International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:02, Issue:02

AN EVALUATION OF THE STRATEGIC ALLIANCE GROWTH STRATEGY ON ORGANIZAIONAL SUSTAINABILITY OF SELECTED RETAIL OUTLETS IN NAIROBI COUNTY, KENYA

[1]Maria Wambui Mungara, [2]Prof. George Gongera, [3]Dr. Phelista W. Njeru

[1]Ph.D., Strategic Management, Mount Kenya University, School of Business and Economics, Kenya

[2]Faculty of Cooperative & Community Development, Cooperative University College of Kenya.

[3]Mount Kenya University, School of Business and Economics, Kenya

ABSTRACT

Businesses adopt growth as a survival strategy. Firms need to understand their internal and external environments so that they can adopt growth strategies that are most beneficial to them. The unique characteristics of each industry calls for exclusivity in choice of strategies. The main purpose of these study was to analyse the effect of the strategic alliance growth strategy on organizational sustainability in the retail outlets in Nairobi County, Kenya. A cross sectional research design was used. Data was analyzed from 49 respondent that represented 88% response rate. The study findings point to the view that strategic alliances were a widely used growth strategy amongst the retail outlets under study. Various elements of strategic alliances seem to have been adopted to enhance the sustainability of these retail chain outlets with the most common being sharing operational co-operations with interested companies. In summary, holding other factors constant a unit increase in strategic alliance growth strategies leads to an increase in organization sustainability of retail outlets in Nairobi County, Kenya by a factor of 0.74., indicating a positive relationship between strategic alliance strategies and organization sustainability.

Keywords: Strategic Alliance, Competition, Strategy, Retail outlets

1. INTRODUCTION

In a competitive market, businesses work hard to outperform each others through direct and indirect competition. Direct competition comes from other firms manufacturing the same product while indirect competition may come from availability of cheaper substitutes. To survive the

ISSN: 2455-8834

Volume:02, Issue:02

competition the business has to constantly bring new varieties of basic product to maintain an edge over its competitors. Severe competition forces a firm to grow and gain competitive strength. A growing concern must be an innovator otherwise can easily face the risk of competition. Thus growth is a means of survival in a competitive and challenging environment (Saxena, 2005).

Business growth refers to an intensification in the size or scale of processes of a firm usually, accompanied by increase in its resources and output. As a matter of fact, growth is a prerequisite for the survival of a business firm. An enterprise that does not grow may eventually have to exit the market as a result of its obsolete products and lack of response to the needs of the consumers. The market is full of examples of very popular products disappearing from the scene for lack of growth plans. For example, pagers vanished from the market after the introduction of cell phones which brought faster, more efficient and overall are a better technology product Dollinger (2006).

Every business operates with a view of making profits, increasing market performance and ultimately to give better returns to shareholders. To achieve these objectives every organization must plan its growth path sensibly. The retail outlet industry in Kenya has achieved tremendous growth in the last 10 years as evidenced by the number of branch network locally and in the region, diversification strategies in both related and unrelated areas adopted, expansion through product development, market development and market penetration and also creating synergies and use of brand reputation through strategic alliances. The rationale of this study was to seek clarity and understand what strategies work for the retail chain outlet industry and why they work for some retail chain outlet that seem to be performing well while others adopt the growth strategies and eventually withdraw them or still seem to struggling to remain afloat.

The research objective was to establish the influence of strategic alliance strategies on organizational sustainability of retail chain outlets

2. LITERATURE REVIEW

Industrial Organization Theory

The industry organization (IO) theory considers the structural aspect of an industry where firms consider industry structure and competitive position. Bain, (1956) Industry organization (IO), is the study of a firm behavior in imperfectly competitive markets. IO relies on the structural aspect of an industry which emphasizes on the strategic groups in the industry with emphasis on the firm behavior and market structure. The empirical analysis of IO is better reflected by structure-conduct performance (SCP) which describes how key market structures relate to each other.

