EFFECT OF STRATEGIC ALLIANCES ON THE GROWTH OF KENYA COMMERCIAL BANK GROUP

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DECLARATION

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

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This research project is submitted for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my family for their unwavering encouragement and support. I also dedicate it to friends for their great support all the way.

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I thank the almighty God for his unfailing grace having enabled me to pursue this degree. He has been the source of my strength all along in my life.

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ABSTRACT

Intense competition in the marketplace is forcing banks to examine different ways by which they could enhance or retain their competitive edge. Strategic alliance is one such option through which a bank can leverage its resources to emerge as an effective competitor. Such alliances are burgeoning in the Banking industry, which is characterized by rapid changes in service delivery, customer demands and globalization (Rai, 1996). This study was based on the following objectives; To identify the strategic alliances at Kenya Commercial Bank Group Limited and to establish the effects of strategic alliances on the growth of Kenya Commercial Bank Group Limited. This study used a case study research design. Data was both primary and secondary sources. Primary data was obtained using an interview guide and secondary data was obtained from banks strategic plans and annual reports. Responses were analyzed using content analysis. The study found that alliances provide opportunity for participating banks to tap into the resources, knowledge, capabilities and skills of their partners. They offer potential for a commercial bank to leverage its resources capabilities. Finally, the study established that strategic alliances are positive and significantly correlated with banks competitiveness in terms of improving the bank's ability for profit maximization, expanding market position as a result of growth in customer base, and increasing sales volume. The study recommends that the commercial bank group should include competitive intelligence in its strategic alliance practices. Especially the impact of technological intelligence will have huge benefits in the level of automation, cost reduction and efficiency in service delivery that the commercial bank group can achieve. The commercial bank group should therefore adopt instruments to gather market intelligence, product intelligence, technological intelligence, and strategic alliance intelligence to complement its strategic alliance practices to ensure it positions itself strategically as the most competitive commercial bank in terms of innovation and customer value-add as compared to rivals.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Organizational growth and entering new markets are among the top reasons for forming strategic alliances. The companies simply do not have the time to establish new markets one-by one, in today's fast-paced world economy. This is increasingly true. Therefore, forming an alliance with an existing company already in that marketplace is a very appealing alternative (Doz, 2006).

The growing integration of the global market place since the 1970s to the new millennium termed as globalization has seen the emergence of all sorts of corporate relationships and linkages from alliances, mergers and acquisitions, partnerships and joint ventures. Strategic alliances have been formed to facilitate entry into new markets and to reduce operational costs. These inter-firm relationships may involve two or more firms from the same industry or from varied parts of the world and cover a range of activities and functions (Yoshino & Rangan, 1995).

Resource dependence theory underscored the importance of alliances in several review and studies: Hillman et al. (2009); Davis & Cobb (2010); Drees & Heugens (2013); Sharif & Yeoh (2014). Which all indicate and discuss the importance of this theory in explaining the actions of organizations, by forming interlocks, alliances, joint ventures, and mergers and acquisitions, in striving to achieve growth? The alternative view is that firms acquire knowledge through strategic alliances in order to compete at different levels of the value chain, and thereby alter the organizational structure in which they operate (Doz, 2006).

Strategic alliances are widely considered as collaborative strategies formulated and implemented to meet shared objectives and develop superior resources cooperatively. Banks are forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk, to achieve or ensure competitive advantage it is against this background the researcher is examine the effect of strategic alliances on Kenya commercial Bank growth.

1.1.1 Strategic Alliances

Strategic alliances are a form of inter-organizational cooperation involving pooling of skills and resources to achieve common objectives of alliance partners, but retaining their separate entities (Uddin & Akhter 2011). Strategic alliances are inter-firm collaborations, for the purpose of achieving a sustainable competitive advantage; they are long-term, enduring in nature, as compared to transaction type of relationships or interimistic relationships (Kale, Dyer, & Singh, 2002).

Strategic alliances are not simple or easy to create, develop, and support. Alliances take a number of forms and go by various labels. Alliances may be contracts, limited partnerships, general partnerships, or corporate joint ventures, or may take less formal forms, such as a referral network. Virtually all strategic alliances fit into three basic classifications of either “trading”, “functional” or “dynamic” operating alliances. A “trading” alliance is straightforward - nothing more than buyers and sellers forming a largely passive sales and distribution or export/import arrangement based on contractual terms (Baum, Calabrese, & Silverman, 2000).

A “functional” alliance integrates certain basic functions between the two parties by pooling efforts to attain specific goals and establish ongoing management relationships. These functional alliances are usually used to pursue or improve research and development projects, share costs, provide geographical market access and, generally, enhance distribution or sales activities. A “dynamic” alliance involves the “hidden” assets of the two parties in terms of the skills, knowledge and capacity necessary to deliver results (Bensimon, 2009).

According to Hitt et al (2006) strategic alliance technically falls under cooperative and collaborative strategic actions which technically can be formulated for both business level strategies as horizontal and vertical complementary alliances and also corporate level strategies for expansion and other objectives. Strategic maneuverability in this revolutionized milieu requires collaboration (Hamel & Prahalad 1989, Hitt et al 1998) and this collaboration is not a simple program to be quickly strategized and conducted but it has to be managed largely based on the mutual trust, constant communication and ability to learn and transfer knowledge and other resources among partners in order to cultivate, develop, survive and thrive

which in return gives rise to bilateral competitiveness (Kanungo 2005). To throw more light on this credo Drucker (1996) argued that they way in which future business is conducted is increasingly going toward partnership.

