# STRATEGIC PARTNERSHIP AND COMPETITIVE ADVANTAGE: THE EXPERIENCE OF COMMERCIAL BANK OF AFRICA (K) LTD & FINTECH FIRMS

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# DECLARATION

I hereby declare that this project is my original work and has never been submitted in any other university or institution of learning for a degree or any other award.

Signature……………………………………Date…………………………………..........

Moses Okelo Nyamwango

D61/63762/2011

This project has been submitted for examination with my approval as the University Supervisor.

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I thank God for seeing me through this project.

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To my family, friends and colleagues for encouragement and support.

# DEDICATION

To the Almighty God for his amazing grace.

To my dear family Dephine, Martin, Mildred, Mum and Dad.

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# ABBREVIATIONS AND ACRONYMS

**CBK:** Central Bank of Kenya

**CBA**: Commercial Bank of Africa

**KBA**: Kenya Bankers Association

**KCB**: Kenya Commercial Bank

**FinTech**: Finance and Technology

**The bank**: Commercial Bank of Africa (Kenya) Limited

**SME:** Small and Medium Scale Enterprises

**M-pesa:** Mobile Phone Based Money Transfer Services

**Mshwari**: Micro- Savings and lending product for M-pesa customers

**SWOT:** Strength Weaknesses Opportunity and Threats

**ICT**: Information and Communication Technology

**ROI** : Return on Investment

**ROE**: Return of Equity

**ROA**: Return on Assets

**ATM** : Automated Teller Machine

**USAID**: United States Agency for International Development

# ABSTRACT

This era of dynamic innovations steered by technology and changing customer needs require organizations to be on top of the game in aligning organizations to take advantage of the opportunities that emerge with the changes. At the same time, there is a greater need to assess capabilities and identify ways of leveraging on resources which can be availed in the marketplace. This is true for both goods and services industries because they meet almost similar conditions in the business environment. The public sector and development agencies as well, operate in a dynamic environment necessitating focus on leveraging on private sector resources and capabilities to manage scarce resource against the increasing national and global social economic needs. Strategy remains the vehicle that helps organizations to navigate the changing environment. Strategic partnership is one of those strategies that support organizations to remain sustainable and globally competitive. The traditional business to business partnerships have seen emergence of public private partnerships outside the domain of partnerships for infrastructure. The emerging public private partnerships have wider range of stakeholders covering a wider scope of sectors to address the challenges brought about by social economic factors. The arrangements for business to business partnerships are driven by the need to maximize returns to shareholders while the development driven partnerships have the objective of providing innovative solutions to social economic needs. descriptive research design that entailed the use of primary data through interview guide adminstered was used. Managers interviewed were from commercial bank of Africa (Kenya) limited. These included managers who manage the partnership relationships and managers whose departments are directly affected by the partnerships with Fintech firms. The collected data was analysed by use of content analysis technique. This technique brings out the salient issues that make strategic partnerships work and how the concept of strategic partnership relates with competitive advantage. The study findings established that strategic partnerships between commercial bank of Africa (Kenya) limited and Fintech firms leads to a competitive advantage. The findings further established that partnerships enhance new customer acquisition through creation of digital banking solution. The study findings revealed that strategic partnership between banks and Fintech firms has led to the bank experiencing competitive advantage in the areas of market share, revenue growth, operational efficiency and better customer relationship management. In addition the study findings demonstrated that product development through strategic partnership between the bank and Fintech firms has spurred innovation in the bank and strengthened the brand position of the bank within the financial service sector. This study therefore concludes that strategic partnership can give banks competetive advantage and as such bank should consisder partnership with Fintechs. The study provides more empirical information about strategic partnerships with fintech firms and how they relate to competitive advantage.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In the last decade the world economy has experienced dramatic changes. There has been a range of political and economic reforms, deregulation of financial markets and technological advances in the financial service sector. Within this framework, financial technological advances have contributed to changing business environment and business models of different firms in various sector (Paul &Takac, 1992). To be able to compete in current market environment, firms in financial sector have adopted strategic partnerships as an effective way of enhancing commercial banks competitive advantage (Gichuhi, 2011).

The field of strategic partnership is dominated by different theories such as transaction cost theory, resource dependency theory, organizational learning theory, knowledge based theory, strategic positioning theory, and institutional theory (Nielsen, 2003). Of these, the relationship between strategic partnership and competitive advantage has mostly been studied through resource based theory and knowledge based view. Resource based view and knowledge based view have mostly been used as they provide a complete understanding of strategic partners motivations and strategic partnership benefits unlike other theories that only focus on benefits (Jiang, 2011).

Over the past few years, banks in Kenya have faced increased competition in the financial service industry. Strategic partnerships with other firms has emerged as a way for banks in Kenya to deal with the contemporary market forces of competition. Commercial banks in Kenya have developed partnerships with FinTech firms as a way of gaining competitive advantage.

Commercial bank of Africa and Equity bank and KCB have been recognized as among the first banks to develop Strategic partnerships with Fintech firms (KBA, 2017). Two models of strategic partnerships between banks and FinTech firms have emerged in Kenya, with one type involving banks engaging directly with FinTech firms while the other type entail banks engaging indirectly with FinTech firms through the bank's FinTech firm arm. Commercial bank of Africa adopted the first model while Equity bank adopted the second model where the bank has a separate FinTech arm called Finserve Ltd within Equity bank and through which it collaborate with other FinTechs (Equity bank press release, 2015).

### 1.1.1. Strategic Partnerships

Strategic partnerships, also referred to as coalitions, collaborations or strategic alliances are among those strategies that organizations can adopt so as to achieve a competitive advantage. Porter (1985) describes partnerships as a way through which organizations enhance their scope through working with other firms thus enhancing the value proposition of such firms. Ulijn et al. (2010) states that strategic alliance is a state where two or more companies collaborate in specific activities but remain independent. The success of strategic partnerships can hence be said to be about capabilities and resources for competitiveness. It is necessitated by the need for an organization to achieve its goals while leveraging on resources of another organization.

Strategic partnerships can take different forms depending on the circumstances an organization is facing. A strategic partnership can be seen as a long-term partnership or short-term partnership. Long-term partnerships aims at achieving organization goals in long run while short term partnership is focused on specific project achievements in short term (Czechowska, 2013). It can be a partnership of strong partners who are direct competitors, partnership between strong and weak partners.

Strategic partnerships has attracted significant interest in both the academia and organizational practices sphere and through this it has acquired its importance in achievement of strategic goals (Puranam et al., 2009). Nadler & Tushman (1997) argue that at the front and the back end of the organization where there are those processes involving customers and basic technologies, there has been increasing interest in reinforcing and expanding the organizations competitive efforts. This can be done through joint ventures and strategic alliances particularly in industries and professional sectors that are going through fundamental changes mainly in telecommunications, health care and financial services where companies are searching for ways to limit their exposure while testing the waters of new markets and technologies (Nadler &Tushman ,1997).

### 1.1.2 Competitive Advantage

Competitive advantage refers to how effectively and efficiently an organization delivers similar products offered by other organizations in the marketplace. A competitive advantage happens as a result of firm's ability to offer similar products like the competitors but at lower costs and high value composition. Porter's (2004) concept of competitive advantage includes creation of value through provision of products at prices that include profits for the firm.

A firm can derive competitive advantage from different sources, which can broadly range from superior skills and positional advantage. Superior skills relates to the capability to the firm to perform better that its rivals. In most cases superior skill relates to the unique capabilities of personnel that set them apart from those of competing firms. In addition, superior skills also entail business location, resources, scale of operations and business marketing structures. Superior skills and superior resources lead to positional advantage in costs, values and market performance (Akpotu, 2016).

Evidence suggests that complementary form of strategic partnerships have the greatest potential to create sustainable competitive advantage. Strategic partnership geared at enhancing the competitive advantage of firms must therefore take the form of complimenting the business. Firms have the option of also adoption supplementary forms of partnership. However, these forms of partnership do not offer great benefits as the complimentary forms of partnership which can take the form of both vertical and horizontal) strategic partnerships. Complimentary forms of partnership are known to offer more benefits as they are concerned with value creation and strengthening the market position of a firm (Ndungu, 2016). Collaboration strategies can reduce entry barriers and improve market competition. Although debate still exists as to whether strategic partnership can result into competitive advantages, proponents of strategic partnership argue that for it to result to competitive advantage firms must follow a clear process from strategic conception to termination (Saci & Jasimuddin, 2017).