ISSN: 2455-8834

Volume:02, Issue:02

SCP explains that the visible (observable) structural characteristics of the market determine the behaviour of the firm in the market in which it operates. The behavior of the firm in this market further determines the performance of the firm in the market (Bain, 1956). Porter (1980) noted that SCP helps us understand the structure of an industry. He explains that structural analysis focuses on competition beyond a firm's internal environment to include external environment. Porter (1980) came up with five forces which better brings a complement to IO by more specifically outlining the various industry structures thereby making it simpler to analyze and understand a firm's attractiveness. The five forces dwell on competition as a means of gauging the industry attractiveness (Porter, 1985). The five forces include; threat of new entrants, bargaining power of buyers, threat of substitute products and services, bargaining power of supplier and rivalry among existing competitors. It can be noted that, the main objective that a business can best operate on is the idea of positioning itself strategically in the market; and this can be enable them survive any form of excessive competition in the market. At the same time, this also enables other factors to work in their favor. This therefore means that, companies come up with competitive strategies for purposes of defending themselves against competitors in the market. When a company is able to identify its main competitors in the market, then it becomes easier to highlight its strengths, and reduce its weaknesses, mainly focusing on how they would benefit most from the competitive environment.

Porter's five forces play an important role to any company, especially when determining how competitive the market is, as well as the profitability of the company. When one firm makes a strategic move in the market, its ripple effect is that it influences the rest of the companies operating in the same field to behave in the same way. When the rivalry between firms increases, it gives rise to tactics being used by companies such as: competition in terms of prices, battle of advertising, introduction of new products, and also, increasing the services to customers. When firms are competitive in nature, it may be credited to the economic conditions at the moment, and may be beyond the behavior of the market. Firms may also be in positions to influence the five forces, and this may be through the firms identifying the strategies that work for them, and also, the factors that define the industry. For firms to be able to have a competitive advantage in the market, then they should be ready to invest a lot to cope with the changing world, more so in terms of technology. Going by this theory, the study therefore proposes strategic alliances as the main growth strategy for any organization, and this is by initially focusing on the industry in which they are operating in.

Strategic Alliance Growth Strategies

Strategic alliances are a business concept that's changing the structure and dynamics of competition throughout the world. Using a broad interpretation, strategic alliance is a

ISSN: 2455-8834

Volume:02, Issue:02

relationship between firms to create more value than they can on their own. The firms unite to reach objectives of a common interest, while remaining independent. Companies are forming alliances with their rivals, their suppliers, and even their customers. Increasingly, groups of companies are competing against other groups, changing the distribution of economic power in society and nudging more and more single companies into alliances.

The advantages of an alliance, as compared with a single firm, depend on the need for integration among parts of the value chain and the need for scale and specialization in each of the parts (Gomes-Casseres, 2003). With this in mind, firms enter into alliances based on their needs at that time or future considerations. The motives for joining an alliance determine the choice of partners hence the type of alliance to enter. Yuk (2013) observed that mergers and acquisitions have been the obvious route for recession-ravaged Western companies looking to capture shares in the high-growth economies of Brazil, Russia, India, and China, as well as newer economies throughout Asia, the Middle East, and Africa. The recent trend has increasingly been for Western companies to turn to joint ventures and strategic alliances for the purposes of entering hard to penetrate emerging markets and developing non-organic growth. Euro-monitor International (2011) observed that Korean firms used strategic alliances to broaden business areas and look for new sales drivers to combat saturation, along with saving time and costs.

Elmuti and Kathawala (2001) posit that Strategic alliances can be effective ways of diffusing new technologies rapidly, entering new markets, bypassing government restrictions expeditiously, and learning quickly from the leading firms in a given field. Nevertheless, they are not easy to create, develop and support. Strategic alliances usually fail because of tactical errors made by the management. By using a well-managed strategic alliances agreement, organizations can gain significantly in markets that would otherwise have been uneconomical. Therefore, considerable amount of time and energy must be put in order to create a successful alliance. It is essential for corporations to enter in strategic arrangements with a comprehensive plan that outlines the expectations, 18 requirements and expected benefit of the alliance (Elmuti and Kathawala, 2001). Harrigan (1985) observed that strategic alliances are not only used by firms to exploit peripheral markets or technologies, but are being perceived increasingly as critical elements of an organization's business units network as strategic weapons for competing within a firms core markets and technologies.