1.1.2 Organizational Growth

Growth is something for which most companies, large or small, strive. Small firms want to get big, big firms want to get bigger (Crosby, 1990) Most firms, of course, desire growth in order to prosper, not just to survive. Organizational growth, however, means different things to different organizations. Indeed, there are many parameters a company can select to measure its growth. There are many parameters a company may use to measure its growth. Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial data. Other business owners may use one of the following criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share. Ultimately, success and growth will be gauged by how well a firm does relative to the goals it has set for itself.

Organizational growth is a key foundation for the high-performance work practices, and can be a source of competitive advantage if appropriately nurtured, learnt and shared (Goffee & Jones, 1996). Organizational growth result from a number of factors: joint venture or alliances, better advertising, a change in the market, entering a new market, developing a new product, alliances among others. To aid productivity measurement, there is need to measure growth as a single factor - the difference achieved in output, assuming makes no changes to our pricing or productivity levels. Effective organizational growth processes are essential to new product success, yet innovation is the growth driver. New strategic alliance market position in existing markets and provide avenues for entering new markets (Berner, 1997).

1.1.3 Commercial Banks in Kenya

The Banking industry in Kenya is governed by 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). The banking sector was liberalised in 1995 and exchange controls lifted. As at 31st March 2011 the banking sector comprised 45 institutions, 44 of which were commercial banks and 1 mortgage finance company.

Commercial banks and mortgage finance companies are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations issued there under. The banking industry was liberalized in 1995 and exchange control lifted.

The commercial banks role in an economy is paramount because they execute monetary policies and provide means of facilitating payment for goods and services in the domestic and international trade (Shambe, 2003) Banking is now an essential part of our economic system. Modern trade and commerce would almost be impossible without the availability of suitable banking services. First of all, banking promotes savings. All manner of people, from the ordinary labourers and workers to the rich land owners and businessmen, can keep their money safely in banks and saving centers. Secondly, banking promotes investments. Banks easily invest the money they get in industry, agriculture and trade. They either invest it directly or advance loans to other investors.

Besides the esoteric arguments about the money supply, commercial banks are also important because they reduce transaction costs using modern technology. For example, electronic money transfer reduces costs for sending money in many cases, both in shipping and security costs as well as risks of theft. ATMs allow citizens with everyday access to accounts, and the rise of drive-through banking has made using bank services even faster. As banks increasingly reach out to the Internet to connect with customers, this factor of convenience (which saves time and money) will only increase. When banks accept personal deposits and aggregate them, they typically only keep a low percentage of deposits on-hand and lend out as much as possible. Loans earn the bank money in interest payments, but they also help the economic system function by increasing the availability of capital and allowing business to use debt to expand. Banks are important sources of typically high-quality credit, especially when compared to other agents in the economy. Even though some percentage of issued debt will go bad, the bank can (generally) still meet all of its obligations to depositors by using the revenues from diversified earnings

Commercial banks are faced with a lot of challenges that requires only those with the best mix of personnel and objectives to survive. Such challenge is competition. The increasing competition amongst commercial banks in Kenya has forced the

management to look for ways through which they can improve their performance. The focus has now shifted from employee to customer management (Ontunya, 2007).

In Kenya, most banks form strategic alliances in direct response to competition and to reduce uncertainty about the future. Most of the Alliances have failed to be sustained for a long time, due to several reasons, Failure of parties in contractual agreements adherence, volatile operating environment, and change in dynamics among other factors. In this study the researcher examine the effect of strategic alliances on Kenya commercial Bank growth.

1.1.4 Kenya Commercial Bank Group Limited

Kenya Commercial Bank Limited dates back to July 1896, when its predecessor, the National Bank of India opened a branch in Mombasa to handle the business that the port was attracting at that time. In 1958, Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of shareholding in the Bank to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank. In 1972, Kenya Commercial Bank acquired Savings & Loan Kenya Limited, which specialized in the provision of mortgage finance. As of December 2012, KCB Group was the largest financial services organization in the African Great Lakes, with an estimated asset valuation of about US$4.36 billion (KES:367.4 billion), and shareholders' estimated at US$632.8 million (KES:53.34 billion). By September 2013, the Group's total assets had increased to US$4.57 billion (KES: 385.2 billion).

KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. In March 2011, media reports indicated that the group was pursuing expansion plans into the Democratic Republic of the Congo, Ethiopia and Zambia. KCB seeks to be a sustainable Bank. Sustainability is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable society. Put succinctly, sustainability is anchored in

3Ps that is Planet, People and Profit. Sustainability is creation of value for a wide range of stakeholders, including shareholders, employees, customers, suppliers, communities and Government, with particular consideration for the needs of future generation (KCB web site 2014).

Banks play a very important role in the economic life of the nation. The bulk of business activities in KCB are in the form of direct financial activities. These activities include local currency deposits, credit facilities in form of loans, overdrafts, credit cards, mortgages and local bills discounts. Banks lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth, the bank also issues guarantees in form of bid bonds, performance bonds, commercial guarantees which facilitate investors become very effective partners in the process of economic development. Additionally issuance of cheques, safe custody, foreign currency deposits, international trade finance, and asset based financing, and community social responsibility are also key activities offered.

