Strategic Alliance

A notable characteristic of Strategic alliance has been the increasing diversity of such alliances. The nationalities of partners, their motives, and goals in entering alliances, and the formal contractual structures used to organize the partnership, called the governance structure, have all become increasingly varied. While alliances may be considered a distinct form of governance that is different from markets or hierarchies, there is considerable variation in the formal structure of alliances themselves (Powell, 1990).

The variety of organizing structures implies that firms face an array of choices in structuring their alliances. At one end are joint ventures, which involves partners creating a new entity in which they share equity and which most closely replicate the hierarchical control features of organizations. At the other end are alliances with no sharing of equity that have few hierarchical controls built into them (Hennart, 1988).

(Gulati, 1993) initiated technology partnerships with a number of key industry players in the mid-1980s. These in turn have led to numerous repeated alliances with the same set of firms. Firms select contractual forms for their alliances not only on the basis of the activities they include and the related appropriation concerns they anticipate at the outset, but also the existence of the social network of prior alliances in which the partners may be embedded. Familiarity between organizations through prior alliances does indeed breed trust which enables firms to progressively use less hierarchical structures in organizing new alliances. Coordination considerations are extensive in alliances. In a study of over 1500 alliances, it was found that the deliberations underlying the choice of alliance structure at the time of

appropriation, but by considerations associated with managing coordination's costs resulting from the anticipated ongoing coordination of tasks across partners. The presence of inter-firm trust is an extraordinary lubricant for alliances that involve considerable interdependence and task coordination between partners, since firms with prior network connections are likely to have a greater awareness of the rules, routines, and procedures each follow. Such a social structure enables alliances to work together closely, without the need for formal hierarchical controls (Gulati, 1977).

2.5 The Performance of Strategic Alliances

Empirical studies have yielded important insights into some of the key factors that is associated with the termination of alliances, including industry and dyadic conditions such as the concentration and growth rates, the presence of concurrent ties, partner asymmetry, age dependence or the duration of the alliance, the competitive overlap between the partners, and characteristics of the ventures itself such as autonomy and flexibility (Kogut, 1989). However, the performance of strategic alliance is limited by failing to distinguish between natural and untimely deaths. Many successful alliances terminate because they are predestined to do so by the parent firms at the very outset. In other instances, an alliance may simply be a transitional arrangements that the parents plan to terminate when their objectives are met or when they have valuable new information that makes viable an acquisition or divesture of that business (Kogut, 1991). Not all ongoing alliances are necessarily successful, and some may be continuing more out of inertia or the high exit costs associated with dismantling it than because of the inherent success of the partnership. Alliance terminations and alliance failure implicitly consider performance as an either-or condition.

Because of the multifaceted objectives of many alliances, performance can be difficult to measure with financial outcomes. Sometimes performance is asymmetric. One firm achieves its objectives while the other fails to do so. Several cases have been reported of alliances in which one partner had raced to learn the others skills while the other did not have any such intentions (Hamel, 1989). Evidence suggests that there is systematic differences in the cooperative capabilities that firms build up as they have more experience with alliances and that the extend of this learning may affect the relative success of those firms with alliances

(Lyles, 1988). Some of these capabilities include identifying valuable alliances opportunities and good partners, using appropriate governance mechanisms, developing inter firm knowledge-sharing routines, making requisite relationship-specific asset investments, and initiating necessary changes to the partnership as it evolves while also managing partner expectations (Doz, 1996).

2.6 Dimensions of Strategic Alliances

One of the fastest growing trends for business today is the increasing number of strategic alliances. According to Booz-Allen & Hamilton (2009), strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliances. Partners therefore do provide the strategic alliances with resources such as products, distribution channels, manufacturing capability, project, or intellectual property to enhance the alliances to its greater heights of achievement and profitability. The alliances acts as a corporation or collaboration which aims for a synergy where each partner hopes that the benefits from alliances will be greater than those from individual efforts. The alliance hence often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risks.

Kanter (1990) stated that any relationship between companies involving a sharing of common destinies, strategic alliances are cropping up across the global arena. Due to the maturation of several trends of the 1980s, such as intensified foreign competition, shortened product life cycles, soaring cost of capital, including the cost of research and development and, the ever growing demand for new technologies, alliances are becoming an alternative strategy for the future.

Kanter (2000) argues that strategic alliances between companies, whether they are from different parts of the world or different ends of supply chain, are a fact of life in business today. While some are short-lived and others long-term, it is argued that irrespective of the duration and objectives of business alliances, being a good partner has become a key corporate asset. In the

global economy, a well developed ability to create and sustain fulfill collaborations gives companies a significant competitive edge. Despite the documented growth of alliances on a global basis, managers have focused too much attention on the questions of alliances formation and spend too little effort attempting to understand the process of alliances management. But successes for alliances depend on both business and inter personal relationships, and that the demands of each vary over the alliances life cycle (Robert 1996).

Grindy (1995) asserts that strategies for growth involve exploring business opportunities for both financial and competitive advantage and to develop capacity. He asserts that strategic alliances are one of the strategies for growth.

Kanter (1994) asserts that business alliances must yield benefits for the partners more than just the deal. Those business alliances are living systems that evolve progressively in their possibilities. Beyond the immediate reasons, they have for entering into a relationship, the connections offers the parties an option on the future opening new doors and unforeseen opportunities. Alliances that both partners ultimately deem successful involve collaboration (creating new value together) rather than mere exchange partners value the skills each brings to the alliance. Strategic business alliances cannot be controlled by formal systems but require a dense web of interpersonal connections and internal infrastructure that enhance learning (Kanter, 1994).

