STRATEGIC ALLIANCE BETWEEN CO-OPERATIVE BANK OF KENYA LIMITED AND SAFARICOM LIMITED TO ENHANCE PERFORMANCE

BY

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DECLARATION

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

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The research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this research project to my loving family for patience, love, understanding and inspiration and moral support during my period of study at University of Nairobi.

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ABBREVIATIONS AND ACRONYMS

ATM: Automated Teller Machine

IJVs: international Joint Ventures

KPOSB: Kenya Post Office Savings Bank

MNCs: Multinational Companies

RBV: Resource based view

SEM: Structural Equation Model

WOSs: Wholly Owned Subsidiaries

ABSTRACT

Strategic alliance between banks and telecommunication firms in mobile banking is of value to customers and the firms. The alliance adds value to the consumers as well as to the capital invested into the firms. In Kenya, adoption of electronic and mobile banking has been on the rise since introduction of mobile telephones in late 90s. Banks and mobile telecommunication firms have entered into strategic partnerships to provide mobile banking services. Cooperative bank has been seen growing very fast and increasing the market share rapidly. This has been successive through the introduction of various services that suit the low income earners. But the bank has been facing competition from other banks especially; Equity bank and Kenya Commercial bank of Kenya. Thus the bank projected that to be viable in the market, they need to partner with Safaricom Ltd- a mobile service operating company to facilitate easier way of money transfer. This research sought to find out the influence of strategic alliances on performance of Co-operative bank and Safaricom limited. The study adopted a case study design so as to undertake an in-depth and comprehensive inquiry. The study interviewed senior managers from Safaricom limited and cooperative bank. Content analysis was used to analyse the data and generate relevant results. This study established that mobile telephone firms receive cost and product related benefits more than other benefits while banks got market related benefits more than other benefits. Another key conclusion was that mobile banking services should pay more attention to those benefits that well address their needs. This study therefore recommends that strategic partnerships have benefits in major ways and that this concept should be employed by similar organizations in order to survive and sustain their operations in the competitive environment. The study will contribute to the existing vast body of knowledge in validating the need of strategic alliances in today's environment. The study validates the need for organizational learning and consequently the theory of organization learning because specific knowledge can be transferred through licensing; tacit knowledge the knowledge embedded in an individual can only be transferred by learning alongside the individual and this can only be done when there is an alliance.

CHAPTER ONE

INTRODUCTION

1.1 Background

Strategic alliance has become widely used in business language to refer to the different types of partnership agreements between two or more companies that pursue clear strategic collaborative objectives with different levels of possible integration among the members (Elmuti and Kathawala, 2001). Gomes-Casseres (2003) presents his definition of alliance as any governance structure to manage an incomplete contract between separate firms and in which each Partner has limited control. The author states further that an alliance is a way of sharing control over future decisions and governing future negotiations between the firms. Strategic alliance is a coalition or cooperation agreement formed between a company and others to achieve certain strategic goals. This happens when two or more companies collaborate by sharing resources and activities to pursue a common strategy (Johnson et al 2005).

The study is guided by the resource based view and dynamic capability theory. The motivations and structures of alliances are often explained by the resource-based view (Das & Teng, 2000; Harrison, Hitt, Hoskisson & Ireland, 2001). This explains an alliance as a means of obtaining additional resources that extends the capability of an organization. Previous studies on strategic alliances point out that turbulent external environment (Emery & Trist, 1965) have heightened the need for strategic alliances. Grant and Baden-Fuller, (1995) argue that firms form alliances mainly to use external resources so that they can concentrate on developing their existing capabilities.

The second theory is dynamic capability theory, extended from resource-based view, contends that dynamic capabilities underlie the source of sustainable competitive advantage in such environments; and refers to the firms' abilities to reconfigure, recombine and delete ordinary organizational resources to achieve a fit with the environment and strategic imperatives (Teece et al., 1997; Wang & Ahmed, 2007). Dynamic capability has received increasingly attention and its importance on firm superior performance in changing markets has been strongly and positively argued (Madhavaram & Hunt, 2008; Teece, 2007).

Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to join their operations in mutually agreed terms where these institution do business jointly (Brito, Pereira, and Ribeiro, 2008). Some of the reasons put forward for these alliances has been to meet the increasing market demand and competition, diversify to international markets, employ the emerging new and expensive modern technologies, or to meet the new thresh hold capital required by the regulators such as in the banking sector (Kithinji and Waweru, 2007).. In Kenya, the banking sector is a cut-throat business arena, with over 44 players among them are multinationals all scrambling for a slice of the market share. Although the industry has been experiencing rapid growth in terms of profits, deposits and revenues in the past decade, stiff competition has been the norm for the industry. This has necessitated all the players to device new approaches in order to create and maintain a competitive advantage (Business week, 2012).

The development and management of alliances is a critical strategic skill in banking and telecommunication industry. Not much can happen in these sectors without multiple firms working collaboratively with one another to serve the customer. The M-PESA to ATM service that was started as a joint service between Safaricom Ltd a mobile communication company and co-operative bank, it targeted Safaricom's eight million M-pesa customers. Users of the service only require to be registered as M-PESA customers to enable them withdraw amount ranging between Ksh 200 and Ksh 35,000 from any Co-operative Bank ATM. The service is available to both customers and non customers of Co-operative Bank. Customers wishing to withdraw money will initiate a withdrawal from their M-PESA menu on their phones and receive an authorization code. They then input this code into the ATM followed by their Safaricom phone number and the amount they wish to withdraw. The Co-operative Bank will dispense the required cash and a receipt. The new service would not only lay a strong base for low cost banking, but also enable many un-banked. Kenyans access money using mobile phone technology.

1.1.1 Strategic Alliances

A strategic alliance is a formal and mutually agreed partnership arrangement between two or more enterprises or organizations. The partners pool resources together, exchange and/or integrate selected resources for mutual benefit while they remain separate and entirely independent from each other. It is a cooperative arrangement which enables partners to achieve goals together that they could not achieve alone. Strategic alliances are viewed as mechanisms for producing a more powerful and effective mode for competing in a globalized world (COPAC, 2000).

Cavusgil, Kninght, & Reisenberger (2008) define a strategic alliance as the pooling of resources and sharing of costs and risks in a venture; they further state that for it to be considered an international alliance, such risks, costs and resources must be pooled across borders. Keegan & Green (2011) agreed with Cavusgil et al. (2008) but they introduced certains minimums that must be met. They argued that the participants should remain independent after the formation of the alliance. The participants will make ongoing contribution in technology, products and other key strategic areas.

According to Mockler (1998), strategic alliances are "agreements that are important to the partners, created to achieve common interests". Amita, Pearce, Richard and Robinson (2011) define a strategic alliance as an agreement between two or more companies in which they both contribute capabilities, resources or expertise to a joint undertaking, usually with an identity of its own, with each firm giving up overall control in return for the potential to participate in and benefit from the joint venture relationship. According to Wheelan and Hungar (2000), 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. Gamble, Strickland and Thompson (2007) on the other hand define a strategic alliance as a formal agreement between two or more separate companies in which there is strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control and mutual dependence.

There is no consensus on the determinants of strategic alliances. This is because of the various reasons that companies enter into strategic alliances. There is consensus among scholars that the organization's vision forms the basis of why an organisation would opt to enter into a strategic alliance. Gurus of strategic alliances like Varadarajan and Cunningham (1995) have given broad areas that form the determinants of strategic alliances; they include, market entry and market position-related motives, product-related motives, market structure modification-related motives, resource use efficiency-related motives and uncertainties.

Presently, strategic alliances are a prominent phenomenon in the global economy among multinational companies (MNCs) and between companies in developing countries too. Drucker (1996) states that "the greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnerships". Strategic alliances are therefore partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial to the parties. These strategic alliances present enormous potential to a business.

