

**STRATEGIC COLLABORATION AND PERFORMANCE OF  
SMALL AND MEDIUM ENTERPRISES IN NAIROBI CENTRAL  
BUSINESS DISTRICT**

**DENNIS KIMANI**

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**DECLARATION**

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature ..... Date .....

**Dennis Kimani**

**Reg. No. D61/77283/2015**

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

Signature ..... Date .....

**Dr. R. Musyoka**

**School of Business**

**University of Nairobi**

## **DEDICATION**

I dedicate this project to my dear mother Rebecca Wanjiru, Ann Njoki, and my uncle Joseph Kirimi for their support during the entire period I was working on this project.

## **ACKNOWLEDGEMENT**

The process of this master's management project writing has been a wonderful learning experience in my academic life. It was filled with both challenges and rewards. The completion of my present study leads to a new beginning and a step forward in my endeavors.

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## **ABSTRACT**

Today's business environment is changing at a higher rate than in the past. The market competitiveness is a function of how well firms can develop and implement strategies, but competitiveness also can impact the nature of chosen strategy by the firm. As a result, most of the organizations are exploring strategies to work best with competition collaboratively for the mutual benefit of the organization. As one of the strategies, most of the firms have adopted the strategic collaboration to deal with their deficiencies. Strategic collaborations have been one of the ways in which firms can overcome some or all of the difficulties and remain in business while maintaining a competitive advantage positioning the market. Therefore, companies choose to establish strategic collaborations and cooperation in order to gain clear channels through their joint market contracts. The objective of the study was to determine the effect of strategic collaboration on firm performance of Small and Medium Enterprises in Nairobi Central Business District. The study used was descriptive research design. The population of the study was 726 SMEs operating in Nairobi Central Business District. The study used systematic sampling technique in which a sample is picked after every ten from the list. The study used primary data that was collected using a questionnaire. The data was analyzed by the use of descriptive statistics. The regression analysis was used to assess the relationship between SME collaboration and performance. The findings of the study was that collaboration between the SMEs and other organizations was influenced by conflict resolution mechanisms between partners, partner resources, mutual trust, commitment of partners, effective and efficient communication, and complementarities and synergies between partners. Strategic collaborations were found to have enabled the SMEs to have strong business relationship, create efficiency, achieve economy of scale by drastically reducing the costs and establish effectiveness which results in SME access markets, enhanced uptake of SME products, increase sales, increase profits, reduce costs and development of new technologies. The study recommends that their need to be managerial as well as strategic fit evaluation of the partners before the collaboration is entered into. More involvement of top level management is required to offer leadership support to the alliance process and there is a better chance of success.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Today's business environment is changing at a higher rate than in the past. The market competitiveness is a function of how well firms can develop and implement strategies, but competitiveness also can impact the nature of chosen strategy by the firm (Power and Reid, 2005). As a result, most of the organizations are exploring strategies to work best with competition collaboratively for the mutual benefit of the organization. As one of the strategies, most of the firms have adopted the strategic collaboration to deal with their deficiencies. Changes in business environment and an increasing openness of economies have amplified the potential value that may be created through inter-organizational cooperation, permitting organizations to set up closer relationships with collaboration than hitherto possible (Mohr and Spekman,2010). However, a successful firm must be strategically informed by understanding how changes in their competitive environment are unfolding, actively look for opportunities to exploit their strategic abilities, building on awareness and understanding of current strategies and successes.

The study will be guided by resource based theory and stakeholder theory. The resource based theory suggests that capabilities are an important contributor to organizational performance (Priem and Butler, (2001). The organizational capabilities are integrated into broader functional capabilities such as marketing, manufacturing, and IT capabilities. Functional capabilities in turn integrate to form cross-functional capabilities such as new product development capability, customer support capability and others. The resource based theory point that a firms' resources reside within a firm and therefore an

advantageous competitive position of a firm is built on value-creating resources that are critical inputs into the production and distribution of its products and services (Barney, 1991). On other hand, the stakeholder theory explains the firms possess both internal and external stakeholders. Employees and employers are internal stakeholders who directly participate in the operation of business. The attitudes of employees and support of corporate actions would be of critical interest to the management because employees are the success of organization (Spitzeck and Hansen, 2010). The effectiveness of firm actions depends on how well managers understand stakeholder's interests and influences how they respond to them (Wing-Hung Lo, 2010). Managers should use approaches which monitor stakeholders such as environmental scanning and stakeholder orientation to understand the wider business environment.

This research study focused on the strategic collaboration practices to improve performance of small medium enterprise and the ability to achieve their mission. Integrating the use of strategic collaboration and performance provides an opportunity for organizations to contribute to the organizations' profits via improving the production processes, rather than merely seeking the reduction or omission of costs. The small and medium size enterprises (SMEs) are very dynamic globally with the rise in competition. Many SMEs are embracing cooperation strategies due to the changing competitive environment in business. In Kenya, SMEs are particularly faced by competition in the market and therefore, SMEs need to employ appropriate strategic collaboration with other firms to achieve necessary competitiveness. However, the uncertain business environment has increased the level of competitiveness resulting in enhanced business pressure to the

SMEs to develop appropriate strategies that will result in increased financial performance of the firm as well as a satisfied customer base.

### **1.1.1 Strategic Collaboration**

Strategic collaborations are new learning outcome from a firm's combinative capabilities to generate new applications from existing knowledge. The combinative capabilities are intersect of the firm's capability to exploit its knowledge and the unexplored technological potential (Kogut and Zander, 2002). Norris-Tirell and Clay (2010) define strategic collaboration as an intentional collective approach to address problems or issues through building of shared knowledge, designing innovative solutions and forging consequential change. On other hand, collaborations assist firms to intercept the technology of another firm as well as closing the skill gaps faster compared to internal development. Strategic collaboration includes various types of collaboration ranging from low involvement, funding relationships all the way to high involvement, equity joint ventures. In addition, collaboration assists the firms to succeed.

In the past Pearce and Doh (2009), note that SMEs considered each other as 'adversaries' and there was no interest for working together towards a sustainable future. Because neither sector is capable of handling escalating environmental and social concerns on their own, there is a need to join forces. The SMEs awareness provides access to different core competencies that are often unique to each organization and sector in building benefits among the SMEs through access to networks; business organizations understand local conditions, relations with local communities, higher reputation and credibility. Therefore, strategic collaboration implies contributing skills, resources and expertise. Most of the SMEs fail in collaborations because of distrust and conflict spoil the relationship and this

will require a mutual trust to exist among the partners. For instance, in collaborations between western firms and Asian firms, the Western firms have technology to transfer while the Asian firms more often have competence. Therefore, for successful strategic collaborations in SMEs need to hone the skills of finding strategic partners and understanding the contextual factors like competition, market situation, and existing knowledge base (Lambelle et al., 2008).

