STRATEGIC ALLIANCES AMONG COMMERCIAL BANKS IN KENYA

By

JOSEPH K. NZENGYA

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

OCTOBER 2013

DECLARATION

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

Signature:…………………………………… Date:……………………

Joseph K. Nzengya

D61/70963/2008

This research project has been submitted with our approval as the University supervisors

Signature: …………………………………… Date:……………………

Prof. Martin Ogutu

School of Business, University of Nairobi

DEDICATION

I would like to dedicate this research project to my wife for giving me financial and moral support in this undertaking.

ACKNOWLEDGEMENT

Let me take this opportunity to appreciate the Bandari Campus co-ordinator Dr. Maalu for the enormous support he accorded to me thus making my research project writing a success. I am very grateful to my supervisor, Professor Martin Ogutu for guiding me through the entire process of undertaking my research project.

ABSTRACT

The banking industry plays a very crucial role in the Kenyan economy. As the world business environment changes it is vital that businesses including the commercial banks adapt to these changes in order to survive and achieve their corporate objectives. Mergers, Acquisitions, Strategic Alliances, and Joint Ventures are just some of the ways companies can be guaranteed of continued development, profit and success. However, no amount of these four would be enough if the company could not even begin to take care of its customers. Customers are not only always right; they also hold the money to keep companies running.

The objectives of this study were first to establish the major drivers of strategic alliances in the banking sector in Kenya. The other objectives were to establish the benefits and challenges of strategic alliances in the banking sector in Kenya. Literature review was gathered from various sources with more emphasis on more current literature from renowned authors in strategic management. The research design used was a descriptive survey design. The data collection tool used was a questionnaire with closed and open-ended questions guided by the contents of the literature review and aimed at achieving the set objectives.

The study revealed that mergers were the most popular form of strategic alliance in the banking industry in Kenya. The major motives for strategic alliances were profit and revenue maximization as well as gaining a competitive edge. The study recommends that the banks venture in non-aligned partnerships in order to diversify and spread risks.

TABLE OF CONTENTS

LIST OF TABLES AND GRAPHS

Tables

Graphs

Figures

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The pace of social and economic change is accelerating and increasing the risk of doing business presenting environmental changes that shape opportunities and challenges facing organisations. In turn, they need to adjust to these changes to remain competitive both locally and globally. The environment can be relatively stable or turbulent and affects many organisations. Environmental changes affecting organisations include competition, globalisation, political and legal factors, changes in consumer tastes, ecological factors and insecurity (Johnson, G., Scholes, K., & Whittington, R., 2005).

In the ever competitive and changing world of corporate business, there are several ways for companies to achieve the necessary edge or advantage over their competitors. They could shore up and hoard their resources and employee skills and from there establish a significant and dominating presence in the corporate market, which would take other companies a significant amount of time and resources to at least equal, and much less to usurp. An entrepreneur may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the normal course of the business, through acquisition of new assets, replacement of the technologically obsolete equipments and the establishment of new lines of products. But in external expansion, a firm acquires a running business and grows overnight through corporate combinations. These combinations are in the form of mergers, acquisitions, amalgamations and takeovers and have now become important features of corporate restructuring (Drucker, 1996).

1.1.1 Strategic alliances

When two businesses combine their activities, the combination may take the form of an acquisition (also called a takeover) or a merger (also called an amalgamation). The primary purpose of any combination should be to increase shareholder wealth, such an increase normally coming from the effects of synergy. In practice the synergistic gains anticipated from a combination are often disappointing. This may be because managers generally prefer to grow their businesses through acquisition rather than organically.

Such strategic alliances–whether with competitors, suppliers, vendors, or complementary partners–are frequently the most efficient and effective means for achieving immediate access to the capital, talent, distribution channels, or manufacturing capabi1ities essential for maintaining market leadership.

A strategic alliance is an agreement between companies to establish cooperative partnerships that go beyond normal company – to – company relations, but fall short of becoming a real merger (Wheelen & Hungar, 2000). There are diverse forms and levels of strategic alliances. These could be simple, informal “handshake” agreements occurring over lunch to formal agreements complete with contracts that enable companies to exchange equities (Elmuti & Kathawala, 2001). Strategic alliances are fast becoming a trend in the corporate business. In fact, the biggest change in corporate culture and the conduction of business is the rapidly growing number of corporate deals based not on ownership, but on partnerships (Drucker, 1996).

A corporate acquisition occurs when a prospective buyer purchases a corporation’s assets or stocks. This transaction could be in the form of a stock purchase or an asset purchase, with the acquired corporation termed as the company or target (Reed, Lajoux, & Nesvold, 2007). While often used synonymously and because of their relatedness to each other, mergers and acquisitions have their fundamental differences. Acquisition is a general term that depicts ownership transfer; while mergers are, the more specific and technical term for a meticulous legal preceding which or may not result in a corporate acquisition. An acquisition in which there is no subsequent merger is more common, and that there are certain factors like stock value, employee numbers that could dictated which company becomes the decedent and the survivor.

A merger transpires when a corporation combines and legally disappears into another corporation, and of the two companies, the dissolved company becomes the decedent, while the remaining company becomes the survivor (Reed et al, 2007). All mergers are statutory in nature because they all happen as formal and legal transactions in full accordance with laws or statutes of their incorporated states. One of the features of the mergers is that post deal control and operations of a company have no bearing whether a merger happened.

This means that both by fact and law, there is the possession and control of one corporation over another despite and the lack or with agreement of stockholders (Reed et al, 2007).

Companies now simply do not have the time to create new markets in every potentially profitable location one by one (Drucker, 1996). As such is the case, forming an alliance with a company already existing in the target market is a very appealing option, since it makes the expansion into unfamiliar grounds easier and less stressful for the company (Elmuti & Kathawala, 2001). Another possible avenue companies could look to is to go into Joint Ventures. A Joint Venture refers to a particular method of dealing business by one company in a foreign or domestic jurisdiction, using a stable, and largely permanent legal entity with another company for a set time duration (usually indefinite), without impairing economic independence and establishing a lawful commercial purpose (Wolf, 2000). Mergers, Acquisitions, Strategic Alliances, and Joint Ventures are just some ways for companies to ensure themselves of continued development, profit and success. However, no amount of these four would be enough if the company could not even begin to take care of its customers. Customers are not only always right; they also hold the money to keep companies running.

1.1.2 The Banking Industry in Kenya

The banking sector in Kenya is governed by the company's Act, Banking Act, Central bank Act and the various prudential guidelines issued by Central Bank of Kenya .The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank of Kenya is responsible for formulating and implementing monetary policy directed to achieving stability in the general level of prices and fosters the liquidity, solvency and proper functioning of a stable market based financial system while supporting the economic policy of the Government (Central Bank of Kenya, 2010). As at 31st December 2010, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 Commercial banks and 1 Mortgage finance company), 2 representative offices of foreign banks, 5 Deposit-Taking Microfinance Institutions and 126 Forex Bureaus. 31 of the banking institutions are locally owned while 13 are foreign owned.

The locally owned financial institutions comprise of 3 banks with public shareholding, 27 privately owned commercial banks, 1 mortgage finance company while 5 Deposit-Taking Microfinance Institutions and 126 forex bureaus are privately owned (Central Bank of Kenya, 2010). The foreign owned financial institutions comprise of nine locally incorporated foreign banks and four branches of foreign incorporated banks. The sector was dominated by local private institutions with 27 institutions accounting for 58.0 percent of the industry's total assets and 64% of total financial institutions (Central Bank of Kenya, 2012).

In 2012, a number of banks responded to the growing need of convenient straight-through payments using mobile solutions. As a result, a number of banks continued to sign up partnerships with money transfer service providers as they improve their banking-on-the-move menus. In only four years of existence of mobile phone money transfer services, four mobile operators have enrolled over 15 million customers.

