Effects of Maintaining Competitiveness through Strategic Alliances: A Case of Rongo University College, Kenya

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Abstract: Organizations have been able to get competitive advantage through strategic alliances however; the alliance needs to be carefully crafted for it to realize the expected benefits to both partners. The study sought to determine the effect of maintaining competitiveness through strategic alliances at Rongo University College. The study used cross sectional method and the target population included finance officers, marketing officers, internal auditors, technologists, risks officers, resource managers, corporate affairs officers, customer care staff, strategy and innovation officers. The study sample was 40 respondents and stratified sampling technique was used to categorize respondents into strata. The data was collected using the questionnaire and analysis was carried out using SPSS Version. 20. The study found that the composite measures of resource acquisition, diversification, economies of scale and organizational learning accounted for 75% (R2 = 0.751) variance contributing for the competitiveness of the university. Regression results showed that there was strong relationship between resource acquisition, diversification, economies of scale and organizational learning and competitiveness of the university. The study concluded that competitiveness of institutions of higher learning increases when there are sound resource acquisition, diversification, economies of scale and organizational learning. The study recommended that universities should recruit adequate and competent staff and give sufficient training and professional certification to be able to understand strategies for strategic alliance and their effect of competitiveness of the institution.

Keywords: Effects, Competitiveness, Strategic Alliance, University College, Kenya

INTRODUCTION

Strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. This form of cooperation lies between mergers and acquisition and organic growth. Strategic alliances occur when two or more organizations join together to pursue mutual benefits. Cravens, Piercy and Cravens [1] argue that strategic alliances are a critical component for the success of any business in the 21st century which is characterized by a highly competitive environment. Firms in the technology space are particularly impacted by increased competition in the global arena due to the dynamic nature of this industry and they have therefore resulted to strategic alliances in order to be able to develop new products faster, enter new markets and meet the evolving market demand. With the strategic alliances, firms are able to respond to changes in technology with greater efficiency and speed [2].

The benefits accruing from the alliance will be in the form of acquisition of scarce resources, impede competition by locking critical resources, and ease in diversifying into new markets as well as obtaining economies of scale [3]. However, this does not come about easily and the business will have to face a number of challenges before the alliance operations can be smooth. Some of the common challenges experienced include; conflict arising from control related problems, cultural value differences, lack of trust and poor leadership in the alliance [4].

While many researchers and scholars regard strategic alliances as new phenomena, inter firm ties have existed since the beginning of the firm as a production unit e.g. firm and entrepreneur alliance with credit companies, firm and suppliers of raw materials alliance, firm to trade associations [5]. Strategic alliances do not only enhance trading relationships but also provide avenues for mutual exchange of resources e.g. technologies, skills and products [6]. This exchange of resources allows firms to access resources that they don’t have in a convenient way.

Multinationals have largely used strategic alliances as an entry strategy in the untapped African market [7]. An example includes Norton Rose Fulbright, a global legal services company, which signed strategic alliance agreements with the leading law firms in East Africa and Zimbabwe [8]. Researchers have frequently analyzed strategic alliances in the developing countries. Ybarra and Turk [9] studied how strategic alliances create a competitive strategy in the South African airline industry. The research goes on to demonstrate how airlines have

The Kenyan market has not been left behind in the forming of strategic alliances. Some of the alliances that have been taken place in the recent past include Nakumatt Holdings Limited which announced a partnership with local manufacturers like Tropical Heat Limited (spices), Mumias Limited (Sugar), Unilever Limited (washing powder) to produce the Nakumatt Blue Label brand [8]. Other alliances that have taken place include AIG and Metropolitan Life Insurance to provide insurance services. AIG offers general insurance only whereas Metropolitan Life Insurance provides Life insurance only. Through the alliance they are able collaborate and benefit from each other’s markets.

**STATEMENT OF THE PROBLEM**

Competitive advantages significantly influence the firm’s market place success. By using technological capabilities firms can ensure customer value and competitive advantage [1]. There are claims that strategic alliance, if well implemented can lead to organization’s improved operations and competitiveness. 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 [12].

Despite the popularity and advantages associated with strategic alliances that have seen many companies rush to form strategic alliances, few have succeeded [7]. It has been projected that the failure rate of strategic alliances could be as high as 70% [6]. Studies have shown that between 30% and 70% of alliances fail; in other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide [13]. Alliance termination rates are reportedly over 50% [14], and in many cases forming such relationships has resulted in shareholder value destruction for the companies that are listed on the stock exchange and engage in alliances [15].

