International Journal of Thesis Projects and Dissertations (IJTPD)
Vol. 5, Issue 4, pp: (27-42), Month: October - December 2017, Available at: www.researchpublish.com

EFFECT OF STRATEGIC ALLIANCES ON FINANCIAL PERFORMANCE OF POSTBANK FINANCIAL PARTNERS IN KENYA

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Abstract: **Strategic alliance as a strategy for enhancing performance has become monumental as organizations scramble for survival to reduce costs and be stronger in order to compete (Ulijn, 2010). Strategic alliance is a variable that is very vital because it can improve business performance both directly and through the ability of innovation. The main objective of the study was to examine the effect of strategic alliance on financial performance of Postbank financial partners: The specific objectives of the study were; to determine the short term, medium term and long term effect of strategic alliance on revenue performance, cost efficiency and profitability of the Postbank financial partners. The Resource Based Theory, resource dependence theory anchored the study. Of concern to the study, was how the proportion of funds set aside for strategic alliances, financial leverage and size of Postbank financial partners influenced their financial performance which was measured by the rate of return on assets. The sample targeted financial statements for the one, three and five years prior to and after strategic partnering for the ten partners. The study was descriptive design targeting Postbank's ten financial partners. Document analysis was used to collect data from bank statement of financial performance and statements of comprehensive income during the period 2000-2016. Data was analysed using Statistical Packages for Social Sciences (SPSS) version 23.Descriptive measures namely mean, median, standard deviation and range were used. In addition, inferential statistics F-test was used to check if there were significant differences in performance between the prior and the periods after strategic partnering. Correlation analysis was used to determine the nature and the strength of the relationship between the independent and dependent variables. The study found out that strategic alliances have a positive effect on revenue and profitability and no effect on cost efficiency of Postbank financial partners. Going by the findings, if Postbank financial partners are to enhance their financial performance, there is needed to increase their engagement into strategic alliances. Finally, the study recommended that Postbank financial partners should increase their network of branches countrywide to attract new customers to open new accounts and in so doing increase their deposits.**

Keywords: **Strategic alliances, financial performance, Postbank, financial partners, Kenya.**

1. INTRODUCTION

The challenges of managing businesses in the 21st century require dynamic strategies for businesses to remain competitive and to sustainably generate returns for shareholders. Strategic alliances also referred to as coalitions or collaborations are among those strategies that organizations can adopt for competitive advantage. Soares (2007) states that strategic alliance is a state where two or more organizations collaborate in specific activities but remain independent. Nevertheless, studies estimate that most of strategic alliances end being dissolved. For example, The Economist (1999) reveals that two-thirds of all inter-organizational strategic alliances formed between 1992 &1995 were dissolved.

This high failure rate of alliances has placed major emphasis on developing robust alliance formation guidelines and processes, as well as attempting to identify what types of firms form effective alliances and the underlying rationale (Cravens 2000). The Business Week (1999) reports that a major reason for the high failure rate of alliances is that only 31% of organizations develop and implement formal performance measures, and only one in five executives consider the measures implemented as being reliable indicators of the success of an alliance (Business Week, 1999). According to Cravens et al (2000), lack of reliable performance indicators is probably associated with the lack of general consensus regarding the requirements for a successful alliance, and major disagreement on appropriate measures to assess performance.

The growing need for strategic alliances as a strategy to cope with the dynamic business environment and its relationship with organizational performance is important because the outcome informs the direction that such partnerships can take. Gaspersz (2006) states that in today's dynamic business environment strategy must become dynamic. They reveal that competition has become a war of movement in which success depends on anticipation of market trends and quick response to changing customer needs. In such an environment the essence of strategy is not the structure of the organization products and markets but the dynamic of its behaviour that determines the organization's survival. Due to changes in the operating environment, commercial banks, have had to join their operations in mutually agreed terms where these institution do business jointly (Brito, Pereira &Ribeiro, 2008). Some of the reasons put forward for these partnerships have been to meet the increasing market demand and competition, diversify to international markets, employment of the emerging new and expensive modern technologies, or to meet the new thresh hold capital required by the regulators such as in the banking sector (Kithinji & Waweru, 2007).

Strategic Alliances:

Due to today's business environment, the importance of strategic alliances has become a great point of discussion in organizations. At the same time, strategic alliances are becoming more and more prominent in the global economy. Strategic alliances are fast becoming a trend in the corporate business. In fact, the biggest change in corporate culture and the conduction of business is the rapidly growing number of corporate deals based not on ownership, but on partnerships (Drucker, 1996). Indeed, searches on the internet for strategic alliances produces numerous press releases of companies forming alliances and also produce several addresses for strategic alliances consulting companies. According to Booz and Hamilton (1997), the number of strategic alliances had double in a decade and was expected to increase tremendously. Farris (1999) reveals that in 1998 alone more than 20,000 corporate alliances had been formed globally.

Robinson (2011) defines a strategic alliance as an agreement between two or more organizations in which they both contribute capabilities, resources or expertise to a joint undertaking, usually with an identity of its own, with each organization giving up overall control in return for the potential to participate in and benefit from the joint venture relationship. Gamble, Strickland and Thompson (2007) on the other hand define a strategic alliance as a formal agreement between two or more separate organizations in which there is strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control and mutual dependence. According to Amita Pearce, Richard and Robinson (2011) strategic alliances enable organizations to extend their strengths to competitive arenas that they would otherwise be hesitant to enter alone. Different sets of reasons can be found as to why an organization should seek strategic partnerships in order to compete in today's open and aggressive markets. Gamble et al (2007) stipulates that globalization and technical advances in the world are major causes for organizations advocate for strategic partnerships so as to become global market leaders. Organizations use the partnerships as an entry strategy to new markets by partnership with existing organizations in that market arena. According to Amita *et al.* (2011) strategic partnerships enable organizations to extend their strengths to competitive arenas that they would otherwise be hesitant to enter alone.

Gamble *et al.* (2007) stipulates that globalization and technical advances in the world are major causes for organizations advocate for strategic alliances so as to become global market leaders. Organizations use the partnerships as an entry strategy to new markets by partnership with existing organizations in that market arena. The partnerships, created to achieve common interests". Amita, Pearce, Richard and Robinson (2011) define a strategic alliance as an agreement between two or more organizations in which they both contribute capabilities, resources or expertise to a joint undertaking, usually with an identity of its own, with each organization giving up overall control in return for the potential to participate in and benefit from the joint venture relationship.