Some of the notable mobile money solutions launched during the year include; M-Kesho, Mobicash, Orange money, Yu-cash, Elma, Pesa-Pap, Pesa-Connect among others. M-Pesa was still the most widely used method of mobile money transfer as evidenced by the 305.7 million transactions effected and valued at Ksh. 727.8 billion in the year (Central Bank of Kenya, 2012).

Banks continued to embrace the use of the Internet as a remote delivery channel for banking services. The most common online services include; viewing of accounts, inquiries and requests, salary payments, clearing cheques status query, instant alerts of account status and transfer of funds. The microfinance industry in Kenya is also experiencing positive growth and change. Microfinance has over the years evolved from charity based social and financial empowerment programmes to fully operational financial institutions, which continue to contribute towards bridging the gap of financial inclusion. Further, the microfinance sector is witnessing increased interest from commercial banks (Central Bank of Kenya, 2012).

Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are: to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others. The schedules below detail the Institutions which have merged or participated in acquisitions as well as the dates when mergers or acquisitions were approved.

Some of the most recent mergers and acquisitions in the banking industry in Kenya include: merger of Stanbic and CFC in 2008, Equatorial Commercial bank and Southern Credit Banking Corporation in 2010 and City Finance Bank Limited and Jamii Bora Bank limited in 2010 and the acquisition EABS Bank by Ecobank ltd in 2008.

1.2 Research problem

Strategic alliances have become the main means of attaining higher performance which is the main goal of any company. Failure to perform is critical to a business as it is the major cause of business failure. 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).

Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are: to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others. 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.

Many studies have been done in this area of strategic alliances and results found from the studies have been inconsistent. Musyoki (2003) studied the creation and implementation of strategic alliances among non-governmental organizations with a case of Gedo health consortium. 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. 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 organisation for profit or non-profit in the world today. Kavale (2007) did a study on strategic alliances in a mobile money transfer as relates to the banking industry.

This study while based on a similar conceptual argument as noted in the above local studies is differentiated in the sense that it looked at strategic alliances in the banking industry in Kenya. It was based on the drivers of the alliances similar to the study conducted by Mutinda (2008). The study explored the factors which have driven banks to strategic alliances and the challenges they are experiencing. The questions the study attempted to answer were: what factors motivated strategic alliances in the banking sector in Kenya, and what were the benefits and challenges of these strategic alliances?

1.3 Research Objectives

This study had three objectives:

(i) To establish the major drivers of strategic alliances among commercial banks in Kenya

(ii) To establish the benefits of strategic alliances to the commercial banks in Kenya.

(iii) To establish the major challenges encountered by commercial banks on strategic alliances and how they are dealing with them.

1.4 Value of the study

This study aimed at contributing to the existing vast body of strategic management theory in highlighting issues relating to strategic alliances in the banking industry in Kenya. For the scholars and researchers the study will provide a base on which future studies can be conducted on a similar concept but on a different context.

This study was also of great value to the banks' management since it will help them to understand the key drivers, benefits and challenges of strategic alliances. This will enable them to make better decisions on which banks to form alliances with, the timing of the alliances and prepare in advance on how to tackle the challenges associated with strategic alliances. The study will also enable them to maximize on the benefits of strategic alliances.

For investors, it provides a platform on which to evaluate future business opportunities in the banking sector within Kenya. The study will also act as a feedback mechanism on the already formed alliances and provide a basis on which to improve on the same.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter considers literature relevant to the subject under study. The main issues under review are; the nature of strategic alliances and acquisitions, motives of strategic alliances, benefits and challenges of strategic alliances.

2.2 Theoretical Foundation

Alliances or linkages between business organizations today are growing rapidly. Some are successful and others unsuccessful (Parke, 2001; Taylor 2005). Strategic alliances are not a recent concept because they have existed in a military sense (Snyder, 1997). However, strategic alliance popularity is quite recent, taking hold in the 1980s and now taking centre stage in the business world (Taylor, 2005). The origin of alliances involved formal agreement (Small & Singer, 1969). Informal agreements can take place as well as where the alliance remains tacit and implied, instead of formal and written (Crosbie, 1974). Non-equity based alliances can become non-formal when some form of working arrangement relationship takes place between or among firms through social relationship means (Caniglia, 1999).

A strategic alliance must be based on mutual cooperation among the parties involved as noted by Lorange & Roos (1993). Pyka and Windrum (2003) posit that a strategic alliance is a cooperative agreement between two or more autonomous firms pursuing common objectives or working towards solving common problems through a period of sustained interaction. Organizations usually become involved in strategic alliances because of some mutual advantage for the organizations involved that would be difficult to obtain if each acted alone (Hanson et al., 2005). Strategic alliances are also referred to as long-term cooperative relationships (Hill & Jones, 1998) and cooperative linkages between companies to pursue common goals (Beamish & Killing, 1997). Deering & Murphy (2003, state that strategic alliance is the dominant strategy for growth and market development.

Carlson (1996) observed that alliances are more operational and commonly understood as strategic and also the alliance can be a long-term relationship where participants cooperate and willingly modify their business practices to improve joint performance according to Frankel & Whipple (2005). Hergert and Morris (1988) defined alliance formation as a cooperative agreement or linkage between companies to pursue common goals.

Strategic partnering is fundamentally about altering the way we manage our relationships with customers and suppliers (Lendrum, 1995). Strategic alliances essentially involve coordinating two or more partners to pursue shared objectives and satisfactory cooperation is vital to their success (Kanter, 1994; Thompson & Strickland III, 1998).

2.3 Motives of Strategic alliances

Firms undertake strategic alliances for many reasons: to enhance their productive capacities, to reduce uncertainties in their internal structures and external environments, 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 outputs (Webster 1999). Partners choose a specific alliance form not only to achieve greater control, but also for more operational flexibility and realization of market potential. Their expectation is that flexibility will result from reaching out for new skills, knowledge, and markets through shared investment risks. The strategic motives for organizations to engage in alliance formation vary according to firm-specific characteristics and the multiple environmental factors.

Bleeke and Ernst (1993) summarize the generic needs of firms seeking alliance as cash, scale, skills, access, or their combinations. Such motivational diversity characterizes alliance formation in many industries, and theorists have proposed several explanatory schemes to classify and analyze the range of collaborative solutions adopted by firms. The level of cooperation between businesses seems much less influenced by internalized costs and benefits than by: the history of the partnering firms' relationships; the current market positions of each firm; their joint resource capabilities; and informational asymmetries relative to firms engaging in arm's-length market transactions (Dietrich 1994).

In other words, forming business networks and contractual or relational alliances is driven less by firms' retrospective economic rationalities than by their strategic intentions. Two or more autonomous organizations decide to form an alliance for an emerging joint purpose. Therefore, their decision to collaborate cannot be determined in a rational way by the purpose itself, nor by the current environmental pressures that compel them to cooperate. On the contrary, these factors merely help firms to construct post-facto justifications and rationalizations about their collaboration decision. A decision to cooperate is not a responsive action, but is fundamentally a strategic intent, which aims at improving the future circumstances for each individual firm and their partnership as a whole (Lorange and Roos 1993).

The motives to engage in strategic alliances can be grouped in four different categories. Organisational learning/ competence building motive which involves various kinds of learning and internalisation of tacit, collective and embedded skills. It also involves restructuring, improving performance, acquiring means of distribution, recreating and extending supply links in order to adjust to environmental changes, complementarity of goods and services to markets and legitimation.

Economic – market – cost and risk related motive involves market seeking, cost sharing and pooling of resources, risk reduction and risk diversification, obtaining economies of scale, co-specialisation. Strategic - competition shaping/ pre-emption/ product & technology related which involves achieving vertical integration, competitive advantage, diversifying into new business, gaining access to new technology, converging technology, R&D. It also involves developing new products and technologies, cooperation with potential rivals or pre-emptying competitors, bandwagon effect and following industry trends. Political - market development motive developing technical standards; overcoming legal / regulatory barriers

According to several scholars (Colombo et al., 2006; Eisenhardt and Schonhooven, 1996; Mc Gee et al., 1995; Shan, 1990), technology start-ups facing adverse conditions are more inclined than their larger counterparts to establish collaborative relations. In highly competitive and emergent industries, new ventures consider strategic alliances either to pioneer innovative technologies, or to move away from a vulnerable position (Shan, 1990).