2.7 Reasons for Creating Strategic Alliances.

2.7.1 Market Penetration

Growth has been rated as strategies for entering into new markets by coopers & Lybrand. Companies do not have time to establish new markets one-by-one. In today's fast-paced world economy, strategic alliances are true in reality. Forming an alliance with an existing company already in that marketplace is a very appealing alternative. Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company. According to the Coopers & Lybrand (1997), 50 percent of firms involved in alliances market their goods and services internationally versus 30 percent of nonallied participants.

Strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization, all of which have cast many corporations into two competitive races: one for the world and the other for the future. Globalization opened the race for the world as firms entered once-closed markets and pursued untapped opportunities. The race for the future compels firms to discover new market opportunities, new solutions for customers, new answers to poorly met needs.

2.7.2 Effective Technology

Along with convincing organization theorists of the importance of the technology construct, Woodward's important study ushered in the idea that technology determines which sort of business alliance to build is best. Belief in this idea came to be known as the technological imperative. While Thompson and Perrow further developed the technology construct it, other organization theorists investigated the technological imperative with a variety of replications of Woodward's study. In particular, a group of British researchers from Aston University, known as the Aston Group, found evidence that substantially altered beliefs in the technological imperative. Their studies contained data on a wider range of organizations than did Woodward's research and their analysis showed that the significant correlation between technology and social structure that Woodward reported was itself contingent upon the size of the organization. The Aston studies indicated that technology has greater significant to business growth in an organization.

The explanation provided by the Aston researchers was that when the organization consists of little beyond a technical core, as was the case for the relatively small organizations studied by Woodward, then technology has a significant and possibly determining effect on strategic business alliances

Not all companies can provide the technology that they need to effectively compete in their markets on their own. Therefore, they are teaming up with other companies who do have the resources to provide the technology or who can pool their resources so that together they can provide the needed technology. Both sides receive benefits from the partnership. Technology transfer is not only viewed as being significant to the success of strategic alliances (Hsieh, 1997).

Forming strategic alliances is to outsource business functions, which can include marketing, production, accounting, sales, or virtually any other process, to a company which can do it better and cheaper. Indeed, many companies are forming alliances looking for the best quality or technology, or the cheapest labour or production costs (Quinn, 1995).

2.7.3 Financial Strategy

Some companies may find that the financial risk that is involved in pursuing a new product or production method is too great for single company to undertake. In such cases, two or more companies come together and agree to spread the risk among all of them. An example on this strategic alliance is between Boeing, Aerospatiale of France, British Aerospace, and Construcciones Aeronauticas of Spain, and Deutsche Aerospace of Germany. These airplane manufacturers created an alliance to spread out the extremely high costs of developing a new large jet airplane (Wheelen and Hungar, 2000).

Many not-for profit organizations are limited in resources and skills. Therefore, they find that strategic alliances are an excellent way to better serve their clients. They can form partnerships with others who also need help and provide what is needed for all.

2.7.4 Competitive Advantage of Strategic Alliances

Alliances are particularly alluring to small business because they provide the tools business need to be competitive. For many small companies the only way they can stay competitive and even survive in today's technologically advanced, ever-changing business world is to form an alliance with another company or companies.

Small companies realize the mutual benefits they can derive from strategic alliances in areas such as marketing, distribution, production, research, and development, and outsourcing. "We believe that the world has entered a new age-an age of collaboration- and that only through allying can companies obtain the capabilities and resources necessary to win in the changing global marketplace. Self- reliance is an option few companies will be able to afford" (Booz, Allena Hamilton, 1997)

2.8 Global and Local Business Strategic Alliances

Cooperative arrangements between companies range along a continuum from weak and distant to strong and close. Similar companies in similar industries pool their gain a benefit too expensive to acquire alone- access to an advanced technology. Companies in different industries with different but complimentary skills link their capabilities to create value for ultimate users. Commitments in those relationships tend to be high, the partners tend to develop joint activities in many functions, operates often overlap, and the relationship thus creates substantial change within each partners organization (Garnsey and Wilkinson, 1994)

Various banks in Kenya have entered into partnership arrangements with other companies. Barclays Bank partnered with Kenya Power and Lighting Company (KPLC) in order to provide bill payment services to its customers countrywide. BBK therefore offers KPLC a customized collection services that meets their specific needs.

Kenya Commercial bank entered into an alliance with Brookside Company in order to provide credit facilities for farmers through its branch network outlets countrywide. Postbank has partnered with Commercial Bank of Africa in doing collection services on their behalf of Safaricom. Equity Bank has entered into a business alliance with the Ministry of Agriculture in offering credit facility for grain farmers to help them in purchasing farm inputs. The facility benefits both large and small scale farmers to attain commercial farming. The initiative is called “Kilimo Biashara”. Gulf African Bank and Qatar Airways are in business alliance to enhance the account package by making available additional benefits for the Hajj travelers including special fare. The airline that operates five weekly flights to Jeddah via Doha provides customers with convenient way of savings, traveling, and accommodation logistics (Nation Media Group, 2009).

2.9 Management of Strategic Alliances

The commitment of senior management of all companies involved in a strategic alliance is key factor in the alliances ultimate success. Indeed, for alliances to be truly strategic, they must have a significant impact on the company’s overall strategic plans, and therefore be formulated, implemented, managed, and monitored with the full commitment of senior management. Without senior management’s commitment, alliances will not receive the resources they need. Strategic

alliances receive attention only after ones wholly owned business has been dealt with, often through the assignment of ones less-than strongest executives (Lorange and Roos, 1991).

