STRATEGIC ALLIANCE AND PERFORMANCE OF CO-OPERATIVE INSURANCE COMPANY LTD AND CO-OPERATIVE BANK OF KENYA LTD.

BY

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DECLARATION

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

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DEDICATION

I dedicate this work to my dear Husband Herbert, lovely children Hawi and Emmanuel and mum Herine for their continued support and love over the duration of this project. May God bless you all.

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ABBREVIATIONS AND ACRONYMS

AKI: Association of Kenya Insurers

CIC: Co-operative Insurance Company

CO-OP: Co-operative Bank of Kenya Limited.

FOSA: Front Office Sacco Account

IRA: Insurance Regulatory Authority

NSE: Nairobi Securities Exchange

ABSTRACT

Strategic alliances have become the most important tool of choice for most organizations seeking to revolutionize their performance. Strategic alliances have enable previously small firms engage with industry giants to gain an edge of their competitors and create sustainable competitive advantage. The formation of strategic alliances has also been necessitated by globalization and increasing uncertainties and complexities of the business environment. No single organization can claim to possess monopoly of expertise that will ensure the best customer service. This is also because customer needs are dynamic and vary from one environment to another subject to preferences, culture, and technology and government restrictions. The banking and insurance sector have also been subjected to such changes and this has revolutionized provision of insurance services. Insurance is beginning to loose its ambiguity with consumers through provision of information by not only the insurer but also the banking institution that provides financing. This change in tact has seen performance in the insurance industry improve significantly over the last four years. Co-operative insurance company has been in existence since 1968.It is considered among the largest insurance service providers in Kenya and the largest micro-insurance service provider. Given the nature of product that it offers there is constant need for the company to present 'insurance' to the common man in a way that will defray the suspicion that exists when customers are approached to take up the products offered. Reaching the this market has posed a challenge until the recent developments brought about by bancassuarance offered by CO-OP bank in alliance with CIC. The success of the alliance arises curiosity as to what characteristic or features are important in a potential alliance partner that would indicate the likelihood of success. I especially direct my interest to financial organizations such as banks and micro finance businesses that would consider such partnerships as viable for the bancassurance line of business as this has been on the rise in the recent past. The research was conducted by case study and primary data collected by use of an interview guide. This was administered both at CIC Insurance Company Head office and Co-operative bank at Co-operative Bank house here in Nairobi. The data collected was then analyzed using content analysis. The study was able to unveil the reasons behind formation of the alliance as need to increase market share for CIC, Diversifying into new business, Acquiring a means of distribution for CIC, Gaining technology, Reducing operational costs, Gaining competitive advantage, cheaper access to labour for CIC and the need to gain brand identity. In this study I outline the suggested necessary characteristics an alliance partner should possess for an effective strategic alliance. The respondents suggested that Financial stability, Mutual trust, Experience in core business, resilience, knowledge and resource capabilities, common customer base /products and similarity in strategic direction were key traits to be examined in a potential alliance partner. I also highlight the challenges of the alliance as staff indifference to implementation, harmonizing organizational culture, accommodating dynamic emerging needs and sustaining a mutually beneficial alliance. The study recommends that Co-operative bank of Kenya should review the terms of its engagement with CIC Insurance Company with a view to increasing its beneficial percentage stake .Further research should be conducted to assess the outcome of an alliance in the face of current duplication in the bancassurance sector. This will facilitate organisations by equipping them with a checklist of characteristics for assessing prospective alliance partners as well as provide a valid negotiating tool to ensure they make the most out of the relationship having considered all relevant factors.

CHAPTER ONE

INTRODUCTION

1.1 Background

In the business world today it is of great importance for businesses to monitor their environment with a view to creating strategies that will either set them apart from their competitors while creating value or will cause them expand their capacity and capability by joining ranks with businesses with the same objectives. Strategic alliances are a form of corporate level strategy adopted by firms to enable them operate in multiple markets or industries simultaneously. Strategic alliances exist whenever two or more independent firms cooperate in the development, manufacture or sale of products and services (Barney,2007).They have over the years become a key source of competitive advantage for firms and have allowed them to cope with increasing organizational and technological complexities that have emerged in the global market (Elmuti and Kathawala, 2001:Thorne and Wright,2005).According to Barney (2007) a firm is said to have competitive advantage when implementing a value creating strategy not simultaneously implemented by any current or potential competitor. Competitive advantage creation is a key factor and is the main reason behind companies entering into strategic alliances.

Various theories have emerged to explain why firms choose not to go it alone. These theories include perspective of strategy theory, transaction cost theory, resource-based theory, knowledge-based theory and resource dependence. Perspective of strategy theory attempts to reason that organizations get into alliances for purposes of gaining competitive advantage and an edge over its competitors. (Coase,1937) came up with the transaction cost theory where he argued that firms in examining the overall

production cost make decisions based on whether it is cheaper to produce a good or service from within the organization or if outsourced. If it is cheaper to outsource then the company is not likely to grow. Companies are therefore weighing the cost of exchanging resources with the environment against the bureaucratic costs of performing activities in-house .Resource based theory tries to view alliances from the perspective of acquisition of resources. Firms are said to enter into alliances for purposes of acquiring the other firm's resources for its own advantage. Firms should therefore enter into alliances cautiously so as not to expose their resources to alliance partners who may eventually take over their businesses. In the knowledge based theory the main aim of entering into strategic alliances can be for sharing knowledge and expertise. The knowledge may be in the form of technological know-how and organizational capability. Each member of the alliance partnership therefore seeks to learn from the other. In resource dependence theory firms enter into alliances to gain resources which they themselves do not possess. Here the element of sharing this particular resource is only on the part of the partner who owns the resource. The other alliance partner hopes to use the relationship to gain access to the scarce resource.

CIC and Co-operative bank of Kenya are among the first institutions to venture into the bank assurance line of business where provision of insurance services has been introduced as an additional bank product. It has been cleverly included in many of the banks Micro-finance products where potential loan clients are enticed to cover their assets and family members against damage or to cover the client's life for the family's benefit. This has aided CIC in reaching a wider clientele base and has rebranded their products by giving it the 'trusted' face as most people trust banks in decision making.

The same model is currently being replicated by other insurance firms hence the need to study the relationship closely. This study therefore seeks to provide relevant information for organizations to use in selection of alliance partners. It will attempt to determine what traits a company seeking to enter into an alliance should look out for when considering among several firm options.

1.1.1 Strategic alliances

A strategic alliance is a formal and mutually agreed partnership arrangement that links particular aspects of two or more firms. These firms agree to pool, exchange or integrate specific resources for mutual benefit while continuing to remain separate and independent. Usually this arrangement enables partners to achieve goals that would otherwise not be achievable if they continued a single entities. Since time immemorial companies have sort to employ various strategic tactics to outwit industry leaders Strategic alliances are a form if inter-organizational co-operation involving pooling of skills and resources to achieve common objectives of alliance partners while retaining separate entities(Varadarajan and Jayachandran,2009).

According to Barney (2007) a strategic alliance occurs when two or more businesses agree a contract to operate a joint project with an aim to achieve organizational growth. Companies make the decision to form alliances in order to get hold of better technologies, resources, market access amongst many other possible benefits that accrue to a company and result in a competitive edge. Strategic alliances therefore play a vital role in enabling a company gain and sustain competitive advantage.

The concerned companies get to share fixed costs and the associated risks of product and technology development while providing a platform in which organizations can bring together complementary skills. (Capon, 2008).

The alliances can be of three kinds. Non-equity alliance where the firms agree to work together to develop manufacture or sell products or services by agreements or contracts such as licensing contracts, supply contracts and distribution agreements. In equity alliance the firms involved take up a stake or percentage ownership of the firm usually through purchase of shares. In a joint venture the participating firms create another legally independent firm in which they invest and from which they share any profits created. (Barney, 2007)

1.1.2 Strategic Alliance and Organizational Performance

Most organizations venture into alliances with the hope that their overall performance will improve. Chief among these expectations would be gaining and sustaining this competitive advantage. Strategic alliances are considered essential in enabling firms to share resources, learn and as a result they obtain competitive advantage. Firms may make the decision to enter into strategic alliances so as to obtain resources within the reach of other firms that are valuable and essential to achieving competitive advantage. It has become necessary to not only defend ones position in the market but also to remain informed about competitor moves and strategies. There is hence need for constantly innovating new methods of doing business that will result in competitive advantage. The attributes associated with competitive advantage include natural resources, access to highly trained personnel, new technologies and information technology.

For a strategic alliance to be a source of competitive advantage however it must be rare and costly to imitate and the firm must be fully organized to exploit the alliance to the maximum. Synergy and competitive advantage may be another reason why firms enter into alliances. Competition becomes quite effective when alliance partners rely on each other's strengths and thus bringing about synergy as compare to a firm that enters the market as a single entity.

