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EFFECT OF STRATEGIC COLLABORATIONS ON PERFORMANCE OF BANKING SECTOR IN KENYA

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ABSTRACT

Shareholders and managers of commercial banks always adopt strategic collaborations with an aim of improving their financial performance, economies, efficiency as well as their liquidity position. However, this argument is contradicting given the mixed performance of firms that have strategically collaborated in the banking sector. As a result, this study sought to determine the effect of strategic collaborations on performance of Banking Sector in Kenya. Specifically, the study looked at the effect of mergers, joint ventures, franchising and business networking on performance of Banking Sector in Kenya. A descriptive survey design was adopted where a total of 24 commercial banks that are still operational up to now and have engaged in strategic collaborations were targeted. The study targeted the CEO's Office, heads of Finance, Human Resource, Marketing and Operations totaling to 120. A census was conducted on this group. Data was collected using both questionnaires and secondary data template and analyzed through Statistical Package for Social Sciences version 22.

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Descriptive and inferential statistics were both analyzed. Descriptive statistics included percentages, mean and standard deviations while inferential statistics included correlation and regression. Before conducting regression analysis, the study tested for the assumptions of classical linear regression model namely, normality, autocorrelation, heteroscedasticity, linearity and multicollinearity. The findings of the study showed that while joint ventures, business networking and mergers had a positive effect on performance of commercial banks, franchising did not. The study recommends advanced practices of mergers with both peers or other firms in different fields in order to improve synergy in cases where the competition is very stiff; strategic and operations managers of commercial banks to improve the extent of adopting joint ventures with peers through equity Joint Ventures, cooperative agreements and financing agreement; to accelerate their business networking initiatives in order to improve their performance. This can be done through supplier interaction, customer interaction and competitor interaction as well as intensify the adoption of franchising activities such as business format franchising, distribution franchising and management in order to realize its positive effects.

Key Words: *Mergers, Joint Ventures, Franchising, Business Networking, Performance of Banking Sector, Kenya*

BACKGROUND OF THE STUDY

Financial institutions play a key role in improving economic efficiency by channeling funds from resource surplus unit to those with better productive investment opportunities. The also play a key role in trade and payment system by significantly reducing transaction costs and increasing convenience. In the fast-changing markets, firms are constantly involved in competition with fast changing technology making it paramount that firms practice innovation in order to gain competitive advantage (Rhee, Park & Lee, 2010). In the banking industry, the firms may deliberately underestimate the competitive challenges that they face. The risk of this happening is high when competitors react to potential challenges in much the same way. Since most financial institutions offer similar products and services, they continually search for a competitive advantage that will attract new customers and retain the existing (Porter, 2008). Much emphasis has been placed on building strategic collaborations as essential elements of organizational survival (Rhee *et al.,* 2010).

In search of competitive advantage in the banking industry in Kenya, financial institutions are aggressively leveraging information technologies, human resources, branch network, product offerings, relationship marketing, transactional processes, diversifications, among others. However, high competitor imitation is speedily watering down these strategies subsequently eroding competitive advantages in the sector (Beck, Senbet, & Simbanegavi, 2015). This coupled with recent developments in the banking industry such as high costs of operations, narrowing profit margins, high competition for market share, high regulatory changes, technology evolution and changing consumer demographics and behavior are impacting on the way banks in Kenya are adopting so as to be competitive. These banks have to look for creative methods of evolving into superior services so as to achieve competitive advantage and hence most of the banks are engaging in strategic collaborations (Kungu, Desta & Ngui, 2014).

The scope of strategic collaborations in the last decade has been high and the drivers vary from business growth, changes in consumer's demand and the need to improve the delivery and financial position of the parties (Sharma, 2013). To have competitiveness and market share, firms are resorting to strategic collaborations. Furthermore, in order to diversify the risks in a firm's assets and penetrate new markets through economies, they use strategic collaborations (Kemal, 2014). The bottom line for strategic collaborations has been placed on synergy where the belief that 2 are better than 1 takes the center stage (Sharma, 2013). For such with the belief that the wealth of the shareholders would improve, strategic

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collaborations takes place for the following reasons; economies, improved market share, synergy, geographical scope and revenues. Ownership matters has also pushed through the need for strategic collaborations as argued by Kemal (2014). It has been argued that through strategic collaborations, firms would build their ownership size or separate their ownership thus delivering market power. In some cases, the expected benefits of strategic collaborations have been exaggerated and the shareholders end up flawed efficiencies.

STATEMENT OF THE PROBLEM

Shareholders and managers of commercial banks always adopt strategic collaborations with an aim of improving their financial performance, economies, efficiency as well as their liquidity position (Muigai & Gitau, 2018). However, this argument is contradicting given the mixed performance of firms that have strategically collaborated in the banking sector. Commercial banks have recorded mixed performance in the last over 5 years whereas strategic collaborations have been on the rise. The Kenyan banking industry is experiencing very stiff competition that has resulted in their mixed performance and seen the contribution of the sector to the gross domestic product in terms of their assets reduce from 88.41% in the year 2014 to 83.27% in the year 2015 (Banking Sector Stability Report, 2016). Furthermore, high competition in the industry further saw 3 banks placed under receivership and one placed under liquidation (CBK, 2016). The Kenya Financial Sector Stability Report (2017) revealed that highly volatile environment of operation led to an increase in non-performing loans (NPLs) by 36.04% by the year 2016.