1.1.2 Performance of Organizations

Organizational performance is described as an organization's ability to acquire and utilize its scarce resources and valuables as expeditiously as possible in the pursuit of its operations goals (Griffins, 2006). According to Kirkman, et al., (1999), organizational performance means the "transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness)". There are various ways to understand organization performance but in this study it has been judged upon the growth of the company. Performance can be explained as all the activities or investment carried out in the firm in the given period of time (Carton, 2004).

Performance outcomes result from success or market position achieved (Hooley, Greenley, Cadogan and Fahy, 2005). Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. It might stand for financial performance, market performance, customer performance or overall performance depending on the context in which the researcher is working from. Financial performance literally refers to financial measures, such as profit margin and return on investment (ROI) (Lebas and Euske, 2002).

1.1.3 Strategic Alliance and Performance of Organizations

In a study carried out by KMPG (2009) on Joint ventures, the study revealed that strategic alliances were on the rise. Companies forming joint ventures had specific reasons for opting for the ventures. The main reasons for the formation of strategic alliances were so as to enable the companies gain access to greater markets, reduce on costs, reduce risk as joint ventures can share or spread risk between partners better than alternative forms of corporate strategies hence improving on their profitability (KPMG, 2009). Foreign markets in particular, international Joint ventures (IJVs) tend to outperform wholly owned subsidiaries (WOSs) because of the benefits a local partner provides.

Craig (2005) on the other hand reveals that despite strategic alliances offering the promise of economic and other benefits, they often entail significant costs in their implementation. Due to their shared decision making nature, strategic alliances tend to be fragile relationships with a high failure rate; above 305 according to Beamish and Makino (1998), Park and Ungson (1997) among others. Lane and Beamish (1990) found out that breakdown of communications generally had significant consequences on strategic alliances which sometimes led to the eventual dismemberment of the venture.

1.1.4: The Cooperative Bank of Kenya and Safaricom Ltd Strategic Alliances in Kenya

The Co-operative Bank (Coop Bank) opened doors for business on 10th January 1968 as the government's initiative to bring about a more efficient and effective co-ordination of both internal and external assistance in addition to providing relevant financial services to the co-operative movement in Kenya. The bank started with a modest capital base of Kes 469,000 against the required minimum capital of Kes 2 million stipulated by the banking act. The Government granted an exemption and offered a grace period within which the required capital was to be raised (Co-op bank, 2010).

In 1994 the Bank converted to become a fully-fledged commercial bank offering the complete range of financial services beyond the captive Co-operative sector to include personal, corporate and institutional customers. The bank listing followed later in 2008 by a public offer of 701.3 million shares at Kshs 9.50 which achieved an 81% subscription to raise Kshs 5.4 billion in additional capital on top of the existing Kshs 7.4 billion (Muriuki, 2010).

Safaricom limited is the leading mobile operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone the largest mobile telecommunication in United Kingdom acquired a 40% state and management responsibility of the company. Safaricom has over 1500 staff mainly stationed in Nairobi and other big cities like Mombasa, Nakuru and Eldoret in which it manages retail outlets. Currently it has nationwide dealerships to ensure customers across the country have

access to its products and services. In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunication scenario by having strategic business associations; associations which add value to the global mobile telecommunication initiative and which help in meeting the dynamic challenges of the modern mobile telecommunication world. The strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market today. Safaricom Ltd range of products and services include: M-PESA, Instant Internet, Short Message Services, Voicemail, Directory Service, various tariffs, 24 hour customer service, Roaming service, ATM top-up, Emergency numbers, and community phones, Get-it sports scores, Safaricom online, Mobile Office, Third Party top-up, Emergency Top-up.

1.2 Research Problem

Strategic alliances and partnerships complement their own strategic initiatives and strengthen their competitiveness in domestic and international markets. (Thompson et al 2004). However as the number of strategic alliances continues to surge also see companies getting out of such relationships quickly a trend that indicates that there are intricate issues that have to be handled very well in alliances if they are to grow to maturity to achieve the initial objectives set for them. Moss (1994) and Rijamampiana et al, (2005) view alliance success depending on the performance, implementation of the contracted alliance and financial and strategic analysis. Therefore ability of strategic alliance to produce the desired performance depends largely of the structure created, how the relationship is managed and how the cultures of parent organizations influence the integration of the firms.

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

There are a number of studies done on strategic alliance and performance: global studies done include: Spekman et al (1994), argues that although the characteristics of strategic alliance formation have been well explored in literature, little has been written about the factors associated with strategic alliance success and failure. Moreover, many of the research studies on strategic alliances have not been specifically concerned with the relationship and the interplay of specific factors to be considered by firms entering strategic alliances and the factors contributing to success and failures in such activities. Das and Rahman (2001) and Seligman (2001), whom are management scholars and practitioners, agreed that most strategic alliances have failed to meet their objectives.

Inkpen and Ross, (2001) describe strategic alliances as an unstable organizational form. Rothkegel Senad (2006) also mentioned in (Hutt, et al., 2000), stated that strategic alliances also failed to meet their expectations because of the little attention that is paid on building the close working relationship and interpersonal connection that unite the two partner organizations. For example Parkhe (2001), stated that learning through global strategic alliances may enable a firm to acquire the skills and technologies it lacks at the formation stage and will want to rewrite the alliance or even discard the other partner.

Local studies include: 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. And more recently Wanjau (2012) carried out a study on the investigation into strategic alliance practices and their effects on profitability of firms. Among these studies done none has been done on strategic alliance by between cooperative bank and Safaricom to the best of researcher's knowledge. A knowledge gap therefore exists and hence this study seeks to address this gap by investigating how strategic alliance between co-operative bank and Safaricom limited affect performance. This study intends to address the following Research Question: how does strategic alliance between co-operative bank and Safaricom limited enhance performance of the two organisations?

1.3 Research Objective

To determine the influence of strategic alliances on performance of Co-operative bank and Safaricom limited.

1.4 Value of the Study

In Kenya, the field of strategic alliances is one that has not been extensively researched. This study is important as it contributes greatly to the limited number of studies on the subject. The findings of the study will act as a guide to policy makers in analyzing the effect of strategic alliances on the financial performance of banks and in analyzing ways in which banks can make best use of strategic alliances in order to improve their financial performance.

The study is expected to help managers in various organizations understand the subject of strategic alliances and performance in the service industry. The study also highlight what is expected of each partner if an alliance is to succeed and what factors that lead to success and those that lead to failure.

The study is expected to be quite enriching to researchers, academic institutions and scholars. This is because it adds sto their knowledge and enable them to be more informed when considering forming strategic alliances thus make informed decisions and choices.

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

1.5 Chapter Summary

This chapter looks at the background of the study, the research problem is identified, research objectives and value of the study. The background is based on the study topic which is to determine the strategic alliance between co-operative bank and Safaricom limited enhance performance of the two organisations. The study is guided by resource based view and dynamic capability theory in the background of the study. A strategic alliance is a formal and mutually agreed partnership arrangement between two or more enterprises or organizations.

The partners pool resources together, exchange and/or integrate selected resources for mutual benefit while they remain separate and entirely independent from each other. strategic alliance as a formal agreement between two or more separate companies in which there is strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control and mutual dependence

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

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

2.2 Theoretical Foundation

Various metaphors have been used to describe the phenomenon of strategic alliances. According to Baran, Pan and Kaynak (1996) the arguments in favour of corporate alliances fall into various schools of thought. Three schools of will be utilized in this study: resource based theory and dynamic capability theory.

2.2.1 Resource Based View

The resource-based view also focuses on the relationship between firm resources and performance. A resource can be thought of as a strength or weakness of the firm (Wernerfelt, 1984) and different firms possess unique bundles of productive resources. The resource-based theory includes the resource-based view of the firm (Wernerfelt, 1984), dynamic capabilities (Teece et al., 1997) and knowledge-based approaches (Grant, 1996).

