

**IMPLEMENTATION OF A STRATEGIC ALLIANCE:
EXPERIENCE OF KENYA POST OFFICE SAVINGS
BANK AND CITIBANK**

BY

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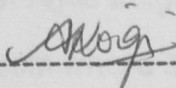
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DECLARATION

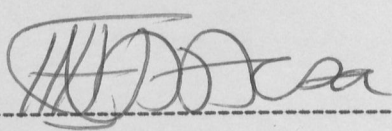
This research is my original work and has not been presented for a degree in any other University.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

To my late father, Andrew Kamau, and to my mother Edith Wamathwe for their love, inspiration and encouragement and from whom all this began.

To my sons: Njau Koigi, Kamau Koigi and Kubai Koigi, who will continue from where I stop.

And to my husband, Robinson Koigi, for his love and enormous support all the way.

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Whereas I received a lot of support and guidance in this research project, responsibility and blame for any errors or deficiencies is solely mine.

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- DAC = East Africa Community
- EAPT = East Africa Post and Telecommunication
- GNRI = Global Network of Sanitary Innovation
- ISM = International Business Machines
- ISO = International Standards Organization
- KPOSB = Kenya Post Office Savings Bank
- NGOs = Non Government Organizations
- UNDP = United Nations Development Program
- POK = Postal Corporation of Kenya
- WSBI = World Savings Bank Institute

LIST OF ABBREVIATIONS

CEO	= Chief Executive Officer
CGAP	=Consultative Group to Assist the Poor- World Bank
DfID	= Department for International Development -British Government
EAC	= East Africa Community
EAPT	= East Africa Post and Telecommunication
GNBI	= Global Network of Banking Innovation
IBM	= International Business Machines
ISO	= International Standards Organization
KPOSB	= Kenya Post Office Savings Bank
NGOs	= Non Government Organizations
UNDP	= United Nations Development Program
PCK	= Postal Corporation of Kenya
WSBI	= World Savings Bank Institute

ABSTRACT

Firms adapt various strategies in order to remain competitive in an increasingly global market. One of the strategies being adapted is strategic alliance. Strategic alliances involve cooperation between two or more firms who pool resources together to create value proposition for their customers and for themselves. Strategic alliances afford partners a higher likelihood of success than if a firm had to go it alone. Strategic alliances create synergy for the partners through sharing of resources and capacities.

Kenya Post Office Savings Bank and Citibank formed a strategic alliance in 1997. The two banks operate in a very competitive financial sector. Interest incomes which hitherto formed the major source of incomes for banks are shrinking and are likely to reduce even further with possible enactment of the Central Bank Amendment Act aimed at controlling interest rates. Banks have to hedge this risk as well as leverage their resources and capacities in order to be sustainable.

This research study sets out to identify the nature of the strategic alliance between KPOSB and Citibank and to document the experience of both banks in the formation and implementation process. Other studies indicate that most alliances fail in their first and second year of operation due to various reasons. These reasons include, shifts in objectives of the alliance, lack of

sustainable investments in the alliance and lack of continuous management oversight in the alliance. The study found that there was management commitment in this alliance right from the start and that the alliance has evolved over time to include a wide range of clients and beneficiaries. There was transfer of technology between the partners and the partners have received mutual benefits from this alliance.

The study further found out that partners usually face many challenges while implementing a strategic alliance and should always work towards resolution of these challenges in order to retain the relationship. The study established there is need for openness and honesty from the beginning as this may affect the future of the relationship because, like a marriage strategic alliances thrive on mutual trust and equal sharing of benefits. Corporate culture was identified as one of the concerns affecting strategic alliances. However this study was not able to establish to what extent corporate culture has affected the alliance. There is therefore need for further study in this area.

CHAPTER 1: INTRODUCTION

1.1. Background

Firms need good strategies to enhance their success. There are various strategies that are open to a firm. The strategies chosen for implementation depend on factors such as leadership, resources available to the firm, and changes in the environment. Studies in strategy suggest that firms need to seek strategic fit between their internal resources i.e. their strengths and weaknesses, and their external environment i.e. opportunities and threats (Andrews, 1971). The external environment includes influences from the political, economic, social and technological arena. The internal environment includes systems, policies, resource capacity and corporate culture. In order to remain competitive, relevant and sustainable, firms need to formulate and implement strategies that will balance the two environments. Due to constant changes in the environment, firms need to continuously adapt their activities to the realities in the environment also otherwise their future success may be in jeopardy (Aosa 1998).

Johnson and Scholes (1999: 10) define strategy as "the direction and scope of an organization over the long term; which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholders expectations". Several issues are raised by this definition. They include, the direction the firm intends to take, and the scope in terms of products/services and geographical outreach. There is also the long-term, the futuristic nature of strategies and the inherent uncertainties related to the future. Another issue relates to achievement of advantage over competitors. This suggests that firms have to benchmark their

performance with the best in the industry. Configuration of resources suggests coordination and integration of all available resources i.e. capital, equipments, manpower skills, network with suppliers etc to add value to the firm. The changing environment suggests some level of dynamism in the environment and challenges that need to be managed effectively. Meeting the needs of the market suggests that firms are responsive to market demands and are customer focuses to meet and exceed these needs as otherwise they would not be in business. Finally, meeting stakeholders' expectations suggests that firms should balance the expectations of the owners, customers, society and public at large, employees and all the other stakeholders.

Johnson and Scholes (1999) further identify strategy at three levels. Corporate level strategy is concerned with the overall direction of the business, the vision i.e. the future of the company, mission and the geographical scope. Business level strategies are concerned with the different portfolio and how to manage them to ensure sustainability. Operational level strategies are concerned with the delivery systems and procedures. It is at the corporate level that a firm will decide what relationships and alliances would give the business a competitive edge. It is important for firms to consider their current and more importantly about their future relationships and strategies because, the future which always look very far, always comes, and it is always different from the present. Small and big companies are in trouble if they have not worked on their future. Being surprised by what happens is a risk no firm however strong and rich can afford to take. Firms of all sizes therefore need strategies in order to be successful and sustainable (David, 2001).

Strategy is elsewhere defined as being about getting from where you are now to a place where it is worthwhile being. Strategy is about getting to the new state through competitive advantage, with least difficulty and in the least time (Grundy, 1995). Strategy is about taking fast and smart moves. Sometimes, firms can operate alone i.e. without formal relationships with others and remain successful. Certain developments in the environment are however making it attractive for firms to enter into collaborative arrangements. One such arrangement is the strategic alliance. According to Jack Welch, Chief Executive Officer, General Electric, "Alliances are a part of this game [of global competition].... They are critical to win on a global basis... the least attractive way to try to win on a global basis is to think you can take on the world all by yourself" (Yoshino and Rangan, 1995: 3).

The growing integration of the global market place since the 1970s to the new millennium, termed as globalization, has seen the emergence of all sorts of corporate relationships and linkages from alliances, mergers, partnerships and joint ventures. These inter-firm relationships may include two or more firms from the same market or from varied parts of the world and cover a range of activities and functions (Yoshino and Rangan, 1995).

The increased competition arising from the fast-changing global market has resulted in a situation where companies are finding it increasingly difficult to go it alone. More than ever before, many of the skills, capacities and resources that are essential to a firm's current and future prosperity are to be found outside the firm's boundaries and outside the management's direct control (Doz and Hamel, 1998). Accordingly, managers must think outside

these boundaries (i.e. think outside the box) in order to remain competitive. Therefore, relationships that tend to give a firm these competencies that are outside its current tangible and intangible assets are important.

Yoshino and Rangan (1995), argue that the key driving force for strategic alliance is competition. Increased competition has made the market a global village where all sorts of goods and services are readily available. It is observed that the world is moving fast in technological development, global trade and consumer tastes etc. Firms must move with equal speed to form relationships that give them a competitive edge. In this new world order therefore, strategic relationships are a necessity, and no longer an option. Synergies need to be created through collaborative efforts with other firms. To successfully forge these relationships, entrepreneurial skills are needed in order to innovatively develop competitive capacities with limited resources.

1.2. Kenya Post Office Savings Bank and Citibank

The Kenya Post Office Savings Bank (KPOSB) is a state corporation operating in a very competitive financial sector. The government structural reforms have resulted in all state corporations being required to be self-sustaining, as no assistance will come from the exchequer. KPOSB is basically a savings bank mandated to offer savings facilities and opportunity for Kenyans to save. Its major objectives are to inculcate thrift among Kenyans and mobilize savings for national development.

KPOSB operates through a countrywide network of service outlets. These outlets include 64 branches run and operated by KPOSB, 421 outlets managed by Postal Corporation of Kenya on agency basis and one independent agent appointed by KPOSB. The total service outlets at 486, is the highest number of branches available to any financial institution in the country.