### **1.1.2 Organizational Performance**

Organizational performance is described as the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival (Griffin, 2013). Organizational performance is the valued productive output of a system in the form of goods or services. Organizational performance can be subdivided into three categories: financial performance internal non-financial performance and external non-financial performance. Private sector organizations strive for good financial results whereas public organizations are aimed at non-financial aims like delivering good public services to citizens. To achieve performance through employees, the organization must consider them as assets and must be treated with attention so that the employees become productive (Ravenscraft and Scherer, 2011).

The performance of any business organization is affected by the strategies that the organization has chosen. Organization performance requires selection and measuring key variables that can allow the organization to detect and monitor its competitive position in the business. Saxton (2010) notes that using financial measures alone overlooks the fact that what enables a company achieve or deliver better financial results from its operations is the achievement of strategic objectives that improve its competitiveness and market

strength. Additionally, in the service sector, non-financial performance receives serious consideration. Financial performance can be objectively measured through accounting ratios but non-financial performance has to be measured in subjective terms. Nonfinancial organizational performance is defined as the organization's effective marketing activities and can be evaluated through customer satisfaction, customer loyalty, customer benefit and market share (Nagarajan and Mitchell, 2012).

### **1.1.3 Small and Medium Enterprises in Kenya**

The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an SME. In developing countries, the number of employees and size of assets or turnover for SME tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies.

In the Kenyan scenario, The SME industry in Kenya is characterized by the employment of between 50 to 200 employees and capital assets of a substantial amount of about Ksh. 2 million (excluding property) (RoK, 2010). The enterprises will usually be owner-managed or directly controlled by the owner-community and are mostly family owned. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. However, they observed that classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like

retailing, manufacturing, professional services and construction. Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. It is characterized by the employment of more than 200 employees and capital assets of a substantial amount of about Ksh. 2million -excluding property (Kimuyu and Omiti, 2000).

Kenya government has recognized the importance of the informal sector in social economic development and has in the past prepared Sessional papers and support strategies for SMEs. In spite of these policy papers and support strategies, the performance of the SMEs is still dismal. SMEs, have a high death rate, (60 percent) closing down within their first year of operation, 40 percent less than 2 years old and 66 percent less than 6 years; thus hardly gain from experience (ROK, 2009). According to Sessional paper of 2005 No.2 SMEs in Kenya have high collapse rate with most of the SMEs die with 3 years of operation. A mere 30 percent of SME survive past the first generation and only 10 percent to 15percent survive to a third generation (Dyer and Whetten, 2011). The weak performance and high failure rate of SMEs may impact on their objectives of poverty alleviation, employment creation and economic growth. Bowen, Morara and Mureithi (2009) note that given the importance of SMEs to economic development and given their high failure rate, it becomes essential for the SMEs to collaborate with other organizations which enable them to reduce production costs, acquire knowledge, as well as access new technology, financial resources and labor.

## **1.2 Research Problem**

The increased global competition and continuous changing market conditions have caused the traditional methods and strategies for doing business to become almost obsolete, thereby forcing managers to look for more modern ways of surviving in the world of today's business. Strategic collaborations have been one of the ways in which firms can overcome some or all of the difficulties and remain in business while maintaining a competitive advantage positioning the market (Dussauge and Garrete, 2011). Therefore, companies choose to establish strategic collaborations and cooperation in order to gain clear channels through their joint market contracts. By doing so, they can make up their shortages in technology and manufacturing, perfect the effect of the supply chain, achieve market or scale economy and strengthen their domestic or international competitiveness. Small and medium-sized businesses (SMEs) are often more entrepreneurial in nature and can vary greatly from large companies. To remain viable SMEs often work with other organizations through a variety of collaborative efforts to achieve greater performance and stay competitive (Das and Rahman, 2011).

The SMEs in Kenya has continued to face rapid changes in its business operations, thus they have been forced to adapt to the new methods of conducting business and abandon the tradition always which was more individualistic, highly closed and secretive, to being open to collaborations in order to reap the maximum benefits from the synergies. Strategic collaboration enables the SMEs to exploit each other's differences for mutual benefit and promote effective results for all concerned businesses. SMEs have been collaborating with other business so that they can change the behavior of business and create value, address

issues on environmental threats to sustainability. By joining forces, a strategic collaboration leads to environmental improvements and improved firm performance.

Recent studies that have been undertaken on the strategic collaboration include Mohammed and Bilkis (2010) researched on inter-firm value creation: conceptualizing for the success and sustainability of strategic collaboration. The findings were that inter-firm value creation requires proper implementation of value creating methods such as information sharing, electronic collaboration, joint programs and joint cost management. Boue and Kjaer (2010) researched on creating value through strategic partnerships between Businesses and NGOs. The findings were that NGOs possess a set of competences that can be of strategic importance for companies. By partnering with NGOs, companies can complement shortfalls in their own organizational capabilities. Partnering with NGOs can help companies gain competitive advantage for the future.

Local studies on strategic collaboration includes Ogega (2010) research on strategic alliance between Safaricom and Equity Bank in the money transfer service and established that there are more advantages than disadvantages realized from the strategic alliance. Financial stability was also realized due to technology that was invested and also operation cost was minimized thus a synergy that realized increased revenue for both companies was created. Nzyimi (2012) worked on the strategic collaboration and organizational competitiveness at Kenya Commercial Bank and found out that strategic alliances provided the partners with an opportunity to tap into resources, knowledge, capabilities and skills of their partners to gain competitiveness. Kosgey (2013) study on strategic alliances in Sarova Group of Hotels found out that motive that lead to the formation of strategic alliance: transaction-cost motives; resource-based motives; strategic motivations with regard to

competitive position of the firm; learning objectives; and motives relating to risk reduction, new market entry, and first-mover advantage.

Bor (2014) undertook a study on factors affecting the growth of mobile banking strategic alliances in Kenya and established that the organization faced impediments when formulating a strategic alliance with other companies such as lack of trust, different in priority interest of the companies, failure by top management to be committed toward strategic alliance and failure by management to allocate sufficient resource toward strategic alliance formulation and legal and regulations government commercial undertakings. Lagat (2011) studied strategic responses to changes in the external environment by supermarkets in Kenya. He recommended that the supermarkets should embrace technology in planning which enhance inclusivity whereby many stakeholders are consulted and incorporated in the process. Gacheri (2010) conducted a case study on the strategic responses by Tusky's Supermarket in Nairobi and found that challenges that retail managers always stay alert for any possible environmental factors that may have an implication on the company's operation and formulate appropriate strategic responses. This study therefore seeks to establish the extent of strategic collaboration and firm performance amongst the Small and Medium Enterprises in Nairobi Central Business District. This study was guided by the question; what is the effect of strategic collaboration on firm performance on small and medium enterprises in Nairobi central business District?