The theory of invisible assets (Itami, 1987) has been developed in parallel to the resource-based theory of competitive advantage and its proponent argues that information-based invisible assets, such as technology, customer trust, brand image, corporate culture and management skills, are the real sources of competitive advantage because they are hard and time-consuming to accumulate, can be used in multiple ways simultaneously, and are both inputs and outputs of business activities.

Resource based view assumes that even operating in the same industry, firms are heterogeneous in terms of their resources and capabilities. In essence, the theory argues that organizations are often not self-sufficient for all the needed resources that can enable them remain competitive (Teece et al., 1997). Therefore they need to engage in exchanges with other organizations in one way or the other so as to gain necessary resources for survival.

Resource based view has emerged as an important explanation for the persistent firm level performance by emphasizing firm's ability to create and sustain competitive advantage by acquiring defending advantageous resources positions (Leiblein, 2003). The competitive advantage of a firm is the result of a strategy that utilizes its unique resources and skills. The application of resource dependence theory will deepen our understanding of what resources parent firms prefer to control and how they control them (Itami, 1987).

Scott (1998) agrees with (Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 1978) and argues the uncertainty in the external control of these resources may reduce managerial prudence and thereby interfere with the achievement of organizational goals and ultimately threaten the existence of the focal organization. Confronted with the costly situation of this nature, management actively directs the organization to manage the external dependence to its advantage.

2.2.2 Stakeholder Theory

The core idea behind the stakeholder theory is that organizations that manage their stakeholder relationships effectively have survived longer and perform better than those organizations that don't (Shiller, 2003). Stakeholder theory concerns the explanations of firm performance in a competitive environment (Porter, 1980). There are many strategy perspectives, and the strategy process perspective bases their views on what competitive advantage are and on what it are based influence of information technology on strategic management practices.

According to Shiller (2003), business that engages its external accountant to provide advice which directly assists performance (strategic advice on growing revenue), or advice that has an indirect impact on performance, such as advice directed at improving management control (advice on regulatory compliance, risk, systems, performance reviews), finance structure (introducing sources of finance) or financial planning have lead to a competitive edge of the other. One important characteristic of the organizational capabilities is that they mainly have the attributes of development, and not of acquisition.

Concerning the development of capabilities learning is very important. Organizations must learn and they must learn fast. In the conditions of the modern dynamic environment, complexity and future uncertainties, capabilities must be improved quickly to satisfy the need to stay competitive enough (Leiblein, 2003).

This is based on the theory of stakeholder that is a conceptual framework of business ethics and organizational management which addresses moral and ethical values in the management of a business or other organization it is suggested that organizations should develop certain stakeholder competencies. This involves making a commitment to monitoring stakeholder interests. Additionally, it involves developing strategies to effectively deal with stakeholders and their interests. Organizations should also develop certain stakeholder competencies by dividing and categorizing interests into manageable segments and trying ensure that organizational functions address the needs of stakeholders (Leiblein, 2003).

2.3 Strategic Alliances

There are several parameters that determine strategic alliances, though literature shows that there is no consensus. Varadarajan & Cunningham (1995) argue that the determinants of strategic allaince are in the motives of the alliance, giving the following broad areas; market entry and market position related motives. They talk of gaining access to new international markets, circumvent barriers to entering international markets posed by legal, regulatory and/or political factors, defend market position in present markets and enhance market position in present markets.

They also talk of product-related motives and argue that through strategic alliances the organization can fill gaps in present product line, broaden present product line and differentiate or add value to the product. Strategic alliances are widely considered as collaborative strategies formulated and implemented to meet shared objectives and develop superior resources cooperatively. According to Hitt et al (2006) "strategic alliances are formulated for both business level strategies and corporate level strategies for expansion and other objectives". They define strategic alliance as a cooperative strategy in which firms combine some of their resources and capabilities to create a competitive advantage. Porter and Fuller (1986) also refer to strategic alliance as a strategic coalition which needs a good partner to conduct a developing partnership, where organizational resources and capabilities are shared and new ones are acquired and developed. Porter and Fuller further explain that in strategic alliance participating firms pursue shared objectives and create value adding processes to gain competitive advantage.

Market environment are quite turbulent and keep changing. Strategic alliances provide an avenue to structure, modify, reduce potential threat of future competition, raise entry barriers/erect entry barriers and alter the technological base of competition (Lane and Beamish 1990). Healthy returns in an industry leads to more investments and consequently the need to expand. Such expansion requires entry into new markets; strategic alliances give an avenue for such expansion and it accelerates the pace of entry into new product-market domains by accelerating the pace of research and development, product development, and/or market entry (Craig, 2005)

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

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

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

An equity strategic alliance is an arrangement where the ownership percentage of each firm in is not equal (Craig, 2005). In this particular case, two or more firms own the shares of a newly formed company in proportion to their contribution in resources and capability with the main goal of developing competitive advantage. Strategic alliances focus on the linkages of management capabilities and operations activities between two or more different firms (Hooley, Greenley, Cadogan and Fahy, 2005). As a result, two or more different corporate cultures are usually matched into one goal in the strategic alliances when equity strategic alliances occur. Many foreign direct investments such as those made by companies in developed economies like Japan and U.S. in developing economies are completed through equity strategic alliances (Harzing, 2002).

A non-equity strategic alliance is less formal than an equity strategic alliance and a joint venture. To ensure competitive advantage, two or more companies form an alliance on a contract basis without forming a separate company and therefore they don't take equity shares. Lane and Beamish (1990) states that the main goal is to share their unique capabilities and resources to create competitive advantage. The relationship among partners is informal and requires less partner commitment than the other two forms of strategic alliances. These non-equity strategic alliances are easier to implement in comparison to the others (Das et al, 1998). Non-equity alliances do not require much experience neither do they require transfer of tacit or implied knowledge and expertise.

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

2.4 Strategic Alliance and Performance of Organizations

The relation between alliance formation and firm performance shows contradicting evidence in the existing literature. Where Powell et all (1999), Stuart (2000), and Sarkar et all. (2001), find a positive connection between alliance formation and firm performance, Callahan (2006) measures an increase in operating risk as well as a negative effect on firm performance. To my knowledge the work of Callahan is the only research that provides support for this negative connection. However, surveys among management positions report failure rates of alliances between 50 and 70 percent (Saebi & Dong, 2008; Park & Ungson, 2001). It must be noted though that these are subjective perceptions of managers, and may not be directly connected to financial performance measures.

Although there is some evidence against performance increase resulting from alliances, during the last two decades alliance formation increased drastically, especially in the biotech and IT industries. Motivations for the pursuit of this positive relation between alliances and firm performance are found on the cost cutting side as well as in value creation. A common motivation as to how companies can benefit by entering alliances is explained by transaction cost theory (Williamson, 1975). Because of market imperfection, firms may choose not to obtain resources from the market, but rather produce them internally. Where a market exchange may be inefficient because of the high transaction costs, coordinating production within the firm can be a good alternative. The literature states that when transaction costs are high, but not high enough to start producing internally, alliance formation may be an efficient alternative (Gulati, 1995; Chen & Chen, 2003). An Alliance is somewhat in between the two extremes of the make or buy decision. Both firms produce part of the good, but there are still transaction costs through contracts and management of the alliance.

Eisenhardt and Schoonhoven (1996) state that in difficult market situations, alliances can provide critical resources that may improve a firm's strategic position. From this perspective the strategy of a firm should thus be based on its resources and capabilities (Seppälä, 2004). Where the TCE approach looks at the nature of the transaction, this resource-based view focuses on the alignment of the available resources through alliance formation. In this sense alliances have an important advantage over M&A: A selection can be made of the required resources instead of taking over an entire firm (Das & Teng, 2000).