Post Bank of Kenya:

The Kenya Post Office Savings Bank (Postbank) was established in 1910 and operated under the larger East Africa community up to 1977 when the community collapsed. This necessitated the incorporation of Postbank in 1978 through an act of parliament Cap 493(B) of the laws of Kenya. Due to scarcity of premises, the bank continued to operate within the premises of post office currently postal corporation of Kenya. In 1995, Postbank acquired own premises and therefore moved the operations from post office. However, in the interior rural where the bank could not acquire premises, Postbank maintained post office to continue offering her services on contract basis. The bank offered her services manually through the use of a passbook until 1998 when services were automated. With automation, all passbooks were replaced by a debit card which was more convenient to customers. This also brought the agency contract with post office to an end. To cope with fierce competition in the banking industry Postbank adopted enhanced technology that has seen the bank improve tremendously. This has won the confidence of many banks that have signed agency partnerships for their customers to access services through Postbank. These banks are National bank of Kenya, HF, NIC bank, Chase bank, ABC bank, Oriental bank, Commercial bank of Africa, Jamii Bora bank, UBA, I&M Bank and Premier Credit Bank. Other corporate bodies that have signed with Postbank for services are KPLC, Safaricom, KASNEB, CITIBANK, KRA and Water companies.

Statement of the Problem:

Whereas studies have been carried out on effect of strategic alliances on performance of commercial banks in Kenya, little attention has been paid on practice of strategic alliance within Postbank financial partners. Uniquely, Postbank is the only savings bank in Kenya strategically mandated by the government to mobilize savings and encourage thrift among citizens for national development. Several authors have identified potential problems and challenges that might lead to failure in strategic alliances. 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 alliances 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. Spranger (1991) argues that most strategic alliances are doomed to failure from their inception due to insufficient planning, inadequate capitalization, lack of leadership, lack of commitment and cultural and ideological differences.

Many studies have been done in the area of strategic alliances and the results found from the studies have been inconsistent. Musyoki (2003) studied the creation and implementation of strategic alliances among non-governmental organizations with a case of Gedo health consortium. Wachira (2003) carried out a survey on strategic alliances in pharmaceutical drug development, a case study of three strategic alliances at Eli Lilly and company. Kamanu (2005) emphasized that strategic alliances among development of NGOs in Kenya are a crucial component in the success of any organisation for profit or non-profit in the world today. Kavale (2007) did a study on strategic alliances in a mobile money transfer as relates to the banking industry. This study while based on a similar conceptual argument as noted in the above local studies is differentiated in the sense that it looked at strategic alliances in Postbank financial partners in Kenya. It was based on the drivers of the alliances similar to the study conducted by Mutinda (2008). The study explored the factors which have driven banks to strategic alliances and the challenges they are experiencing. This study intended to address the following Research Question: What is the effect of strategic alliance on the financial performance of Postbank financial partners in Kenya.

Study objectives:

The main objective of the study was to determine the effect of strategic alliance on financial performance of Postbank's financial partners in Kenya. The specific objectives of the study were:

i. To determine the effect of strategic alliances on financial performance of Postbank financial partners in the short term.

ii. To determine the effect of strategic alliances on financial performance of Postbank financial partners in the medium term.

iii. To establish the effect of strategic alliances on the financial performance of Postbank financial partners in the long term.

2. LITERATURE REVIEW

Theoretical Framework:

Resource Based theory:

The foundations of the resource-based theory (RBT) of the organization can be found in the work by Penrose in the middle of the 20th century (1959) that conceived the organization as an administrative organization and a collection of productive resources, both physical and human. The resource-based view suggests that valuable organizational resources are usually scarce, imperfectly imitable, and lacking in direct substitutes (Barney, 1991; Peteraf, 1993). Thus, the trading and accumulation of resources becomes a strategic necessity. When efficient market exchange of resources is possible, “organizations are more likely to continue alone” (Eisenhardt and Schoonhoven, 1996) and relies on the market. However, although market transactions are the default mode, efficient exchanges are often not possible on the spot market. Certain resources are not perfectly tradable, as they are either mingled with other resources or embedded in organizations (Chi, 1994). Hence, mergers, acquisitions, and strategic alliances are variously employed.

Thus, the Resource-based View considers strategic alliances, mergers and acquisitions as strategies used to access other organizations' resources, for the purpose of garnering otherwise unavailable competitive advantages and values to the organization. According to Mas and Kumar (2008), banks are recognizing the potential of reaching millions of prospective customers, especially the rural population who account for more than 60% of Africa's total population and have no access to banking services. The rural commercial bank branch network is still underdeveloped However, since more than 50% of the adult population in Africa has access to mobile telephone, mobile banking could enable the rural population to have access to financial institutions and mobile phone service providers are introducing resourceful methods of bringing these unserved populations into the formal economy using mobile phones. This theory is applicable in cost management. For financial institutions, the main advantages of the partnership with mobile phone service providers lie in its managerial experience in forming partnerships and taking advantage of the competing technology introduced by mobile providers due to its capabilities to reach everywhere. The managerial knowhow on the competing technological power is transforming the economics of service delivery, especially by reducing the costs of financial transactions. Mobile banking is a powerful way to deliver financial institutions deposit mobilization services to the many potential customers in Kenya who have a cell phone but no bank account.

Resource Dependence Theory:

The central proposition of resource dependence theory is that organizations survival hinges on the ability to procure critical resources from the external environment and that in order to reduce uncertainty in the flow of needed resources, organizations will try to restructure their dependencies with a variety of tactics. Some of the tactics are unilateral in that they pass the source of constraints by reducing the interest in the valued resource, cultivating alternative sources of supply or by forming coalition. Casciaro and Piskorski (2005). This theory recognizes the importance of the environment in which organization acquire resources that it depends on for its survival. Another explanation for partnership formation based on resource dependency theory proponents by Pfeffer and Salancik (1978) suggests that organizations strategically form partnerships to effectively manage symbiotic interdependencies. Such interdependencies are between suppliers and buyers or competitive interdependencies such as interdependencies between competitors.