In Kenya, few universities form strategic alliances in direct response to competition and to reduce uncertainty about the future. Rongo University has partnered with Sony sugar, Brighton University, U.K, Co-operative bank and KCB to mentor students and prepare them in the job market. The review of literature shows that several studies have been conducted concerning strategic alliances. Muasa and Muganda [16] investigated the relationship between strategic alliance and bank performance. Wanjau, Mugo and Ayodo [17] carried a study on an Investigation into Competitive Intelligence Practices and their Effect on Profitability of Firms in the Banking Industry. And more recently Koigi [18] carried out a study on the implementation of strategic alliance experience and its effects on performance. Among these studies previously done few have been done on the competitiveness of strategic alliance by universities.

**OBJECTIVES OF THE STUDY**

i. To determine the effects of resource acquisition on competitiveness of Rongo University College

ii. To establish the effect of diversification on competitiveness of Rongo University College

iii. To find out the effect of economies of scale on competitiveness of Rongo University College

iv. To explore the effect of organizational learning on competitiveness of Rongo University College

**LITERATURE REVIEW**

**Effects of Strategic Alliances**

According to [1] strategic alliances are engagements between independent firms or organizations, voluntary in nature and involve the exchange or sharing of products, technologies or services. On the other hand, [13] defines strategic alliances as long-standing agreements between two or more firms that span beyond the normal market relations but fall short of a merger. [15] summarizes strategic alliances as partnership between two or more firms aimed at achieving strategically important objectives that are of mutual advantage to the firms and would not have been achieved if the firms were operating on their own. The alliances can be used to add-on incomplete capacity gaps, to impede competition by locking critical resources, acquire means of distribution, pool resources, reduce risk, overcome regulatory barriers, achieve competitive advantage and to generate innovation in areas that it would have otherwise been impossible if they were working alone [19].

In spite of the many definitions of strategic alliances, there exist similarities in the definitions. The similarity is in the form of having two or more firms collaborating with each other for their mutual benefit which could not have been achieved if they were independently operating [2]. Benefits from strategic alliances will flow into the business only if the alliance...
is successful and performs in a manner that is satisfactory [20]. This can only be achieved if the alliance is structured correctly in the initial phase. Many firms form alliances to pool their know-how with third-party partners and create competitive advantage [21].

**Resource Acquisition**

Resources owned by a firm are the main driver of its profitability and strategic advantage [4]. They enable a firm to implement its strategies which enable it to operate in an efficient and effective manner [10]. The resource based view rejects the assertion that resources are perfectly mobile and homogeneous [22]. Organizations are able to beat competition by utilizing their existing internal resources to sustain competitive advantage by way of taking advantage of the market opportunities and defusing threats they face from competitors [6]. Firms can only take advantage of the available opportunities if they have adequate resources [2].

Resources are valuable, rare, in-imitable and non-substitutable [22]. Due to their nature of being rare, firms opt to seek the resources that they don’t have by forming alliances with partners who possess the resources [11]. This is an immediate and fast way for resource acquisition and the nature of the resources to be shared may be similar or different [7]. The resources will therefore either be supplementary or complimentary in nature. Complimentary resources also known as dissimilar, when pooled together enable the creation on new capabilities [21], stimulate innovation of technology and favor mutual relations amongst partners because of the non-overlapping nature of the resources [23].

**Diversifying into New Markets and Grow Business**

Firms employ different strategies in order to enter new markets and strategic alliances have been touted as one of the ways a firm can diversify into new markets i.e. as a market entry strategy [1]. Alliances have also been used as an avenue to grow existing business [2]. Most organizations are now heavily relying on strategic alliances to expand into new markets and grow business [10]. From the alliances firms benefit in access to new markets by tapping into segments that they would have been unable to reach individually due to geographical limitations or any other limitations that may exist. Alliances hasten the pace of market entry and increase product lines especially for multinationals seeking to expand into foreign markets [8]. They also enable firms to penetrate foreign markets that have barriers to entry [23]. Strategic alliances enable firms to curb regulatory bodies by partnering with firms that already have the prerequisite license and thus speed up the process of market entry [5].

Market dynamics especially in technology businesses force firms to react quickly and the market is constantly changing in the technological space [7]. According to Cătălină [3], organizations form alliances to react to the market conditions faster and thus gain competitive advantage especially where time is critical. Alliances provide an avenue for firms to adjust capabilities in order to meet the dynamic market demand and firms will therefore determine how alliances will assist in developing new products that deviate from existing market demand [11]. This enables firms to take advantage of the existing market opportunities and have an advantage over other firms.