In many companies, alliances are viewed as outside the organizational mainstream, and therefore, employees at all levels may tend to view them as not as important or as worthwhile as the organizations core business. By demonstrating a commitment to alliances and a strong leadership role, management can minimize this viewpoint. Perhaps, the biggest hurdler senior management has to overcome in committing itself to strategic alliances is managements own fear of a loss of control (Ohmae, 1992).

In order to ensure the best chance of success, companies should either seek partners who do have similar management philosophies, or draft an alliance agreement that adequately address the differences, and provides for their solution (Ernst and Stern, 1996).

Managers of strategic alliances must create and maintain an environment of trust. This is perhaps easier than done. It requires the surrender of at least some managerial control, and it takes time to build a high degree of trust in a business partnership. In order for strategic alliances to succeed, their performance must be continually assessed and evaluated against the short and long-term goals and objectives for the alliance. A postmortem is hold with all the strategic alliance party in order to look into the original objectives and the implementation (Gimba, 1996).

2.10 Challenges of Strategic Alliances

Strategic alliances are faced with challenges that need careful handling if the alliance is to succeed. These challenges can make the difference between success and failure of an alliance. First, is the reluctance to give up autonomy over ones strategic resources. Second, is how to achieve operating momentum in a situation of cultural differences. Third, is how to maintain focus on the external environment such as competition and customs, instead of losing energies on internal friction points. Fourth, unnecessary politicking can also affect the implementation of strategic alliances. Fifth, is the challenge of maintaining organizational energy to continue corporation over time as well as to increase the willingness to learn. Finally, there are those individuals who, despite their involvement become bottlenecks in the implementation of the

strategic alliance. The challenge is how to balance all these issues and maintain a relationship that adds value to the partnership (Kanter, 1995).

There are limits to how much a company should change to accommodate the demands of an alliance. The potential value of the relationship must be weighted against the value of all the other company activities, which also make demands on its resources including the time and energy of executives. Even when relationships have high value, an organization can handle only so many before demands begin to conflict and investments requirements. Sometimes, companies must face the challenges of terminating an alliance. Relationships can end for a number of reasons. A partner may be suitable for one purpose and not another. Managers or other ventures participants may be needed for more urgent tasks. Shifts in business conditions or strategy can mean that a particular relationship no longer fits as well as it once did. Ending a partnership properly is difficult to do and requires much skill and diplomacy. Partners should be fully informed and treated with integrity.

The effective management of relationships to build collaborative advantage requires managers to be sensitive to political, cultural, organizational, and human issues. In the global economy today, companies are known by the company they keep. Intercompany relationship are a key business assets, and knowing how to nurture is an essential managerial skill since it is not the deal per se that creates value, but the capacity of the two partners to dynamically and creatively maneuver their alliances through a thicket of uncertainties, changing priorities, organizational frictions, and competitive surprises. Partner relationships are highly ambiguous, and today's partner may be tomorrow's competitor. So where the boundaries between areas of competition and collaboration should be fixed still remains unclear. And as alliances proliferate, it becomes impossible to manage even simple bilateral alliances without taking into account the web of other relationships in which the partners engage. Any alliances may trigger unforeseen operational or strategic interdependencies with any other alliances in which one or both partners are engaged.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study employed a descriptive survey design. According to Donald and Pamela (2006), a descriptive study deals with the what, how and who of a phenomenon which is the concern for this study.

The study specifically tries to establish the extent to which strategic alliances have been done between banks and the outlets in satisfying the needs of their customers. The study would also lead to gaining an in-depth understanding to what has led to these strategic alliances. A survey was carried out in all the commercial banks in Nairobi Kenya.

3.2 The Population

The population of study consisted of all the commercial banks in Nairobi. According to the Central Bank of Kenya (CBK 2009), there are 45 registered commercial banks in Kenya (the list is attached herewith as appendix 3 of the 45 banks). However; a census survey study was recommended so as to cover the population number of commercial banks which are mainly concentrated in Nairobi.

3.3 Data Collection

Data was collected by means of a questionnaire, which had open-ended questions. The questionnaire was designed to address the various research objectives and was collected from the Heads of Departments of the banks that are involved in crafting strategy. The questionnaires were administered to the respondents through drop and pick method and emails. One respondent was picked from each bank. The respondents were picked from Marketing, Strategic Planning and Business Development departments at supervisory and management levels in the banks.

The questionnaire was divided into five sections. Section A dealt with general information of the organization and forms of alliances; section B addressed the merits of strategic alliances, section

C addressed demerits of strategic section D addressed the motive for strategic alliances, and section E addressed the challenges faced.

3.4 Data Analysis

After administering and collecting the questionnaires, the data was organized, coded, and analyzed using descriptive statistics. Descriptive statistics enabled meaningful description of the distribution of scores and data reduction with the use of means and standard deviation.