The intellectual capital of a new venture represents an important determinant of alliance formation, since the possession of valuable resources is a necessary condition for the attraction of suitable partners (Ho Park et al., 2002). Moreover, the social connections of the founding team, along with endorsement by reputable organizations – such as venture capitalists – facilitate start-ups' involvement in strategic alliances (Eisenhardt and Schonhooven, 1996). While access to external resources represents the strategic rationale for alliance making, the possession of valuable resources – in terms of intellectual, social, and reputational capital – are the primary enablers of alliance implementation. In a way, alliance making presents an inherent paradox for new ventures, since strategic alliances are set up to access external resources, yet internal resources are needed to set up strategic alliances. In this regard, Ho Park et al. (2002) showed that technology start-ups endowed with valuable resources are better able to bring about strategic alliances, and to get access to external resources needed to cope with market uncertainties.

The foremost determinants of alliance formation in new ventures are a combination of strategic necessities, internal resources, and social opportunities. As suggested by diverse scholars (Colombo et al., 2006; Faems and Van Looy, 2003), the strategic alliances undertaken by new ventures can be classified in two broad categories based on the resources sought after in the collaborative engagement.

On the one hand, start-ups may enter into exploitative commercial alliances with the purpose of accessing the resources necessary to introduce technological innovations to the final market. An exploitative propensity generally leads to the constitution of strategic alliances with *downstream partners*, such as large companies excelling at product commercialization. For example, several authors (Alvarez and Barney, 2001; Baum et al., 2000; Powell et al., 1996) report on biotech start-ups undertaking alliances with pharmaceutical corporations in order to leverage well-known brands, trained sales force, and specialized distribution channels. On the other hand, *explorative technological alliances* enable new ventures to advance innovation, either by pooling together complementary resources or internalizing the partner’s knowledge.

An explorative propensity usually leads to the formation of strategic alliances with *horizontal partners* in a similar positioning along the industry value-chain, or with *upstream partners* such as universities and government labs. In this regard, a research consortium where new ventures pool together resources in order to explore an untested field would clearly represent an example of explorative technological collaboration.

Although inclined to engage in collaborative relationships, new ventures encounter considerable difficulties in bringing about strategic alliances (Ahuja, 2000; Baum et al., 2000; Narula, 2004; Eisenhardt and Schoonhoven, 1996). In comparison to large companies, start-ups usually possess fewer technological resources to barter with potential partners, and cannot engage in collaborative agreements at multiple stages of the value chain (Narula, 2004). Besides, the limited social capital of new ventures is likely to restrain the attraction of valuable partners, and the lack of prior work-related ties may further limit the opportunities for collaborative engagement (Ahuja, 2000; Baum et al., 2000). The small size of management functions in new ventures also bears a negative influence on partnership formation, since small functions usually have less extensive connections with potential partner organizations. When the management function is small, top executives are also pressed with short-term operating matters, thus lacking the time to bring about collaborative relationships (Eisenhardt and Schoonhoven, 1996).

Besides reporting the challenges encountered by start-ups in alliance formation, the current literature portrays strategic alliances as a mixed blessing, with uncertain outcomes on venture development.

On the one side, strategic alliances present the potential to enhance the competitive position of a new venture, by enabling access to critical resources. On the other side, strategic alliances may ultimately undermine the survival of a new venture, because they pose numerous risks (such as knowledge loss or legal problems). In the next section we uncover these opposed forces at play in strategic alliances, while also taking into account the "liabilities of newness" of start-ups. As our analyses will make clear, the organizational characteristics of new ventures amplify potential advantages and disadvantages of strategic alliances.

2.4 Types of Strategic alliances

A joint venture is an agreement by two or more parties to form a single entity to undertake a certain project. Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits. Joint ventures between small firms are very rare, primarily because of the required commitment and costs involved. Affiliate Marketing has exploded over recent years, with the most successful online retailers using it to great effect. The nature of the internet means that referrals can be accurately tracked right through the order process Amazon was the pioneer of affiliate marketing, and now has tens of thousands of websites promoting its products on a performance-based basis (Hastings, 2004).

Technology licensing is a contractual arrangement whereby trademarks, intellectual property and trade secrets are licensed to an external firm. It is used mainly as a low cost way to enter foreign markets. The main downside of licensing is the loss of control over the technology – as soon as it enters other hands the possibility of exploitation arises. Product licensing is similar to technology licensing except that the license provided is only to manufacture and sell a certain product. Usually each licensee will be given an exclusive geographic area to which they can sell to. It is a lower-risk way of expanding the reach of your product compared to building your manufacturing base and distribution reach (Johnson et al, 2005).

Franchising is an excellent way of quickly rolling out a successful concept nationwide. Franchisees pay a set-up fee and agree to ongoing payments so the process is financially risk-free for the company. However, downsides do exist, particularly with the loss of control over how franchisees run their franchise. Strategic alliances based around R&D tend to fall into the joint venture category, where two or more businesses decide to embark on a research venture through forming a new entity If you have a product one of the best ways to market it is to recruit distributors, where each one has its own geographical area or type of product. This ensures that each distributor's success can be easily measured against other distributors. Distribution relationships are perhaps the most common form of alliance. Strategic alliances are usually formed because the businesses involved want more customers. The result is that cross-promotion agreements are established (Lorange, 1993).

2.5 Stages of Alliance Formation

A typical strategic alliance formation process involves the following steps:

Strategy Development - Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.

Partner Assessment - Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.

Contract Negotiation - Contract negotiations involves determining whether all parties have realistic objectives, forming high caliber negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.

Alliance Operation - Alliance operation involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.

Alliance Termination - Alliance termination involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or reallocated resources elsewhere.

2.6 Benefits of strategic alliances

According to Bernadette Soares (2007) there are four potential benefits that businesses may realize from strategic alliances. Advances in telecommunications, computer technology and transportation have made entry into foreign markets by international firms easier. Entering foreign markets further confers benefits such as economies of scale and scope in marketing and distribution. The cost of entering an international market may be beyond the capabilities of a single firm but, by entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations.

Risk sharing is another common rationale for undertaking a cooperative arrangement - when a market has just opened up, or when there is much uncertainty and instability in a particular market, sharing risks becomes particularly important. The competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks.

Most firms are competent in some areas and lack expertise in other areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The information, knowledge and expertise that a firm gains can be used, not just in the joint venture project, but for other projects and purposes. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization.

Achieving synergy and a competitive advantage may be another reason why firms enter into a strategic alliance. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, international expansion, research and development etc. Competition becomes more effective when partners leverage off each other’s strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry alone.