Globalization of businesses has also greatly been driven by the ability of firms to enter into successful alliances with their counterparts enabling them access a global market without the associated costs of setting up in new territory. Organizations that seek to access new markets can therefore benefit from seeking suitable alliances in areas previously not ventured into. Since alliances do not always occur between firms with similar core business structures, products or services, organizations are able to diversify their risks while reaping from the benefits of having a portfolio of businesses. Alliances therefore come highly recommended for organizations that are interested in expanding their territory and capacity.

1.1.3 Insurance Industry in Kenya

The main players in the Kenyan insurance industry are: insurance companies, insurance brokers, insurance agents and risk managers. The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487.The insurance industry is regulated and supervised by the Insurance Regulatory Authority (IRA).By the end of year 2013, there were 48 insurance companies which were operating in Kenya. Of those 48, 25 companies wrote non-life insurance Business, 12 wrote life insurance business while 11 were composite (both life and non-life).

There were 187 licensed insurance brokers, 29 medical insurance providers (MIPs) and 4628 insurance agents. Other licensed players included 134 investigators, 105 motor assessors, 22 loss adjusters and 27 insurance surveyors. The penetration of insurance in Kenya is at 3.44% only. Emerging risks such as micro insurance (accessed by low income population),oil & gas and initiatives such as adoption of alternative distribution channels(bancassurance) and use of technology are key to improving the insurance penetration level in Kenya (AKI,2013).

Though the insurance industry in Kenya is growing the industry still faces major challenges since the market penetration is low meaning the clientele is limited. Access to the micro-insurance by the informal sector will significantly contribute to achievement of Millennium development goals 1, 3 and 8 and promote development of insurance sector by improving penetration and easing competition. Micro insurance offers affordable premiums, limited risk covers, uses easily understood contracts and appropriate delivery channels. (Gathigia, 2013).

1.1.4 CIC Insurance Company

The co-operative insurance group is the leading provider of micro-insurance services within Kenya. It has been in existence for 33 years and is owned by over 2000 co-operative societies and over 3000 individual co-operators. (Otieno, 2012).

The co-operative insurance company begun as an insurance agency in 1968 which was a department within the Kenya National Federation of Co-operatives (KNFC).It was later licensed as a composite insurance company in 1978 to write all classes of business insurances in the name of Co-operative Insurance Services Ltd (CIS).

The main target of CIS was the Co-operative movement and due to the strong support given to it by co-operative societies back then it steadily grew. In 1999 the company changed its name to The Co-operative Insurance Company of Kenya Ltd. This was part of marker repositioning strategy to ensure it became a recognized insurance firm and where it operated both life and general insurance. In 2010 the company changed its name once more to CIC Insurance Group Ltd in preparation for a demerger between its life and general business operations. It later fully demerged into CIC Life Assurance Ltd, CIC Asset Management Ltd and CIC general insurance Ltd. (CIC profile, 2015).

During its operations it has embarked on a number of strategic alliances with various groups such as churches and school associations and with The Co-operative bank of Kenya Ltd. Its insurance services cover the banks credit line products. The company was listed in the Nairobi Securities Exchange (NSE) and has 17 branches and a network of 1000 agents countrywide. It's the preferred underwriter of the 10 million member co-operative movement in Kenya which is also a founder member. These strategies have transformed it into the leading co-operative insurer in Africa.

1.1.5 Co-operative Bank of Kenya Limited

The Co-operative bank of Kenya was opened for operation on the 10th of January 1968 as a government initiative aimed at improving both internal and external aid as well as providing relevant financial services to the Co-operative movement in Kenya. It began with a capital base of Kes 469,000 while the required minimum capital then stood at Kes 20 million as was stipulated by the banking act.

In 1994 the bank became a full-fledged bank offering a wide range of financial services beyond the Co-operative sector including personal, corporate and institutional customers. This was followed by the bank listing itself in the stock exchange in 2008 by public offer of 701.3 million shares at Ksh 9.50 which with an uptake of 81% .The process saw it raise 5.4 billion in additional capital beyond the existing capital base of 7.4 billion (Muriuki, 2010). In 2011 the bank purchased shares in the Co-operative insurance company giving it a 21% stake in the insurance company. By the mid-year 2013, the bank had the second largest customer base with over 3.5 million accounts. Co-operative bank now offers Bancassurance services to its customers in conjunction with CIC.

1.2 Research Problem

Many of the companies facing limitations in their performance have opted or are considering some form of alliance as a bail out option as they seek to gain competitive advantage and in the process increase profitability for the long term. Although many studies have been conducted examining the types of alliances formed by companies none have been geared towards examining strategic fit in alliances between financial institutions and insurance companies. This in essence means that most of these strategies have been entered into as a form of imitation or duplication without considering strategic fit. That is, what factors predispose these organizations to a successful alliance?

Similarly there is general consensus that competitive advantage is a key outcome of well-structured alliances. However the resultant benefits that accrue to either firm as a result of strategic alliance is yet to be examined closely. This is crucial information

whose estimation required beforehand to act as a bargaining chip during negotiation. This is especially so since strategic alliances expose a firms resources to another firm and this may be risky. Banks and insurance company in the fast paced globalized environment have sought to become competitive by joining forces and providing insurance services under the guise of modern banking. This has led to the rise of ‘’Bancassurance’’ sector both globally and regionally. Locally a good example would be that of CIC Insurance company and Co-operative Bank of Kenya Ltd which has largely been successful and which has been imitated by other Kenyan banks.

The success of this alliances has seen the recent numerous duplications in the banking and insurance sector, of this mode of insurance service provision and it remains largely not guided or supported by researched facts about who is a likely good alliance partner for such an arrangement. Firms also need to weigh the expected impact on performance against the proportionate risks before entering into alliances. The key question will therefore be, what factors are crucial in formation of strategic alliances between Insurance Companies and financial institutions that result in a successful strategic alliance?

International studies have been carried out by various scholars focusing on varying aspects of alliances. Ulijn, Duysters and Meijer (2010) conducted studies around the influence of culture on international alliances and deduced that organizational culture and its perception had a significant impact on strategic alliances in a globalizing world. Baden-fuller, C. and Grant, R.M (2004) however focused on knowledge as the primary motivation for organizations to enter into strategic alliance.

Their contention was that accessing knowledge was a pre dominant motive for alliance formation especially within knowledge based sectors where alliance activity was prevalent.Das,K.T(2000) focused mainly on the resource based view. It suggested that the rationale for alliance formation was the value creation potential of firms resources when pooled together. They also researched on how partner resource alignment directly affects collective strengths and interfirm conflicts in alliances and how they impact on alliance performance.

Locally, studies by Ogega (2010) focused on alliance relationship between Safaricom and Equity in the money transfer service where he looked at the use of technology between the two firms and challenges therein. Omwoyo (2013) examined alliance relationships that existed in Barclays Bank of Kenya Ltd with a view to determining the role of alliances on competitiveness. Other studies focused mainly on CIC insurance company alone such as Otieno (2012) who focused more on assessing attitudes of managers towards alliances and competitive advantage gained.

Gathigia(2013) focused on strategies employed by CIC Ltd for competitive advantage in micro insurance industry where she examined the challenges CIC is facing from competition and she examined strategies adopted by it.It is clear from the above that while some research has been done on aspects of alliances and even on CIC insurance group, none has dedicated itself to determining the strategic fit in an alliance relationship between a bank and insurance company and the resultant gains from the relationship. There are conditions that predispose financial firms and insurance companies to a successful alliance and this study hopes to unveil these conditions and their resultant benefits.

Whereas studies have been carried out on strategic alliances such as Otieno (2012) who examined perception of managers towards the alliance, Gathigia (2013) who examined it from the standpoint of its advantages to CIC and Kananu (2012) who examined the critical success factors adopted by CIC none of them addressed the factors that make for an effective alliance. The studies did not narrow down to a specific alliance relationship within CIC Ltd that would provide a detailed account of what it involved to create a successful alliance relationship. The studies also did not show whether the strategic partners involved e.g. If Co-operative bank benefitted equally or to what extent the partners benefited. This study therefore intends to fill the gap by answering this questions; what factors were taken into account by either CIC or Co-operative Bank to determine their suitability as each other's alliance partner and have both CIC Insurance Group and Co-operative Bank of Kenya Ltd enjoyed proportional benefits?

1.3 Research Objective

The main objective of this study was to determine what factors are critical in formation of strategic alliance between insurance companies and financial institutions i.e. banks as portrayed by CIC and Co-operative bank of Kenya Ltd.

1.4 Value of the Study

Strategic alliances are complex in nature and involve a lot of collaborative effort and goodwill. Their success however propels a company to new heights of profitability and opens firms involved to new opportunities and markets. Strategic alliances have therefore become the tool of choice for many firms seeking to gain competitive advantage while sharing risk.