Hillman *et al.* (2009) in review of resource dependence theory highlighted five actions that an organization can adopt to minimize environmental dependence. These include mergers and vertical integration; joint ventures and other inter organizational relationships; board of directors; political actions and executive succession. According to Hillman et al (2009) resource dependence theory is a primary theoretical perspective to understand joint ventures and other inter organizational relationships such as strategic alliances. Further, they have alluded that empirical evidence supports the use of inter organizational relationships to reduce domestic and international environmental complexity and gain resources. Park and Mezias (2005) observed that partnerships formed in periods of low environmental munificence have more favourable stock market reaction indicating the magnitude of dependency successfully predicts these forms.

Eisenhardt and Schoonhoven (1996) identified two general sets of factors that affect organization’s likelihood to form strategic alliances as resource need and social opportunities. The first set of factors assumes that organizations act strategically to outperform their competitors and earn more profits. Therefore organizations form partnerships to gain access to resources needed to accomplish certain strategic goals. Organizations may for example use partnerships to reduce the transaction costs and increase their operational efficiency. According to transaction costs economics, organizations purposefully establish collaborations when costs of writing and executing contracts are too high because of small number of bidders, asset specificity and hold up issues, a high degree of uncertainty or significant incentives for partnerships to act opportunistically and that at the same time, it is inefficient to internalize the production process because organizations lack competences (Williamson, 1975). Strategy researchers have focused on various characteristics of organizations such as top management teams' characteristics, employing an innovative strategy (Eisenhardt *et al*., 1996), and the availability of technical and commercial capital Ahuja and Lampert (2001) to explain the likelihood of organizations to form partnerships. They have tried to explain how organizations create breakthrough inventions through innovation which is a common practice among organizations even today.

Conceptual framework:

The study sort to investigate the effect of strategic alliance on financial performance of Postbank financial partners in Kenya. The independent variables in this study included cost, synergy and bank size. On the other hand, the dependent variable was financial performance of Postbank financial partners.

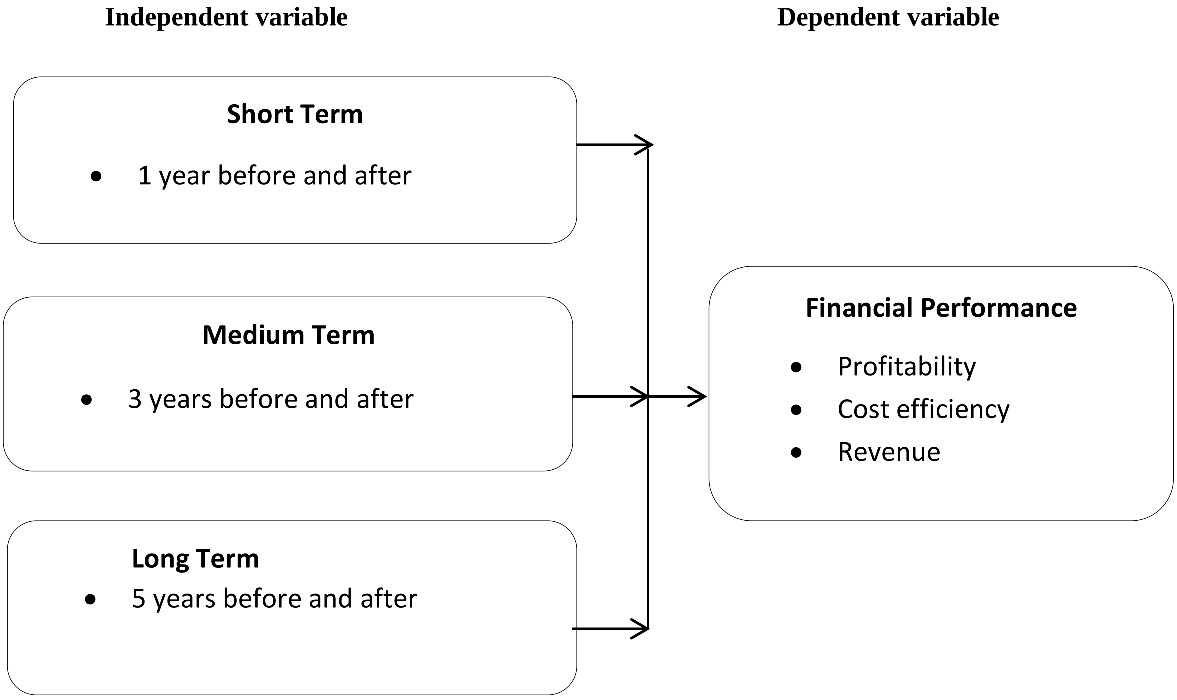

Figure 2.1: conceptual framework

Empirical Review:

According to Robert (1998), the spread of strategic alliances is being motivated by array of forces, often with powerful and surprising results: Global economic and competitive forces have transformed the nature of some industries. Converging technologies and markets have been another primary factor in the formation of joint ventures. Systems Integration has spurred the creation of numerous joint ventures as increasingly sophisticated technologies have required closer coordination of their research, development, and customer application. For example, in the financial services industry, joint ventures are proliferating to better link the customer electronically with investment services, benefits processing, bundled services, and cash access. Value migration coupled with globalization has also played a role in compelling companies to engage in joint ventures so as to enable them gain a position in emerging markets. Globally, 40% of all breakthrough technology development occurs through collaborative technologies. Hence, the need for innovative Technologies has spawned numerous strategic alliances (Robert, 1998).

Operational Cost and Cost Efficiency:

Operating costs are expenses associated with the maintenance and administration of a business on a day-to-day basis (Lauren 1999). The operating cost is a component of operating income and is usually reflected on a company's income statement. In simple terms, operating costs are expenses related to the running and management of a business. They are sometimes referred to also as the expenses in operating a device, a machine or a piece of equipment. These are the costs of resources use by an organization to maintain its existence (Gupta *et al*., 2013)

According to Lauren (1999) operational costs are the routine costs of running a business. While these vary based upon the type of business, many basic types of operational costs exist that a business must consider when budgeting. Some of these operational costs are fixed, meaning that each cost is identical from month to month, such as rent. However, other operational costs are variable and may go up or down from month to month, such as utilities. The cost that it takes for a company to produce its product or service is known as its production cost. The production cost is part of the overall operating costs of a business. The production costs are the literal amount that it takes for a business to produce one item or service. A number of items go into the overall production cost, such as raw materials, utilities and man hours (Lauren, 1999).