Among the challenges the commercial banks are facing in Kenya are stiff competition, impact of technological change ,inflation ,economic stress and new regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, it's hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks like KCB because of the increased competition. Kenya commercial banks have formed strategic alliances in direct response to competition and to reduce uncertainty about the future and to enhance organizational growth. In this study the researcher examine the effect of strategic alliances on Kenya commercial Bank growth.

1.2 Research Problem

Intense competition in the marketplace is forcing banks to examine different ways by which they could enhance or retain their competitive edge. Strategic alliance is one such option through which a bank can leverage its resources to emerge as an effective competitor. Such alliances are burgeoning in the Banking industry, which is

characterized by rapid changes in service delivery, customer demands and globalization (Rai, 1996). Commercial banks are in rush to enter into strategic alliances with numerous organisations ranging from utility companies; telecommunications service providers, universities, retail shops and even government with a view to ensuring customer convenience, reduction in service delivery costs, increased competitiveness and penetrate into new markets.

Customers benefit from strategic alliance through low cost of service, convenience; they do not need to travel to receive the service, superior products and quality service. Customers also access superior technology and hence save time through simplified operational procedures. Despite the advantages of strategic alliances, they have not always achieved desired results. Successful management of alliances has proved to be very elusive with some failing to grow while others fail. The failure of such alliances is associated with alliance arrangements often resulting in significant costs to either one or both of the partners concerned.

According to Day, (1995), strategic alliances have their own shortcomings which include: time spent by management to negotiate and implement the alliance, loss of flexibility, leakage of proprietary knowledge to the partner and atrophying of certain firm capabilities. Organizational learning suggests that alliances are difficult to manage due to frequent tensions between cooperation and competition (Geringer Hebert, 1989). Very little is known about the effects of strategic alliances on the growth of commercial banks with studies being conducted in the context of developed world (Morris, 2002).

In Kenya, while several studies have been done on strategic alliance, none has focussed on their effect on the growth of commercial banks. Kavale (2007) studied the factors firms consider when entering strategic alliances and the factors leading to success, especially for commercial banks sustainability and prosperity by profiling strategic alliances in money transfer services in Kenya. Kavale established that firms consider prospect for growth both in market share and productivity, partner match, strength of competency and history of the prospect partner when entering into strategic alliances. Koigi (2002) carried out a survey on the Implementation of Strategic alliance experience of Kenya Post Office Savings Bank (KPOSB) and

Citibank. While, Serem (2002) did a survey of the outsourcing of human resource services by banks in Nairobi. Among these studies previously done per researchers knowledge none has been done on the effects of strategic alliance on Kenya commercial bank group growth to the best of this researcher's knowledge. Yabs, (2007) looked at the forms of strategic alliance within Equity bank i.e. market related and technology related The researcher stated that for firms in a mature industry, market related strategic alliances tend to be more profitable, whereas technology related strategic alliances tend to benefit firms in high technology industries relatively more than firms in mature industry. A knowledge gap therefore exists and hence this study seeks to address this gap by investigating effect of strategic alliances on Kenya commercial Bank growth in the increasingly competitive Kenyan banking industry. The study thus seeks to address the questions as to whether strategic alliances lead to growth in the context of Kenya Commercial Bank Group and the major strategic alliances that the bank has since entered into.

1.3 Research objective

This study was based on the following objectives;

i. To identify the strategic alliances at Kenya Commercial Bank Group Limited.

ii. To establish the effects of strategic alliances on the growth of Kenya Commercial Bank Group Limited.

1.4 Value of the study

This area of competitiveness of strategic alliances in the banking sector is still suffering from a shortage of information. Research in the various components in this area may help to uncovered previously unknown information that may go a long way in facilitating further understanding of the factors that encourage formation of strategic alliances and what firms may do to gain competitiveness.

In theory researchers and academicians are groups who will benefit from the study in that they may identify the researcher gap and conduct research on this topic. Also they might benefit by gaining information which can be used to conduct other studies on the area strategic alliances as tool for strategic growth in Kenya banking sector. This

research aims to provide the basis for more research to be done by academics as a basis for research of other sectors in the Kenyan economy.

In practice the study will be used by the management of organizations who are technically agents of the shareholders. The management of the firms will gain insights on whether to use strategic alliance as tool for strategic growth. The management will be able to know which form strategic alliances they can use in order to enhance organization growth. The shareholders who are the owners of the firms are interested in the growth of the organization. The competitiveness of the firm will be witnessed by the shareholders if there is increase of the shareholders wealth. The management must be engaged in strategic management whereby they must maximize the shareholders wealth by investing in mergers and acquisition that will enhance growth of the firm. The growth of the firms is a major concern for the government because it is an indicator of economic development. The government will benefit to know whether the firms are growing through expanding their market share. The potential investors will be interested in the firms that are experiencing growth through becoming more competitive so as to invest in order to recover the returns.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses theoretical Review, the empirical review on the effect of strategic alliances on the growth of commercial bank group, critique and the research gaps.

2.2 Theoretical review basis of the Study

Below are the theories related to strategic alliances and growth; the three theories discussed include; Competitive advantage theory, competence based theory and dependency theory.

2.2.1 Competitive Advantage Theory

The theory focuses on a firm's behaviour from a managerial, rather than a marketing approach, explaining that companies are expected to seek cooperative arrangements if they believe those will improve their ability to meet strategic objectives, especially in maximizing profits or in protecting or enlarging market share (Coopers & Lybrand, 2007). Though discourse on competitive advantage is widely prevalent, clear definitions are rare and it is often used interchangeably with concepts like distinctive competence (Day & Wensley, 1988).

