Strategic Partnerships and Performance of Listed Commercial Banks in Kenya

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Abstract

Organizations are striving to perform thus making them to adapt strategic partnerships which are considered as an essential source of improved performance. To achieve competitive advantage, firms need to combine their assets and capabilities in a co-operative policy that is termed as strategic partnership. Strategic partnership is considered as an essential source of resource sharing, learning, and thereby competitive advantage in the competitive business world. Management of partnerships and value creation to attain competitive advantage is very important in strategic partnership. The main objective of the study was to establish the effects of strategic partnerships on the performance of listed commercial Banks in Kenya. Research in the various components in this area may help to uncover previously unknown information that may go a long way in facilitating further understanding of the factors that encourage formation of strategic partnerships and what firms may do to increase. This study was based on Competitive Advantage Theory, Knowledge Based Theory, Resource Dependence Theory and Transaction Cost Theory. The study adopted descriptive design. The target population for this research included all the employees of banks listed in the NSE. The data for the research was mainly from both primary and secondary data. Both descriptive and inferential statistics were used to analyze the data. Based on the findings, the respondents agreed that cost of technological infrastructure makes it hard for companies to thrive alone. Overall, the respondents agreed that diffusion of technology affect performance of listed banks in Kenya. The respondents also indicated that customer service influence performance of listed banks in Kenya. From the findings and conclusions the study recommends that the management of commercial banks should continue looking in to forming strategic partnerships, this will help in achieving cooperative objectives and at the same time reduce inter competition and business risks . However before entering into any partnerships, it is very important that proper consultations and evaluations are made to avoid future inconveniences. The study further recommends that before partnership agreements are finalized it is extremely important to identify managers who are foreseen as credible across the company. They need to be acquainted with all aspects of the partnership agreement, particularly the dispute resolution, and governance process, they should possess broad range of skills including business development marketing and product management so that they can recognize how each partners offering can be integrated or innovated to create new products or services, this will help to improve the organizational performance. The study recommends that when selecting partners, the management of the commercial banks should ensure that there is strategic alignment and cultural compatibility, this is extremely important because, no positive results on due diligence or a "great" financial deal will overcome the lack of strategic alignment. Without this assurance, the alliance is guaranteed to fail.

Key Words: *Strategic Partnerships, Organization Performance, Listed Commercial Banks in Kenya*

1. BACKGROUND OF THE STUDY

Strategic partnerships are viewed as the most powerful and an effective way of enhancing commercial banks performance (Gichuhi, 2011). Strategic partnerships are increasingly becoming popular in the business world. To achieve competitive advantage, firms need to combine their assets and capabilities in a co-operative policy that is termed as strategic partnership. Strategic partnership is considered as an essential source of resource sharing, learning, and thereby competitive advantage in the competitive business world. Management of partnerships and value creation to attain competitive advantage is very important in strategic partnership (Ireland *et al*, 2012). Strategic partnerships involve firms with some degree of exchange and sharing of resources and capabilities to co-develop or distribute goods or services (Baum & Usher, 2010). The achievement of competitive advantage is not easy by one firm operating on its own because it does not possess all required resources and knowledge to be entrepreneurial and innovative enough in dynamic competitive markets. Partnering with other firms creates the opportunity to share the resources and capabilities of firms while working with partners to develop additional resources and capabilities as the function for new competitive advantage (Kuratko *et al*, 2010).

The performance aspect within the organization is crucial in any management and more so in strategic management. The fundamental question that requires serious critical analysis is why some organizations may perform exemplary while others fail in their operations (Mkalama, 2014). This explains why all firms consider performance critical whether profit motivated or not. It is therefore important for management to understand and categorize the factors necessary for performance to be realized and applied in the right acumen to reap both financial and other performance measures. The importance of organizational performance can be seen from the theoretical, empirical and managerial lenses (Kakanda, Bello & Abba, 2016). The theoretical lens looks at strategy effectiveness, the empirical lens looks at performance as operationalized in research and the managerial lens focuses on the quality of decisions made by managers that reflect on firm performance. Performance of firms should reflect in the different aspects of an organization. Among these should be on the profitability and growth of firms, the welfare of employees working in an organization, organizational processes and systems and the environment at large.