According to Buckley and Casson (1988), strategic alliances facilitate inter-firm learning with successful ones creating synergy and enhancing economic rents to their partners as the result of risk reduction, economies of scale and scope, production and rationalization, convergence of technologies and better local acceptance. However, despite their increasing importance, strategic alliances have often encountered problems of unsatisfactory performance (Geringer, 1986). The

ISSN: 2455-8834

Volume:02, Issue:02

primary problem in managing strategic alliances stems from the presence of two or more parents. The conflict between the partners due to incompatible management styles and approaches, differences in organizational culture of the partners and differences in national culture between the home and host country can hamper the performance of strategic alliances.

Vennet (1996), using a sample of 422 domestic and 70 cross border acquisitions of European Community (EC) credit institutions that occurred over the period 1988-1993 to examined the performance effects of mergers and acquisitions noted that where domestic mergers occurred among equal-sized partners, the merger significantly increased the performance of the merged banks. He also found improvement of cost efficiency in cross-border acquisitions whereas domestic takeovers were found to be influenced predominantly by defensive and managerial motives such as size maximization.

Soares (2007) examined the experiences of a small number of such companies in relation to their use of strategic alliances. This research indicated that the key contributor to the success or failure of alliances is whether all the parties will benefit equitably from the venture and the relative strategic importance of the alliance to the stakeholders.

A study by ASAP (2012) showed that over the last decade, the number of alliances has increased steadily, not only in sectors such as IT or pharmaceuticals that are traditionally alliance-intensive, but across all industries. Companies depend on complementary competencies and resources to develop new, innovative products or integrated solutions, and many successful innovations are generated by networks of partners, not just by a single company. Strategic alliances allow companies to pool capital, resources and complementary competencies, and diffuse risks. They have proven to be one of the most effective tools to maintain competitive edge.

Research carried – out by Bierly and Cooms (2004) sought to find the relationship that existed between alliances termination and stages of product development. Their research revealed that, if an alliance is undertaken early, the chances of this alliance being terminated tend to be high contrary to when undertaken mid-stage or even end stage. Firms have been known to change technologically when they cooperate with other firms, while at the same time, gain more advantage when they complement each other within their own boundaries. When coming –up with new products for their markets as well as strategizing their marketing policies, large pharmaceutical companies as well as biotechnology firms are always integrating new knowledge as well as resources.

When research was carried-out by Rothaerme (2001) of 889 pharmaceutical firms that had undertaken strategic alliance as well as new biotechnology companies, the findings revealed that

ISSN: 2455-8834

Volume:02, Issue:02

there was a direct relationship that existed between new products being developed and new technology being used. The research also sought to find-out the relationship that existed between how the firm performs after embracing new technology and coming up with new products. Scientific capabilities, the exact location of the firm, as well as how experienced the management of the firm is-are three signals mainly emphasized when looking into whether a firm is performing well after forming an international strategic alliance in the market (Coombs and Deeds, 2000). When technological collaborations are undertaken with strategic planners, as well as continuous interaction of business with new as well as existing partners leads to better product performance in the market (Soh pek, 2003).

A research was carried out on 132 biotechnological companies, seeking to find-out the relationship that existed between developing new products in the market and undertaking strategic alliance by firms (Deeds and Hill, 1996). The findings revealed that an increasing, then decreasing relationship existing between the rate in which new products were developed and the number of international strategic alliance have been observed, for example, that of SAS and Swiss air, airline companies that formed a strategic and offered services such as flight connection and average frequency of services. From this alliances, a general increase in flights was noted as well as lower costs in operating these flights, mainly due to the time for laying – over being lowered (Youssef and Hansen, 1994).