Citibank Kenya on the other hand is a body corporate and a member of the global Citigroup. The bank concentrates in corporate banking and is technological driven in service delivery, having a high level of computerization and automation. It has only four branches in Kenya- Upperhill and Gigiri in Nairobi, Kisumu and Mombasa. Citibank corporate clients have beneficiaries spread all over the country in rural Kenya where Citibank has no branches. Citibank's focus is in the corporate sector mainly found in the main urban centers where Citibank already has branches.

It is against this background that the two banks - KPOSB and Citibank formed an alliance to offer banking services to Citibank beneficiaries in rural areas. In turn, KPOSB is paid a fee for each Citibank payment made through its branches.

1.3 Statement of the Problem

Both KPOSB and Citibank face competition in their niche markets in a crowded financial sector that has 46 commercial banks, 3 non-bank financial institutions, 2 mortgage finance companies and 4 building societies (Central Bank of Kenya, 2002). There are also over 3,500 Savings and Credit Co-operatives [SACCOs] and over 50 NGOs that offer financial services. Some

SACCOS have opened Front Office Service Activities (FOSA) to offer banking services to SACCO and non-SACCO members. There are also numerous informal saving groups, which not only assist members in accumulating savings, but also give them credit.

Faced with a competitive market, KPOSB and Citibank have formulated strategies to give them comparative advantage. They have entered an alliance arrangement. It is important and necessary to do an in-depth study of this strategic alliance episode between KPOSB and Citibank. Many alliances fail especially in the first or second year of operation. It is therefore important to understand this alliance. More so, there is need to establish the need for the alliance. Several questions arise here. What brought about this strategic alliance and what drives it? What strategic evaluation model did the strategic alliance take? What negotiations took place, and what strategic formulation model was followed, what milestones have been achieved? There is need to find out what problems were encountered at the partnership formulation and implementation stages. How these issues were resolved and whether there are currently any problems in the alliance. Indeed, it is more important to find out whether there is a future in this strategic alliance.

1.4 Objectives of the Study

Two objectives were retained for the study.

- a) To establish the nature of the strategic alliance.
- b) To document the experience of KPOSB and Citibank in the strategic alliance.

1.5 Importance of the Study.

The study will be of importance to KPOSB and Citibank, as it will assist them in further cementing their partnership and in forging other relationships locally. The study will again be important to Citibank in particular, as it will help the Citigroup replicate the experience in their other operations in the emerging markets. The study will be of importance to other financial institutions, as it will guide them in establishing strategic alliances.

The government has classified KPOSB as a strategic parastatal that will be restructured. The study will benefit in the development of a strategic framework within which parastatals can forge relationships to enhance their sustainability. To the academic community, this study will add to the body of knowledge available in the area of strategic alliances. It will also form the basis of further research in the areas of organization cultural influence in the implementation of strategic alliances.

1.6. Organization of the Study

This research is organized in five chapters.

Chapter 1 Consists of the background, the statement of the research problem and objective of the study and the importance of the research.

Chapter 2 consists of literature review on strategy and strategic alliances.

Chapter 3 deals with aspects of research methodology, namely the population of study, data collection methods and instruments of data analysis.

Chapter 4 deals with research findings after the data analysis was carried out.

Chapter 5 deals with summary of findings, conclusion and recommendations resulting from the study. The limitations in this research are highlighted as well as recommendations for further research.

It is often argued that the strategies a firm pursues have a major impact on its performance compared to that of competing firms. A strategy is therefore defined as an action a firm takes to achieve one or more of its goals. For most firms, the key goal is to achieve superior performance. A strategy is more specifically defined as an action a firm takes to attain more superior performance (Hill and Jones, 2001).

For firms to take specific actions to out manoeuvre competition, they need to have a strategic intent. Strategic intent encompasses an entire management process which includes focusing the firm's attention on the aspects of winning, motivating the people by communicating the value of targets, encouraging individual and team contribution and providing direction as circumstances in the environment change. Strategic intent involves setting ambitious goals that stretch a firm's resources and capabilities in an attempt to achieve these goals. Strategy also involves matching the firm's resources and capabilities to the external environment as well as to the internal environment (Hill and Jones, 2001).

All firms are keen to have abundant resources. Firms therefore establish relationships with other firms in order to increase their resources and reliability in order to face competition. This calls for skills to be able to analyze the external environment to identify threats and opportunities and

CHAPTER 2: LITERATURE REVIEW

2.1. An Overview on Strategy

Firms need strategies to be successful. It is often argued that the strategies a firm pursues have a major impact on its performance compared to that of competing firms. A strategy is therefore defined as an action a firm takes to achieve one or more of its goals. For most firms, the key goal is to archive superior performance. A strategy is more specifically defined as an action a firm takes to attain more superior performance (Hill and Jones, 2001).

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No firm can claim to have abundant resources. Firms therefore establish relationships with other firms in order to increase their resources and capability in order to face competition. This calls for skills to be able to analyze the external environment to identify threats and opportunities and

the internal environment and resources in order to identify strengths and weaknesses. Having identified the resources and capacity in short supply, firms may enter into relationships that give them benefit on the use of the resources of another company at a fee. These types of relationships with selected partners are strategic alliances (Hill and Jones, 2001).

2.2. Strategic Alliances

Faced with rapid technological advances, changing market structures and increasing competition, firms are motivated to form alliances with other firms. Doz and Hamel (1995) suggest that strategic alliances make it possible to reduce investment risks, share technology, improve efficiency, enhance global mobility and strengthen competitiveness.

There are different definitions of the concept of strategic alliance. Different scholars have explored different facets of this concept. Indeed, that there are different ways of looking at this concept suggests that it is a very important one hence the great interest it has elucidated.

Channon (1999) defines strategic alliances as coalitions and cooperation agreements, formed between a corporation and others in order to achieve certain strategic goals. Strategic alliances have been formed to facilitate entry to new markets or to reduce operational costs. Entry to new markets takes place for example when an overseas company makes an alliance with home company. An alliance could also be made with companies in the same market but who traditionally concentrate in different market niches. An

alliance would give the partner access to the other company's market. Reduction of operational costs occurs due to sharing of resources and through economies of scale and scope.

Kanter (1997) argues that strategic alliances between companies, whether they are from different parts of the world or different ends of a supply chain, are a fact of life in business today. While some are short lived and others long term, it is argued that irrespective of the duration and objective of business alliance, being a good partner has become a key corporate asset. This is called a company's collaborative advantage (Kanter, 2000).

Strategic alliance is again defined as partnership in which firms combine efforts of anything from getting a better price for goods by buying bulk or seeking business together, with each firm providing part of the product (Kautz, 2000). This is done to minimize risks while maximizing the company's leverage. Kautz (2000) further defines strategic alliances as business-to-business collaborations, which could be entered for joint marketing, joint sales, product design collaborations, technology licensing, research and development. Strategic alliances can be vertical relations between customer and vendor, horizontal between vendors, whether local or global. Kanter (1997) distinguishes strategic alliances from mergers, acquisitions and outsourcing. Mergers and acquisitions are permanent structural changes in how a company exists while outsourcing is a way of purchasing functional services for the company. This differentiation is crucial as usually there is confusion to the scope of strategic alliances.

There are yet other explanations of strategic alliances. Transaction cost rationale is based on a continuous scale between transactions in a free market on one hand and total internalization. This transaction cost logic emphasizes cost minimization (Lorange and Roos, 1999)

Transaction cost refer to costs that are incurred from activities necessary for an exchange while production costs come from coordinating activities in-house in terms of managing production and organizing. Through internalization process through mergers, acquisitions and internal development, transaction costs are effectively controlled. Accordingly, internalization will be preferred when the transaction costs of an exchange are high. Examples of internalization are audit and management firms such as PriceWaterHouseCoppers and Ernst & Young BellHouse Mwangi where several firms have merged in order to reduce transaction costs. On the other hand, market exchange costs bear transaction cost but avoid production cost, so they will be used when transaction costs are low and production costs are high. According to Das (2000) alliances will be preferred when the transaction costs associated with an exchange are immediate but not high enough to justify vertical integration.

According to Lorange and Roos (1999), the general trend is for strategic Grundy (1995) asserts that strategies for growth involve exploring business opportunities for both financial and competitive advantage and to develop capacity. He asserts that strategic alliances are one of the strategies for growth.

Another view of looking at strategic alliances is through the resource-based rationale that emphasizes value maximization for a firm through pooling and

utilizing of valuable resources. The resource-based view suggests that valuable firm resources are usually scarce, imperfectly imitable, and lacking in direct substitutes. This therefore makes the trading and accumulation of resources a strategic necessity but when efficient market exchange of resources is possible, firms are more likely to continue alone without alliances. Therefore the resource based approach "considers strategic alliances and mergers as strategies used to access other firms' resources, for the purpose of garnering otherwise unavailable competitive advantages and values to the firm" (Das, 2000: 5).