A business's operating costs are comprised of two components, fixed costs and variable costs, which differ in important ways. (Gupta; Ajay Sharma; Satish Ahuja, 2013).A fixed cost is one that does not change with an increase or decrease in sales or productivity and must be paid regardless of the company's activity or performance. For example, a manufacturing company must pay rent for some sort of factory space regardless of how much it is producing or earning. While it can downsize and reduce the cost of its rent payments, it cannot entirely eliminate these costs, and so they are considered to be fixed. Fixed costs generally include overhead costs, and other examples of fixed costs include insurance, security and equipment. (Hodgson, 2004; Field, 2007). Fixed Costs are costs incurred whether a business is operating at full or fifty percent (50%) capacity or even if it is completely closed. A clear example of a fixed cost is the rent of the building where the business operates or mortgage payments. These will require payment regardless of the status of the business (Lauren, 1999). Fixed costs can help in achieving economies of scale, as when many of a company's costs are fixed the company can make more profit per unit as it produces more units. In this system, fixed costs are spread out over the number of units produced, making production more efficient as production increases by reducing the average per-unit cost of production. Economies of scale can allow large companies to sell the same goods as smaller companies for lower prices. (Gupta; Ajay Sharma; Satish Ahuja, 2013). This principle can be limited in that fixed costs generally need to increase with certain benchmarks in production growth. For example, a manufacturing company that increases its rate of production over a certain period will eventually reach a point where it needs to increase the size of its factory space as well in order to accommodate the amount of the product it is making (Lauren, 1999).

Variable Costs are costs that fluctuate. These are what are known as variable costs. They may change from week to week or month to month. They either go up or down depending on whether more production is done and how it is done. An example would be the production done over a period of ten normal days would tend to be lower than if the same production is done for seven days but with overtime. These variable costs would typically consist of overhead costs like cell phone services, supplies for the computer, electric power and other utilities, payroll services, office and janitorial supplies, express mail and credit card processing, etc. (Gupta; Ajay Sharma; Satish Ahuja, 2013).

It is sometimes possible for a company to achieve a volume discount or "price break" when purchasing supplies in bulk, wherein the seller agrees to slightly reduce the per-unit cost in exchange for the buyer's agreement to regularly buy the supplies in large amounts, thereby diminishing the correlation somewhat between an increase or decrease in production and an increase or decrease in the company's operating costs. Yet, volume discounts generally have a small impact on the correlation between production and variable costs and the trend otherwise remains the same (Lauren, 1999). Generally, companies with a high proportion of variable costs relative to fixed costs are considered to be less volatile, as their profits are more dependent on the success of their sales. In the same way, the profitability and risk for the same companies are also easier to gauge (Gupta; Ajay Sharma; Satish Ahuja, 2013)

Banks Size and Revenue:

The size of a business means the ability it possesses and the variety and number of production capability or the quantity and multiplicity of services the business can be offered concomitantly to its customers. In a simpler way, the best indication of 'bigness' of a firm is the size of its management group or the amount of assets it possesses compared to others in the same industry (Sritharan, 2015). Size is commonly measured by gross sales or gross value of assets, logarithm of total assets, number of employees and sales turnover. Growth in size of a firm can be in terms of revenue, profits, assets or number of employees which are all essential for increased financial health and profitability. Arif, Khan and Iqbal (2013), investigated the impact of various measures used in research for bank size on the profitability of Pakistani banks. Quarterly data of all domestic scheduled banks for five years (2005-2009) is extracted from the quarterly statements of the banks. The banks are divided into the three size categories on the basis of assets. Descriptive analysis and linear regression is run separately for each group for comparison purpose. On the basis of results it is found that all the measures of size used in research have positive impact on profitability of commercial banks. It is concluded that commercial banks in Pakistan can maximize their profitability if they manage to increase size by expansion strategies and restructuring.

Babalola (2013) set out to investigate the effect of firm size on the profitability of manufacturing companies listed in the Nigerian Stock Exchange. Data was analyzed by using a panel data framework which was fitted to the secondary data obtained from sampled firms for the period 2000-2009. The data were sourced from the Annual Reports and Accounts of the random sample of 80 non-financial quoted firms listed on the Nigeria Stock Exchange (NSE). Profitability was measured by using Return on Assets, while both total assets and total sales were used as the proxies of firm size. According to the results of the study, firm size, both in terms of total assets and in terms of total sales, has a positive impact on the profitability of manufacturing companies in Nigeria. Locally, Kigen (2014), investigated the effect of size on the profitability of insurance companies of Kenya. A key indicator of insurance companies profitability was return on assets (ROA), defined as the before tax profit divided by total assets. Profitability was the dependent variable while total assets, leverage and market share were the independent variables. A census study of 48 general and long term insurance companies was done which covered the period of 2009- 2013. Secondary data was obtained from the statements of financial positions of insurance companies and annual reports of Insurance Regulatory Authority (IRA). The study was quantitative in nature. The findings show that there is no relationship between profitability and total assets of the insurance companies and there is significantly positive relationship between size as measured by market share of the insurance companies and profitability on their growth and survival. Buzzell (2004) notes that the majority of studies on the topic find a linear positive relationship between market share and financial performance. Numerous studies have attempted to measure the determinants of bank profitability in the EU banking system, (e.g., Girardone et al.(2004), Goddard et al. (2004), Athanasoglou et al. (2006) and Athanasoglou et al. (2008). The survey results show that the relationship between market share and profitability of banks is positive and statistically significant.

Financial Performance:

A company’s financial statements provide various financial information that investors and creditors use to evaluate a company’s financial performance. This usually entails the growth and profitability of a company (Hill, Murphy and Trailer, 1996). Collins and Jarvis (2006) posit that the most useful sources of the financial performance of a firm are the periodic management account such as the balance sheet and income statement, cash flow information and bank statements. They estimate that these information are used by over 80% of companies to determine their business performance. ROE tells what percentage of profit the company makes for every monetary unit of equity invested in the company. ROE doesn’t specify how much cash will be returned to the shareholders, since that depends on the company’s decision about dividend payments and on how much the stock price appreciates. However, it’s a good indication of whether the company is even capable of generating a return that is worth whatever risk the investment may entail (Berman, Knight and Case, 2013). ROE is usually calculated by dividing net profit by average shareholders’ equity.

