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STRATEGIC ALLIANCES AND PERFORMANCE OF STRATEGICALLY ALLIED ENTERPRISES: KENYAN PERSPECTIVE

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Abstract

Researchers and practitioners in strategic management are increasingly trying to figure out why some businesses perform better than others even when they are in the same or similar business conditions. With the ever changing business environment strategic alliances are seen as the best strategies to enhance organizations innovative capabilities as a means to stay current in their field and enhance performance. The objective of this study was to determine the effect of strategic alliances on performance of strategically allied enterprises in Kenya. Both descriptive and inferential statistics were used to analyze the data. The findings of the study showed that strategic alliance significantly influences enterprise performance. The study recommends that managers must take cognizance of the fact that their main duty revolves around isolating the exact needs of customers and deciding on the best strategies including entering in to alliances in order to build stronger competitive advantage for their desired performance outcome to be realized. Thus, suitable and effectively implemented strategic alliances are necessary to effectively guide the placement of existing resources in pursuit of desired enterprise goals.

***Key Words**: Strategic Alliances, Enterprise Performance, Strategically Allied Enterprises, Kenyan perspective.*

Introduction

Rapid changes in globalization and technology necessitate organizations to constantly examine their strategies to enhance their innovative capabilities as a means to stay current in their field and enhance performance (Hayfa, Abraddous, Abdullah, Sokkar, Blaqees, 2018). In an effort to identify sources of heterogeneous enterprise performance, strategy scholars have researched on various factors. Among the factors which have been linked to enterprise performance are strategic alliances.

Strategic alliances are partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial to the parties. Strategic alliances essentially involve coordinating two or more partners to pursue shared objectives and satisfactory cooperation is vital to their success (Das &Teng, 1998; Wei, 2007). According to Favaro (2015) firms undergoes alliances for various reasons which includes the desire to increase market power, new product development, unique resources and capabilities and also to enjoy technological advancement. Strategic alliances have the potential to both stimulate business growth and disrupt the progress already made.

According to Culpan (2009), most strategic alliances are based on mergers, acquisitions, differentiation and cost leadership. Li et al (2008) argued strategic alliances are based on authority and configuration, while Park et al., (2004) opined that strategic alliances are anchored on partnership reputation. This study will measure the dimensions of strategic alliances as joint venture, equity strategic alliances and non-equity alliances. A joint venture is established when the parent companies establish a new child company. An equity strategic alliance is formed when one company purchases a certain equity percentage of the other company. A non-equity strategic alliance is created when two or more companies sign a contractual relationship to pool their resources and capabilities together, firms increasingly use this type of alliance in many different forms such as licensing agreement, distribution agreements and supply contracts (Folta & Miller, 2002; Hung & Chang, 2012).

Performance is a multidimensional concept and is viewed in many different ways such as financial (objective; sales turnover, return on investments, profits) and non-financial (subjective; product or service quality, employee satisfaction, customer satisfaction) (Venkatraman & Ramanujam, 1986). Performance is also conceptualized to mean how resources within a firm's disposal are put into their use effectively and efficiently aiming attaining intentions of the firm depending on arising present or future opportunities (Yasser, Entebang & Abu Mansor, 2011; Marn & Romuald, 2012). Shabaninejad, Mirsalehian and Mehralian (2014) measured performance using net profits, customer satisfaction, employee satisfaction, return on investment and new product success rate. Kaplan and Norton (1996) developed Balanced Scorecard consisting of customer focus, internal process, learning and growth, financial focus.

Awino et al., (2012) contend that performance differs from organization to organization depending on how a particular organization puts emphasis on the performance aspects which may be determined by the size of the organization under consideration. According to Ahire *et al.* (1996) other measures of performance are the intangible dimensions such as customer satisfaction, public image, employee satisfaction, new value streams,

product innovations and investments into training. This study will operationalise enterprise performance to include financial perspective; customer satisfaction, internal processes, and learning and development. Financial indicators are gross sales, return on assets, and return on investment (ROA, &ROI).