### **1.3 Research Objective**

The objective of the study is to determine the effect of strategic collaboration on firm performance of Small and Medium Enterprises in Nairobi Central Business District.

### **1.3.1 Specific Objectives**

- i. To determine the effect of strategic collaboration on profitability of SMEs
- ii. To examine the effect of strategic collaboration on market share of SMEs
- iii. To determine the effect of strategic collaborations on sales of SMEs

### **1.4 Value of the Study**

The study will add value and contribute to the theoretical field by means of exploring the effect of strategic collaboration on performance, since inconsistencies exist in terms of whether strategic collaboration lead to increased company sales, turnover and reduced costs. The study will further use theories of resource based view and stakeholder theories which will add value to the study with regards to available empirical evidence which will support other researchers in conducting further studies. It is expected that the study adds knowledge generated will enable other researchers to improve and develop a better understanding of strategic collaboration on SMEs performance.

The understanding of the strategic collaboration adopted by SMEs will help policy makers, Government, regulatory bodies and other stakeholders to design targeted policies and programs that will actively stimulate the growth and sustainability of the SMEs in the country, as well as helping those policy makers to support, encourage, and promote the establishment of appropriate policies to guide the firms. The study findings will benefit management and staff of SMEs who will gain insight into how their institutions can effectively manage their strategic collaboration. This will benefit with source of material in developing and harnessing their strategic collaboration in the present evolving and dynamic business environment.

The findings of the study will benefit the management of the SMEs and other organizations in the sector who will understand the strategic collaboration and its importance in improving a firm performance and make the necessary adjustments to maintain competitive advantage. Different cost-effective methods of achieving strategic collaboration will be discussed and therefore benefit the management in making optimal decision on the firm connectivity process. The study provides the background information to other researchers and scholars who may want to carry out further research in this area. The study facilitates individual researchers to identify gaps in the current research and carry out research in those areas, the work will also be used by academicians who will want to study similar area and to come up with comprehensive conclusion and reasoning in regard to strategic collaboration.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter is structured based on the research objectives. It reviews the relevant literature available that focuses on the theoretical framework, strategic collaboration and organizational competitiveness.

#### **2.2 Theoretical Foundation of the Study**

This study discussed on resource based view theory and stakeholder theory and how they relate to strategic collaboration and performance.

##### **2.2.1 Resource Based View**

Resource-Based View stipulates that the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime. The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (Barney, 1991).

The basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature. Thus, the essence of strategy is or should be

defined by the firm's unique resources and capabilities. Furthermore, the value creating potential of strategy, that is the firm's ability to establish and sustain a profitable market position, critically depends on the rent generating capacity of its underlying resources and capabilities (Conner, 1991).

The resource based theory suggests that competitive advantage and performance results are a consequence of firm-specific resources and capabilities that are costly to copy by other competitors (Barney, 1991). These resources and capabilities can be important factors of sustainable competitive advantage and superior firm performance if they possess certain special characteristics. They should be valuable, increasing efficiency and effectiveness, rare, imperfectly imitable and non-substitutable. According to resource-based theory, organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner. This theory emphasizes that resources internal to the firm are the principal driver of a firm's profitability and strategic advantage. Every firm plans and implements various strategies in order to create competitive advantages so that they could outperform their competitors and earn a higher rate of profits in their industry. To achieve superior competitive advantage, Besanko (2003) argue that a firm must create more values, which depends on its stock of resources and distinctive capabilities of using those resources. For long-term profitability, a firm must ensure its successful strategies and the created competitive strategies are sustainable.

### **2.2.2 Stakeholder Theory**

Stakeholder theory suggests that firms possess both explicit and implicit contracts with various constituents and are responsible for honouring all contracts. Stakeholder theory suggest that managing organizational relationships is a firm's very important assets without which it cannot gain access to others resources, acquire the supplies it needs, solve customer problems and generate revenue (Phillips, 2003). Similarly, stakeholder theory argues that every legitimate person or groups participating in the activities of a firm do so to obtain benefits and that the priority of the interest of all legitimate stakeholders is not self-evident. The greater collaborations go hand in hand with increasing firm's performance (Wang, 2006). Stakeholders include Shareholders, employees, creditors, distributors, customers and suppliers and each stakeholder has some level of influence to a firm. A firm should analyse its stakeholders using the following yardsticks: type of stakeholders, their interests in the business or project, support required from them, risks associated with them, their attitudes and actions required to address the their needs (Johnson, 2010).

The concern for environmental issues influences firms such as the competition has resulted to businesses adopting strategic collaboration that are designed to achieve the firm's competitiveness (Heath, 2006). The firm success is dependent on how well it is able to manage relationships with key groups including competitors, suppliers and customers. Thus, central idea of this theory is that an organization's success is dependent on how well it manages the relationships with key groups such as customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purpose. The manager's job is to keep the support of all of these groups, balancing their interests, while

making the organization a place where stakeholder interests can be maximized over time. On other hand, Donaldson and Preston (2005) note that an organization's value is created when it meets the needs of the firm's important stakeholders in a win-win fashion by attending to the interests of all their stakeholders - not just their shareholders. Stakeholder view gives managers of firms' responsibilities to make profits and share the same or value with key stakeholders who have equal share in a firm's value.

### **2.3 Concept of Strategic Collaboration**

The collaboration in SMEs is a motivation conditions influencing formation of firms competitiveness as well as building the relationships with other beneficiaries. A growing firm with collaboration and inter-firm relationships is likely to achieve competitiveness. Collaboration is when individual goals are subordinated for collective achievement. Firm's discussions are focused on the give and take about strategies and ideas, and the outcome often leads to new ways of working in the firms. Strategic Collaboration are most important is building strategic business relationships crucial for effective and operational efficiency of a company (Peng, 2009).

Mutual trust between the firms is required for each relationship (Tomkins, 2001). Trust is a behavioral aspect of both parties in a relationship and arises step by step in the interaction between both parties (Su 2008). Mutual trust produces a belief between firms that one will not do anything against the other. Formation of collaborate onto competitiveness requires trust as a vital factor. To develop trustworthy to each other, tangible or intangible trust needs must be met in terms of judgment, motives, character, and the role of competence. Mutual trust is necessary to mitigate such opportunism in strategic collaboration. The

interdependence compasses each partner's dependence, the magnitude of the firms' total interdependence and the degree of interdependence asymmetry between the firms (Mentzer, 2010). The inter-organizational relationship creates dependence, level of trust and relational norm transform dependence to interdependence and motivate firms in the inter-firm relationship.