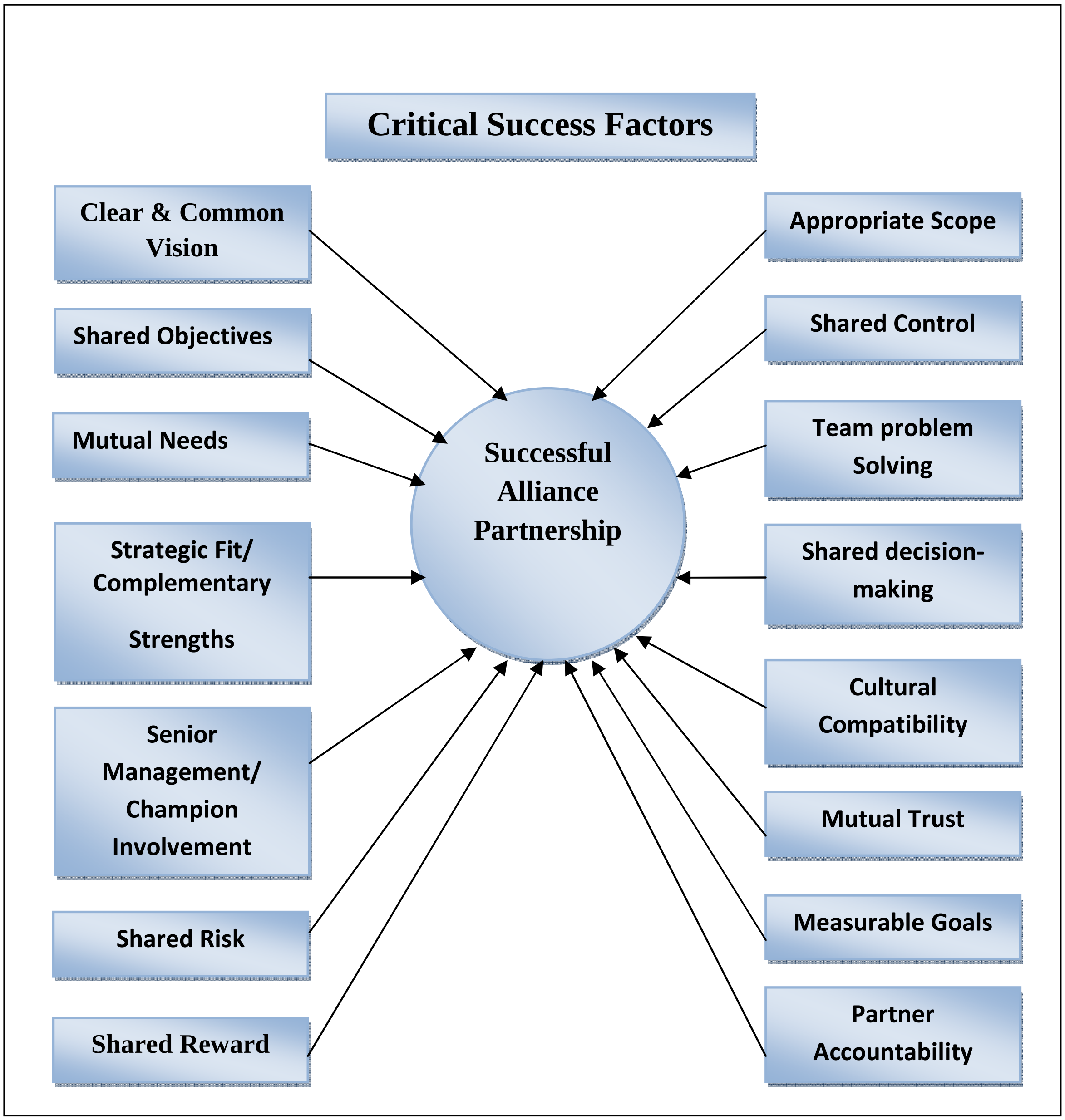


Figure 1: Critical Success Factors affecting Strategic Alliances (Biggs, 2006)

In retail, entering a new market is an expensive and time consuming process. Forming strategic alliances with an established company with a good reputation can help create favourable brand image and efficient distribution networks. Even established reputable companies need to introduce new brands to market. Most of the smaller companies can achieve speed to market quicker than bigger more established companies.

Leveraging off the alliance will help to capture the shelf space which is vital for the success of any brand. Biggs (2006) identifies the following as key factors that determine the success of a strategic alliance, which are presented in Figure 1 above.

It may well be that the advantages of alliance have been stressed, and sometimes over-emphasized, without a balanced presentation of costs and risk. In the situation of a small innovative organization, in an alliance with a larger company whose core strength is in its physical asset base, competitive outcomes can quickly be determined by who has the easiest access to the complementary assets – be it specialized marketing, manufacturing or distribution.

2.7 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 one's less-than strongest executives (Lorange & 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 hurdle senior management has to overcome in committing itself to strategic alliances the management's own fear of 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 & Stern, 1996).

Managers of strategic alliances must create and maintain an environment of trust. This is perhaps easier said 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 (Gimba, 1996).

2.8 Challenges of Strategic Alliances

Several limitations and drawbacks of alliance formation, however, may accompany the benefits of forming a strategic alliance. Day (1995) posited that one of the greatest costs to a firm is the liquidation cost of the alliance, if the partners do not agree. Losing proprietary know-how is also considered to be a high impact drawback of forming alliances.

Control related problems may also arise. Strategy implementation usually goes beyond the control of one party, and thus is likely to bother some companies. Dependence on partners for skills is a potential drawback to one who is dependent (Lei and Slocum 1991). Some partners in the alliance may gain more than others which can cause problems for the partners getting less out of the alliance leading to unequal gains (Harrigan 1988; Slowinski et al. 1996).

Corporations encompassing different cultures may experience culture clashes after the formation of the alliance. There is an increase in the formation of joint ventures between partners of different cultures (Harrigan 1988; Harrigan 1987). These alliances often suffer due to the cultural differences between the partners (Fedor and Werther 1996; Vyas et al. 1995). Different corporate cultures between firms of the same nationality also cause failure of strategic alliances (Vyas et al. 1995). Uncertainty about specific roles may also limit organizations from fulfilling their obligations to the alliance.

A partner may establish cooperative linkages with competing firms (Singh and Mitchell 1996). This situation may hamper the present alliance. Antitrust regulations may also restrict the benefits of an alliance with a major partner and invite governmental intervention. These disadvantages contribute to the failure of strategic alliances. Although the disadvantages seem to outnumber the advantages mentioned in this section, mutual gains from alliances can outweigh disadvantages.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the design of the study, the study population, data collection methods, measurement of variables and data analysis techniques.

3.2 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 attempted 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 also aimed at gaining an in-depth understanding to what had led to these strategic alliances.

3.3 Study population

The population of the study consisted of all the commercial banks in Kenya which have either merged or acquired others. According to the Central Bank of Kenya (2011), there are 35 commercial banks in Kenya which have merged or had acquired others from 1989 to 2010 (see appendix 3). However, a census survey study was recommended so as to cover the entire population of these commercial banks.

3.4 Data Collection

Data was collected by means of a questionnaire, which had closed and open-ended questions. The questionnaire was designed to address the various research objectives and targeted heads of departments of banks who are involved in crafting strategy. Only one respondent was targeted in each bank. The questionnaires were administered to the respondents through drop and pick method and email. 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 three sections: Section A dealt with general information of the respondents and the organization; Section B addressed the forms of alliances, motives and merits; Section C addressed the challenges encountered in strategic alliances.

3.5 Data Analysis

After administering and collecting the questionnaires, the data was organized, coded and analysed 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 to analyse the data and the results were presented in terms of charts, graphs, tables, percentages and brief descriptions.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The objectives of this study were to establish the major drivers of strategic alliances among commercial banks in Kenya, to establish the benefits of strategic alliances to the commercial banks in Kenya and to establish the major challenges encountered by commercial banks on strategic alliances and how they are dealing with them.

Out of the targeted 35 commercial banks, 30 responded to the questionnaires. The response rate was 86% which was considered adequate for the objectives of this study. In this chapter, the analyzed data is presented together with the relevant interpretations. Findings have been presented in three parts: general information on the respondents and the firms, information relating to the forms of strategic alliances, motives, merits and demerits and challenges encountered in strategic alliances.

4.2 General Information on the organisation and respondents

4.2.1: Gender of Respondents

Table 1: Gender of Respondents

	Frequency	**Percentage (%)**
Male	16	53
Female	14	47
Total	30	**100**

Source: Research data

Table 1 above shows that 70% of the respondents were male while 30% were female. This indicates an even distribution of the gender of the respondents.

4.2.2: Educational Background of Respondents

Table 2: Educational Background

	Frequency	Percentage (%)
Diploma	0	0
Graduate	22	73
Postgraduate	8	27
Doctorate	0	0
Total	**30**	**100**

Source: Research data

From the table it is evident that 22 out of 30 (73%) of the respondents were graduates while 8 (27%) were postgraduates. This implies that majority of those surveyed were graduates.