The Capital Markets Authority in Kenya with other partners especially the Kenya Private Sector Alliance (KEPSA) have continuously promoted strategic alliances among Kenyan enterprises aimed at promoting business investment in the country which will in the long run improve on Kenya's business index ranking. Managed and promoted by KEPSA the scheme offers a range of attractive incentives to ensure low cost operations, fast set up, smooth operations and high profitability through a number of strategic partnership (Ajayi, 2013).

These companies specialize in Market oriented investments and particularly to develop projects that attract partnerships from foreign companies in the areas of food processing, fresh produce, packaging for shelf ready products, wooden products, leather and animal based products, jewellery and gemstones, pharmaceutical products and herbal medicines, medicinal supplies, cosmetic and personal care products, packaging products, textiles, commercial handicrafts, transport equipment, electronic and electrical goods, building materials and furnishings, data processing & audio-visual services and consultancy and professional services (KEPSA, 2013). This nature of partnership makes the enterprises in Kenya the most suitable context to test on the manifestation of strategic alliances and their influence on performance and competitive advantage.

Research Problem

The pursuit of strategic alliances is arguably the central theme of the academic field of strategic management (Lefort, McMurray & Tesvic, 2015). For any organization to succeed in a competitive market, entering strategic alliances with other organizations with superior and unique resources and capabilities is inevitable (Mitchell & Singh, 2011). Gulati (2013) acknowledges that managers no longer believe in unhealthy competition but have become more concerned that organizations need to access unique resources and distinctive competencies through forming strategic alliances to enable them attain a sustainable competitive advantage.

Strategic alliance enterprises seek a certain measure of control of companies that are important to them for such purposes as sharing designs; engineering and parts; ease of market entry; and development of new products and systems. Sarkar et al. (2001) established a positive relationship between strategic alliance and enterprise performance. Awino, Muturia and Oeba (2012) posit that the outcomes of any organization are achieved when strategies are well planned and executed.

Many strategic alliances studies and enterprise performance exist in different context like large manufacturing firms in the developed economies (Flatten, Greve & Brettel, 2011; Jiang, Tao & Santoro, 2010). No study has been done for strategically allied enterprises in Kenya, though the enterprises play a vital part in achievement of Kenya's vision 2030. The study therefore seeks to determine the relationship between strategic alliances and performance of strategically allied enterprises in Kenya.

Materials

Theoretical Foundation

This study is guided by Network theory (Laumann et al. 1978). This theory compound both theory of tie formation and theory of social capital. Musarra et al. (2016), stated that strategic alliances add up to the firms' competitive advantage via evaluating performance results. The nature of the fit between strategic alliance and organization performance states that strategic alliances stock up social, communal plus ethnic wealth inside firms via periphery with the marketplace on their private relations, nonetheless government strategies and interrelated communal barricades. The theory stands on the universal impression that financial activities get impact from the societal environment embedding them plus activities may be impacted by actors' position in social networks. Thus, firms are intersected by other firms via an extensive collection of communal and financial relations of which every single institute social network. The networks involve prior strategic alliances, dealer relations, resource flows, trade connotation participations, and individual employees' relationships. Burt (1997) proposed that the performance of communal networks for alliances and firms forming alliances is to look at them as social capital and a basis of competitive advantage. The theory explains the salient mechanism which generates an outcome from initial conditions.

The theory postulates the tougher the bond among two people, the more probable that their communal domains overlap. Thus, if firm A forms an alliance with firm B and firm B is in alliance with firm C then firms A and C are expected to be acquaintances. The strong ties thus become the source of novel information. Network theory application in management science has been used to describe work performance (Sparrow et al. 2001), originality (Burt, 2004), invention (Obstfeld, 2005) plus dishonorable character (Brass et al. 1998). Network theory elucidates the magnitudes of network variables. It denotes to the methods and procedures interacting with network structures to produce assured results for personalities then crowds (Brass, 2002). Tongia and Wilson, (2007), argue that a formal analysis indicates that the rate of seclusion out of network upsurges quicker comparing the paybacks of enclosure in the similar network. Thus, firms cannot afford to be out of a network. According to Grewal (2008), internationalization comprises societal coordination among many networked actors with established values. The standards set the rules, to be recognized by all actors in the network. This theory shows bond between strategic alliance and enterprise performance.