Understanding competitive advantage requires an analysis of its constituent elements. Advantage is a relative concept (Hu, 1995; Kay, 1993), only meaningful when compared to another entity or set of entities. A competitive advantage, then, is an advantage one firm has over a competitor or group of competitors in a given market, strategic group or industry (Kay, 1993). Any given firm may have many advantages over another firm, such as a superior production system, a lower level of wages and salaries or an ability to deliver superior customer service, but the important advantages are those in which customers place some level of value (Coyne, 1986). Therefore, the locus of advantage is in the marketplace and positions of advantage are generally regarded as being either differentiation or lower delivered cost (Porter, 1985) or both (Gilbert & Strebel, 1989). More than one firm in a given market can have a competitive advantage. For example, firm A can have an advantage over firm B but firm B can also have an advantage over firm C (Kay, 1993).

Also of interest to researchers is the question of whether advantages are sustainable. The terms sustained advantage (Barney, 1991) and sustainable advantage (Grant, 1991) both appear in the literature, but both can be interpreted in the same way. Sustainability does not refer to a particular period of calendar time, nor does it imply that advantages persist indefinitely (Gunther McGrath et al., 1995) but rather depends on the possibility and extent of competitive duplication. Industries such as financial services are typically cited as examples of where sustainable advantages are difficult to attain and competitive moves are rapidly imitated (Bhide, 1986).

The attainment of an SCA can be expected to lead to superior performance measured in conventional terms such as market-share and profitability (Bharadwaj et al., 1993). However, the economics literature holds that, given strong competitive pressures, high rationality will prevail and such economic rents will dissipate (Schoemaker, 1990). But where the resources underlying the advantage are limited or quasi-limited in supply, superior returns will persist (Peteraf, 1993), focusing attention on the nature of the firm's resource pool.

2.2.2 Competence-Based Theory

In this type of theory, one view is that firms are motivated to acquire knowledge as the means to retain or acquire specific competencies (which are analogous to resource dependency theory) and thereby maximize their ability to adapt to their environment. The alternative view is that firms acquire knowledge through strategic alliances in order to compete at different levels of the value chain, and thereby alter the industry structure in which they operate (Doz, 2006). Firms adapt to a competitive environment by seeking specific knowledge which can be obtained through licensing agreements, or by obtaining organizational or technical knowledge that is embedded in key individuals, that is, the tacit knowledge which can be transferred only by learning alongside the individual (Mollenkopf, 2008).

2.2.3 Resource Dependence Theory

Pfeffer & Salancik (1978) utilized the previous environmental literature to develop resource dependence theory. Resource dependence theory is based on the notion that environments are the source of scarce resources and organizations are dependent on these finite resources for survival. A lack of control over these resources thus acts to

create uncertainty for firms operating in that environment. Organizations must develop ways to exploit these resources, which are also being sought by other firms, in order to ensure their own survival.

Pfeffer & Salancik (1978) determined three factors that influenced the level of dependence organizations had on particular resources. First, the overall importance of the resource to the firm was critical in determining the resource dependence of the firm. Second, the scarcity of the resource was also a factor. The more scarce a resource was, the more dependent the firm became. Finally, another factor influencing resource dependence was the competition between organizations for control of that resource. Together, all three of these factors acted to influence the level of dependence that an organization had for a particular resource.

Resource dependence concerns more than the external organizations that provide, distribute, finance, and compete with a firm. Although executive decisions have more individual weight than non-executive decisions, in aggregate the latter have greater organizational impact. Managers throughout the organization understand their success is tied to customer demand. Managers' careers thrive when customer demand expands. Thus customers are the ultimate resource on which companies depend. Although this seems obvious in terms of revenue, it is actually organizational incentives that make management see customers as a resource (Kay, 1993).

Resource dependence theory maintains that organizations are resource-insufficient; they strive to acquire and sustain resources from their external environment. Resources are controlled by external actors who exert demands on the organization. These actors perceive certain advantages in their relationship with the organization and exercise power through control over resources (Pfeffer & Salancik, 1978). The heavier the dependence on external resources, the more the demands of particular actors controlling these resources are influential

Organizations depend on multidimensional resources: labour, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must

have to function. For example, a burger outlet can't function without bread. An organization may adopt various countervailing strategies—it may associate with more suppliers, or integrate vertically or horizontally.

2.3 Effects of Strategic Alliances on the Growth of Commercial Banks

The past several decades have witnessed enormous growth in alliance activity (Das & Kumar, 2010), and strategic alliances apparently have established themselves as cornerstones for the competitive strategy of many firms, enabling those firms to achieve objectives that otherwise would be difficult to realize (Das & Teng, 2000).

Strategic alliances are formed for a variety of reasons, which include entering new markets, reducing manufacturing costs, and developing and diffusing new technologies rapidly. Alliances also are used to accelerate product introduction and overcome legal and trade barriers expeditiously. In this period of advanced technology and global markets, implementing strategies quickly is essential. Forming alliances is often the fastest, most effective method of achieving objectives. Companies must be sure the goal of the alliance is compatible with their existing businesses so their expertise is transferable to the alliance (Serem, 2002).

