THE EFFECTS OF STRATEGIC ALLIANCE BETWEEN MOBILE SERVICE PROVIDERS AND COMMERCIAL BANKS ON BANKS PERFORMANCE IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for the award of a degree in this University or any other Institution of higher learning for examination.

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

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DEDICATION

This project is dedicated to my parents, Mr. Barakha Segelan and Mrs. Nebeheya Segelan and all those who supported me in the completion of this research writing. Thank you and God bless you abundantly.

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ABBREVIATIONS AND ACRONYMS

CAK:	Communication Authority of Kenya
CBK:	Central Bank of Kenya
IJVs:	International Joint Ventures
KPIs:	Key Performance Indicators
KPOSB:	Kenya Post Office Savings Bank
NIM:	Net Interest Margin
ROA:	Return on Assets
ROE:	Return on Equity
SAD:	Strategic Alliance Dynamism
WOS:	Wholly Owned Subsidiaries

ABSTRACT

The main objective of this study was to determine the effects of strategic alliance between mobile service providers and commercial banks on banks performance in Kenya. This research was guided by Resource Dependence Theory, the Strategic Alliance Dynamism (SAD) and the Transaction Cost Theory. This study adopted a descriptive research survey. This design is the most suitable for this study. When using this design, an in-depth and narrative description of numbers organizes the data into patterns that are easy to understand allowing me to compare the many different variables at the same time. The target population for the research were three mobile telecommunications companies, Airtel, Orange Mobile and Safaricom Limited, and the eleven banks listed in the Central Bank of Kenya. The study adopted the use of a questionnaire and document analysis as the main research instrument. The data from the completed questionnaires were collected, coded and analyzed in order. It was then analyzed and presented by use of the computer applications. Descriptive statistics approach were used for analyzing and presenting the data in this research. Measures of central tendency was used to analyze the results. The results show that as the annual value moved through mobile banking increases, the profitability of the commercial banks have increased. The research shows that strategic alliance with mobile service providers to a larger extent impacts the performance of commercial banks in Kenya in that it helps reduce unnecessary cost, increase efficiency and improves on service delivery to customers. Commercial banks in Kenya have adopted mobile services to provide crucial banking services to customers in Kenya. This was well explained by the F critical at 5% level of significance which was 0.00 and the F critical (value = 16.377). In addition, the R squared value was above average at 63% showing that the effects of strategic alliance between mobile service providers and commercial banks was significant. The study recommends that policy makers consider strategic alliances with mobile service providers in their formulation of policies because of the technological developments and the expected switch from physical branch networks to technologically supported banking services.

CHAPTER ONE

INTRODUCTION

1.1 Background

Strategic alliances have been seen as an important part of sustainable development plan for corporate organizations (Ivatury and Mas, 2008). Recently, the most emerging practices amongst financial institutions has been that of forming strategic alliances with organizations such as brokerage firms, investment banks and mobile providers (Berger, Demsetz & Strahan, 2009). Financial services firms will continue to strategically position themselves in order to gain competitive advantage in the ever evolving competitive marketplace (Amita, Pearce & Robinson, 2011).

Mobile banking services are some of the innovations that banks have had to come up with in order to survive the competition. Some of the commercial banks have entered into strategic partnerships with mobile telecommunication companies in order to offer the mobile banking services to the customers. Zmijewska and Lawrence (2006) observed that there exists a strong link between the commercial banks, mobile telecommunication companies and the regulatory authorities. Wanjau, (2012) observes that mobile banking services have been successful to an extent of helping the people who have no access to the brick and mortar banking services, the commercial banks have not penetrated the entire population with the services. This research proposal intends to carry out a study to find out the effect the strategic alliance between the commercial banks and the mobile telecommunication companies on organizational performance.

The study will be guided by strategic alliance dynamism (SAD) model and dynamic capability theory. The motivations and structures of alliances are often explained by the strategic alliance dynamism (SAD) (Das, 2012; Al-Tamimi & Hassan, 2010)). According to this theory, an alliance can be more successful if it takes place in a friendlier environment. It is thus of essence that companies look for partners that enable them have a friendly, rather than a hostile working relationship (Brito, Pereira & Ribeiro, 2008). The second theory is dynamic capability theory, extended from resource-based view, contends that dynamic capabilities refers to the firms' abilities to reconfigure, recombine and delete ordinary organizational resources to achieve a fit with the environment and strategic imperatives (Wachira, 2013).

Dynamic capability has received increasingly attention and its importance on firm superior performance in changing markets has been strongly and positively argued (Madhavaram & Hunt, 2008; Teece, 2007; Hitt and Borza, 2000). Resource dependence theory argues that organizations are often not self-sufficient for all the needed resources that can enable them remain competitive. This usually makes a strategic alliances a viable form of inter-organizational structure that can minimize uncertainties thus enhancing access to much needed resources (Gray and Yan, 2012). Therefore they need to engage in exchanges with other organizations in one way or the other so as to gain necessary resources for survival.

The development and management of alliances is a critical strategic skill in banking and telecommunication industry (Musyoki, 2013). Not much can happen in these sectors without multiple firms working collaboratively with one another to serve the customer. The M-PESA to ATM service that was started as a joint service between Safaricom Ltd a mobile communication company and co-operative bank, it targeted Safaricom's eight million M-pesa customers. Users of the service only require to be registered as M-PESA customers to enable them withdraw amount ranging between Ksh 200 and Ksh 35,000 from any Co-operative Bank ATM. Customers wishing to withdraw money will initiate a withdrawal from their M-PESA menu on their phones and receive an authorization code. The beauty of the new service is that one does not have to have an account with Co-operative Bank to withdraw money from the Bank's ATMS. The service was also part of the Bank's commitment to reach more Kenyans through mobile Banking, allowing them to access financial services with ease (Wachira, 2013).

1.1.1 The Concept of Strategic Alliances

The concept of strategic alliance has become widely used in business language to refer to the different types of partnership agreements between two or more companies that pursue clear strategic collaborative objectives with different levels of possible integration among the members (Elmuti and Kathawala, 2011). Musyoki (2013) presents his definition of alliance as any governance structure to manage an incomplete contract between separate firms and in which each Partner has limited control.

The author states further that an alliance is a way of sharing control over future decisions and governing future negotiations between the firms. Strategic alliance is a coalition or cooperation agreement formed between a company and others to achieve certain strategic goals.

Presently, strategic alliances are a prominent phenomenon in the global economy among multinational companies (MNCs) and between companies in developing countries too. Drucker (2006) states that the greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnerships. Strategic alliances are therefore partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial to the parties. These strategic alliances present enormous potential to a business.

1.1.2 Organization Performance

The definition of 'organizational performance' is a surprisingly open question with few studies using consistent definitions and measures (Kirby, 2005). Organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment); market performance (sales, market share); and shareholder return (total shareholder return, economic value added). Performance is so common in management research that its structure and definition is rarely explicitly justified; instead its appropriateness, in no matter what form, is unquestionably assumed (Musyoki, 2013).

Performance itself is likely to be somewhat firm specific: as the strategic choices a firm makes will dictate which performance measures will reflect the latent performance construct (Wanjau, 2012). With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness)". Understanding how different independent variables link to a dependent performance variable is then no longer trivial (Musyoki, 2013). From a measurement perspective, it is unlikely that changing strategies leaves the dimensionality of the performance indicators unchanged. Because different strategies relate to different dimensions of performance, so they also alter the way these performance dimensions load onto the latent construct.

For instance, Mohr & Spekman (2014) found that the measurement structure of four common accounting and market-based indicators (that is, measures commonly regarded as objective and within the domain of financial performance) differed between groups of firms that had adopted two distinct strategic stances and over time. The relationship between measures and performance is also influenced by which measures the firm uses internally and how these are embedded into incentive and control systems within the firm; the firm's own key performance indicators (KPIs). In other words, the internal measurement systems used will influence performance at the individual and organizational level (Monczka et al., 2008).