Hatch, (2012) argued that mutual trust is the foundation of effective collaboration. There being many facets to trust, but vulnerability is the aspect that most affects the collaborative process. Without vulnerability, people will not fully invest themselves or their ideas in collective efforts. Therefore, trust means creating an environment where everyone can openly express concerns, fears, and differences of opinion without fear of rejection, aggression, or retaliation. Firm's employee responses assist in assessing trust and results in identifying the level of trust which includes respect the firm in accomplishing and improving the relationship. In addition, Trust and respect are the bedrock of collaboration and is the key to building a commitment to collective goals achievement in a firm.

There is no collaboration without effective communication. Managers and employees must communicate to enables collaboration success and outline the strategy and roadmap for how the organization will work collaboratively. Both employees and managers must share and build ideas, constructively criticize and provide feedback. In need, effective communication requires a substantial level of self-awareness. It is this awareness that allows employees to recognize different communication and collaboration styles and to leverage them (Su, 2008). This indicates that employees must be taught these communication skills for a collaborative environment to be realized. Communication in

firms influences the negotiation process that manufacturers and suppliers use for communication in their bargaining sessions. To reduce the rate of fall in investment as perceived by suppliers and the associated supplier frustration, the buyer can ensure an increased flow of communication and information (Lettice, 2010).

Firm's communication enhances upward and downward which promote accountability and coordination among competitive organizations. The pattern of communication varies from one organization to another due to different structured adopted. It prescribes relationships among various positions and activities (Hrebiniak, 2006). Communication and responsibility are relatively clear in centralized organizations, and the route to top management for approval can be traveled quickly. Communication is essential for joint programs and performance measures; and increasing absorptive capacity as well as assimilating functional units that bind the organizations. Communication effectiveness is particularly critical to firm success where multiple and integrated stakeholder's teams are involved and where "time to market" and firm efficiency are key drivers (Hammon, 2001).

Quelin (2007) explains that cooperation plays a vital role in extending firms collaboration and management. The cooperation among firms help reduce lead times, improve communications, speedup flow of merchandise and ensure correct inventory availability using strategies such as quick response and other intangible resources such as connection with networks. Cooperation's are the logical means to overcome market barriers, maintain company's competitive position, increased market share, improve customer loyalty, improve product quality with low cost and innovation which in turn have an effect on the financial performance of the firms.

Collaboration with others that is intended to produce common benefits or attain rewards or, more generally, all activities carried out mutually, which include attitudes and the potentiality of future behavior, as well as behavioral fundamentals is defined as cooperation (Su *et al.*, 2008). Multi-dimensional constructs have been conceptualized to describe these relationships and include parameters such as joint action, resource and information sharing, harmony, and flexibility (Mavondo and Rodrigo, 2011). Competitiveness in the global economy requires firms to develop strong partnership relationships built on cooperation and trust with their remaining suppliers (Stuart and McCutcheon, 2010), which facilitate the sharing of information and the performance of joint activities (joint process, joint production design) by the firms. Cooperation builds a system in the cooperation process, and systems made up of cooperation mutually produce richer structures and stable social and technological networks.

A firm is a social entity that has a collective goal and is linked to an environment. This indicates that firm exists in the context of a complex political, economic, social, technological, environmental and legal world. On other hand, the environment includes the main interrelated broad sectors which provide the opportunities, the constraints and threats faced by the firm. The environmental pressures arise from three areas, namely uncertainty, global competition and time and quality based competition (Mentzer, 2010). Uncertainty arises from the difficulty in predicting the actions of the counterpart in firm's relationship, because opportunistic and bounded rationality preclude the writing of a completely contingent contract (Zaheer and Venkatraman, 2011). However, individual firms cannot control the issue of uncertainty and technological changes (Mentzer, 2010) by encouraging

collective strategies to reinforce collaborative coordination and by recognizing resource dependency, firms engage in a joint and collaborative endeavor to reduce technological change and uncertainty.

Business environment and business are in continuous change in both service provider and customer organizations. There are plenty of small scale and large scale uncertainties in business relationships some of them are recognized as opportunities. Some uncertainties are unknown and might be harmful to the relationship when they are suddenly realized. The increases in return on assets or reductions in unit costs, waste, downtime, or cost per unit or client are some of the incentives for establishing inter-firm relationships for the purpose of improving competence. Therefore, firms should share resources, costs and information in order to reduce the environmental pressure as well as forming relationships with other firms (Erakovich and Wyman, 2009). Effective firm to remain vibrant and successful in the long run, it must make impact assessment of the environment like customers, competitors, suppliers and creditors. Firm competitiveness is dependent on productivity, customer satisfaction and competitor strength. Effective strategic collaboration may enable a business to influence the environment in its favor and even defend itself against competition (Wheelen and Hunger, 2011).

#### **2.4 Strategic Collaboration and Performance**

Strategic collaboration includes various driving forces namely; mutualbenefit, synergy, competencies, resources extension, overcoming the barriers to organizational development and growth. The strategic collaboration in firms is able to meet goals that would otherwise not have achieved on their own. Therefore, firms are using strategic collaboration to leverage off one another's comparative competencies (Latta, 2008). Strategic collaboration

in firm's works in a trustful, loyal and mutual environment aimed at reducing cost, optimizing equipment use or resources thereby improving performance. Competitive and strategic collaboration derive from firm capacities to cooperate with other firms; to form business networks with suppliers and buyers; to reap economies of scale; and to share costs and benefits with partners in geographically and culturally distant locations. Globalizations forces are among the key drivers forcing firms to explore alternative ways of gaining and preserving competitiveness.

Goerzen and Beamish (2011) state that collaboration portfolio's become more diverse to improve market access, reduce innovation time-span and finally to match complementary technological capabilities. A collaboration portfolio can also have real option value. Holding a differentiated resource portfolio through collaboration formations gives a firm a great amount of flexibility, gaining the option to access resources that would be too costly to maintain by itself (Smit and Trigeorgis, 2013). A firm would be able to create value through a strategic alliance that the firm could not create on its own (Boris & Jemison, 1989). To measure this effect, a concept of performance must be specified that reflects the creation of value. A company can create value by reducing costs. Some types of strategic collaborations can have direct effects on economic results because they usually produce cost savings through synergies. Nevertheless, the most widely used criterion in economics and strategy to measure firm performance is to adopt some financial indicators which estimate the contribution to the shareholder wealth and these are approaches for measuring the firm's ex-post competitiveness, that is, a proxy for the supernormal income associated with competitive advantages. A firm has a superior economic performance when it is above

the industry average in the long term; in other words, its economic performance remains superior over time (Ruefliand Wiggins, 2010).