**Obtaining Economies of Scale**

Strategic alliances are formed with the view of reducing the transaction costs and these are the costs of planning, organizing, staffing and monitoring transactions across the business [15]. According to the transaction cost theory, transaction costs are the costs of producing goods or services by making use of the market instead of producing from within the firm [14]. Partnering enables firms to reduce the operating costs thus introducing efficiencies in the business which result in economies of scale [24]. Alliances enable firms to pool resources by work together and they are therefore able to save on various costs once resources are shared [9]. According to Nicoleta et al., [19] once firms collaborate, they enjoy economies of scale which is the unit cost reduction due to producing goods or services in large scale.

Firms that enter into alliances invest fewer resources compared to firms that work as lone rangers [23]. Firms sharing resources will also strive to maximize the resources thus end up operating efficiently and effectively [8]. Resource maximization is driven by the fact that they try to make sure that the other partner does not make use of the shared resources more than they do [24]. The fixed costs of the firms are also subsequently reduced in the process since the scale of production is larger [25]. Gustafsson and Simberg [26] further affirm that collaboration allows firms to reduce the unit cost as a result of purchasing in bulk due to the increased scale of operations. The economies of scale therefore enhance efficiency in terms of use of resources which enable firms to lower the cost of operations in the production process due to enhanced efficiencies [24].

**Organizational Learning**

Organizational learning is the systematic process whereby firms create knowledge through its employees, teams and groups [3]. It drives the
organization towards better performance and results through development and generation of capabilities [1]. Learning is an essential component in organizational performance and subsequent success. Through strategic alliances, firms get an opportunity to gain knowledge and new experiences. According to Álvarez, Gil and González de la Fe, [21], firms taking part in strategic alliances tend to have superior performance due to learning and knowledge sharing as well as opportunities to gain competitiveness. Organizational learning enables firms to make use of their existing resources and capabilities by converting them into unique competencies which is a source of sustainable competitive advantage [15].

The process around the creation, transfer and use of knowledge contribute greatly to the success of the alliance and how the alliance performs [10]. Knowledge is an intangible resource critical in the firm gaining competitive advantage. In the face of increased competition and globalization, strategic alliances are an important tool for gaining knowledge [27]. Organizational learning enables firms not to repeat the mistakes made by others and therefore minimizes costs that would have been spent during the learning phase [7].

Risk Sharing

Strategic alliances provide an important avenue for firms to venture into projects that are risky and these are mostly projects whose outcome is both uncertain and unstable and involve a huge capital outlay [1]. The competitive nature of the business environment makes it challenging for a firm venturing into a risky project to bear the brunt of project failure alone because this could mean closure of the business due to the huge capital investment that had been done [2]. With the strategic alliances firms are able to pool resources into big projects and share the expected risk of project failure [22].

As the firms embark on the strategic alliance, they will need to ensure that risk is borne by both partners so that benefits from the alliance are enjoyed [2]. This will prevent a situation whereby one of the partners feels shortchanged and this subsequently sows the seed of distrust in the alliance relationship [27]. The partners need to appreciate the value they will derive from the alliance so that they are willing to share the risk that will be borne by the strategic alliance [4]. Strategic alliances thus enable firms to venture into risky projects that they would not have been able to enter into single handedly.

Challenges of Strategic Alliances

Control Related Problems

Control plays the vital role of making sure everything is going according to plan and in alliances, control is achieved through making sure that the governance structures are formed well [8]. It can also be achieved through managerial arrangements and other informal mechanisms that may arise [1]. Having conflict mechanisms ensures there is no conflict in the future and control issues can be in the form of behavioral, output or social [15]. Behavioral control issues arise when the manager is not able to achieve an understanding of the alliance cooperation process [27]. This results in managers not being able to monitor the staff under them and also identify opportunistic behavior [9]. On the other hand, output control issues arise when the managers are not able to measure output and consequently not able to measure performance [2].

Cultural Values Differences

According to Ekpu et al., [10] organizational culture is the collective thinking that distinguishes people from one organisation from the rest. Organisational culture demonstrates how things are done in an organisation [23]. Strategic alliances often face the challenge of failure to adapt in the new style of management and partners in the alliance often suffer from incongruence of organizational cultures and management ideologies [7]. This is mostly manifested when the partners have varying national cultures and this generates misunderstanding [4]. Muange and Maru [11] further expounds that culture varies in four dimensions and these are large and small power distance, uncertainty avoidance, individualism and collectivism and femininity and masculinity. These attribute distinguish members of one national group from another.