The Statistical Package for Social Science [SPSS] was used for the analysis and the results were presented in terms of pie charts, graphs, tables, percentages and short descriptions. The findings on the motives of strategic alliances, the experiences of strategic alliances in banks, and the challenges on strategic alliances were quantitative in nature and as such narratives were used as a means of presentation.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings of the study based on the analysis and interpretation of primary data collected from the respondents working in majors' banks in Nairobi. The research objectives of the study were; to establish the motives which have led to these strategic alliances in the banking industry, to establish the banks experiences in strategic alliances in the banking industry and to establish the key challenges faced by banks on strategic alliances and how they have been overcome

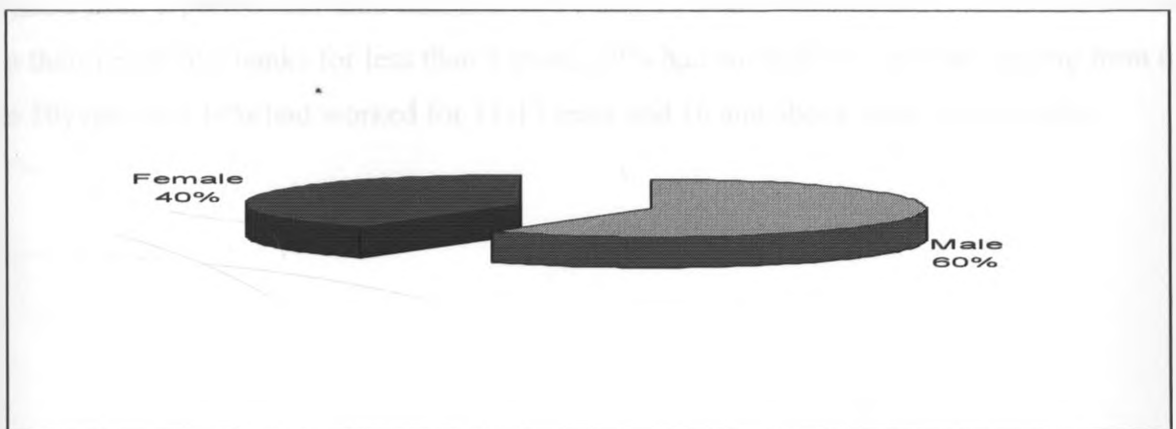
4.2 Characteristics of Surveyed Banks

A total of 45 questionnaires were sent out and only 35 banks under the study sample responded, giving a response rate of 77%. The completed questionnaires were edited for completeness and consistency. Statistical package for social and science and excel were used for data analysis. The findings were presented in percentages and frequency distributions, mean, standard deviations and narratives.

4.2.1 Profiles of the respondents

As shown in Figure1, 60% of the respondents were male while the remaining 40% were female.

Figure1: Distribution by gender

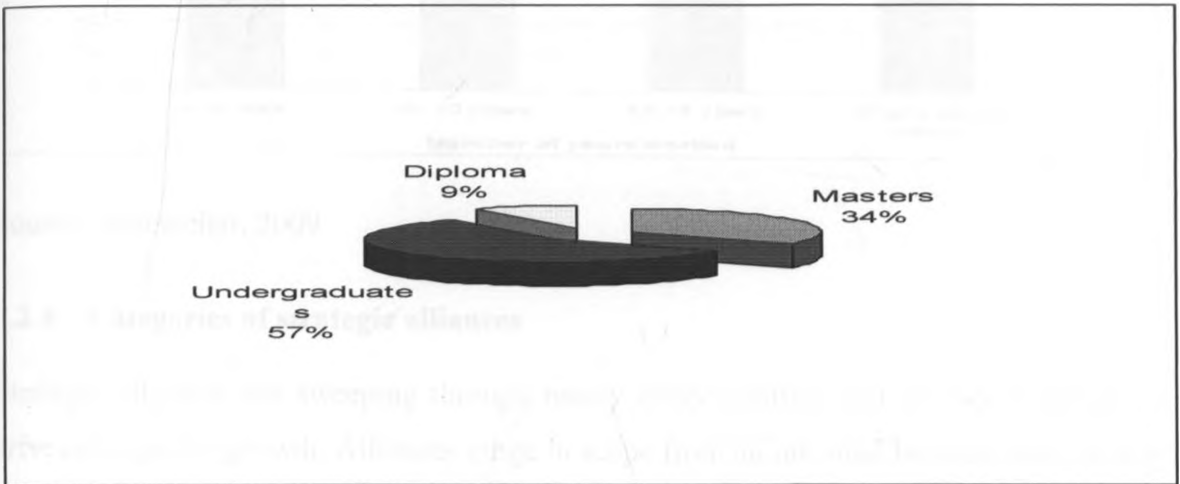


Source: Researcher, 2009

4.2.2 Distribution by level of education

The results presented in figure 2 shows that the highest level of education amongst the respondents was masters. Majority (57%) of the respondents had undergraduate degree, 34% had masters degree while the rest 9% had diplomas.

Figure 2: level of education

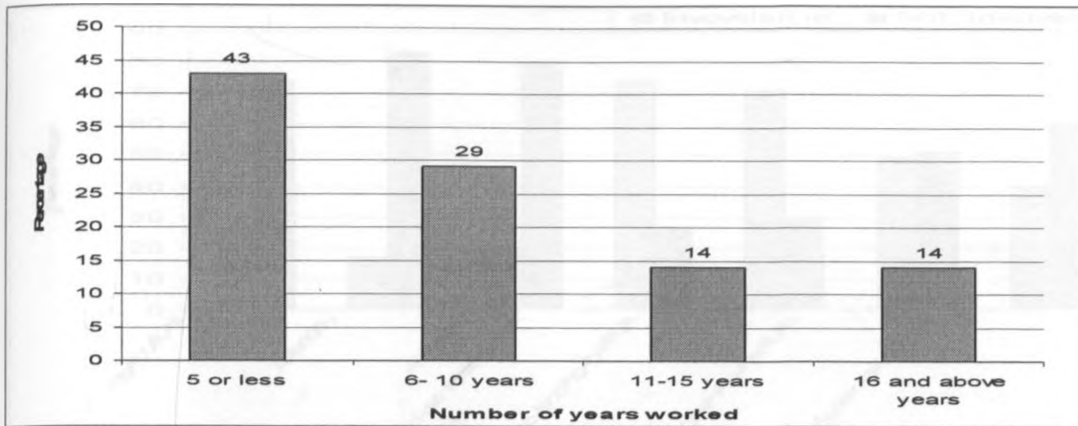


Source: Researcher, 2009

4.2.3 Length of Service with the banks (years)

The results presented in Figure 3 shows that the number of years of service in the organizations varied from a period less than one year to 11 and 15 years. 43% of the respondents had worked in their respective banks for less than 5 years, 29% had worked for a period ranging from 6 years to 10 years, and 14% had worked for 11-15 years and 16 and above years respectively.