Critique of Existing Literature:

The Knowledge Based Theory or View of the organization (RBV) of the organization literature justifies the existence of differences in performance between organizations like commercial banks as a consequence of knowledge asymmetries (capabilities and competences). As a result, an important KBV of the organization proposition states that the organization exists to create, transfer and transform knowledge into competitive advantage Kogut and Zander (1992). Nevertheless, transferring knowledge through the organization can be difficult, that’s the so-called “stickiness”. Stickiness reflects the presence of internal factors that enable the true achievement of competitive advantage. Stickiness also hinders the appropriation of rents from existing knowledge assets.

The perspective of rent creation adopted by the RBV of the organization is challenged by the Shumpeterian perspective of the dynamic capabilities vision Makadok (2001). This vision of dynamic capabilities enlightens the importance of an alternative rent creation mechanism capability building, which is different from resource choosing Makadok (2001). It is largely accepted that KBV of the organization is an extension of the RBV of the organization. Considering that the capabilities made that extension Malerba and Orsenigo, (2000), this study can make a logical deduction and admit that the influence of the capability development mechanism will affect KBV of the organization. Dynamic capabilities have the capacity to reconfigure, redirect, transform, shape and integrate central knowledge, external resources and strategic and complementary assets. They will allow the organization to respond to the challenges presented by the Schumpeterian competitive world, made of competition and imitation, changing so fast and pressured by temporal factors.

Research Gap:

Muiruri (2015) studied on strategic alliances and performance of Equity bank in Kenya. This study adopted descriptive research design. Primary data was used in the study and was obtained by use of an interview guide that was administered to managers who were interviewed at Equity Bank and partnership organizations. The study findings established that strategic alliances between Equity Bank and its partnership organizations improve the staff capacity and thus enables it to be well equipped in handling the challenges they experienced and therefore improving on its service delivery. The findings further established that partnerships enhance new customer acquisition through the creation of portfolio funds where customers can take loans and pay back. Ngamau (2015) sought to establish the influence of strategic partnerships on the performance of insurance organizations. This research was conducted through a survey study targeting operation managers for the 51 insurance organizations licensed by IRA to operate in Kenya. The study collected primary data by use of a questionnaire. Data collected was analyzed through descriptive statistics, multiple linear regressions was undertaken with a view of examining the cumulative effect of the independent variables (Strategic partnerships and effectiveness of strategic partnerships) on the dependent variable (Organizational performance). Strategic partnerships contributed towards organizational performance of the insurance organizations in Kenya. Higher profitability, wider distribution of insurance products, higher retention rates of customers were some outcomes identified as a result of the partnerships between insurance organizations and various partnerships. The results concluded that there is a positive influence of each independent variable on dependent variable with the other independent variables held constant.

Onje (2016) assessed the importance to the final financial performance of the commercial banks in Kenya. Three variables guided the study; the influence of costs on financial performance, synergy on financial performance of commercial banks and bank size on financial performance of commercial banks. Questionnaire was used for primary data while secondary data was gathered from bank statement of financial performance and statements of comprehensive income during the period 2013 and 2014. Data was analyzed using Statistical Packages for Social Sciences (SPSS) version 23. Regression and correlation analysis were used to determine the nature and the strength of the relationship between the independent and dependent variables. The findings of this study reveal there exist negative relationship between the banks operational cost and the leverage on performance while the banks market share, efficiency, banks asset base and bank branches had a positive relationship with income.

Kabuiya (2015) sought to find out the influence of strategic partnerships on performance of Co-operative bank and Safaricom limited. The study adopted a case study design so as to undertake an in-depth and comprehensive inquiry. The study interviewed senior managers from Safaricom limited and cooperative bank. Content analysis was used to analyse the data and generate relevant results. This study established that mobile telephone organizations receive cost and product related benefits more than other benefits while banks got market related benefits more than other benefits. Another key conclusion was that mobile banking services should pay more attention to those benefits that well address their needs. Kibiego (2014) sought to establish the influence of strategic partnerships on the performance of KICC. In this light, the study sought to determine the strategic partnerships employed by KICC and also the influence of strategic partnerships on the performance of KICC. This research was conducted through a case study targeting selected managers at KICC. The study collected primary data through interview guide. The study established that partnerships enhances new conference customer acquisition and retention, improves sales turnover and reduces cost of procurement. Also, the study established that partnership enhanced Internet connectivity at KICC and reduced outages and downtimes. Deployment of the Enterprise Resource Planning (ERP) system led to automation of financial data processing and has enhanced efficiency and accountability. The study established that partnerships like hotels are reluctant to share with KICC important convention researches/thesis and studies since they perceive KICC as a potential competitor. From survey of relevant literature, it has been found that no researcher has carried out studies specific to financial performance of Postbank financial partners in Kenya. This study therefore sought to fill a pertinent gap in literature by studying the effect of strategic alliance on financial performance of Postbank financial partners in Kenya.

3. RESEARCH METHODOLOGY

According to (Cooper, 2008) research design is the blue print for the collection, measurement and analysis of data. Research design is the strategy or plan which is used to acquire participants or subjects, and how to collect what type of data from them, in order to arrive at conclusions about the initial research question (Kruger, 2001).This study was a descriptive research that employed use of a survey. This is because the study intended to obtain an in depth understanding on the effects of strategic alliance on financial performance of Postbank financial partners in Kenya. According to (Mugenda, 2003) a descriptive survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. The approach also provides ways of discerning, examining, comparing, contrasting and interpreting meaningful data in order to elicit rich, detailed material that can be used in analysis (Kothari, 2007).

According to Kothari (2006), the target population is the entire set of individuals or items that the researcher is interested in and trying to observe their characteristics or behaviour. The target population for this study was Postbank's 10 financial partners in Kenya. A sampling frame as defined by Welman, Kruger and Mitchell, (2008) is a list of the source material or device from which a sample is drawn. It is a list of all those within a population who can be sampled, and may include individuals, households or institutions. The sampling frame constituted financial reports from ten Postbank financial partners in Kenya as listed on Post Bank website. This study was organised as a census study given that the population is small with only ten companies. Accordingly, all the companies that had engaged in financial strategic alliances with Post Bank over the period 2007 to 2016 were studied.