The study reiterates that for an organization to successfully implent strategy there needs to be support from own its internal structures especially its manpower.The strategy also needs to be well communicated and in a timely manner.Gole(1995) observed that strategy is often directed by top management in order to determine fundamental aims or goals of the organization.

By examining this particular relationship firms intending to pursue alliances are therefore able to know what the required critical success factors are before venturing into the said alliance relationship and hence improving chances of success for such alliance relationships. Firms are also able to make preparation for alliances by aligning their organizational structure, culture and people to the aims and goals of the expected alliance. They are also able to determine the roles of each staff to ensure no duplication and overlapping in the arrangement.

The study can be used as a negotiating tool as participating firms can borrow from research findings to ensure they get a proportionate or higher benefit from the alliance relationship they enter into. The study also highlighted expected challenges and required organizational structure preparations that an alliance is likely to require. This will ensure well formulated strategic alliance plans and management of change.

1.5 Summary of the Chapter

The findings of this study have provided Insurance companies and Financial institutions with a form of checklist to self asses their capabilities as prospective alliance partners in Bancassurance sector.

Firms that are able to take up this self-examination will be better prepared for future alliances and will have a better bargaining power should the time come when an alliance is formed. This study will thus open up organisations to the realities of the globalized world where collaborations are yielding much better results than going it ‘alone’.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter provides information obtained from publications on topics related to the research problem. It examines what various scholars have said about the concept of strategy as well as strategic alliances. It covers the nature of alliances and role of strategic alliances in gaining competitive advantage. It also covers strategic & organizational fit in organizations that are preparing to venture into an alliance relationship.

2.2 Theoretical Foundation

Strategic alliances are founded on various theories as they embrace various collaborative efforts taken up by organizations. .The activities range from supplier-buyer partnerships, outsourcing agreements, technical collaboration, joint research projects, new products development, shared manufacturing arrangements, common distribution agreements, cross-selling arrangements and franchising. The increasing importance attached to strategic alliances has resulted in growing interest in theorizing about their causes and consequences(Huang,2004).

Many studies have been conducted in an attempt to discuss the formation of strategic alliances using various theories and models. The theories include perspective of strategy theory, transaction cost theory, resource-based theory, knowledge-based theory and resource dependence.

The perspective of strategy theory suggests that seeking appropriate alliances can increase a firms competitive position and create competitive advantage while in resource dependency theory the motivations for strategic alliances stems from the search of valuable resources which the firms lack(Huang.2004)

Transaction cost theory was proposed by Coase (1937) to explain the decision of markets or hierarchy in an organizations behavior. He attempted to explain why people chose to organize themselves in business firms rather than each handling the business as individual entities. Coase believed that a big section of transactions happening within firms was not governed by market forces. Outside the firm, price movements directed production. Price movements were coordinated through a series of exchange transactions in the market. Coase observed that within a firm the market transactions are eliminated and replaced by an entrepreneur who directs production. Transaction cost therefore refers to the cost of providing for a good or a service through the market rather than having it made within the firm. Transaction cost theory tries to explain why companies exist, and why companies expand or source out activities to the external environment.

The transaction cost theory supposes that companies try to minimize the costs of exchanging resources with the environment, and that companies try to minimize the bureaucratic costs of exchanges within the company. Companies are therefore weighing the costs of exchanging resources with the environment, against the bureaucratic costs of performing activities in-house. This theory envisions firms organizing themselves in various possible forms and coordinating economic transactions.

If the external transaction cost is found to be higher than a firms internal costs then the company will grow because it's able to complete production at a cost-effective price. If the internal cost is higher than downsizing the company would be an option so as to make in house production cheaper..

According to Coase (1937) a company will expand as long as the company's activities can be performed at a cheaper rate within the company than if outsourced. Therefore, if companies see the environmental uncertainty risk as high, they might choose not to outsource or exchange resources with the environment. According to Contractor and Lorange (1988) Strategic alliances can be based on the degree of interdependency between the parties involved. Where there's the highest level of interdependence between parent firms involved is in mergers and acquisitions while the lowest level of interdependence exists in an informal co-operative venture.

A resource-based view seems particularly important in examining strategic alliances because organizations essentially use alliances to gain access to other firms' valuable resources. Thus, firm resources provide a relevant basis for studying alliances. In the resource based view it is suggested that the rationale for alliances is the potential of value creation for organizations or firms when resources are pooled together. Resource characteristics such as imperfect mobility, imitability and substitutability are likely to add value hence facilitate formation of an alliance. A resource-based view proposes the other perspective on strategic alliances by stating that valuable resources that firm that not possessed by firms are the motive for strategic alliances. The resources may generally be classified into tangible (financial and technological) and intangible (Knowledge-based and managerial).

Competitive advantage will be dependent on a firm's ability to respond quickly to a dynamic environment. Companies should consider how to extend the use of limited resources to develop a sustainable competitive advantage. This can be done through hierarchy markets or alliances (Huang, 2004),

In knowledge based theory it is assumed that the main aim of strategic alliance formation is for the sharing of knowledge including technology, know-how and organizational capability. This largely involves acquisition of the knowledge of alliance partners. The outcome may be a 'competition for learning' where each alliance member seeks to learn at a faster rate than its partner in order to achieve a positive balance of trade in knowledge (Hamel, 1991).Knowledge can either be generated or acquired among alliance partners. Knowledge generation points to alliances as vehicles for learning in which each member firm uses the alliance to transfer and absorb the partner's knowledge base. While knowledge application points to a form of knowledge sharing in which each member firm accesses its partner's stock of knowledge in order to exploit complementarities, but with the intention of maintaining its distinctive base of specialized knowledge.(Baden-fuller and Grant,2004).

2.3 Strategic Alliances

Alliances have become the most popular corporate level strategy of choice among many organizations in Kenya today. The advancement of technology has seen organizations seek cooperation with technologically advanced and innovative firms. This has been seen in sectors such as Banking where alliances exist between mobile service providers and banks in provision of financial services.

Similarly between Banks and insurance service providers. According to Elmuti and Kathawala(2001) strategic alliances can be an effective way to diffuse new technologies rapidly ,to enter a new market, to bypass governmental restrictions expeditiously and learn quickly from leading(Top) firms in a given field. Strategic alliance is a formal agreement between two or more separate companies in which there is a strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control and mutual dependence (Strickland, 2002).

According to Barney (2002) a strategic alliance exists whenever two or more independent organizations co-operate in the development manufacture or sale of products or services. They can be grouped into three broad categories. On-equity alliance(where they do not take equity positions in each other but work together to develop manufacture or sell services),Equity alliance(where an organization buys shares or percentage stake in the other company) or joint venture (co-operating firms create legally firm in which they invest.

Profits from these firms will be used to compensate partners of the investment).In examining the advantages drawn from an alliance we can also categorize alliances as either symmetric (where the advantages sought by both parties is similar) or asymmetric (where advantages sought are dissimilar). Alliances in which firm interests can be similar to or different from one another are known as mixed alliances. Firms that enter into symmetric alliances benefit from economies of scale and tacit collusion while those that are asymmetric in nature benefit from low cost entry into new markets/industries and are able to learn from competitors, mixed alliances are majorly for managing uncertainty and risks as well as sharing costs.

Strategic alliances often create economic value and helps firms improve their current level of operation. Firms are able to exploit economies of scale as well as learn from their competitors. The risks involved in the alliance are minimized as the costs involved are shared and knowledge is exchanged. Alliances also facilitate low cost entry into new industries and new industry segments and allow for low-cost and easy exit from them. Any uncertainty about success of an organization in the new industry is managed when an organization partners with another which possesses the expertise.

This is because most firms are competent in some areas while they lack expertise in others. Alliances also result into a competitive environment favorable to superior performance. Alliances are entered into for some key benefits for participating organizations which include exploiting economies of scale, learning from competitors, managing risks and sharing costs and facilitating tacit collusion. Economies of scale become possible when firms are able to access cost advantages based on volumes attained which they would not otherwise attain if working independently(Barney,2002).

Firms also use alliances to learn important skills and abilities from their competitors. An example is the joint venture between General Motors and Toyota which helped General Motors learn from Toyota about manufacturing high quality small cars at a profit. This kind of relationship has however been criticized for having some negative impact. The competing firm gets to develop the skills and abilities it needs to compete more effectively even as a separate entity. This will hurt the alliance partner who acts as an instructor. It can also be interpreted by some firms as a violation of antitrust laws.

Government regulators may conclude that strategic alliances are forms of tacit or explicit collusion and therefore slap organizations involved with heavy penalties or scrutinize them intensely. It may also create a learning race which has the effect of reducing the ability of an alliance to improve performance of the other 'teaching'alliance partner.