Figure 3: Period with banks (years)

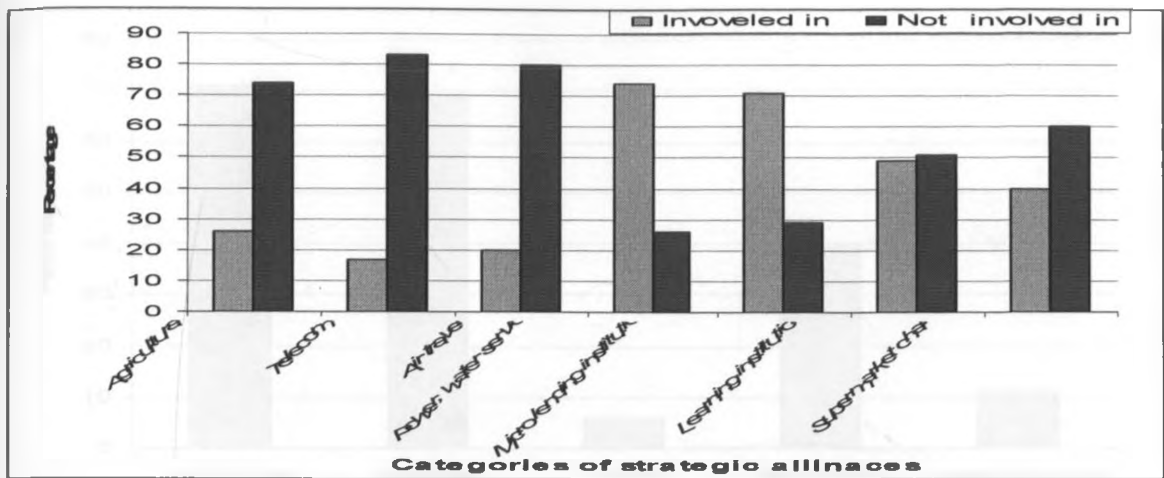


Source: Researcher, 2009

4.2.4 Categories of strategic alliances

Strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliances. It is evident from figure 4, that key categories of strategic alliances entered into were power, water services, micro lending institutions and learning institution. The least ventured into alliance is on telecom and air travel. Power and water services alliances facilitate the payment of bills through varies banks outlets.

Figure 4: categories of strategic alliances



Source: Researcher, 2009

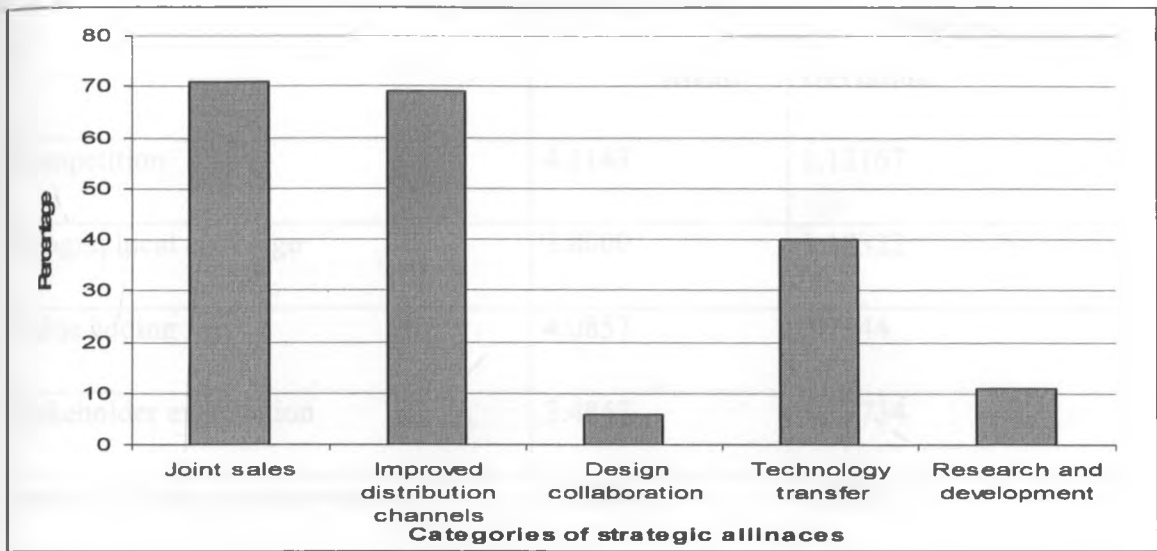
4.3 Merits of Strategic Alliances

This section covers findings from the specific questions posed to the respondent's to determine the extent to which some predetermined factors drive the need to strategic business alliances, extent to which banks and its partners derive mutual benefits from collaborations, difficult stages in the life cycle of entering into business alliances and extent to which the alliances assist the banks to gain the predetermined benefits

4.3.1 Major purposes for entering strategic alliances

Strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization, all of which have cast many corporations into two competitive races: one for the world and the other for the future. The study indentified joint sales, improved distribution channels and technology transfers as the main purposes of entering into strategic alliances. improved distribution channels is mostly experienced in bills payment processes (Kenya power and lighting and Nairobi water company) while technology transfers is practiced in the ATM usage, that is, banks hooking up with ken switch and pesa point ATM service providers.