Besides the TCE approach and the resource-based view explaining a potential positive relation between alliances and firm performance, as the number of links increased during the last two decades, firms became more focussed on their portfolio of alliances. Goerzen & Beamish (2005) state that alliance portfolio's become more diverse to improve market access, reduce innovation time-span and finally to match complementary technological capabilities. An alliance portfolio can also have real option value. Holding a differentiated resource portfolio through alliance formations gives a firm a great amount of flexibility, gaining the option to access resources that would be too costly to maintain by itself (Smit & Trigeorgis, 2004). Literature recognizes this possible competitive advantage and also stresses the importance of an effective management when participating in multiple inter-firm collaborations (Hoffmann, 2005). However, innovating with a single company portfolio has become hard because of the increasing complexity of necessary resources. Introducing a new product often requires a company to be specialized in more than one discipline. It thus becomes more likely that innovation will only be possible through a network of different organisations (Arora, 1990).

2.5 Empirical Studies and Research Gaps

As argued by Doz, Hamel and Prahalad (1986), the transparency or permeability of the organizational membrane between partners can be regulated through the adoption of strict policies or the development of shielding mechanisms, such as "walling off" (Baugh et al., 1997) proprietary technology. In addition, gatekeepers can be assigned to filter information access and disclosure across organizational boundaries.

However, the ability to learn through joint ventures does not simply rest on the firm's internal absorptive capability and willingness to learn; it also depends on the willingness of external sources to cooperate (Pisano, 1988). Reciprocity suggests that accessibility to a partner's knowledge depends, to a large degree, upon the extent to which the focal firm is open with its own knowledge to the partner. Protectiveness not only reduces the amount of information exchanged but also leads to uncertainty and distrust. Hence, Simonin (1999) found in his study of knowledge transfer in strategic alliances that protectiveness was positively related to ambiguity and hence negatively related to knowledge transfer, suggesting that protectiveness acts as a barrier to effective knowledge exchange. This argument is supported by Madhok and Tallman (1998), who argues that safeguarding, may hinder learning (performance) in strategic alliances. Lyles and Salk (1996) furthermore suggest that when disruptive to the operation of the alliance, protectiveness will contribute to the escalation of cross-cultural and other conflicts between partners.

Hongbin (2009) did a study based on 68 bio-tech firms in Xinjiang region and focused on the impact of cultural difference and communication on strategic alliance performance through Structural Equation Model (SEM). Empirical test proved although the cultural difference between strategic partners makes no difference on strategic alliance performance, their communication quality has a positive effect on trust between partners. The study found that trust between partners does not only impact on the evaluation of alliance performance, but shows a significant effect on the willingness of further cooperation.

Wolf (1994) in Hongbin (2009) found communication is essential to establish mutual trust between alliance partners based strategic alliance of US firms. Grounded on the alliance of manufacturer and distributors, Kumar (1997) in Hongbin (2009) proved that good and frequent communication would positively promote the mutual understanding between alliance partners, which is the critical factor to enhance partner's trust. Simpson & Mayo (1997) thought the agreement and shared value derived from inter-firm communication is likely to increase alliance partners" trust. Morris & Hegert (1987) argued that the number and quality of communication between alliance partners would have a positive impact on alliance success. Smilor & Gibson (1991) found communication plays a key role in technology transfer between alliances.

An empirical study carried out by Nielsen (2002), based on a web-survey investigates a sample of Danish partner firms engaged in 48 equity joint ventures and 70 non-equity joint ventures with international partners. The results show a significant relationship between alliance performance and partner reputation preceding alliance formation as well as strong relationships between collaborative know-how, trust and protectiveness and alliance performance during the operation of the alliance. The literature has also posited theories addressing the reasons why firms enter into closer business relationship. For example; resource dependency theory, transaction cost theory, strategic behavior theory and organizational learning theory each make predictions about when partnerships will be formed. Implicit in this research is the assumption that when used under the appropriate circumstances and environmental conditions, partnerships will be successful. Yet a large percentage of these strategic partnerships do not succeed.

Flores-Fillol & Moner-Colonque (2007) argue that the relationship between the partners forms the determinants of strategic alliances. Such relationships can lead to two main forms of alliances: complementary alliances and parallel alliances. Complementary alliances are cases in which two airlines link their existing networks and build a new network. This allows for providing interline services to their passengers. On the other hand, parallel alliances are cases of collaboration between two airlines competing on the same route. This means complementary alliances allow carriers to extend their networks because they can rely on partners to serve destinations where they lack route authority.

Oxley & Sampson (2004) on the other hand argue that in today's fast paced knowledge intensive environment, alliances are becoming a popular vehicle for acquiring and leveraging technological capabilities. However such alliances also pose particularly thorny challenges related to the protection of technological knowledge since successful completion of alliance objectives often require a firm to put valuable knowledge at risk of appropriation by alliance partners. Firms must therefore find the right balance between maintaining open knowledge exchange to further the technological development goals of the alliance and controlling knowledge flows to avoid unintended leakage of valuable technology.

2.6 Chapter Summary

This chapter highlights the theories that guided this study which include resource based view and stakeholder's theory. The chapter reviews literature on strategic alliance and organizational performance and the research gap has been highlighted.

The chapter summaries by indicating that Alliance is somewhat in between the two extremes of the make or buy decision. Both firms produce part of the good, but there are still transaction costs through contracts and management of the alliance. Literature recognizes this possible competitive advantage and also stresses the importance of an effective management when participating in Alliance

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the approach that was used to conduct the research. It encompasses the research design, data collection and analysis.

3.2 Research design

The study adopted a case study design. This entails a detailed investigation of individuals from both organizations on reasons for the start of the alliance and how it affects organizational performance. The case study is suitable for the study because it allows for gathering relevant information with an in-depth approach.

A case study is a design where data is collected from one or a few study units only. It entails intensive analysis of a single case. Hence it allows for in depth exploration of issues in a phenomenon. Data is gathered using open ended questions that provide quotations.

3.3 Data Collection

Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The target population of this study was top management employees from the Safaricom Ltd and Co-operative Bank. The study targeted, Head of departments of the Safaricom Ltd and Co-operative Bank, in the following departments: Finance, Corporate strategy, Marketing, Risk management,

Legal and Regulatory Department and Safaricom Ltd interviews were; CEO, finance managers, human resource managers, marketing managers and customer relations managers. The data for the research was mainly from both primary and secondary data. The primary data was in-depth oral interview with Head of departments using interview guide which allows for detailed information.

The primary data covered on the reasons for the formation of the alliance and how it affects the organizational performance. For the information to be valid, the targeted source of information were people who have been in the organizations for a minimum of three years who may have substantial information on the history of the organization. Secondary data included management reports, organizations' magazines and research papers on strategic alliance management.

3.4 Data Analysis

Data was analyzed using content analysis. Content analysis is a qualitative research technique that enhances compressing many words into fewer content categories based on explicit rules of coding. It enables one to shift through large volumes of data with relative ease in a systematic fashion. Thus, enables development of supportive evidence for conclusions and findings. The findings enhanced in determining answers to specific questions arise in the study.

Content analysis provided a qualitative picture of the respondents concerns, ideas, attitudes and feelings. It guards against selective perception of content. Therefore there is improved reliability and validity. Content analysis is used to identify the intensions, focus or communication trends of respondents, describe attitudinal and behavioral responses to communications, and to determine psychological or emotional state of persons or groups, Cooper and Schindler (2003).

3.5 Chapter Summary

This chapter highlighted the design used for the study which was a case study design. The chapter highlights the method of data collection used which was a case study targeting the Head of departments of the Safaricom Ltd and Co-operative Bank. The chapters shows how data analysis was done and this is by use of using content analysis.