The effect of strategic collaborations is mixed whereby studies such as Selvam *et al*, (2009); Kling (2006); Yeh & Hoshino (2002); King *et al*. (2004); Ismail, Abdou & Annis, 2010) document that it has adverse effects since it promotes conflict of interest among the managers of the firms that collaborate. Other studies have documented that there is no significant improvement in performance of firms that undergo strategic collaborations (Saple (2000). In the local context, Chesang (2017) similarly indicated that strategic collaborations do not improve the performance of commercial banks automatically while others have documented that strategic collaborations have is the prerequisite for better performance and enhanced efficiency of the firms involved (Athanasoglou & Brissimis, 2004; Straub, 2007; Kithitu, *et al*, 2012). The clarity of the effect of the effect of strategic collaborations on performance of Banking Sector in Kenya is not conclusive henceforth a need for this study.

OBJECTIVES OF THE STUDY

i. To determine the effect of mergers on performance of Banking Sector in Kenya

ii. To establish the effect of joint ventures on performance of Banking Sector in Kenya

iii. To examine the effect of franchising on performance of Banking Sector in Kenya

iv. To determine the effect of business networking on performance of Banking Sector in Kenya

THEORETICAL REVIEW

This study was built around the Resource Dependency Theory, Strategic Behavior Theory, Resource Based Theory and Synergistic Mergers Theory. Resource dependence was originally developed by Pfeffer and Salancik (1978). The main underpinning arguments of the theory is that organizations depend on resource which ultimately originate from an organization's environment. The environment, to a considerable extent, contains other organizations and hence the resources one organization needs are thus often in the hand of other organizations. Having these resources, is a basis of

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power and thus, legally independent organizations can therefore depend on each other through collaborations. Resource dependency theory (RDT) posits that power is based on the control of resources that are considered strategic within the organization (Pfeffer & Salancik, 1978). RDT has its origins in open system theory as such organizations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. A deficiency in one or more strategic resources is seen as the driving force for collaboration and a means of reducing uncertainty and managing this dependency. Confronted with the costly situation of this nature, management actively directs the organization to manage the external dependence to its advantage.

Strategic Behaviour Theory proposed by Carlton and Perloff (1994) highlights the actions which a firm takes to improve its competitive position relative to actual and potential rivals; in order to gain a permanent commercial advantage, thereby increasing its long-run profits. Carlton and Perloff (1994) refers to strategic behavior as conduct which is not economically inevitable, but which is the outcome of a conscious attempt to shape the firm's market environment to its own lasting advantage and to the competitive disadvantage of rivals. There are two categories of strategic behavior: Non-cooperative behavior occurs when a firm tries to improve its position relative to its rivals by seeking to prevent them from entering a market, driving them out of business or reducing their profits. Cooperative behavior occurs when firms in a market seek to coordinate their actions and therefore limit their competitive responses.

The concept of dynamic capability came from the work of Teece *et al*. (1997). This was in appreciation of the fact that the environment of operation of any given organization changes and hence a firm need to be agile enough to change as well. As a result, there is a need for the firms to have what we call dynamic capabilities to make the process easy. The theory indicates that a firm need to be able to integrate its internal resources with the external competencies in order to blend into a strong competitive advantage. There is a need for the firms to blend its various kinds of resources and specialized knowledge into a dynamic capability that can give it dynamism with the changing environment. Synergistic Mergers Theory proposed by Itami Hiroyuki (1987) presents an argument on the synergies arising as a result of a merger. Specifically, the theory presents a discussion of the financial and operational synergies as a result of a merger and acquisition. The theory posits that a firm enhances its synergy through a merger. Through merger, firms are able to put together their operations and improve the efficiency even more.

According to Weston, Chung and Hoag (2003), firms are able to perform better after a merger regardless of the type of merger. This is because of the assumption that before a merger, a firm is performing below standard but after it, it is able to improve its operation. This is the concept of operating synergy. In regard to financial synergy, the theory argues that the cost of raising funds externally reduces significantly. This improves their financial position and can enable them to adjust to their environment accordingly (Weston, Chung, & Hoag, 2003). Companies that have a small window for growth, may call for a merger because internal growth may be slower and take longer.