### 1.1.3 Partnerships between Commercial Bank of Africa (Kenya) Limited and FinTech firms

FinTech stands for Finance and Technology and can broadly be defined as the "use of technology to deliver financial solutions" (Arner et al., 2016). The rise of FinTechs has drawn significant attention to the financial services industry, where it was once seen as holding great potential in disruption of financial services industry. Although the rise of FinTechs was seen as threat to banks. It has instead led to a mutual co-existence of banks and FinTech firms, with FinTechs revered for their innovation and banks for continuity and market development. (Bussman, 2017). Typically, FinTechs have the advantage relating to use of digital technologies to deliver financial services previously provided through traditional banking model (Eickhoff & Weinrich, 2017).

Commercial Bank of Africa (Kenya) Ltd is one of the financial service providers regulated by the central bank of Kenya. It has been in existence for over 50 years (CBA, 2017). Commercial Bank of Africa (Kenya) operates in a sector that has 44 banking institutions; 8 representatives offices of foreign banks; 9 microfinance banks; 2 credit reference bureaus; 13 money remittance providers and 87 Forex Exchange Bureaus (CBK, 2017). Despite the challenging environment that commercial bank of Africa operates in, it has evolved over time to develop a reputation as the go-to provider for corporate banking and high net-worth private clients (CBA, 2017).

Commercial bank of Africa (Kenya) limited has taken advantage of the technological advancement within the banking sector in Kenya and established strategic partnerships with a wide range of FinTech firms such as Safaricom mpesa, Oracle, Snap,E-cap ,Kenswitch and Strands. This is in an effort to achieve a competitive advantage by retaining its customer base and increase its market share. The partnerships has led to the development of new products such as Mshwari- a mobile banking loan, and development of new services to its customers. This study seeks to understand the impact that the strategic partnership between commercial bank of Africa and FinTech firms has had on the competitive advantage of Commercial bank of Africa (Kenya) limited. Particular focus will be on innovation, product development, service quality, consumer responsiveness, turnaround time and operational performance that has been achieved as a result of the strategic partnership between Commercial bank of Africa and FinTech firms.

## 1.2 Research Problem

Strategic partnership as a strategy for competitive advantage has become monumental as organizations scramble for survival to reduce costs and be stronger in order to compete (Ulijn, 2010). Strategic partnerships between banks and FinTech firms is motivated by a number of factors such as the circumstances surrounding an organization seeking the partnership among others. For banks, the driving motivation for a strategic partnership is premised on performance and competitive advantage while for FinTech firms collaborating with banks, acquisition of customer base and resources are the main benefits that drive their collaboration (Klus et al., 2018).

The adoption of strategic partnerships with FinTech firms as a way of gaining competitive advantage has not been a preserve of commercial banks in developed countries, locally in Kenya, commercial banks are quickly embracing strategic partnerships with FinTech firms. Although the strategic partnership is being adopted in the banking industry, Tier 1 and Tier 2 banks have led in the adoption of the partnership with FinTechs (Equity bank press release, 2015). Commercial bank-Fintech partnership in Kenya has been led by Tier 1 banks, particularly Equity bank and commercial bank of Africa that are among the first bank to recognize this form of strategic partnership as a key strategic priorities. However, despite the adoption of strategic partnerships between commercial banks and FinTech firms, little has been done to explore its impact on the competitive advantage of commercial banks.

Reviewed literature indicates that studies have been conducted on the relationship between strategic partnerships between commercial banks and FinTech firms and the competitive advantage that banks drive from such partnerships. Globally, Klus et al., (2018) conducted a qualitative study on economic impact of strategic partnership between banks and FinTechs in Germany. A sample of 19 banks that had announced an alliance with 29 FinTech firms was identified for interview. The study showed that strategic partnership between banks and FinTechs increases the value of banks. The study was however limited to only economic benefits and failed to explore non-financial benefits arising from the strategic partnerships between banks and FinTech firms.

Eidt (2012) also did across-sectional survey whose aim was to assess the competitive advantage associated with strategic partnership between industrial firms and commercial banks in china. The study found that industrial firms-commercial banks partnership offers banks increased customer base. The study focus was on strategic partnership between banks and industrial firms thus leaving out FinTech firms. Akpotu (2016) also did a cross-sectional study to investigate effects of strategic partnerships between banks and telecommunication firms on competitive advantage among banks in Nigeria. The study revealed that strategic partnerships leads to improved operational performance of banks. However, the study focused on strategic partnership between banks and telecommunication firms leaving out FinTech firms. Stürzebecher & Petersson (2015) investigated the benefits of strategic partnership between banks and developers in Sweden through a qualitative study. The study demonstrated that strategic partnership between banks and developers results in improved revenue for banks. The study focus was on bank and developer’s partnership and not banks-FinTech partnership.

Locally in Kenya, case studies by Kangogo (2016) and Muiruri (2015) on strategic partnership and competitiveness of banks in Kenya with focus on Kenya Commercial bank and Equity bank respectively were carried out. The studies concluded that strategic partnerships gives banks competitive advantages. However, both studies were limited to strategic partnership between banks and telecommunication companies leaving out partnerships with FinTech firms.

Moreover, Onje & Oloko (2017) also carried out a descriptive study on effects of strategic partnership between commercial banks and developers on competitive advantage in Kenya. The studies revealed that strategic partnership between banks and developers affected the financial performance of banks positively. The study delved on strategic partnership between banks and developers and leaving out FinTech firms. Additionally, Matokho and Anyieni (2018) also carried out a cross-sectional study on strategic partnerships and performance of listed commercial banks in Kenya. The study showed that strategic partnership affect the performance of listed banks positively. However, the study was limited to partnership between commercial banks and telecommunication companies in Kenya and excluded FinTech firms.

Although the aforementioned studies brings out the relationship between strategic partnership and competitive advantage, none seems to target the relationship between competitive advantage and banks-FinTech firms partnerships. The partnerships explored in these studies have mostly focused on bank to telecommunication firms, manufacturing firms and developers, with no local study focusing on strategic partnership between banks and FinTech firms. As a result, this study seeks to explore and fill this research gap by responding to the following question; does strategic partnership between Commercial bank of Africa (K) LTD and FinTech firms offer competitive advantage to commercial bank of Africa (K) LTD?

## 1.3 Research Objective

The research objective was to establish the impact of the strategic partnership between Commercial bank of Africa (K) LTD and FinTech firms on the competitive advantage of commercial bank of Africa (K) LTD.

## 1.4 Value of the study

This study contributes to enhancing the knowledge on strategic planning literature, more specifically strategic partnerships between banks and FinTech firms. Results from this study are useful for potential and current scholars who can benefit from the information that is availed on the application of strategic partnerships with FinTech firms in the banking industry. They have the opportunity to expand their knowledge on strategic partnerships' effect on competitive advantage and also identify further areas for research. Further, this study contributes to testing existing theories applicability in various forms of strategic partnerships such as resource based theory, knowledge based theory among others.

Understanding how strategic partnerships between banks and FinTech firms assists in competitive advantage is significant to the banking industry. This research provides insight to bank managers by highlighting how strategic partnerships with FinTech firms can facilitate the creation of value and competitive advantage in the market. Through the study findings, Fintech firms have the opportunity to learn of the motive of banks in seeking partnerships with FinTechs . The research provides more insight into benefits of strategic partnerships with FinTech firms thus helping banks in making decisions on strategic collaborations.

This study also provides a framework to influence the revision of existing policies that affect strategic collaborations in the financial sector. The study is also helpful to the Kenya banker association that through the study findings, Kenya bankers association can develop framework and policies to guide partnerships in banking sector. Further the study recommendation act as a springboard through which new policies can be developed that can strengthen strategic partnerships, alliances and collaborations in the financial service sector.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The second chapter deals with relevant literature, which is consistent and related with the objectives of the research topic under review. This section contains literature from global, regional and local perspective. Review of the literature is carried out in light of the study objective and variables of the study. This chapter also reviews the literature that are considered important to the study through providing understanding of study variables.

In addition, this section highlights the theories that will be used in the study, with specific focus on knowledge based view perspective and resource based view perspective. It also provides a reason as to why the study theories have been selected. A description of each theory is provided, followed by a discussion on the relationship between the theory and study variables, and the applicability of the theories to the study objective.

This chapter also includes a section on empirical literature. Studies covered in this section are discussed in terms of their conceptual, methodological and contextual basis. Through these lenses this chapter discusses studies both local and international with a purpose of highlighting knowledge gap based on studies. In addition, the chapter includes a summary of the knowledge gap from reviewed studies.

## 2.2 Theoretical Foundation

Strategic alliances is underpinned by several theoretical perspectives including resource based view, transaction cost approach, competence and contractual perspective and knowledge based view, social exchange theory, social capital theory, and a self-organisation perspective (Muthusamy & White, 2005; Colombo, 2003; Koka & Prescott, 2002; Pyka & Windrum, 2003). Among these perspective, the study will be based on two perspectives: knowledge based approach, and resource based view. This section reviews the theories in regard to their applicability in strategic partnership and competitive advantage in the banking sector.