1.1.3 Mobile Service Providers in Kenya

The telecommunications industry in Kenya has been undergoing rapid changes. The Communications Authority of Kenya has in the past 15 years licensed four mobile operators (Safaricom, Airtel, Telkom Kenya (Orange) and Essar (YU); all of which are global operators) and several internet service providers like Wananchi and Jamii Telkom (CCK Report, 2012). Communication Authority of Kenya (CAK) then CCK issued the two mobile licenses in 2000 (Safaricom and Celtel now Airtel), the mobile telecommunication continued to be popular with consumers (Juniper Research, 2011).

Kenya's mobile market has continued to show strong growth in the number of mobile subscribers. This has translated into sustained revenue growth for operators as they develop mobile data services on the back of heavy investments in technologies and infrastructure upgrades. Some market consolidation has occurred following the acquisition by Airtel and Safaricom of Essar Telecom's YU Mobile business. Competition has nevertheless presented challenges to the profitability of network operators, encouraging them to streamline operations and develop revenue streams from services such as mobile data, m-commerce and m-banking. In mid-2014 the regulator compelled Safaricom to open up its popular M-Pesa platform to rival networks. To develop fourth generation (LTE) technology, the government has pursued an open-access approach, though Safaricom pulled out of the proposed consortium which would operate the network. A number of MVNO licences awarded since 2014 have added to the competitive mix.

The fast-growing mobile sector is characterized by competition between four operators: Safaricom Ltd which was formed in 2007 as a fully owned subsidiary of Telkom Kenya; Airtel, a subsidiary of Africa's third-ranked phone company (Bharti Airtel Limited) offering GSM network; Telkom Kenya (Orange) a 30% Government owned company and 70 % owned by France Telecom; and YU mobile owned by an Indian based company Essar. These companies have made considerable growth and profits since their inception but still there is enormous potential remaining in the mobile phone sector.

Since 2009, Kenya has experienced radical changes as the liberalization process of the telecommunications sector began (Wachira, 2013). Of vital importance to the process was the establishment of the Communications Commission of Kenya (CCK) in February of that same year through the Kenya Communications Act, 1978. CCK's role is to license and regulate telecommunications, radio communication and postal services in Kenya. Since then a visible boost has gripped the industry. The prices of handsets has reduced due to the duty being waived by the Government and the increase in operators has intensified competition leading to price competition in the market. Lower handset prices and service tariffs brought mobile services to the reach of a greater proportion of the population. The competition among these companies is very commendable because it has contributed to vast improvement in transformation and access quality communication for people across Kenya (Albo, Díaz & Ng, 2012).

1.1.4 Commercial Banks in Kenya

The banking industry in Kenya are governed by the Companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are the main regulators and governors of banking Industry in Kenya. These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time (Mathuva, 2009). In 1995 the exchange controls were lifted after the liberalization of the banking in Kenya. Central Bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies and it the lender of last resort in Kenya and is the banker to all other banks.

The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the country and the solvency of the Kenya shilling. To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association (Mathuva, 2009). In Kenya, the banking sector is a highly competitive business field, with over 44 players among them are multinationals all scrambling for a slice of the market share. Although the industry has been experiencing rapid growth in terms of profits, deposits and revenues in the past decade, stiff competition has been the norm for the industry. This has necessitated all the players to device new approaches in order to create and maintain a competitive advantage (The Economist, 2009).

The Kenyan Banking Sector continued to register improved performance with the size of assets standing at Ksh. 2.3 trillion, loans & advances worth Ksh. 1.32 trillion, while the deposit base was Ksh. 1.72 trillion and profit before tax of Ksh. 80.8 billion as at 30th

September 2012. During the same period, the number of bank customer deposit and loan accounts stood at 15,072,922 and 2,055,574 respectively. The banking sector is expected to register improved performance compared to 2014 on the backdrop of innovations, adoption of cost effective channels and continued expansion of banks through new branches and subsidiaries operating in the EAC region.

According to Lovstal (2011), the major driving force for strategic alliances is to enable firms gain a competitive advantage, thereby increasing profitability. As firms combine resources, this often leads to the attainment of synergy where the new arrangement may lead the firms to perform a service more efficiently, produce a product at a less cost or utilize a facility or funds more effectively. This ultimately results in greater profits for the firms involved than they would have achieved as separate business entities. Strategic alliances also offer a better chance of obtaining credit or raising more equity as creditors and investors' confidence in the new firm is often greater. As a joint entity, they provide better guarantee for creditors fund as their assets base is widened (Lovstal, 2011).

1.1.5 Strategic Alliance between Telecommunication Companies and Commercial Banks in Kenya

The strategic alliances between banks and mobile phone companies have been common. In 2012, for instance, in India, Bharti Airtel, through its subsidiary of Commerce Services Limited entered into a strategic partnership with Axis Bank. In this alliance, the banking payment services were extended to unbanked millions of Indian citizens through a mobile telephone platform. This alliance was meant to empower the Indian citizens that were financially excluded from the mainstream banking services (Wachira, 2013). In Kenya, the commercial banks have ventured into new products in order to target the population that cannot access the conventional banking services. Mathuva (2009) cites the adoption of new technology and introduction of products like mobile banking as some of the banking revolution witnessed in the current financial services market. Financial strength is what brings in banks into alliances with non-financial institutions such as mobile service providers or technology providers at large. The mobile banking involves strategic alliances between the banking sector in Kenya and the mobile telecommunication companies.

In a study carried out by KMPG (2009) on Joint ventures, the study revealed that strategic alliances were on the rise. Companies forming joint ventures had specific reasons for opting for the ventures. The main reasons for the formation of strategic alliances were so as to enable the companies gain access to greater markets, reduce on costs, reduce risk as joint ventures can share or spread risk between partners better than alternative forms of corporate strategies hence improving on their profitability (KPMG, 2009). International Joint ventures (IJVs) tend to outperform wholly owned subsidiaries (WOSs) because of the benefits a local partner provides (Brouthers, 2012). Unlike non-equity alliances, the capital invested in a JV signals partner commitment, thereby enhancing the probability of success.

1.2 Research Problem

Several factors contribute to the success of strategic alliances between organizations. Mohr and Spekman (2014) observe that the antecedents to the formation of the partnership and the characteristics of the organizations are important for the success of the involved parties. As such, the authors insist that it is important to understand the factors and characteristics that influence the success of the strategic alliances between organizations. Coordination and trust, communication quality and participation, techniques of conflict resolution and trust are only but some of the factors that should be understood when investigating the antecedents to the success of strategic partnerships between companies.

Globally, several authors have explored in the area of strategic alliances. For instance, Rödiger (2010) researched on potential problems and challenges that might lead to failure in strategic alliances. They highlighted various reasons for failure including: wrong strategies, mistrust, incompatible partners, unrealistic deals, weak management, inadequate launch planning and execution among others. Monczka et al (2008) carried out a survey to establish the factors that affected the strategic alliances in supply chain from a perspective of buying companies. From the findings factors listed include information quality and participation, joint problem solving, resource commitment, and information sharing and smoothing over techniques. All these findings are very instrumental in the understanding of the effect the strategic partnerships between banks and telecommunication companies.

Rapid changes are taking place in the telecommunication industry in Kenya which has enviable customer numbers and is still growing providing a platform on which innovative products have been developed among which is mobile money transfer (Mathuva, 2009). This has facilitated mobile payments through alliances between the telecom operators and service providers like utility companies. Traditionally banks have been the main channels to facilitate payments however, an opportunity to develop a payment system for the mass market existed. Mobile phone companies in Kenya exploited this opportunity by developing mobile payment systems that have greater penetration among the population than earlier payment systems (Mathuva, 2009).