2.3.1 Creation of New Markets

Often a company that has a successful product or service has a desire to introduce it into a new market. Yet perhaps the company recognizes that it lacks the necessary marketing expertise because it does not fully understand customer needs, does not know how to promote the product or service effectively, or does not understand or have access to the proper distribution channels. Rather than painstakingly trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills (Yabs, 2007).

Then, by capitalizing on the product development skills of one company and the marketing skills of the other, the resulting alliance can serve the market quickly and effectively. Alliances may be particularly helpful when entering a foreign market for the first time because of the extensive cultural differences that may abound. They may also be effective domestically when entering regional or ethnic markets. This has

resulted in a large number of commercial banks entering into strategic alliances to gain competitive advantage and therefore growth as a result of new markets (Uddin & Akhter, 2011).

2.3.2 Reduction of Manufacturing Costs

Strategic alliances may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs Many companies are driven to sell in more than one region or country because domestic sales volume is not large enough to fully capture manufacturing economies of scale or learning – curve effects and thereby substantially improve a firm's cost competitiveness (Ontunya, 2007).

A company with the manufacturing capacity therefore forms a strategic alliance with another with access to larger markets therefore making manufacturing a lot cheaper because of the newly acquired large customer numbers. Alliances have also been formed by companies with limited resources in terms of capital. A pool of resources between the two firms makes it easier to acquire the necessary machinery and in puts required enabling production in large scale and in effect reduction of production costs. By joining forces in components production/and or final assembly, companies may be able to realize cost savings not achievable with their own small volumes – Volvo, Renault, and Peugeot formed an alliance to make engines together for their larger car models precisely because none of the three needed enough such engines to operate its own engine plant economically (Thompson et al, 2004). Alliances activity tends to have a significant positive impact on profitability of banks which leads to significant growth (Kemoni, 2010).

2.3.3 Developing and Diffusing Technology

Alliances may also be used to build jointly on the technical expertise of two or more companies in developing products technologically beyond the capability of the companies acting independently. Rogers (2003) describes diffusion of technology as the process which innovation is communicated through certain channels over time among the members of social system. In today's rapidly changing world, a company that cannot position itself quickly misses important opportunities. As a consequence, more and more enterprises, especially in fast changing industries, are making strategic

alliances a core part of their overall strategy. Alliances are so central to Corning's strategy that the company describes itself as a 'network of organizations'.

Toyota has forged a network of long-term strategic partnerships with suppliers of automotive parts and components. Microsoft collaborates very closely with independent software developers that create new programs to run on the next – generation versions of windows. A recent study indicates that the average large corporation is involved in around 30 alliances today, verses fewer than 3 in the early 1990's (Thompson et al, 2004). Through strategic alliances, banks expand its market position, gain access to new technology and achieve competitive advantage and substantial growth.

2.3.4 Improved Customer Service

Companies also enter into strategic alliances in an effort to improve attitude toward customer service. This starts from top management on down the chain of command. Many manufacturers are partnering with their dealers and retailers. When the dealer makes a long-term buying commitment to the manufacturer, the manufacturer helps the dealer in customer service tools and training. Through alliance relationships, many businesses have found strategies to provide better and quicker customer service while keeping their costs manageable (Das & Kumar, 2010).

Competitive companies look for other companies that have a similar customer base and enter into a discussion about how to work together. Strategic alliances allow partner firms to learn new ways to improve customer service from the one another as well as enabling them solve their customer's problems faster because of the newly acquired larger base of customer service people. This means that keeping the customers loyal to the organization enhances stable running of the business even in times of stiff competition and recession. Customer satisfaction therefore enhances the banks market, more sales are realized and therefore banks can opt to grow in to other services and new market niche to realize its full potential therefore resulting to substantive growth (Manoj, 2006).

2.3.5 Financial Stability

One of the reasons why companies find themselves walking towards forming strategic alliances is the need to eliminate the weaknesses that come with financial instability.

Smaller organizations forming alliances with larger ones seek to access to capital. More potential is generally the out cropping of shared resources. For instance when a university collaborates with a medium level training institution to offer degree programmes in new markets, both institutions depending on the agreement reached upon is required to contribute a certain percentage towards the acquisition of necessary resources.

Alliance relationships allow partners to share the financial risks associated with developing new products and entering into new markets. Ultimately the benefit to developing strategies alliances with others is for solutions through mutually beneficial efforts. Together firms can solve their problems, those of their customer's suppliers and employees. Companies should know what they want to get out of the alliance relationships they establish. Alliances will get the company much closer to their goals 12 than without these valuable relationships. These will in turn lead to improved quality, productivity and profitability through cooperation and collaboration of the companies involved and therefore growth in its sales, market and products (Koigi, 2002).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives details regarding the procedures used in conducting the study. Pertinent issues discussed in this section include the research design, population, sampling techniques, data collection and data analysis.

3.2 Research Design

A research design is the plan, structure of investigation conceived to obtain answers to research questions that includes an outline of the research work from hypothesis, methods and procedures for collecting and analyzing data and presenting the results in a form that can be understood by all (Mugenda & Mugenda, 1999). This study used a case study research design. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). It was the most appropriate design since only one organization was studied and it provided an in depth analysis of Kenya commercial bank group and the effect of strategic alliances on its growth. Hence the target population consisted of top and middle level managers in the departments of finance, corporate and retail, marketing, risk management; legal and regulatory departments of Kenya commercial bank group i.e. Chief Finance Officer, Director corporate and retail, head of marketing, head of risk management and legal manager.