According to Munyoki, (2015) organizational performance encompasses three specific areas of firm outcomes namely financial performance, product market performance and shareholder return, in some cases; production capacity performance may be analyzed. Awino (2013) states that performance can be measured in two ways: based on stewardship of management or how efficient it utilizes its resources and the prevailing price of an organization. He cites qualitative measures as affective (satisfaction, commitment, turnover, role conflict, group social number, quality of ideas), cognitive (innovation, range of perspective, quality of ideas) and symbolic (behavior of lower level employees, communication among others). Similarly, Venkatraman & Ramanujam (1986) state that firm performance can be measured using qualitative aspects of employee and customer satisfaction, social and environmental performance.

Strategic alliances with other companies are some of the methods used by the commercial banks in order to deal with the contemporary market forces of competition. Kenya commercial bank partnered with Safaricom to come up with M-Karo which is a licensing agreement with Safaricom's M-pesa to enable clients to pay school fees directly into schools' bank accounts using the mobile money transfer platform, further Kenya commercial bank has also partnered with Safaricom through Kenya commercial bank M-benki to facilitate opening of accounts using mobile phone and Kenya commercial bank Mobi which facilitate checking balances, mini statements, funds transfer to Safaricom customers and Kenya commercial bank account holders (Daily Press bulletin, 2014). According to the bank report of 2014, Kenya commercial bank group has also partnered with Safaricom through Biashara Smart portal. The solution was set to address real life challenges that face growing businesses. From access to funds Lipana M-PESA for merchant payments to Biashar@Smart accounting for online ERP solution. The solution also helps SMEs improve their efficiency which ultimately boost their credibility in the eyes of their customers. Biashar@Smart club also offer capacity building opportunities through partnerships targeted at delivering practical knowledge and skills in business planning finance and marketing. Kenya commercial bank, a Safaricom's financial partner, provides Biashar@Smart members with preferential interest rates on loans. Also members of the club have access to a rich business portal Biashar@Smart Connect (Bank Report, 2014).

2. RESEARCH PROBLEM

Despite the popularity and advantages associated with strategic partnerships that have seen many companies rush to form strategic partnerships, few have succeeded. It has been projected that the failure rate of strategic partnerships could be as high as 70%. Studies have shown that between 30% and 70% of partnerships fail; in other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide (Bamford *et al*, 2004). Alliance termination rates are reportedly over 50% (Lunnan & Haugland, 2008) and in many cases forming such relationships has resulted in shareholder value destruction for the companies that are listed on the stock exchange and engage in partnerships (Davidson, 2011). Several authors have identified potential problems and challenges that might lead to failure in strategic partnerships. Bamford, Ernst and Fubini (2004) have highlighted various reasons for failure including: wrong strategies, mistrust, incompatible partners, inequitable or unrealistic deals, weak management, inadequate launch planning and execution among others. Harrigan (1985) points out that many strategic partnerships failures can be attributed to compatibility problems between the firms. These might include partners of unequal size, collaboration experience, or managerial style. Other incompatibilities include staffing errors and the lack of participatory management. argues that most strategic partnerships are doomed to failure from their inception due to insufficient planning, Douma, Bilderbeek, Idenburg & Looise, (2010) inadequate capitalization, lack of leadership, lack of commitment and cultural and ideological differences.

Strategic partnerships have their own shortcomings which include: time spent by management to negotiate and implement the partnership, loss of flexibility, leakage of proprietary knowledge to the partner and atrophying of certain firm capabilities. Organizational learning suggests that partnerships are difficult to manage due to frequent tensions between cooperation and competition (Doz & Hamel, 2012). Very little is known about the effects of strategic partnerships on the performance of commercial banks with studies being conducted in the context of developed world (Gulati, 2013). Many studies have been done in the area of strategic partnerships and the results found from the studies have been inconsistent. Musyoki (2003) studied the creation and implementation of strategic partnerships among non-governmental organizations with a case of Gedo health consortium. Wachira (2003) carried out a survey on strategic partnerships in pharmaceutical drug development, a case study of three strategic partnerships at Eli Lilly and company. Koigi (2002) carried out a survey on the implementation of strategic partnership experience of Kenya Post Office Savings Bank (KPOSB) and Citibank. Kamanu (2005) emphasized that strategic partnerships among development of NGOs in Kenya are a crucial component in the success of any organization for profit or non-profit in the world today.