4.2.3: Experience in the banking industry

Table 3: Experience in the banking industry

Range	Frequency	Percentage (%)
Less than 5 years	2	7
6-10 years	18	60
11 -15 years	8	27
Over 15 years	2	7
Total	**30**	**100**

Source: Research data

Table 3 indicates that 2 out of 30 (7%) respondents experience of less than 5(60%) between 6-10 years, 8 (27%) between 11-15 years and 2 (7%) over 15 years. The results show that majority of the respondents have experience of over 6 years in the banking industry.

4.2.4 Ownership of the Bank

Table 4: Ownership of the Bank

	Frequency	Percentage (%)
Public	16	54
Private	4	13
Both public and private	10	33
Total	**30**	**100**

Source: Research data

The table above shows that out of the 30 commercial banks, 16 (54%) are publicly-owned, 4 (13%) are privately-owned while 10 (33%) are owned by both public and private entities. This implies that majority of the commercial banks in Kenya are publicly-owned.

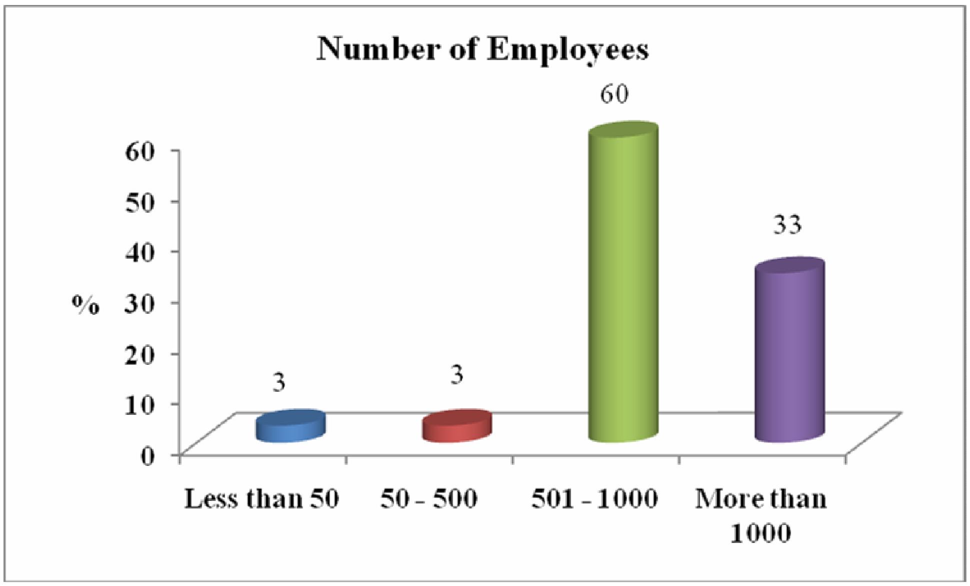
Table 5: Number of Employees

Range	Frequency	Percentage (%)
Less than 50	0	0
50 – 500	2	7
500 – 1000	18	60
More than 1000	10	33
TOTAL	**30**	**100**

Source: Research data

Table 5 above indicates that 7% of the commercial banks surveyed have 50 to 500 employees, 60% 500 to 1000 employees while 33% have more than 1000 employees. This implies that majority of the commercial banks surveyed have more than 500 employees an indication that they were medium to large sized banks. This information is also displayed on graph 1 below.

Graph 1: Number of Employees



Source: Research data

Table 6: Years the bank has operated in Kenya

Range	Frequency	Percentage (%)
Less than 5 years	0	0
6-10 years	4	13
11 -15 years	10	33
Over 15 years	16	54
Total	**30**	**100**

Source: Research data

Table 6 indicates that 4 out of 30 (13%) banks have operated in Kenya for 6-10 years, 10 (33%) for 11 to 15 years, while 16 (54%) for more than 15 years. This implies that most of the banks surveyed have operated in Kenya for more than 6 years.

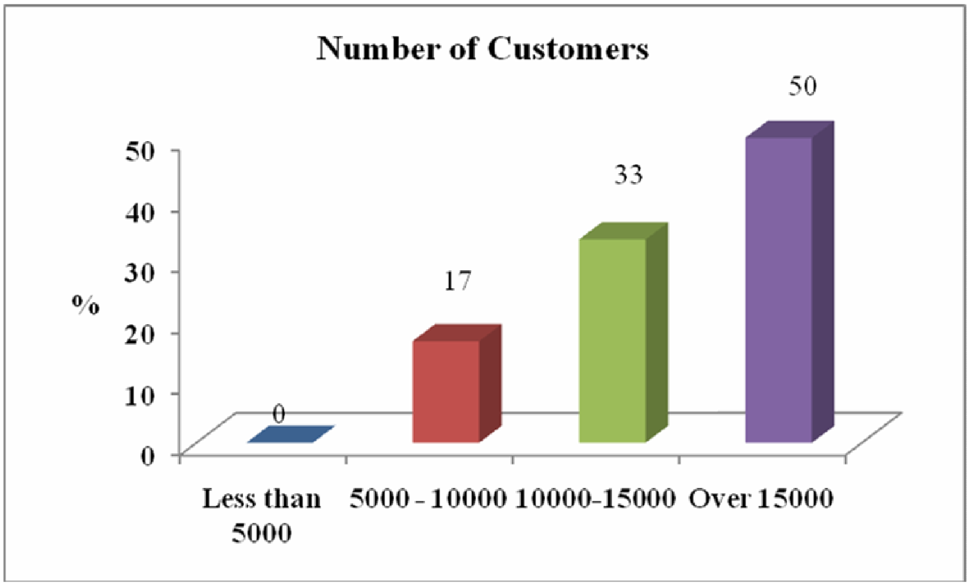
Table 7: Number of Customers

Range	**Frequency**	**Percentage (%)**
Less than 5000	0	0
5000 – 10000	5	17
10000-15000	10	33
Over 15000	15	50
Total	**30**	**100**

Source: Research data

From the table above it can be seen that 5 out 30 (17%) commercial banks have 5000 – 10000 customers, 10 (33%) 10000-15000 customers while 15 (50%) over 15000 customers. This indicates that most of the surveyed banks were medium to large sized as they have more than 10000 customers countywide. This information is also depicted on graph 2 below.

Graph 2: Number of Customers



Source: Research data

4.2 Forms of Strategic Alliances, Motives, Merits & Demerits

The first two objectives of this study were to establish the major drivers and benefits of strategic alliances among commercial banks in Kenya. Respondents were asked whether their bank had entered into a strategic alliance and if yes which specific forms of alliances. Results are summarized in table 8 and 9 below.

4.2.1 Forms of Strategic Alliances

Table 8: Has your bank entered into a Strategic alliance?

Response	Frequency	Percentage (%)
Yes	26	87
No	4	13
Total	**30**	**100**

Source: Research data

Table 8 shows that 26 (87%) had entered into strategic alliances while 4 (13%) had not. This indicates that majority of the banks surveyed had entered into some form of strategic alliance.

Table 9: Category of Strategic alliance

Category	Frequency	Percentage (%)
Merger	20	77
Joint venture	5	19
Acquisition	5	19
Franchising	0	0
Technology licensing	4	15
Product licensing	0	0
Affiliate marketing	1	4
Distributor relationships	1	4
Outsourcing	1	4
Research and development	1	4

Source: Research data

Table 9 shows that out of the 26 banks that had entered into a strategic alliance 20 (77%) had entered into a merger, 5 (19%) joint venture, 5 (19%) acquisition, 4 (15%) technology licensing, 1 (4%) affiliate marketing, 1 (4%) distributor relationship, 1(4%) outsourcing and 1(4%) research and development. This implies that mergers were the most popular form of strategic alliance with commercial banks in Kenya

4.2.2: Motives for Strategic Alliance

In order to understand the key motives for strategic alliances a number of factors were listed and respondents asked to rate them accordingly. Data was analyzed using mean scores and standard deviations.