3.3 Data Collection

Data in the social sciences are either formal or informal settings and involve (oral and written) or non verbal acts or response. Data was both primary and secondary sources. Primary data was obtained using an interview guide and secondary data was obtained from banks strategic plans and annual reports. According to Mugenda, (1999), interviews provide in-depth data which is not possible to obtain if questionnaires are used. The method involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses. To facilitate this process, an interview guide was drawn in a structured way and involved the use of a set of predetermined questions and highly standardized technique of recording.

According to Yin (2003) the strengths of interviews include being targeted and insightful: focusing directly on the case study topic and provision of perceived casual inferences respectively. And its weaknesses are bias, response bias, inaccuracies due to poor recall and reflexivity: as a result of poorly constructed questions and interviewees giving interviewers what they want to hear.

3.4 Data Analysis

The data collected was qualitative and quantitative in nature since it describes the effect of strategic alliances on the growth of Kenya Commercial Bank Group. The data was checked for completeness and consistency. Responses were analyzed using content analysis. This is a qualitative technique for making inferences by systematically and objectively identifying specified characteristics. This means that the responses was analyzed to determine who says what and why in order to make inferences about the interviewees' message, its effect on recipients and to describe the attributes of the message.

Responses were categorized using key words and referential units such as words or terms, themes, characters, paragraphs and items. For this reason, the recording units were identified, and criteria determined so as to specify which recording unit falls into what category. The recording units were then classified and coded into categories. Mugenda & Mugenda (2003) advocates that data obtained from the field in raw form are difficult to interpret and such data must be cleaned, coded, and key punched into a computer and analyzed. Data was collected, tabulated and analyzed for purpose of clarity, using SPSS version 20 software.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, findings and discussion of the study findings. The study aimed at identifying strategic alliances at Kenya Commercial Bank Group Limited and establishes the effects of strategic alliances on the growth of Kenya Commercial Bank Group Limited. The results of the survey are expressed in terms of content analysis. These are represented in prose form based on opinions of the respondents. The interview schedule gathered information on perceptions of Kenya Commercial Bank officers' on forms of strategic alliances entered into by the bank, reasons for forming such alliances, effectiveness of such alliances, and the contributions of such alliances towards the growth of Kenya Commercial Bank.

4.2 General Information

The respondents were requested to indicate their position held within the organization and their experience in the organization in terms of years worked. This was to ascertain to what extent their responses could be relied upon to make conclusions for the study based on experience. The study findings indicated that all the targeted respondents' i.e. chief finance officer, Director corporate and retail, head of marketing, head of risk management and legal manager respondent to the interview guide. This implies that the respondents at this cadre were well conversant with strategic alliances at Kenya Commercial Bank Group Limited and establishes the effects of strategic alliances on the growth of Kenya Commercial Bank Group Limited.

From the study findings, majority of the respondents indicated that they had been in their position for a period ranging from 4-5 years, followed by above 5 years, followed by those who indicated that they had been in their position for a period 3-4 years accounted and lastly those who had worked for less than 3 years. This may imply that work related experiences are important in developing motivation for becoming good in strategic alliances. Longevity at the organization therefore becomes a trait that ensures continuity and perpetuation of the vision of an organization. Strategic alliances would ordinarily thrive under such circumstances where their

management remain focused in realizing both their objectives and economic outcomes. Thus the study relied on their responses to make conclusion for the study since they have been in the organization for a relatively long period of time.

4.3 Strategic Alliances at Kenya Commercial Bank Group Limited

The respondents were also required to provide description of specific strategic alliances that the bank had formed in the last five years. Various alliances were mentioned having been formed in the period requested. However, seven of the alliances which seemed key to the bank were repeated by nearly all the respondents i.e. M-Karo is a licensing agreement with Safaricom's Mpesa to enable clients to pay school fees directly into schools' bank accounts using the mobile money transfer platform, further KCB has also partnered with Safaricom through KCB M-benki to facilitate opening of accounts using mobile phone and KCB Mobi which facilitate checking balances, mini statements, funds transfer to safaricom customers and KCB account holders.

KCB group has also partnered with Safariom through Biashara Smart portal. The solution was set to address real life challenges that face growing businesses. From access to funds Lipa na M-PESA for merchant payments, to Biashar@Smart Accounting for online ERP solution. The solution also helps SMEs improve their efficiency which ultimately boost their credibility in the eyes of their customers. Biashar@Smart also offer capacity building opportunities through partnerships targeted at delivering practical knowledge and skills in business planning finance and marketing. KCB who are Safaricom's financial partners provide Biashar@Smart members with preferential interest rates on loans. Also members have access to a rich business portal Biashar@Smart Connect.

Members of Biashar@Smart also enjoy benefits ranging from preferential business loans, capacity building training, and loyalty reward programmes to legal and audit advisory packages, dedicated business support lines and rich networking opportunities to help members connect and grow their businesses.

Biashar@Smart also comes with Starter Pack offers which include an unsecured loan package from KCB, KCB M - Benki a self-registration mobile based transactional

account and a web hosting package that delivers five professional e-mails, a .ke domain and a website builder. The two starter pack offers are Biashar@Lite and Biashar@ Pro 1, Biashar@Smart Pro2 , Biashar@Smart Pro3.