Local studies have been done in the area of strategic alliances and the results found from the studies have been inconsistent. Musyoki (2013) studied the creation and implementation of strategic alliances among non-governmental organizations with a case of Gedo health consortium. Wachira (2013) carried out a survey on strategic alliances in pharmaceutical drug development, a case study of three strategic alliances at Eli Lilly and company. Koigi (2012) carried out a survey on the implementation of strategic alliance experience of Kenya Post Office Savings Bank (KPOSB) and Citibank. And more recently Wanjau (2012) carried out a study on the investigation into strategic alliance practices and their effects on profitability of firms. Among these studies previously done, none has been done on the effects of strategic alliances between the commercial banks and the mobile service providers in Kenya.

The research intends to bridge this noticeable gap. At the end of the study, this research will provide answer to the question: What is the effect the strategic alliance between mobile service providers and commercial banks in on banks performance in Kenya?

1.3 Research Objective

The main objective of this study was to determine the effects of strategic alliance between mobile service providers and commercial banks on banks performance in Kenya.

1.4 Value of the Study

The study may help managers in various organizations understand the subject of strategic alliances and performance in the service industry. The study highlights what is expected of each partner if an alliance is to succeed and what factors will lead to success and those that lead to failure. The findings of the study may act as a guide to policy makers in analyzing ways in which banks can make best use of strategic alliances in order to improve their financial performance.

The study is also important in giving insight to telecommunication firms and Commercial Banks in Kenya and will help those set policies that would ensure that ownership structures create value for their institutions. The result of this study will also provide other financial institutions with information on the importance of joint ventures which they can use to enhance their performance.

The study may be enriching to researchers, academic institutions and scholars. This is because it will add to their knowledge and enable them to be more informed when considering forming strategic alliances thus make informed decisions and choices. This study will be important as it will contribute greatly to the limited number of studies on the subject.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers literature review on the theories that supports the study. The research allowed for location of literature from a variety of sources. The sources of literatures were texts, books, magazines, journals, previous research works and observations related to determine the effects of strategic alliance between mobile service providers and commercial banks on banks performance in Kenya. This is presented in form of empiricism in line with the research objectives.

2.2 Theoretical Foundation

There are several important theoretical perspectives applicable to strategic alliances. This research will be guided by Resource Dependence Theory, the Strategic Alliance Dynamism (SAD) and the Transaction Cost Theory. These schools of thought contribute to our understanding of strategic alliances from different perspectives and are the theoretical underpinnings for this study.

2.2.1 The Resource Dependence Theory

This theory was developed by Emerson (1963) and further progressed by Pfeffer and Salancik (1978), who proposed that control over critical resources by one organization can make other firm dependence on it. Resource Dependence Theory assumes that even operating in the same industry, firms are heterogeneous in terms of their resources and capabilities.

The theory argues that organizations are often not self sufficient for all the needed resources that can enable them remain competitive. Therefore they need to engage in exchanges with other organizations in one way or the other so as to gain necessary resources for survival. This usually makes a strategic alliances a viable form of inter-organizational structure that can minimize uncertainties thus enhancing access to much needed resources (Gray and Yan, 2012).

Resource dependence theory has emerged as an important explanation for the persistent firm level performance by emphasizing firm's ability to create and sustain competitive advantage by acquiring defending advantageous resources positions (Brouthers, 2012). The competitive advantage of a firm is the result of a strategy that utilizes its unique resources and skills. The application of resource dependence theory will deepen our understanding of what resources parent firms prefer to control and how they control them.

2.2.2 Strategic Alliance Dynamism Model (SAD)

Drucker (2006) proposed a conceptual framework that could be used to study the growth of strategic alliances between companies. The author came up with a three dimensional (3D) framework called the strategic alliance dynamism. In order to understand the effects of strategic alliances between companies, the SAD model can be used. Here, various elements that define alliances between mobile service providers and commercial banks on banks performance are used.

This model discusses the passive, the friendly or the hostile alliance strategies between companies. By analyzing the alliances using the three elements, it is possible to come up with a list of factors that determine their successes. According to this category, an alliance can be more successful if it takes place in a friendlier environment. It is thus of essence that companies look for partners that enable them have a friendly rather than a hostile working relationship. If hostility is developed during the partnerships, the growth would reduce or even fail. A passive relationship between the partners would undermine the success of the strategic alliance. It is important for the organizations to ensure that they pursue proactive measures in order to improve the relationships (Das, 2012).

2.2.3 The Transaction Cost Theory

The basic tenet of the Transaction Cost Theory is based on the assumption that markets at times fail to allocate factors services and goods efficiently due to among others, natural and government-induced externalities (Elmuti & Kathawala, 2011). This in turn results in higher costs of organizing exchange through market than organizing exchange internally. These costs are usually referred to as natural externalities, ownership externalities, and technical externalities and so on. Strategic alliances come in to bring the transactions of these cost under a common cooperative structure thereby enabling the partners to reduce the cost involved hence avoiding opportunism among exchange partners (Ivatury & Mas, 2008). According to Hennart (2008), the equity link between strategic partners and their ventures is preferable to coordination through spot markets or contracts. This theory has been applied in explaining the choice of strategic alliances as a business option for commercial banks.

2.3 Concept of Strategic Alliances

Strategic alliance is a coalition or cooperation agreement formed between a company and others to achieve certain strategic goals. This happens when two or more companies collaborate by sharing resources and activities to pursue a common strategy (Johnson et al 2005). As the world becomes a global village, companies find themselves reaching out to their counterparts to form an alliance that will help them counter these challenges (Amita, Richard & Robinson, 2011). Companies continue to succeed in building strategic alliances and successful relationships with customers, suppliers, competitors among other partners. Increasingly, strategic alliances and industry partnerships are becoming more important to success in almost all economic sectors.

Some analysts may say that strategic alliances are a recent phenomenon, in fact collaborations between enterprises are as old as the existence of such enterprises (Brouthers, 2012). Examples would be early credit institutions or trade associations like the early Dutch Guilds. There have always been strategic Alliances, but in the last couple of decades the focus and reasons for Strategic Alliances has evolved very quickly: In the 1970s, the focus of Strategic Alliances was the performance of the product (Das, 2012). The partners wanted to attain raw material at the best quality at the lowest price possible, the best technology and improved market penetration, while the focus was always on the product.

In the 1980s, Strategic Alliances aimed at building economies of scale and scope. The involved enterprises tried to consolidate their positions in their respective sectors. Some of these partnerships lead to great product successes like photocopiers by Canon sold under the brand of Kodak, or the partnership of Toshiba and Motorola whose joining of resources and technology lead to great success with microprocessors (Musyoki, 2013). In the 1990s, geographical borders between markets collapsed and new markets were enterable. Higher requirements for the companies lead to the need for constant innovation for competitive advantage. The focus of Strategic Alliances relocated on the development of capabilities and competencies. Even the largest and most financially sound companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expansive skills, resources, technological expertise and competitive capabilities than they can assemble and manage alone (Thompson et al 2004).

2.4 Mobile Service Providers and Commercial Banks

The perception of complexity involved when conducting financial transactions via mobile channel is often inversely related to a consumer's experience with technology in general. Adoption of complex products depends on adopter's ability to develop new knowledge and new patterns of experience. Even the simplest handsets have features buried deep in menu structures (Al-Tamimi & Hassan, 2010). However, the challenges may run deeper than interface design. People coming to banking for the first time via the mobile handset require a command of abstract concepts about invisible/virtual money, they will also be required to have secrete passwords which one may forgot easily. The effects of mobile banking on the performance of commercial banks include market expansion/partnership, efficiency in service delivery, and better access to information. Mobile banking services are in many countries of the world. Among other factors, the availability of the platform of technology has been an important determinant of the success of these services (Koigi, 2012). Commercial banks and mobile telecommunication companies have entered into strategic partnerships in order to offer the mobile banking services to customers. The already established telecommunication structure has helped most banks and mobile telecommunication companies establish robust systems that enable the customers' access mobile banking services (Brouthers, 2012).