Research conducted by Evans, Oum and Zhang (2001) revealed a positive relationship existing between the productivity levels of firms, pricing levels of their goods and profit ratios after farming alliances. Studies were conducted on 56 airlines that operated between 1986 and 1993, focusing on data from time-series soughting to find-out the relationship between market share and strategic – alliance formation (Park and Cho, 1997). From the researchers' findings, the sharing of code led to an increase in market share. Their findings also revealed that, when code-sharing, market share was found to be high, compared to when it is done with new carriers, while at the same time, the market that have fewer carriers competing end-up with large market share control. An analysis on the theoretical foundation is also carried-out when looking into strategic alliances. Under this, most researchers' laid emphasis on theories such as transaction cost as well as resources based theory, seeking to feasibly analyze the alliance formation while starting out, more emphasis is laid on getting hold of resources which is followed by decreasing the manufacturing period. However, for some firms, the main point in the initial production process is the cost reduction process whereas in firms that deal with technology, the emphasis is on the resource-based view (Yasuda, 2005).

Chang (2004) carried – out research on venture capitalist interest mainly on internet start-ups, mainly seeking to find-out the kind of relationship that existed between strategic alliances and

ISSN: 2455-8834

Volume:02, Issue:02

how these firms acquired resources for their own growth. The results revealed that, three key issues played a role in determining the point in which the startups called for an IPO, and they were:- how good was the relationship between the two firms, how much money did the start-up raise, and how large the strategic alliance was. Strategic alliance have also been found to be the ideal way in which forms penetrate into new geographical regions, with the help of indigenous firms and expertise. With the growing trend of strategic alliances, it is necessary for a firm to clearly understand the skills that its managers require so as to gain fully from the alliance, which will also lead to growth. The necessary skills may come from carrying-out detailed research, practically and theoretically, in the industry.

Studies have been carried out on mergers being undertaken in the Kenyan banking sector, mainly focusing on it as a restructuring tool from a financial point (Chesang, 2002). The results showed that, even though banks that undertook this strategy ended-up recording lower profit-ratios, it was still considered to be an important tool to improving the financial performance of small as well as medium-sized banks that were thought to be an important tool to improving the financial performance of small as well as medium-sized banks that were thought to be weak and ailing. The author recommended that, the positive relationship that may arise after restructuring may be due to more attention being laid on the business strategies, better management as well as accounting and also reporting systems, good systems of legal regulations, assessing the credit position in a better way and also reducing of the staffing levels. When these are implemented, then firms that have merged may earn higher return rates.

According to a report by Kenyan government through Kenya Economic Report (2013), there has been a general increase in the retail chain outlets in the domestic market. This intern has led to the firms seeking the international markets as an alternative growth solution. Research carried out of top 50 retail stores in the world revealed that, only 15 of them operate in their mother country only. International expansion leads to higher sales for the firms, as well as increasing the bargaining power that they have with the vendors. However, there are risks that come with international expansion such as :- different government regulations, different cultures and consumer preferences, different supply chains as well as language

Research Methodology

The study adopted a cross-sectional research design. A total sample of 49 supermarkets was used from a list of retail outlets from the licensing department of the Nairobi County Council. Nairobi was chosen because of its high density of retail chain outlets where most of them are also headquartered. Besides, Nairobi is the capital city of Kenya, its high population with relatively high incomes attracts most investment in retail outlets to meet the needs of the residents. Stratified sampling was done on the branched and single outlet supermarkets. Purposive

ISSN: 2455-8834

Volume:02, Issue:02

sampling was then done on the head offices of each branched outlet and single outlets were all included in the study. Qualitative data was obtained by use of scheduled interviews, observation and open-ended questions and was analyzed by creating patterns and drawing conclusions while quantitative data was collected using questionnaires that were closed-ended. Descriptive and inferential Statistical analysis was used.