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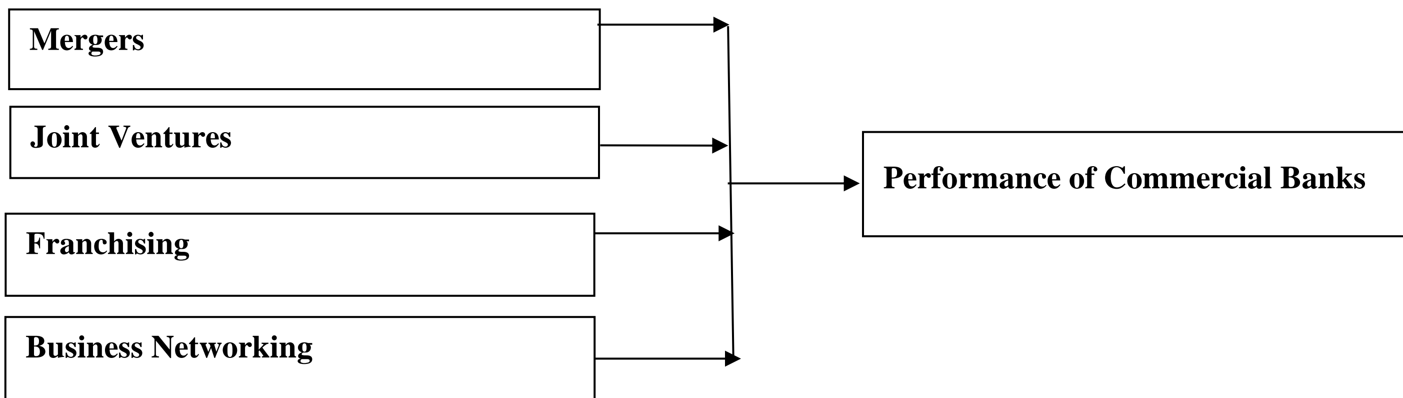
CONCEPTUAL FRAMEWORK



Independent Variables **Dependent Variable**

Figure 1 Conceptual Framework

EMPIRICAL REVIEW OF LITERATURE

Andre, Kooli and L'Her (2014) set to establish how a number of commercial banks in Canada had faired on after their mergers. The data set adopted spanned 1980 to 2000 and through t-tests, the study discovered that after the M & A, these entities underperformed overwhelmingly. In another interrogation, Agrawal, Jaffe and Mandelker (2012) in their study focused on a total of 937 firms to interrogate the same concept and revealed that the firms improved their returns after M & A in the long run. The study however focused on listed firms only while this study doesn't narrow down to listed firms only. Similarly, in UK. Ingham, Kiran and Lovestam (2011) established the performance of mergers among top 500 firms not necessarily commercial banks. It was indicated that the period post-merger demonstrated a good performance for these firms. Furthermore, it was more likely where the integration of smaller firms into larger firms happened. Compared to this study, this study presents a contextual gap since the focus on UK non-banking firms cannot be generalized to Kenyan banking firms.

Soares (2007) conducted a study to investigate the use of strategic alliances as an instrument for rapid growth by New Zealand based design led companies and indicated that strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects. Li, Qian and Qian (2013) established whether partners in international joint ventures share resources, costs, and risks. The study findings indicated that the argument is tenable in low-tech industries but untenable in high-tech industries. In high-tech industries, international joint ventures are mainly used to mitigate environmental dynamism. Nzengya (2013) established the major drivers of strategic alliances in the banking sector in Kenya. The findings of the study revealed that the major motives for strategic alliances were profit and revenue maximization as well as gaining a competitive edge. The study recommends that the banks venture in non-aligned partnerships in order to diversify and spread risks.

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Gillis and Combs (2009) focused on franchisor strategy and firm performance among UK firms. The study established that franchisors perform better when they invest in resources that best support their selected strategy. Bracker and Pearson (2016) established the impact of franchising on the financial performance of small firms. The study conducted ANOVA tests and established that many would-be entrepreneurs minimize their business risk by purchasing a franchise rather than starting from scratch. Njuguna, Ochieng and Mwangi (2018) conducted a critical literature review to establish franchising propensity and financial performance of franchising organizations in Kenya. The study revealed that the relationship between franchising and performance provide conflicting results. It was also established that the relationship between franchising and performance is influenced by firm characteristics.

Watson (2007) modelled the relationship between networking and firm performance of UK based firms. Based on a large longitudinal database, it was established that a significant positive relationship between networking (particularly with formal networks such as external accountants) and both firm survival and, to a lesser extent, growth, but not ROE. Kalm (2012) focused on the impact of networking on firm performance taking evidence from small and medium-sized firms in emerging technology areas. The results showed that increasing activity with network actors is positively connected with firm growth as measured in both revenue and employment growth. Abbas, Raza, Nurunnabi, Minai and Bano (2019) conducted a study on the impact of entrepreneurial business networks on firms' performance through a mediating role of dynamic capabilities. It was established that entrepreneurial business network had a significant positive relationship with dynamic capabilities, which in turn presented a positive relation to a sustainable performance of small firms. By developing sustainable business networks, small firms can achieve sustainable performance by implementing dynamic capabilities in a competitive environment

RESEARCH METHODOLOGY

This study used a descriptive survey design which was suitable in establishing a causal relationship between variables through quantitative methods which this study intended to do. This study targeted firms in the banking sector which have engaged in strategic collaborations for the last over 5 years. A Central Bank of Kenya (2019) report documented that for the last over 5 years from the time of the study, 2020, a total of 24 commercial banks that are still operational up to now have engaged in strategic collaborations with the latest case being that of KCB and National bank of Kenya. This formed the unit of analysis of the study. The unit of observation (respondents) were the top management employees from these commercial banks who are engaged in strategy formulation. Specifically, the study targeted the CEO's Office, the heads of Finance, Human Resource, Marketing and Operations totaling to 120.