Contractor and Lorange (1988) give yet another definition of strategic alliance. Their definition is based on degree of interdependency between parties involved. Interdependence is found to be high in joint venture, mergers and acquisition where the options are hard to reverse due to the financial implications involved. Low interdependence alliances i.e. informal co-operation or formalized co-operative ventures are easy to reverse. Examples of the low dependence alliances are the holiday seasonal offers organized jointly by airlines and hotels during off peak seasons.

According to Lorange and Roos (1999), the normal trend is for strategic alliances to start from the less committed mode to a more binding relationship over time. In the final analysis, the partners should benefit both financially and strategically from the relationship.

The strategic partnership between Royal Dutch Airline (KLM) and Kenya Airways (KQ) is of a high level interdependence as KLM has acquired 26% of KQ equity. The government has retained 23%, the public 34%, foreign

investors 14% and the employees 3%. According to the Managing Director and CEO Kenya Airways Group of companies, the partnership with KLM has grown strong and beneficial to KQ. KQ code share on KLM European flights. The airlines run joint offices in a number of centers and share technology in revenue areas. This has resulted in high quality service, cost savings and market penetration (Kenya Airways, 2002).

2.3. New Dimensions of Strategic Alliances- Competitiveness and Cooperation

The Merriam-Webster Collegiate Dictionary (10th edition), defines strategic alliances as "association(s) to further the common interests of members" - or inter-corporate agreements covering a wide gamut of functions, ranging from component sourcing, research and development, product and service distribution and marketing. Joint ventures and partnerships are common with pharmaceutical firms where research costs are high for example GlaxoSmithklinebecham, a joint venture with three pharmaceutical firms. Partnerships are also found in service delivery firms where set up costs are high due to the required standards for example in establishing bank branches etc.

Yoshino and Rangan (1995) define strategic alliance through the facets that link businesses of two or more firms. At the core of this link is a trading partnership that enhances the effectiveness of the competitive strategies of the partner firms by providing for mutually beneficial trade of technological skills or products.

In recognition that varied interpretation of the term exists, Yoshino and Rangan (1995) further define strategic alliance as possessing simultaneously the following three *necessary* and *sufficient* characteristics. First, the two or more firms that unite to pursue a set of agreed goals remain independent subsequent to the formation of the alliance. Second, the partner firms share the benefits of the alliance and control over the performance of the assigned tasks. This is thought to be perhaps the most distinctive characteristic of alliances and the one that makes them difficult to manage. Third, the partner firm contributes on continuous basis in one or more key strategic areas for example in technology and products.

By adding the characteristic of *necessity and sufficiency* in the definition of strategic alliance, relationships previously thought to be strategic alliances are now excluded i.e. mergers, takeovers and acquisitions. Subsidiary companies are seen not to constitute strategic alliances because they do not involve independent firms with separate goals. The subsidiaries are seen as tactical or reactive response by multinationals to host government pressures.

Franchising and licensing are excluded from Yoshino and Rangan's definition of strategic alliances because they do not call for a continuous transfer of technology, products or skills between partners. This brings in an interesting debate of what is really a strategic alliance.

According to this new thinking, Yoshino and Rangan (1995) classify most of the strategic alliances of the 1990s as new alliances. New because even the big firms who earlier on thought they could go it alone found themselves entering into such alliances due to increased rate of globalization. Large

firms (giants) like International Business Machines (IBM) and General Motors realized that even "giants" need alliances to survive in the new business environment. These strategic alliances required new managerial skills because they crossed national boundaries. These alliances were formed between rivals, which was unthinkable before and were also formed in areas that were thought to be unrelated. They required new managerial skills because they combined both co-operative and competitive elements in an environment of shared control.

This new thinking by Yoshino and Rangan (1995) on strategic alliances is refreshing because it brings out clearly the contradictions and confusion as far as strategic alliance concept is concerned. Some of the other scholars viewed strategic alliances in terms of co-operation only, totally omitting the competitive elements in such relationships. Pelmutter and Heenan (1996), viewed strategic alliances in terms of co-operation. The work of managers was seen as working towards maintaining harmonious relationships. Ohmae (1989) saw strategic alliances in terms of harmonious relations and minimized the notion of competition in his studies about strategic alliances in Japan.

The strategic alliance manager's key role is seen to be to learn from the alliance and to use this learning to gain in the market at the expense of the partner. Strategic alliance managers are, therefore, required to be alert and to view strategic alliances as "trojan horses" to be avoided at all costs (Yoshino and Rangan, 1995).

These approaches to strategic alliance assume that the prospective partners have a shared point of view or strategic intent. In reality however, each

partner has its own perspective of the strategic situation or intent. Strategic intent differs from one firm to another even though the firms are in the alliance. This then brings challenges to strategic alliances and it therefore becomes important to study what drives firms to enter strategic alliances, and how they deal with differences in the strategic intent.

Again, Doz and Hamel (1998) saw strategic alliances in terms of value creation. They also viewed strategic alliances as not an option, but a necessity for firms who want to be at the cutting edge. They further identify capacity to collaborate as a core competence to be developed by all firms. Strategic alliances are seen as characterized by the following:

- a) Great uncertainty and ambiguity
- b) The manner in which value is created - and the way partners capture it, is not pre-ordained
- c) Partner relationship evolves in ways that are hard to predict
- d) Today's ally may be tomorrow's rival - or may be the current rival in some other market
- e) Managing the alliance relationship over time is usually more important than crafting the first formal agreement
- f) Initial agreements have less to do with success than does adaptability to change.

From the above, it is observed that strategic alliances are dynamic relationships and should be well managed.

2.4. Post Entrepreneurial Model

Among the new paradigms in organization theory is what is called post-entrepreneurial model propagated by Kanter (1989). Kanter calls for

revolution in business management to create post-entrepreneurial organizations. These are post-entrepreneurial because it takes entrepreneurship a step further by applying entrepreneurial principles to the traditional corporation and creating a marriage between entrepreneurial creativity, corporate discipline, co-operation and team work.

Kanter (1989) argues that organizations have to be flexible enough (even the big corporate giants need to learn how to dance) - to form alliances if they have to survive in an increasingly competitive and rapidly changing world. The author further argues that the post-entrepreneurial organization will pursue three main strategies. First, restructure and find strategies. Second, open boundaries to form strategic alliances and finally, create new ventures from within, encouraging innovation and entrepreneurship. Lowell et al (1999) use similar arguments like Kanter (1989). They concur that in the race for the future, organizations ought to look first at their intangible assets in people, databases, customer base and relationships to create value proposition for their customers. In shaping the future, Lowell et al (1999) argue it is best to establish interdependent-risk-reward relationships with reliable partners. Firms should identify with partners who give customers the highest value proposition. Identification of specialized skills for the firm and the partner and identifying the assets that are complimentary is critical to good partnership.

When thinking of an organization through restructuring and outsourcing of some functions, there will be a need for pooling resources together and exploration of opportunities will take place in three forms. Firstly, through service alliance - to take special projects with a limited life span i.e. research

and development. Secondly, through opportunistic alliances that comprise of joint ventures that take advantage of opportunities to enhance competences. Kanter (1989) argues that such alliances are not always equally beneficial and are vulnerable to dissolution. Finally, stakeholder alliances, which are more permanent and are made with key stakeholders like suppliers, and customers working with the firm as partners.

The result of these alliances is that structures and positions within organization change and managers see their roles and responsibility change to working closely not only with their internal colleagues, but also with external groups. These relationships influence cultural change.

Thompson and Strickland (1993) argue that the strategic alliance is one means of increasing resources capacity through external emphasis. They argue that this alternative facilitates a firm to extend its strength into competitive arenas that it would be hesitant to enter alone. A partner's functional capacity and contribution can reduce the firm's investment significantly, thus gaining more from little. Kirui (2001) argues that entering into strategic alliances with suppliers result in higher levels of value creation and profitability for the respective company.

2.7. Summary of Literature Review

2.5. Operational Definition of Strategic Alliance

From the above literature review and from other literature, the term "strategic alliances" is usually used interchangeably with "corporate coalition", "strategic partnerships" and "competitive alliances". For the purpose of this study however, the term strategic alliance is used to mean

cooperation arrangements between two or more firms in the same country. The partners in the alliance seek to add to their competencies by combining their resources with those of the other firm, with a commitment to reach agreed goals. This creates synergy (Yoshino & Rangan, 1998).

2.6. Primary Purposes Of Alliances

In racing for both the world and the future, and due to scarcity of resources, organization form alliances. These alliances have at least three distinctive purposes. These include co-option, co-specialization, learning and internalization (Doz and Hamel, 1998).