Additionally, open models can create larger addressable markets than exclusive partnerships. In an open-partnership model, the full-spectrum of banking and payment services may not be available to end-users. Inherently generic services limit opportunities for differentiation (KPMG International, 2009). Such unstable environments are unlikely to attract significant investment or foster innovative services (Wanjau, 2012). On the other hand, open partnerships may be viable in the short-term as banks and carriers figure out their optimal partnering strategies and assess customer demand for their initial offerings (Berger, Demsetz & Strahan, 2009). The greatest threat to open partnerships comes from open, federated models that offer larger addressable markets along with a stable platform for driving innovation by third-party developers. Transactions in two-sided markets involve an interrelated set of relationships. Two user groups, the market's sides interact with each other through intermediaries called platform providers.

A platform embodies architecture a design facilitating network users' interactions plus a set of rules; that is the rules and pricing terms that govern interactions and transactions. Two-sided markets exhibit two types of network effects: a same-side effect, in which increasing the number of users on one side of the market makes it more valuable to users on the same side; and a cross-side effect, in which increasing the number of users on one side of the market makes it more valuable to the users on the other side (Eisenmann, Parker & Van Alstyne, 2006).

Intuitively, they could create distinctive standards of service across industries in terms of their requirements from the tangible and intangible dimensions of the services (Hitt and Borza, 2010). Present Internet demographics suggest that it is the relatively well off and the well-educated that use the Internet, which suggests that potential users are high net worth customers. The use of multiple distribution channels can increase effective market coverage by enabling different products to be targeted at different demographic segments. Recent changes in the regulatory framework have enabled many banks to expand their services into non-traditional banking areas (Zmijewska & Lawrence, 2006).

2.5 Effects of Strategic Alliances on Organizational Performance

Strategic alliances has both significant implication of the economy and financial performance of the organization involved (Amita, Richard & Robinson, 2011). Traditionally provision of banking services was an expensive venture. The banks had to invest in staff, machines and building in order to provide services to their customers.

With advent of M-banking banks need not invest in capital equipment to provide banking services. Elmuti and Kathawala (2001) posit that Strategic alliances can be effective ways of diffusing new technologies rapidly, entering new markets, bypassing government restrictions expeditiously, and learning quickly from the leading firms in a given field. Nevertheless, they are not easy to create, develop and support. Strategic alliances usually fail because of tactical errors made by the management. By using a well-managed strategic alliances agreement, organizations can gain significantly in markets that would otherwise have been uneconomical. It is essential for corporations to enter in strategic arrangements with a comprehensive plan that outlines the expectations, requirements and expected benefit of the alliance. Harrigan (1985) observed that strategic alliances are not only used by firms to exploit peripheral markets or technologies, but are being perceived increasingly as critical elements of an organization's business units network as strategic weapons for competing within a firms core markets and technologies.

Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. The profitability analysis is achieved on a set of indicators to measure the banking financial performance. The determinants of bank performance can be classified into bank specific (Internal) and macroeconomic (External) factors (Al-Tamimi, 2010). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the bank's performance.

These factors are basically influenced by internal decisions of management and the board (Amita, Richard & Robinson, 2011). The external factors are sector-wide/country-wide factors which are beyond the control of the company and affect the profitability of banks.

2.6 Empirical Review

Globally, a number of studies have been conducted that are related to the effects of strategic alliances on organizational performance. De Vries (2008), examined a relationship of diminishing returns between a firm's number of alliances and performance. The existence of this inverse U-shaped relationship is tested on a sample of 179 firms operating in the pharmaceutical industry from 1990 to 1999. Support for diminishing returns as well as a linear relation are found. The linear model contains a better fit to the data, rejecting a possible inverse U-shaped relationship. The study found out that absorptive capacity also shows a positive significant effect on firm performance.

A greater capacity to value and apply knowledge will thus stimulate firm performance. Finally large firms filed more patent applications over the period of 1999 to 2002 compared to small firms. A possible explanation could be that because of their size and visibility in a market, larger firms can attract more potential partners, selecting the most promising alliances from these companies. Also larger firms who have shown their survival skill in the market may have better employees in R&D compared to smaller companies.

Axel Rödiger (2010) conducted a study on international strategic alliances: alliance portfolio configuration and firm performance. The original dataset, as collected by Nielsen based on Securities Data Company (SDC), includes 1.864 alliances in the high-technology industry that were announced from January 1st, 1988 until December 31st, 2007. Although the proposed method fails to present statistically significant results. The paper aims at shedding more light onto the discussion whether portfolio size has an influence on firm performance. In addition, the study targets to derive further insights on a beneficial degree of density within a portfolio. A multilevel analysis is applied in order to account for the hierarchical structure of the data.

Regionally, Margarita (2009) investigated on the importance of strategic alliances in company's activity. The study adopted a survey research design since it focused on commercial banks in South Africa. It made use of secondary data that was partly collected from the published agreement statements of commercial banks in South Africa while the rest of the data was obtained from marketing departments of the said commercial banks. The researcher managed to collect data from 35 commercial banks. Regression analysis was used to establish the importance of strategic alliances and banks performances. The paper explains Strategic alliances as an indispensable tool in today's competitive business environment. No longer can companies afford *ad hoc* approaches to alliance formation and management, any more than they can rely on a small number of talented alliance managers. Many global companies have multiple alliances, some global, requiring coordination with numerous partners.

Locally Gatwiri (2014), conducted a research on effects of expansion strategies on performance of selected commercial banks in South Nyanza Region, Kenya. The study sought to determine the effects of expansion strategies on performance of selected commercial banks in South Nyanza region, Kenya. Five commercial banks were evaluated which included Co-operative Bank, Equity bank, Barclays bank, Kenya Commercial bank and Diamond Trust Bank. 47 respondents who are employees of these banks were used in data collection. The study revealed that through agency banking commercial bank were able to reach most people in the rural areas in Kenya and thus expand their banking activities. The study found that mobile banking positively influenced the performance of commercial bank to a great extent. The study also found that merger and acquisition influence the expansion of commercial banks as the commercial banks were able to get customer even in the region where they did not have actual branches.

Gloria Adero (2013) looked into how strategic alliances between banks and mobile phone companies can be used to overcome these challenges with a specific focus on the recent alliance between Equity Bank (Kenya), and Safaricom Ltd. The study will also focus on the management of strategic alliances within different industries. The analysis of this study is based on qualitative research including the use of interviews with members of both organizations and secondary data which includes written documentation and analysis of previously recorded discussions about the alliance with different members of both organizations. The data used in the case consisted of both secondary and primary data. The authors found strategic alliances can be used as a tool which enables firms to overcome threats from their competitors while gaining additional benefits. In terms of alliance management, the use of separate teams was found to be an effective management tool in cross industry alliances.

Ongoge (2013) conducted a research on how strategic planning has assisted ActionAid Kenya (AAK) to improve in performance of its programmes. This study was conducted as a case study of ActionAid Kenya. Primary data sources were used in this study where data was obtained through interactive interviews with 12 management staff and 5 partner organizations. The nature of data collected was qualitative and was therefore analyzed using content analysis technique. The study concludes that there is a difference between the results and approaches to measuring strategic planning effectiveness and organization performance, which confirms the case that selecting the appropriate approach to measuring relationship between strategic planning and organization performance must be done with caution.

2.7 Organizational Performance and its measurements

The idea of organizational performance is being widely accepted and adopted all over the world. It spread rapidly from the private sector to the public sector in the developed world and has recently found its way in many developing countries (Amita, Richard & Robinson, 2011). New initiatives and legislations continue to being issued as a sign of governments' insistence on following the new focus on performance orientation. Performance is referred to as being about doing the work, as well as being about the results achieved. It can be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of an organization, customer satisfaction and economic contributions. The indicators result from accounting dates which illustrate the reference periods in the most synthetic expression of balance sheet and the profit & loss account (Musyoki, 2013). Financial performance can be evaluated using many financial indicators such as liquidity ratios, management performance, and leverage among others (Mathuva, 2009). There are many different ways to measure a bank’s financial performance and this includes return on assets (ROA), return on equity (ROE) and net interest margin (NIM). Return on equity (ROE) refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on balance sheet.

Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). This suggests that performance measurement frameworks can be built around the concepts of results and determinants (Amita, Richard & Robinson, 2011). Measures of performance of a business usually embrace five fundamental, but interlinking areas: Money, usually measured as profit; output/input relationships or productivity; customer emphasis such as quality; innovation and adaptation to change and human resources.

Within the operations area, standard individual performance measures could be productivity measures, quality measures, inventory measures, lead-time measures, preventive maintenance, performance to schedule, and utilization (Drucker, 2006). Specific measures could include: Cost of quality: measured as budgeted versus actual; variances: measured as standard absorbed cost versus actual expenses; period expenses: measured as budgeted versus actual expenses; safety: measured on some common scale such as number of hours without an accident; profit contribution: measured in dollars or some common scale and inventory turnover: measured as actual versus budgeted turnover. While financial measures of performance are often used to gauge organizational performance, some firms have experienced negative consequences from relying solely on these measures. Therefore, it is better that managers not rely on one set of measures to provide a clear performance target (Amita, Richard & Robinson, 2011). These frameworks appear in the literature and vary from Kaplan and Norton's balanced scorecard to Fitzgerald's framework of results and determinants.

2.8 Summary

This chapter presents the literature appraisal on the effects of strategic alliance between mobile service providers and commercial banks on banks performance. In Kenya, the mobile banking services have been on the growth. The services are as a result of strategic alliances between the commercial banks and the mobile telecommunication companies. Based on the above literature, several studies have been carried out to understand the nature of strategic alliances in mobile banking between the commercial banks and the mobile phone companies. Banks performance reflects an organization’s understanding and knowledge regarding customer’s needs and expectations. Most studies conducted in relation to bank performance focus on sector-specific factors that affect the overall banking sector performances macroeconomic variables. Nevertheless there is a need to include the corporate wide performance that this study intends to bridge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter forms the research methodology and discusses the methodological and research approaches that were used in the study. In particular, the chapter looks at the research design, the population of the study, data collection methods and the data analysis techniques that were used to meet the research objectives.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to purpose with the economy in procedure (Mutua, 2008). This study adopted a descriptive research survey. According to Paulin (2007), "descriptive research studies are based on some previous understating of the nature of the research problem". The design seeks to capture both qualitative and quantitative aspects. A descriptive research is designed to obtain information concerning the current situation and other phenomena and wherever possible to draw valid conclusion from the facts discussed.

By using the analysis of data collected from the target population at one specific point in time, an incisive analysis of the effects of strategic alliance between mobile service providers and commercial banks on banks performance was carried out. Descriptive survey is important for reducing the available data to manageable forms. This design is the most suitable for this study.

When using this design, an in-depth and narrative description of numbers organizes the data into patterns that are easy to understand allowing me to compare the many different variables at the same time.

3.3 Population of the Study

According to Amin, (2005), Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The target population for the research were three mobile telecommunications companies; Airtel, Orange Mobile and Safaricom Limited, and the eleven banks listed in the Central Bank of Kenya December Newsletter, 2014. These banks are Barclays Bank, Co-operative Bank, Equity Bank, Family Bank, I & M Bank Limited, K-Rep Bank Limited, KCB Bank, NBK Bank, NIC Bank, Standard Chartered Bank and CFC Stanbic (Central Bank of Kenya December *Newsletter*, 2014). All these companies have formed strategic alliances in the use of mobile banking services. Since this is a small population, a census was deemed appropriate for this study.

3.4 Data Collection

For purposes of meeting the research objectives, both primary and secondary data were used. The study adopted the use of a questionnaire and a document analysis as the main research instrument. A questionnaire is a data collection instrument that has a series of questions and other prompts whose purpose is to gather information from respondents. Questionnaires are preferred to other data collection instruments because they are cheap; they do not require efforts on the side of the questioner and always have standardized answers (Kothari, 2008). The questionnaires were handed to the senior staff in Human Resource, Finance, Policy and Programme and Operations departments of the banks. Secondary data included management reports, organizations' magazines and research papers on strategic alliance management. Secondary data was collected by use of desk search techniques from published reports banking industry's publications, periodical and newspapers and other documents. Document analysis involved collection of financial data which were collected for each firm on a window period of 2010-2014. Total assets, total revenue, net income and total equity were evaluated.

3.5 Data Analysis

The data from the completed questionnaires were collected, coded and analyzed in order. It was then analyzed and presented by use of the computer applications. Descriptive statistics approach was used for analyzing and presenting the data in this research. Measures of central tendency was used to analyze the results. The researcher used qualitative and quantitative analysis to interpret the data obtained from the field. Data was analyzed by SPSS version 21. The results of the study were presented in tables. Regression and correlation equations was used to test the relationship between strategic alliance and performance of banks. Analysis of variance was used to analyze the differences among group means and their associated procedures.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on the effects of strategic alliance between mobile service providers and commercial banks on banks performance in Kenya. The data was gathered from both primary and secondary sources which included the records at Central Bank of Kenya (CBK).

4.1.1 Response Rate

Results for the managers was reduced to represent the 11 banks. Questionnaires were distributed to senior staff in Human Resource, Finance, Policy and Programme and Operations departments of the banks, all of which were received back making response rate of 100%, which according to Mugenda & Mugenda (2003) a response rate of 55% is adequate for statistical reporting. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires. All of the respondents have been working in the company for the last five years, this perceptibly contributed to the congruence in answering questions related to the research area.

4.2 Relationship between Strategic Alliance and Bank Performance

The study in this part aimed at identifying the extent at which the following factors affects the strategic alliance between Mobile Service Providers and Commercial banks on banks performance. Data was collected using Linkert scale of No extent (1), Little extent, (2), Moderate extent (3), Large extent (4) and Very large extent (5). The Table 4.1 shows the research findings.

Table 4.1: Relationship between Strategic Alliance and Bank Performance

Statements	Mean	Std. Deviation
Extent at which information dissemination processes are incorporated in the planning activities	3.0186	.29589
Extent at which the proposed alliance contribute to the mission or vision of the organization	3.3953	.25971
Proposed alliance allow the organization to achieve its objectives more effectively or more efficiently	3.4930	.31760
Customers involvement in the formulation of strategic alliances between your company and other players in the mobile banking sector	3.3488	.38604
commitment of the top leadership in your organization is essential to the growth of the strategic alliance in the mobile banking services	3.5419	.36306
strategies and processes are adopted by your organization to enhance its performance	3.4465	.44548

Respondents were asked to provide answers on each item that was measured by a five point Likert scale ranging from 1 (very low) to 5 (very high). From Table 4.1, mean and standard deviation were used to test respondent ideas where Standard deviation is the square root of the variance. It measures the spread of a set of observations. The larger the standard deviation is, the more spread out the observations are, while mean is the arithmetic mean across the observations, it is the most widely used measure of central tendency. It is commonly called the average. From Table 4.1, the statement on the commitment of the top leadership in the organization is essential to the growth of the strategic alliance in the mobile banking services was found to be the most significant factor with a mean of 3.5419 and a standard deviation of 0.36306.

Other significant factors were the statement that; proposed alliance allow the organization to achieve its objectives more effectively or more efficiently with a mean of 3.4930 and the statement that strategies and processes are adopted by organization to enhance its performance with a mean of 3.4465. However, the least significant was the statement on the extent at which information dissemination processes are incorporated in the planning activities which was agreed with a mean of 3.0186. this is in line with a study by Harrigan (2005) who observed that strategic alliances are not only used by firms to exploit peripheral markets or technologies, but are being perceived increasingly as critical elements of an organization’s business units network as strategic weapons for competing within a firms core markets and technologies.