Empirical evidence suggests that studies on strategic partnerships in commercial banks have been done in developed countries of Europe and USA with a limited number of studies being done in developing countries. The studies indicated above focused on other sectors of the economy such as nongovernmental organizations, manufacturing industry and pharmaceuticals while current study will be limited to the banking industry. Similar studies have considered various aspects of strategic partnerships however; the present will consider four variables which are: diffusion of technology, customer service, knowledge expertise and cost synergies. Previous studies were undertaken before liberalization of economy whereas the current study will focus on strategic partnerships in commercial banks after financial liberalization. In Kenya, while several studies have been done on strategic partnership, none has focused on their effect on the performance of commercial banks listed at the Nairobi Securities Exchange. A knowledge gap therefore exists and hence this study seeks to address this gap by investigating effect of strategic partnerships on performance of listed banks in the increasingly competitive Kenyan banking industry.

3. RESEARCH OBJECTIVES

The general objective was to establish the effects of strategic partnerships on the performance of listed commercial Banks in Kenya.

The specific objectives were:

i. To establish the effects of diffusion of technology on performance of listed banks in Kenya
ii. To find out the influence of customer service on performance of listed banks in Kenya
iii. To investigate the relationship between knowledge expertise and performance of listed banks in Kenya
iv. To find out the effects of cost synergies on performance of listed banks in Kenya

4. THEORETICAL REVIEW

4.1 Competitive Advantage Theory

The study was based on Competitive Advantage Theory. The theory focuses on a firm's behavior from a managerial, rather than a marketing approach, explaining that companies are expected to seek cooperative arrangements if they believe those will improve their ability to meet strategic objectives, especially in maximizing profits or in protecting or enlarging market share. Though discourse on competitive advantage is widely prevalent, clear definitions are rare and it is often used interchangeably with concepts like distinctive competence (Day and Wensley, 1988). The attainment of a strategic competitive advantage can be expected to lead to superior performance measured in conventional terms such as market-share and profitability (Bharadwaj et al., 1993). However, the economics literature holds that, given strong competitive pressures, high rationality will prevail and such economic rents will dissipate. But where the resources underlying the advantage are limited or quasi-limited in supply, superior returns will persist (Pfeffer & Salancik, 1978), focusing attention on the nature of the firm's resource pool.

4.2 Knowledge Based Theory

Knowledge-based perspective was developed by Nelson and Winter (1982). The theory is particularly applicable to the study of strategic partnerships. Efforts to build the knowledge-based theory of the firm also draw on the evolutionary theory of economic change proposed by Nelson and Winter (1982). According to this theory, a firms a social entity, which evolves by adapting the body of knowledge shared by its members, and it is the firm's productive knowledge that defines its competitive advantage. Critics of knowledge based theory mainly focus on whether it is sufficient to explain a firm's behavior. It is not possible to tell why firm exist in the absence of 'opportunism' or 'moral hazard' (which is the basic premise of the contractual approach) (Foss, 1996). Moreover, it can neither explain firm's boundary nor identity because what happen between firms is similar to what happen within firms (Eisenhardt and Santos, 2002). In this study, the proliferation of strategic partnerships will be viewed as one driven by the knowledge based theory. Since strategic partnerships occur when two or more partners pull resources together to establish a partnership, then the firms have a knowledge base that is not diffused across their boundaries. This becomes the driving force of strategic partnerships, more so as a means of transferring tacit knowledge. For organizational embedded knowledge, such as organizational routines, the transfer is difficult unless the organization itself is replicated. Thus, the main reasons to strategic partnerships is because one or both the firms desire to acquire the other's organizational know-how; or one firm wants to retain its organizational capability while benefiting from the other firm's knowledge. This benefit to a firm can only then be realized in improved performance of the firms leading to profitability; which to any organization is financial.

4.3 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. In essence, 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 partnership a viable form of inter-organizational structure that can minimize uncertainties thus enhancing access to much needed resources (Gray and Yan, 1992). 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 (Leiblein, 2003). The competitive advantage of a firm is the result of a strategy that utilizes its unique resources and skills. The application of resource dependence theory will deepen our understanding of what resources parent firms prefer to control and how they control them.

4.4 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 (Kogut, 1988). 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 partnerships come in to bring the transactions of these costs under a common cooperative structure thereby enabling the partners to reduce the cost involved hence avoiding opportunism among exchange partners (Beamish and Bank, 1987). According to Hennart (1988), the equity link between strategic partners and their ventures is preferable to coordination through spot markets or contracts. The theory is linked to cost synergies of commercial banks which was the main focus of the study.