Cooption turns potential competition into allies and effectively neutralizes the potential rivalry. Firms with complementary goods to contribute are wooed into a network of economics. Co-specialization is the synergetic value creation that result from combining previously separate resources and skills knowledge. Alliances can also become an avenue for learning and internalizing skills especially those that are tacit, collective or embedded in an organization's human resource.

2.7. Generic Motives For Strategic Alliances

Lorange and Roos (1999) provided a two dimensional framework of analyzing why firms enter into strategic alliances. One dimension is by looking at the strategic importance of the particular product or business within which the alliance is being contemplated. This is done against the overall portfolio of the firm. The idea is to establish whether the product or business is part of

the core activity of the prospective partner or whether it is of peripheral value to the firm. For example, collection of deposits and disbursement of loans are core activities to a bank while providing insurance cover, though a financial in nature, is peripheral activity. If the product is core, then there is a lot of interest to maintain the alliance than when the product is peripheral.

The second dimension regards the firm's relative position in the industry. Is the firm a leader in the industry or a follower? If a leader, it would have a large market share, leading technology or generally superior quality and it would approach an alliance differently than if it had a small market share. The result of analyzing products and businesses in these two dimensions are four generic motives for strategic alliances as explained here below.

- a) Defend the market when the firm is a leader and the business is core to the operations,
- b) Retain the business or product, if the firm is a leader in the industry and the business is peripheral.
- c) Catch up, if the firm is a follower in the industry and the business is core or
- d) Restructure if the firm is a follower and the business or product is peripheral to the firm's operations.

These scenarios are represented diagrammatically as shown in Figure 1 below.

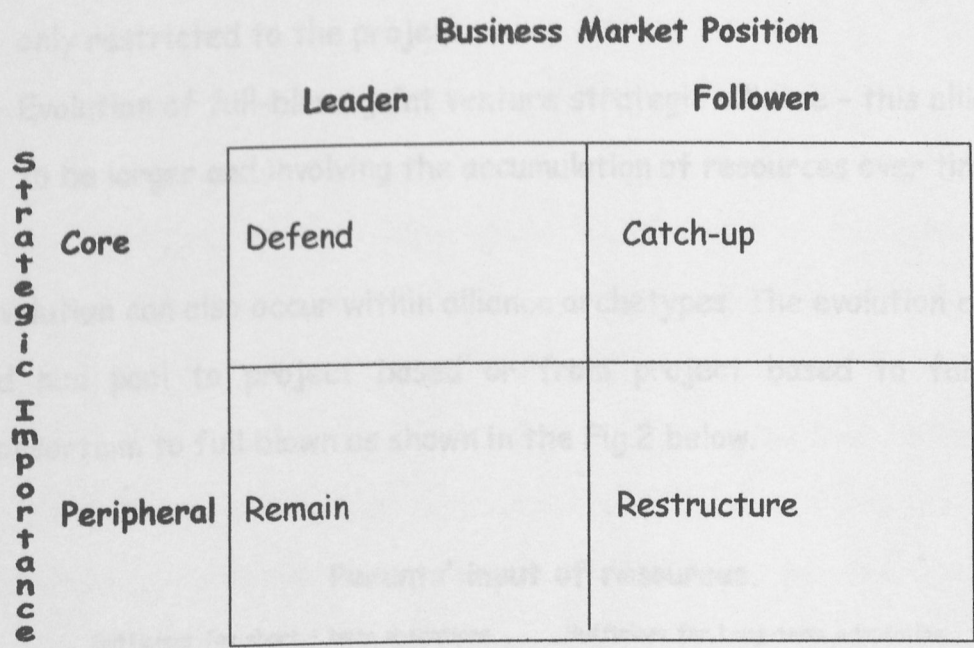


Figure 1.A Framework of Analyzing Motives for Strategic Alliances

[Source: Lorange & Roos (1999: 7)]

Firms will therefore seek alliances depending on their strategic direction i.e. whether the firm is a leader or a follower. It will also depend on whether the product or the business is core or of peripheral importance to the firm.

2.8. Evolution of Strategic Alliances - A Generic Model

Lorange and Roos (1999) argue that evolution of a strategic alliance can be looked at from a generic model within four archetypes,

- a) Evolution of ad hoc pool strategic alliance - where only minimum resources are invested in the alliance

- b) Evolution of consortium strategic alliances - where relatively more resources are being given to the alliance and there is more commitment
- c) Evolution of project based joint venture - resources in the alliance are only restricted to the project
- d) Evolution of full-blown joint venture strategic alliance - this alliance tends to be larger and involving the accumulation of resources over time.

Evolution can also occur within alliance archetypes. The evolution can be from ad hoc pool to project based or from project based to full blown or consortium to full blown as shown in the Fig.2 below.

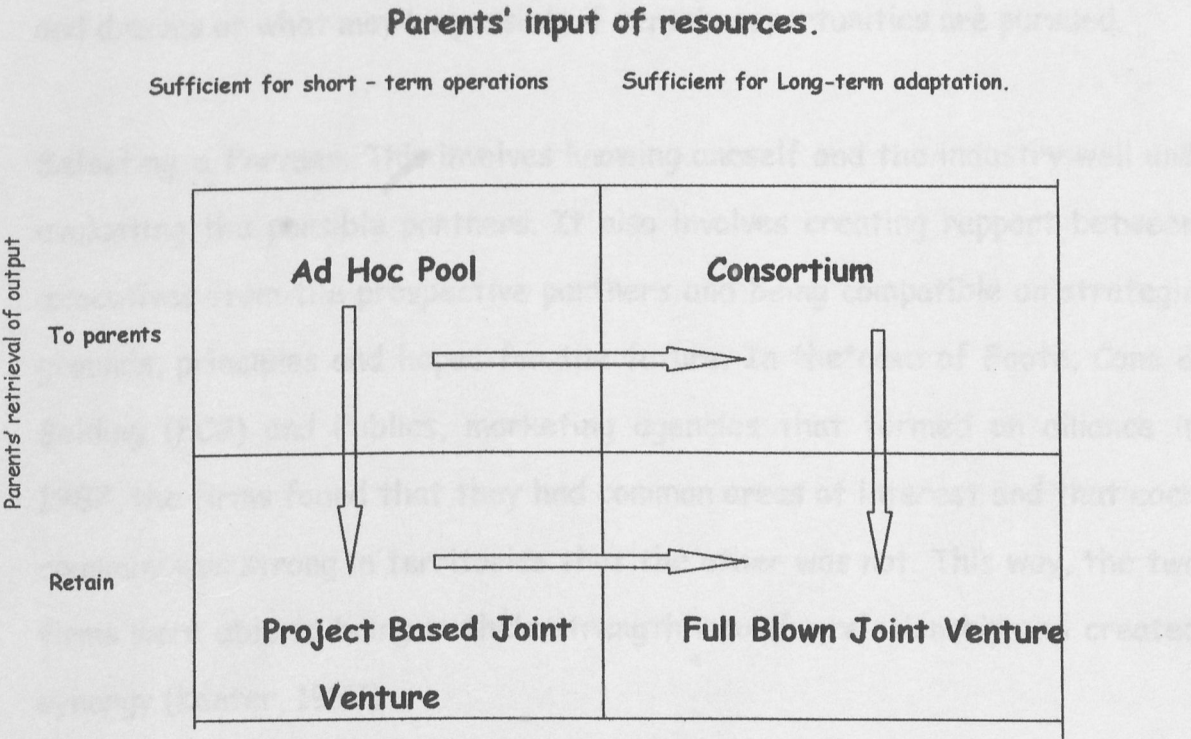


Fig 2. Evolution of Strategic Alliances Within Four Archetypes.
 [Source Lorange & Roos (1999: 11)]

The strategic alliance partners are expected to manage this evolution well in order to maximize on benefits, and therefore add value to the respective partner organization.

2.9. Creating and Managing Strategic Alliances

Kanter (1997) proposes a five-stages road map for developing strategic alliances. The author argues that like human relations, strategic alliances develop through the stage of courtship, engagement, setting up house, bridging differences and discovery of changes that occur due to accommodating each other. Formulation of alliances largely rests on hopes and dreams of what may be possible if certain opportunities are pursued.

Selecting a Partner: This involves knowing oneself and the industry well and evaluating the possible partners. It also involves creating rapport between executives from the prospective partners and being compatible on strategic grounds, principles and hopes for the future. In the case of Foote, Cone & Belding (FCB) and Publicis, marketing agencies that formed an alliance in 1987, the firms found that they had common areas of interest and that each company was strong in territories that the other was not. This way, the two firms were able to bring in their strength into the relationship and created synergy (Kanter, 1997).

Getting Engaged: This stage refers to getting other people involved in the relationship that was stated by top executives from the two organizations. The approval of other stakeholders at this stage is important to the continuity of the alliance. Specific joint projects are incorporated in the

relationship. This makes the relationship real as the staff work on a joint project.