Figure 5: Major purposes for entering into strategic alliances



Source: Researcher, 2009

4.3.2 The need for strategic alliances

The respondents pointed out that competition and Value adding were the main reasons why firms enters into strategic alliances. Other variables; geographical coverage, internal business requirements and Stakeholder expectation contribute moderately in forming strategic alliance. The respondent's opinions were generally the same as indicated by the low values of the standard deviations.

In addition, the benefits customers would derive from business alliances were; lower interest rates on loans and wider access to financial services, wider distribution channels, choice of convenience and flexibility, one stop banking shop and convenience of bills payments

Table 1: Need for strategic alliances

	Mean	Standard Deviation
Competition	4.1143	1.13167
Geographical coverage	3.8000	1.18322
Value adding	4.0857	.91944
Stakeholder expectation	3.4857	1.19734
Internal business requirements	3.6286	1.26225

Source: Researcher, 2009

4.3.3 Mutual benefits banks derive from collaboration

The respondents highlighted that technology transfer was the highest benefit the respective banks derive from collaboration, that is, through collaboration banks are able to reduce their investment and operation costs. Sharing of risks was ranked second and shared expenses as the least mutual benefit derived from collaboration.

Table 2: Mutual benefits derived from collaboration

	Mean	Standard Deviation
Shared expenses	2.8286	1.44478
Shared risks	3.2286	1.53557
Technology transfer	4.0286	.95442

Source: Researcher, 2009

4.3.4 Extent strategic alliances assist the banks

The findings indicate that through entering strategic alliances the banks would very greatly benefit from new business opportunities, customer satisfaction and increase convenience. On the other hand market penetration and competitive edge would greatly benefit banks through strategic alliances.

Table 3: Benefits banks derive from strategic alliances

	Mean	Standard Deviation
Market penetration	4.2286	.77024
Competitive edge	4.2286	.87735
New business opportunities	4.3714	.68966
Customer satisfaction	4.3714	.73106
Increase convenience	4.3714	.73106

Source: Researcher, 2009

4.4 Demerits of Strategic Alliances

This section covered findings from the specific questions posed to the respondents'. It was to determine challenges affecting the banks strategic alliances.

The respondents pointed out that the main challenges were; complexity of alliances, commitment level, rigidity and uncertainty. The main challenges were external factors affecting the banks. Surrender of managerial control and Conflicting demands from partners were identified as the least challenges facing strategic alliances.

Table 4: The extend of the challenges of strategic alliances

	Mean	Standard Deviation
Complexity of alliances	3.5143	.81787
Uncertainty	3.3143	.83213
Rigidity	3.3714	.91026
Commitment level	3.4571	.88593
Surrender of managerial control	2.7143	1.46672
Conflicting demands from partners	3.2000	1.47129

Source: Researcher, 2009

Table 5: Rating of the performance of strategic alliances

Table 4 shows that majority (66%) of the respondents rated the performance of strategic alliances highly/ very highly. on the other hand significant 17% felt that strategic alliance performance was low. There is need to assess the reason of the low rating.

	Frequency	Percent	Cumulative Percent
Very highly	7	20	20
Highly	16	46	66
Moderately	6	17	83
Lowly	6	17	100
Total	35	100.0	

Source: Researcher, 2009

4.5 Reasons for Strategic Alliances

This section covered findings from the specific questions posed to the respondents'. It was to determine reasons which make banks seek strategic alliances.

From the findings the respondents indicated that profitability, technology, customer satisfaction, competition and value addition were the main reasons as to why banks seek strategic alliances.

Table 6: Reasons for strategic alliances

	Mean	Standard Deviation
Competition	4.1714	1.04278
Technology	4.2714	1.05957
Branch network	3.8000	1.32399
Customer satisfaction	4.2000	.83314
Value addition	4.1714	.92309
Profitability.	4.3714	1.05957

Source: Researcher, 2009

4.6 Challenges of Strategic Alliances

This section covered findings from the specific questions posed to the respondents'. It was to determine challenges banks face when entering into strategic alliances.

The findings below show that only three factors had a mean ranking of above 4 (great extent). These three factors describe technology, culture in banks and benefits implying that they are the main challenges banks face when entering into strategic alliances.

Table 7: Challenges of strategic alliances

	Mean	Standard Deviation
Culture in banks	4.2571	.95001
Technology	4.3429	1.05560
Risks & controls	2.3429	.93755
Marketing	2.4000	1.24144
Cost sharing	2.3429	.93755
Benefits	4.1143	1.29186

Source: Researcher, 2009

4.7 Discussions

From the findings, the responses concur with the literature available on strategic alliances in the banking industry in Kenya. This included, the motives of banks on forming strategic alliances, experiences of strategic alliances in the banking industry, the challenges they face in the alliances, the categories of strategic alliances, merits and demerits of strategic alliances, purposes of entering strategic alliances, the extent of the need for strategic alliances, mutual benefits of strategic alliances to banks, and ratings of the performance of strategic alliances.