Strategic collaboration has become an important key in firm performance. The strategic collaboration of a firm enables creating efficiencies by minimizing the performance of superfluous work and promoting effectiveness (Ellram, 2008). In the practice of developed SMEs the strategic collaboration and performance has already reached the significant level, and has a tendency of further growth. In the practice of developed countries, the enterprises that have chosen to apply these conceptions instead of growth by themselves achieve the significant competitive advantage on the global market.

In the dynamic business environment, most of the organization aim in achieving organization objectives and having competitive advantages. Therefore, for an organization to achieve strategic collaboration it is necessary to share the mindset between employees and the management which lead to achievement of the strategic goals of the firm. Googins and Rochlin (2009) argued that the strategic collaboration between the organization and the employee is the source of performance. The strategic collaboration and performance aim on increasing of the existing larger part of the market. By uniting the skills of complementary partners, partners in strategic collaboration and SMEs are in the position to better answer on demands of consumer.

The strategic collaboration implies the mutual effort of two or more SMEs in realization of the goals (Haroch, 2010). It represents the connection with the competitor, supplier or customer in whom, by combining the advantages and strengths of the partner; better competitive position on global world market is achieved (Anandand Khanna, 2010). The

strategic collaboration can be simple, with two partner SMEs which share the technological and/or marketing resources, but also very complex and include numerous enterprises from various countries. Therefore, strategic collaboration enable SMEs to achieve the economy of scale by drastically reducing the costs necessary for the market, and give them the possibility of utilization synergic effects that appear during cooperation.

## **2.5 Summary of Literature and Knowledge gaps**

Previous studies in the areas of strategic collaboration and performance like, Ghisi (2008), research on horizontal alliances amongst small retailers in Brazil, concluded that collaborations are formed by retailers mainly due to buy cheaper products since they are focused on survival rather than competitive advantage. The study conducted in Brazil an environment different from those in developed nations, and also different from those developing nations. They recommended further research in countries with contrasting cultures on the topic to add a broad comprehension and perspectives of this phenomenon.

Lagat, (2011), studied the strategic responses to changes in external environment supermarkets in Kenya and established that supermarkets were mainly challenged by economic and technological factors topping the list of the industry challenges in Kenya. He further explained that Supermarkets are forced to respond to the high inflation and the high technological advancement which in turn jeopardize their profitability and even survival. Nyangweso (2013), in his study on collaborative public procurement among the state cooperation found that 21.1% of the state corporations are yet to adopt collaborative public procurement practices despite the benefits. The study revealed that the major benefits of collaborative procurement are: the agency's ability to access capabilities critical for its competitiveness; the agency's ability to enhance flexibility and responsiveness to

changes in customer demands; the ability to share tasks in form of lead buying and the ability to share design processes successfully. While these studies have made substantial contributions to our understanding of the strategic collaboration of firms, an important gap in the empirical literature is the issue of how the strategic collaboration and performance in organization.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter contains a description of the methods and procedures that was used to carry out the study. It gives summary information regarding the methodologies that were adopted and used in this study. It describes the research design, target population, data collection procedures and methods used for analyzing and presenting the data.

#### **3.2 Research Design**

A research design denotes the methodology that the study is to take in order to accomplish its intended objectives. The research design is regarded as a blue print, a master plan that specifies the methods, techniques and procedures for collecting and analyzing the needed information or simply a framework or plan of action for the research (Charmaz 2003).

The research design adopted was descriptive research design. The design was deemed appropriate because the main interest were to explore the viable relationship and describe how the factors supported matters under investigation. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. This design provided further insight into research problem by describing the variables of interest.

#### **3.3 Population of the study**

A population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated (Bogdan and Biklen, 2009). This definition ensured that the population of interest was homogeneous. A research study's target

population should be clearly defined and the unit of analysis should be identified, which is not easy sometimes. The target population consisted of all the units being studied. The unit of analysis is the entity or who is being analyzed. The population of the study was all the Small and Medium Sized Enterprises operating in Nairobi Central Business District. According to the Nairobi County licensing data (2016) there are 726 SMEs operating in Nairobi Central Business District.

### **3.4 Sample and Sampling Procedure**

Cooper and Schindler (2000) defined a sampling design as the target population that is being studied using sampling methods. The study used all the SMEs from different sectors operating in CBD in order to ensure that adequate results were achieved. In the study, the researcher used simple random sampling technique. The technique accorded all the members of the population equal chance of being selected for the study. The researcher picked the SME which falls in a number after every ten in the Nairobi County Government licensing data (2016). From the above population of 726 SMEs, a sample of 10% from each group in proportions that each group bear to the population as a whole was taken using stratified random sample which gives each item in the population an equal probability of being selected. This enabled the researcher to arrive at 73 SMEs to be the sample size.

### **3.5 Data Collection**

The study used primary data which was collected using semi structured questionnaire. Self-administered questionnaires allowed the participants to respond to the questions by themselves and at their own pace. They ease the respondents' burden by giving them the time to think through their responses (Monsen and Horn, 2008). The questionnaire consisted of both open and closed-ended questions. The close ended questions provided

more structured responses to facilitate tangible recommendations. The closed ended questions were used in the rating of various attributes and this helped in reducing the number of related response in order to obtain more varied response. The open-ended questions provided additional information that may not have been captured in the close-ended questions. The respondents gave their response in a five point Likert scale.

### **3.6 Data Analysis**

Once the data has been collected, the questionnaires were edited for accuracy, consistency and completeness. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance). Data was analyzed using statistical package for social sciences based on the questionnaires. In particular mean scores, standard deviations, percentages and frequency distribution was used to summarize the responses and show the magnitude of similarities and differences. Results were presented in tables and charts.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The research objective was to determine the relationship between strategic collaboration and firm performance of small and medium enterprises in Nairobi Central Business District. This chapter presents the analysis, findings and discussion. The findings were presented in percentages and frequency distributions, mean and standard deviations.

#### **4.2 Response Rate**

A total of 73 questionnaires were issued out. The completed questionnaires were checked for completeness and consistency. Of the 73 questionnaires distributed, 57 were returned. The returned questionnaires' represented a response rate of 78% and this response rate was deemed to be adequate in the realization of the research objectives as per Livingston and Wislar (2012) stipulation that a response rate of 70% and over was adequate response rate for administered questionnaires.