A mean score of <1.5 implies no extent; mean score of 1.5 – 2.5 implies small extent, 2.5 – 3.5 moderate extent and 3.5 – 4.5 great extent. A mean score of > 4.5 implies very great extent. A standard deviation of <1 means that there were no significant variations in responses while that >1 implies that there were significant variations in responses. The results are summarized in table 10 below.

Table 10: Motives for Strategic Alliance

Factor	**Mean**	**STDEV**
Advancement in technology	3.3	0.9
Gain competitive advantage	4.5	0.9
Offer greater customer value	3.9	1.0
Reduce operational costs	3.8	1.4
Increase revenue	4.2	0.8
Reach out to a new market segment	4.0	1.3
Counter competition	4.5	0.7
Alignment with the organisation's corporate strategy	4.3	0.6
Customer feedback	4.1	0.7
Alignment of needs in the two organizations	4.1	0.8
Branch network	4.3	0.7
Staff productivity	4.1	0.7
Division of labour	4.5	0.7
Maximise profits	4.5	1.0
Increase regional presence	4.2	0.7
Serve niche market	4.4	0.5
Overall	**4.4**	**0.7**

Source: Research data

From the table above it can be seen that most of the factors were rated to a great extent with the mean scores in the range of 3.5 - 4.5. The only factor rated to moderate extent was the advancement in technology (3.3). The overall mean score was 4.4 implying that most of the factors were considered important to great extent when entering into a strategic alliance. The overall standard deviation was <1 indicating that there were no significant variations in the responses.

4.2.3: Merits of Strategic Alliances

Table 11: Merits of Strategic Alliances

Factor	**Mean**	**STDEV**
Technology Transfer	3.9	1.1
Increased branch network	3.9	1.0
Wider range of services offered	4.2	0.8
Reduced operational costs	4.1	1.1
Increased revenue and profitability	4.1	1.1
Reduced competition	4.2	0.9
Value addition	4.5	0.5
Meeting stakeholder expectations	4.3	0.8
Customer feedback	4.2	1.0
Faster response to external environmental changes	4.2	0.6
Shared risks	4.1	0.8
Shared expenses	3.9	0.9
Faster growth	4.4	0.6
Overall	**4.2**	**0.9**

Source: Research data

Table 11 shows results of the rating of various merits of strategic alliances. Most merits were rated to a great extent as the mean scores were in the range 3.5 - 4.5 and overall mean was 4.2. This means that majority of commercial banks were aware of the advantages of entering into strategic alliances. Popular merits include; wider range of services offered (4.2), reduced competition (4.2), value addition (4.5), meeting stakeholder expectations (4.3) and faster growth (4.4). The overall standard deviation was <1 hence no significant variations in the responses.

4.2.4 Extent to which the strategic alliances assists the bank gain the following benefits

Table 12: Benefits of Strategic alliances

Factor	**Mean**	**STDEV**
Market penetration	4.1	1.0
Competitive edge	4.2	0.9
New business opportunities	4.4	0.8
Customer satisfaction	4.0	0.9
Increased convenience	4.3	0.9
Overall	**4.2**	**0.9**

Source: Research data

Table 12 shows the extent to which the listed benefits would actually be realized by entering into a strategic alliance. All the factors were rated to a great extent with overall mean score of 4.2. There were no significant variations in the responses as the standard deviation was <1.

4.3 Challenges affecting strategic alliances

The study also went further to investigate the challenges affecting strategic alliances among commercial banks in Kenya. Data was analyzed using mean scores and standard deviations. A mean score of <1.5 implies that the respondents rated the challenge no extent; mean score of 1.5 – 2.5 implies little extent, 2.5 – 3.5 moderate extent and 3.5 – 4.5 great extent. A mean score of > 4.5 implies very great extent. A standard deviation of <1 means that there were no significant variations in responses while that >1 implies that there were significant variations in responses. The results are presented below.

Table 13: Challenges affecting strategic alliances

Factor	**Mean**	**STDEV**
Complexity of alliances	3.5	1.0
Uncertainty	3.8	0.9
Rigidity	3.3	0.9
Commitment level	3.3	0.8
Surrender of managerial control	3.7	1.0
Conflicting demands from alliance partners	3.6	0.9
Culture in banks	3.3	1.0
Technology	4.2	1.1
Risks and controls	3.9	1.2
Marketing	3.9	0.9
Cost sharing	3.8	1.0
Role ambiguity	2.9	0.9
Unequal gains	3.8	1.1
Overall	**3.6**	**1.1**

Source: Research data

From the table above it can be seen that most challenges were rated to a great extent with mean scores in the range of 3.5 – 4.5 and an overall mean of 3.6. Some of the key challenges include: uncertainty (3.8), surrender of managerial control (3.7), conflicting demands from alliance partners (3.6), technology (4.2) and cost sharing (3.8). However there were significant variations in the responses as the standard deviation was >1.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Strategic alliances have become the main means of attaining higher performance which is the main goal of any company. Failure to perform is critical to a business as it is the major cause of business failure. 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). Due to changes in the operating environment, several institutions including commercial banks have had to enter into strategic alliances in order to remain competitive or even survive in the market.

The objectives of this study were to establish the major drivers of strategic alliances among commercial banks in Kenya, to establish the benefits of strategic alliances and to establish the major challenges encountered by commercial banks on strategic alliances. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

5.2 SUMMARY

The first objective of the study was to establish the major drivers or motives of strategic alliances among commercial banks in Kenya. The results obtained indicated that most of the motives were rated as great extent implying that most of them were major drivers of strategic alliances. These motives included: To gain competitive advantage (4.5), increase revenue (4.2), offer greater customer value (3.9), reduce operational costs (3.8) and to reach out to a new market segment (4.0). Others include countering competition (4.5), alignment with the organisation’s corporate strategy (4.3), branch network (4.3), division of labour (4.5) and to maximise profits (4.5). Additionally to increase regional presence (4.2) , staff productivity (4.1), alignment of needs in the two organizations (4.1), customer feedback (4.1) and to serve niche market (4.4). The overall standard deviation was <1 hence no significant variations in the responses.

The second objective of this study was to establish the benefits of strategic alliances among the commercial banks in Kenya. The findings revealed that there were numerous merits that banks get from the strategic alliances as most of the factors were rated to a great extent. Popular merits include; wider range of services offered (4.2), reduced competition (4.2), value addition (4.5), meeting stakeholder expectations (4.3) and faster growth (4.4). The overall standard deviation was <1 hence no significant variations in the responses. Others include shared expenses (3.9), increased branch network (3.9) and technology transfer (3.9).

An assessment of the extent to which the strategic alliances assists the bank to gain certain benefits revealed that all the factors were rated to a great extent. These benefits included: market penetration (4.1), competitive edge (4.2), new business opportunities (4.4), customer satisfaction (4.0) and increased convenience (4.3). The overall standard deviation was < 1 hence there were no significant variations in the responses.

The third objective was to assess the challenges encountered by commercial banks on strategic alliances. Findings on the key factors indicated that most challenges were rated to a great extent with mean scores in the range of 3.5 – 4.5 and an overall mean of 3.6. Some of the key challenges include: uncertainty (3.8), surrender of managerial control (3.7), conflicting demands from alliance partners (3.6), technology (4.2) and cost sharing (3.8). Challenges that were rated as moderate extent included: rigidity (3.3), commitment level (3.3), culture in banks (3.3) and role ambiguity (2.9). However there were significant variations in the responses as the standard deviation was >1.

5.3 Conclusion

From this research it is evident that most of the commercial banks surveyed had entered into some form of strategic alliance. The most popular strategic alliance was merger. Others were acquisitions, affiliate marketing, joint venture and distributor relationship. The major motives for entering into these business alliances were to increase competitiveness, maximise profits, increase branch network, maximize revenues and increase regional presence. Most commercial banks surveyed also agree to a large extent that strategic alliances have numerous benefits.

Key benefits of strategic benefits noted were to enhance market penetration, gain competitive edge, venture into new business opportunities, increase customer satisfaction and increase customer convenience.

