THE RELATIONSHIP BETWEEN RESEARCH AND DEVELOPMENT ALLIANCE AND COMPETITIVE ADVANTAGE OF THE KENYA COMMERCIAL BANK, ELDORET BRANCH

Gloria Chebet Korio*, Lucy Wanza, Tanui P. J, Okisai Ferdinand Ejakait

Catholic University of Eastern Africa (CUEA); P. O. Box 908-30100, Eldoret, Kenya

ABSTRACT: *Strategic alliance relationship continues to be one of the leading business strategies. It is driven majorly by increasing competition in the global market. It is also increasingly becoming popular in the business world. The research sought to establish the relationship between strategic alliances and competitive advantage at the Kenya Commercial Bank. Based on the study, this paper explores the extent to which research and development alliance influences competitive advantage at the KCB. The rationale for carrying out the research was to provide evidence-based practice for KCB and other banks as they engage in strategic alliances. The study adopted a correlational survey research design. It targeted a population of 75 respondents. The sample size comprised 63 respondents selected using random sampling technique. Data was collected using a questionnaire. The data obtained from the questionnaires were coded, organized and analysed using descriptive statistics specifically employing frequency and percentages to analyse closed-ended questions while mean and standard deviation was used to analyse the five point Likert questions. Hypotheses were tested to determine the relationship between research and development alliance and competitive advantage of KCB. The research results revealed that that there was a significant relationship between research and development alliance and competitive advantage (p=0.000). The study concluded that the Kenya Commercial Bank has gained competitive advantage as a result of entering into research and development alliances with various partners across different industries. Therefore, the study recommended that KCB should continue partnering with other commercial banks and organizations through research in order to increase its market share. The paper is significant as it identifies ways in which banks can exploit research and development alliance to provide customers with quality needs-based services and achieve competitive advantage in the banking industry.*

KEYWORDS: Research, Development, Alliance, Competitive Advantage, Kenya Commercial Bank, Eldoret

INTRODUCTION

Strategic alliances are agreements between companies (partners) to reach objectives of common interest. Strategic alliances are among the various options which companies can use to achieve their goals; they are based on cooperation between companies (Mockler, 1999). These agreements remain independent and are often in competition. In practice, they would be all relationships between companies, with the exception of transactions (acquisitions, sales, loans) based on short-term contracts (while a transaction from a multi-year agreement between a supplier and a buyer could be an alliance); agreements related to activities that are not important, or not strategic for

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the partners, for example, a multi-year agreement for a service provided (outsourcing) (Makau, 2012).

A strategic alliance has to contribute to the successful implementation of the strategic plan; therefore, the alliance must be strategic in nature. The relationship has to be supported by executive leadership and formed by lower management at the highest, macro level. While this does not provide a comprehensive definition, strategic alliance is often seen as a relationship that organizations create for the purposes of achieving successful implementation of their respective strategic plans (Vyas, Shelburn & Rogers, 2005). In relation to this paper, research and development alliance can help banks to understand the market changes and align their strategic plans to better respond to those changes.

The success of mobile phone money transfer systems in Kenya has not made the Kenyan banks to feel that mobile phone companies are a threat to their business. This is especially due to the fact that mobile phone services do not act as a bank, nor do they store any receive funds within the company but deposit them into conventional banks (CBK, 2010). Consequently, most banks in the country have formed strategic alliances with mobile telephony companies in direct response to the rising competition and to reduce uncertainty about their future. One of such banks, the Kenya Commercial Bank, has partnered with technology firms such as Kenswitch to increase the number of ATMs, as well as with telecommunication firms such as Safaricom to provide mobile banking and fee collection platforms (Warui, 2014). Research is needed to draw lessons on the challenges and opportunities that such an alliance can portend for the banking industry.

Ireland, Hitt and Vaidyanath (2002) observe that "strategic alliances are an important source of resources, learning, and thereby competitive advantage; few firms have all the resources needed to compete effectively in the current dynamic landscape." Learning only happens if such strategic alliances are deliberately studied by banks so as to find evidence to improve existing practices. However, these resources must be managed to gain the joint competitive and collaborative advantage. In their article, however, Ireland *et al.* fail to address client impact, i.e. client perception/interest in alliances. There could be many benefits for clients who enter into an alliance. For instance, they raise their potential to achieve more together than separately, presumably at lower cost, in less time, more efficiently, etc. Nonetheless, alliances could serve to reduce competition and, as such, potentially produce negative results associated with this phenomenon (Dyer, Kale & Singh, 2001). For example, if there are originally ten companies which could compete for a project, but five of them each partner with one of the other five firms through business alliances, the result would be five alliances now competing for the project, and competition would have been reduced. One research implication for this argument is the need to investigate some of the counterproductive outcomes of strategic alliance as a business practice.