### 2.2.1 Resource Based View

(Barney, 1991) states that resource-based-view emphasizes the significance of resources in an organization. Through strategic alliances, organizations are able to access unavailable resources and new ones that are acquired jointly. Since organizations are bundles of resources, their competitive advantage is defined in terms how they are endowed resource-wise. Often, markets are imperfect and incomplete, and thus firms are unable to easily obtain the necessary resources. Peteraf (1993) states that such resources, either cannot perfectly sold or cannot be sold at all.

Consequently, firms enter or form strategic alliances to cater for their resource gap. Besides sharing resources with partners, companies determine the most appropriate mechanism to fully capitalize on the value of such resources. Based on the resource based view, supplementary resources play a critical role in determining the success of alliances. Complementary resources refers to the level that organizations can the inadequate resources that define them (Lambe et al., 2002).

Moreover, based on the theory, the alliance increases the competitive edge of an organization through risk sharing, increased market power and bringing resources together thus leading to economies of scope. Forming a partnership enables organizations to maintain low profit margins and undertake product differentiation. In turn, as Yasuda (2005) points out, the advantages lead to a unique competitive positional edge for partners in alliance in relation to others. Consequently, the theory provides a framework for evaluating the strategic partnership-competitive advantage association between FinTech firms and Commercial bank of Africa (Kenya) LTD.

### 2.2.2 Knowledge Based View

Grant (1996) points out that the knowledge-based-view is another perspective on the company and its competitive edge. As such, all productivity in an organization relies on knowledge, which in turn implies that a firm's competitive edge depends on knowledge integration and creation (Grant, 1996). Knowledge is divided in terms of implicit and explicit information. The revelation of implicit knowledge depends on its application and is obtained through practice.

The knowledge based view identifies two major knowledge management dimensions: activities that lead to knowledge generation or raise the knowledge stock of an organization and knowledge application or activities that deploy available knowledge. Knowledge generation as articulated through strategic alliances acts as a channel through which alliance members absorb and transfer the knowledge base of a partner. On the other hand, Grant and Baden-Fuller (2004) point out that knowledge application is a type of knowledge sharing where each member organization accesses the knowledge stock of its partner so as to exploit complementarities, though with the aim of maintaining its unique base of specialized knowledge.

Strategic alliances that provide an avenue for knowledge management and organizational learning are considered a collection or repository of knowledge. Alliances play a critical role in terms of providing a knowledge enhancement channel by allowing organizations to access the technologies, skills and knowledge among themselves. Otherwise, Love et al., (2002) point out individual firms cannot not access such knowledge or develop it at the right cost or time on their own. Consequently, the RBV will be relevant to the research because it will provide a clear understanding on a competitive advantage is developed through a strategic partnership between Fintech firms and Commercial bank of Africa(Kenya) LTD.

## 2.3 Strategic Partnership and Competitive advantage

A strategic partnership is a purposive relationship involving two or more independent stakeholders on resource sharing, knowledge share or co-creation to achieve a competitive advantage. Firms which lack sufficient resources will greatly benefit from strategic partnerships. Forming a strategic alliance can enhance the knowledge and expertise of a firm in area that a firm lacks (Mbau, 2016). Synergy and competitive advantage are potential benefits available to firms in strategic partnership relationship.

Achievement of synergy and a competitive advantage explains why most firms pursue strategic partnership. Strategic partnership offers firms an easier rout through which firms can enter new market, expands into new market and engage in research and development to develop/improve products. Competition becomes more effective when partners leverage off each other’s strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry alone (Meyskens, 2010).

Besides offering competitive advantage, strategic alliances can portend some disadvantages. Strategic partnership between two independent firms may require the commitment of financial resources and this can prove costly if the partnership does not avail benefits. Alliances are costly not only financial implication placed upon firm but also due to benefits that it can deny a firm.

Secondly partnership also involve the commitment of management and staff from two separate firms, a situation that can result to conflict at times as each firms tries to purse their interests. Finally, strategic partnership can results in blocking the firms from pursuing partnership with other companies thus denying them better options and competitive advantage (Meyskens, 2010).

The conceptualization of organization competitive advantage, the dependent variable in this study, is often determined by the nature of the organization being investigated. Financial measures represent the commonly used measures in deriving competitive advantage with Return of Equity (ROE) or/and Return on Assets (ROA) commonly used. From the non-financial measure perspective, competitive advantage is viewed through the product development process and outputs derived from that process. It is also defined as innovative ideas and creative product development process of the organisation, service quality, consumer responsiveness, turnaround time and operational performance of an organization. This study adopts non-financial performance measures in conceptualization of competitive advantage in banking industry. The independent variable in this study was strategic partnership. The study specifically focused on strategic partnerships that Commercial bank of Africa (Kenya) has entered into with FinTech firms.

## 2.4 Empirical Studies and Knowledge Gap

A number of studies have been conducted on competitive advantages offered by strategic partnerships. A review is presented for both local and international studies in this section. The review carried on each study involves conceptual, contextual and methodological discussion. Further to this, knowledge gap is identified for each study premised along the conceptual, contextual and methodological levels.

Barbosa et al. (2010) investigated the role of strategic partnership on competitive advantage among financial sector firms in Brazil. Through the use of exploratory study design among 121 companies, with canonical correlation the results indicated that strategic partnerships leads to competitive advantages in the areas of operational efficiency, flexibility, pioneering potential, innovation and managerial capacity. This study provides insights to effect of strategic partnership on competitive advantages but failed to explore the advantages in banking sector partnership with FinTech firms.

Meyskens (2010) conducted a qualitative study to investigate the competitive advantages offered by 179 social ventures that have adopted strategic partnership in China. The study revealed that the most significant resource associated with strategic partnership was social capital as a competitive advantage, and that hybrid social ventures have a stronger competitive advantage than purely for profit or non-profit organizations. This study offers insights on the relationship between strategic partnership and competitive advantage but in Non-profit sector, leaving out banks-FinTech firm's partnership.

Saci and Aliouat (2014) in their panel study assessed the value proposition of strategic partnerships to listed firms in France. Through use of historical market and financial data between 1997 and 2012 the study indicated that long-term and short term partnership have different effects on performance of firms However, on the long-term, there is no positive impact (neutral impact) of strategic partnerships on financial performance. This study is significant in enhancing the knowledge on competitive advantages benefits to firms adopting strategic partnerships. However the study ignored the value proposition to non-listed firms across different sectors such as FinTechs .

Matokho and Anyieni (2018) also conducted a cross sectional study to determine the effect of strategic partnership on financial performance of banks in Kenya. The findings of this study reveal that strategic partnership leads to a decrease in operational cost while increasing the market share of banks in Kenya. These study is relevant to the current study in understanding the competitive advantage offered to banks through partnership. However, it fails to analyse the competitive advantages offered by strategic partnership between banks and FinTech firms.

Similarly, Kangogo (2016) also conducted a study to analyse the relationship between strategic partnerships and performance of Kenya Commercial Bank group Ltd. Through a case study design the study found that Kenya Commercial Bank group Ltd has established strategic partnerships with Safaricom, Airtel, USAID, and General Electric companies. The study found that the strategic partnerships have enhanced the competitive advantage of Kenya Commercial Bank in the banking industry. The study concluded that strategic partnerships have enhanced the customer relationship management in banks. Similar to the previous studies, this study did not test the competitive advantage offered to banks through strategic partnership with FinTech firms.

Another study on strategic partnership between banks and mobile telecommunication firms was conducted by Adero & Liu (2011).The study looked into how strategic alliances between banks and mobile phone companies can be used to overcome challenges faced by organizations with a specific focus on the partnership between Equity Bank (Kenya), and Safaricom Ltd.  Qualitative method was used in the study with the study revealing that strategic partnership can be used as a tool which enables firms to overcome threats from their competitors while gaining additional benefits. Although these study tested the relationship between strategic partnership and competitive advantage, it failed to focus on partnership between banks and FinTech firms.

Kabuiya (2015) also conducted a study on strategic partnerships between Co-Operative Bank of Kenya Limited and Safaricom Limited to Enhance Performance. The study adopted a case study design so as to undertake an in-depth and comprehensive inquiry. This study established that the benefits that accrues to mobile telephone firms in strategic partnership with banks relates to product related benefits while banks accrues benefits relating to market performance. Although this study explored strategic partnership in banks it did not focus on partnership between banks and Fintechs firms.