The study adopted a census technique with respect to the unit of analysis which was 24 firms that have engaged in strategic collaborations. The study used a census since the population of 24 financial institutions in Kenya was small. The study made use of primary data that was obtained from the study respondents as well as secondary data on performance of the commercial banks. The primary data was gathered by use of structured questionnaires and captured through a 5-point Likert scale type. Prior to data collection, the research instrument was pretested on 10 respondents which made up 8 percent of the target population. This study used Cronbach's Alpha (α) scale of 0.7 as an internal consistency measure computed as a coefficient ranging from 0 and 1. All the variables were reliable since their values were above 0.7.

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Three types of validity were established that is content, criterion and construct validity. While criterion validity was achieved by aligning the questionnaire to literature, content validity was tested through expert opinion. This doesn't need statistical computations but judgements. The comments by the supervisor, the panelists during proposal defense as well as other lecturers were incorporated into the research instrument for improvement of its validity. In regard to construct validity, exploratory factor analysis was used whereby the loadings were supposed to be above 0.4 as recommended by Smith (2015). All the factors had loadings above 0.4 hence construct validity was achieved. The quantitative data was analyzed using descriptive statistics where the responses from the questionnaires were tallied, tabulated and analyzed in percentages, frequencies, mean and standard deviation using Statistical Package for Social Sciences (SPSS V 22). Tables and Figures were used to present the data for easy comparison. Further, multiple regression analysis was conducted to determine the effect of strategic collaborations on performance of banking sector in Kenya. The following multiple regression model was used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where: Y = Performance of Commercial Banks, X_1 = Mergers, X_2 = Joint Ventures, X_3 = Franchising, X_4 = Business Networking, e = Error term, α = constant, β = Coefficient of independent variables

RESEARCH FINDINGS

The study targeted the top management employees involved in strategy formulation among the 24 firms which have been engaged in strategic collaborations. Those targeted were the CEO's Office, the heads of Finance, Human Resource, Marketing, Operations. After 10 respondents had participated in the pilot, they were excluded from the main survey and consequently 110 respondents were targeted and given questionnaires. From that number, a total of 75 responded. It was concluded that a response rate of 68 percent was established which is satisfactory based on the reasoning by Silverman (2016). Even though the process of data collection was challenging, the researcher made sure that enough time was given to the busy respondents.

Demographic Characteristics

The demographics, which majorly were used to describe the unit of analysis, ranging from the age of the bank since incorporation in Kenya, the number of strategic collaborations that the bank has engaged in since incorporation as well as the type of strategic collaboration were well voiced in this section. Table 1 provides a summary of the characteristics. The description of the unit of analysis demonstrated that only a tenth of the banks which have undergone strategic collaborations in the study period have been in existence for a period below 20% while majority have operated for a period between 21 and 40 Years since incorporation. This implies that these banks have undergone various forms of strategic collaborations in their long period of existence.

It was also found that since incorporation, most of the banks (67%) have been engaged in an average of 4 to 7 strategic collaborations while 21% have been engaged in more than 7. This demonstrates that this population was suitable in giving information regarding strategic collaborations since they had participated in them. The most frequent type of strategic collaboration engaged in by the banks in Kenya was business networking (45%) where the banks shared information on various activities followed by franchising (28%) where they had some agents operate on their behalf then mergers (22%)

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and lastly joint ventures which was least practiced in the Kenyan scenario.

Table 1 Demographic Characteristics

Characteristic	Cluster	Percentage
Age of the Bank	Below 20 Years	10%
	Between 21-40 Years	60%
	More than 40 Years	30%
Number of Collaborations Since Incorporation	Less than 3	12%
	4 to 7	67%
	More than 7	21%
Type of Strategic Collaborations Engaged In	Merger	22%
	Joint Venture	5%
	Franchising	28%
	Business Network	45%

Descriptive Statistics

The study interrogated the extent to which various practices of strategic collaborations have been implemented by the commercial banks in Kenya. This section gives a summary of the response in form of mean and standard deviations.

Mergers

The descriptive results for the extent of adoption of various merger practices by the banks in Kenya was established and presented in Table 2. The findings agreed that it has been beneficial for the banks to collaborate with peer banks to a high extent (M = 4.41), the banks have collaborated with like-minded financial institutions like Micro financial institutions to a high extent (M = 4.44) and that the banks found it needful to collaborate with research institutes not engaged in financial services to a high extent (M = 4.41). The results also showed that the banks see it beneficial to engage in collaboration with institutions for higher learning not engaged in financial services to a high extent (M = 4.37), the banks find it beneficial to engage marketing firms which are not in the line of financial services to a high extent (M = 4.27) and that it been beneficial to consolidate with other smaller companies to a high extent (M = 4.23). Overall, it was established that mergers have been conducted to a high extent and it has been beneficial to the banks (M = 4.36). There was also a small variation in the responses (SD = 0.84). Similarly, Muya (2016) appreciated the use of mergers in improving firm performance.