Empirical Review

Studies had been undertaken linking strategic alliances and enterprise performance aspects. Sampson (2007) conducted a study on Research and Development alliances and enterprise performance. He examined influence of partner high-tech multiplicity plus coalition structural formula on firm inventive performance. Making use of a section of 463 R&D alliances in the telecommunications paraphernalia production, the research proved alliances brings additional to a corporation invention if technical range is modest, instead of little or extraordinary. Though the relation clenches nonetheless of alliance organization, it was proven that ranked organization, like an equity mutual scheme, develops corporate paybacks from alliances using great high-tech assortment. Such resources are beyond competitors' financial or strategic means, firmly entwined to establishment's antiquity, philosophy,

configuration, and practices. Accordingly, alliance organization forms, probably impact partner capability plus enticements to sharing info affecting performance.

Geringer and Hebert (2017) focused on measuring performance of international joint ventures. Using spearman rank-order correlation, the findings established that correlations are usually optimistic and momentous among biased and unbiased measures of UV performance. UV persistence is the unbiased measure proven the toughest plus greatest important correlations with biased performance measures (both gratification-based measures including 10 or 15 distinct capacities of performance being momentous at 0.05 or fewer), followed by UV period (equally gratification-based measures and eight of fifteen distinct dimensions of performance were significant at 0.05 or less).

Jiang, Tao and Santoro (2010) examined the alliance assortment range and enterprise performance in the automobile industry. Hypotheses are verified with alliance array then performance data for 138 multinational firms in the global automobile industry thru the twenty-year period from 1985 to 2005. It was established that alliance portfolios with bigger structural and purposeful range and lesser authority miscellany were correlated to greater enterprise performance however trade range had an U-shaped correlation with enterprise performance. The study suggested that firms accomplish their alliances with an assortment standpoint, looking for maximizing reserve plus knowledge assistances by collaboration with a diversity of establishments in numerous value chain actions whereas diminishing management rates via a dedicated set of governance structures.

Kauppila (2015) employed the frame of the resource-based theory (RBV), and investigated course thru which corporations recognize probable worth of their alliance managing ability. In this practice, co-probing and co-manipulation are considered as two chief tactical activities necessary to influence alliance managing competence. Exploration of multisource, time-lagged data on 172 Finnish manufacturing firms display alliance managing competency having upturned U-shaped upshot on co- probing, while a progressively affirmative effect on co-utilization. Where co-probing pushes firm growing in the elongation, co-utilization has an enthusiastic upshot on corporations' diminutive economic performance. Ambidextrous quest of synchronized co-probing and co-utilization, nevertheless, is adversely, compared to completely correlated to enterprise performance.

Conceptual Framework

A conceptual model links key study variables in a diagrammatic manner showing the presumed relationships that may exist which are developed from the review of literature (Ravitch & Riggan, 2012). The conceptual framework for this study has been developed based on the literature and empirical reviews. The scholar, avers, conceptual framework as a hypothesized model that identifies concepts or variables considered in a study bringing out the relationships. This conceptual study paper seeks to understand the relationship between strategic alliances and enterprise performance constructs. The relationships among variables are outlined in Figure 1