For an organization to emerge successful in a strategic alliance it needs to consider whether the partner organization has a compatible strategy and culture. They should complement each other or be a mirror of each other. The amount of contribution of resources should also be considered to ensure that no one company is putting in more than it is receiving from the alliance relationship. The benefits gained should exceed the resource input. The organizations involved should also have compatible strengths in whichever industry or segment they are majoring in. Preferably, the organization should be a leader in the market for which it was established. There should also be no conflict of interest between the parties involved. There also needs to be a mutual trust and understanding between parties involved. (Lorange & Roos, 1993)

2.4 Effect of Strategic Alliance on Organisational Performance

Strategic alliances impact organisations by transforming their previous limited resource capabilities and knowledge to a wider threshold. This has the effect of creating competitive advantage. The concept of Competitive advantage was presented by Porter(1985) and it relates to the ability of an organization to discover and implement ways of competing that are unique and distinctive from those of their competitors and that can be sustained over time(Otieno,2012).The goal of most businesses is usually to obtain and sustain competitive advantage.

In alliance relationship it is important to determine early the prospective benefits of the relationship to each alliance party. It must also be examined from a holistic point of view i.e. the alliance visa a vie the relationship with suppliers, customers, new technology and new entrants. The attributes associated with competitive advantage include natural resources, access to highly trained and skilled personnel, new technologies, information technology etc. Michael Porter also identified cost leadership advantage, differentiation and focus as the basic sources of competitive advantage.

A firm's value chain can also be a source of competitive advantage. Value chain analysis describes the activities within and around an organization and relates them to an analysis of competitive strength the value added by each process is carefully analyzed through value chain analysis. Porter (1985) argues that the ability to perform particular activities and to manage the linkage between these activities is a source of competitive advantage. Molina et al suggest alternative indicators of the level of competitive advantage. They include Market Share, Profits, Technological provision, Financial management, Quality of products-services, Aftersales services, Manager's educational background, customer loyalty, supplier loyalty, location of establishment, employees commitment and employees professional know how as well as a firm's reputation. Competitive advantage is a key benefit enjoyed by organizations that engage in alliances.

According to Otieno (2012) strategic alliances are a fast and flexible way to access complementary resources and skills that reside in other companies and hence alliances have become an important tool for achieving sustainable competitive advantage.

Strategic integration is an essential prerequisite to the competitiveness of organizations. Achieving long-term competitive advantage involves the design and operationalization of appropriate business strategies that take into account both the mutations registered in the business environment and the development stage of the organization. A firm may have competitive advantage as a result of carrying out its activities at low cost or from product differentiation. This implies that the source of its competitive advantage lies in the more efficient supply. Normally the company is either focused on cost reduction or product differentiation. Organisations that engage in alliances therefore ultimately benefit from economies of scale, lower transaction costs hence lower production costs, skill enhancement and ultimately experience industry growth.

2.5 Strategic Fit

Strategic fit expresses the degree to which an organization has aligned its resources and capabilities in order to capture opportunities in the external environment, implies the efficiency with which organizational resources and capabilities are aligned with the complementary resources and capabilities that an alliance brings. For alliances there's need to reconcile competing needs of partnering firms in order to ensure effectiveness in performance in a successful strategic alliance both parties need to have strategic intents that are reconcilable, and this match should be quite explicitly stated earlier on. Almost by default the two parties will come to the table with different strategic intents, will seek different benefits from the alliance in relation to their own strategies.

These two strategic intents must however be sufficiently compatible so as to allow room for co-operation. (Lorange & Ross, 1993)This in turn will ensure strategic fit between the two organizations in interpreting their desired outcomes. Outcomes of alliances may be varied. Some are favorable to both, others have favored one party over the other while yet others have favored neither of the parties involved. It all boils down to considerations that were made before entering the alliance.

If not well thought out the results can be negative. Strategic fit or coalignment is a notion that asserts that the environment and organizational strategy interact in a dynamic coalignment process and a match between them has significant and positive implications on performance. With respect to alliances, the concept of strategic fit or coalignment has not been previously empirically examined and it is a major and continuing challenge for alliance managers to align alliance attributes with organizational capabilities (Zaman and Mavondo, 2014).According to Doz & Hamel (1998) success in alliances often stems from the same factors that drive good management and in particular successful collaboration and integration between units of the same firm. Alliances are more likely to succeed if entered into with the right attitude and organizational habits.

The assumptions held by managers of alliances and how they interact and work preconditions the alliance for success or failure. Corporate values and the extent to which employees are encouraged to balance co-operation and competition strongly influence alliance outcomes if the culture of a firm supports a mix of collaboration, competitiveness, creativity and imagination in how value is created in the organization the success is likely. Culture therefore is crucial in examining readiness

of firms for alliances. Open communication, experience of effective teamwork and steadfastness of shared purpose are also aspects that prepare organizations to create effective alliances. Firms that are truly “alliance ready” view alliances as a tool for actively discovering or creating the future and overcoming resource disadvantages. They are willing to accept the difficulties of interfirm collaboration since collaboration helps them accomplish otherwise unfeasible objectives (Doz & Hamel, 1998).

Information is a source of power and in alliances it provides leverage during negotiations. As much as strategic alliances offer new business opportunities to prospective partners through competitive advantage, improved productivity and efficiency, it simultaneously exposes the organisations resources and skill set to misuse. The resultant benefits from the arrangement must therefore significantly outweigh the costs or risks. Adequate assessment of a potential partner is therefore crucial in ensuring the success of an alliance.

2.6 Empirical Studies and Research Gaps

Studies have been carried out by various scholars focusing on varying aspects of alliances. Baden-fuller, C. and Grant, R.M (2004) focused on knowledge as the primary motivation for organizations to enter into strategic alliance. Their contention was that accessing knowledge was a pre dominant motive for alliance formation especially within knowledge based sectors where alliance activity was prevalent.Ulijn, Duysters and Meijer (2010) conducted studies around the influence of culture on international alliances and deduced that organizational culture and its perception had a significant impact on strategic alliances in a globalizing world.

So while determining culture as influential in alliance success, he did not extend the search to cover all aspects of alliance formation.Das,K.T(2000) focused mainly on the resource based vie .Partner resource alignment was found to directly affect collective strengths and interfirm conflicts in alliances impact on alliance performance.

Locally, studies by Ogega (2010) focused on alliance relationship between Safaricom and Equity in the money transfer service where he looked at the use of technology between the two firms and challenges therein. Omwoyo (2013) examined alliance relationships that existed in Barclays Bank of Kenya Ltd with a view to determining the role of alliances on competitiveness. Other studies focused mainly on CIC insurance company alone such as Otieno (2012) who focused more on assessing attitudes of managers towards alliances and competitive advantage gained. Gathigia(2013) focused on strategies employed by CIC Ltd for competitive advantage in micro insurance industry where she examined the challenges CIC is facing from competition and she examined strategies adopted by it.

It is clear from the above that while some research has been done on aspects of alliances and even on CIC insurance group, none has dedicated itself to determining the strategic fit in an alliance relationship between a bank and insurance company and the resultant gains from the relationship. There are conditions that predispose financial firms and insurance companies to a successful alliance and this study unveiled these conditions and their resultant benefits.

2.7 Summary of the Chapter

The study aimed at closing in on the identified research gaps by providing a wholesome focus on an alliance relationships in bancassurance sector .It examined the alliance between CIC and CO-OP Bank from' intention to enter' stage to the implementation stage and drew out relevant information concerning what it takes for an organization to be truly alliance ready. Rather than focus on one characteristic the study was able to identify a range of attributes and capabilities that are to be possessed by a truly 'alliance ready' firm.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used to carry out the study, what informed the selection of the research design, the target population, sampling method to be used, and data collection instrument and how data was analyzed, interpreted and presented.

3.2 Research Design

The research design was case study. Case studies enable one to give a holistic account of a research. In particular case studies help the researcher to focus on the interrelationships between all factors such as people, groups, policies and technology which make up the case study. Case studies are also able to accommodate both qualitative and quantitative information. Case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations (Fisher, 2010).

A case study therefore allowed in depth understanding of the behavior pattern of the concerned unit. Case studies are also appropriate for examining processes by which events unfold as well as exploring causal relationships as they provide holistic understanding of the phenomena (Kitay and Callus, 1998).

3.3 Data Collection

Primary data was used and data was collected through use of an interview guide. This refers to a set of questions tailored by the interviewer for purposes of obtaining responses that will contribute to the research topic. In depth interviews enable one on one interaction which aids in reducing distance between the interviewer and interviewee (Johns and Lee-Ross, 1998).

The questions were unstructured so as to encourage the respondents to provide in-depth responses and give detailed account of activities. The respondents interviewed were the firm's key managers. These were the Co-operative Bank Banc assurance managers at the Head Office at Co-operative House in Nairobi and CIC management staff at their Head Office in Upper Hill. They consisted Finance managers, Underwriting managers, Claims managers, Marketing managers, Human resource managers, Medical manager, CIC Asset manager, Procurement manager, Customer care Manager, ICT managers, Legal manager and Chief internal auditors. This is because they are responsible for formulation, implementation and control in the various departments under their control.