3. FINDINGS, DISCUSSION AND RECOMMENDATIONS

Respondents opinions on the strategic alliances adopted by supermarkets to improve sustainability

The respondents were presented with a series of statements relating to strategic alliances growth strategies adopted by organizations to improve sustainability. They were then asked to state the extent to which they agree with each of the statement in the context of their organization using a scale where, -1 To a low extent, 2- To a moderate extent, 3- To a great extent and 4-To a very great extent. The findings were presented in the table below

Respondents Opinion on the Strategic Alliances Growth Strategies Adopted by their Organizations to Improve Sustainability

	Mean	**Std Dev.**
The organizations share operational co-operations with interested companies	3.3229	.92615
The organizations co-operate with companies that create synergies	3.2484	1.27437
The organizations co-operate with companies that enhance brand reputations	3.2796	.91860

The findings indicate that strategic alliances growth strategies have been adopted by supermarkets to improve sustainability to a great extent because; the supermarkets share operational co-operations with interested companies(M=3.3229, SD =0.92615), the supermarkets co-operate with companies that create synergies (M=3.2484, SD =1.27437), and that the supermarkets co-operate with companies that enhance brand reputations (M=3.2796, SD =0.91860).

The findings point to the view that strategic alliances were widely used amongst the supermarkets under study. Various elements of strategic alliances seem to have been adopted to enhance the sustainability of these supermarkets with the most common being sharing

ISSN: 2455-8834

Volume:02, Issue:02

operational co-operations with interested companies. As evidenced form the findings, the supermarkets improved on output from the synergies created and their was improvement on the brand which was indicated by the market share and outputs. Likewise, a study carried out by the Association of Strategic Alliance Professionals (ASAP) in 2012 revealed that, when strategic alliances are created, firms come together and share resources as well as capital and also face difficulties together and share risks. In the process, they also benefit from each other through choosing an effective tool that will give them an edge over their competitors.

The study further revealed that by bringing together organizations with different skills and knowledge bases, a joint venture creates unique and usually synergistic learning opportunities for the partners. The increase in skills and knowledge from different parties increase the operational efficiency leading to lower costs. Lower costs lead to increase in profits as a sign of organizational growth and sustainability.

The findings also agrees to Vennet (2002) in a study using a sample of 422 domestic and 70 cross border acquisitions of European Community (EC) credit institutions that occurred over the period 1988-1993 to examined the performance effects of mergers and acquisitions and noted that the alliances significantly increased the performance of the merged institutions.

The findings further aligns to Evans, Ouma and Zhang (2001) in a time series analysis of data of 56 airlines over the 1986–1993 periods to investigate the effect of strategic alliances on productivity, pricing, profitability of the companies. Their empirical results indicated that code sharing among the airlines, increased the carriers' market shares. The findings also contradict the findings by Cosh et al. (2008), researchers who examined 211 firms that had merged in the UK anytime between 1968 and 1970. The profit ratios were closely monitored, emphasis being laid before as well as after merger being undertaken. The findings indicated that, higher margins were observed after undertaking the merger strategy.

The findings further agree to Chesang (2002) in a study on merger restructuring and financial performance of commercial banks in Kenya. This study concluded that though some banks showed a decline in performance in the alliance period, merger restructuring could still be considered as a recommended option to improve the overall financial performance of weak and ailing small and medium sized banks with a narrow business. The study noted that merger restructuring is likely to positively affect financial performance due to renewed attention to new business growth strategies, improved management, accounting and reporting systems, legal regulatory systems, better credit assessments and reduced staffing levels. These operational efficiencies are likely to achieve higher rates of return for the merged firm. The study recommends the management of all the supermarkets and the retail industry in general to adopt growth strategies. The study recommends that for the businesses to experience rapid growth,

ISSN: 2455-8834

Volume:02, Issue:02

entrepreneurs and the entire management should emphasize on strategies set to ensure they are focused to the organizational objectives and are aligned to the market needs. Adoption and effective implementation of these strategies will facilitate growth and expansion in various parts of the countries. This will enhance growth and sustainability, create employment opportunities, ensure availability of goods and services to the public, promote well-being of all at all ages and end poverty.

REFERENCES

Bain, J. S. 1956. *Barriers to New Competition*, Cambridge, MA: Harvard University Press.

Bierly, P.E., and Coombs, J.E. (2004),"Equity alliances, stages of product development, and alliance instability", *Journal of Engineering and Technology Management*, Vol. 21(3), pp. 191- 214.