Das and Teng (2004) have studied control, performance, risk, trust and the governance and structuring of cooperative relationships between organizations, all considering the alliance partner-to-alliance partner relationship as the unit of analysis and consideration. The customer – the one for whom the strategic alliance really exists – in the strategic alliance relationship has not been considered as a unit of analysis in the growing research and literature concerning strategic alliances. Strategic alliances do not exist for their own good per se; they exist for the reasons that all sellers exist: to provide goods and services to a willing buyer. A strategic alliance does serve

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the mutual self-interest of the alliance partners in the way of complementary business lines, geography, and skills. However, as noted previously, there is no need for a strategic alliance, or any other seller, if there is not a willing buyer, or more broadly, consumer demand (Simonin, 1999). Research and development helps to ascertain this type of parity in the market before expanding.

Four factors influence customer buying behaviour, namely buyer characteristics, seller characteristics, product characteristics, and situational characteristics (Kotler, 2010). Accordingly, whether the seller is a single firm or is an element of the sellers' characteristics which will influence, positively, neutrally, or negatively, customer buying behaviour. A strategic alliance is a special hybrid of the single-firm seller unit; it is a cooperative of two single-firm sellers that endeavours to operate as one single-firm seller, yet there are important differences and considerations.

In a study of strategic alliance at the Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kinyua (2010) has found that the accelerating pace of technological change and shortening product life cycles are forcing many firms to create and commercialize knowledge in a timelier and cost-efficient manner. Consequently, many firms strive to deepen and broaden their innovative capabilities, which are crucial for their long-term survival and growth, cooperative agreements increasingly being used for high-value and knowledge-based activities. Strategic alliance is one of many methods of strategy development. It has been defined as a situation where two or more organizations share resources and activities to pursue a strategy. Alliances vary considerably in their complexity, from a simple two partner alliance co-producing a product to a one with multiple partners providing complex products, services and solution. Research on strategic collaboration between firms has received increasing attention in literature during the last decade, reflecting the increasing frequency and importance of strategic alliance in business.

In the recent past, competitive firms have become adept at conducting their business and have learnt important lessons in the process. One must know when and how to compete, but even more importantly one must know when and how to co-operate. Many contemporary firms have come to rely on alliances as strategic necessities for sustaining competitive advantage and creating customer value. In the recent past, the higher education sector in Kenya has experienced dynamic changes in the external environment. The increasing demand for higher education with population growth has stretched the physical infrastructure of public universities. Government funding has also reduced gradually or simply unable to cope with increasing demands. Competition has equally gone a notch higher as private and international universities fight to increase their market share. All these have prompted public universities' managers to take proactive steps and think 'outside the box'. Currently, more public and even private universities are collaborating with middle level colleges in the same domestic market. Kinyua (2010) sought to shed light on the motivation of such domestic strategic alliances where internationalization is not one of such motive. The research used a case study of JKUAT also sought to know the challenges encountered in the formation of the network.

Kinyua's (2010) study qualified the relationship between JKUAT and collaborating middle level academic institutions to be a network. The alliances formed by the University are intended to enable students who would otherwise be locked out of universities owing to stiff competition to

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progress with their studies hence exploiting this niche market. It also intended to reduce brain drain and capital leaving Kenya economy. The collaborations were also intended to tap into the resources from vocational economies of scale and enjoy faster payback on investment. The network faced challenges like opportunism by some partners, lack of adequate human power, loss of trust among partners, difficulties in meeting critical deadlines by partners, failure to discover shortcomings before 'marriage' and hence being stuck with the wrong partners and lack of experience in the management of strategic alliance by some partners. However, these challenges were amicably sorted out or, they learnt to live with them and relationships continued to thrive (Kinyua, 2010). The success of JKUAT's strategic alliance was came from the deliberate effort, despite normal occurrence of tensions, with a failure rate of 24.3% when the dormant (inactive) relationships were included to those that pulled out (Kinyua, 2010). To what extent does KCB derive lessons from such studies as Kinyua's to engage in its own strategic alliance?

The reviewed literature highlight some of the benefits of strategic alliance in general, and research and development alliance in particular. However, there are gaps in some of these studies that this paper sought to fill. For instance, although Ireland, Hitt and Vaidyanath (2002) point that strategic alliance aids in organizational learning, they fail to identify exactly how this learning does occur. Similarly, Warui (2014) identifies some of the partners that KCB has entered into alliance with, but he does not provide evidence on whether or not these alliances have been useful to either of the strategic partners. Therefore, this paper hypothesizes that research and development alliance provides an avenue through which a reflexive review of the terms of alliance can be conducted to draw practical lessons, strengthen cooperation and subsequently enhance organizational performance.