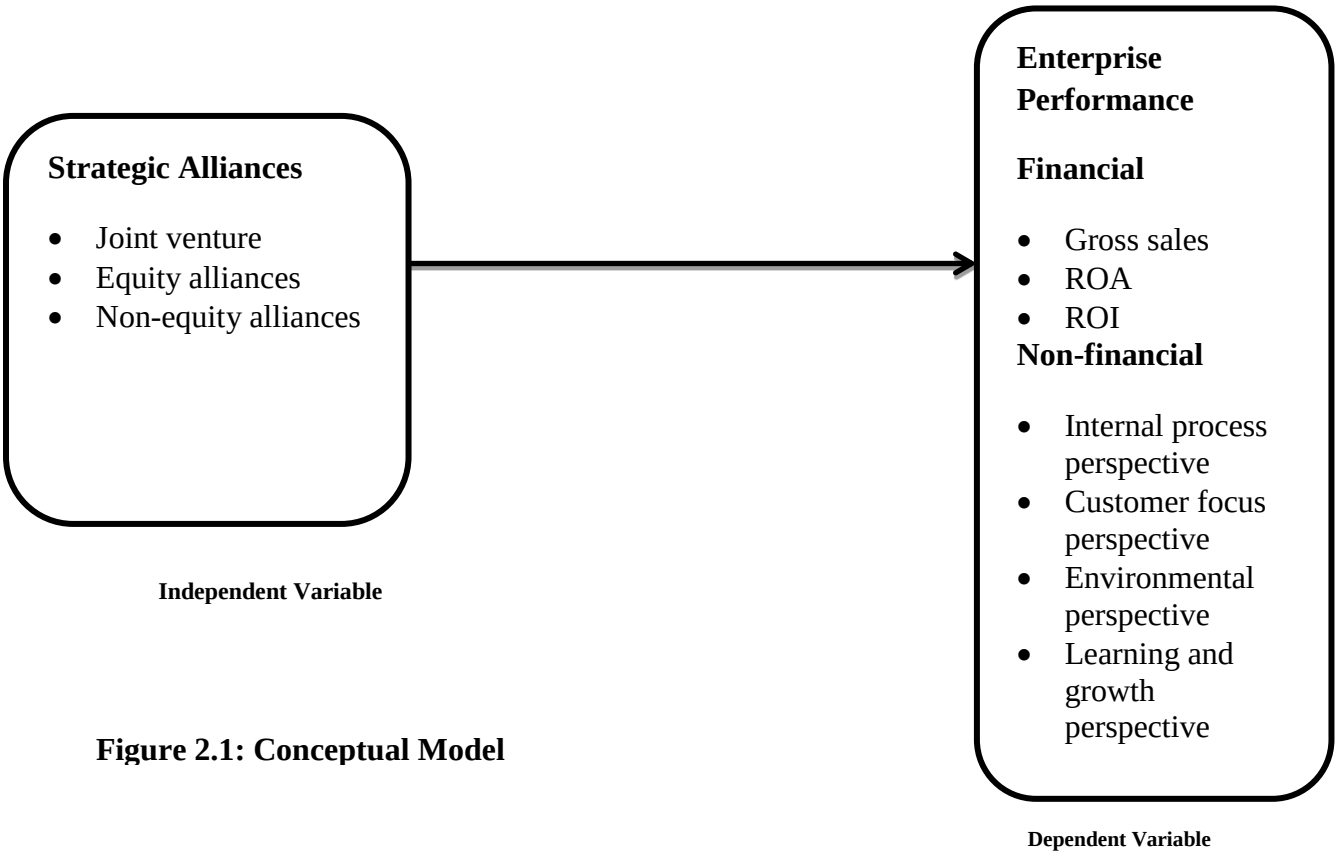

Figure 2.1: Conceptual Model

Methodology

This study adopted a positivist philosophy and a descriptive cross-sectional survey. This study involved entirely 40 strategically allied enterprises in Kenya. With the aid of semi-structured questionnaires, primary data was gathered. Both descriptive and inferential statistics were used to analyze the data at a 95% confidence interval in order to examine significance of the relationships between the variables and to test the hypotheses. Analyzed data was presented using tables and figures for ease of interpretation.

The general model for predicting enterprise performance was represented by the following model: $Y = \alpha + \beta_1 X_1 + \varepsilon_1$ where Y is the enterprise performance which is a linear function of X_1 (Strategic alliances).