The study was a case study as a strategic research in order to understand or explain the phenomena. The study used primary data which was collected using an interview guide. An interview. Content analysis was the data analysis technique to be used. The research analyzes data from the interview guide to determine the level of emphasis or omission and relationships. This lead to the elementary theory development which focuses on constructs and relationships among the constructs

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and interpretation of study data. The study determined the influence of strategic alliances on performance of Co-operative bank and Safaricom limited. The findings were based on the response from the interview guide and information gathered through interview surveys, documentation review and observation.

4.2 General Information

The main people who were interviewed were head of department in Finance, Corporate strategy, Marketing, Risk management, Legal and Regulatory Department. All the respondents have worked at Safaricom and cooperative bank for a period of four years and above. This shows that the information obtained from the respondents would be relied on as they are based on long terms of service with the organization. It was found that Safaricom has approximately 622 employees while cooperative bank has about 7142 employees.

4.3 Influence of Strategic Alliances on Performance of Co-Operative Bank and Safaricom Limited

The interviwees were asked to indicate the influence of Strategic Alliances on Performance of Co-Operative Bank and Safaricom Limited. This was done through use of interview questions and their responses are as shown below.

4.3.1 Length of the Alliance

The interviewees indicated that the strategic alliance between Safaricom and Co-operative bank is a long/term partnership and collaborative since it is beneficial to all parties. Duration is an indication of the length of time the alliance has been operating. The alliances between cooperative bank and Safaricom have been in existence for more than five years.

The longer the duration of an alliance the more effective is its performance. Interviewees indicated that the alliances have been in existence for five years or more and there are no signs of termination. This longer time of existence is an indication that the alliances are doing fine. The alliances between Safaricom and Co-operative bank are for profit making alliances and from the interviews carried out, it was indicated that termination date is not determined provided that the alliances are doing well.

The alliance is a successful alliances because they are still in existence, considering that the alliance are for profit making and has no planned time for termination, it is considered that any termination is a failure of the alliance despite the fact that one partner is satisfied and the other dissatisfied or both partners are dissatisfied.

4.3.2 Strategic Alliance Contribution to Performance

The interviewees indicated that performance is symbolized by growth rate of revenue, financial strength, profitability, market share and survival of the organization and this is evident in both organisations. This also means that strategic alliance has been a good factor that enhances profit and survival of these organizations as posited by the responses of interviewees in these companies.

Cooperative bank chose Safaricom to enter into a strategic alliance based on several particular characteristics that Safaricom had which were mainly based on its success with M-pesa mobile money transfer. The development and management of the alliance further ensures that both parties benefitted from the alliance especially Cooperative bank who have further reached their goal of targeting the unbanked population in Kenya. The alliance is therefore considered a success by Cooperative bank due to the large number of customers that they managed to attract. However, based on their initial goal of attracting a majority of M-pesa account holders, the alliance has not achieved its expectations.

The alliance was a hybrid alliance as it focused on obtaining increased sources of revenue as well as obtaining knowledge that could be perhaps utilized during alliances with other organizations. However, it had more characteristics of a business alliance in terms of the alliance goals than that of a learning alliance as its main goal was to increase the number of customers thereby increasing revenue.

strategic alliances as a form of exploration or exploitation can be viewed in terms of either whether creation of the alliance is to increase revenue or to develop new learning opportunities for the organizations; whether the partners in the alliance are new partners, or whether they have collaborated previous; and finally on which area of the value chain the strategic alliance will focus on. These three descriptions of strategic alliances in relation to exploration and exploitation can consequently but used as to analyze strategic alliances through different aspects.

4.3.3 Benefits of Strategic Alliances

The interviewees indicated that some of the benefits that result include; to overcome a resource constraint, manage transactional cost, acquire new technical and management skills, build customers loyalty by enhancing product value, gaining competitive advantage and market position. The alliance is strategic because it will help them to introduce new financial services to an existing customer base, reduce drop-out rates and increase client retention, increase customer satisfaction with overall quality and quantity of services available and attract potential or new customers. The interviewees felt that Safaricom has benefited by enjoying better abnormal returns in the stock market, ability to choose partners that are politically correct such as Co-operative bank, diversification of human resource expertise, improved brand image.

This interviewees indicated that firms enter into strategic alliances primarily to diversify into new market opportunities. This provides access to new opportunities compared to starting from scratch. The benefits from the strategic alliance will come in the form of sustainable competitive advantage and higher profitability compared to other firms within the same industry. This ensures that the firm is in operation in the long run. Other reasons why firms enter into alliances include gaining competitive advantage, innovation of new products as well as to learn from the alliance partner.

The interviewees indicated that a pool of resources between the two organizations has made it easier to acquire the necessary machinery. By combining the resources the organizations are now able to realize saving the cost of purchasing their own systems and machinery that are quite expensive to purchase and maintain. In essence the cost of maintenance of the ATM systems and communication network is quite expensive and thus the cost is shared effectively thus avoiding the overburden of doing it alone.

A successful alliance must yield benefits for the partners, offering an option for new possibilities and unforeseen opportunities, creating a new value together, rather than an exchange. Partners must value the skills each brings to the alliance, and recognise the importance of nurturing trust and mutual respect, allowing true collaboration to flourish and being aware of the power of strong interpersonal relationships

4.3.4 Disadvantages of the Strategic Alliance

The interviewees indicated that there are system breakdown challenges especially from Cooperative bank. It came to their concern that the system delays all the transactions done by customers hence discouraging them. Safaricom Ltd managers pinpointed the slowness of Cooperative bank system to relay faster information to Safaricom Ltd system in relation to any transactions a customer had done through the ATM.

One of the main risks within the alliance was the risk of damaged reputations among customers. Cooperative bank was in possession of a complex IT system that was able to store customer transactions and information safely and securely. However, Safaricom though having a superior IT system had to constantly undergo several upgrades to be at par with that of Cooperative bank. Due to this, M-pesa would have to be shut down in order for system upgrades to occur. This affected Cooperative bank negatively as though the system upgrades were within Safaricom, customers considered them to be one and the same thing and therefore would blame Cooperative bank when transactions were delayed therefore damaging the reputation that the bank had strived to create as being effective and accessible.

Therefore many customers call Safaricom customer care complaining on inefficiency of the system to allow them enjoy better services. Some customers started having a negative attitude towards the services offered by both organizations especially when systems fail. But the managers explained that when system issues arise, customers get feedback through short messages to their mobile phones that there is a technical hitch but will be solved soon. Thus this gives confidence to the customers.

Competition has been the major game in both the banking and mobile industry in the Kenyan market as explained by many interviewees. Change of customer needs and improved technology has brought all about new services thus competition. Many banks have also partnered with other mobile service operators to offer the same services. For instance the major competitors of Co-operative bank include Equity bank and Commercial bank who offer related services.

On the other hand interviewees from Safaricom Ltd said that their major target is to stay on top in the competition from Airtel Kenya and Orange telecommunication companies, who are trying to offer same services. The major issue under this market is that they try to offer services at a lower cost to discourage Safaricom customers from using that service. The price wars as explained by the interviewees have generated lower revenue for the last six months as compared to previous years that experienced a boom. But the interviewees insisted on consistence and better quality service to maintain the current customers.

The financial years in different organizations differ. They help in the evaluation of the organization performance over a specific period. Thus they are the major indicators on how the organization is fairing on. The finance managers from both organizations said that they experience a challenge while compiling the financial reports and how profits are shared since the organization do not share a specific financial year results date. For instance Safaricom Ltd announces its annual results on March every year, Cooperative bank announces its results on December. So the interviewees said that what may be included in their annual report do not really reflect the exact value of the shared profit since the other organization has not completed its business in that financial year.