The aforementioned studies reveal that, even though studies have been conducted on the relationship between strategic partnership and competitive advantage in the banking industry, the existing forms of partnership explored in these studies have been banks and mobile telecommunication firm’s partnership, leaving out other forms of partnership such as the bank-FinTech firms. This study seeks to address this gap.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

The purpose of this chapter is to provide an outline of the research methodology that was used in the study. The section concentrates on data collection methods, research designs and concludes with the analysis and presentation of data that was used in the research. A discussion on the choice of the specific research methodology was selected is offered, with the benefits of the design also highlighted.

Research Methodology refers to the techniques or procedures used in information identification, selection, processing and analysis. Equally, as Muganda (2003) points out, it involves the assumptions and rationale that underlie a research relative to the scientific method. The chapter highlights the importance of research design and further explains the adopted research methodology used as a research design that is preferable when focusing on a phenomenon in real life context.

Methodology provides the theoretical support for understanding methods that can be used in a particular case, for instance, to compute a specific result. This chapter seeks to provide details on data collection and analysis in response to the research objectives. The research approach used was qualitative in nature through case study approach, which is deemed appropriate for answering the research objective of the study. A discussion on why case study fits this study is offered, with the benefits of the design also highlighted.

### 3.2 Research Design

The case study approach was used in this research. The approach has evolved in the recent past and has become an important instrument for a detailed investigating on specific situations and trends. The research relied on a single case study approach. Saunders et al., (2007) points out that the case study approach is limited in terms of result generalization. Regardless, the approach is appropriate to the study because it focuses on interesting and specific cases.

The case study method as Kothari (2004) posits facilitates a thorough, systematic and meticulous data collection on a research problem. Moreover, the approach provides deep insights of the pertinent issues and facilitates collection of data through analysis of existing literature and in-depth interviews. Unlike the survey method which depends on statistical generalization (Yin, 2009), the case study method uses the analytical generalization. The analytical generalization seeks to generalize a set of outcomes to some wider theory.

Resultantly, the approach is suitable for this research on the relationship between competitive advantage and strategic partnership with Fintech firms as the study seeks to generalize the results on commercial bank of Africa (Kenya) Limited. Yin (2009) further explains that in case study the analytic generalization is carried within a boundary. In this study the specific organization and boundaries chosen was commercial bank of Africa (Kenya) Limited.

## 3.3 Sampling frame

Gay and Airasian (2003) points out that a sampling frame "is a complete list in which each unit of analysis is mentioned only once". It is estimated that all of the managers from the key department's involvement in strategic partnership or products emanating from such partnership could be used in the study to assess strategic partnership and competitive advantages between Commercial bank of Africa (Kenya) limited and Fintech firms.

A complete sampling frame was developed from the information available on Commercial bank of Africa's website on strategic partnership managers, departments involved in products and services development and other departments that are affected by such partnerships. Only managers who are directly involved in strategic partnerships were considered.

The study sampling frame composed of 38 Branch/retail managers, 6 payment managers, 4 managers in charge of mobile banking, 3 managers in charge of strategic partnerships and 4 managers in charge of new business ventures. However, the study had a sample size of 13 respondents. The study sample size of 13 included 5 branch managers, 2 payment managers, 2 managers in charge of mobile banking division, 2 managers in strategic partnership and 2 managers in charge of new business ventures.

## 3.4 Data Collection

Fraenkel & Wallen (2000) defines instrumentation as the entire process of collecting data. Besides the design and selection, data collection entails all the conditions of administering the research instrument. Interviews and questionnaires are the most common survey instruments used in data collection. The choice of method usually depends on cost, resources and time at the disposal of the researcher.

This research relied on primary data through open-ended interviews. The interviews were administered on senior managers in charge of strategic partnerships, or whose departments are affected by strategic partnerships with Fintech firms. In-person interviews was conducted with the bank's senior managers. According to Asika (2004), through structured interviews, respondents provide deep insights, hidden motivation, decision and interests and provide all necessary and available information without holding back.

Gay & Airasian (2003) mention two types of interview: Structured Interview and Non-Structured Interview. The study made use of structured interview. In a structured interviews, procedures and content are organized beforehand. As such, the wordings and sequence are determined on schedule and the interviewer has limited freedom to make adjustments. Though structured interview are more casual, Gay & Airasian (2003) state they must be planned carefully. They have less limitations placed on participants, are flexible, and questions can be adjusted to suit the subjects and situation.

### 3.5 Data Analysis

The data collected in this study was of a qualitative nature. The recorded responses obtained from the interviews was transcribed, and summarised and the similarities and differences gathered from the responses. It is worth noting here that notes were also taken to aid in the analysis. The patterns and relationships from these responses was refined to get the findings in relation to the research questions through content analysis.

Muganda (2003) points out that content analysis seeks to examine existing data to identify factors that explain a particular phenomenon. Kothari (2004) states that content analysis makes replicable and valid inferences from data in their context through a set of categorization. The responses from different participants is compared and summarized based on the research objectives. Content analysis is flexible and facilitates a quantitative and systematic description of the content communication hence, it’s suitable for examining open ended questions.

Data analysis involved creation of codes. Friese (2014) states that coding involves allocating categories, codes or concepts to section of information that is related to objectives of a research. Repetitive data review is used to refine the codes. During this process, new categories of subcategories of themes are analysed and identified until new categories stop emerging.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

This chapter presents data gathered from the field in relation to the study objectives. A discussion of the findings of the study based on the analysis and interpretation of the data collected through interviews and secondary data sources is done. Primary data was collected from 11(eleven) respondents while the secondary data was sourced from the company's website, annual financial reports and other Commercial bank of Africa (Kenya) reports.

The findings presented in this section were derived through content analysis that involved deriving results in qualitative nature. The data is presented into four sections based on the objective of the study namely: Forms of strategic Partnership, Motives for Strategic Partnership with Fintech firms, Challenges that Commercial bank of Africa (Kenya) has faced in pursuing partnership with Fintech firms and contribution of Strategic partnership with Fintech firms on competitive advantage.

In addition, this chapter presents the socio-demographic characteristics of the study respondents. This involves description of the respondents in terms of Age, year of service at Commercial bank of Africa (Kenya) and level of education. The chapter also includes a section on the discussion of the study findings, with results discussed both in terms of theoretical and empirical discussions.

## 4.2 General Information

Commercial Bank of Africa (Kenya) Ltd is the largest privately owned bank in East Africa and has been operating for over 50 years. It was founded in Tanzania and branches were set up in Kenya and Uganda shortly thereafter. Commercial bank of Africa began as a subsidiary of SocieteFinanciere pour les pays D'OutreMer (SFOM), a Swiss-based consortium bank. Other consortium members included Bank of America, Dresdnen Bank (now Commerzbank), Bank Bruxelles Lambert and Banque National de Paris.

In 2011, Commercial bank of Africa (Kenya) Limited began a drive towards innovation in the banking space, pushing its product team to pioneer new developments that cater to a wider local audience. To date Commercial bank of Africa (Kenya) Limited has been first to market with full digital banking channels, first with M-Pesa and M-shwari products, the first US dollar credit card in Kenya, the first 105% mortgage offering and the first foreign currency based mortgage provider (CBA, 2017).

Commercial bank of Africa (Kenya) Limited has developed strong strategic partnerships with many local and international Fintech firms. It has over the years emerged as a strong candidate for Fintech firms both local and international seeking for partnership with commercial banks in Kenya. As a result of the partnership that Commercial bank of Africa (Kenya) Limited has had with Fintech firms, the bank was Shortlisted for London's "Banking Technology Awards 2017" as the best Bank/Fintech partnership.

## 4.3 Socio-Demographic Information

The study results were collected from 11(Eleven) respondents out of the targeted 13 respondents. This was occasioned by the strict guideline from the bank which only allowed for eleven interviewees from the targeted departments. However, due to the use of open ended questions the interview allowed for deeper generation of more insights hence the eleven respondents are viewed sufficient. In addition, all the eleven interviews represented all the key departments that are involved in or impacted with partnership with Fintech firms.

Interviewees were requested to specify the period they had worked in Commercial Bank of Africa (Kenya) Limited. The results obtained from the interviews indicated that the managers had been employees of the bank for between 4 years to 9 years in their current roles. This shows that all the interviewees had served the bank for a considerable period of time and that the managers were knowledgeable enough to provide credible information relating to the study objectives.

The Interviewees who participated in the study had different roles and responsibilities at Commercial bank of Africa (Kenya) Limited. The roles and responsibilities of respondents who participated in the study were in the following areas: digital partnership, new business venture manager, payment manager, branch management and strategic partnerships. This demonstrates that the findings are a representative of the bank managers and as such contributed in meeting the study objectives better.