Buckley, P., and Casson, M. (1988). A theory of cooperation in international business. In F. Contractor & P. Lorange (Eds.), Cooperative strategies in international business (pp. 31-53). Lexington, MA: Lexington Books

Chang S. J. (2004)."Venture capital financing, strategic alliances and the initial public offerings of Internet startups", *Journal of Business Venturing*, Vol. 19(5), pp. 221-241.

Chesang C.J(2002) Merger restructuring and financial performance of commercial banks in Kenya. University of Nairobi. Kenya

Coombs, J.E., and Deeds, D.L. (2000),"International alliances as sources of capital: Evidence from the biotechnology industry", *The Journal of High Technology Management Research*, Vol. 11(2), pp. 235-253.

Cosh, A., Hughes, N. & Singh, B. (1980). *The Determinants and Effects of Mergers: An International Comparison.* Cambridge, MA: Gun and Hanin.

Deeds D.L., and Hill, C.W.L. (1996),"Strategic alliances and the rate of new product development: An empirical study of entrepreneurial biotechnology firms", *Journal of Business Venturing*, Vol. 11(1), pp. 41-55.

Dollinger M.J. (2006). *Entrepreneurship Strategies and Resources*(3rd edition). Pearson Education, New Delhi.

Elmuti, D. and Kathawada,Y. (2001). An overview of strategic alliances. *Management Decision.* Vol. 39(3),pp. 205-217.

Euromonitor International (2011). Health and wellness in Korea. Retrieved from http://www.euromonitor.com (Accessed: 10 September 2016).

Evans N.el at (2001),"alliances", Tourism Management, Vol. 22(3), pp. 229-243.

Geringer, J.M. 1988. Joint Venture Partner Selection: Strategies for Developed Countries. Westport, CT: Quorum Books.

Gomes-Casseres, B., (2003). Competitive Advantage in alliance constellations. Strategic Organization, 1 (3), 327 –335.

Harrigan, K.R. 1985. Strategies for Joint Ventures. Lexington, MA: Lexington Books.

Kenya Economic Report (2013).*Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties*.© 2013 Kenya Institute for Public Policy Research and Analysis (KIPPRA).

Park, N.K ,and Cho, D.S. (1997),"The effect of strategic alliance on performance: A study of international airline industry", *Journal of Air Transport Management*, Vol. 3(3), pp. 155-164.

Porter, M.E. (1980). Competitive Strategy Techniques for Analyzing Industries and Competitors. The Free Press: New York

Porter, M.E. (1985), "*Competitive Advantage*: *Creating and Sustaining Superior Performance"*, The Free Press, New York.

Rothaerme, F.T. (2001),"Complementary assets, strategic alliances, and the incumbent's advantage: an empirical study of industry and firm effects in the biopharmaceutical industry", Research Policy, Vol. 30(8), pp. 1235-1251.

Saxena A. (2005). *Entrepreneurship Motivation*. Performance, Rewards. Deep & Deep, New Delhi.

Soares, B. (2007). The use of strategic alliances as an instrument for rapid growth, by New Zealand based questor companies. Unpublished thesis submitted in partial fulfillment of the degree of Master of Business Innovation and Entrepreneurship, Unitec New Zealand, New Zealand.

Soh Pek-Hooi. (2003),"The role of networking alliances in information acquisition and its implications for new product performance", *Journal of Business Venturing*, Vol. 18(6), pp. 727-744.

Vennet R.V (2002) "Cross-border mergers in European banking and bank efficiency" Ghent University

Yasuda, H. (2005)."Formation of strategic alliances in high-technology industries: comparative study of the resource-based theory and the transaction-cost theory, Technovation, Vol. 25(7), pp. 763-770.

Youssef, W., and Hansen, M. (1994),"Consequences of strategic alliances between international airlines: The case of Swissair and SAS", Transportation Research Part A: Policy and Practice, Vol. 28(5), pp. 415-431

Yuk, P. (2013). Strategic alliances: Joint ventures as a way into new markets. Klynveld Peat Marwick Geordeler (KPMG), Retrieved from www.kpmg.de (Accessed: 19 September 2016)