5. CONCEPTUAL FRAMEWORK

Despite the popularity of strategic partnerships in international business, a considerable proportion of strategic partnerships are unstable or performed unsatisfactorily. Further, the rates of instability and unsatisfactory performance are relatively higher in developing countries than in developed countries (Sim and Yunus, 2008). Nevertheless, many of the studies undertaken on strategic partnerships in both the developed and developing countries only take into account a small number of factors that may positively influence strategic partnerships outcomes with the effect of strategic partnerships on the financial performance of financial institutions far from clear. Some of the studies even reported contradictory impacts. The effect of strategic partnerships on financial performance of commercial banks has not been deeply investigated with some authors such as Gleason et al. (2006) comparing the result of deals joining banking or non-banking partners, while others such as Marciukaityte et al. (2009) contrast the case of financial and non-financial partners.

The research gap is based on the lack of literature describing the collaboration between two companies of this nature i.e. banks and mobile phone companies in developing countries. There exist numerous studies based on strategic alliances in emerging and developed countries in terms of the benefits accrued through these alliances, their management and their ability to overcome challenges. However there is a shortage of studies with similar content in developing countries. This study could be among the first in the country to seek to address the effects of strategic partnerships on the financial performance of commercial banks.

The independent variables include development/diffusion of technology, customer service, knowledge expertise and cost synergies. The dependent variable is the financial performance of commercial banks. The researcher avers that the four independent variable (development/diffusion of technology, customer service, knowledge expertise and cost synergies) influence firm performance. The study seeks to determine the effects of the four variables both individually and collectively on firm performance.