## 4.4 Strategic Partnership with Fintech Firms

The study sought to establish the motives and existing forms of partnership between Commercial bank of Africa (Kenya) Limited and Fintech firms. The form of strategic partnership is viewed in line with the specific motive/ objective to be achieved. An explanation on why Commercial bank of Africa opted to enter into the partnership with the specific Fintech firm will also be discussed.

This section covers the specific questions posed to respondents to establish the various forms of strategic partnerships that commercial bank of Africa(Kenya) has entered into with FinTech firms, as well as the motives. Besides, the researcher sought to find out which form of strategic partnership is more common, among the partnerships that the bank has entered into with Fintech firms. Respondents were expected to provide reasons as to why one form of strategic partnership is more common.

In addition, this section presents the findings of the study on the products and services developed as a result of the strategic partnerships between commercial bank of Africa (Kenya) and FinTech firms. This involves description of the respondents' feedback from questionnaire on products and services developed as a result of the strategic partnerships with Fintech firms. A discussion on how the products and services developed helps commercial bank of Africa (Kenya) gain competitive advantage is offered at the end of the section.

### 4.4.1 Forms of Strategic Partnerships

The study found out that Commercial bank of Africa group had established partnership in various functions of the bank with Fintechs specializing in digital finance service, payment technologies, lending Fintech firms, supply chain financing and data management firms. These partnerships takes at least one year to lead to the development of products and services. All the interviewees confirmed that the strategic partnership between Safaricom Mpesa and Commercial bank of Africa (Kenya) limited that led to the launch of Mshwari in 2012 has provided a spring board for partnership with other Fintech firms. The partnership between Safaricom and commercial bank of Africa (Kenya) limited has led to the acquisition of over 10(ten) million customers that they would have not achieved had they not ventured into the partnership.

Further, all the respondents confirmed that digital strategy adoption in 2010 has formed the foundation of any strategic partnership between Fintech firms and the bank. From the discussions and review of the company website and published reports, the digital strategy of the company recognizes the importance of developing partnership with Fintech firms as a way of gaining competitive advantage. The bank's push in strategic partnership with fintech firms, as mentioned by some of the respondents, was hinged on building on its leadership in digital banking in Kenya.

The study also established that the company had very clear set out objectives to pursue strategic partnership with fintech firms in various services. However, it emerged that strategic partnership with fintech firms enhancing digital banking was highly esteemed in the banks according to most of the interviewees. Digital banking services were established as first form of partnership that the bank established with an aim to woo in high end millennia clients.

The interviewees revealed that commercial bank of Africa (Kenya) limited partnership with Strand, a global fintech leading in digital finance services led to development of “loop”, a digital banking solution . As a result of the success of digital partnership with the fintech firms, commercial bank of Africa (Kenya) limited has also developed partnership with payments Fintechs in Kenya leading to the development of payment and supply chain financing solution for SMEs called reverse factoring service.

In addition, as part of the forms of partnerships in the areas of payments, the study findings revealed that Commercial bank of Africa (Kenya) limited also developed partnership with a global fintech firm called, Exchange 4 free that has allowed the bank’s customers in the Diaspora to channel their remittance through mobile money services from the bank account for its account holders. Respondents explained that all the partnerships that the banks have had are important to the bank. However, according to the bank managers who participated in the study, the partnership with digital finance service Fintech firms is common than the other banks as it directly deals with enhancing customer experience.

From the interviews, it was established that the bank is currently pursuing new forms of partnership in the area of big data and data management with Fintech firms that specializes in data management. The respondents also indicated that the ambition of the organization is to fully make commercial bank of Africa (Kenya) limited a digital service banks in all its spheres. This to most respondents meant that most of the banks operations are to be fully digitalized as a way to expanding in new markets and acquiring new customers as well as ensuring efficiency in the bank’s operation.

### 4.4.2 Motives for Strategic Partnership

The researcher sought to establish the motives that led the bank into entering in strategic partnership with Fintech firms. From the study findings, varied responses emerged from the interviewees. However, all the respondents were in agreement that some of the main motives that have led to development of strategic partnership between Fintech firms and Commercial bank of Africa (Kenya) limited has to do with desire to increase market share and revenue generation. The respondents were of the view that the impact of the bank's partnership with Safaricom Mpesa services in the development of M-shwari financial service was a major motivation for partnership with Fintech firms. The partnership with Safaricom Mpesa service according to the interviewees was of great contribution to the bank as it catapulted it from Tier 2 bank to a Tier 1 bank. Through M-shwari service the bank acquired over 10 million new customers that it would not have reached had the bank not opted for the partnership with Fintech firms. Thus the partnership with Fintech firms targeted for two main reasons according to the interviewees, to increase the market share of the bank and generate more revenue.

Besides the above cited reasons for partnership, other reasons only emerged as a motivation for the partnership with Fintech firms. Three of the respondents were in agreement that strategic partnership between banks and Fintech firms have been necessitated by the need to enhance the customer experience in the bank. To address this, Commercial bank of Africa (Kenya) limited has prioritized the use of digital technology and services as a way of improving the customer experience. This was affirmed in a documentary hosted at the bank where the country chief executive officer of the bank mentioned that the customer journey has to be digital.

Other motivation for the partnership with Fintech firms that were mentioned by the interviewees were to reduce operational cost and improve on information security. In this regard, the respondents stated that the bank is in the process of automating the process that involves data and dealing with large amounts of data. As such one of the interviewees stated that the bank is currently working with a Fintech firm specializing in data management to operationalize the banks data management system.

In addition to the findings from the primary data, findings from secondary data revealed that one of the main reasons pushing commercial bank of Africa (Kenya) limited into partnership with Fintech firms is the high level of competition locally and in other African markets where the bank is pushing for its expansion or entry. Thus to the bank digitization is a key component of gaining competitive advantage in current market and in emerging market. Based on secondary data, an interesting reason for the bank partnership with Fintech firms was as a way of coping with the massive interest rates capping and as a result banks have been forced to look into digitization as a way of improving the banking experience of the customer at minimal costs.

### 4.5 Strategic Partnership and Competitive Advantage

The conceptualization of organization's performance and competitive advantage, the dependent variable in this study, is often determined by the nature of the organization being investigated. In financial institutions or studies that measure competitive advantage using financial measures, it is defined as the yearly turn-out profit of the company, measured by Return of Equity or/and Return on Assets. From the non-financial measure perspective, competitive advantage is defined as the innovative ideas and creative product development process of the organisation.

The competitive advantage arising from the strategic partnerships that commercial bank of Africa adopted with Fintech firms can also be measured in terms of the innovative ideas and creative product development process of the organisation, service quality, consumer responsiveness, turnaround time and operational performance of an organization. This study adopted the non-financial performance measures in conceptualization of competitive advantage in banking industry. The independent variable in this study was strategic partnership.

The study also sought to find out from the respondents some of the ways through which the strategic partnerships adopted with Fintech firms have helped Commercial bank of Africa gain competitive advantage. Besides, the study sought to know from the respondents the products and services that have been developed as a result of strategic partnership between the bank and Fintech firms. The findings from the respondents is presented and discussed in this section.

### 4.5.1 Strategic Partnership as a Strategy to Deal with Competition

This section covers the specific questions posed to respondents to determine the extent to which strategic partnership between Commercial bank of Africa (Kenya) limited and Fintech firms has resulted to giving the bank a competitive advantage. Respondents were all of the view that the strategic partnership between the bank and Fintechs have helped the firm deal effectively with competition in the financial service industry.The interviewees were in agreement that the main way through which the partnership has given the banks competitive advantage lies in the fact that the banks has been able to increase market share through products developed in conjunction with Fintech firms.

Respondents mentioned that the banks have witnessed an increase in number of new customers joining the bank. This was supported by a documentary from the bank's website where the chief executive officer of the bank mentioned that it took the bank 24 years to achieve 750,000 customers. However, with the partnership between the bank and strand, the bank was able to acquire some 180,000 customers in less than 6 months with relatively no additional effort.

In relation to increased market share, some of the interviewees also mentioned that the partnership with Fintechs has enabled the bank to increase and strengthen its market presence in the small and medium enterprise sector in Kenya. Respondents also explained that through the partnership with Fintech firms, the bank has been able to increase its return on investment as a bank. This was echoed by the CEO of the company in a documentary hosted in the website where he states that the partnership with Fintechs has given the bank a 100 percent return on investment on digital product developed in partnership with Fintech firms. However, according to one respondent, the strategic partnership between the bank and Fintechs firms has also increased the revenue at the branches. To emphasize this the respondents stated that the introduction of digital banking solution product has led to increase in number of client opening and operating accounts at some of the bank's branches.