Setting the Housekeeping: With the initial courtship over, it is argued that the relationships go through a third phase where more people at lower levels are involved and the day-to-day reality of the relationship start manifesting itself. At this stage, differences may arise because staff at lower levels may be less visionary and less experienced with working with people with different cultures. They may lack knowledge of the strategic importance of the alliance and accordingly not act to the general expectation of the partners (Kanter 1997).

Discovery of Differences: At this stage, operational and cultural differences may emerge after collaboration is already underway. Experience opens the eyes of those involved and differences in the reporting authority and decision-making styles become noticeable and this can adversely affect the alliance. At this stage, learning to collaborate becomes critical. Some level of strategic, tactical, operational, interpersonal and cultural integration becomes necessary. Resolution of disputes and other issues affecting the alliance become critical.

Changing from Within: Productive partnerships and alliances stimulate change from within the organizations. These changes may not have been anticipated at the onset of the alliances. This indeed attests to the uncertain and ambiguous nature of strategic alliances. The changes that occur include empowerment of relationship managers, creation of an infrastructure for learning and managing the trade offs that arise from the

relationship. However, the question is how much should an organization change for the sake of the alliance? What is the potential value of the alliance weighed against all other costs of the activities that demand time, resources and energy? Should the relationship take a different shape? Kanter (1997) identified eight "I"(s) of successful relationship. These are Individual excellence, Importance, Interdependence, Investment, Information, Integration, Institutionalization and Integrity. Striving for excellence, realizing the importance of the alliance, partners operating independently yet interdependently and investing in maintaining the alliance becomes critical to the success of the alliance. Ensuring stakeholders have relevant information relating to the alliance, integration of resources, institutionalization and integrity all work toward the success of the alliance.

2.9.1. Managing the Alliance

When firms enter into an alliance, the roles of the managers involved in the alliance change. Not only are they involved with managing their original responsibilities but also of managing the new relationship. They not only have responsibilities internally, but also are responsible to the partner in ensuring the alliance works. Instead of complaining when things go wrong, the manager will now be searching for solutions with the partner.

Managing the relationship also requires new skills and a balancing act as the relationship managers try to convince their colleagues that they are "not selling out" when their decisions appear to offer benefits to the partner, and at the same time convince the partner that they are not "caving in" to

parochial organizational interest when they argue their company's case (Kanter 1990).

Kanter (1997) further asserts that there is a change in job skills. Partnerships require a lot of consultation as a matter of routine. Autonomy is lost and unilateral decisions decrease. Partnerships therefore call for different set of skills. These skills include participative skills, resisting preconceived ideas, listening to others, testing assumptions as well as seeking consensus. This can be very difficult for a traditional manager and can threaten the strategic alliance. Strategic alliances require managers who are flexible, informed, forthright and candid.

Strategic alliances are faced with challenges that need careful handling if the alliance is to succeed. These challenges can make the difference between success and failure of an alliance. First, is the reluctance to give up autonomy over one's strategic resources. Second, is how to achieve operating momentum in a situation of cultural differences. Third, is how to maintain focus on the external environment i.e. competition and customers, instead of losing energies on internal friction points. Fourth, unnecessary politicking can also affect the implementation of strategic alliance. Fifth, is the challenge of maintaining organizational energy to continue cooperation over time as well as to increase the willingness to learn. Finally, there are those individuals who, despite their involvement become bottlenecks in the implementation of the strategic alliance. The challenge is how to balance all these issues and maintain a relationship that adds value to the partnership (Kanter, 1995).

2.10. Kenya Post Office Savings Bank and Citibank Alliance

KPOSB is a state corporation established under CAP 493B of the Laws of Kenya. Its predecessor, the savings department was started in 1910 by the then colonial government, but managed by the then postal services on agency basis. After independence in the early 1960s, the three East African states of Kenya, Uganda and Tanzania, formed the East Africa Community [EAC]. The three states further formed the East Africa Posts & Telecommunications Corporation [EAPTC]. Savings services continued to be offered on behalf of the three governments by the postal departments within the EAPTC. The savings services reported to the Minister for Finance while the rest of the postal and telecommunication services reported to the Minister for Transport and Communication. This agency and reporting arrangement continued after the formation of Kenya Post & Telecommunication Corporation until the incorporation of the KPOSB in 1978. All this time, only one savings product - the passbook savings account was offered to the public.

The key objective of the bank is to encourage thrift and mobilize savings for national development. The bank has a strong social vocation of offering savings services to the low-income individuals and households who are usually marginalized by the mainstream banks. KPOSB is mandated to provide savings instruments and facilities to encourage domestic saving mobilization. The bank is not capitalized and is wholly owned by the Government of Kenya.

The KPOSB's ACT empowers the bank to use the branch network of the defunct Kenya Posts & Telecommunication and its successor the Postal

Corporation of Kenya. The Postal Corporation of Kenya's (PCK) network affords KPOSB the biggest service delivery network available to any bank in the country. The bank has 24 independent branches and operates another 40 branches within post offices where it has rented counter space from PCK and posted its own staff. PCK offers the bank services through their 421 post offices and postal agents on transaction fee basis. This wide outreach has resulted in majority of Kenyan having access to banking service. Indeed there are 1.7 million active accounts at KPOSB giving evidence of the wide outreach and affordable services offered by KPOSB. KPOSB communicates this important comparative advantage through its motto "*At your service countrywide*". The bank serves about 6% of Kenyan population.

Given the big customer base, KPOSB has over the years developed competences to handle big numbers of customers. The customers include the staff of municipalities, University students, government of Kenya employees, retirees, individuals and households from all economic sectors, though majority of the customers are from the low and medium income groups. The bank is one of industry leaders in product innovation. Since 1979, seven savings and payment systems have been introduced in the market including the agency service of the global Visa Card and Western Union Money Transfer Service. The bank embraced the Total Quality Management principle in 1996 after intensive training of all staff (KPOSB, 1997)

The bank is an active member of the World Savings Bank Institute (WSBI) with membership in 96 countries globally. Through its active participation, the bank has assisted other WSBI member institutions within the Africa region diversify their product range through sharing of information and

experiences. KPOSB is also a member of Global Network for Banking Innovation (GNBI) organized by the World Women Banking. GNBI caters mainly for organizations serving the low-income population. KPOSB is also a participant in Microcredit Summit Campaign, a global campaign that aims at providing the active poor individuals and households with financial services. The objective of Microcredit Summit Campaign project is to reduce poverty through provision of affordable financial services. The bank is also an action research partner with MicroSave-Africa, UNDP, DfID and CGAP funded program aimed at promoting affordable saving services to the poor. The above shows that KPOSB has collaborated and formed relationships with other institutions over the years, relationships that are of mutual benefits to the partners. KPOSB prides itself on being a strong local institution that offers quality financial services to the majority of Kenyans who would otherwise have no access to financial intermediation. KPOSB controls about 3% market share of deposits mobilized in the formal finance sector.

Citibank Kenya is a part of Citigroup, the world's foremost financial service institution with a global presence in 100 countries with the headquarters in New York. Citibank Kenya is a leader in product innovation having introduced more than 20 products and services in the last nine years. Citibank Kenya is one of the few banks in the country that offer mainly corporate banking services. It has great competences in treasury management and has won several top honors globally in addition to being named Kenya's best-run company in two years running (2000 & 2001) in the Kenya Institute of Management's Company of the Year Award (COYA). Citibank was in 2002 certified ISO 9001:2000 compliant by Bureau Veritas Quality International. Citibank has business relationship with many institutions and prides itself on

3.1. Research Design

This is a case study on KPOSB and Citibank strategic alliance. It is said that case studies provide valuable insights for problem solving, evaluation and strategy. This detail is secured from multiple sources of information and allows evidence to be verified through in-depth probing (Cooper and Emory, 1996). While survey population is preferred in most research projects, a survey population is not the best for this case study. In-depth study method is therefore the preferred research method. The research aims to provide an in-depth understanding on how KPOSB and Citibank entered into a strategic alliance, the need for the alliance, the process followed, milestones, problems encountered, their resolution and the future of the alliance.

3.2. Method Of Data Collection

Both primary and secondary data was used in this study.

3.2.1. Primary Data

In-depth interviews involving fourteen executives from both KPOSB and Citibank were carried out. These executives and staff include the Chief Executive Officers of the two banks. Others were drawn from the operations, finance, audit and legal services and relationships manager. The research targeted those staff involved in the alliance in one way or other, and those who though not involved, have been impacted by the relationship.

The data was collected using structured and unstructured questions in a questionnaire. Both open ended and closed questions were used. These types of questions are preferred because they give an opportunity for in-depth probing of issues. The questionnaire is in four parts. Part "A" assesses the strategic alliance i.e. the identification of partners and the objectives. Part "B" sought to find out the benefits from the alliance while part "C" sought to establish the process followed in the formation of the alliance, the learning process and transfer of skills, challenges and how they were resolved. Finally part "D" sought to obtain information on the management of the alliance and the future of the alliance. Sample questionnaire is attached in Appendix 1.