3.4 Data analysis

The collected data was analyzed using qualitative measures. Qualitative data analysis makes general statements on how categories or themes of data are related. This also allowed for elaboration, interpretation and criticism of the subject matter. It will also gave room for criticism, elaboration and detailed descriptions of the subject matter.

The qualitative analysis was done through content analysis. Mugenda and Mugenda (2003) observes that content analysis is a systemic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things. Analysis of data collected is was done by comparison of theoretical approaches and documentations cited in the literature review.

3.5 Summary of the Chapter

The use of content analysis to establish characteristics necessary for alliance between financial institutions and Insurance sector in Provision of Bancassurance services was appropriate. It allowed the interviewees to give much content on the subject matter without limiting themselves to a directed or guided view. It also allowed elaboration giving insight into the process flow and how staff interacted with the alliance and how they viewed it. Factors that supported the formation of the alliance were also identified which allowed for identification of related desirable characteristics.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study was designed to determine the factors are critical in formation of strategic alliance between insurance companies and financial institutions i.e. banks as portrayed by CIC and Co-operative bank. This was mainly to establish the factors are considered in choosing strategic alliance partners such as in the above alliance .To achieve these objectives, a total of 21 out of a possible 30 gave out relevant information that was used to discuss the findings in this chapter.11 were from CIC insurance while 10 were from Co-operative bank.

4.2 Background information

The researcher sought to gather information on various aspects of the respondents' background. This was to establish years of experience and also necessity of certain skills that arose from the alliance and whether alliance success has reflected on staff through promotions.

4.2.1 Respondent's years of experience with CIC Insurance group Limited

Out of the 16 prospective respondents at CIC only 11 participated in the study. Out of these 11, nine respondents had been with CIC Insurance Company for greater than four years and were present during the alliance formation. They were therefore able to provide the relevant information regarding this study.

4.2.2 Respondent's years of experience with Co-op bank

Out of 14 prospective respondents at Co-operative Bank ltd only 10 participated in the study. Out of the 10 who participated 6 had been with the bank for greater than four years and were able to provide relevant information regarding the study.

4.3 Factors leading to alliance formation

Strategic alliances have in the past been sought for various reasons. This research sought to reveal the reasons behind strategic alliance formation between the two organizations Co-op bank and CIC Insurance. It is important to note that the two have for long been seen as industry leaders in their respective operational environments.

4.3.1 Increasing market share

It was a common opinion among respondents that market share of Co-operative bank was much larger than that of CIC Insurance Company. They observed that entering into the alliance could have largely been driven by need for CIC to access this wide customer base for its advantage. As compared to other insurance companies CIC would grow its market share significantly within a short duration. They observed that customer reach for Co-op Bank as compared to other banks was especially enhanced by services offered to SACCO customers through the FOSA'S(Front Office Sacco Account) .The banks also has a wide branch and ATM network with over 500 ATMS countrywide. Similarly the bank was relying on CIC to improve its young insurance business segment by expanding its product offerings.

Now the bank offers not just IPF as it was previously but a range of many other insurance services under bancassurance. The need for increased market share thus observed to be one of the reasons for formation.

4.3.2 Diversifying into new business

The respondents also observed that for Co-operative bank, the move to join the alliance may have come as an initiative to boost its IPF (Insurance premium financing) business. The bank had been competing alongside giants in the asset finance business such as NIC bank and Diamond trust bank .They seemed to have the upper hand with IPF as it was offered jointly with the asset financing loan facilities for which their clientele were more suited as compared to CO-OP Bank.

The competitor banks had a pool of few Indian, Somali and Arab based account holders with big businesses and factories who sought financing for new equipment.CO-OP bank which serves majorly the common mwananchi had to ward off the imbalance and improve its IPF business by ensuring they obtain the requisite expertise on all other insurance service offerings and combine it with adequate numbers which would see performance improve.

4.3.3 Acquiring a means of distribution

The respondents also noted that CIC had not established itself adequately within the market especially in the rural areas where CO-OP bank may have been represented. This included areas like Mwingi, Busia, and Malaba where it did not have offices. On the other hand the bank had mobile sites or actual branches and the staff there would be able to engage customers and provide information as well as answer queries on the

products offered. CIC would hence be able to use CO-OP bank resources to effectively distribute information on its products and give customers a representation of them at local level.

Some of the respondents however felt that this reason was skewed in favor of CIC more than CO-OP bank. They felt that the bank had taken a short cut and was trying to arm twist staff into selling insurance alongside their usual jobs which would demand a lot of time and effort. They felt their performance targets had been stretched incredibly and had no clear strategy on how to go about it as the alliance was not communicated in good time before roll out.

4.3.4 Gaining Technology

Most respondents expressed that CIC has benefitted immensely from the technological capacity that Co-operative bank holds. They cited the call center as one such example. This is because it provides a platform for customer enquiries and enables faster problem resolution which eventually raises the level of customer satisfaction. By taking advantage of the helpline CIC is able to ensure their customers' needs are attended to while making use of CO-OP bank infrastructure.

CIC on the other hand has shared with co-op bank its bancassurance platform and Bancassurance officers at the bank are able to advise customers on premium payments, due dates and insurance status as viewed directly from CIC. This provides real time data to all CIC customers when at Co-op bank. This has greatly improved customer service for the customers.

4.3.5 Reducing Operational cost

It was also observed that in order for CIC to reach a similar number of customers as it is currently doing it would have been necessary to embark on extensive advertising campaign. This would have included, roadshows, television adverts and radio adverts. If they chose to go it alone the budget would have been massive without guaranteed returns. The effectiveness of the campaign would also need an analysis and all this would have translated in costs for the organization. CIC would also have needed a huge staff pool to undertake the sales exercises.

In the alliance however respondents felt that use of already hired bank staff would reduce the costs tremendously and guarantee results as the sale of insurance was cleverly included in each bank staff performance targets. Guaranteed results at minimal costs was therefore key in influencing the decision to join the alliance.

4.3.6 Gaining competitive advantage

It was observed by the respondents that the chief reason for the formation of the alliance was also to gain competitive advantage for either of the companies within their respective industries. The micro-insurance business segment has distinguished CIC from other insurers who had previously shied away from small enterprise businesses for fear of high default in premium payments as well as a perceived low value of the business sector as compared to corporates. Some of the respondents said that CIC had taken advantage of the perceived weaknesses and the large numbers of small businesses to provide a wide array of both domestic and life insurance policies.

According to Lorange & Roos (1993) by combining efforts vis-à-vis customers, firms are able to provide a fuller range of products and maintain a stronger sales force thus being in a better position to satisfy customer needs. Das (2000) also points out that alliances are inter-firm agreements aimed at achieving competitive advantage for the partners.

4.3.7 Cheaper access to skilled labor

The respondents from co-operative bank had a common opinion that CIC benefitted immensely from having well trained and articulate staff present their product offerings to the general public. This is because Co-operative Bank frequently train and certify their staff and ensure they keep abreast with current market developments, selling skills and customer needs.

This is done for every staff at their training center in Karen. This in comparison with other financial institutions sets Co-op bank apart as the other banks limit training to particular departments such as lending officers, Risk management staff and branch managers as opposed to all staff as is the case with Co-op Bank. If CIC would have decided instead to pursue the option of sourcing its own staff from the public to carry out sales, they may not have had the relevant skills to do as effective a job as that done by the Co-op Bank staff.

4.3.8 Gaining Brand identity and Reputation

It was also observed that the alliance arose as a result of the desire to improve brand identity for CIC insurance products from their previous obscurity to a new recognizable and desirable identity.

Co-operative bank on the other hand by the year 2011 had made significant strides in ensuring it spread the word concerning its own services and products through the MD liability campaign.

In this arrangement staff were awarded for having the highest recruitment numbers for funded accounts. This saw the staff reach customers who were previously out of reach during the normal working hours of the bank. It also invoked a desire to constantly talk about the banks products even out of office such as at social events. This campaign also coupled with other government funding such the Uwezo fund for groups have seen the bank reach millions of account holders.

This had strengthened brand identity for Co-op bank and CIC was salivating at the chance to ride on this influence and wave. According to Buckle (2011) the opportunity to grow market size with a partnership presents the additional opportunity to increase awareness of the brand. If your brand awareness isn't growing then your business isn't growing. Strategic alliances allow an organization to reach a broader audience without putting in the extra time or capital.

4.4 Level of involvement of respondents in mapping out the alliance

57% of the relevant respondents at CIC felt they had been adequately engaged in alliance formation however only 30% at Co-op bank felt significantly involved in the alliance process and they were mainly from the banks Bancassurance department.