4.3 Effects of Strategic Alliances on Organizational Performance

Respondents were asked their views on how following strategic alliance practices done by commercial banks in Kenya in enhancing performance. They were requested to rate with a degree of agreement/ disagreement using a scale of 1-5, by ticking their appropriate choice. The Table 4.2 shows the research findings.

Table 4.2: Effects of Strategic Alliances on Organizational Performance

Statements	Mean	Std. Deviation
Setting the Strategic direction	2.9628	.37372
Designing quality service system in strategic planning	3.0465	.44548
Stakeholders satisfaction	2.9302	.23269
Operating efficiency	3.0000	.28680
Clarifying Future Direction	3.4419	.39589
Establishing Priorities	3.2558	.38961
Assessing and sustaining organizational competence and impact	2.9302	.30357

In Table 4.2, Standard deviation measures the spread of a set of observations and it is the square root of the variance. The larger the standard deviation is, the more spread out the observations, therefore designing quality service system in strategic planning has the highest standard deviation 0.44548 meaning that most of the respondent didn't agree to one notion there was spread of ideas while the lowest standard deviation that there is stakeholders satisfaction 0.23269 while the other standard deviation are showed in Table 4.2.

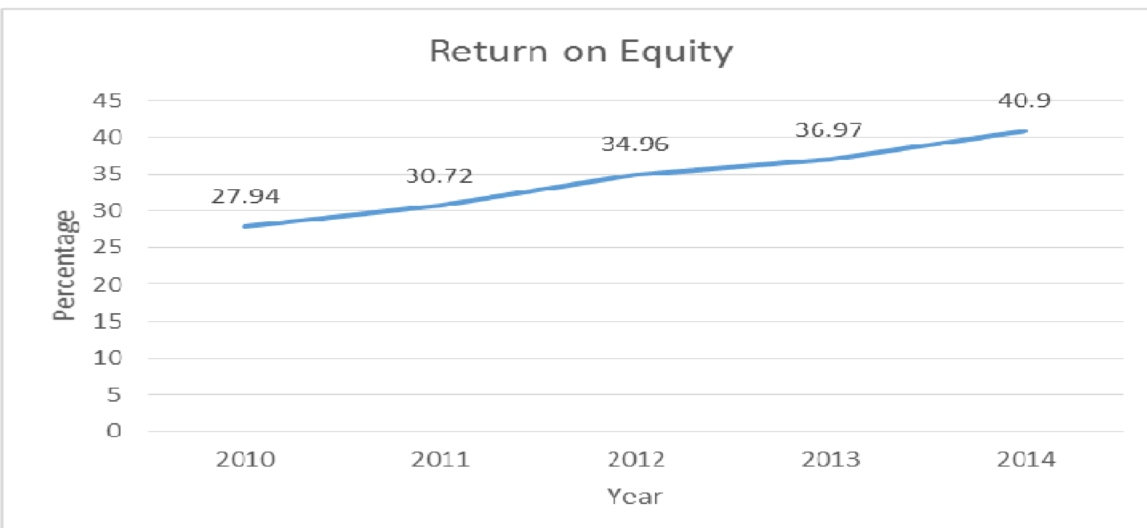
Mean is the arithmetic mean across the observations. It is the most widely used measure of central tendency. In Table 4.2, the means are above value 2.5 which is 50 percent of the scale therefore showing that strategic alliance between mobile service providers and commercial banks is done to enhancing performance. This is in line with a study by Amita, Richard & Robinson, (2011) who posits that financial measures of performance are often used to gauge organizational performance, some firms have experienced negative consequences from relying solely on these measures. Mathuva, (2009) was also of the opinion that financial performance can be evaluated using many financial indicators such as liquidity ratios, management performance, and leverage among others. Therefore, it is better that managers not rely on one set of measures to provide a clear performance target.

4.4 Content Analysis

4.4.1 Financial Performance of Commercial Banks

The study analyzed the consolidated financial performance of the banking sector during the study period. The findings were as shown in the Figure 4.1

Figure 4.1: Return on Equity

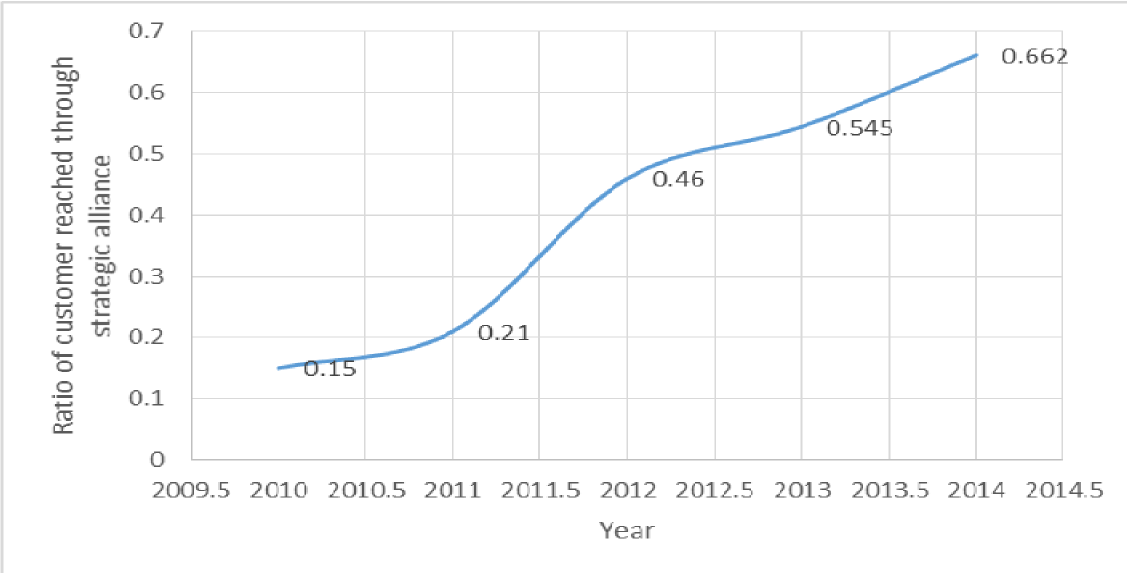


From the study findings in Figure 4.1, the study established that the performance of the banking industry began at its lowest point in the study period at 24.93 in the year 2009. The ROE picked an upward trend in the year 2010 to stand at 27.94%. The upward trend was maintained in the subsequent years to stand at 30.72% in 2011, 34.96% in the year 2012 and 36.97% in the year 2013 respectively. 2014 also showed a steady increase which stood at 40.9%. From the findings presented in Figure 4.1, the performance of commercial banks have highly improved, this could be due to strategic partnerships with mobile service providers.

4.4.2 Number of customers reached through Alliance between Mobile service providers and Commercial Banks

The study sought to establish the developments in the number of customers reached through mobile banking technology customers among commercial banks in Kenya from the year 2010 to 2014. This was done by calculating the ratio of number of customers reached through strategic alliances with mobile service providers and commercial banks in Kenya, against the total number of customers annually. The findings were as shown in the Figure 4.2.