Alliances can give significant management and coordination costs. Where firms work together, they are likely to have different expectations concerning the alliance; they also tend to differ in company culture and the type of management style. It is thus no surprise that the knowledge transfer between companies can give rise to communicative problems. Besides this, uncertainties surrounding a partner’s contribution and interests, as well as the effect of the market environment can make managing an alliance very difficult, endangering possible benefits. There also exists the risk of fraud among agents. Due to the large numbers of agents, it was necessary that the bank effectively manages them to ensure fraud is discouraged. Furthermore, the Central Bank’s rules on agency banking state that any fraud committed by agents will be seen as fraud committed by the bank. Due to this the bank established strict rules that have to be adhered to when selecting agents, and bank representatives also regularly visit agent locations to ensure that the agents comply with set rules and regulations

4.3.5 Measures of Performances used in the Company

One of the ways cooperative bank and Safaricom measures performance is through a balanced scorecard. The balanced scorecard used as an alliance dashboard and the dashboard looks at four areas of performance: Strategic: measuring the key performance indicators (KPIs) connected to the corporate objectives of both organizations. Operational: providing the performance of the key processes in the alliance. Financial: indicating the financial contribution of the alliance by checking whether they are still on target with their alliance from a financial perspective. Relationship: measuring partner health, loyalty and satisfaction.

Another way that the companies measure their performance is through a periodical health check will help to get clear insights on the status of the alliance. The health check is done based on a set of predefined criteria, where both partners score their view on the alliance. Criteria includes elements like progress of the alliance, trust in the partner and responsiveness of the partner. By comparing the scores from the two partners, the areas for improvement can be easily identified.

The companies also measure alliance progress by conducting alliance review meetings, where the partners evaluate the state of the alliance and they define the areas for improvement. An alliance review meeting is less structured than the health check and therefore contains the risk that only elements that are easily to identify will be discussed.

It is good practice to have an alliance review meeting facilitated by an external independent party. An external party will be neutral to the alliance and will see issues that the involved parties might not necessarily be able to identify. The external independent party can name the elephant in the room.

4.3.6 Factors that Led to the Success of the Strategic Alliance

The interviewees indicated that for a strategic alliance to be successful, several factors need to be considered. One is to determine the motive behind the alliance which will influence partner selection, then consider level of control required. Other factors to be considered include organizational fit, cultural fit, resource fit, risk reduction, environmental fit and operational fit. They continued to indicate that fFor an alliance to be successful, the following factors will have to be put into consideration; a clear and common vision, shared objectives, mutual needs, strategic fit, shared risk and reward, mutual trust, cultural compatibility, shared problem solving and decision making and shared control.

For the alliance to be successful, there is need to focus attention and resources on building corporation wide alliance capabilities. Firms that have experience in alliance management have a streamlined corporate alliance business unit, an alliance mapping system and dedicated staff possession of internal alliance capabilities have the potential of creating substantial value and subsequently increase the alliances‟ performance. When forming a strategic alliance it is paramount to select a partner whose needs are mutual.

A partner whose needs are mutual will most likely have the required level of skills, resources, knowledge that is required when forming an alliance. Mutual needs will also ensure that the firms operating policies, procedures and organizational structure will gel with that of the collaborating firm

4.3.7 Evaluation of Partner Based on Performance

Safaricom has a strategic partnership with Cooperative bank. The alliance with Cooperative bank has helped improve availability of M-PESA in the market. Under this arrangement, authorized agents can instantly access M-PESA once they make cash deposits at the bank. Agents need both M-PESA and cash to serve customers. Before this alliance, to obtain M-PESA, agents had to deposit cash into the M-PESA Holding Company bank account. In the event that they needed to convert M-PESA into cash (withdrawal) agents had to initiate a request on the M-PESA system which had to go through an internal process before the money was finally transferred to the agent's bank account through an EFT (Electronic Funds Transfer). With Cooperative bank as a super-agent, M-PESA agents now have an alternative and shorter process to access M-PESA or cash at a nominal commission to the bank. Agents are therefore able to access M-PESA or withdraw money by means of e-float. This has enabled the agents, acting on behalf of Safaricom be able to serve customers more effectively and efficiently. This new service has increased M-PESA availability in the market.

Financial outcomes measurement indicates whether the alliances are meeting its financial obligations, if the alliances are making profit, especially if the objective is to earn profits. The alliances that were for profit making alliances and if the results for strategic goal fulfillment indicate that the alliances were meeting these objectives, it is also an indication that the financial outcome measures were also met.

One of the key features in alliance success is the presence of constant evaluation and monitoring of the alliance. Without a specific set of evaluation criteria tailored to the objectives of the relationship, it is not possible to provide information regarding the success of the relationship. This information is crucial so as to adjust strategy and the operational mechanisms of the relationship. If a management control system for the relationship is in effect, then the evaluation criteria should be a product of these controls. Thus, a separate control system must be created for the alliance to determine evaluation criteria that may be independent of the partners' existing control systems.

The interviewees indicated that while the feedback from the performance indicators may be regular, example on a monthly basis, the life cycle of an alliance has become increasingly important in managing customer and product relationships and can be even more critical for evaluating alliance relationships. Thus, assessment frequency should consider the evaluation metrics, as well as the environment in general.

Not only does the alliance network undergo significant change from inception to completion or abandonment, but also the length of this process can be extremely long. It is important to understand that relationships with competitors, customers, and suppliers change throughout the life cycle. Thus, from an evaluation perspective, assessment must be scheduled to help facilitate a relevant consideration of opportunities and threats throughout the life cycle.

4.3.8 Reasons for Forming Strategic Alliance

Interviewees indicated that motivations for entering alliances range from obtaining additional resources, achieving economies for scale, and surviving dynamic markets. The bank's motivations for entering into the alliance included accessing Safaricom's technology, their network, competency in telecommunication as well as their large customer base thereby surviving competition while creating an innovative product to suit the target market. The bank considered partner selection focusing on partner resources and strategic fit as factors when looking into Safaricom as a partner. This included financial resources core competency that is money transfer service, and customer base. The alternative partners were not considered due to lack of these factors.

Interviewees from both organizations vividly explained that the alliance was formed to share financial risk associated with developing new services and capturing a wider market. In relation to this there is more of sharing resources thus eliminating the concept of financial instability in times of recession. This alliance was to get the organizations closer to achievement of their goals, that is improved quality service delivery, profitability and increased market share.

The strategic alliance targeted to keep the customers loyal to the organizations. Therefore this alliance was facilitated to provide better and quicker customer service while keeping the service cost minimal. Thus Safaricom customers can enjoy withdraw of cash from any cooperative bank ATM avoiding the challenges experienced through dealer shops and agents in relation to float management. Many of the interviewees indicated that customers are very happy with this service since they can access their cash easily even very late at night since they can access the ATMS.

Interviewees from cooperative bank and Safaricom Ltd gave out the view that there is a lot of competition in the mobile banking service in Kenya. This therefore gave them a chance to partner with Safaricom Ltd as it has a bigger market share in the telecommunication industry, hence to capture and encourage many Safaricom customers to use cooperative bank services and thus get more knowledge of the banking industry.

On the other hand Safaricom Ltd projected that for them to stay abreast in the mobile service competition; they saw a need to partner with cooperative bank to open up more services apart from voice service alone. The Safaricom Ltd managers gave the view that there is more that can be done with the phone apart from calling, hence the company can increase its services in the market to enhance itself have a competitive edge compared to its competitors in the mobile industry.

4.3.9 Level of consistence in terms of performance by your partner

Alliances help firms strengthen their competitive position by enhancing market power, increasing efficiencies, accessing new or critical resources or capabilities, and entering new markets. And in many instances, they are not only the preferred method, but the only feasible method for achieving growth. But with high alliance failure rates, the viability of such growth strategies is critically dependent on a firm's alliance capability.