#### **4.3 Demographic Characteristics of Respondent**

The demographic information was considered in this study included the level of education, length of continuous service, duration of SME operation in Kenya and number of employees.

**Table 4.1 Demographic characteristics of respondent.**

| Category                           | Item                | frequency | percentage | Cumulative |
|------------------------------------|---------------------|-----------|------------|------------|
| Level of education                 | Post graduate level | 11        | 19.3       | 19.3       |
|                                    | University          | 24        | 42.1       | 61.4       |
|                                    | Tertiary college    | 22        | 38.6       | 100.0      |
| Length of continuous service       | Less than 5 years   | 18        | 31.6       | 31.6       |
|                                    | 5 – 10 years        | 28        | 49.1       | 80.7       |
|                                    | Over 10 years       | 11        | 19.3       | 100.0      |
| Duration of SME operation in Kenya | Under 5 years       | 17        | 29.8       | 29.8       |
|                                    | 6 – 10years         | 26        | 45.6       | 75.4       |
|                                    | 11 – 15years        | 5         | 8.8        | 84.2       |
|                                    | 16 – 20years        | 7         | 12.3       | 96.5       |
|                                    | Over 25 years       | 2         | 3.5        | 100.0      |
| Number of employees                | Less than 10        | 48        | 84.2       | 84.2       |
|                                    | 11-20               | 6         | 10.5       | 94.7       |
|                                    | 21-30               | 3         | 5.3        | 100.0      |

**Source: Research Data, 2016**

The findings show that majority of the respondents 42.1% have attained university education while 38.6% of the respondents said that tertiary college level of education was their highest level of education. In addition, 19.3% of the respondent had attained postgraduate level. This implies that over 60% of the respondents had university education

and this means that, they are knowledgeable enough to understand and answer the questions in the questionnaires appropriately.

The results on the length of service indicate that 49.1% of the respondents have worked in the SMEs for a period of between 5 and 10 years, 31.6% of the respondents said that they have worked in the SMEs for less than five years while 19.3% of the respondents indicated the duration they have worked in the SMEs to be more than 10 years. The result indicate that the respondents have worked in the SMEs for a longer duration of time and therefore they have knowledge of the SME sector and the for strategic collaboration.

The results show that 45.6% of the respondents said that the SMEs have been in existence for a period of between 6 and 10 years while 29.8% of the respondents said that the SMEs have been in operation for less than 5 years. The respondents further noted that 12.3% of the SMEs have been in operation for a period of between 16 and 20 years. In addition, 8.8% of the respondent said that SMEs have operated for a period between 11 and 15 years. The respondent further indicated that 3.5% of the SME have operated for over 25 years. The results show that majority of the SME have been in operation for a period between 6-10 years and therefore they understand the competitive nature and challenges that they face in their operation thus need for strategic collaboration.

The results on the number of employees show that 84.2% of the SME have less than 10 employees; 10.5% of the SME have between 11 and 20 employees while another 5.3% of the SME have between 21 and 30 employees. The results indicate that the SME have employed less number of employees and this can be attributed to the size of the SMEs and the need to reduce operations costs and utilize resources effectively.

#### **4.4 Strategic Collaboration**

Strategic collaborations enable the SMEs and other organizations to undertake business operations jointly thus enabling both organizations to achieve a win-win situation.

##### **4.4.1 Type of strategic collaborations with SME**

The finding indicated that majority of the responded said that SME had entered into the partnership with the financial institution for entrepreneurs training programs as a strategic collaboration, in addition, other respondent support the motion through strategic integration, joint venture partnership and joining with corporate for marketing platform. The respondent further indicated that SME had established strategic collaboration with the international trade center on benchmarking and export growth.

##### **4.4.2 Factors influencing collaborations**

Collaborations between the SME and other organizations is affected by several factors that if not checked by the parties can affect long term relationship. The range was 'not at all (1)' to 'very great extent (5)'. The scores of respondents' low level of collaboration influence on performance represent a variable which had a mean score of below 3.0 while the scores of above 3.0 represent respondents' agreement with strategic collaboration influence on performance. A standard deviation of  $>1.0$  implies a significant difference on the impact of the variable among respondents.

**Table 4.2 Factors influencing collaborations**

| <b>Factors influencing collaborations</b>        | <b>Mean</b> | <b>Std. Deviation</b> |
|--------------------------------------------------|-------------|-----------------------|
| Conflict resolution mechanisms between partners  | 3.621       | 1.252                 |
| Partner resources                                | 3.603       | 1.083                 |
| Mutual trust                                     | 3.533       | 1.139                 |
| Commitment of partners                           | 3.496       | 1.300                 |
| Effective and efficient communication            | 3.427       | 1.154                 |
| Complementarities and synergies between partners | 3.380       | 1.130                 |
| Strategic fit                                    | 3.328       | 1.102                 |
| Alliance competence                              | 3.257       | .902                  |
| Partner selection                                | 3.087       | 1.153                 |

**Source: Research Data, 2016**

The results in Table 4.2 indicate that strategic collaboration between the SMEs and other organizations was influenced by conflict resolution mechanisms between partners (M=3.621); partner resources (M=3.603) and mutual trust (M=3.533). The respondents further said that commitment of partners (M=3.496); effective and efficient communication (M=3.427) and complementarities and synergies between partners (M=3.380) also influenced collaborations. The respondent further noted that factor of alliance competence (M=3.257) and partner selection (M=3.087) were also found to be influencing the collaborations. The results show that SMEs collaborations with other organizations is influenced by factors that include conflict resolution mechanisms between partners, partner resources, mutual trust, commitment of partners, effective and efficient communication, and complementarities and synergies between partners thus there is need for the partners to harmonize the factors so that it doesn't affect the intended collaboration.

#### 4.4.3 Strategic collaborations

Strategic collaboration are most important is building strategic business relationships crucial for effective and operational efficiency of an organization thus the need by study to determine the role of collaborations on SMEs. The results were presented in table 4.3.