4.5 Alliance Characteristics

Majority of the respondents were not aware of any other suggested company for the alliance .There was consensus that given the similar background of service to Co-operative societies which was unique for both the firms, no competing firms name emerged. They cited the following reasons as possible validations for their choice of alliance partner

4.5.1 Financial Stability

Majority of the respondents from both companies felt that either of the companies had strong financial standing .They cited strong presence in the equity market and large capital structure as factors that were indicative of financial stability. They also drew yearly comparison of continued record of profitability for Co-operative bank and CIC.

4.5.2 Years of experience in core business

The respondents also cited years of experience as among the chief reasons for the considering the other partner as suitable for the alliance. They observed that both these firms had been in existence since the 1968 and had successfully retained their core business which was banking and Insurance. They had not only retained their core business but had managed to grow them by leaps and bounds.

Managers at both CIC and Co-op bank cited areas such as consultancy at Co-op consultancy, brokerage at Kingdom securities and commodity trading through COFEC as evidence that the bank had successfully diversified its business alongside strengthening its core functions.

CIC on the other hand had involved itself in offering a wide array of insurance services not the formerly the preserve of other insurance firms. These included Micro insurance and Co-operative insurance schemes.

4.5.3 Resilience of the firms

Respondents from both the firms agreed that their firms were reliable and would be in existence for the long haul. Respondents cited instances when Co-op bank was on the verge of collapse such as after the 1998 bombing of its Co-operative House branch which was then its main headquarter. The bank was able to turn around the loss making situation and emerge as one of the top four banks in Kenya by the year 2010. Similarly CIC was on the verge of collapse .It could not meet the minimum share capital requirements even after injection of USD 1.1 million by grant from the international cooperative and mutual insurance federation.

However in 1999 it developed its first comprehensive 5 year strategic plan and relaunched itself under a different trade name to Co-operative Insurance Company limited and begun to experience transformation. Ten years later in 2009 it was able to begin trading at the stock market after confidence had been fully restored in its financial abilities. Respondents therefore noted that the ability of both the firms to emerge victors in averse economic situations was key in creating confidence in either firms' ability to sustain an alliance

4.5.4 Mutual trust

Respondents were also in agreement that a great degree of trust in an alliance partner is necessary for an alliance to be effective. This is because a great number of activities occurs in the absence of the other partner and therefore compliance with the alliance

arrangement cannot be forced on either party. Similarly the intent of either party can only be presumed to be sincere and there's always the fear of being driven out of business or losing face when it comes to an alliance. Respondents however said the trust arose largely from the confidence that Co-operative societies have placed on both firms and the fact that a large number of financial dealings occurred between co-operative societies and either of the firms.

This means a large part of the trust arose from the commonality they have with a trusted financial client, according to Johnson et al (2005) trust is an important ingredient for success if present and a major ingredient for failure if absent. It can be competence based or character based. Competence based to the extent of confidence in resources and capabilities of the partner and character based to the extent of trust in motives and comparable attitudes of integrity, openness, discretion and consistency of behavior.

4.5.5 Knowledge and resource capabilities

The respondents both agreed that the resource capabilities of either firms were satisfactory. The firms both had a large capital base and strong market presence. Both these firms also had skilled professionals drawn from the industry and whose talents were coveted by competitors. This comprised aggressive sales officers, business development officers, IT personnel just to name a few. They observed that both companies also boast of wide network reach though co-operative bank is further boosted by its ATM network, mobile sites and agent networks. The presence of both companies in the stock market also seems to boost the view that the companies' liquidity positions are favorable for financial consideration in business transaction.

4.5.6 Common customer base and similar nature of products and services

It was observed throughout the study that there was continuous mention of the commonality of both firms in serving the Co-operative societies sector. This was interpreted by the respondents to mean that there was commonality of purpose and even strategy. This commonness they observed, also had created several platforms in the past where CIC and Co-op bank employees had interacted severally and compared notes even before the alliance. These forums included the Ushirika day for Co-operative societies where both the firms were represented annually and similar meetings at county levels where interest of Co-operative societies was at the core. They felt that the common client base was a major contributing factor to the partners overall appeal for alliance consideration.

The nature of services offered to the CIC and Co-op bank customers were also complementary in nature. The respondents felt that the products or services were not competing against each other. They believed that this contributed largely to the heightened level of trust between the two firms. Each firm viewed the other as providing an additional service to its core business.

4.5.7 Similar strategic Direction

The respondents felt that both organizations had strategically aligned themselves to improve financial service provision to SACCOS and their members as well as improve market share and ensure wide reach of their product offerings. This similarity in strategies was therefore highlighted as key to fostering an alliance between the two organizations**.**

4.6 Alliance Implementation

The respondents here were expected to describe the preparations they involved themselves and respective departments in and the overall impact the alliance had on their respective firms**.** The necessary adjustments to roles were also discussed at this point

4.6.1 Preparational Changes

Respondents noted constant training as one of the preparations for the alliance. There were also technological modifications to their systems to create a platform for enquiry of customer information that was similar both for the bank and the insurance company. There was also requirement for managers to meet regularly with their teams for update on progress of preparations and to cite emerging challenges as they arose.

4.6.2 Resulting impact on the organization performance.

Respondents observed that in the year 2012, CIC posted a rise in profits by 110% from 787 million in the year ended 2011 to 1.67 billion in 2012.This was attributed to rise in investment income and improved premium income. Both of these were a direct effect of entering into strategic partnership with the bank.

Co-operative bank on the other hand experienced an increase in its non-funded income from a loss of 148,145,000 in 2011 to a profit of 416,529,000 by end of year 2012.This saw profitability rise from 5.3 billion to 7.7 billion which was equivalent to a 46% rise. Some respondents however noted attitude changes among their peers and staff under them.

Staff at Co-operative bank reported discontent among junior staff who had been tasked with pushing insurance products sales alongside normal business performance targets. They felt ill prepared and over worked as they were unable to confidently approach the customers at the respective branch without referring to the designated bancassurance officer at the branch or call Centre.

Some of the management felt it was an attempt to keep check on employee rising cost by issuing stretched targets to ensure lower bonus pay-out in 2013.They continued to cite stretched targets and low employee morale as resulting directly from the alliance. Respondents from CIC were however more satisfied as they said the alliance made their products more recognizable in the market and approaching customers had become slightly easier than before. Most managers observed that there was improved staff morale and increased customer confidence in their products.

4.6.3 Role Adjustments

The respondents observed that there was a reshuffle of the Board of directors at CIC Insurance to include a representative from co-operative bank. The cited it as a statutory requirement but also observed that it served to raise the level of trust among both alliance partners. Co-op bank via the company secretary Mrs. Githaiga was able to listen in, participate and to know what the other party was up to.

The marketing department at Co-op bank was also tasked with ensuring branding and marketing tools were available and this included hiring direct sales staff whose sole responsibility was to promote bancassurance at the various branches. At CIC there was created a liaison position for the domestic and life insurance segment who would

act as the go between on these issues between the two firms. At Co-operative bank there was created a Banc-assurance department under retail banking and staff with appropriate expertise were sought to head the department.

4.7 Alliance Implications

Here respondents discussed the general implications of the alliance on their overall opinion of their firms and the partner firms.

4.7.1 Opinion of respondents on the alliance and its sustainability.

Most of the respondents felt that as a result of the alliance they were more confident of the stability of their respective firms. They did not envision an end to it in the next decade and observed that there was likelihood of engaging in similar alliances.

4.8. Challenges of the alliance

The alliance has largely been successful but it does come with a few challenges both inherent within the participating organizations and arising out of the alliance itself.

4.8.1. Staff Indifference to implementation

Respondents at Co-operative bank observed that the introduction of bancassurance was not received very well by lower cadre staff (unionisable) who had been tasked with ensuring they sold the product. This had been incorporated into their balanced score card and would affect each individuals overall yearly performance. Staff felt that they had not been equipped with prior knowledge of the products and were not involved in the launch and that the decision was rushed.

This was especially so when bancassurance sales moved from being the preserve of the direct sales staff at the branches to all branch staff. Staff therefore did not take complete ownership of the bacassurance products as expected. At CIC however the news was received differently with most staff welcoming the decision since it would enable their brand name become more recognizable and trusted and hence making it easier to sell. Some CIC staff however noted with concern that the alliance with an established firm like the bank may lead to its eventual swallowing up and that the firm was at a risk of completely losing its identity. Managers also felt that some of their views had not been incorporated in preparing for the alliance

4.8.2 Harmonizing organizational culture

Various organizations put in a considerable amount of time and resources to ensuring that staff acquire certain traits or way of conducting themselves that is in line with the company's mission, vision and corporate values. This is to enable them portray the corporate image of the organization positively. For both CIC and Co-op bank respondents this was the case. There was considerable effort put towards ensuring staff acquired certain values such as Executing at speed, Doing things right the first time, Growing talents and improving capabilities, Treating the customer as the king, Empathy when serving clients amongst many other values.