Results

The objective was to determine the effect of strategic alliances on enterprise performance. A simple regression analysis was utilized where strategic alliances was regressed against enterprise performance. This process aimed at testing the first objective of the study which was to determine the relationship between strategic alliances as the predictor variable and enterprise performance as the outcome variable for strategically allied enterprises.

However, the study first determined the extent to which strategic alliances influences non financial and financial performance independently through formulation of the sub hypotheses.

H_{01a}: *There is no significant influence of strategic alliances on financial performance*

H_{01b}: *There is no significant influence of strategic alliances on non-financial performance*

Table 1 (a), 1 (b) and 1 (c), summarizes the results on the influence of strategic alliances on financial performance.

Table 1(a): Model Goodness of Fit on the Relationship between Strategic alliances and Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.356[a]	.127	.100	11.25508	.127	4.797	1	33	.036

a. Predictors: (Constant), Strategic alliances

The model summary of the linear relationship between strategic alliances and financial performance provided a coefficient of determination (R^2) of 0.127 implying that financial performance is explained by 12.7% of strategic alliances and that inclusion of other factors in the model would generally improve the predictive power of the model by explaining 87.3 % variation in financial performance not explained by strategic alliances.

Table 1(b): Model Overall Significance on the Relationship between Strategic alliances and Financial Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	607.641	1	607.641	4.797	.036[b]
	Residual	4180.332	33	126.677		
	Total	4787.973	34			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Strategic alliances

The analysis of variance (ANOVA) of the regression model results in Table 1 (b) provided regression sum of squares of 607.641 and model residual of 4180.332 with a mean square of 126.677 for the residual. The ANOVA regression results produced an F-statistic of 4.797 with a p-value =.036. A p-value of < .005 signifies that the probability of the model giving false prediction is zero.

Table 1(c): Regression Coefficients on the Relationship between Strategic alliances and Financial Performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	35.045	10.277		3.410	.002		
	Strategic alliances	6.910	3.155	-.356	2.190	.036	1.000	1.000

a. Dependent Variable: Financial performance

In Table 1 (c), the results of coefficient of the independent variable used in the model in this section and which are used to assess the degree of the relationship with dependent variable. The model provided a constant value of 35.045 with a t-value of 3.410 and a p-value of .000 which is <.05. Strategic alliances was found to have a significant positive coefficient of 6.910 with a t-value of 2.190 and a p-value <.005.

Based on results in Tables 1 (a), 1 (b) and 1 (c), the study found a moderate relationship between strategic alliances and financial performance (R= .356). Coefficient of determination (R^2 =.127) which indicates that strategic alliances explain 12.7% of variation in financial performance. Further the overall model was significant; F =4.797, $p<0.05$. The significant relationship was further manifested by the t-value in the coefficient Table (β=6.910, t=2.190, $p<0.05$). This therefore depicts that strategic alliances is key in determining financial performance for strategically allied enterprises and thus the hypothesis that there is no significant influence of strategic alliances on financial performance is rejected.

The study also determined the influence of strategic alliances on non-financial performance through a sub hypothesis (H_{1b})

H_{01b}: *There is no significant influence of strategic alliances on non-financial performance.* Results are presented in Table 1 (d), 1 (e) and 1 (f)

Table 1 (d): Model Goodness of Fit on the Effect of Strategic alliances on Non-financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.494[a]	.244	.221	.50779	.244	10.671	1	33	.003

a. Predictors: (Constant), Strategic alliances

The model summary in Table 1 (d), reports R Square value of .244 an indication that 24.4% of the total variation in non-financial performance is explained by strategic alliances. The standard error of estimate is .50779. The adjusted R^2 value is .221. However, because the predictor variable is only one, R^2 value was used to assess the level of explained variation. The value of 24.4% means that inclusion of other predictors in the regression equation would improve power of the model.