Figure 4.2: Number of customers reached through Alliance between Mobile service providers and Commercial Banks/ volume of transactions annually

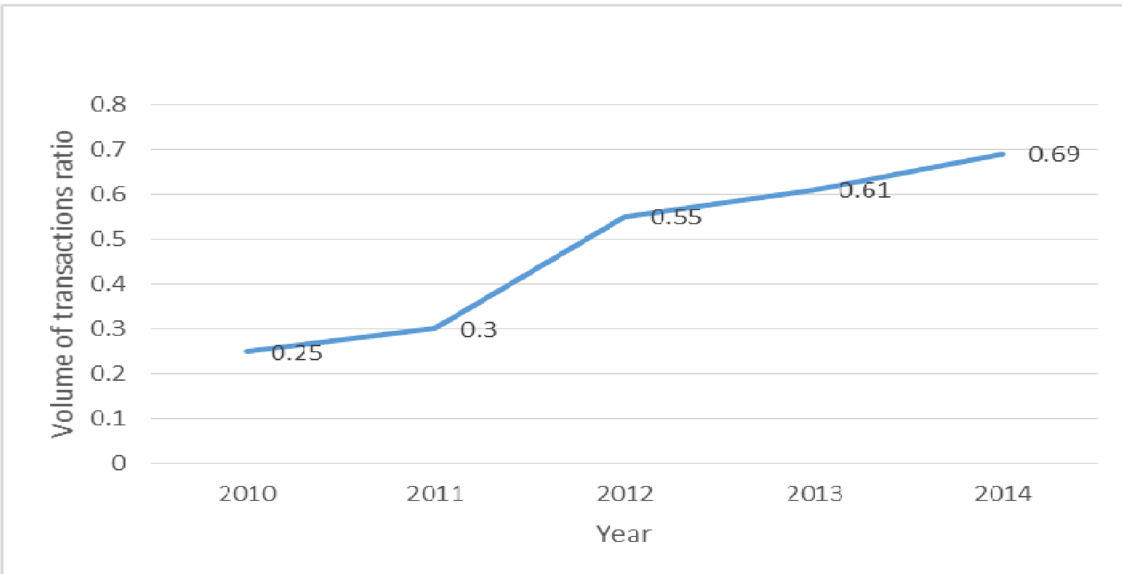


From the findings presented Figure 4.2, the study established that in 2010, the ratio of number of customers reached through strategic alliances with mobile service providers and commercial banks in Kenya, against the total number of customers annually stood at 0.15. The year 2011 started with a steady growth throughout the year to close at 0.21. The positive trend in the number of users continued thereafter, to a figure of 0.545 by the end of 2013. 2014 was however the most fruitful as banks recorded a ratio of 0.662. These findings show that as time lapsed, the number of mobile banking users increased an indication that could be contributed by strategic alliance. The commercial banks could now start enjoying economies of scale as more and more customers adopted mobile banking. The resulting effects could be better services in the banking halls as they would be less congested. This could also lead to a reduction in the headcount offering services in the banking halls. The adoption of strategic alliances with mobile service providers also contributes positively to the provision of standardized services.

4.4.3 Volume of transactions that are handled through mobile banking annually/ volume of transactions annually

The study sought to establish the volume of transactions that are handled through mobile banking annually against the volume of transactions annually. The findings were as indicated in the Figure 4.3.

Figure 4.3: Ratio of transactions handled through mobile banking/ volume of transactions annually



From the findings illustrated in the Figure 4.3, the study established that in the year 2010, the volume of transactions that are handled through mobile banking annually against the volume of transactions annually was at 0.25. During the year 2011, the number of companies offering mobile money transfer had increased to six, namely; Safaricom (M-Pesa), Airtel Networks (Airtel Money), Essar Telcom (Yu Cash), Orange Telkom (Orange Money), Mobile Pay (Tangaza) and Mobikash (Mobikash). The amounts transacted through these services were maintained high above 0.3. Notably, there was a characteristic fluctuation in transaction during this year. This opened the way for large volumes of transactions handled through mobile banking technology in the subsequent years of 2012 and 2013, from a low Figure of 0.3 (2011) to 0.6 in 2013. In 2014, the total amount still grew rapidly to an average of 0.69. The annual average stood at Kshs. 69.12. For the year.

4.5 Regression Analysis

In order to establish the relationship between the effects of strategic alliance between mobile service providers and commercial banks on banks performance in Kenya, the study conducted a multiple regression analysis. The findings were as shown in the Table 4.3.

Table 4.3: Model Summary for Goodness of fit

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.796[a]	0.633	0.594	0.30202

a. Predictors: (Constant), volume of transactions annually, number of mobile banking users

Coefficient of determination explains the extent to which changes in the dependent variable (performance of commercial banks in Kenya) can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance of commercial banks in Kenya) that is explained by all the two independent variables (volume of transactions annually, number of mobile banking users). The two independent variables that were studied, explain 63% of the changes in the financial performance of commercial banks in Kenya as represented by the R^2. The study shows that there is a positive significant correlation between strategic alliance between mobile service providers and commercial banks on banks performance in Kenya in Kenya.

Table 4.4: Results of ANOVA of Regression Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.976	1	1.494	16.377	.000[a]
	Residual	3.466	10	.091		
	Total	9.442	11			

a. Predictors: (Constant), volume of transactions annually, number of mobile banking users

b. Dependent Variable: performance of commercial banks

ANOVA findings (P- value of 0.00) in Table 4.4 show that there is correlation between the predictor's variables (volume of transactions annually and number of mobile banking users) and response variable (Financial performance of commercial banks). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent variable) than there is within each group, referred to as the error term. A significant F test indicates that we can reject the null hypothesis which states that the population means are equal. The P value is 0.000 which is less than 0.005 significance level.

Calculated *F*-ratio concerning variation between columns is equal to or greater than its table value, then the difference among columns means is considered significant. Similarly, the *F*-ratio concerning variation between rows can be interpreted. From the ANOVA table, it's found that differences concerning volume of transactions annually and number of mobile banking users is significant at 5% level as the calculated *F*-ratio of 16.377 is greater than the value 0.00, but volume of transactions annually and number of mobile banking users are significant as the calculated *F*-ratio of 16.377 is more than its table value of 0.00.

Table 4.5: Coefficients of Regression Equation

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	26.123	1.947		13.414	.006
	Number of mobile banking users	.012	.394	.213	.030	.979
	Volume of transactions annually	.118	2.108	.395	.056	.960

The researcher conducted a regression analysis so as to determine the relationship between mobile banking and financial performance of banking industry in Kenya. The regression equation ($Y = \beta 0 + \beta 1X1 + \beta 2X2$) was:

$Y = 26.123 + 0.012X1 + 0.118X_2$

Whereby Y = financial performance of commercial banks;

X1= Number of mobile banking users;

X2 = Volume of transactions annually.

According to the regression equation established, taking all factors (number of mobile banking users and total value moved through mobile banking annually) constant at zero, the financial performance of the commercial banks will be 26.123%. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in number of users will lead to a 0.012 increase in financial performance of the banking sector. A unit increase in the amount of money moved through mobile banking will lead to a 0.118 increase in in the financial performance of the commercial banks. This notwithstanding, the study shows that there is a positive significant correlation between independent variables and financial performance of commercial banks in Kenya. Therefore, it can be deduced strategic alliance between mobile service providers and commercial banks has a significant effect on banks performance. This is in line with a study by Gatwiri (2014), on effects of expansion strategies on performance of selected commercial banks in South Nyanza Region, Kenya. The study also found that merger and acquisition influence the expansion of commercial banks as the commercial banks were able to get customer even in the region where they did not have actual branches.

4.6 Discussion

From the findings presented above, it is evident that as the number of mobile banking users increased due to strategic partnerships, the monthly amount moved through mobile banking increased. At the beginning in the year 2007, the users were few as many individuals must have been skeptical as regards the security of mobile services and individual accounts. However, as more and more people learned of the safety of the service, they adopted it and hence the increase in the amount of money transacted through mobile banking.

These findings are consistent with the argument by Al-Jabri (2012) who studied mobile banking adoption by looking at the application of diffusion of innovation theory and established that with better mobile banking support and provision of variety of services, the more useful customers perceive mobile banking to be and to increase their level of adoption. The increase in the number of users shows confidence among mobile banking users. This shows that commercial banks understudy took keen interest in ensuring minimal risk exposure for their customers. As Al-Jabri (2012) suggested, banks must seek to reduce risk perceived by their customers by offering specific guarantees protecting them and taking their complaints seriously and urgently.