Another finding that emerged from the interviewees concerning the competitive advantage is that the partnership between the bank and Fintech firms has contributed to improved customer experience and satisfaction in the bank. The study established that as a result of some of the digital products the bank has released into the market, a significant proportion of the bank's millennial clients have been satisfied with the bank's services. In addition, the respondents said that the bank has experienced competitive advantage in the area of reduced operation costs in the bank.

The respondents explained that the bank’s strategic shift to embrace digital technology in its operation has led to formation of partnership with Fintechs firms. As a result of these partnerships, digital products have been developed resulting in an increased number of customer using the digital banking solution thereby reducing the pressure on traditional banking model. The impact of these has been felt on the branches operating costs that have experienced a slight reduction.

As a way of reducing operation costs, the adoption of strategic partnership between commercial bank of Africa (Kenya) and Fintech firms has led to increased automation of some of the back office operations within the bank, the respondents cited. The bank has continued to encourage automation of its operation, a strategy that has led to decreased operational costs. Although the partnership between banks and Fintech firms have led to reduction in operational costs thereby enhancing the operation efficiency of the bank, one of the respondent was of the contrary opinion.

Accordingly, the respondent explained that some of the employees have become worried with the banks move to fully embrace digitization of its processes, as they feel that increased digitization will only lead to rendering some of the employee jobless. This was also supported by the Chief executive officers of the bank in a documentary hosted at the bank’s website.  According to the Chief executive officer’s increased digitization of the banks comes with it risks and increased fear that some employees are likely to lose their jobs.

### 4.5.2 Products and Services Developed through Strategic Partnership

The study also sought to find out from the respondents some of the products that have been developed as a result of strategic partnership between the bank and Fintech firms. The respondents mentioned that the partnership between the bank and fintech firms has helped the bank to develop Loop, an internet banking and mobile banking solution, Payment and supply chain financing product for SMEs through partnership with E-cap, Pesa link, by integrating Pesa link with the bank system and Mshwari- a mobile banking lending and savings product.

The study further sought to establish the impact of the products that the bank has developed through the partnership with fintech firms on the bank's sustainable competitive advantage. Respondents agreed that though no formal staff value survey has been conducted, the well embedded performance culture has led to high employee engagement, innovative ideas and increased productivity. The business celebrate good performances though recognition like the employee of the year and communicates internally any promotions and new appointments made.

Respondents expounded that the bank has been able to increase their revenue base through the digital products developed in partnership with Fintech firms. As a result of the new digital product developed the bank has enhanced its revenue streams in three areas. According to one of the respondents the digital banking solutions, particularly the loop has led to the bank acquiring new customers. The respondents also indicated in their responses that through the digital products developed by the bank's partnership, there has been an increase in revenue associated with fees and interest. The bank has been able to increase the number of its customers using the loop.

Through the payment and supply chain financing product that the bank has developed in partnership with E-cap – a financial technology firm, the bank has been able to slightly increase the number of SMEs clients over and above their 5000 SME clients as at June 2017 when the product was launched. The study findings also revealed that the bank has been able to achieve a strong brand proposition in the market, particularly among the millennial that are digitally oriented in their services.

The findings of the study also revealed that some of the respondents acknowledged that the strategic partnership between the bank and Fintech firms has led to the bank acquiring strong digital marketing presence in comparison to other banks. However, some of the respondents felt that the strong digital marketing presence is attributable to the favourable reception that most of the bank's digital products has experienced in the market. Finally, the findings revealed that the partnership with Fintech firms has enhanced the innovation within the organization as the bank's employees can tap on the expertise and skills of the Fintech partners to develop new products in the banking industry.

## 4.6 Challenges Experienced as a result of the Strategic Partnership

One of the questions posed to the respondents was on what challenges the bank experienced as a result of entering into strategic partnership with Fintech firms. The answer from the respondents was that Commercial bank of Africa (Kenya) has experienced a number of challenges as a result of the partnership. However, according to all the respondents there was an agreement that the main challenges that the bank has experienced involves high implementation cost and changing in customer needs and preference.

The development of products and services through these partnerships require financial commitment from the bank. The bank require finances to set up the system that supports the product/service developed, necessary licences from the regulator, marketing of the new product or service as well as training the staff on the new product. Hence, a significant challenge that Commercial bank of Africa (Kenya) has faced has to do with increased implementation costs associated with product development and use.

Another major challenge that the bank has faced in the partnership with the Fintech firm involves the changing customer needs. This has put significant pressure on the bank to be at breast with the customer needs on their services, even for the already developed product the banks faces significant pressure to have the right information that can be used to improve developed products or to develop new one that fits well in the market.

Results from the interviews also indicate that complex stakeholder management requirement and changes in technology were also mentioned as some of the challenges that the bank has faced in its partnership with the Fintech firms. Complex stakeholder management was mentioned as a challenge as the bank must ensure the same product being developed is not replicated by its competitors. Sharing of revenue with the Fintech firm involved in the development of the product or service is a key concern that had to be properly managed.

The study findings also revealed that the banks recognized that system integration between the banks and the fintech system is a significant barrier in partnership between banks and Fintechs. In most occasion, partnership between banks will lead to development of digital products. These digital products require compatible system between banks and Fintechs to deliver products and services.

In addition to system integration and technical issues, regulatory issues also emerged as challenge between banks and Fintech firms. According to one of the respondents the development of M-shwari took more than 2 years as the bank had to seek regulatory approval from both central bank of Kenya and communication authority of Kenya. In some cases there exists overlapping of functions between regulatory bodies leading to increased delays in delivering new products and services through such partnerships. Regulatory challenges through requirements and conditionality's that need to be met continue to be a challenge between Commercial bank of Africa and Fintech firms. However, it emerged from the participants that most of the regulatory challenges revolve around issues of data sharing, fees and interest charged and data ownership and use.

### 4.7 Discussion of the findings

In this section, the findings of the study on strategic partnership and competitive advantage between Commercial bank of Africa (Kenya) and Fintech firms is compared with relevant existing theories and empirical studies done in the past. The study was premised on Knowledge based theory and Resource based theory. The discussion in this section entails discussions on the findings the various forms of strategic partnerships between the bank and Fintech firms, the motives of the strategic partnerships, findings on challenges experienced and on contribution of the strategic partnerships to the competitive advantage of Commercial bank of Africa (Kenya).The challenges experienced during the study is also discussed and compared to other empirical studies.

The study established that there exist different forms of strategic partnership between banks and Fintech firms. The forms established herein includes partnership with payment Fintechs, data management Fintechs, partnership with lending Fintechs and partnership with digital finance Fintech firms. The study reveals that the motives for strategic partnership between banks and Fintechs can be broadly classified into internal factors and external factors.

The study findings showed that the strategic partnership between Commercial bank of Africa (Kenya) and Fintech firms has not been without challenges. The challenges include stakeholder management, high implementation cost and changes in customer needs and preferences. System integration between the bank and the Fintech firms system is a significant barrier in the partnership .Both systems must be compatible so as to develop the intended products and or services. In addition to system integration and technical issues, regulatory issues also emerged as challenge between banks and Fintech firms

### 4.7.1 Comparison with Theory

The study established that strategic partnership between banks and Fintech firms is motivated by revenue generation, increase in market share, operation efficiency, customer experience and competition. Strategic partnership between banks and Fintech firms results in banks automating their process through information-based solutions resulting in their operation efficiency (Akpotu, 2016). Besides, strategic partnership between banks and Fintech firms allow banks to benefit from skills, competencies and knowledge resulting to competitive advantage in the area of revenue generation and customer relationship management.

The findings are in agreement with Chandler (2009) conclusion that the main motives for strategic partnership between Banks and Fintech firms lies in fighting competition and generating revenues. The resources underscored in the study as the main motivation for strategic partnership between banks and fintech firms are in line with the resource based view advanced by Barney (1991) which suggests that internal resources that are valuable, difficult to imitate and none substitutable do best position a firm for sustainable competitive advantage. Proponents of Resource based view argue that strategic partnership between firms can lead to the development of new products resulting into giving a firm competitive advantage.

The study established that strategic partnership between the bank and Fintech firms have given banks competitive advantage. The study findings revealed that these competitive advantages related to revenue growth, increased market share, reduced operational cost and better customer experience. According to Brynjolfs-son and McAfee (2014), Fintech firms provide banks with digital technologies which create substantial cost saving potentials for banks by reducing the traditional brick-and-mortar infrastructure and streamlining the workforce. Further they argue that new technologies also facilitate the creation of new services, new products and accessing new sources of revenue. Collaboration between fintechs and banks allow the traditional banks to offer new digital services with better cross-selling values, lower costs and greater long-term development opportunities resulting in giving the banks sustainable competitive advantage (Icar, 2016). Klus, et al (2018) argues that with increased competition in the financial service industry, Fintech firms' offers banks potential new revenue stream.