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Table 2 Descriptive Statistics of Mergers

Statement	Mean	Standard Deviation
Has it been beneficial for the bank to collaborate with peer banks	4.41	0.76
Has the bank collaborated with like-minded financial institutions like micro financial institutions	4.44	0.78
Has the bank found it needful to collaborate with research institutes not engaged in financial services	4.41	0.81
The bank sees it beneficial to engage in collaboration with institutions for higher learning not engaged in financial services	4.37	0.80
The bank finds it beneficial to engage marketing firms which are not in the line of financial services	4.27	0.86
Has it been beneficial to consolidate the bank with other smaller companies	4.23	1.03
Average	**4.36**	**0.84**

Joint Ventures

The descriptive results for the extent of adoption of various joint venture practices by the banks in Kenya was established and presented in Table 3. It was ascertained that the banks find it beneficial to contribute equity with other partners for investment purposes to a high extent (M = 3.65), the banks have agreed with other like-minded firms to cooperate in providing services to a high extent (M = 4.80) and that the banks have found it beneficial to jointly finance some projects with other partners to a high extent (M = 4.53). The findings also demonstrated that the banks have seen the value of affiliating with other like-minded companies to a high extent (M = 3.68), the banks always involve other companies when coming up with a new project to a high extent (M = 3.65) and as well find it beneficial to share ideas with other partners for joint investment purposes to a high extent (M = 3.81). The overall results show that the banks engage in joint ventures to a high extent and it has been beneficial to them (M = 4.02). The results also demonstrated a small variation as shown by a SD of 0.88. Adoption of joint ventures has also been supported by Jiang, Keller, Qiu and Ridley (2018) who argued that it enhances market power, economics of scale and raises the necessary capital.

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Table 3 Descriptive Statistics of Joint Ventures

Statement	Mean	Standard Deviation
The bank finds it beneficial to contribute equity with other partners for investment purposes	3.65	0.88
The bank has agreed with other like-minded firms to cooperate in providing services	4.80	0.72
The bank has found it beneficial to jointly finance some projects with other partners	4.53	0.92
The bank has seen the value of affiliating with other like-minded companies	3.68	0.89
The bank finds it beneficial to share ideas with other partners for joint investment purposes	3.81	0.97
Average	**4.02**	**0.88**

Franchising

The study also established the extent of adoption of various franchising practices by the banks in Kenya. The mean and standard deviation of the responses is shown in Table 4. It was confirmed that the banks have involved agents to provide banking services on their behalf to a high extent (M = 4.25), the banks have involved agents to help open bank accounts for new customers on their behalf to a high extent (M = 4.13) as well as logistics companies in distribution services on their behalf to a high extent (M = 4.15). The results also illustrated that sometimes, the banks find it beneficial to involve consultancies in management to a high extent (M = 4.27), the banks have allowed its agents to use its brand name to conduct business to a high extent (M = 4.23) and the bank's agents have been given rights to conduct similar services on behalf of the bank to a high extent (M = 4.21).

Overall, it was shown that that Franchising has been adopted by the commercial banks to a high extent and it's been beneficial to them (M = 4.21). The results also demonstrated a small variation as shown by a SD of 0.92. Njuguna, Ochieng and Mwangi (2018) also supported the use of franchise as modern strategy since it provides an opportunity for entrepreneurs to set up businesses or expand existing ventures while basing on the experience of the owner of the business model in exchange for a fee.

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Table 4 Descriptive Statistics of Franchising

Statement	Mean	Standard Deviation
The bank has involved agents to provide banking services on their behalf	4.25	0.82
The bank has involved agents to help open bank accounts for new customers on their behalf	4.13	0.95
The bank involves logistics companies in distribution services on their behalf	4.15	0.88
Sometimes, the bank finds it beneficial to involve consultancies in management	4.27	1.03
The bank has allowed its agents to use its brand name to conduct business	4.23	0.95
The bank's agents have been given rights to conduct similar services on behalf of the bank	4.21	0.86
Average	**4.21**	**0.92**

Business Networking

The study also established the extent of adoption of various business networking practices by the banks in Kenya. The mean and standard deviation of the responses is shown in Table 4.6. As presented in Table 5, the results depict that the banks find it needful to build partnerships with suppliers and share creative ideas to a high extent (M = 4.03), the bank find it needful to build partnerships with other players in the industry to share creative ideas to a high extent (M = 4.05) and that the banks are members of various bodies involved in sharing of important industry related information to a high extent (M = 3.88). The results also showed that the banks have seen it beneficial to attend conferences which share creative ideas of growth to a high extent (M = 4.35), the banks involve other like-minded businesses to develop and test new and innovative services to a high extent (M = 4.37) and also engage customers in a partnership that seeks to build service delivery to a high extent (M = 4.40). Overall, it was agreed that business networking is widely being practised by the banks to a high extent (M = 4.18) and the effect is beneficial. The results also showed that the responses were not widely varied (SD = 0.92). Mitrega, Forkmann, Zaefarian and Henneberg (2017) also suggested that currently firms are implementing this strategy based on its role in the competitive environment in the market.