According to the respondents, another strategic alliance is the account-based money transfer (ABMT) which KCB Group and Western Union partnered to ease and accelerate transfer of money directly to a customer's bank account. The account-based money transfer (ABMT) allows for the recipient to move funds directly into their KCB account once it has been sent through Western Union. This revolutionary product go live across KCB network in the country making transfer of cash faster, safer and convenient as well as harness the transfer of money. ABMT allow a customer to receive Western Union transaction a number of channels namely Contact Centre, Internet and Mobile Banking services as well as all the 170 branches in the country. Transaction processing is real time and the customer must be registered on Internet or Mobi banking.

The bank also had an outsourcing agreement with Tracom for card acquiring business where the bank provided point of sale (POS) to merchants. Further respondents mentioned HSNP which is a partnership with DFID/FSD to distribute funds to nomadic families in North Eastern. Other strategic alliances include ATMs Partnership with Kenswitch to provide extra ATMs, Card Solution which is an alliance with Visa/Mastercard to provide credit cards and prepaid cards to clients.

The other strategic alliances mentioned include KCB Mtaani which is a partnership with various retail outlets to provide agency banking services. KCB Mobi is also a mobile phone banking partnership with CEVA where subscribers can transfer money through mobile phone to any network in Kenya and globally. As indicated, nearly all the alliances mentioned aim at providing better service solution for the bank. The findings concur with Stevens, (1999) who suggested that for companies to compete globally or develop or extend high-value products, compete in markets that seek those products, and create entirely new markets worldwide. These will in turn lead to improved quality, productivity and profitability through cooperation and collaboration of the companies involved and therefore growth in its sales, market and products.

4.4 Reasons for Forming Strategic Alliances

This study evaluated the main reasons commercial banks enter into strategic alliances with other partners. The main reasons from the respondents include; the need to provide superior customer value, the need to protect and enlarge market share and the desire by the bank to compliment or gain resources and capabilities. Conversely, high responses were recorded for the need to maximize profits for the bank and minimizing market price uncertainties. Other reasons indicated by the respondents includes to manage and minimize costs/risks, to share and gain tacit knowledge, to compliment/gain resources and capabilities and to acquire technology.

According to the respondents view, entering strategic alliance may combine their efforts for a variety of purposes including, but not limited to, sharing knowledge, expertise, and expenses as well as to gain entry to new markets or to gain a competitive advantage in one. Further, creation of a strategic alliance may turn actual or potential competitors into partners working toward a common goal. Use of strategic alliances has become a major tool for banks that are internationalizing their operations.

Other mentioned reasons for strategic alliance according to the respondents includes; to provide a competitive edge to grant proposals, to provides shared expertise, more clout, and a greater range of knowledge, to improves efficiency, productivity, and financial stability, to open the door to new funding opportunities, to increases program visibility, credibility, and prestige, to ignites a spirit of innovation, to offers clients better quality and a wider range of services, to merges service and administrative functions to save costs and lower overhead, to reduces consumer confusion and to builds opportunities for fundraising, marketing alliances, and program development.

The study therefore found that profitability was not the main driver for formation of any form of the strategic alliance by the bank. However the need to minimize market price uncertainties registered low response due to the fact that pricing of bank products is a factor of many variables including inflation and regulation by Central Bank of Kenya. The findings are in line with Meek (1988) who alluded that

organizational practices are seen as characteristic that distinguish the organization from other organizations, is considered to capture the essence of what the organization is and how it operates as a social collectivist in its strategic issue.

4.5 Effect of Strategic Alliances on KCB Growth

The study further found it necessary to determine the effect of strategic alliances on KCB group growth basing on profitability, market share, cost, competitive advantage, risk sharing, brand image and improved customer service. The findings were as discussed in subsection below.

4.5.1 Creation of New Markets

According to the respondents, strategic alliances leads to creation and entry in to new markets by the commercial bank group which they attributed to advances in telecommunications and computer technology which have made entry into new markets easier. On further interview they indicated that entering new markets have conferred benefits such as economies of scale, large pool of customers and scope in marketing.

The cost of entering new markets such as an international market may be beyond the capabilities of a single bank but, by entering into a strategic alliance with an international firm, it achieves 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. This concurs with Yabs (2007) who argued that often a company that has a successful product or service has a desire to introduce it into a new market. Yet perhaps the company recognizes that it lacks the necessary marketing expertise because it does not fully understand customer needs, does not know how to promote the product or service effectively, or does not understand or have access to the proper distribution channels. Rather than painstakingly trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills.

4.5.2 Brand Image and Improved Customer Service

Respondents indicated that forming strategic alliances with an established company with a good reputation can help create favourable brand image and efficient distribution networks. Majority of the respondents felt that strategic alliances had helped the bank to offer superior services to their customers and help to build a strong brand name in the Kenyan banking industry. The research study further revealed that strategic alliances had helped the bank to come up with differentiated products and services.

On further interview they indicated that even established reputable organizations need to introduce new brands to market. Most times 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. This concurs with Manoj, (2006) who argued that competitive companies look for other companies that have a similar customer base and enter into a discussion about how to work together.

Strategic alliances allow partner firms to learn new ways to improve customer service from the one another as well as enabling them solve their customer's problems faster because of the newly acquired larger base of customer service people. This means that keeping the customers loyal to the organization enhances stable running of the business even in times of stiff competition and recession. Customer satisfaction therefore enhances the banks market, more sales are realized and therefore banks can opt to grow in to other services and new market niche to realize its full potential therefore resulting to substantive growth.