According to Umyoo, and Wattal (2015), the existing forms of partnership between the banks and Fintech firms have arose in a structured and formal manner. This can be attributed to what the study findings revealed that most fintech firms are looking forward to partnering with Commercial bank of Africa (Kenya) due to her lead in digital banking and pioneering of mobile and loan saving solution in Kenya. In contrast, a study conducted by Schmidt, et al (2018) revealed that most of the partnership between banks and fintech firms arose in an opportunistic manner, with no structured and formal mechanism to guide the process. The authors suggest that most of the banks do not have a structured mechanism for dealing with Fintech firms but look to such partnership as a way through which something good can come out of it and decide to explore. Graupner et al (2015) emphasized in their study that most of the banks are still worrisome of fintechs in terms of "eating into" their market and thus many potential partnerships between banks and Fintech firms arise from unstructured process. This confirms the findings of Amici et al (2013) that revealed that most of partnership between banks and Fintech firms emanates from the possibilities that such partnership can bring to the bank and not what it holds to the bank.

Additionally, from the study results, this study support the findings of Beck et al (2016) that established that banks partner with both small and large fintech firms. However, the results of Amici at al., (2013) indicate otherwise. Accordingly they argue that most banks prefer to partner with large Fintech firms so as to leverage on their expertise and experience in working with other banks over time. This to some extent was particularly true in the current study where Commercial bank of Africa (Kenya) has prioritized partnership with large Fintech firms. For instance the partnership between Strands and E-cap Fintechs both labelled as large fintech firms both domestically in Kenya and internationally.

The study findings established that partnership between Commercial bank of Africa (Kenya) and Fintech firms has not been without challenges, with the most important challenge faced relating to stakeholder management. This aligns with the study by Haddad & Hornuf (2018) that established that formation of partnerships and operating it is but one stage, the challenge comes in managing the partnership and ensuring that the banks and Fintech firms system integrate effectively. This corroborates the findings of Amici et al., (2013) that significant challenge in managing and running partnership involves around integration of system in product development and operationalization. Financial institutions seeking partnership with Fintech firms require significant investment from both partners to bring to market any product development through such partnerships.

According to Brandl & Hornuf (2017) the process of establishing a partnership and operationalizing it can be lengthy as it involves a complex integration process. In the current study it was established that the process of operationalizing partnership between banks and fintech firms takes between 1-2 years. This concurs with the assertion by Schmidt et al (2018) that the process of establishing partnership between banks and fintech firms can be lengthy leading to frustration from both banks and fintech firms. Additionally, Haddad & Hornuf (2018) argues that the process of operationalizing the partnership is in most cases lengthy because of the financial, human and time resources required in the setting up of integration systems.

According to the findings of Mackenzie (2015) regulatory challenges represent a significant barrier in partnership between banks and Fintech firms.  Although this was not mentioned by most of the respondents in the study. It was cited by one participants that this is a significant barrier in pursuing partnership between banks and Fintech firms.

Most of the product developed require approval from communication authority and central bank of Kenya. Accordingly the study revealed that this process can take considerably long time after the signing of contract with fintech firms due to delays in approvals from concerned authorities. However in line with the findings of Chan and Ahuja (2015) most financial institution use every partnership as an opportunity to learn new lesson on how best to operationalize successive partnership.

In the current study, it was emphasized that the lengthy process of operationalizing the partnership through development of products and services is necessitated by co-creation and collaboration at all stages of the partnership. This supports the findings of Hornuf et al (2018) that most banks prefer collaboration when partnering with Fintech firms as this process involves significant knowledge transfer that best happens through co-creation. Another reason cited by Zavolokina et al (2016) for the lengthy process is operationalizing the partnership relates to partnership selection that normally happens over time. Although partnership selection did not emerge as factor affecting the forms of partnerships, it has been acknowledged by other studies (Schmidt & Schirmer, 2018).

The partnership between banks and Fintech firms has offered commercial bank of Africa (Kenya) a way through which to increase their market share among the unbanked and under banked segments of the population. Fintech firms has made it possible for banks to bring on board customers that have been hard to reach through the traditional means of banking. Partnership between banks and Fintech firms has enabled most banks to embrace digital technologies with Fintech firms having comparative advantage in tapping their use. As a result most banks have been able to adopt more cost-effective strategies in attracting new customers.

In the current study it was established that partnerships between Commercial bank of Africa (Kenya) and fintech firms led to the development of digital products that has allowed the bank to reach new customer segments profitably. For example, through the partnership between the bank and Strands Fintechs, a collaboration that led to the development of LOOP banking app, the bank was able to attract over 18,00 new customers in 6 months.

Commercial banks sometimes struggle to reach new customer segments through the traditional means and this may involve difficulties in integrating new customers into their systems. Commercial banks may have systems that limit the acquisition of these customer and by extension leading to revenue growth. However, according to the findings of (Chan and Ahuja (2015), partnership between banks and fintechs can lead to the development of systems suited for these new customers. As a result banks can enhance their customer base and by extension revenue streams through product development from these partnership.

### 4.7.3 Creating New Offerings for Existing Customers

The second major challenge to deepening financial inclusion in emerging markets that led financial institutions to partner with fintech firms is the motivation to create profitable and useful services for existing customers in the lower market segment. Addressing this challenge provides easier and steadier revenue for financial institutions (as compared to acquiring new customers), and serves as an on-ramp to greater usage for customers who do not yet use a full range of financial services.

The partnerships we surveyed in this category were all expected to increase customer loyalty and keep existing customers engaged in the long-run. The study established that Commercial bank of Africa is leveraging partnerships with fintech firms to accomplish this goal. The bank has put in place an elaborate plan to ensure operational efficiency by partnering with Fintech firms to ensure quick turnaround time and by availing banking services at the comfort of the existing customers.

The study found out from the respondents that some of the products that have been developed as a result of strategic partnership between the bank and Fintech firms includes Loop- an internet banking and mobile banking solution, Payment and supply chain financing product for SMEs through partnership with E-cap, Pesa link, by integrating Pesa link with the bank system and Mshwari- a mobile banking lending and savings product. These new offerings ensure the existing customers remain loyal to the bank, as their needs are met beyond what completion offers.

### 4.7.4 Comparison with Other Studies

Klus, et al (2018) in their study on motives and reasons for strategic partnership between banks and Fintech firms in Germany financial services industry concluded that competition and revenue generation were the main reasons motivating banks in forming strategic partnerships with Fintech firms. The finding of the study agrees to this view since the current study established that revenue generation and competition are part of the reasons that motivates Commercial bank of Africa (Kenya) in entering into strategic partnerships with Fintech firms.

Ferrari (2016) study established that collaboration between Fintech firms and banks have resulted to enhancing the competitive advantage of banks in operation performance and finance performance. This was supported by the study findings that indicated that strategic partnership between banks and Fintech firms led to competitive advantage for Commercial bank of Africa (Kenya) in revenue generation and increased operation efficiency. Navaretti, et al (2018) in their study found out that the main challenge facing strategic partnership between banks and Fintech firms is how to manage competing interests of banks and the Fintech firms. The current study support this findings as it showed that the main challenge relates to stakeholder management and changes in technology.

The chapter analysed the primary and secondary data collected and discussed the findings based on the research objectives. The study reveals that the motives for strategic partnership between banks and Fintech firms can be broadly classified into internal factors and external factors. Internal reasons include operation efficiency, customer experience, revenue generation and increased market share while external reasons was market competition.

Strategic partnerships between banks and Fintech firms was found to have enabled the bank to deal with competition through increased market share, revenue growth, customer satisfaction, operational efficiency and strong brand position. The findings of the study in this chapter also revealed that partnership with Fintech firms has led the bank to develop products related to mobile banking, supply chain financing, data management, banks operations and payment system.

Despite the contribution of strategic partnership between bank and Fintech firms the study established that the partnership has also faced challenges such as difficulty in stakeholder management, changing customer needs, competition, and change in technology and high implementation costs. However, generally the study established that strategic partnership with Fintech firms has given Commercial bank of Africa (Kenya) a competitive advantage in different fronts.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

From the research work conducted and based on the primary and secondary data reviewed, this chapter provides a summary of the findings, conclusion and recommendations. It also highlights on the implications and limitations of the study based on the study, with the last section focusing on suggestions for future study.