The expectations at formation measurement indicate that partners in the alliance had very high expectations when the alliances were formed. This implies that the goals that were set for the alliances were seen by partners as feasible and the probability of achieving them was very high. High expectations at formation is a sign of success of the alliance and low expectation is a sign of failure of the alliance. The result of the study indicated that the expectation of the partners when the alliances were formed was high. Partners were optimistic that the alliances will be successful whatever the difficulties. On the other hand if the expectations at formation, indicated a low level of performance the alliances may lead to termination.

4.3.10 Other Opinion to Improve on the Strategic Alliance

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

4.4 Discussion

The study is guided by the resource based view and dynamic capability theory. The motivations and structures of alliances are often explained by the resource-based view. The discussion will be based on comparison of the study findings and literature reviewed.

4.4.1 Link to Theory

The study findings indicate that besides an increase in coordination costs and a lower quality of screening and monitoring, more inter-firm links may also cause redundancy, lowering benefits because of information overlaps. Because of the complexity of resources it is difficult for a single company to introduce new products to a market on its own strength. Therefore alliances are used to shorten the innovation time span and to

match complementary technological capabilities. This findings are supported by the resource based theory which focuses on the relationship between firm resources and performance. A resource can be thought of as a strength or weakness of the firm (Wernerfelt, 1984) and different firms possess unique bundles of productive resources. The resource-based theory includes the resource-based view of the firm (Wernerfelt, 1984), dynamic capabilities (Teece et al., 1997) and knowledge-based approaches (Grant, 1996). Resource based view has emerged as an important explanation for the persistent firm level performance by emphasizing firm's ability to create and sustain competitive advantage by acquiring defending advantageous resources positions (Leiblein, 2003).

The findings indicate that involvement of stakeholders in during the formation of the alliance is important and for accountability purposes. This findings are supported by stakeholder theory which states that organizations that manage their stakeholder relationships effectively have survived longer and perform better than those organizations that don't (Shiller, 2003). Stakeholder theory concerns the explanations of firm performance in a competitive environment (Porter, 1980). There are many strategy perspectives, and the strategy process perspective bases their views on what competitive advantage are and on what it are based influence of information technology on strategic management practices.

4.4.2 Link to Other Studies

The findings indicate that indeed strategic alliances are beneficial to organisations. Companies that have been keen in entering into alliances have been seen to be more profitable than those that don't. The findings of the study further collaborates that of Todeva and Knoke (2005) whereby strategic alliances were found to complete capacity gaps within organisations, lock out competition by securing critical resources, reduce risk of running the business, overcome regulatory barriers, achieve competitive advantage as well as innovate new products. This benefits enable firms that enter into strategic alliances have a competitive advantage over other firms. This also agreed with the research by Sompong, Igel and Helen (2014), who said that strategic alliances aid firms to acquire scarce resources, lock out competition, diversify into new markets as well as obtain economies of scale.

The study found out that firms enter into strategic alliances mainly to diversify into new markets. From past research, strategic alliances have been touted as one of the ways firms can enter into new markets as a market entry strategy (Anslinger & Jenk, 2004). Through strategic alliances, firms are able to tap into new markets thus overcoming limitations that would have existed if they chose to go it alone. Safaricom being a telecommunications company is regularly forced to continuously react to the turbulent market environment. This can be achieved rapidly via strategic alliances. This is in agreement to the study by Yasuda (2005) who found out that organisations form alliances in order to react to market conditions faster and therefore gain competitive advantage particularly in instances where time is critical.

From the study, it was also found out that firms also enter into strategic alliances in order to gain a competitive advantage over other firms. Competitive advantage ensures that firms are better placed in the market thus able to price their products at a premium or produce below the industry cost. Through strategic alliances, firms are able to collaborate with like-minded organisations which enable them to perform better than other companies within the same industry. This supports the work of Todeva and Knoke (2005) who wrote that strategic alliances are used to add onto incomplete capacity gaps thus achieve competitive advantage over other firms. Pateli (2009) further wrote that strategic alliances enable firms to take advantage of the available market opportunities and therefore get an advantage over other firms.

The findings from this study indeed show that strategic alliances have their fair share of challenges. According to Yasin, Masqsood and Sandhu (2013), strategic alliances face challenges in the form of cultural differences, lack of similarity in management ideologies, lack of management commitment and lack of shared goals and objectives. This agrees with the findings of this study whereby the respondents agreed that the main challenges faced by strategic alliances were cultural differences, incongruence of management ideologies and resistance to change. This is also in agreement with the study by Zineldin and Dodourova (2005) who points out that the main challenges experienced are cultural clash, lack of cohesion between management teams, lack of clear goals and objectives as well as lack of trust.

Strategic alliances also experience resistance to change. This is a major reason for their collapse if not addressed by management of the company in the short run. Resistance to change is highly linked to organizational culture whereby employees prefer working in the already established ways instead of adopting new ways of doing things. According to Schweitzer (2014), the success of the strategic alliance will depend on its ability to create trustworthy relationships and manage any conflict that may arise. Resistance to change needs to be proactively managed to avoid conflict in the organisation.

The motivations for entering into the strategic alliance included increased competition from competitors, acquisition of new resources while focusing on core competences, and increased market penetration which contributed to the bank accessing more clients. These are comparable with strategic alliance literature that presents greater value and benefits, risk reduction by obtaining complementary resources, and increased market share as reasons for considering alliances (Chin et al., 2008 ; Wittman et al, 2009; Rusko, 2010; Osarenkhoe, 2010) Furthermore, it strengthens the case of focusing on core competences while obtaining additional competences and resources from the alliance partners.

4.5 Chapter Summary

In this chapter data has been analyzed on the influence of strategic alliance between co-operative bank and Safaricom limited enhance performance of the two organizations. The chapter also includes the discussion of the study which has been linked to the theory and linked to other studies.

The chapter indicates that alliance was a hybrid alliance as it focused on obtaining increased sources of revenue as well as obtaining knowledge that could be perhaps utilized during alliances with other organizations. For the alliance to be successful, there is need to focus attention and resources on building corporation wide alliance capabilities. Firms that have experience in alliance management have a streamlined corporate alliance business unit.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of this study was to determine the influence of strategic alliances on performance of Co-operative bank and Safaricom limited. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

5.2 Summary

The main objective of the study was to determine the influence of strategic alliances on performance of Co-operative bank and Safaricom limited. The study found that the success of the alliances between cooperative bank and Safaricom can be attributed to the presence of the factors that lead to success. It was found that strategic alliance between Safaricom and Co-operative bank is a long/term partnership and collaborative since it is beneficial to all parties and has been in existence of more than five years and there are no signs of it being terminated any time soon.

It was found that the strategic alliance has been a good factor that enhances profit and survival of these organizations. The companies have been performing well and this is symbolized by growth rate of revenue, financial strength, profitability, market share and survival of the organization which is evident in both organizations. The alliance focused on obtaining increased sources of revenue as well as obtaining knowledge that could be perhaps utilized during alliances with other organizations.

The study found that both organizations do benefit from the alliance.Some of the benefits that results from the alliance include; overcoming a resource constraint, managing transactional cost, the companies are able to acquire new technical and management skills, build customers loyalty by enhancing product value, gaining competitive advantage and market position. The alliance has been in a way strategic since it help them to introduce new financial services to an existing customer base, reduce drop-out rates and increase client retention, increase customer satisfaction with overall quality and quantity of services available and attract potential or new customers. The findings indicate that Safaricom has benefited by enjoying better abnormal returns in the stock market, ability to choose partners that are politically correct such as Co-operative bank, diversification of human resource expertise, improved brand image.