Statement of the Problem

Effective alliance management is a key to the survival and achievement of desired goals by strategic alliances. Banks are becoming less self-sufficient, and their survival largely depends on successful strategic alliances and co-operation with others. Mohr and Spekman (1994) 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 a result, the number and pace of strategic co-operations between banks in the Money Transfer Services (MTS) are increasing significantly, and managers in this field, directly or indirectly, are facing issues related to strategic alliances. However, despite the popularity and advantages associated with strategic alliances, few of the many banks that have rushed to form strategic alliances have succeeded. Indeed, the failure rate of strategic alliances could be as high as 70% (Makau, 2012). Arend and Amit (2005) argue that between 30% and 70% of alliances fail; they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide.

Despite the increase in strategic alliances in commercial banks in Kenya, many of the alliances have not been successful. Rambo (2012) has studied the risk factors influencing the survival of strategic alliances in Kenya and found that the proportion of skilled staff, cost, information sharing, level of trust among partners and integration of computers to support business activities influence adoption of strategic alliances in the organization. Gitau (2012) has also investigated the relevance of strategic alliance as a growth and survival strategy in nongovernmental organizations focusing on a case of World Food Programme, Kenya. From the findings, Gitau established that a proper

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adaptation of strategic alliance enhances the management of the organization structure and timing, increases organizational learning, decreases risk and uncertainty facing the organization and also enhances cost advantages.

Kaguru (2014) has also carried out a study on the implementation of strategic alliance mechanisms at the University of Nairobi, Kenya. The study found that the University has formed over 30 strategic alliances with the alliance partners from academic and non-academic institutions. The alliances have been driven more by globalization of markets, student exchanges, government sponsorship and future employment for students. In response to the vogue nature of strategic alliances across many sectors, this paper examines the relationship between research and development alliance and competitive advantage at Kenya Commercial Bank, Eldoret branch.

MATERIALS AND METHODS

The study adopted a correlational research design. It targeted a population of 75 respondents made up of 8 managers, 12 credit officers, and 55 other employees who work in Kenya Commercial Bank (Eldoret Branch). The study sample size was 63 respondents selected using simple random sampling. The main tool of data collection was a questionnaire which consisted of both open-ended and closed-ended questions. The study employed descriptive and inferential statistics to analyse the collected data. The data obtained from the questionnaires were coded, organized and analysed using descriptive statistics specifically employing frequency and percentages to analyse closed-ended questions while mean and standard deviation was used to analyse the five point Likert questions. Hypotheses were tested to determine the relationship between research and development alliance and competitive advantage of KCB.

RESULTS AND DISCUSSION

Research and Development Alliance

The study sought to establish the present state of research and development alliance at the Kenya Commercial Bank. The results were as presented in Table 1 below.

Table 1: Research and Development Alliance at the KCB

Statements		SD	D	U	A	SA	Total	Mean
Though research and development the company is able to make new products thus enhance customer satisfaction	F	8	5	9	17	22	61	3.66
	%	13.1	8.2	14.8	27.9	36.1	100	73.2
Though research and development the company is able to enhance competitive advantage	F	8	11	26	15	1	61	2.83
	%	13.1	18	42.6	24.6	1.6	100	56.6

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Though research and development the company is able to come up with ways to improve market share thus enhance competitive advantage	F	4	10	32	14	1	61	2.96
	%	6.6	16.4	52.5	23	1.6	100	60.2
Through research and development alliances enhances improvement the brand thus making it competitive	F	16	10	14	17	4	61	2.72
	%	26.2	16.4	23	27.9	6.6	100	54.4
Through research and development alliances enhances improvement in marketing thus enhancing competitive advantage	F	13	13	11	17	7	61	2.89
	%	21.3	21.3	18	27.9	11.5	100	57.8
Though research and development the company is able to enhance its market presence	F	10	12	18	13	8	61	2.95
	%	16.4	19.7	29.5	21.3	13.1	100	59.0

The study results revealed that 73.2% (mean=3.66) were of the opinion that through research and development, the Bank had been able to make new products thus enhance customer satisfaction; 58.6% (mean=2.83) were of the opinion that through research and development the company is able to enhance competitive advantage; 59.2% (mean=2.96) were of the opinion that through research and development the company is able to come up with ways to improve market share thus enhance competitive advantage; 54.4% (mean=2.72) were of the opinion that through research and development alliances enhances improvement the brand thus making it competitive; 57.8% (mean=2.89) were of the opinion that through research and development alliances enhances improvement in marketing thus enhancing competitive advantage; 59.0% (mean=2.95) were of the opinion that through research and development the company is able to enhance its market presence.

Indicators of Competitive Advantage

The study also sought to establish the indicators of competitive advantage at the Kenya Commercial Bank. The results were as presented in Table 2 below.