In terms of the challenges encountered most factors were rated to a great extent. The respondents agree that most of the factors were key challenges in strategic alliances among commercial banks in Kenya. These include uncertainty, surrender of managerial control, conflicting demands from alliance partners, technology and cost sharing. This study was therefore able to establish that strategic alliances were popular with commercial banks in Kenya. The study also established that the banks were reaping numerous benefits from strategic alliances making them more competitive and profitable. However there are challenges which they must tackle in order to get even more tangible benefits.

5.4 Recommendations

The study revealed that strategic alliances play an important role in the banking industry in Kenya. The study also established that most commercial banks were willing to enter into such arrangements in order to get various benefits. However due to a number of challenges encountered the gains were not maximized.

It is therefore necessary for those banks already in a strategic alliance to deal with the challenges in order to realize even more gains. Careful choice of the strategic partners is also important so as to avoid conflicts of any sort. This will also ensure a sustainable relationship where the partners can complement each other in more synergistic manner. The reduction of competition was cited as one of the drivers of alliances. This may build monopolies in the industry which could face a lot of government control and reduce the gains.

Commercial banks could also look into partnering with non-aligned businesses with a view to diversification in order to spread risks. Common examples could be partnerships with insurance companies, mobile phone operators, stock brokerage firms, investment firms and even pension companies. This will broaden the range of services offered and increase revenues and profits.

5.5 Limitations of the Study

The study was limited to the perspective of the senior managers of the commercial banks and not the entire banking sector which includes the Central bank of Kenya as a regulator. Out of 35 commercial banks targeted only 30 filled and returned the questionnaires. The response rate was therefore 86% with a none-response rate of 14%. Some respondents did not also fill in some of the key data that was essential in coming up with the findings and conclusions.

5.6 Suggestions for Further Research

Despite the limitations of this study, scholars should be able to utilize these findings to create novel studies for further investigations on other key issues relating to strategic alliances in the banking industry. Studies could also be conducted in other industries other than banking in order to validate or invalidate the findings of this study. The study findings are according to the firms' management point of view. The scope of the study may also be extended to cover the views of other key stakeholders in the banking industry such as the Central bank of Kenya and the Mergers and Monopolies regulation authority.

REFERENCES

Ahuja, G. (2000) ‘The duality of collaboration: inducements and opportunities in the formation of inter-firm linkages’, *Strategic Management Journal* 21(3): 317-343.

Alvarez, S.A. and Barney, J.B. (2001) ‘How entrepreneurial firms can benefit from alliances with large partners’, *The Academy of Management Executive* 15(1): 139-148.

Baum, J.A.C., Calabrese, T. and Silverman, B.S. (2000) ‘Don't go it alone: Alliance network composition and startups' performance in Canadian biotechnology’, *Strategic Management Journal* 21(3): 267-294.

Beamish, P. W., & Killing, J.P. (1997). *Cooperative Strategies.* San Francisco: The New Lexington Press.

Biggs, P. *Managing Cultural Differences in Alliances* [On-line]. (2006, March 19) Available: http://www.strategic-triangle.com/pdf/ACF53D2.pdf.

Bleeke, J., & Ernst, D. (1993). *Collaborating To Compete: Using Strategic Alliance and Acquisitions In The Global Marketplace.* New York, NY: McKinsey and Company.

Caniglia, B.S. (1999). *Informal Alliances Versus Institutional Ties: The Effects of Elite Alliances On Environmental TSMO Network Positions.* Working Paper and Technical Report No. 1999-8, University of Notre Dame, Department of Sociology. Paper presented at 1999 American Sociology Association Conference, Chicago.

Carlson, R.L (1996). *The Information Superhighway: Strategic Alliances in Telecommunications and Multimedia.* New York: St. Martin’s Press. Colombo, M.G., Grilli, L. and Piva, E. (2006) ‘In search of complementary assets: The determinants of alliance formation of high-tech start-ups’, *Research Policy* 35(8): 1166–1199.

Crosbie, S.K. (1974). *A Tacit Alliance: France and Israel and From Suez to the Six Day War.* Princeton, New Jersey: Princeton University Press.

Day, George S. 1995. Advantageous Alliances, Journal of the Academy of Marketing Science, 23: 297-300.

Donald, R.C. & Pamela, S.S. (2003). *Business Research Methods,* (8^{th} Ed), New Delhi: Tata McGraw-Hill/Irwin.

Doz, Y. & Hamel, G. (1998). *Alliance Advantage; The Art of Creating Value through Partnering.* Boston, M.A., Havard Business School Press.

Drucker, P. (1996). Non-profit Prophet. *The Alliance Analyst*. Available from: http://www.allianceanalyst.com

Drucker, P.F. (1998). *How Non-profit and Business Organisations Succeed through Strategic Alliances.* The Alliance Analyst, http://www.cio.com/archive.

Eisenhardt, K.M. and Schoonhoven, C.B. (1996) 'Resource-based view of strategic alliance formation: strategic and social effects in entrepreneurial firms', *Organization Science* 7(2): 136-150.

Elmuti, D. & Kathawala, Y. (2001). An Overview of Strategic Alliances. *Management Decision, 39* (3), 205 – 271.

Ernst, D. & Stern, M. (1996). *Managing alliances-skills for the modern era.* The Alliance Analyst, New York, NY.

Frankel, R., & Whipple, J.S. (1999). Testing a Model of Long-term Alliance Success, *Hospital-Material Management Qaurterly, May, 20, 4, 55-59.*

Gimba, G.J. (1996). *Strategic Alliance:* when you don't want to go it alone. http://www.anet-cgroup.com/April.

Gulati, R. (1997). *The Dynamics of Alliance Formation*, Unpublished doctoral dissertation, Havard University.

Hanson, D., Dowling, P.J., Hitt, M.A., Ireland, R.D., & Hoskisson, R.E. (2005). *Strategic Management: Competitiveness and Globalisation (2nd Ed.).* Melbourne: Thomson.

Harrigan, K. R. 1988. Strategic Alliances and Partner Asymmetries, Management International Review, (Special Issue): 53-72.

Hill, C.W.L., & Jones, G.R. (1998). *Strategic Management* (4th Ed.). Boston: Houghton Mifflin.

Ho Park, S., Chen, R. and Gallagher, S. (2002) 'Firm Resources as Moderators of the Relationship between Market Growth and Strategic Alliances in Semiconductor Start-ups', *The Academy of Management Journal* 45(3): 527-545.

Johnson, G., Scholes, K., & Whitiington, R. (2005). *Exploring Corporate Strategy*. Prentice-Hall, 7th Ed.

Kalmbach, C. Jr and Roussel, R. (1999). "Dispelling the Myths of Alliances" pp 1-8.

Kamanu, R. (2005). *Strategic Alliances among Development of NGO's in Kenya:* Unpublished MBA Project, University of Nairobi.

Kanter, R.M. (1994). Collaborative Advantage: The Art of Alliances. *Havard Business Review*, 72(4)96-108.

Kavale, S.M. (2007). *A Survey of Strategic Alliances in Kenya*: *The Case of Money Transfer Services.* Nairobi: University of Nairobi.

Kogut, B. 1988. Joint Ventures: Theoretical and Empirical Perspectives, Strategic Management Journal, 9: 319-332.

Koigi, A. (2002). *Implementation of Strategic Alliances: Experience of Kenya Post Office Savings Bank (KPOSB) and Citibank:* Unpublished MBA Project, University of Nairobi.

Lei, David, and Slocum, Jr., John W. 1991. Global Strategic Alliances: Payoffs and Pitfalls, Organizational Dynamics, 19: 44-62.

Lendrum, T. (1995). *The Strategic Partnering Handbook: A Practical Guide for Managers.* Sydney: McGraw-Hill.

Lorange, P., & Roos, J. (2004). *Strategic Alliances: Formation, Implementation and Evolution.* Massachusetts, Oxford: Blackwell.