It was evident from the findings that the respondents unanimously agreed that the key categories of strategic alliances entered into were power, water services and micro lending and learning institutions. The study identified joint sales, improved distribution channels and technology transfers as the main purposes of entering into strategic alliances. improved distribution channels is mostly experienced in bills payment processes (Kenya power and lighting and Nairobi water company) while technology transfers is practiced in the ATM usage, that is, banks hooking up with Ken switch and Pesa point ATM service providers.

The respondents pointed out that competition and Value adding were the main reasons why firms enters into strategic alliances. The benefits customers would derive from business alliances were; lower interest rates on loans and wider access to financial services, wider distribution channels, choice of convenience and flexibility, one stop banking shop and convenience of bills payments.

The researcher noted that banks face challenges when entering into strategic alliances. The findings showed that technology, culture in banks and the benefits pose as the main challenges banks face when entering into strategic alliances in the banking industry in Kenya. Others included the risks and controls involved, cost sharing and marketing. Despite the challenges, banks are forming strategic alliances in order to become competitive in the market. Kanter (2000) argued that strategic alliances between companies, whether they are from different parts of the world or different ends of supply chain, are a fact of life in business today. The research findings were also consistent with findings by Koigi (2002) that alliances that create value for all partners and offer a value proposition to their customers are critical in this era of increased competition and globalization. While, Kamanu (2005) emphasized that strategic alliance are crucial components in the success of any organization for-profit or non-profit in the world today.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the study findings, challenges encountered and conclusions and recommendations arising. The chapter concludes with the limitation to the study and suggestions for further study.

5.2 Summary

5.2.1 Motives of Strategic Alliances

One of the objectives of the study was to establish the motives which have led to these strategic alliances in the banking industry. From the finding of the study it was identified that strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization making banks compete in the banking industry. The study identified joint sales, improved distribution channels, and technology transfers as the main purposes of entering into strategic alliances.

5.2.2 The Banks Experiences in Strategic Alliances

Various banks have entered into strategic alliances with various parties in order to diversify their outcomes and products. Examples include Barclays Bank and Kenya Power and Lighting (KPLC) Company where the two partnered together for service delivery. The two signed an agreement that will enable customers to pay their electricity bills at Barclays. BBK is offering KPLC a customized collection solution that will meet their specific needs. Postbank have too partnered with KPLC in offering the electricity bill payment services in all branches countrywide. Kenya Commercial Bank (KCB) and Brookside have partnered together so as KCB to provide a credit boost for farmers.

Safaricom, the local telephone service provider, recently entered into and form a strategic alliance with several banks including Postbank, KCB, to facilitate their M-Pesa service which is widely used in sending and receiving money locally with over seven million subscribers enjoying the service in Kenya. Most banks have also entered into partnership with PesaPoint and

Kenswitch independent ATMs back borne providers that has increased their penetration into areas without physical banking facilities. From the findings of the study, improved distribution channels is mostly experienced in bills payment processes (Kenya power and lighting and Nairobi water company) while technology transfers is practiced in the ATM usage, that is, banks hooking up with Ken switch and PesaPoint ATM service providers. The benefits customers would derive from business alliances were; wider access to financial services, wider distribution channels, choice of convenience and flexibility, one stop banking shop and convenience of bills payments.

5.2.3 Establishing key Challenges on Strategic Alliances

Strategic alliances are faced with challenges that need careful handling if the alliance is to succeed. These challenges can make the difference between success and failure of an alliance. The challenges include, the reluctance to give up autonomy over ones strategic resources, how to achieve operating momentum in a situation of cultural differences, and how to maintain focus on the external environment such as competition and customs.

Strategic alliances experience the loosing of energies on internal friction points, unnecessary politicking which affect the implementation of strategic alliances, the challenge of maintaining organizational energy to continue corporation over time as well as to increase the willingness to learn and on those individuals who, despite their involvement become bottlenecks in the implementation of the strategic alliance. From the findings of the study, technology, culture in the banks, and benefits derived were found to be the main challenges when entering into strategic alliances in the banking industry in Kenya.

5.3 Limitations of the Study

This study was based on a sample of 49 registered commercial banks in Kenya. The scope and depth of the study was limited by the time factor since only 35 respondents out of the 45 questionnaires which were sent out responded. The respondents were busy in the banks business and hence the slow response experienced by the researcher on the questionnaires.

The researcher also encountered immense problems with the respondent's unwillingness to complete the questionnaires in time. Five respondents did not bother to return the questionnaires via email despite their earlier request that it's easier done on mail since it saves in time wastage. Because of the time constraint, the researcher did not extend the duration of the study so as to complete the survey on the strategic alliances in the banking industry in Kenya.

5.4 Suggestions for Further Research

The strategic alliance in the banking industry in Kenya is gaining momentum and it is ongoing. It is recommended therefore that further studies be done to evaluate the success of strategic alliances in the banking industry in Kenya.

Further research is also recommended on how to negotiate with relevant skills and on how to maintain the strategic alliances in the banking industry. Little if not, research has been done between banks and the various cooperatives and Saccos. Further study is recommended in this field because they are posing a lot of competition on banks.

5.5 Recommendations

The study confined itself to strategic alliances in the banking industry. This research therefore should be replicated in other industries and the results be compared so as to establish whether there is consistency among the industries in Kenyan economy.

While issues such as risk management and regulatory compliance dominate the banking industry, there are a number of opportunities for growth particularly through strategic alliances and expansion into new markets, innovative technologies to improve on service delivery for the customer and new investment products in the banking industry globally.

5.6 Conclusion

It was evident from the findings that all banks have entered into strategic alliances in response to the changes in the business environment. The strategic alliances are driven by competition, value adding, technology, profitability, joint sales and improved distribution channels.