**Table 4.3 Strategic collaborations**

| <b>Strategic collaborations</b>                                                                                                                           | <b>Mean</b> | <b>Std. Deviation</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------|
| Strategic collaboration enable the partners to enhance and control their business relationships in various ways                                           | 3.882       | .878                  |
| Collaborations enhance mutual learning experiences                                                                                                        | 3.753       | 1.269                 |
| Strategic collaboration enable SME to respond to competition and to reduce uncertainty                                                                    | 3.698       | 1.164                 |
| Strategic collaboration assist SMEs to intercept the technology of another firm as well as closing the skill gaps faster compared to internal development | 3.514       | .958                  |
| Strategic collaboration enables SME create efficiencies by minimizing the performance of superfluous work and promoting effectiveness                     | 3.447       | 1.232                 |
| Strategic collaboration enable SMEs to achieve the economy of scale by drastically reducing the costs necessary for the market                            | 3.306       | 1.105                 |
| Strategic collaboration enable SMEs to leverage off one another's comparative competencies                                                                | 2.824       | 1.133                 |

**Source: Research Data, 2016**

The results in Table 4.3 show that strategic collaboration enable the partners to enhance and control their business relationships in various ways (M=3.882); enhance mutual learning experiences (M=3.753) and that it assists SMEs to intercept the technology of another firm as well as closing the skill (M=3.698). The respondents further said that

strategic collaboration enables SME create efficiencies by minimizing the performance of superfluous work and promoting effectiveness (M=3.447) and also enables SMEs to achieve the economy of scale by drastically reducing the costs necessary for the market (M=3.306). At the same time, the respondents disagreed that SMEs leverage off one another's comparative competencies (M=2.824). This indicates that strategic collaboration has benefited the SME by enabling them have strong business relationship, create efficiency, achieve economy of scale by drastically reducing the costs and establish effectiveness.

#### **4.5 Organization performance**

Organizational performance is the final achievement of an organization and contains a few things, such as the existence of certain targets are achieved, has a period of time in achieving the targets and the realization of efficiency and effectiveness. The respondents were required to indicate whether adoption of strategic collaboration affects the performance of SME.

**Table 4.4 Organization performance**

| Organization performance                                                | Mean  | Std. Deviation |
|-------------------------------------------------------------------------|-------|----------------|
| Gaining access to a market in the same industry                         | 3.792 | 1.002          |
| Enhanced uptake of SME products by the consumer                         | 3.721 | .988           |
| Increased sales                                                         | 3.678 | 1.071          |
| To acquire competitive advantages that enables them to increase profits | 3.585 | 1.109          |
| Reducing costs/obtaining scale economies                                | 3.469 | 1.034          |
| Gaining access to a market in another industry                          | 3.422 | 1.117          |
| Supplement critical skills                                              | 3.372 | .887           |
| Reducing risks and major development projects                           | 3.316 | 1.025          |
| Developing new technologies                                             | 3.285 | 1.235          |
| Meeting government requirements                                         | 2.954 | 1.366          |
| Blocking the competition                                                | 2.892 | 1.051          |

**Source: Research Data, 2016**

From the results, collaboration between the SMEs and other organizations has resulted in market access in the same industry (M=3.792); enhanced uptake of SME products by the consumer (M=3.721); increased sales (M=3.678) and acquisition of competitive advantages that enables the SMEs to increase profits (M=3.585). In addition, collaborations enable the SMEs to reduce costs/obtain scale of economies (M=3.469); gain access to a market in another industry (M=3.422); supplement critical skills (M=3.372) and develop new technologies (M=3.285). The respondent disagreed that collaborations helps the SMEs in meeting government requirements (M=2.954) and blocking of competition (M=2.892). The results indicate that collaborations enables the SMEs to access markets, enhance uptake of SME products, increase sales, increase profits, reduce costs and development of new technologies.

#### 4.6 Relationship between SMEs collaboration and Performance

The relationship between SMEs collaboration and performance was tested by using linear regression analysis, based on the regression model presented. The following show the model summary, ANOVA and coefficients of regression.

**Table 4.5: Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .668 <sup>a</sup> | .446     | .440              | .51780                     |

a. Predictors: (Constant), collaboration

Table 4.5 shows that the coefficient of determination that is the percentage variation determination in the dependent variable is supported by the variation in independent variables. R square is 0.446 which implies that variance in performance of the SMEs can be explained by collaboration with other organizations. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the results of the study, the value of adjusted R squared was 0.440 which indicates that the independent variable, explain 44% of performance of SMEs. This therefore means that other factors not studied in this research contribute 56% of performance of the SMEs operating in Nairobi Central Business District.

**Table 4.6: ANOVA Results**

| Model |            | Sum of Squares | df | Mean Square | F      | Sig.              |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1     | Regression | .109           | 1  | 8.109       | 51.242 | .000 <sup>a</sup> |
|       | Residual   | 24.768         | 55 | 2.450       |        |                   |
|       | Total      | 24.877         | 56 |             |        |                   |

To test the significance of the coefficient of determination can be seen in the ANOVA table (Table 4.6). From the table it can be seen that at  $\alpha = 5\%$ , the value of  $F_{stat}$  obtained at 51.242 and 0.000 sig.  $F_{tab}$  value at  $\alpha = 5\%$  was 3.84. Thus  $F_{stat}$  value is greater than the  $F_{tab}$  value. These results demonstrate that the coefficient of determination is a significant value. That is, simultaneously model has a good fit.

**Table 4.7: Regression Coefficients**

| Model           | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-----------------|-----------------------------|------------|---------------------------|-------|------|
|                 | B                           | Std. Error | Beta                      |       |      |
| 1 (Constant)    | 3.860                       | .576       |                           | 6.703 | .000 |
| 1 collaboration | .569                        | .140       | .066                      | .492  | .002 |

a. Dependent Variable: Performance

From the data, the generated table was

$$Y = 3.860 + 0.569X_1$$

From the above regression equation it was revealed that holding SME collaboration to a constant zero, performance of the SMEs would be at 3.86 and a unit increase in collaboration would result in 0.569 increase in performance of SMEs operating in Nairobi Central Business District. At 5% level of significance and 95% level of confidence, collaboration had a 0.002 level of significance.

#### **4.7 Discussion of the results**

Strategic collaborations are increasingly becoming popular in the business world. To achieve competitive advantage, firms need to combine their assets and capabilities in order to increase their bargaining power and competitiveness. Successful SME know the

importance of adopting strategic collaboration because it enables them achieve their objective easily and able to cope with changes in the business environment. The adoption of collaboration by the SMEs is however subject to several factors that influence its success and this were found to be conflict resolution mechanisms between partners, partner resources, mutual trust, commitment of partners, effective and efficient communication, and complementarities and synergies between partners. The results of the study were found to be consistent with Hatch (2012) findings that strategic collaborations were affected by trust, effective communication, partner commitment. Elmuti & Khatawala (2011) noted that the success factors for strategic collaboration was similarity of management philosophies, effective and strong management team, frequent performance feedback, clearly defined, shared goals and objectives, thorough planning, clearly understood roles, international vision, partner selection and communication between partners: maintaining relationships.