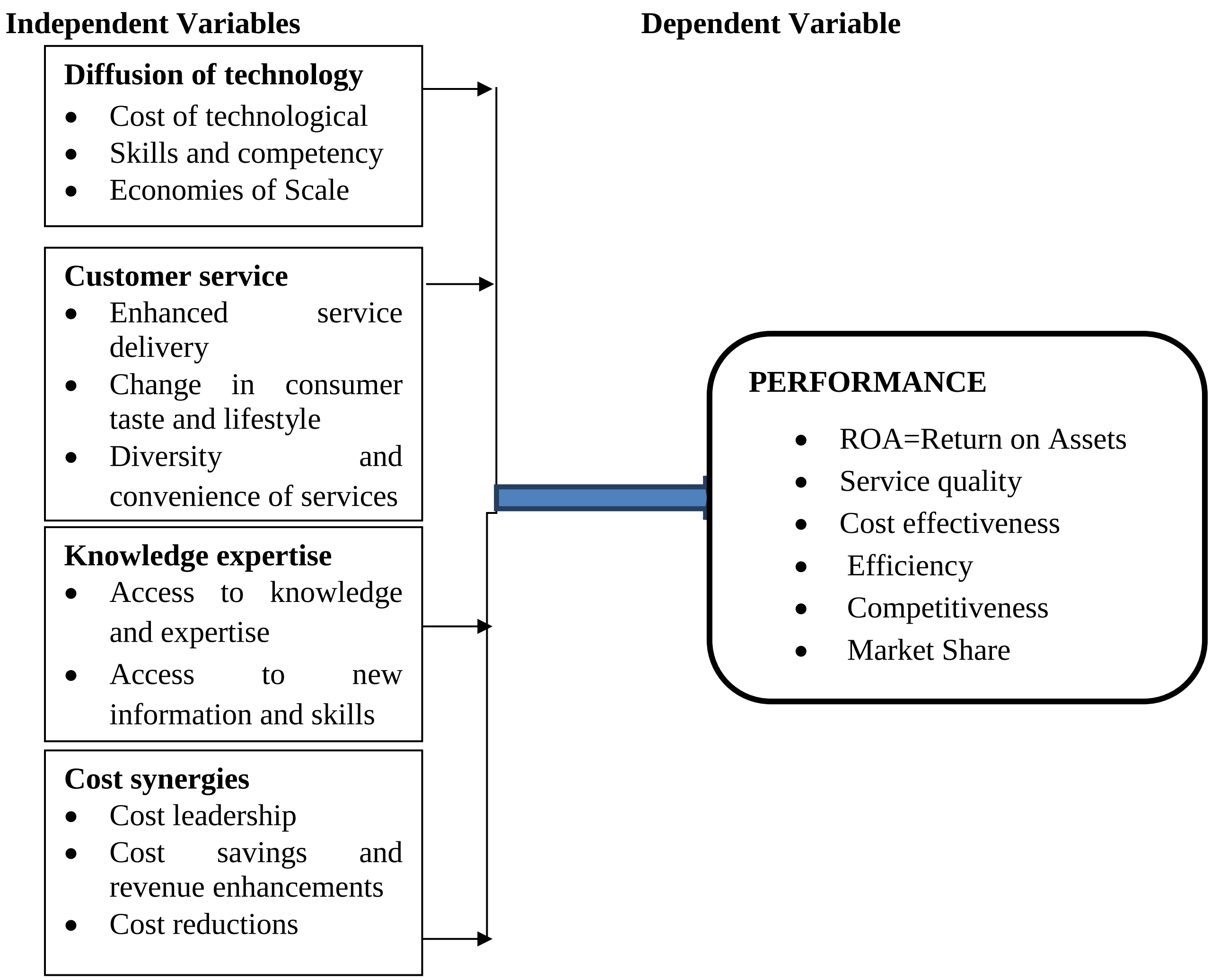

Figure 1: Conceptual Framework

6. RESEARCH METHODOLOGY

A descriptive research design was used to helps in providing answers to the questions of who, what, when, where, and how associated with a particular research problem; a descriptive study cannot conclusively ascertain answers to why. The target population for this research included 185 employees of banks listed in the Nairobi Securities Exchange (NSE) at their head offices. The unit of analysis was the departments in listed commercial banks which comprises of human resources, finance, customer development, supply chain, marketing, research and development and Information technology. The sample size of 55 from a population of 185 forms 30% of the target population which fulfils the minimum threshold sample suggested by Patton (2002) who recommended 30% of the target population as an adequate sample size in a descriptive case study survey.

Simple random sampling technique was applied in selecting the sample for this study. A simple random sample is a subset of respondents chosen from a larger population. The study utilized questionnaire as major instrument for the study in collecting primary data. The data is collected by way of self-administered questionnaires.

7. DATA ANALYSIS RESULTS

The researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the firm performance. The researcher applied the statistical package for social sciences (SPSS version 20) to code, enter and compute the measurements of the multiple regressions for the study.

7.1 Correlation Analysis

Pearson correlation was used to measure the degree of association between variables under consideration i.e. independent variables and the dependent variables. Pearson correlation coefficients range from -1 to +1. Negative values indicates negative correlation and positive values indicates positive correlation where Pearson coefficient <0.3 indicates weak correlation, Pearson coefficient $>0.3<0.5$ indicates moderate correlation and Pearson coefficient>0.5 indicates strong correlation.

Table 1: Correlation Coefficients

		Diffusion of Technology	**Customer service**	**Knowledge expertise**	**Cost synergies**	**Performance**
Diffusion of Technology	Pearson Correlation	1	.723**	.539**	.577**	.367*
	Sig. (2-tailed)		.000	.000	.000	.016
	N	43	43	43	43	43
Customer service	Pearson Correlation	.723**	1	.625**	.621**	.504**
	Sig. (2-tailed)	.000		.000	.000	.001
	N	43	43	43	43	43
Knowledge expertise	Pearson Correlation	.539**	.625**	1	.971**	.387*
	Sig. (2-tailed)	.000	.000		.000	.010
	N	43	43	43	43	43
Cost synergies	Pearson Correlation	.577**	.621**	.971**	1	.349*
	Sig. (2-tailed)	.000	.000	.000		.022
	N	43	43	43	43	43
Performance	Pearson Correlation	.367*	.504**	.387*	.349*	1
	Sig. (2-tailed)	.016	.001	.010	.022	
	N	43	43	43	43	43

***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

The analysis above shows that customer service has the strongest positive influence on firm performance (Pearson correlation coefficient =.504) and $P<0.05$ implying that the relationship is statistically significant. In addition, diffusion of technology, knowledge expertise and cost synergies are positively correlated to firm performance (Pearson correlation coefficient =.367, .387 and .349 respectively and $P<0.05$ implying statistically significant relationships. The correlation matrix implies that the independent variables are very crucial determinants of firm performance as shown by their strong and positive relationship with the dependent variable; firm performance.

7.2 Regression Analysis

Regression model is used here to describe how the mean of the dependent variable changes with changing conditions. Regression Analysis was carried out for focus on diffusion of technology, customer service, knowledge expertise and cost synergies and firm performance. To test for the relationship that the independent variables have on firm performance, the study did the multiple regression analysis.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.531[a]	.282	.206	147.57954

a. Predictors: (Constant), Cost synergies, Diffusion of Technology, Customer service, Knowledge expertise
b. Dependent Variable: Firm performance