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Table 5 Descriptive Statistics of Business Networking

Statement	Mean	Standard Deviation
The bank finds it needful to build partnerships with suppliers and share creative ideas	4.03	1.17
The bank finds it needful to build partnerships with other players in the industry to share creative ideas	4.05	1.21
The bank is a member of various bodies involved in sharing of important industry related information	3.88	0.99
The bank has seen it beneficial to attend conferences which share creative ideas of growth	4.35	0.80
The bank involves other like-minded businesses to develop and test new and innovative services	4.37	0.61
The bank engages customers in a partnership that seeks to build service delivery	4.40	0.75
Average	**4.18**	**0.92**

Performance of Commercial Banks

Secondary Data on the performance of the commercial banks which have engaged in strategic collaboration was obtained from the CBK annual reports between the year 2015 and 2019. The specific data extracted was on Market Share, profits before tax and ROE. Figure 2 show fluctuations in the trends of ROE of the merged banks to demonstrate that despite the strategic collaborations, the banks faced performance challenges as reported by the Kenya Financial Sector Stability Report (2017).

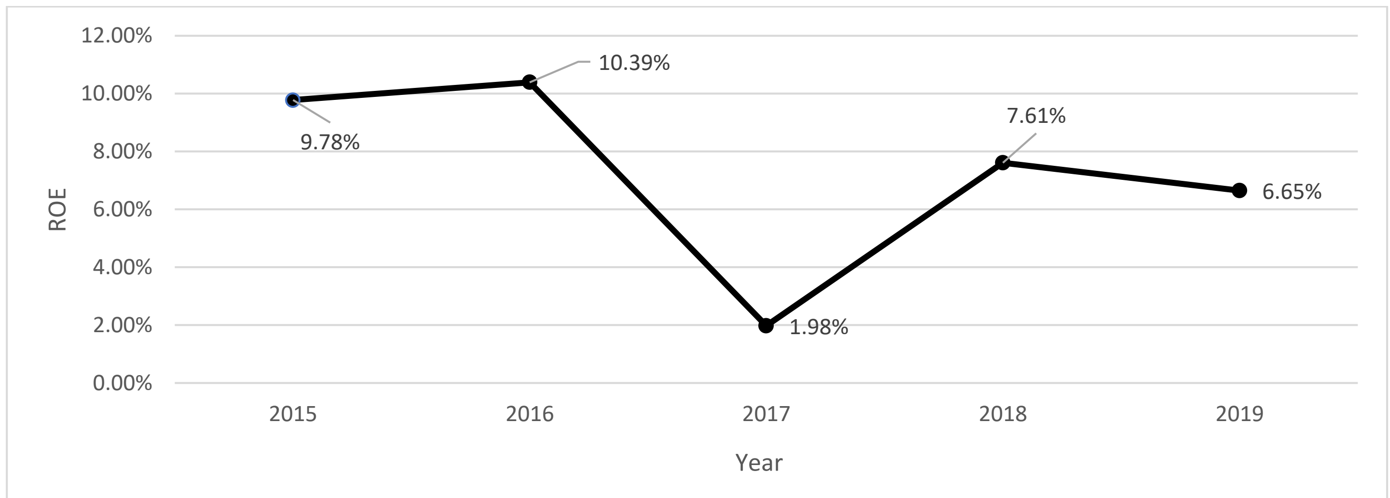

Figure 2 Trend Analysis of ROE (2015-2019)

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The market share secondary indicated in Figure 3 demonstrates that the market share of the firms which engaged in strategic collaborations has been increasing steadily from the year 2015 to the year 2019 by more than 10% increment. These findings support the Synergistic Mergers Theory by Hiroyuki (1987) which supported the role of mergers in enhancing synergy and firm growth.

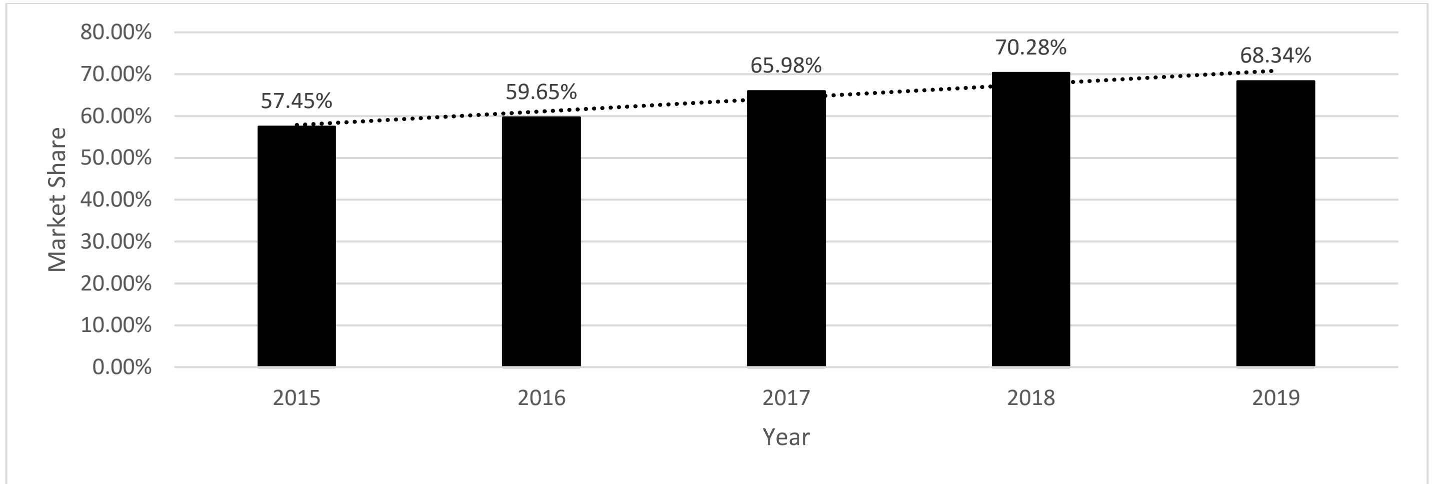

Figure 3 Trend Analysis of Market Share (2015-2019)