In today's environment, creating sustainable value for customers and shareholders requires creating effective collaborations. Increasingly, with rapid wealth growth of emerging global economies, the basis of competitive advantage is changing from internal capacities to network capabilities. Therefore, SME have to adopt strategic collaboration in order to cope with the ever changing environment. Ireland et al., (2012) noted that strategic collaborations enables firms share resources, learn and thereby competitive advantage in the competitive business world. Gomes (2006) findings were that the main goal of alliance is to add value with different focuses on trade, competence, information/knowledge acquisition or overcoming barriers. The previous findings were consistent with the results of the study which established that strategic collaboration enables the partners to enhance

and control their business relationships in various ways. In addition, the study found that collaborations enhance mutual learning experiences and assists SMEs to intercept the technology of another firm as well as closing the skill.

As companies face pressure from increased competition, growing product complexity and shortening product life cycles, many are finding the need to change the way they develop new technologies, products and services. They find that they can no longer continue undertaking their business alone but rather they need to engage others so that they can achieve competitive edge over their competitors. Strategic collaborations continue to be one of the leading business strategies as a result of increasing competition in the global market. The adoption of collaboration by the SMEs with other organizations was found to have resulted in improved performance through access markets, enhance uptake of SME products, increase sales, increase profits, and reduce costs and development of new technologies. The results of the study was found collaborate Webster (2010) findings that strategic collaborations by firms have seen them enhance their productive capacities, to reduce uncertainties in their internal structures and external environments, to acquire competitive advantages that enables them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their outputs. Wheelan and Hungar (2010) findings were that companies continue to form alliances in order to obtain technology, to reduce financial risk, to reduce political risk, to gain access to specific niche markets, and to achieve competitive advantage.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter covered summary of the findings, conclusions, limitations of the study, recommendations and suggestions for further research.

#### **5.2 Summary of Findings**

In the present day business environment, organizations are confronted with substantial increases in both competition and uncertainty and consequently the management of these organizations have realized that they need to look outside the organization for collaborations that will bring about an operational synergy. An organization entry into collaboration is however determined by several factors that were found to include conflict resolution mechanisms between partners, partner resources, mutual trust and commitment of partners. The study further established that effective and efficient communication, and complementarities and synergies between partners were important factors for consideration by the SMEs before engaging in strategic collaborations.

The dynamic business environment has brought complexities and challenges that have affected SMEs in meeting their objectives. This has made them rethink their strategies and adapt to better respond to the ever changing environment. Strategic collaboration is one tool the SMEs have embraced to deal with the challenges and this has seen them benefit from strong business relationship, create efficiency, achieve economy of scale by drastically reducing the costs and establish effectiveness. The study revealed that collaborations enhance mutual learning experiences and assists SMEs to intercept the technology of another firm as well as closing the skill. This has reduced their weaknesses

and improved their responses to opportunities and threats within the environment giving them competitive advantage.

Many organizations have entered into strategic collaborations in the hope of realizing a variety of benefits and the SMEs were not an exception for their entry was found to have enabled them access markets, enhance uptake of SME products, increase sales and increase profits. In addition, collaborations were found to have enabled the SMEs to reduce costs and benefit from development of new technologies. By successfully implementing collaboration strategy the SMEs were found to have achieved superior performance by facilitating the firms with competitive advantage to outperform current or potential players.

### **5.3 Conclusion of the study**

The competitive advantage of organizations in today's economy stems not from market position, but from difficult to replicate collaborations between firms and the manner in which they are deployed by the partners to generate value. Effective management of the collaboration enables an organization to grow and develop the appropriate organizational competencies. Therefore, the fact that organizational competencies are based on the effective and efficient management of partner firm relationship puts it at the heart of business performance and value creation. The implementation of collaboration by the SMEs however, ought to consider factors that might derail effective implementation of the strategy.

Strategic collaboration between different entities play very important role in enhancing the level of performance in a firm and there is no doubt that such kind of cooperation can be essential in creating economic value or produce new technological growth. Greater

collaboration among the SMEs and other organizations promoted the sharing of resources that enables the firms improve the quality of their products and services, reduced costs, and increased continuous improvement for all involved parties. In addition, partnerships based on a commitment to continuous improvement where SME organizations partner with more established organizations allow the SMEs to mitigate their lack of a track record of success and therefore reduce their overall likelihood of failure. When taken together, a competitive advantage is gained as a result of an alliance based on high-quality information and continuous improvement efforts. This competitive advantage may ultimately determine a SMEs success or failure.

#### **5.4 Limitations of the Study**

The study used key informants from the SME which put constraints on the general ability of the results to other firms and other country contexts. The sample selection may also limit the generalization of results to the overall population. The narrow and specific focus of this study means the results are limited to SME only which may not translate to other industry and national contexts. The other limitation of this study is that the SME are spread all over the country but only SME in Nairobi Central Business District were considered thus the results are not representative of all SMEs operating in the country.

The methodology required the use of both qualitative and quantitative methods of data collection but the analysis were more of qualitative due to the lack of finances and time, to effectively measure the performance of collaboration, a period of one year or more is needed to monitor the activities of the collaboration thus the different methods should be given equal considerations.

## **5.5 Recommendations for Policy and Practice**

The study found out that strategic collaboration enables the SME to improve their performance; it is recommended that the SME should adapt and develop their strategic collaboration not achieve superior performance. The study found out that strategic collaborations success is determined by several factors that need to be taken into consideration by the firms. It is therefore recommended that their need to be managerial as well as strategic fit evaluation of the partners before the collaboration is entered into. More involvement of top level management is required to offer leadership support to the alliance process and there is a better chance of success.

The government should develop policies that will encourage the formation of strategic collaborations with the government or its agencies being part of the collaboration. This is especially so for institutions which are small and/or thriving on the strength of donor grants. The existence of critical circumstances on the ground requiring urgent attention in developing countries calls for collaboration as this way they will be able to present winning proposals and hence address the great development needs in cost effective ways.

This study has implication on resource based view theory in that using strategic collaborations a firm is able to multiplier its resources. It suggests that rationale for collaborations is the value creation potential of firm resources that are pooled together. The study also adds more knowledge on the transaction cost theory in that through strategic alliances it could lead also to transactional economies (that is savings on the costs of exchange inputs, when reduced amounts of resources are required to get the intermediate inputs).

## **5.6 Suggestion for Further Research**

The study was undertaken in the SMEs operating in Nairobi Central Business District. A further research should be undertaken to further explore the effect of strategic collaboration on performance. This study should be undertaken on other sectors and a comparison is made in order to compare the findings and draw conclusions on the effect of strategic collaboration on performance.

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