4.5.3 Competitive Advantage and Reduced Competition

Respondents further indicated that commercial bank group has achieved competitive advantage through strategic alliances. They indicated that 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.

According to Ontunya (2007), strategic alliances may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs Many companies are driven to sell in more than one region or country because domestic sales volume is not large enough to fully capture manufacturing economies of scale or learning – curve effects and thereby substantially improve a firm's cost competitiveness.

4.5.4 Profitability and Financial Stability

According to respondents, customer satisfaction through strategic alliances enhances the banks market, more sales are realized and therefore banks can opt to grow in to other services and new market niche to realize its full potential therefore resulting to substantive profit margins and financial stability, that through strategic alliances, banks expand its market position, gain access to new technology and achieve competitive advantage and that alliances activity tends to have a significant positive impact on profitability of banks which leads to significant growth. According to respondents, higher profit margins to the bank may also be realized through satisfactory bank products and services, products and services are offered at a lower cost to the bank and focused and defined scope of operations as a result of strategic alliances. One of the reasons why companies find themselves walking towards forming strategic alliances is the need to eliminate the weaknesses that come with financial instability.

According to Koigi (2002), alliance relationships allow partners to share the financial risks associated with developing new products and entering into new markets. Ultimately the benefit to developing strategies alliances with others is for solutions through mutually beneficial efforts. Together firms can solve their problems, those of their customer's suppliers and employees. Companies should know what they want to get out of the alliance relationships they establish. Alliances will get the company much closer to their goals than without these valuable relationships. These will in turn lead to improved quality, productivity and profitability through cooperation and collaboration of the companies involved and therefore growth in its sales, market and products.

4.5.5 Shared Risks

According to the respondent's views, through strategic alliances, commercial bank group have achieved risk reduction through risk sharing benefit which is a common rationale for undertaking a cooperative arrangement- They indicated that 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 a bank when entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a bank's risks.

4.5.6 Shared Knowledge and Expertise

The respondents further indicated that through strategic alliances the bank have achieved competence in some areas and enhanced expertise in other areas; as such, forming a strategic alliance by the commercial bank group have allowed ready access to knowledge and expertise in an area that it lacks. The information, knowledge and expertise that a bank have gained have been used, not just in the joint venture project, but for other projects and purposes. According to the respondents the expertise and knowledge gained through strategic alliance range from learning to deal with government regulations, service knowledge, or learning how to acquire resources.

4.6 Discussion

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

enlarge market share, to resources and capabilities and even to minimize costs and risks.

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

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

Strategic alliances are formations that seek to achieve commercial banks objectives through collaboration rather than through competition and thus making such partnering banks to gain competitive advantage over their rivals. Partnering banks should guard against such failures since they carry negative effects including wasted time for manpower, financial and material resources. Strategic alliances should be based on mutual trust of partners which can help reduce or avoid paying several types of transaction costs. If the alliance proves not to be beneficial for attaining participating bank's objectives and instead turns into constraints that impede performance, then one is inclined to terminate the alliance before it is too late.

The study also found that strategic alliances are trading partnerships that enhance the effectiveness of the participating commercial banks' competitive strategies by providing technology, skills and products exchanges. They also enable partners to enhance and control their business relationships. Alliances provide opportunity for participating banks to tap into the resources, knowledge, capabilities and skills of their partners. They offer potential for a commercial bank to leverage its resources capabilities. Finally, the study established that strategic alliances are positive and significantly correlated with banks competitiveness in terms of improving the bank's ability for profit maximization, expanding market position as a result of growth in customer base, and increasing sales volume.

5.2 Conclusion

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

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

5.3 Recommendations

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

within one or a number of target market segments. It was not clear whether the commercial bank group formed strategic alliances in order to serve any differentiated market segment. Use of strategic partnerships geared towards differentiated strategy will help the commercial bank group to gain more competitive advantage compared to its competitors in terms of market capture.

5.4 Suggestions for Further Research

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

5.5 Limitations of the Study

This study sought to explore strategic alliances in the banking sector in Kenya and to identify the extent to which they contributed to the commercial bank growth. Research was however limited only to one bank in Kenya and to a specific respondents within that bank. It was therefore only possible to confirm the above in the context of the one bank, while the desired result would have been to corroborate or dispute the findings from the banking industry perspective. It would also have been useful to get the views of different parties in the bank, as opposed to only working with the department that specifically deals with matters of policy and strategy.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

SECTION A: RESPONDENTS' BIO-DATA

1. Which Position do you hold in the organization?

   ………………………………………………

2. Number of years worked with the organization ?

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SECTION B: STRATEGIC ALLIANCES

3. What are the major strategic alliances the organization has entered into in the last five years?

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   ……………………………………………………………………………….....
   ………………………………………………………………………………..

4. What are the main reasons why your organization entered into these strategic alliances?

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   ………………………………………………………………………………..
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SECTION C: EFFECT OF STRATEGIC ALLIANCES ON KCB GROWTH

5. In which ways does strategic alliances entered by your organization contribute to the growth of Kenya Commercial bank group?

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   ………………………………………………………………………………..
   ………………………………………………………………………………..

6. How effective are the strategic alliances entered by your organization towards the growth of Kenya Commercial Bank Group?

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