Table 1 (e): Model Overall Significance on the Effect of Strategic alliances on Non-financial Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.752	1	2.752	10.671	.003[b]
	Residual	8.509	33	.258		
	Total	11.261	34			

a. Dependent Variable: Non- financial performance

b. Predictors: (Constant), Strategic alliances

Table 1 (e) presents the results of analysis of variance (ANOVA). The F-statistic shows that the overall regression model is significant $F=10.671$, $p < 0.05$]. This significance result clearly indicates that there is a probability of 0.00% that the model would give a false prediction.

Table 1 (f): Regression Coefficients on the Effect of Strategic alliances on Non-financial Performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.708	.464		3.684	.001		
	Strategic alliances	.465	.142	.494	3.267	.003	1.000	1.000

a. Dependent Variable: Non financial performance

Table 1 (f) documents the results of coefficients of the strategic alliances which is the predictor variable used in the study. The model provided a constant value of 1.708 with a t-value of 3.684 and a p-value of .01. The regression model reported a significant positive coefficient with a t-value of 3.267 and p-value < 0.05.

The results in 1 (d), 1(e) and 1 (f), found a moderate relationship between strategic alliances and non-financial performance (R= .494). Coefficient of determination (R^2 =.244) indicates that strategic alliances explain 24.4% variation in non-financial performance. However the overall model was significant, F =10.671, p<0.05. The significant relationship is further manifested by the t-value in the coefficient table (β=.465, t=3.267, p<0.05). This therefore depicts that strategic alliances is key in determining non-financial performance of strategically allied enterprises in Kenya and thus the hypothesis that there is no significant influence of strategic alliances on non-financial performance is not supported.

The study therefore investigated the overall relationship between strategic alliances as measured by joint venture, equity alliances and non-equity alliances and enterprise performance as the dependent variable. The composite index for strategic alliances was computed as the averages for each sub-variable measure. Based on the ideas proposed by Ley (1972), that a composite variable should ideally be meaningful to the context and objective of the study guided by the discipline and predetermined algorithm. In this regard, combination of financial weighted indices and non-financial weighted indices using the averaging method was done to create a composite which permitted the creation of a variable that allowed investigation of overall performance effect.

The hypothesis formulated was that*;*

H_{01}: There is no significant influence of strategic alliances on enterprise performance

This was tested through the simple linear regression analysis which was in the form;

$$OP = a + \beta SA + \varepsilon$$

where;

$OP = $ Organizational Performance

$SA = $ Strategic Alliances

$a = $ constant in the equation

$\beta = $ Regression coeffcient

$\varepsilon = $ Error term or residual of the equation

The results of the regression model are presented in Tables 1 (a), 1 (b) and 1 (c).

Table 1 (a): Model Goodness of Fit on the Relationship between Strategic Alliances and Enterprise Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.857[a]	.734	.726	.40180	.734	90.927	1	33	.000

a. Predictors: (Constant), Strategic alliances

Linear regression analysis results as shown in model summary in Table 1 (a) provided a R^2 value of .734 and Std. Error of the Estimate of 0.4018. This implies that strategic alliances explain 73.4% change of enterprise performance. The significance of the overall model summary is presented in Table 1 (b).

Table 1 (b): Model Overall Significance on the Relationship between Strategic Alliances and Enterprise Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.679	1	14.679	90.927	.000[b]
	Residual	5.328	33	.161		
	Total	20.007	34			

a. Dependent Variable: Enterprise performance

b. Predictors: (Constant), Strategic alliances

Table 1 (b) presents the regression results of the analysis of variance which were useful in testing the overall statistical significance of the R^2 value in the model summary. The ANOVA results indicate significance F=90.927, P < 0.05] which suggests that the population R^2 is significantly greater than zero. If the predictor variables in the regression were more than one, statistical significance would then mean that at least of the regression coefficients is not equal to zero. Thus the model was overally significant.