The summary section provides highlights of the study findings based on the study objectives. The objective of the study was to establish the impact of strategic partnership between commercial bank of Africa (Kenya) limited and FinTech firms on the competitive advantage of Commercial bank of Africa (Kenya) limited. The section on conclusion gives important implication based on the study findings with a section on recommendation based on conclusion of the study findings.

The final section of this chapter focuses on limitation of the study. This section highlights the challenges experienced during the study. In addition the section also covers the weaknesses of research methodology used and recommends possible areas of studies to address this weaknesses.

## 5.2 Summary

The study established that there exist different forms of strategic partnership between banks and Fintech firms. The forms established herein includes partnership with payment Fintechs, data management Fintechs, partnership with lending Fintechs and partnership with digital finance Fintech firms.  The study reveals that the motives for strategic partnership between banks and Fintechs can be broadly classified into internal factors and external factors.

Internal reasons include operational efficiency, customer experience, revenue generation and increased market share while external reasons is market competition. The study findings revealed that strategic partnership between banks and Fintech firms has led to the bank experiencing competitive advantage in the areas of market share, revenue growth, operational efficiency and better customer relationship management. In addition the study findings demonstrated that product development through strategic partnership between the bank and Fintech firms has spurred innovation in the bank and strengthened the brand position of the bank within the financial service sector. Based on the study findings it was established that the strategic partnership between banks and Fintech firms is not without challenges. The challenges that have been experienced in partnership have to do with stakeholder management, high implementation costs, changing customer needs, change in technology and competition for Fintech firms in the market.

The study established that Commercial bank of Africa (Kenya) has been able to develop a number of products as a result of the partnership with Fintech firms. The bank has developed product relating to mobile loans and savings, internet banking, mobile banking and supply chain financing products for SMEs. Further the study revealed that the products and services developed by the bank has enabled the bank to gain sustainable competitive advantage in terms of financial performance, operational performance and branding.

## 5.3 Conclusion

The study findings suggest that Commercial bank of Africa (Kenya) limited pursues different forms of partnership with Fintech firms, with such partnerships being motivated by a number of reasons both internally and externally. The study also concludes that the partnership with Fintech firms has offered the bank benefits that includes both operational and financial performance. The findings show that banks tend to pursue revenue generation, operation efficiency, increased market share and customer satisfaction in their partnership with Fintech firms.

The main conclusion is that strategic partnership between Commercial bank of Africa (Kenya) limited and Fintech firms has resulted to giving the bank competitive advantage in different areas. The study concludes that strategic partnership between banks and Fintech firms is complimentary to the bank's services. In addition, the study found out that partnership between banks and Fintech firms is not limited to certain areas of their operation but covers their operations in entirety.

The study findings revealed that the strategic partnership between Commercial bank of Africa (Kenya) and Fintech firms has not been without challenges. The challenges include stakeholder management, high implementation cost and changes in customer needs and preferences. System integration between the bank and the Fintech firms system is a significant barrier in the partnership .Both systems must be compatible so as to develop the intended products and or services. In addition to system integration and technical issues, regulatory issues also emerged as challenge between banks and Fintech firms. In some cases there exists overlapping of functions between regulatory bodies leading to increased delays in delivering new products and services through such partnerships. Regulatory challenges through requirements and conditionality's that need to be met continue to be a challenge between Commercial bank of Africa and Fintech firms. Most of the regulatory challenges revolve around turnaround time, issues of data sharing, fees and interest charged and data ownership and use.

## 5.4 Recommendations

Based on the findings of the study, recommendations made includes the development of a strategic framework to guide strategic partnership with Fintech firms. Banks need to ensure that there is a clearly defined road map on where they want to go in form of a strategic partnership and sharing of revenues generated as a result of the partnership. Besides, banks need to develop capacities of the managers of the banks on how to manage stakeholder competing interests.

The study findings showed that partnerships with digital finance Fintech firms have led to significant benefits to the bank more than other benefits. Further the findings suggest that as a result of these benefits the bank has enhanced its competitive advantage. The study thus recommends that Commercial bank of Africa (Kenya) limited should give prominence to partnership with Fintech firms specialized in digital banking as way of enhancing their competitive advantage.

The study recommends that Commercial bank of Africa (Kenya) needs to take advantage of the goodwill from Fintech firms due to their lead in strategic partnership with Fintech firms and develop stronger partnership for their sustainable competitive advantage. The study findings also suggests that the bank should increasingly develop stakeholder management strategies to strengthen the management of existing partnerships.

## 5.5 Limitations of the Study

The study undertook an in-depth look at Commercial bank of Africa (Kenya) with a view to investigate the strategic partnership between the bank and Fintechs firms. However, Commercial bank of Africa (Kenya) is just but among other banks that have pursued strategic partnership with Fintech firms. Other banks may have different forms of strategic partnership with Fintech firms and hence an industry wide study may be necessary to gain good understanding on the various forms of partnership between banks and Fintech firms.

Not all expected management interviewees were available for the interview, most of them due to the restrictions from the management that allocated only 5 face to face interviews for the study out of the 11 respondents. This is because they considered some of the information sensitive to be given by many respondents. Thus the study recognizes that some aspects may have not emerged clearly in the case study.

The study was based on a case study design and which has its inherent weaknesses particularly in regard to establishing causality. Case study design is a qualitative design and hence fails to properly test causality. In this regard future studies can be based on regression model to test appropriately the relationship between strategic partnership and competitive advantage between banks and Fintech firms.

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# APPENDICES

## Appendix i: Interview Guide

My name is Moses Nyamwango, a Master's Student at the University of Nairobi. I am conducting a study on competitive advantage and strategic partnership: the experience of commercial bank of Africa (Kenya) and financial technology (FinTech firms). This questionnaire is intended to collect information to answer the research objectives. Be assured that everything you give will remain completely private and confidential.

Instructions: Please provide the answers as correctly and honestly as possible.

### Demographic Information

1. What is your position and department?

2. How long have you been in the same position?

3. What is your highest academic qualification?

### Strategic Partnership between Commercial Bank of Africa (Kenya) and FinTech firms

1. Has Commercial Bank of Africa (Kenya) Ltd been involved in a strategic partnership with any Fin-Tech firms?

2. If your answer in (1) above is yes, what forms of Strategic partnerships has Commercial Bank of Africa (Kenya) Limited been involved in? ( e.g partnership with digital finance service fintechs, partnership with payment fintech firms, partnership with lending fintech firms, Partnership with supply chain financing fintech firms) Please explain.

3. In case your organization has been involved in more than one form of strategic partnerships as in (ii) above, which form is more common than the other? Why?

4. Explain the motives that have led your company into entering in strategic partnership with Fin-tech firm. List other factors that Commercial Bank of Africa Ltd considers as important and can lead into formation of strategic partnership with FinTech firms.

5. Explain the benefits that Commercial Bank of Africa Ltd has gained as a result of entering into Strategic partnerships with FinTech firms.

6. What challenges has Commercial Bank of Africa Ltd experienced as a result of entering into strategic partnerships with other firms.

## Competitive Advantage

1. In your opinion, has the formation of partnerships by Commercial Bank of Africa Ltd and Fin-Tech firms helped the company to effectively deal with competition in banking sector? Explain.

2. Has Commercial Bank of Africa Ltd developed new products or services through strategic partnerships with Fin-tech firms? If yes, please name the products/Services.

3. If your answer in (ii) above is yes, explain how these new products/services have enabled the company gain a sustainable competitive advantage?

4. Other than developing new products/services, explain other ways in which Commercial Bank of Africa Ltd has been able to get a sustainable competitive advantage as a result of having strategic partnerships with FinTech firms.

**Appendix ii: Letter of Introduction from University of Nairobi**

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 9/11/2018

**TO WHOM IT MAY CONCERN**

The bearer of this letter MOSES OKELO NTANJWANGO

Registration No. D61/63762/2011

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
09 NOV 2018

PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS

**Source: University of Nairobi, 2018**

## Appendix iii: Letter of Confirmation

cba

time for

CBA Centre Mara & Ragati oads, Upper Hill
P O Box 30437 00100, Nairobi, Kenya
Telephone: +254 20 2884000

27th November 2018

Raw data approved for analysis
29/11/2018

Prof. Z. B. Awino
School of Business
University of Nairobi

Dear Sir,

**RE: CONFIRMATION OF DATA COLLECTION FOR ACADEMIC RESEARCH**

This is to confirm that Moses Nyamwango, University of Nairobi Reg. No. D61/63762/2011 carried out interviews within the organization for a project titled "Strategic Partnership and Competitive Advantage: the experience of Commercial Bank of Africa and Fintech Firms.

The data collected should be used solely for academic purposes.

Yours sincerely,

Ian Irungu
Manager, Human Resources
Commercial Bank of Africa

**Source: CBA, 2018**