Table 2: Competitive Advantage

Statements		**SD**	**D**	**U**	**A**	**SA**	**Total**	**Mean**
The bank has witnessed significant growth in its profits over the last five years	F	0	0	6	23	32	61	4.43
	%	0	0	9.8	37.7	52.5	100	88.6
The number of regions served by the bank have increased	F	0	0	6	24	31	61	4.41
	%	0	0	9.8	39.3	50.8	100	88.2
The level of preference of KCB products by the customers	F	0	0	6	23	32	61	4.43
	%	0	0	9.8	37.7	52.5	100	88.6
	F	0	3	9	15	34	61	4.31

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The level of sales made by the bank to its customers has doubled over the last four years	%	0	4.9	14.8	24.6	55.7	100	86.2

The study findings in Table 2 above indicate that 88.6% (mean=4.43) were of the opinion that the bank has witnessed significant growth in its profits over the last five years; 88.2% (mean=4.41) were of the opinion that the number of regions served by the bank have increased; 88.6% (mean=4.43) were of the opinion that the level of preference of KCB products by the customers and that 86.2% (mean=4.31) were of the opinion that the level of sales made by the bank to its customers has doubled over the last four years.

Research and Development Alliance and Competitive Advantage

The study sought to establish the relationship between research and development alliance and competitive advantage at the Kenya Commercial Bank. The results were as presented in Table 3 below.

Table 3: Relationship between Strategic Alliance and Competitive Advantage

Correlations			
		Competitive advantage	**Research and development**
Competitive advantage	Pearson Correlation	1	
	Sig. (2-tailed)		
Research and development	Pearson Correlation	.646**	1
	Sig. (2-tailed)	0.010	
	N	61	61

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

Source: Researcher (2017)

The study results showed that there was a significant relationship between research and development alliance and competitive advantage in KCB (r=0.646 and the p-value was 0.000). A Pearson correlation coefficient of 0.646 showed a strong positive correlation between the variables.

Test of Hypothesis

The study hypothesized that there is no significant relationship between research and development alliance and competitive advantage in KCB. The study results revealed that there was a significant relationship between research and development alliance and competitive advantage (p=0.000). The p-value of 0.000 was less than 0.05. The null hypothesis was rejected and accepted the alternative hypothesis which showed that there was a significant relationship between research and development alliance and competitive advantage in KCB.

The study findings indicated that there was a significant relationship between research and development alliance and competitive advantage. Through research and development, the bank is

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able to make new products thus enhance customer satisfaction. The bank is also able to come up with ways to improve market share thus enhance competitive advantage and the bank is able to enhance its market presence in the long run. These findings are in line with those of Kinyua (2010) who showed that research and development alliance creates competitive advantage by forcing many firms to create and commercialize knowledge in a timelier and cost-efficient manner. Firms are thus engaged in deepening and broadening their innovative capabilities, which are crucial for their long-term survival and growth, cooperative agreements increasingly being used for high-value and knowledge-based activities.

Strategic alliance is one of many methods of strategy development. It has been defined as a situation where two or more organizations share resources and activities to pursue a strategy. Alliances vary considerably in their complexity, from a simple two partner alliance co-producing a product to a one with multiple partners providing complex products, services and solution. Research on strategic collaboration between firms has received increasing attention in literature during the last decade, reflecting the increasing frequency and importance of strategic alliance in business.

Some Research Implications

A review of literature has shown that strategic alliance tends to reduce competition. It would be interesting to document empirical examples in which strategic alliance has yielded counterproductive results. Moreover, some alliances fail after a while because of poor collaborative agreements. Are there other unforeseeable reasons for failure of some strategic alliances? What risks do firms run in entering into strategic alliances? This paper has shown that research and development allows for greater sharing of information to inform decisions relating to alliances. Do firms in alliance enjoy some degree of healthy autonomy and secrecy to protect their business information?

CONCLUSION AND RECOMMENDATIONS

The study showed that there was a significant relationship between research and development alliance and competitive advantage. Therefore, it is concluded that through research and development the bank is able to make new products thus enhance customer satisfaction. Through research and development, the bank is also able to come up with ways to improve market share thus enhance competitive advantage and the bank is able to enhance its market presence. Based on the findings, it is recommended that commercial banks entering alliances should conduct sufficient market study, have clear plans and goals that they want to achieve before coming to any alliance. Moreover, a deeper understanding of a nation’s laws and regulations that govern commerce and industry should be well articulated to avoid unnecessary court battles. More studies should be conducted in order to find out the kind of alliances that other commercial banks have engaged in and whether they have been a source of any competitive advantage. A similar study should also be carried out on firms having strategic alliances with Kenya Commercial Bank.

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