In both CIC and Co-op bank there was concern that there had never been any deliberate attempt to merge these values or incorporate one another's value systems. This essentially means that staff from either firms interprets their goals and insurance targets as per their own firms culture and expectations which may not be at par.

This they felt was especially the case for Co-op bank staff who dealt with both bank and CIC products therefore were prone to downplaying CIC sales. CIC staff on the other hand felt they were not exposed to Co-op Bank values and systems yet they dealt with Co-op bank customers regularly and were expected to portray similar image with those of bank staff. This was especially so since compared to their counterparts in Co-op bank, they did not receive regular training on customer service and corporate image.

4.8.3 Accommodating dynamic emerging needs for the alliance partners

The respondents also observed that organizations were dynamic and needed to be responsive to customer needs. They also needed to be responsive to environmental changes. Both organizations had been subjected to various regulatory changes that required adjustment of their core business in a way that possibly will affect the alliance. They observed that change in CBK base lending rate and introduction of requirement for the bank to expose all lending rate charges had resulted in a reduction in growth of loan book yet majority of the CIC insurance product uptake were dependent on this.

4.8.4 Sustaining a Mutually Beneficial Alliance

Respondents also pointed out that the alliance seemed to majorly benefit CIC insurance since it had the most impact on their financial performance between the years 2012 and 2013.There was concern over the ability for the alliance to result in sustainable meaningful benefit for Co-op bank over the duration of the alliance.

Respondents were in agreement that co-op bank had committed its staff to the cause of the project at the expense of staff morale and that CIC had largely benefitted from this arrangement. They felt there was need to renegotiate the terms of the alliance in the light of these recent observations to ensure benefits accrue favorably to both the parties.

4.9 Discussion of results

The study revealed the reasons for formation of the alliance, the characteristics necessary for an organization to be considered favorable for strategic alliance and the challenges experienced within an alliance.

4.9.1 Comparison to theory

The objective of this study was to determine the factors that are critical in formation of strategic alliance between insurance companies and financial institutions as is the case with CIC and Co-operative bank ltd. Results indicate that mutual trust is key in ensuring the success of an alliance. According to Barney (2007) Firms entering into strategic alliances continue in them as long as their partners behave in a trustworthy manner. He also observes that successful alliance partners typically do not specify all the terms and conditions in their relationship in a legal contract.

They instead involved a willingness to be flexible, trust and willingness to learn from the alliance in order to develop in ways not anticipated by their partners. Similarly Griffins and Pustay (2003) observe that a firm should select a partner that it can trust and with whom it can work effectively. Without mutual trust an alliance is unlikely to succeed

The study also revealed that a firms resource and knowledge capabilities were vital in selection of appropriate partners for a successful alliance. An alliance is likely to succeed if partners have skills and resource capabilities that complement one another. According to Doz and Hamel(1998)if partners sense keenly the limits of their own resources and are possessed by an ambition that stretches beyond their own resources they are driven to leverage their alliances effectively and will strive to get the most from them. According to Gamble et al (2007) alliances between strong and weak companies rarely work because the alliance is unlikely to provide the strong partner with useful resources or skills and hence there's a greater chance of the alliance producing mediocre results.

The nature of services or products offered also emerged as key to ensuring successful alliances. The products and services offered by the partnering firms should be complementary in nature so as not to compete with each other. This is further supported by Griffin and Pustay (2003) who observes that firms should ally themselves with a partner whose products and services are not directly competitive with its own. Wortzel and Wortzel (1997) observes that Firms that bring in complementary skills to the alliance may find that the alliance generates numerous opportunities to blend and mix technologies from different and existing competence and skill sets to create entirely new skills.

It also emerged from the study that financial stability, years of experience and resilience are also valuable considerations for alliance partner selection. This is majorly because these three areas speak to the firms understanding of its core competence and skills.

According to Wortzel and Wortzel (1997) Competence, skill and discipline enhancement depend upon a corporate perspective of learning that is deeply entrenched throughout the firms many activities. They further observes that the single most important step that managers must take to better understand how alliances relate to building competitive advantage is to define and understand their own core competencies and skills. This can be obtained by years of experience in nurturing an organizations own set of distinctive skills and competencies

From the study it also emerged that keeping alliance personnel long term aided continued alliance success. Wortzel and wortzel observes that each time managers are replaced the alliance loses a critical opportunity to form a mass of knowledge and the alliances day-to-day operations effectively becomes renegotiated at the expense of the firm and to the partner's benefit. Therefore it is critical for managers and key staff to be supported by partnering firms in the alliance to ensure uninterrupted learning and observation continue.

From the study it also emerged that culture is key to creating a successful alliance. Organizations therefore need to take a considerable amount of effort to ensure that partnering firms create a sense of uniformity or congruence in cultural setting. This is further supported by Doz and Hamel (1998) who observe that corporate values and the extent to which employees are encouraged to balance co-operation and competition strongly influence alliance outcomes.

If the culture supports a mix of collaboration and competitiveness, employees are encouraged to be imaginative and creative in how they create value and if they feel comfortable in making their commitments and delivering on them, the preconditions for success will have been met.

From the study similarity in strategic direction was also mentioned as a consideration to further support choice of strategic partner. Wortzel and Wortzel supports this view and states that partner screening at the alliance planning stage tests for strategic compatibility by analyzing a potential partners motivation and ability to live up to its commitment .Lorange and Roos (1998) observe that in a successful alliance relationship both parties must have strategic intents that are reconcilable, this match should be quite explicitly stated and established earlier on.

The study also confirmed that organizational culture, level of staff involvement, monitoring of emerging partner needs and sustaining a mutually beneficial alliance continue to be some of the major challenges experienced in alliances. Griffin and Pustay (2003) observes that changing circumstances affect viability of a strategic alliance. The economic conditions that necessitated the alliance may no longer exist or the technological capacity once considered superior may now be obsolete. Adjustments should therefore be made to accommodate changing market conditions in order to establish an effective working relationship. This may influence the attitude of partners in the alliance negatively and cause parties to withdraw. Gamble et al (2007) observes that many alliances fail because one or both partners are unhappy with what they are learning.

Also if either of the partners withholds information and tries to take advantage of the other then the alliance ceases to be mutually beneficial. Organizational culture may also have an impact on motivation of employees which overall may affect productivity and therefore alliance performance.

4.9.2 Comparison to other empirical studies

The objective of the study was to determine factors that are critical in formation of strategic alliances between insurance companies and financial institutions as portrayed by CIC and Co-operative bank of Kenya. Results indicate that financial stability, level of experience and firm resilience spoke to the ability of the firm to understand its core competencies. The understanding of core competencies and skills was therefore cited as a characteristic which an organization should possess prior to entering an alliance. Mutual trust was also cited as largely impacting the nature of the alliance and opinion of the alliance. Firms entering into an alliance are therefore expected to be highly trustworthy. Knowledge and resource capabilities common customer and product base and similarity in strategic direction were also identified as key considerations for a strategic alliance.

The study also cited level of staff involvement in strategy implementation and organizational culture compatibility as other factors that needed to be considered before venturing into an alliance. The findings support Ogega (2010) who analyzed both challenges of alliances and reasons for alliance formation. He identified resource compatibility, strategic compatibility and harmonized culture as crucial for the success of an alliance.

In addition he emphasized that mutual trust, clear performance measures and coordinated commitment would enable a positive cost benefit analysis for alliance partners. He also suggested that open communication would have the effect of motivating staff and ensuring they feel part of the process and hence was a suggested solution to staff indifference to alliances.

4.10 Summary of the Chapter

The study was able to identify good resource and knowledge capabilities, similarity in nature of services and products, financial stability, similarity in strategic direction, similarity of organizational culture, high level of staff involvement as key sources for success in the alliance. It can also be deduced from the findings that understanding of an organisations core business and success in it is also necessary to ensure it's not diluted as the alliance progresses. Organisations are also to periodically review the needs of the alliance partners in order to accommodate emerging or dynamic needs and in order to sustain a mutually beneficial alliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introductions

This chapter presents a summary of key findings highlighted and recommendations made thereto. The conclusions and recommendations made are done in order to establish the characteristics necessary for an organization to be considered favorable for strategic alliance

5.2 Summary

The study established that CIC was facing challenges with marketing its insurance products and did not have good market reach as it was limited by its minimal number of branches. Similarly Co-operative bank was struggling to introduce its insurance products to the public and had only one product to offer which was IPF or Insurance Premium Financing which had not been well received by the public. Given the adverse conditions the organizations were facing they resorted to forging an alliance in order for either of them to ensure they drive their respective business interests. The study was able to establish that the alliance was driven by a number of factors.

There was need for CIC to increase its market presence by ensuring a wide reach .The alliance therefore enabled CIC to increase its share in the country and register its presence nationally. For CIC the alliance was also a move to acquire a means of distribution for its products by taking advantage of wide branch network of Co-operative bank and the superior technological applications of the bank. This included the internet banking platform for enquiries and delivery of instruction, the call center for clarification and marketing through its telesales department.