The Profits Before Tax (PBT) trends shown in Figure 4 demonstrate that there has been a consistent increment in the PBT among the banks which have undergone strategic collaborations in Kenya. This is supported by Athanasoglou and Brissimis, (2004) who recognized that strategic collaborations is the prerequisite for better performance and enhanced efficiency of the firms involved.

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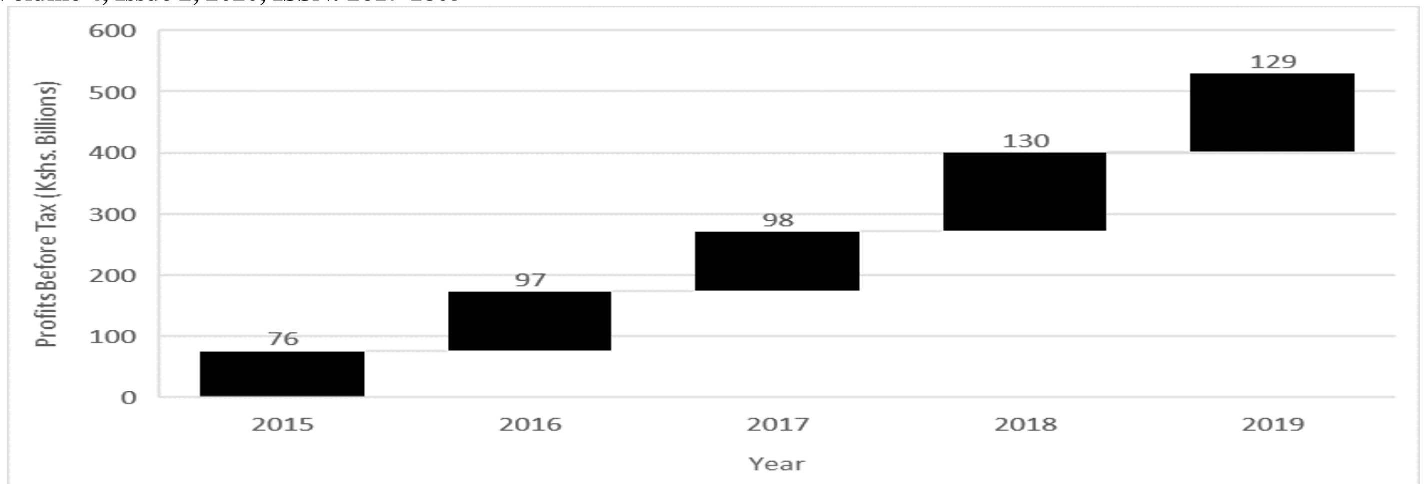

Figure 4 Trend Analysis of Profits Before Tax (2015-2019)

Correlation Analysis

Correlation analysis was conducted to find out whether indeed there existed any relationship between various strategic collaborations and performance of the commercial banks. The results in Table 6 show that all the strategic collaboration practices improve bank performance significantly. In order of strengths, business network was the strongest followed by franchising then mergers and lastly joint ventures. Franchising had a positive and significant effect on performance (r = 0.536; Sig < 0.05). This shows that increasing franchising activities is likely to enhance bank performance significantly. A similar study by Gillis and Combs (2009) demonstrated that franchisors perform better when they invest in resources that best support their selected strategy. The findings are contrary to that of Kling (2006) who was of the opinion that strategic collaborations promoted agency costs thus hampering firm performance.

Joint ventures also had a positive and significant effect on performance (r = 0.428; Sig < 0.05). This shows that increasing the engagements in Joint ventures with other banks is likely to enhance bank performance significantly. These findings are consistent with those of Soares (2007) who indicated that joint ventures improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects thus enhancing performance. The findings are contrary to that of Selvam *et al*, (2009) who documented that strategic collaborations have adverse effects since it promotes conflict of interest among the managers of the firms that collaborate. The results also confirmed that mergers had a positive and significant effect on performance (r = 0.489; Sig < 0.05). This shows that increasing the practice of mergers among the commercial banks improves their synergy and thus performance significantly. The findings correspond with that of Agrawal, Jaffe and Mandelker (2012) who revealed that firms improved their returns after M & A in the long run.

The findings are contrary to that of Ismail, Abdou and Annis (2010) who was of the opinion that strategic collaborations promoted agency costs thus hampering firm performance. It was also proved that business networking had a positive and significant effect on performance (r = 0.583; Sig < 0.05). This shows that engaging in business networking is likely to enhance bank performance significantly. The findings agree with Watson (2007) who modelled the relationship between networking and firm performance of UK based firms and indicated that a significant positive relationship between networking and both firm survival and financial performance.