Lack of Trust

Trust is a critical aspect in strategic alliances because they entail a great amount of risk and trust enhances the quality of the relationship between the partners thus allowing the free exchange of information amongst the parties [9]. It is the belief that amongst a group of individuals that another person or group will make good-faith efforts to behave in accordance with past commitments they have entered into they are honest in the negotiations that preceded such commitments and do not take advantage of another even when an opportunity presents itself.

Poor Leadership

Leading a strategic alliance often poses unique challenges and most alliances are structured in a manner whereby there is a shared leadership function but with time informal leadership structures evolve within the partnership [13]. The leader will need to use a range of various leadership skills that factor in issues like the relationship between the partners, the nature of the contract between the organizations, and the characteristics between the team members in the

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alliance [2]. The alliance manager’s leadership will have an impact on the team interaction and their effort of working together towards achieving the alliances objectives [7].

METHODOLOGY
The study adopted a cross sectional survey to collecting information regarding strategic alliance formation in Rongo University from the respondents. The study target population was employees of Rongo University who were in the middle and upper level management. The study used both stratified sampling and simple random sampling techniques to select respondents and a sample of 40 employees representing 10% of the target population was selected. The study used a questionnaire to collect data from the respondents and the questionnaire comprised of two sections. Data analysis was carried out by regression model to test the hypothesis through the use of Statistical Package for Social Sciences (SPSS) Version 22.

Data Analysis and Interpretation
Regression Results for Competitiveness of Rongo University College

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.270</td>
<td>.271</td>
<td>.9940</td>
</tr>
<tr>
<td></td>
<td>Resource Acquisition</td>
<td>.043</td>
<td>.107</td>
<td>.327</td>
</tr>
<tr>
<td></td>
<td>Diversification</td>
<td>.021</td>
<td>.154</td>
<td>.075</td>
</tr>
<tr>
<td></td>
<td>Economies of Scale</td>
<td>.032</td>
<td>.108</td>
<td>.218</td>
</tr>
<tr>
<td></td>
<td>Organizational Learning</td>
<td>.022</td>
<td>.075</td>
<td>.165</td>
</tr>
</tbody>
</table>

P< 0.05, 5% level of Confidence  N = 38
Source: Research Data (2016) SPSS output

From the data in the above table the established regression equation was \( Y = 0.270 + 0.043X1 + 0.021X2 + 0.032X3 + 0.022X4 \)

From the above regression equation it was revealed that holding resource acquisition, diversification, economies of scale and organizational learning to a constant zero, competitiveness of Rongo University college be at 0.270, an increase in resource acquisition would lead to increase in competitiveness of Rongo University college by a factor of 0.043, an increase in diversification would lead to increase in competitiveness of Rongo University college by a factor of 0.021, an increase in economies of scale would lead to increase in competitiveness of Rongo University college by a factor of 0.032 and an increase in organizational learning would lead to increase in competitiveness of Rongo University college by a factor of 0.022.

The findings are consistent with most of the previous studies that are identified in this study [23, 15, 22]. All the p-values for the entire variable were found to be less than 0.05, which indicate that resource acquisition, diversification, economies of scale and organizational learning were statistically significant to influence competitiveness of the university. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable. Beyond this level of significance, the variables are not making a significant contribution for the prediction of the dependent variable [28].

Hypothesis Testing
Resource acquisition has no statistical significance on competitiveness of Rongo University College

The first hypothesis of this research posited that resource acquisition was not statistically significant to the competitiveness of the university. The regression results in table 1 above indicated strong correlated relationship between competitiveness of the university and resource acquisition. The positive beta sign and a statistically significant result of resource acquisition correlated with competitiveness of the university (\( \beta = 0.043, t = 3.276, P<0.05 \)) thus supporting the proposed hypothesis. The results were consistent with the previous strategic alliance research works of [24, 13 5]. They found that resource acquisition was the critical determinant of the Rongo University College competitiveness.

Diversification has no statistical significance on competitiveness of Rongo University College

The second hypothesis of this research (diversification does not have statistical significance on competitiveness of Rongo University College) revealed in table 1 that there was a direct relationship between diversification and competitiveness of Rongo University College. This hypothesis was supported by the regression results that showed that diversification had positive statistical significance on competitiveness

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of Rongo University College ($\beta = 0.021$, $t = 1.603$, $P<0.05$). The hypothesis findings were consistent with the previous studies on diversification and strategic alliance which stated that the growing competition in the institutions of higher learning has forced universities to diversify some of their activities to maintain their competitive edge [29]. Therefore diversification results were statistically significant and contributed for the competitiveness of Rongo University College.