For Co-operative bank it was largely to diversify into new business thereby ensuring minimization of risks associated with startup insurance ventures. For both the organizations there was need for significant reduction of costs. This would be achieved as there would be resource sharing and higher productivity for the staff at the organizations.

For both organizations there was intent to gain and sustain competitive advantage that would result in capturing a wide market, creating trust in insurance therefore creating loyalty. For CIC there was the privilege of gaining access to highly skilled labour at minimal cost implications. They were able to involve highly qualified financial team in marketing and driving sales of insurance policies at all the bank's branches. Gaining of brand identity and reputation was a key consideration in forming the alliance. There was need for both organizations to create familiarity between the general public and their insurance product offerings.

The study was able to determine that for CIC management there was reasonable engagement for purposes of alliance preparation and this resulted in a positive perception of the alliance while in Co-op bank it emerged that managers did not feel reasonably engaged and that lower level staff are yet to take good ownership of the product for purposes of marketing. They also did not bear the adequate knowledge on the product offerings and relied on designated staff to give full details to customers when needed. The study was able to identify key considerations for prospective alliance partners.

The study identified financial stability as a key consideration and this was examined in the context of sustained profitability and good capital base. For both organizations respondents felt that they met the threshold of financial stable companies given their history of profitability. Years of experience in core business was also a driving factor. There was confidence for either of the organizations in its partner's ability to emerge leader in the area of their core business. Success in an organization's core business was interpreted to mean ability to formulate and implement strategies for the long term good of the organization.

There was also reference to the ability of the organizations to emerge victorious out of difficult situations. The study therefore identified resilience a one characteristic that was common to both organizations and was therefore crucial in partner consideration. It was interpreted to mean the partner would go for the long haul and not bail out when a slight problem arises. Mutual trust was also identified as key by both organisations.

There was major consensus that trust was a critical consideration for alliance success. This is because not all terms and conditions of an alliance are stated or become apparent at the start of the alliance. Partners may develop a need to alter the terms and conditions of the alliance over time. The move should not be interpreted insincerely by the other partner hence there's need for a great deal of trust. The extent of exposure of organizations resources and threat of cheating also constantly hung over the alliance hence each partner had to seek constant approval through clear communication and ensure openness. It also emerged from the study that knowledge and resource capabilities were crucial in forming successful alliance.

Large capital base and knowledgeable staff and skilled personnel were key considerations for CIC while Co-operative bank relied on in depth knowledge of the insurance industry as shown by CIC. The nature of product and services offered was also cited as a crucial consideration. The respondents felt that the products offered by their respective organization were complementary in nature rather than competitive. The similarity in targeted customer base was also helpful since merging of their respective databases was eased. This was especially so with the SACCOS.

It was also observed that their strategic direction was similar. They both wanted to register a nationwide presence and create customer loyalty as one of their key strategies. They also both were intent on capturing the co-operative societies with their product offerings and making them the organization of choice for co-operative societies. Similarity in strategic direction was thus also key among considerations for the alliance.

The study was also able to determine some of the challenges faced by an alliance. The challenges include staff indifference to an alliance where the alliance receives minimal effort especially from the managers in implementation. Harmonization of organizational culture was also cited as a challenge where different employees previously guided by separate mission, vision and objectives are expected to have a unified positive approach in order to meet alliance objectives. The needs of the alliance partners were also observed to be quite dynamic and there was a major challenge in trying to accommodate these emerging needs.

There was also the problem of ensuring that the alliance is creating mutually sustainable benefits for both the partners. Some respondents felt that the alliance may have been skewed in the other partners favour. The challenge was therefore to ensure benefits accrued to both the parties.

5.3 Conclusion

From the study it can be concluded that partner selection is a crucial stage in alliance formation and largely determines the process and outcome of alliance relationship. The objective of the study was to determine the factors that are critical in formation of strategic alliance between insurance companies and financial institutions as portrayed by CIC and Co-operative bank. The keys factors obtained from the study are financial stability, Years of experience in core business, Resilience of the firm, mutual trust, Good knowledge and resource capabilities, common customer base and complementarity in nature of products offered. The study was also able to establish additional considerations drawn from the challenges of the alliance. This includes the ability of the resulting alliance to accommodate dynamic emerging needs and sustain a mutually beneficial relationship.

5.4 Recommendation

From the discussions in this chapter the researcher recommends that Co-operative bank of Kenya should review the terms of its engagement with CIC Insurance Company with a view to increasing its beneficial percentage stake .This is due to the revelation that benefits from the alliance may be accruing largely to CIC at the expense of Staff morale and Resources at Co-operative Bank.

Alternatively, the bank should embark on a sensitization and attitude change training to encourage staff to market insurance products and therefore improve performance of the products in the market. CIC should also research on the impact of the several alliances it has engaged in with other stakeholders against the resultant benefits as the arrangements may affect their core business and dilute organizational culture at CIC.

5.5 Limitation of the study

The main limitation in information provision was time of employment. Some of the respondents were recent entrants and information provided was mainly hearsay as opposed to experiential. The longer serving staff were more informed and gave better accounts of the happenings before and immediately after the alliance.

5.6 Suggestion for further research

The study restricted itself to the characteristics of alliance partners that enable them to create successful alliances. Enough study has however not been focused on the measurement of alliance success especially with regards to bancassurance .This is because there has been a duplication of similar alliances in the insurance industry yet according to theory, alliances draw their benefit from being unique and unimitable.

5.7 Implication of the study on policy, theory and practice

This study guides policy makers by providing a detailed description of factors to be taken into consideration before entering into an alliance. It guides the partner selection process by providing likely suitable characteristics for a good partner in a successful alliance. It also gives an insight into the challenges and the effect that the alliance may have on staff morale.

It also examines the key preparational changes that may be necessitated and thus gives organisations an idea of what to prioritize in similar arrangements. The reasons for entering into an alliance are also uncovered. Strategic alliances are huge ventures and thus effective guidance goes a long way in ensuring organizational preparedness.

The study confirms that the reason why firms enter into strategic alliances is to increase market share, diversify into new business, acquire a means of distribution, gain technology, reduce operational cost, access cheap labour and gain brand identity and improve reputation. According to Buckley and Casson(1988) strategic alliances facilitate interfirm learning with successful ones creating synergy and enhancing economic rents to their partners as a result of risk reduction, economies of scale and scope, production and rationalization, convergence of technologies and better local acceptance. The study therefore agrees with theoretical finding from strategic research.

Going forward organisations pursuing alliances should endeavor to develop their own internal competencies first and strengthen their core businesses in order to seek to be attractive to potential alliance partners should such a strategic need arise. They should examine prospective partners for traits such as mutual trust, complementarity of product/service offerings and financial stability and ensure that both their strategic directions are aligned in line with their organizational structures. The findings of this study have therefore provided evidence of theories advanced by strategists concerning suitable characteristics of prospective alliance partners.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

University of Nairobi

School of Business

P.O BOX 30197

NAIROBI

8/9/2015

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a master's student at University of Nairobi, School of business. In order to fulfil the master's program requirements, I am undertaking a strategic management research project on "Strategic alliance and performance of CIC Insurance co. Limited and Co-operative Bank of Kenya Limited. "Your organization has therefore been selected to form part of the study. I kindly request you to assist me collect data by allowing me to interview you briefly. The information provided will be used exclusively for academic purposes and will be held in strict confidence. Thank you**.**

Yours Faithfully,

MERCY A OMOLLO

DR.JOHN YABS

STUDENT

SUPERVISOR

Appendix II: Interview Guide

Background Information

1. What company do you work for?
2. What is your position in the organization and department?
3. Prior to joining your organization have you worked anywhere else and in what position?
4. How long have you held your current position?

Alliance formation

5. What in your opinion necessitated an alliance between the two companies?
6. In your opinion did the organization seek your active involvement in mapping out the alliance and how?

Alliance Characteristics

7. Were there any alternative companies proposed as alternatives for the alliance and if so, why were they disqualified?
8. In your opinion why Co-op Bank/CIC was finally selected as an alliance partner?
9. In your opinion, what other possible reasons have led to the success of the alliance relationship between the two organizations?

Alliance Implementation

10. What changes did the alliance necessitate to prepare for its occurrence in your department?
11. What changes have been observed in performance of the organization since implementing the alliance?
12. How has your role been altered since the alliance begun?

Alliance Implications

13. Do you consider the alliance a strong and stable one, if yes why?
14. How does your organization benefit from the alliance and do you feel it is proportionate?
15. Do you think the relationship is sustainable in the long run and why?
16. Is your organization considering involving itself in other alliances after this and what is the motivation for it?
17. What are the challenges you have experienced in the alliance?

Thank you for participating.