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Table 6 Correlation Results

		Franchising	Joint Ventures	Mergers	Business Networking	Performance
Franchising	Pearson Correlation	1				
Joint Ventures	Pearson Correlation	.603**	1			
Mergers	Pearson Correlation	.529**	-0.012	1		
Business Networking	Pearson Correlation	.543**	.313**	.604**	1	
Performance	Pearson Correlation	.536**	.428**	.489**	.583**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	75	75	75	75	75
** Correlation is significant at the 0.01 level (2-tailed).						

Multiple Regression Analysis

The study used this inferential method to determine the nature of the relationship between strategic collaborations and performance. Table 7 gives the results of the model summary which imply that strategic collaborations could predict up to 46.9% of the variations in performance of banks in Kenya. Other than that, the remaining variation can be predicted by other factors.

Table 7 Regression Model Summary

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.685	0.469	0.439	10.51934
Dependent Variable: Performance of commercial banks			
Predictors: (Constant), Business Networking, Joint Ventures, Mergers, Franchising			

The study also tested whether the regression model linking the variables was significant. As shown in Table 8, it was agreed that since the F statistic value of 15.478 was significant Sig = 0.000 < 0.05, the model was significant and any conclusions drawn from it, are relevant.

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Table 8 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6851.017	4	1712.754	15.478	.000
Residual	7745.959	70	110.657		
Total	14596.98	74			
Dependent Variable: Performance of commercial banks					
Predictors: (Constant), Business Networking, Joint Ventures, Mergers, Franchising					

The regression model coefficients in Table 9 demonstrates that other factors held constant, the performance of commercial banks would be negative (Constant = -70.571). This can be confirmed by the bank stability report of 2017 which has shown poor performance of commercial banks. However, after introduction of joint ventures, the performance of commercial banks increases significantly (B = 7.600; Sig = 0.011 < 0.05). This shows that a percentage increase in joint ventures leads to an increase in performance of commercial banks in Kenya by 7.6%. Kithitu, *et al* (2012) similarly indicated that strategic collaborations were critical in enhancing firm performance. The results also showed that mergers are positively and significantly related with performance of commercial banks (B = 7.120: Sig = 0.023 < 0.05). This shows that an increase in engagement in mergers would significantly improve performance of commercial banks by 7.120%. The findings coincide with those of Straub (2007) who demonstrated that strategic collaborations were the engines of firm performance. The findings are contrary to that of King *et al*. (2004 who were of the opinion that strategic collaborations promoted agency costs thus hampering firm performance.

Business networking was also established to be positively and significantly related to performance of commercial banks (B = 6.197; Sig = 0.022 < 0.05). This shows that a one-unit increase in business networking is associated with an increase in performance of commercial banks by 6.197%. The findings concur with those of Athanasoglou and Brissimis (2004) that strategic collaborations form a basis for better performance and enhanced efficiency. The findings contradict those of Yeh and Hoshino (2002) who were of the opinion that strategic collaborations promoted agency costs thus hampering firm performance. The effect of franchising on performance of commercial banks was established to be positive but not significant (B = 0.299: Sig = 0.919 > 0.05). This implies that even though franchising can enhance performance of commercial banks, its effect is not impactful. This is consistent with Saple (2000) who documented that there is no significant improvement in performance of firms that undergo strategic collaborations.

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Table 9 Regression Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-70.571	12.372		-5.704	0.000
Franchising	0.299	2.920	0.015	0.102	0.919
Joint Ventures	7.600	2.928	0.335	2.596	0.011
Mergers	7.120	3.053	0.316	2.332	0.023
Business Networking	6.197	2.65	0.279	2.339	0.022
Dependent Variable: Performance of commercial banks					

CONCLUSIONS

The study findings infer that when organizations engage in mergers activities, be it horizontal mergers, vertical mergers or conglomerate, it is associated with a significant improvement in performance. The study also concludes that when an organization takes part in joint ventures with peers through equity Joint Ventures, cooperative agreements and financing agreement, it raises the possibility of better performance. It can also be concluded that involvement in business networking initiatives ranging from but not limited to supplier interaction, customer interaction and competitor interaction is associated with a significant improvement in performance of the organization. The study also concludes that franchising activities such as business format franchising, distribution franchising and management franchising can improve performance, the impact is not significant.

RECOMMENDATIONS

To the strategic and operations managers of commercial banks, the study recommends advanced practices of mergers with both peers and other firms in different fields in order to improve synergy in cases where the competition is very stiff. This is because it affects performance significantly. To the strategic and operations managers of commercial banks, the study recommends that they improve the extent of adopting Joint Ventures with peers through equity Joint Ventures, cooperative agreements and financing agreement since it would significantly improve their performance. The study also recommends the strategic and operations managers of commercial banks to accelerate their business networking initiatives in order to improve their performance. This can be done through supplier interaction, customer interaction and competitor interaction. There is a need for the strategic and operations managers of commercial banks to intensify the adoption of franchising activities such as business format franchising, distribution franchising and management in order to realize its positive effects.

CONFLICT OF INTEREST

No conflict of interest was recorded by the authors.

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