Table 1 (c): Regression Coefficients on Relationship between Strategic Alliances and Enterprise Performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.192	.367		.524	.604		
	Strategic alliances	1.074	.113	.857	9.536	.000	1.000	1.000

a. Dependent Variable: Enterprise performance

Table 1 (c) documents the results of coefficients of the independent variable used in the model and which was used to assess the degree of relationship with the dependent variable. The results indicate that the model constant was .192 with a t-value of .524 and p-value of .000. The constant value of .192 represents the value of enterprise performance when the independent variable is zero. Strategic alliances has a positive significant influence enterprise performance with a beta coefficient of 1.074, t-value of 9.536 and p-value < 0.05.

The results of the regression analysis in Table 1 (a), 1 (b) and 1 (c), show a strong relationship between strategic alliances and enterprise performance (R= .857). Coefficient of determination (R^2 =.734) indicates that strategic alliances explain 73.4 % of the variation in enterprise performance. Further the overall model is significant (F=90.927, p<0.05) implying that there exists a statistically significant relationship between the predictor and the outcome variable which cannot be attributed to a random process of chance. The significant relationship is further manifested by the t-value in the coefficient table β= 1.074, t= 9.536, p<0.05. There is positive significant relationship between SA and OP and this would imply that enterprise performance accelerates based on the degree of alliances formed. This therefore depicts that strategic alliances, is key in determining performance of strategically allied enterprises and as such, the hypothesis that there is no significant influence of strategic alliances on performance of strategically allied enterprises in Kenya is rejected. Based on the outcomes of the results of the regression analysis as presented in Table 5.1 (c), the model is expressed as follows:

$$OP = .192 + 1.074SA$$

Where;

OP is organizational performance

SA is strategic alliances

This implies that a unit change in strategic alliances results in 1.074 changes in enterprise performance. However when strategic alliances is rated zero, enterprise performance is .192. This shows that in absence of strategic alliances, the performance of strategically allied enterprises is far below the break-even point depicting the importance of engaging in to strategic alliances for performance to be realized.

Conclusions

The study determined the effect of strategic alliance on enterprise performance. The study found a strong relationship between strategic alliance and enterprise performance. Coefficient of determination indicated that strategic alliance explained 62.7 % of variation in enterprise performance. Further the overall model was significant as depicted by F value. The significant relationship was further manifested by the significant t-value in the coefficient table. This therefore depicts that strategic alliance is key in determining enterprise performance in strategically allied enterprises in Kenya and thus the hypothesis that there is no significant influence of strategic alliance on enterprise performance is rejected.

Recommendations

Running a successful business is not merely about having a high quality product or picking a suitable strategic alliance. It is also about leveraging the right kind of strategies like strategic alliance to reach out to the target audience and convert them into leads or customers. Thus, policymakers and practitioners operating in the strategically allied enterprises should take advantage of the findings of this research and benefit from the implementation of the right kind of strategies like strategic alliance to maximize on their performance.

Scope for further studies

The purpose of this paper was to explore linkages between enterprise performance and strategic alliance practice. By identifying diverse areas where most strategic alliance research has concentrated in the past, opportunities for further research that links enterprise performance with these

diverse areas (environmental analysis, choice of alliance and alliance partners, alliance structure and evaluation) is identifiable for further exploration. While previous research has recognized the importance of strategic alliances, these studies have had a strong tradition of assessing the economic aspects of inter-firm relationships. However, strategic alliances also involve cross-sector partnerships, and alliances of all sorts have been formed not only to address economic concerns, but also complex environmental issues. Additionally, previous scholarship has tended to treat strategic alliances as a dichotomous variable with participation relative to non-participation, thus failing to appreciate important nuances about their formation. For instance, some alliances may develop because of external institutional pressures, whereas others may form because of new market opportunities. These variations may lead to significant differences in an alliance's ability to accomplish meaningful environmental improvements. Finally, the research questionnaires were mainly administered to the target respondents through drop-and-pick-up later method. This increased chances of misinterpretation of the items captured in the questionnaire and survey response syndrome. There is need for future studies to have research survey tools presented to respondents on face-to-face interviews as they are presumed to allow for more in-depth data collection from the respondents and comprehensive understanding of the survey content.

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