The approach to data collection was through making appointments with the respondents. The researcher administered the questionnaire personally. Some of the managers were interviewed in small groups. This assisted in validating the information from the individual respondents.

3.2.2. Secondary data

Information from the two organizations was obtained. These included the annual accounts, minutes of the meetings that were held during the formation of the alliance. Other varied correspondence relating to the alliance has been perused including the newspaper reports after the signing of the agreement. The Kenya Post Office Savings Bank and Citibank Service Agreement was also perused.

3.3. Data Analysis

The data collected was analyzed to establish the objectives of the strategic alliance between KPOSB and Citibank, the process followed in establishing the alliance, the challenges faced and how they were resolved and the future of the alliance. Before the analysis, the questionnaires were verified for completeness and consistency.

The data was analyzed through content analysis. This method allows respondents to give a wide range of ideas about an issue in much detail. Njau (2000), Kandie (2001), Kirui (2001) successfully used this method in past studies.

4.1. Identification and Selection Process

Under the Kanter's five-stage model of forming strategic alliances, the selection process starts with knowing oneself well, also having a good understanding of the industry and good rapport among executives of the partner institutions. In the case of the Citibank and KPOSB alliance, all respondents indicated that it was Citibank that approached KPOSB. Though Citibank executives had no prior rapport with the KPOSB executives, they identified KPOSB as a possible partner in their target market of banks and non-bank financial institution in the domestic business. The target markets are identified by the relationships manager who has the responsibility of introducing as many products and services as possible.

Citibank's interest is to serve the increasing needs of their corporate clients who have beneficiaries outside Nairobi, Mombasa and Kisumu, the three locations where Citibank has branches. Citibank is interested in geographical spread in the domestic market without having to establish their own branches in the short run. They therefore needed to work with a partner with a geographical spread.

From the analysis of the data from the respondents, the key interest in the alliance for KPOSB and Citibank are given in Table 1.

Table 1: Interest of KPOSB and Citibank In the Alliance

Interest	Citibank	KPOSB	Remarks
Domestic geographical spread	✓	-	This was the core interest for Citibank
Expand product range	✓	✓	Both partners interested
Increase revenue	✓	✓	Both interested
Risk management	✓	-	Citibank interested
Treasury management	✓	✓	Citibank keen on this
Corporate image	-	✓	KPOSB's image enhanced
Increase revenue streams	✓	✓	Both partners interested in increasing revenue streams
Increase profitability	✓	✓	The bottom line for both banks crucial

Source. Research Data.

In reviewing the process that was followed in the forming of this alliance, the following emerges,

- Citibank made the first contact

- KPOSB responded positively
- Negotiations were held and consensus reached
- Costing and pricing of the services was done and benefits identified
- Procedures were agreed upon and communicated to all parties concerned in the two institutions.

28 % of the respondents were involved in disseminating the information on the alliance to other staff in their bank in 1997. 72 % of the respondents received information on the alliance through verbal messages, circulars, and e-mail at different time since 1997. The study established the amount of details each respondent had varied from respondent to respondent.

The partner selection process took place from mid September to mid October 1997 a period of about one month. This shows the sense of urgency in forming the alliance. The service offered under the alliance commenced on 1st November, 1997. At this stage, more participants were involved in the negotiations and in developing procedures. This is the stage Kanter (1997) refers to as getting engaged. It is crucial that the other players being drawn in the negotiations have the same understanding of the objectives and the benefits of the alliance as otherwise they may derail it. In the case of KPOSB and Citibank alliance, respondents indicated that there was a common understanding of the benefits to be derived from the alliance by those who were involved.

In analyzing whether there were challenges and problems experienced during the formation of the alliance, it was established some challenges existed as shown in Table 2. The study revealed that several methods were used to resolve these challenges.

Both banks formed a joint committee that discussed all aspects of the alliance and developed and agreed on the procedures to be followed. Staffs at lower levels were trained on the new service and specimen instruments supplied to all service outlets. This was crucial as it made the paying officers get familiar with the new instruments before hand. KPOSB conducted a feasibility study to establish the benefits and the value added to the bank by entering into the alliance. Finally, a service agreement clearly spelling out the responsibility and obligation of each partner was drawn and signed by the chief executive officers of the two banks. Table 2 below shows these challenges.

Table 2. Challenges Faced in the Formation of the Alliance.

Challenges at KPOSB	Challenges at Citibank	Comments
Trusting Citibank/suspicion from some quarters	Identifying opportunity and partner acceptable to the bank	There was sceptism from some quarters in both institutions on the viability of the alliance
Needed proper protection through a service agreement	Convincing KPOSB that the alliance was a good business opportunity	Being a new relationship, each institution required a level of protection.
Changes in procedures and training front line staff on new service requirement	Negotiating a service price acceptable to both partners	KPOSB had to ensure that the service quality promised was attained,
Speed required in the implementation of the new service.	Gaining the trust of KPOSB	There was anxiety whether all issues had been covered in the hurry to start the service

Source: Research Data.

4.2. Implementing the Alliance

In change management, it is advised that a sense of urgency be exhibited so that opportunities are not lost as people are analyzing issues [paralysis by analysis syndrome] (Doz and Hamel, 1998). The study found out there was a sense of urgency in establishing the strategic alliance. All respondents except one indicated there was a sense of urgency. This particular manager who thought that there was no sense of urgency argues that all new projects need to move fast. His role is to implement them as soon as possible. Moving fast has become a routine for him such that he considers what was required of him as normal. This indeed was a rare case that perhaps requires further follow-up. Table 3 shows the analysis of the sense of urgency in the implementation of this strategic alliance.

Table 3: Sense of Urgency in Implementing the Strategic Alliance.

Sense of urgency	Frequency	Percentage (%)	Cumulative (%)
Very strong	13	93	93
Not strong	1	7	100
None at all	0	0	100
Total	14	100	

Source: Research Data.

4.3. Setting the Housekeeping and Discovering Differences.

Having formalized the relationship and having involved staff at several levels, service delivery started. As had been observed at the initial stage, some differences in the level of technological development between the institutions became evident. As a first step, it was agreed some basic software would be installed at the KPOSB end to be able to access online, balances of the KPOSB account at Citibank. This was aimed at enhancing treasury management at KPOSB. Secondly, hardware and software were installed to hasten the cheque clearance process through using diskettes. This is planned for upgrade to online processing in the new future. Both banks contribute to the supply of equipment. Citibank supplies the specialized hardware, software and technical backup while KPOSB supplies part of the software and the human resource to operate the equipment.

4.3.1. Transfer of Technology

When asked whether there has been transfer of technology through the alliance, most respondents agreed there has been transfer of technology. One respondent while agreeing there has been transfer of technology regarded the transfer as biased and aimed at benefiting one partner more than the other. Table 4 shows the responses to this question. In conclusion, there has been transfer of technology facilitated by the alliance.

Table 4: Transfer of Technology

Has there been Transfer of technology?	Frequency	Percentage (%)	Cumulative (%)
Yes	14	100	100
No	0	0	100
Total	14	100	

Source: Research Data.

4.3.2. Specialized Skills

On whether specialized skills were required to manage the alliance, respondents from the two organizations indicated that they were doing tasks related to their area of competence. Their respective employer had trained them in whatever duties they were charged with. Training had also been given on the new features relating to the KPOSB and Citibank service. Each partner institution operates within its area of competence.

4.3.3 Challenges in Implementing the Alliance.

There are challenges in implementing relationships, strategic alliances included. These challenges according to past studies range from the reluctance to give-up autonomy, moving operations in a situation of corporate culture differences, concentrating on competition instead of dealing with internal squabbles, and dealing with internal bottlenecks caused by some

managers, who though involved in the implementation always see the negative side of the alliance (Kanter 1995).

This study found out that there were some challenges faced in the KPOSB and Citibank relationship. Table 5(a) and Table 5(b) show the challenges faced by KPOSB and Citibank respectively and how they were resolved.

Table 5 (a): Challenges at KPOSB and How they were Resolved.

Challenges: KPOSB	Resolution
Identification of cheque validity	Got sample cheques and specimen signatures from Citibank
Sudden increase in volume of cheques	Increased human capacity and output target in various outlets
Maintaining service quality in the midst of increased workload and liaising with others before effecting a change	Trained staff and service quality monitoring done regularly.
Increase in cost of services over time due to an increase in labour cost and as some hidden costs emerge.	Revised price upward. The new rates are yet to be agreed by the two partners at the time of the study.

Source: Research Data

Table 5(b): Challenges at Citibank and How there were Resolved.