After data was collected from the various sources, the researcher edited the data to fit analysis of this study. Ratios were used to evaluate performance including revenue to total assets for revenue performance; operating cost ratio for efficiency performance and return on assets for profitability. This quantitative data was analyzed using descriptive statistics. Descriptive measures such as mean, standard deviation and the inferential statistics based on ANOVA and F-test were used. Data was presented and expressed in terms of tables for quick references. The descriptive statistics was obtained effectively using the Statistical Package for Social Sciences (SPSS) programme. Multiple linear regression equation was used to determine the effect of strategic alliances on financial performance of Postbank financial partners in Kenya. ANOVA F test was used to compare the differences between means of the before and after strategic alliance performance. Correlation analysis was used to determine the direction of the synergy.

4. RESEARCH FINDINGS DISCUSSION

Descriptive Statistical Findings:

In this study on effect of financial strategic alliances using Post Bank's alliances with other financial institutions, descriptive statistics indicate the measures of dispersion and central tendency of the components of the long term, medium term and short term strategic alliances with respect to financial performance over the study period. In this section, the descriptive statistics used are the mean, median, standard deviation and range. The descriptive statistics used relate to both the indicators of financial performance for the period before and also after the strategic alliance. These are done in three categories being long term - 10 years (5 years before and 5 years after the strategic alliance), medium term - 6 years (3 years before and 3 years after the strategic alliance) and short term - 2 years (1 year before and 1 year after the strategic alliance). The findings on the short term measures of dispersion and central tendency attributes of the first attributes of performance of revenue as indicated by revenue to assets ratio (RTA) are in shown in Table 4.1.

Table 4.1: Revenue Performance Descriptive Statistics

	RTA1A	*RTA1B*	*RTA3A*	*RTA3B*	*RTA5A*	*RTA5B*
Mean	0.070	0.046	0.078	0.054	0.364	0.337
Median	0.061	0.048	0.058	0.062	0.251	0.297
Standard Deviation	0.042	0.031	0.064	0.035	0.296	0.237
Range	0.108	0.098	0.216	0.086	0.833	0.800
Count	10.000	10.000	10.000	10.000	10.000	10.000
Confidence Level (95.0%)	0.030	0.022	0.046	0.025	0.212	0.169

5B & 5A; 3B & 3A and 1B & 1A are 5, 3 and 1 year before and after the alliance respectively.

The table 4.1 shows that in the short term (one–year) window following the strategic alliance the mean of revenue to assets ratio increased from 0.046 to 0.070.

In the same way the standard deviation also increased from 0.042 to 0.031. This two values show an increased mean as well as risk as indicated by the mean and the standard deviation respectively. The range of the RTA also increased from 0.098 to 0.108. The values. The table 4.1 also reflects the description of the change in revenue performance on a medium term scale using a 3 year period. The table 4.1 shows that in the 3–year window following the strategic alliance the mean of revenue to assets ratio increased from 0.054 to 0.078.

The medium term standard deviation of RTA also increased from 0.035 to 0.064. These two values show an increased mean as well as risk as indicated by the mean and the standard deviation respectively. The range of the RTA also increased from 0.086 to 0.216. The table 4.1 also reflects the description of the change in revenue performance on a medium term scale using a 5 year period. The table 4.1 shows that in the 5–year window following the strategic alliance the mean of revenue to assets ratio increased from 0.337 to 0.364.

The long term (5 year) m standard deviation of RTA also increased from 0.237 to 0.296. These two values show an increased mean as well as risk as indicated by the mean and the standard deviation respectively. The range of the RTA also increased from 0.800 to 0.833. The other measure of performance was cost efficiency as shown by the operations cost ratio (OCR). The descriptive statistics are provided in table 4.2. The first analysed value on a descriptive basis is the short run cost performance as shown by the OCR. The values in table 4.2 indicate that the mean and median increased from 0.02 to 0.045 and 0.017 and 0.035 respectively. This indicates an average increase in cost following the strategic alliance. The standard deviation however reduced from 0.175 to 0.034 an indication that the risk associated with cost volatility had reduced following the alliance in the short term. This is confirmed by the reduction in the range of the OCR from 0.617 to 0.103.

Table 4.2: Descriptive Statistics

	OCR1A	*OCR1B*	*OCR3A*	*OCR3B*	*OCR5A*	*OCR5B*
Mean	0.045	0.002	0.063	0.038	0.157	0.051
Median	0.035	0.017	0.055	0.038	0.051	0.042
Standard Deviation	0.034	0.175	0.035	0.104	0.232	0.068
Range	0.103	0.617	0.388	0.107	0.748	0.244
Count	10.000	10.000	10.000	10.000	10.000	10.000
Confidence Level (95.0%)	0.024	0.125	0.025	0.074	0.166	0.049

5B & 5A; 3B & 3A and 1B & 1A are 5, 3 and 1 year before and after the alliance respectively.

The short term findings in table 4.2 with respect to short term cost performance following the strategic alliance as shown by the operations cost ratio (OCR).

In the remaning five, cost performance improved through improved level of effieicny. The cost increase could be attributed to improved level of operations and scale thereby increasing the operating cost ratio. The values in table 4.2 also provide the medium term cost performance based on operations cost ratio. The figures indicate that the mean and median increased from 0.038 to 0.063 and 0.038 and 0.065 respectively. This indicates an average increase in cost following the strategic alliance. The standard deviation also increased from 0.035 to 0.104 an indication that the risk associated with cost volatility had increased following the alliance in the medium term. This is confirmed by the increase in the range of the OCR from 0.107 to 0.388. The medium term findings in table 4.2 with respect to medium term cost performance following the strategic alliance as shown by the operations cost ratio (OCR). In the remaning five, cost performance improved through improved level of efficiency except one where efficiency remained constant. The cost increase could be attributed to improved level of operations and scale threby increasing the operating cost ratio. The values in table 4.2 also provide the long term cost performance based on operations cost ratio. The figures indicate that the mean and median increased from 0.051 to 0.0157 and 0.042 and 0.051 respectively. This indicates an average increase in cost following the strategic alliance. The standard deviation also increased from 0.068 to 0.232 an indication that the risk associated with cost volatility had increased following the alliance in the long term. This is confirmed by the increase in the range of the OCR from 0.244 to 0.748. The long term findings in table 4.2 with respect to long term cost performance following the strategic alliance as shown by the operations cost ratio (OCR).