**Economies of scale has no statistical significance on competitiveness of Rongo University College**

As shown in table 1 above the coefficient of economies of scale ($\beta = 0.032$, $t = 1.788$) were positively correlated with competitiveness of Rongo University College. Previous studies conducted by Gallardo, Goldberg and Randhawa [27] found that economies of scale increases efficiency and maximizes profits as well as the competitive advantage of the organizations. The regression output result indicates that economies of scale was statistically significant thus supporting the proposed hypothesis.

**Organizational learning has no statistical significance on competitiveness of Rongo University College**

The regression output result in table 1 support the hypothesis (organizational learning has no statistical significance on competitiveness of Rongo University College) with significantly correlated variables with the level of significance ($p<0.05$) and the positively related coefficients ($\beta = 0.022 \text{ and } t = 1.316$) contributing for competitiveness of Rongo University College. This indicates the significant effects of organizational learning to increase the ability of the university to have a competitive advantage over its competitors. Recent literature by Cătălina [3] noted that organizational learning drives the organization towards better performance and results through development and generation of capabilities.

**HYPOTHESIS RESULTS**

<table>
<thead>
<tr>
<th>No</th>
<th>Hypothesis</th>
<th>Result</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Resource acquisition has no statistical significance on competitiveness of Rongo University College</td>
<td>Reject</td>
<td>Resource acquisition has statistical significance on competitiveness of Rongo University College</td>
</tr>
<tr>
<td>2.</td>
<td>Diversification has no statistical significance on competitiveness of Rongo University College</td>
<td>Reject</td>
<td>Diversification has statistical significance on competitiveness of Rongo University College</td>
</tr>
<tr>
<td>3.</td>
<td>Economies of scale has no statistical significance on competitiveness of Rongo University College</td>
<td>Reject</td>
<td>Economies of scale has statistical significance on competitiveness of Rongo University College</td>
</tr>
<tr>
<td>4.</td>
<td>Organizational learning has no statistical significance on competitiveness of Rongo University College</td>
<td>Reject</td>
<td>Organizational learning has statistical significance on competitiveness of Rongo University College</td>
</tr>
</tbody>
</table>

**DISCUSSION OF FINDINGS**

According to the regression output all the predictors positively contributed for the competitiveness of Rongo University College. Therefore the university should give emphasis to the use these determinant variables to make their service delivery effective, efficient and economical throughout their offices. Moreover the resource acquisition, diversification, economies of scale and organizational learning were the major determinants of the Rongo University College competitiveness.

This study found that the composite measures of resource acquisition, diversification, economies of scale and organizational learning accounted for 75% ($R^2 = 0.751$) variance contributing for the competitiveness of the university. This means that the effect of the independent variables contributed for the dependent variable by 75% and the remaining 15% were other variables that were not included in the study.

The study found that the four research hypotheses strongly influenced the competitiveness of the university. Regression results showed that there was strong relationship between resource acquisition, diversification, economies of scale and organizational learning and competitiveness of the university. The results were consistent with the previous research works done on resource acquisition, diversification, economies of scale and organizational learning. The studies found that resource acquisition, diversification, economies of scale and organizational learning were the critical determinants of competitiveness of Rongo University College.
CONCLUSION

The study made conclusions based on the objectives of the study. Due to its important role it plays for the overall competitiveness of institutions of higher learning, strategic alliance is the major mechanism that can be used to ensure profitability and market share. The existences of effective strategic alliance linked with internal control risk management system, improves universities efficiency and effectiveness. This reduces information asymmetry during decision making and ensures overall performance of these institutions.

The study concluded that competitiveness of institutions of higher learning increases when there are sound resource acquisition, diversification, economies of scale and organizational learning. The regression analysis showed very strong contributions of these variables for the competitiveness of Rongo University College. In addition, the correlation analysis showed all the independent variables to have the direct effect on competitiveness of Rongo University College. The regression result also depicted all the independent variables to have a positive sign of coefficients with the competitiveness of Rongo University College. Therefore the study concluded that all the predictors were statistically significant enough at 5% significance level.

RECOMMENDATIONS

The finding of the study proved that resource acquisition, diversification, economies of scale and organizational learning were statistically significant and positively related with the competitiveness of the universities. Thus the institutions of higher learning should support strategic alliance functions.

The study recommended that universities should recruit adequate and competent staff and give sufficient training and professional certification to be able to understand strategies for strategic alliance and their effect of competitiveness of the institution.

The study recommended that strategic alliance should be taken seriously and enhanced by organizations and institutions of higher learning since it affects their performance. Central bank of Kenya should ensure that policies and regulations governing strategic alliance.

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