Challenges: Citibank	Resolution
Volumes of cheques coming from KPOSB put pressure on their system	Enhanced the cheque reader capacity
Not having own branches	Strategic alliance with KPOSB
Pricing of services	Still a challenge as they expect volume discounts with increased volume over time, while KPOSB expects increase of charges due to hidden cost of service and an increase of labor cost over time.
Maintaining quality of service	Specified quality expectation, which KPOSB has maintained and exceeded.

Source: Research Data.

While most of the challenges have been resolved as indicated in Table 5 above, the study identified the following challenges as requiring resolution as the alliance forges into the future-

- Power in-balance and resources. One partner is perceived as stronger and richer than the other. The stronger partner has a stake in

strengthening the other partner so that the latter can do the work of the partnership

- In-balance in the benefits. One partner has raised the issue of review of the benefits accruing to them from the alliance. This has not been resolved by the time of this study and it needs to be addressed so that all partners feel they are benefiting equally.

4.4 Changing from Within- Managing the Alliance

It is argued that managing an alliance is more importance than the signing of the formal alliance agreement. This is because if issues that arise at the implementation stage are not handled well and for the mutual benefit of the two partners, the alliance could indeed break. Changes within the partner institutions take place because some of the issues that manifest themselves may not have been anticipated at the beginning of the alliance. Such ambiguity is the very nature of strategic alliances (Kanter 1989).

To understand whether changes took place, the study looked at the strategic intents of the two institutions and also the tactical arrangement in place. Table 6 shows the strategic situation in both KPOSB and Citibank.

Table 6. Existence Of Policy that Supports Strategic Alliances

Strategic Policy/Institution	KPOSB	Citibank
Do you have strategic policy that supports Strategic Alliance?	Yes, and is articulated in the Corporate Development Plans- 1998-2002, the Postbank Quality Policy Manual and the just drafted 2003-2005 Corporate Development Plans	Citibank belief that plans are not pre-ordained. Strategic alliances are part of the duties of Relationship manager who must establish as many relationships as possible. They are part of business strategies.

Source: Research Data.

4.4.1. Team Work and Management Commitment

Successful implementation of alliances requires team spirit in the respective partner institutions and in teams drawn from the two institutions. All respondents indicated there was team work across the two institutions and also within the individual institution. This resulted in faster resolution of issues that arose in the course of the executing the tasks related to the alliance. The study established team- work has been institutionalized in the two banks.

Management commitment in any relationship is critical to its further development or demise. Kanter (1989) argues that if a business is core to one partner and peripheral to the other partner, the level of management commitment varies and threatens the survival of the alliance. All the respondents indicated there was high level of management commitment in the alliance. This resulted in the relationship evolving over the years to cover more areas and beneficiaries than those originally identified in 1997 and in growth in volume of business handled through the alliance. High performance standards regarding service delivery and customer turn-around time have been maintained and management is committed to continuously improve efficiency and effectiveness.

4.4.2 Benefits from the Alliance

On whether there were shifts in the alliance, 85% of the respondents indicated that the basic objectives and motives of the alliance have remained intact. However, the scope of the alliance has not been static and has evolved over time. There has been growth from one product to multi-products and from payments for one institution to paying for several institutions. During this time, each bank has contributed their level of expertise without any claiming to have given any specialized contribution. This has reduced the level of "attitude" problem as no partner claims superior contribution than the other. Both partners need each other. This has led to agreeing jointly in further areas of collaboration. A shift in a strategic alliance is a potential threat to the relationship as it could result in a change of the original reasons why the alliance was formed. 15 % of the respondents indicated that evolvement of the alliance over time meant a change in the objectives of the alliance.

The study established that, as the partnership evolves, there has been willingness from the two banks to make adjustments in structures and responsibilities to include new duties arising from the alliance. All respondents indicated that these adjustments have been done through job enrichment rather than creation of new positions. The study further established that there has been a positive change in the speed in decision making in issues affecting the alliance. This has permeated to other areas of decision-making. Managerial roles have been enhanced to include for example, relationship manager who escalate issues to the right offices for faster resolution.

4.4.2. Benefits from the Alliance.

A successful relation should have tangible and measurable benefits for the partners. The study established that benefits to the two banks are easily valued and quantified. First, there is the increase in the number of customers served through the alliance. Second, the revenue earned from the alliance is quantifiable. Third, there has been general growth in business. Some of beneficiaries have patronized other products apart from original service offered to them. There are also other benefits that are not measurable for example, the enhancement of corporate image arising from the partnership and goodwill from one bank permeating to the other.

Kanter (1989) argues that even if allies start on an equal footing on benefits, the structure of the deal may favor one partner over the other. This happens largely because of differences in how each partner derives revenue.

This challenge exists in the KPOSB and Citibank alliance with some respondents thinking the benefits are more in favor of one partner.

4.5. Future of the Alliance

All respondents indicated the alliance has a future. Apart from the current areas covered by the partnership, there are new areas that require to be addressed. The two banks have established a team to continuously identify the areas of further strategic collaboration. According to the CEO KPOSB, the bank values the strategic alliance with Citibank and indeed all alliances with other partners as they assist KPOSB hedge against the reducing interest based incomes by introducing commission income stream. The alliances also assist in leveraging the key competences in service delivery and in leveraging the wide branch network.

For the alliance to continue growing from strength to strength, 78% of the respondents identified the following as areas requiring enhancement.

- Need to adapt to changed circumstances much faster in the two banks. There are times when decision-making is delayed due to the need to internalize the suggestions coming from one bank to the other.
- Need for more automation in certain operations for the two banks to move in tandem in customer service and be able to handle higher capacity.
- As the volume of business grows, there is need for increased empowerment of staff in order to be more responsive to customer needs.
- Need to review the price of the service offered due to changes in labour costs since 1997.

- As the alliance grows, there is need for further interactions between staff from the two banks. This is because there is some attitude problem at lower levels in the two banks. Some employees do not seem to fully appreciate what the two banks are doing together and therefore they may be a bottleneck to faster progress being realized from the alliance.
- Communications vertically and horizontally and with the partners need to improve, as there was noted lack of information despite the circulars that were sent out.

CHAPTER 5: SUMMARY, CONCLUSIONS AND LIMITATION

5.1. The Nature of the Strategic Alliance

The first objective of the study was to establish the nature of the strategic alliance between KPOSB and Citibank. The findings on the nature of the alliance are as follows;

- This is a service level strategic alliance
- The alliance involves offering specific service to identified Citibank beneficiaries where Citibank has no branches
- The relationship also involves transfer of technology and related skills among partners in furtherance of the alliance
- It further involves sending the cashed instruments to Citibank for purposes of settlement of accounts
- Agreed fees are paid to KPOSB for service rendered
- Amount paid for and on behalf of Citibank are reimbursed in full
- Certain laid down payment procedures as well as service level benchmarks are followed
- Institutional safeguards are clearly stipulated in the service level agreement including termination and resolution clauses.

From the above analysis, the two banks have entered into an alliance to pursue a set of agreed goals and have remained independent subsequent to starting the alliance. Second, the partner banks share benefits. The alliance creates a value proposition for Citibank's clients and beneficiaries. It also creates value for both banks through revenue earned by KPOSB and business transacted by Citibank. Lowell et al (1999) argues that in shaping the future,

it is best to establish interdependent risk-reward relationships with reliable partners. Firms should identify specialized skills among themselves and their partners for assets (tangible or intangible) that are complementary. This is critical to a good partnership. The study established the partners have contributed on regular basis in the area of service, products and technology; areas of their specialized skills.

5.2. Documenting the Experience of KPOSB and Citibank in the Strategic Alliance

The second objective of the study was to document the experiences of both KPOSB and Citibank in the implementation of the alliance. The study found out that in general and unknown to the banks, they followed the Kanter (1997) five- stage model in establishing this alliance.

First, there was the identification of KPOSB by Citibank relationship manager as one of the key players in the niche market. Citibank quickly approached KPOSB for the required service. KPOSB saw an opportunity to diversify revenue streams and quickly seized it. The starting of this relationship took what the CEO of Citibank calls a bottom-up approach. Citibank's relationship managers are empowered to start any profitable relationships within their niche markets in order to meet the set business targets.

Second, there was the engagement when more people were involved from the two banks. Specific projects were identified and modalities worked out. Thirdly, there was the setting up of the housekeeping. Staffs from different

levels in the two banks were involved in implementing the alliance. Training and explanations in both banks were done to ensure adherence to the requirements of the service. Differences in culture though not manifested in big ways started to show. David (2001) argues that dimensions of organization's culture permeate all functional areas of business. Culture and strategy work together. The first thing the two banks had to do was to learn to work together. Contact persons were identified for escalation of issues.