In the remaning four, cost performance improved through improved level of efficiency. The cost increase could be attributed to improved level of operations and scale threby increasing the operating cost ratio.

The last measure of performance was profitability as shown by the return on assets (ROA) ratio. The descriptive statistics are provided in table 4.3.

Table 4.3: Profitability Descriptive Statistics

	ROA1B	*ROA1A*	*ROA3B*	*ROA3A*	*ROA5B*	*ROA5A*
Mean	0.066	0.058	0.077	0.040	0.351	0.064
Median	0.055	0.053	0.037	0.015	0.040	0.027
Standard Deviation	0.078	0.061	0.076	0.061	0.298	0.321
Range	0.258	0.217	0.233	0.178	0.422	0.582
Count	10.000	10.000	10.000	10.000	10.000	10.000
Confidence Level (95.0%)	0.056	0.043	0.054	0.043	0.928	0.230

5B & 5A; 3B & 3A and 1B & 1A are 5, 3 and 1 year before and after the alliance respectively.

The first analysed value on a descriptive basis is the short run cost performance as shown by the ROA. The values in table 4.3 indicate that the mean and median increased from 0.058 to 0.066 and 0.053 and 0.055 respectively. This indicates an average increase in profitability following the strategic alliance. The standard deviation increased from 0.061 to 0.078 an indication that the risk associated with profit volatility had increased following the alliance in the short term. This is confirmed by the increase in the range of the ROA from 0.217 to 0.258.

The short term findings in table 4.3 with respect to short term profitability performance following the strategic alliance as shown by the ROA. In the remaning 3, profitability reduced through reduced level of ROA. The profit increase could be attributed to improved level of operations and synergy thereby increasing the performance.

The values in table 4.3 also provide the medium term profit performance based on ROA ratio. The figures indicate that the mean and median increased from 0.040 to 0.077 and 0.015 and 0.037 respectively. This indicates an average increase in profitability following the strategic alliance. The standard deviation also increased from 0.061 to 0.0.076 an indication that the risk associated with profit volatility had increased following the alliance in the medium term. This is confirmed by the increase in the range of the ROA from 0.178 to 0.233. The medium term findings in table 4.3 with respect to medium term profitability following the strategic alliance as shown by the ROA.

In the remaning 3, profitability reduced through reduced level of ROA. The profit increase could be attributed to improved level of operations and synergy thereby increasing the performance. The values in table 4.3 also provide the long term profit performance based on ROA ratio. The figures indicate that the mean and median increased from 0.064 to 0.351 and 0.027 and 0.040 respectively. This indicates an average increase in profitability following the strategic alliance. The standard deviation however reduced from 0.298 to 0.061 an indication that the risk associated with profit volatility had reduced following the alliance in the long term. This is confirmed by the reduction in the range of the ROA from 0.422 to 0.233. The long term findings in table 4.3 with respect to long term profitability following the strategic alliance as shown by the ROA. In the remaning 1, profitability reduced through reduced level of ROA. The profit increase could be attributed to improved level of operations and synergy thereby increasing the performance.

Inferential Statistical Findings:

To test the effect of strategic alliances on the performance of Post Bank strategic alliance financial partners, an ANOVA test was carried out to check if there is any statistical difference between the pre and post-alliance performance. The findings are reflected in the sections below.

Effect of Strategic Alliance on Revenue Performance:

The first objective sought to establish if strategic alliances of financial institutions with Posta affects the revenue performance of those institutions. This was done one for a short term (1 year), medium term (3 years) and long term (5 years) periods on the basis of analysis of variance in the and F test. The findings are provided in table 4.4.

Table 4.4: Effect of Alliances on Revenue Performance

	Output F	P value	F-crit	Count	Correlation
RTA1 AND RTA1B	10.0614	0.00706	4.41387	10	0.6581
RTA3 AND RTA3B	11.1983	0.01614	4.41387	10	0.6552
RTA5 AND RTA5B	14.4601	0.00222	4.41387	10	0.5713

With respect to short term performance as shown by revenue to assets ratio (RTA), the output F is 10.0614 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is higher than the critical one, an indication that there is a significance difference between the revenue performances as shown by a statistically significant p-value of 0.00706 which is less than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a positive value of 0.6581, it implies that strategic alliance improves the revenue performance of the Postbank alliance partners in the short term. This corresponds to the findings indicated by the descriptive statistics.

With respect to medium term performance as shown by revenue to assets ratio (RTA), the output F is 11.1983 compared to the critical F of 4.41837 at the 95% confidence interval. This means that the output F is higher than the critical one, an indication that there is a significance difference between the revenue performances as shown by a statistically significant p-value of 0.001614 which is less than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a positive value of 0.6552, it implies that strategic alliance improves the revenue performance of the Post bank alliance partners in the medium term. This corresponds to the findings indicated by the descriptive statistics.

With respect to long term performance as shown by revenue to assets ratio (RTA), the output F is 14.4601 compared to the critical F of 4.41837 at the 95% confidence interval. This means that the output F is higher than the critical one, an indication that there is a significance difference between the revenue performances as shown by a statistically significant p-value of 0.00222 which is less than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a positive value of 0.5713, it implies that strategic alliance improves the revenue performance of the Post bank alliance partners in the long term. This corresponds to the findings indicated by the descriptive statistics. The findings of this study concur with findings of Glenn and Wayne (2007), whereby it was found that there exists a positive significant relationship between bank synergy, size and financial performance in form of profitability. Correlation results found a strong positive correlation between pre and post alliance revenue performance and profitability. The similar results have also been found in study done by Soon and Razak (2012).

Effect of Strategic Alliance on Cost Efficiency Performance:

The second objective sought to establish if strategic alliances of financial institutions with Posta affects the cost efficiency performance of those institutions. This was done one for a short term (1 year), medium term (3 years) and long term (5 years) periods on the basis of analysis of variance in the and F test. The findings are provided in table 4.5. When the short term cost efficiency performance as shown by operating cost ratio (OCR), the output F is 2.09856 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is no statistically significant difference between the cost efficiency performances of the pre and post alliance periods as confirmed by a statistically insignificant p-value of 0.16464 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.6581 , it implies that strategic alliance have no significant effect of the cost efficiency performance of the Post bank alliance partners in the short term. This corresponds to the findings indicated by the descriptive statistics.