The four independent variables that were studied explain 28.2% of the firm performance as represented by the R^2. This therefore means that other factors not studied in this research contribute 72.8% of the firm performance. This implies that these variables are significant therefore need to be considered in any effort to boost firm performance in Kenya. The study therefore identifies variables as critical determinants of firm performance.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	324285.245	4	81071.311	3.722	.012[b]
	Residual	827629.406	38	21779.721		
	Total	1151914.651	42			

a. Dependent Variable: Firm performance

b. Predictors: (Constant), Cost synergies, Diffusion of Technology, Customer service, Knowledge expertise

The significance value is 0.012 which is less than 0.05 thus the model is statistically significant in predicting how diffusion of technology, customer service, knowledge expertise and cost synergies influence the firm performance in Kenya. The F critical at 5% level of significance was 3.722. This shows that the overall model was significant. The study ran the procedure of obtaining the coefficients, and the results were as shown on the table below.

Table 4: Coefficient Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1492.193	120.754		12.357	.000
	Diffusion of Technology	5.431	28.403	.040	.191	.049
	Customer service	49.041	25.553	.420	1.919	.032
	Knowledge expertise	79.373	68.789	.682	1.154	.036
	Cost synergies	69.224	69.389	-.597	-.998	.025

a. Dependent Variable: Firm performance

Multiple regression analysis was conducted as to determine the relationship between firm performance and the four variables. As per the (SPSS version 20) generated table above, the equation: ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes: $Y= 1492.193+ 5.431X_1+ 49.041X_2+ 79.373X_3+ 69.224X_4$. According to the regression equation established, taking all factors into account (diffusion of technology, customer service, knowledge expertise and cost synergies) constant at zero firm performance was 1492.193. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in diffusion of technology will lead to a 5.431 increase in firm performance; a unit increase in customer service will lead to a 49.041 increase in firm performance, a unit increase in knowledge expertise will lead to a 79.373 increase in firm performance and a unit increase in cost synergies will lead to a 69.224 increase in firm performance. At 5% level of significance and 95% level of confidence, diffusion of technology had a 0.049 level of significance, customer service showed a 0.032 level of significance, knowledge expertise showed a 0.036 level of significance, and cost synergies showed a 0.025 level of significance. All the significance values were less than 0.05 ($p<0.05$) implying that they were statistically significant in explaining performance.

8. CONCLUSIONS

Strategic partnerships can be used to gain additional complementary resources thus enabling market expansion and reducing competition. In order for this to be effective, there should be communication and cooperation between partners. Furthermore, a choice of partners needs to be taken into consideration as well as strategic fit and resources that the partner possesses. The management of the partnership through clear separation of tasks between partners and use of separate project teams is also a possible option between partnerships with firms in different industries. Additionally, cross industry cooperation has been seen to provide a way through which organizations can benefit from partnerships with firms that are not part of their industry leading to additional gains by companies who pursue them. In the current competitive market, many organizations cannot operate alone without partnering with others. The main agenda is bringing together the resources available from both organizations that enhance synergy for better operation in the volatile business environment. Technological changes coupled with increased in demand for better services at a cheaper cost by customers has generated more competition. Innovation and consistent research is the only way forward for an organization to prosper in the competitive market.

The study concludes that structure of an organization provides differentiation and integration of work undertaken by the employees of the company, through the design of the structure, management establishes expectations for what individuals and groups will do to achieve the organization's purposes, Strategic partnership structure will help the banks to identify its hierarchy of managers and sources of authority hence improve firm performance. The study concludes that in deed commercial banks should adopt strategic partnerships, but only after having clear objectives of what they want to achieve from these partnerships, after which those adopted should be closely monitored for corrective measures. Lastly the study concludes the choice of partner affects performance of commercial banks.

9. RECOMMENDATIONS

From the findings and conclusions the study recommends that the management of commercial banks should continue looking in to forming strategic partnerships, this will help in achieving cooperative objectives and at the same time reduce inter competition and business risks. However before entering into any partnerships, it is very important that proper consultations and evaluations are made to avoid future inconveniences. The study further recommends that before partnership agreements are finalized it is extremely important to identify managers who are foreseen as credible across the company. They need to be acquainted with all aspects of the partnership agreement, particularly the dispute resolution, and governance process, they should possess broad range of skills including business development marketing and product management so that they can recognize how each partner's offering can be integrated or innovated to create new products or services, this will help to improve the organizational performance. The study recommends that when selecting partners, the management of the commercial banks should ensure that there is strategic alignment and cultural compatibility, this is extremely important because, no positive results on due diligence or a "great" financial deal will overcome the lack of strategic alignment. Without this assurance, the alliance is guaranteed to fail.

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