The fourth stage of the Kanter five-stage alliance model is discovering the differences. This fourth stage is critical to the success of an alliance because unless both partners are willing to collaborate and work with each other, the partnership can be threatened. Decision making process in both banks was different and both had to accommodate each other. One partner adapted a faster decision process while the other learned to collaborate with the partner at their new pace. The major concern from both institutions was customer service whose quality cannot be compromised. Other differences in the corporate culture were apparent. The study has not however established to what extent corporate culture has affected this alliance.

Finally, the study found out there has been changes from within each bank as a result of this alliance. These changes involve transfer of technology, which was not anticipated at the beginning of the alliance. There has been change in the structure of handling alliances and the roles of the relationships manager at both banks. The general perception by other players in the financial sector has changed as they see a successful alliance by two banks from different corporate cultural backgrounds and from entirely different niche

markets. Kanter (1995) asserts that alliances are a way to join forces to address opportunities, yet hedge bets to counter risks and uncertainties. The two banks have taken the opportunity of working together and hedged against the risk of falling interest income and created value proposition for their customers and value for themselves.

5.3. Conclusions

Establishing strategic alliances with suitable partners is seen as providing a solution to the financial sector whose primary source of income i.e. interest income is diminishing and likely to diminish further with the possible implementation of the Central Bank Amendment Act that aims at controlling interest rates. Partnerships are popular because of concerns over capital cost of direct expansion/investment and the rise in capital risk. Alliances provide a less capital-intensive route. Alliances that create value for all partners and offer a value proposition to their customers are critical in this era of increased competition and globalization.

For the intended benefits to be realized by all partners and for their customers to receive a value proposition, there is need for transparency right from the beginning. There is also need for safeguards to be inbuilt through a formal agreement.

5.4. Limitations of the Study

This study had some limitations.

- a) Though 14 executives were interviewed, more could have been interviewed and focus groups formed to validate the information from individual respondents. However small groups of manager were formed instead of focus groups which normally have a minimum of ten respondents.
- b) Banking service is being offered through this alliance. Accordingly, the details of the clients and beneficiaries being served through this alliance, the actual amounts involved and other proprietary information cannot be disclosed due the need to maintain customer confidentiality.

5.4. Recommendations for Further Research

The study found out strategic alliances are influenced by personal initiatives of executives in getting into an relationship and are maintained through continuous review to establish whether the original objectives are still relevant or whether a shift of objectives has occurred. Partnerships can be destroyed by a shift in the objectives and not having safeguards in a formal arrangement. Relationships can also be destroyed by differences in organizational culture between the partners. Further research should therefore be carried out to establish specifically to what extent the differences in corporate culture have affected this alliance.

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Questionnaire No. 3
Date 7-1-2002

Name of the Respondent:
Designation:
Organization: IPOSB/CITIBANK

A. ASSESSING THE STRATEGIC ALLIANCE

1. How did Citibank and IPOSB identify each other for forging this strategic alliance? Please explain.
2. What are the interests of Citibank and IPOSB in the alliance? Please enumerate.
3. What are the objectives of the alliance? (Please list the objectives).
4. Have these objectives been articulated to people concerned?

APPENDIX 1

QUESTIONNAIRE ON STRATEGIC ALLIANCE BETWEEN KPOSB AND CITIBANK

Questionnaire No. ----
Date --/--/2002

Name of the Respondent:-----
Designation -----
Organization KPOSB/CITIBANK

A. ASSESSING THE STRATEGIC ALLIANCE

- 1. How did Citibank and KPOSB identify each other for forging this strategic alliance? Please explain-----

- 2. What are the interests of Citibank and KPOSB in the alliance? Please enumerate-----

- 3. What are the objectives of the alliance? (Please list the objectives)-----

- 4. Were these objectives communicated to people concerned?
Yes-----
No-----

Please explain-----

5. Who communicated the objectives to you? -----

6. How were they communicated?

Verbally-----

Circular -----

If other means, please explain-----

7. Describe the process the partners went through in forming this alliance, what steps were followed? [Please list the steps]-----

8. How long did it take to create the alliance? -----

9. Were there any problems/challenges encountered during the process of forming the alliance. [Please explain]-----

[illegible]

3 To what extent have your customers benefited from the alliance?

Please tick one

- Little -----
- Very little -----
- A lot -----
- No benefit -----

Please give details-----

4. What should be done to increase the benefits to customers? -----

-5 Are there any other stakeholders who have gained from the alliance?

- Yes -----
- No -----

If "Yes" please give details-----

C. IMPLEMENTATION OF THE ALLIANCE

1. How strong was the sense of urgency when implementing this alliance?

Very strong -----

Not strong -----
None at all -----

2. Has there been any transfer of technology through this alliance?

Yes -----

No -----

If "yes" in what form-- -----

3 Do you require specialized skills to perform tasks relating to this alliance?

Yes -----

No -----

Explain how these skills have been acquired

4. What challenges/problems have been encountered in implementing the alliance? Please explain-----

5. Have these challenges been resolved?

Yes -----

No -----

a) If "Yes" please explain how they were resolved

b) If "No" please explain the challenges that have not been resolved.

D. MANAGING THE ALLIANCE AND THE FUTURE OF THE ALLIANCE

1. Does your organization have a strategic policy that supports strategic alliances?

Yes -----

No -----

If "Yes " is it understood? Explain-----

2. Does your system encourage collaboration and team- work?

3 Do employees respond quickly when changes occur? -----

4 Is there management commitment to provide continual oversight on projects started? Please explain-----

5 Are there performance bench marks/standards set relating to this alliance?

Yes -----

No -----

Please explain what these bench marks are-----

6 Does the partner make contributions that are easy to value? -----

7 Are there shifts in the nature of individual firm's participation in the alliance?

Yes -----

No -----

Please explain-----

8 Is any one partner making a more specialized contribution to the alliance?

Yes -----

No -----

Please give details of the specialized contribution-----

9. As the alliance evolves, is the balance between the partner's contribution and involvement well maintained?

Yes -----

No -----

Please explain-----

10 Are you and your partner willing to make adjustments to the alliance interface and governance process to improve efficiency?

Yes -----

NO -----

Please explain-----

11. Are there other areas/services you wish to see the alliance cover?

Yes -----

No -----

Please list these areas-----

12. What is your expectation of the alliance's duration?

13.Are there any areas you consider critical to this alliance and which you would like to see your partner change? -----

14. What other issues relating to this alliance do you consider important?
Please give details-----



Thank you very much for taking time to answer the above questions.

Appendix 2(a)

University of Nairobi
Faculty of Commerce
P.O. Box 30197
Nairobi
Kenya

10th May 2002

The Managing Director
Kenya Post Office Savings Bank
P.O. Box 30313
Nairobi
Kenya.

Dear Sir,

REF. LETTER OF REQUEST TO DO RESEARCH AND INTRODUCTION TO RESPONDENTS

I am a student in the Faculty of Commerce, University of Nairobi. In partial fulfilment of the requirement of the degree of Master of Business Administration [MBA], I plan to do research entitled, **"Implementation of Strategic Alliance: Experience of Kenya Post Office Savings Bank and Citibank"**.

Your bank and Citibank have been selected for this study, as their strategic alliance is unique in several ways. Consequently, I seek your approval to document this important strategic alliance episode. The research will involve interviewing key personnel who have been involved in the partnership.

Any information you might provide to make this study more revealing will indeed be appreciated.

The information and data required is needed for academic purpose only and will be treated in strict confidence.

Your cooperation in participating in this study will be highly appreciated.

Thank you in anticipation.

Yours faithfully,

A. Nyambura Koigi
MBA Student.

Prof. Aosa
Supervisor.

Appendix 2(b).

University of Nairobi
Faculty of Commerce
P.O. Box 30197
NAIROBI
Kenya
29 May 2002

Relationship Manager
Citibank House
P.O. Box 30711
00100-Nairobi
Kenya

Dear Sir,

**RE: LETTER OF REQUEST TO DO RESEARCH AND INTRODUCTION TO
THE RESPONDENTS**

I am a student in the Faculty of Commerce of the University of Nairobi, Kenya. In partial fulfilment of the requirements of the degree of Master of Business Administration [MBA], I am conducting a study entitled **“Implementation of Strategic Alliance: Experience of Kenya Post Office Savings Bank and Citibank”**.

Your firm, Citibank together with KPOSB has been selected for this study, as their strategic alliance is unique in several ways. Consequently, I seek your approval to document this important strategic episode. KPOSB has already approved the study. The research will involve interviewing key personnel who have been involved in the partnership.

Any information you might provide to make this study more revealing will indeed be appreciated.

The information and data required is needed for academic purpose only and will be treated in strict confidence.

Your cooperation in participating in this study will be highly appreciated.

Thank you in anticipation.

Yours faithfully,

A. Nyambura Koigi
MBA Student

Prof. Aosa
Supervisor