Table 4.5: Effect of Alliances on Revenue Performance

	Output F	P value	F-crit	Count	Correlation
OCR1 AND OCR1B	2.09856	0.16464	4.41387	10	0.1523
OCR3 AND OCR3B	0.58831	0.45302	4.41387	10	0.2872
OCR5 AND OCR5B	1.90909	0.18398	4.41387	10	0.3344

When the medium term cost efficiency performance as shown by operating cost ratio (OCR), the output F is 0.58831 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is no statistically significant difference between the cost efficiency performances of the pre and post alliance periods as confirmed by a statistically insignificant p-value of 0.45302 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.2872 , it implies that strategic alliance have no significant effect of the cost efficiency performance of the Post bank alliance partners in the medium term. This corresponds to the findings indicated by the descriptive statistics.

When the long term cost efficiency performance as shown by operating cost ratio (OCR), the output F is 1.90909 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is no statistically significant difference between the cost efficiency performances of the pre and post alliance periods as confirmed by a statistically insignificant p-value of 0.18398 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.3344 , it implies that strategic alliance have no significant effect of the cost efficiency performance of the Post bank alliance partners in the long term. This corresponds to the findings indicated by the descriptive statistics.

The study contradicts that of Khaled and Samer (2013) who concluded that there is significant negative relationship between cost in form of cost of capital and financial performance. A weak positive correlation was found to exist between the cost efficiency of the pre and the post strategic alliance periods. The outcome of this study also contradicts with studies such as Mohammad and Qamar (2011); Pratheepkanth, (2011); Chinaemerem and Anthony, (2012); Khaled and Samer, (2011) who established that there was a strong correlation relationship between cost the financial performance

Effect of Strategic Alliance on Profitability:

The last objective sought to establish if strategic alliances of financial institutions with Posta affects the profitability of those institutions. This was done one for a short term (1 year), medium term (3 years) and long term (5 years) periods on the basis of analysis of variance in the and F test. The findings are provided in table 4.6.

Table 4.6: Effect of Alliances on Revenue Performance

	Output F	P value	F-crit	Count	Correlation
ROA1 AND ROA1B	11.2044	0.00359	4.41387	10	0.52193
ROA3 AND ROA3B	10.8335	0.00406	4.41387	10	0.6436
ROA5 AND ROA5B	8.57992	0.00396	4.41387	10	0.6814

When the short term profitability as shown by return on assets (ROA), the output F is 11.2044 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is a statistically significant difference between the ROA of the pre and post alliance periods as confirmed by a statistically significant p-value of 0.0.00359 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.52193 , it implies that strategic alliance have a positive effect on profitability of the Post bank alliance partners in the short term. This corresponds to the findings indicated by the descriptive statistics.

In as far as the medium term profitability as shown by return on assets (ROA) is concerned, the output F is 10.8335 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is a statistically significant difference between the ROA of the pre and post alliance periods as confirmed by a statistically significant p-value of 0.0.00406 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.6436, it implies that strategic alliance have a positive effect on profitability of the Post bank alliance partners in the medium term. This corresponds to the findings indicated by the descriptive statistics.

In as far as the long term profitability as shown by return on assets (ROA) is concerned, the output F is 8.57992 compared to the critical F of 4.41387 at the 95% confidence interval. This means that the output F is lower than the critical one, an indication that there is a statistically significant difference between the ROA of the pre and post alliance periods as confirmed by a statistically significant p-value of 0.0.00396 which is more than the critical value of 0.05 as per the 0.05 level of significance. When the coefficient of correlation is shown to be a low positive value of 0.6814, it implies that strategic alliance have a positive effect on profitability of the Post bank alliance partners in the medium term. This corresponds to the findings indicated by the descriptive statistics. These results are in harmony with Kinuthia (2015) who found that synergy does not exist with respect to cost advantages. These results conform to Ngunjiri (2014) who found that financial performance in form of profitability was strongly correlated to synergy arising from strategic alliances in form of operating efficiency.

5. CONCLUSION

The study concluded that in the short term, there is positive relationship between strategic alliances and performance as measured by revenue performance and profitability of Postbank financial partners. The findings revealed that operational cost efficiency of strategic alliance partners is not affected in the short term by the partnering process. This finding is supported by the coefficient of correlation which showed the pre and post alliance performances had a positive correlation for profitability and revenue performance. The study concluded that in the medium term, there is positive relationship between strategic alliances and performance as measured by revenue performance and profitability of Postbank financial partners. The findings revealed that operational cost efficiency of strategic alliance partners is not affected in the medium term by the partnering process. This finding is supported by the coefficient of correlation which showed the pre and post alliance performances had a positive correlation for profitability and revenue performance. The study concluded that in the long term, there is positive relationship between strategic alliances and performance as measured by revenue performance and profitability of Postbank financial partners. The findings revealed that operational cost efficiency of strategic alliance partners is not affected in the long term by the partnering process. This finding is supported by the coefficient of correlation which showed the pre and post alliance performances had a positive correlation for profitability and revenue performance.

6. RECOMMENDATION

The study recommend that to fully understand the nature and effects on revenues and financial performance, policy makers should also try to develop the just opened avenue that explores possible interconnections and trade-offs among the different types of operations. Interesting aspects were revealed in this study, but the attempt was very much empirically driven. Policy makers have to consider both long-term and short-term financial performance in this respect.

The study further recommends that Postbank financial partners in Kenya should invest in modern technologies to effectively integrate all the banks functions and activities minimize operational costs banking .With better revenues, staffs will be well motivated in terms of better salaries and in turn impact positively on bank financial performance. The study recommends that the cost of operations strategy should be tackled separately from the strategic alliance process. This is because the costs have been found to bear no relationship with the partnering process. Other means should be found to enhance operational efficiency.

The study finally recommends that the top management team should invest more in modern technologies and financial innovation to bolster efficiency and minimize operational costs. As a result of financial innovations, customers will have a wide scope of banking products to choose from leading to customer satisfaction and improved value addition which in turn enhances financial performance.

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