The study found that the alliance has had its own share of disadvantages. this include the risk of damaged reputations among customers from the side of Cooperative bank since it was in possession of a complex IT system that was able to store customer transactions and information safely and securely. However, Safaricom though having a superior IT system had to constantly undergo several upgrades to be at par with that of Cooperative bank. Due to this, M-pesa would have to be shut down in order for system upgrades to occur. This affected Cooperative bank negatively as though the system upgrades were within Safaricom, customers considered them to be one and the same thing and therefore would blame Cooperative bank when transactions were delayed therefore damaging the reputation that the bank had strived to create as being effective and accessible.

Another disadvantage has been competition which has been a major hindrance in both the banking and mobile industry in the Kenyan market. Change of customer needs and improved technology has brought all about new services thus competition. Many banks have also partnered with other mobile service operators to offer the same services. For instance the major competitors of Co-operative bank include Equity bank and Commercial bank who offer related services. While safaricom major competitors have been airtel and orange companies.

5.3 Conclusion

In the current competitive market, many organizations cannot operate alone without partnering with others. The main agenda is bringing together the resources available from both organizations that enhance synergy for better operation in the volatile business environment. Technological changes coupled with increased in demand for better services at a cheaper cost by customers has generated more competition. Innovation and consistent research is the only way forward for an organization to prosper in the competitive market.

The study concludes that besides an increase in coordination costs and a lower quality of screening and monitoring, more inter-firm links may also cause redundancy, lowering benefits because of information overlaps. Therefore alliances are used to shorten the innovation time span and to match complementary technological capabilities. This findings are supported by the resource based theory which focuses on the relationship between firm resources and performance.

Finally the study concludes that strategic alliance has been a good factor that enhances profit and survival of these organizations as posited by the responses of interviewees in these companies. Cooperative bank chose Safaricom to enter into a strategic alliance based on several particular characteristics that Safaricom had which were mainly based on its success with M-pesa mobile money transfer. The development and management of the alliance further ensures that both parties benefitted from the alliance especially Cooperative bank who have further reached their goal of targeting the unbanked population in Kenya.

5.4 Recommendations and Implication of the study

This study therefore recommends that since strategic alliances have benefits in major ways and that this concept should be employed by similar organizations in order to survive and sustain their operations in the competitive environment, companies should come together to maximizes customers potential and should motivated employees to stay longer in their organizations in order to promote the mutual strategic partnerships.

Moreover, all areas of strategic partnership should be given equal importance for all benefits to be enjoyed by all stakeholders. Currently mobile telephone firms enjoy more of cost and product related benefits while banks enjoy more of the market related benefits. All stakeholders should get mutual benefits. On the other hand, for the partnerships' prosperity, the organizations need to invest a lot on new technology and innovations to prevent any system breakdown.

For regulatory Authorities, the study serves as a wholesome view of the strategic alliance arrangements centered on mobile telephony payment technology and banks thus assisting in drafting appropriate legislation for the same. It helps to express the interest of various stakeholders in the whole arrangement and as such the study will inform policy formulation and practice in the same wavelength.

The study will contribute to the existing vast body of knowledge in validating the need of strategic alliances in today's environment. The study validates the need for organizational learning and consequently the theory of organization learning because specific knowledge can be transferred through licensing; tacit knowledge the knowledge embedded in an individual can only be transferred by learning alongside the individual and this can only be done when there is an alliance.

The world today has become a global village and the ability to expand one's market is key to success of any organization. Strategic alliances give an avenue of entry to any market while avoiding the red tape that comes with launching into those markets, the era of cut throat competition is slowly coming to an end this agrees with theories.

The finding of this study further validates resource dependency theory that states organizations have specific resources but few organizations are self-sufficient in these resources and therefore must depend on others for important resources. A deficiency in one or more strategic resources (i.e. core competencies) is seen as the driving force for collaboration.

Resources are scare and attract a cost to the organisation. From the synergy principle, value is created as the partners achieve mutually beneficial gains that neither would have been able to achieve individually, by pulling resources together. By entering into an alliance, organisations are able to access bigger resources that are needed to compete in the dynamic environment this validates the Resource Dependency Theory. Today, customers demand more and are also well informed. The ability to attract and retain customers lies on the organisation ability to provide a variety of services.

The finding of the study have several managerial implications for the industry; first mangers are advised when entering into alliances to place more emphasis on market and market entry related motives as this was one of the reasons with the greatest consensus in the study. The ability to keep up with the standards in the market is also key because customers expect the same if not better services when transiting from one destination to the next. Through alliances, firms can increase their market power in order to gain a competitive position in their market, thus alliances as a strategy helps firms reduce competition

The study also indicates that the success of any alliance rest on the management ability to manage the alliance. A well-managed alliance is able to grow and attract more organizations into the alliance. Employee commitment and understanding of the need for the alliance is also key to the success of any alliance. Management should ensure before entering into any alliance the Political, economic, social, technological and legal factors are carefully looked at to ensure that the alliance prospers.

5.5 Limitations of the Study

One of the major limitations was lack of adequate co-operation from the respondents. The respondents, who were in the senior management team of Safaricom and cooperative bank were very cautious with the information they gave. Another limitation of the study is the time allocated to the entire project. The time allocated for the completion was little in relative comparison to the amount of research work that had to be done. Resources for the research were scarce. These resources include money for travel and stationery work.

Since the main purpose of this study was to determine the strategic alliance between cooperative bank of Kenya and Safaricom limited to enhance performance, the two organisations considered some information sensitive and confidential and thus the researcher had to convince them that the purpose of information is for academic research only and may not be used for any other intentions.

5.6 Area for Further Research

The researcher recommends that future researchers could replicate this study in other industries in order to determine whether the findings would hold using the same specific objectives. Future researchers could also narrow down to the impact of strategic alliances in gaining competitive advantage and overall profitability of the firm.

The study recommends that more studies be done on this subject to establish other factors other than strategic factors that may significantly explain the performance of strategic alliance. This is important for the two industry because, strategically, they seem to operate on the same levels and with the same intentions. A multi-step data collection method may also be employed in the future.

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APPENDICES

Appendix I: Introduction Letter for Data Collection

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 08/09/2015

TO WHOM IT MAY CONCERN

The bearer of this letter PURITY KABUIYA MBURU

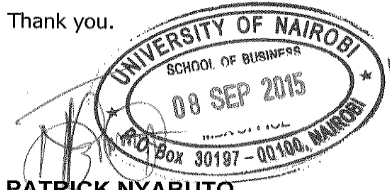
Registration No. D61/72205/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Interview Guide for Safaricom LTD and Co-Operative Bank of Kenya.

SECTION A: GENERAL INFORMATION

1. What is the position in the organization?
2. For how long has the organization been in existence?
3. How long have you been with this organization?
4. How many employees are in the organization?

SECTION B: INFLUENCE OF STRATEGIC ALLIANCES ON PERFORMANCE OF CO-OPERATIVE BANK AND SAFARICOM LIMITED.

5. In your opinion how long do you think this alliance will last?
6. What are the future plans you have in relation to this alliance in the changing market?
7. To what extent does strategic alliance contribute to performance of Safaricom limited and co-operative bank of Kenya?
8. What are strategic Alliances benefits for the partner companies?
9. What are disadvantages does your company gets after strategic alliance?
10. What are the measures of performances used in your Company?
11. In your opinion what has led to the success of the strategic alliance between Safaricom and co-operative Bank?
12. What are the factors that negatively affect or hinder the operation of the alliance?
13. How do you rate performance of your Company for the last 5 years?
14. How do you evaluate your partner on its performance?

15. What are the main reasons for the strategic alliance between Safaricom limited and co-operative bank of Kenya?
16. What is the level of consistence in terms of performance by your partner?
17. What other opinion do you have that you think can improve on the strategic alliance between Safaricom and co-operative Bank?