In conclusion, technology and competition were the main factors why banks entered into strategic alliances. The study identified the key challenges facing strategic alliances in the banking industry and therefore it is possible to come up with strategies to manage the identified challenges for sustainability of the strategic alliances

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APPENDICES

APPENDIX 1: INTRODUCTORY LETTER



UNIVERSITY OF NAIROBI COLLEGE OF HUMANITIES & SOCIAL SCIENCES SCHOOL OF BUSINESS

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5th October, 2008

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

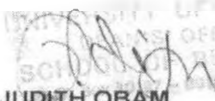
**INTRODUCTORY LETTER FOR RESEARCH
FREDRICK K. CHEPKWONY – REGISTRATION NO. D61/P/9158/2001**

The above named is a bona fide Master of Business Administration (MBA) student in the School of Business, University of Nairobi. In partial fulfilment of the requirements of the MBA Degree he is conducting research on "*A Survey of Strategic Alliances in Kenya's Banking Industry*".

We request your organisation to assist the student with necessary data which forms an integral part of the research project. The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**. A copy of the research project will be made available to your organization/firm upon request.

Your co-operation will be highly appreciated.

Thank you.


UNIVERSITY OF NAIROBI
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JUDITH OBAM
FOR: DEAN, SCHOOL OF BUSINESS

JO/awm

Fredrick Chepkwony

Student

Prof E. Aosa

Supervisor

APPENDIX 2: QUESTIONNAIRE

Kindly tick in the spaces provided [] the correct answer or supply the required information. Where required, please specify and elaborate.

SECTION (A): GENERAL INFORMATION

1) Gender: Male [] Female []

2) Which bank do you work for?.....

Education background:

- a) Diploma
- b) Undergraduate
- c) Masters
- d) Doctorate

3) Your working experience in the banking sector (years):

5 or less [] 6-10 [] 11-15 [] 16 and above []

Has your bank entered into strategic alliances of any form?

Yes No

4) If yes, with which category of organizations?

	Yes	No
Agricultural		
Telecom		
Air travel		
Power, water services		
Micro lending institutions		
Learning institutions		
Supermarket chains		
1) Others (specify)		

SECTION B: MERITS OF STRATEGIC ALLIANCES

6) Which ones among the following factors constitute the major purposes for entering into strategic business alliances?

Joint sales

Improved distribution channels

Design collaboration

Technology transfer

Research and development

7) To what extent do the following drive the need for strategic business alliances?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Competition					
Geographical coverage					
Value adding					
Stakeholder expectation					
Internal business requirements					

8) What specific benefits do you expect your customers to derive from the business alliances?.....

9) To what extent do your bank and its partners derive mutual benefit in terms of the following factors from collaboration?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Shared expenses					
Shared risks					
Technology transfer					

10) When entering into business alliances, which of the following stages in the life cycle do you regard as the most difficult?

Identifying right partners

Negotiating the alliance agreement

Managing interpersonal relations

Altering alliance terms

- 11) To what extent do you think entering into business alliances assists the bank to gain the following benefits?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Market penetration					
Competitive edge					
New business opportunities					
Customer satisfaction					
Increase convenience					

SECTION C: DEMERITS OF STRATEGIC ALLIANCES

- 11) How would you rate the extent to which the following challenges affect strategic alliances in your bank?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Complexity of alliances					
Uncertainty					
Rigidity					

Commitment level					
Surrender of managerial control					
Conflicting demands from partners					

12) Please indicate how you would rate the performance of strategic alliances in your bank.

Very highly Highly Moderately Lowly Very lowly

SECTION D: REASONS FOR STRATEGIC ALLIANCES.

13) To what extent did the following reasons make your organization seek strategic alliance?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Competition					
Technology					
Branch network					
Customer satisfaction					
Value addition					
Profitability.					

SECTION E: CHALLENGES OF STRATEGIC ALLIANCES.

14) To what extent did the following pose as challenges when entering into a strategic alliance?

	Very small extent	small extent	Moderate extent	Great extent	Very great extent
Culture in banks					
Technology					
Risks & controls					
Marketing					
Cost sharing					
Benefits					

APPENDIX 3: LIST OF COMMERCIAL BANKS

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd - under - statutory management
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. City Finance Bank Ltd.
11. Commercial Bank of Africa Ltd.
12. Consolidated Bank of Kenya Ltd.
13. Co-operative Bank of Kenya Ltd
14. Credit Bank Ltd.
15. Development Bank of Kenya Ltd.
16. Diamond Trust Bank (K) Ltd.
17. Dubai Bank Kenya Ltd.
18. Ecobank Kenya Ltd
19. Equatorial Commercial Bank Ltd.
20. Equity Bank Ltd.
21. Family Bank Ltd
22. Fidelity Commercial Bank Ltd
23. Fina Bank Ltd
24. First community Bank Limited
25. Giro Commercial Bank Ltd.
26. Guardian Bank Ltd
27. Gulf African Bank Limited
28. Habib Bank A.G Zurich

29. Habib Bank Ltd.
30. Imperial Bank Ltd
31. Investment & Mortgages Bank Ltd
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Kenya Post Office Bank (KPOSB)
39. Prime Bank Ltd
40. Southern Credit Banking Corporation Ltd.
41. Standard Chartered Bank (K) Ltd
42. Trans-National Bank Ltd
43. Victoria Commercial Bank Ltd
44. Housing Finance Ltd
45. Savings and Loan (K) Ltd

Source: <http://www.centralbank.go.ke/>