From the findings, the performance of commercial banks as measured by return on equity, financial performance of commercial banks is a function of many other variables not looked at in this study. However, despite this, the amount of money transacted through mobile banking and number of users maintained a positive increase. There is also a directly positive relationship between number of mobile banking users and the amount of money moved through mobile banking over the study period. However, the two independent variables that were studied, explain 63% of the changes in the financial performance of commercial banks in Kenya as represented by the R^2.

The study shows that there is a significant positive correlation between mobile service providers and financial performance of the selected commercial banks in Kenya. This was largely because the financial performance of commercial banks is a function of many other variables not looked at in this study. However, with the increasing levels of adoption of information technology, commercial banks that adopt the latest information technologies are likely to outperform those who may rely on brick and mortar branch.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings from chapter four, conclusions and recommendations of the study based on its objectives. The chapter also presents limitations of the study and suggestion for further studies.

5.2 Summary of findings

The study found that there is a significant effects of strategic alliance between mobile service providers and commercial banks indicating that companies were adopting strategic alliances in offering mobile banking services to customers making the strategic alliance on mobile banking services was growing. Strategic alliance for mobile banking services was strongly growing as indicated by most of the respondents.

Commercial banks in Kenya have adopted mobile services to provide crucial banking services to customers in Kenya. The results show that as the annual value moved through mobile banking increases, the profitability of the commercial banks have increased. The research shows that strategic alliance with mobile service providers to a larger extent impacts the performance of commercial banks in Kenya in that it helps reduce unnecessary cost, increase efficiency and improves on service delivery to customers. However, for the period 2010/11, this relationship seems not to hold as the value moved continued to increase while the performance of the banking industry as a whole dropped as measured by return on assets probably because the idea was at its inception stage.

This was well explained by the F critical at 5% level of significance which was 0.00 and the F critical (value = 16.377). In addition, the R squared value was above average at 63% showing that the effects of strategic alliance between mobile service providers and commercial banks was significant. However, the study found out that strategic alliance with mobile service providers is being used to improve financial operations of banks. The banks have put in place measures become more competitive by keeping pace with the technological developments. It can also be noted from the findings on the number of users that the numbers keep increasing from one year to another. This shows that customers are appreciating and embracing alliance with mobile service providers in what is now called mobile banking. This could be attributed to the advantages offered by mobile banking which include convenience and flexibility.

5.3 Conclusions

From the research findings presented in chapter four and summary of findings, the study concludes that there is a significant positive relationship between strategic alliance between mobile service providers and commercial banks on banks performance in Kenya. This could be attributed to the trends recorded in the two variables where the number of users and monthly transfers maintained a positive growth rate while performance of commercial banks was affected by many variables which have major impacts compared to the adoption of strategic alliances. Financial performance of commercial banks in Kenya was majorly affected by macro-economic variables like inflation and foreign exchange rates fluctuations among other macro-economic variables which were outside the scope of this study.

5.4 Policy Recommendations

From the above conclusion, the study recommends that policy makers consider strategic alliances with mobile service providers in their formulation of policies because of the technological developments and the expected switch from physical branch networks to technologically supported banking services. This is because strategic alliance between mobile service providers and commercial banks, the impact could be pronounced if much change is recorded in technological developments and more customers adopt mobile banking services.

Strategic alliance between mobile service providers and commercial banks is being used to improve financial operations in commercial banks. The banks have put in place measures to become more competitive by training its staff, investing in research and development of technology. In the long run, mobile banking is likely to have major impacts on the profitability of commercial banks as it smoothes business operations.

The study further recommends that commercial banks keep embracing strategic alliance with mobile service providers in their operations because the number of people with access to a mobile hand set is increasing every day. In addition, the convergence of mobile phones and commercial banks has revolutionized the banking operations. For example, Safaricom limited in conjunction with Commercial Bank of Africa launched M-Shwari services which provide registered members an opportunity to borrow money from the bank and repay conveniently. This has introduced another perspective that is likely to revolutionize the banking operations for increased profitability.

5.5 Limitations of the Study

A limitation was regarded as a factor that was present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were: the data used was secondary data generated for other purposes hence may not accurately predict the relationship among the variables. The measures used may keep on varying from one year to another subject to the prevailing condition. For example the performance of commercial banks was subject to the total assets (ROE) owned by commercial banks. In addition, changes in the macroeconomic environment could have affected the profitability of commercial banks e.g. travel advisories from foreign embassies as well the strengthening of the Dollar ($) against the Kenyan currency which slowed down economic development.

Another limitation for the study included the short period which commercial banks have partnered with mobile service providers which could not give a long trend for analysis. Strategic alliance between mobile service providers and commercial banks was only introduced in Kenya by March 2008. It has only been six years since the launch which may not give a clear picture of the relationship as not all commercial banks adopted it at ago yet the performance used in the study takes into account the performance from all banks.

5.6 Suggestions for Further Studies

The study suggests that further research be conducted on the effects of strategic alliance between mobile service providers and commercial banks in other countries within the East African Community. This study only concentrated on Kenya yet strategic alliances between mobile service providers and commercial banks has been adopted in all members of the East African Community.

The study further recommends that another study be conducted in Kenya on the relationship between commercial banks' strategic alliance and economic growth to establish the contributions of mobile banking on the growth of the economy. The study further suggests that another study be conducted on the impact of mobile banking on financial deepening in Kenya. The Central Bank statistics show that as a result of mobile banking, there is an increase in the level of financial deepening in Kenya of upto about 85%. A study needs to be carried out to ascertain the effectiveness of commercial banks' strategic alliance on financial performance.

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

1. Name: (Optional) …………………………………………………………………..

2. Position: ………………………………………………………………………………

3. Department: …………………………………………………………………………..

4. Duration you worked at bank

    Less than 2 years ( )

    2-5 Years ( )

    5-10 years ( )

    More than 10 Years ( )

SECTION B: RELATIONSHIP BETWEEN STRATEGIC ALLIANCE AND BANK PERFORMANCE

Note: For each of the questions, tick against your response or write your response in the blank space provided.

1. To what extent does each of the following factors affect Strategic Alliances in your organization? Use the following scale: No extent **(1),** Little extent, **(2),** Moderate extent **(3),** Large extent **(4)** and Very large extent **(5)**

Factors Under Consideration	1	2	3	4	5
Extent at which information dissemination processes are incorporated in the planning activities					
Extent at which the proposed alliance contribute to the mission or vision of the organization					
Proposed alliance allow the organization to achieve its objectives more effectively or more efficiently					
Customers involvement in the formulation of strategic alliances between your company and other players in the mobile banking sector					
commitment of the top leadership in your organization essential to the growth of the strategic alliance in the mobile banking services					
strategies and processes are adopted by your organization to enhance its performance					

SECTION B: EFFECTS OF STRATEGIC ALLIANCES ON ORGANIZATIONAL PERFORMANCE

1. Using a scale 1-5, Please tick (✓) all as appropriate. No extent **(1),** Little extent, **(2),** Moderate extent **(3),** Large extent **(4)** and Very large extent **(5)**

To what extent has the following strategic alliance practices done by commercial banks in Kenya in enhancing performance**?**

Factors Under Consideration	**1**	**2**	**3**	**4**	**5**
Setting the Strategic direction					
Designing quality service system in strategic planning					
Stakeholders satisfaction					
Operating efficiency					
Clarifying Future Direction					
Establishing Priorities					
Assessing and sustaining organizational competence and impact					

Appendix II: Commercial Banks with an alliance with Mobile Service Providers in Kenya as at June 2014

1. Barclays Bank
2. CFC Stanbic Bank
3. Co-operative Bank
4. Equity Bank
5. Family Bank
6. I&M Bank
7. Kenya Commercial Bank
8. K-Rep Bank
9. National Bank of Kenya
10. NIC Bank
11. Standard Chartered Kenya

Source: Central Bank of Kenya (2014)