Musyoki, R. (2003). *Creation and Implementation of Strategic Alliances among Non-governmental Organisations: A Case Study of Gedo Health Consortium.* Nairobi: University of Nairobi.

Narula, R. (2004) 'R&D collaboration by SMEs: New opportunities and limitations in the face of globalisation', *Technovation* 24(2): 153-161.

Parke, A. (2001). A Culture of Cooperation? Not Yet, in (eds) A.P. de Man, G. Duysters, & A. Vasudeva. *The Allianced Enterprise: Globalised Strategies For Corporation Collaboration.* London: Imperial College Press.

Powell, W.W., Koput, K.W. and Smith-Doerr, L. (1996). 'Inter-organizational collaboration and the locus of innovation: Networks of learning in biotechnology', *Administrative Science Quarterly* 41(1), 116-145.

Pyka, A., & Windrum, P. (2003). The Self Organisation in Strategic Alliances. *Economics of Innovation and New Technology, Taylor and Francis Journal,* 12(3), 245-268.

Reed, S., Lajoux, A., & Nesvold, H. (2007). The Art of M & A: A Merger, Acquisition, Buyout Guide. United States. McGraw Hill.

Shan, W., Walter, G. and Kogut, B. (1994) 'Interfirm cooperation and start-ups innovation in the biotechnology industry', *Strategic Management Journal* 15(5): 387-394.

Small, M. & Singer, J.D. (1969). Formal Alliances, 18-16-1965: An extension of the Basic Data. *Journal of Peace Research*, 63(3), 257-282.

Soares, B.(2007) *The use of Strategic alliances as an instrument for rapid growth, by New Zealand based quested companies*. United New Zealand School of Business Dissertations and Theses.

Taylor, A. (2005). An Operations Perspective on Strategic Alliance Success Factors: An Exploratory Study of Alliance of Managers in the Software Industry. *International Journal of Operations and Production Management,* 25(5), 469-490.

Thompson, A. A. Jr., & Strickland III, A.J. (1998). *Strategic Management: Concepts and Cases, (*10th Ed.). Boston: Irwin McGraw-Hill.

Vyas, Niren M., Shelburn, William L., and Rogers, Dennis C. 1995. An Analysis of Strategic Alliances: Forms, Functions, and Framework, Journal of Business and Industrial Marketing, 10: 47-60.

Wachira, C.W. (2003). *Strategic Alliances in Pharmaceutical Drug Development:* A case study of three strategic alliances at Eli Lilly & Company. University of Nairobi.

Webster, E. (1999). *The Economics of Intangible Investment.* Cheltenham, UK: Edward Elgar.

Wheelen, T. & Hungar, D. (2000). Strategic Management and Business Policy. (7th ed.). New York, NY. Addison – Wesley Publishing Co.

Wolf, R., 2000. *Effective International Joint Venture Management: Practical Legal Insights.* New York: M.E. Sharpe, Inc.

APPENDICES

Appendix 1: Letter to respondents

UNIVERSITY OF NAIROBI
MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsities

Tel: 020 2059161
Mombasa, Kenya

DATE: 24TH SEPTEMBER, 2013

TO WHOM IT MAY CONCERN

The bearer of this letter, **Joseph Kyalo Nzengya** of Registration Number **D61/70963/2008** is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on ***Strategic Alliances Among Commercial Banks in Kenya.*** We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.

Zephaniah Ogero Nyagwoka
Administrative Assistant, School of Business-Mombasa Campus

Appendix 2: Questionnaire

SECTION A: GENERAL INFORMATION

Kindly tick (√) in the spaces provided the correct answer or supply the required information. Where required, please specify and elaborate.

1. Gender: Male ☐ Female ☐

2. Name of Bank: ……………………………………………….

3. Educational Background:

Diploma ☐
Undergraduate ☐
Post graduate ☐
Doctorate ☐

Others (please specify): …………………………………………………

4. Work experience in the banking sector:

Less than 5 years ☐ 6-10 years ☐
11-15 years ☐ Over 15 years ☐

5. Ownership structure of the Bank:

Public Company ☐
Private Company ☐
Both Public & Private ☐

Others (specify): ………………………………………………………………….

6. How many employees does your organisation have?

Less than 50 ☐

50 – 500 ☐

500 – 1000 ☐

Over 1000 ☐

7. How many years has the bank been operating in Kenya?

Less than 5 years ☐ 6-10 years ☐

11-15 years ☐ Over 15 years ☐

8. How many customers does your bank have?

Less than 5,000 ☐

5000 – 10,000 ☐

10,000 – 15,000 ☐

Over 15,000 ☐

SECTION B: FORMS OF STRATEGIC ALLIANCES, MOTIVES, MERITS & DEMERITS

9. Has your bank entered into strategic alliances of any form?

Yes ☐ No ☐

10. If Yes, with which category of alliance? (Please tick as appropriate)

Category	
Merger	
Joint venture	
Acquisition	
Franchising	
Technology licensing	
Product licensing	
Affiliate marketing	
Distributor relationships	
Outsourcing	
Research and development	

For each of the questions below, kindly indicate the relevance of the identified factors in the alliance. Indicate the importance of the identified factor as either:

5- To a very large extent, 4 – Large extent, 3- Moderate extent, 2- Little extent or 1- No extent

11. To what extent did the following reasons make your organisation seek strategic alliance?

Factor	**1**	**2**	**3**	**4**	**5**
Advancement in technology					
Gain competitive advantage					
Offer greater customer value					
Reduce operational costs					
Increase revenue					
Reach out to a new market segment					
Counter competition					
Alignment with the organisation's corporate strategy					
Customer feedback					
Alignment of needs in the two organizations					
Branch network					

12. In addition to the factors mentioned above kindly list other factors and their relative importance in the formation of the alliance

Factor	**1**	**2**	**3**	**4**	**5**

13. For each of the following factors kindly indicate the extent to which they are **merits** the bank has enjoyed from the strategic alliance.

5 – Very great extent, 4- Great extent, 3- Moderate extent, 2 – Little extent or 1 – No extent

Factor	**1**	**2**	**3**	**4**	**5**
Technology Transfer					
Increased branch network					
Wider range of services offered					
Reduced operational costs					
Increased revenue and profitability					
Reduced competition					
Value addition					

Meeting stakeholder expectations					
Customer feedback					
Faster response to external environmental changes					
Shared risks					
Shared expenses					
Faster growth					

14. What specific benefits do you expect your customers to derive from the strategic alliance?

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

When entering into business alliances, which of the following stages in the life cycle do you regard as the most challenging? Kindly tick (√) as appropriate

- Strategy development ( )
- Identifying the right partner ( )
- Negotiating the alliance agreement ( )
- Alliance operation ( )
- Managing interpersonal relations ( )
- Altering alliance terms ( )

15. To what extent do you think entering into business alliances assists the bank to gain the following benefits?

5 – Very great extent, 4- Great extent, 3- Moderate extent, 2 – Little extent or 1 – No extent

Factor	**1**	**2**	**3**	**4**	**5**
Market penetration					
Competitive edge					
New business opportunities					
Customer satisfaction					
Increased convenience					

SECTION C: CHALLENGES ENCOUNTERED IN STRATEGIC ALLIANCES

16. How would you rate the extent to which the following challenges affect strategic alliances in your bank?

5 – Very great extent, 4- Great extent, 3- Moderate extent, 2 – Little extent or 1 – No extent

Factor	**1**	**2**	**3**	**4**	**5**
Complexity of alliances					
Uncertainty					
Rigidity					
Commitment level					
Surrender of managerial control					

Conflicting demands from alliance partners					
Culture in banks					
Technology					
Risks and controls					
Marketing					
Cost sharing					
Role ambiguity					
Unequal gains					
Others: (Kindly list and rate accordingly)					

Appendix 3: List of commercial banks

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. Brighton Kalekye Bank
7. CFC Stanbic Bank
8. Chase Bank (Kenya)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Dubai Bank Kenya
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank Limited
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich
29. I&M Bank

30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

Source: Central Bank of Kenya - 2012