

## STRATEGIC ALLIANCES AND PERFORMANCE OF FOOD AND BEVERAGE MANUFACTURING COMPANIES IN KENYA

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### ABSTRACT

The current harsh economic times and limited resources have forced organizations to foster appropriate strategic alliances to improve on their performance. Evidence from previous empirical studies shows that scholars have investigated the relationship of strategic partnerships and firm performance with varied results. In this study, we collected and tested data from 125 Large-Scale Food and Beverage Manufacturing Companies (FBMC) in Kenya. The study covered a three year period. The paper tested the alternative hypothesis that strategic alliances have a significant stimulus on performance using regression analysis. However, the evidence did not support this proposition. To the contrary, the connection between strategic collaborations and performance was found to be insignificant. This suggests that a firm's success through strategic relationships is not pronounced as in a pure competitive market like agro-processing business as it is in a monopolistic or duopolistic rivalry. Thus the outcome of the study contributes to knowledge pool in strategic management by determining the connections of strategic associations and firms' performance. Senior executives in FBMC in Kenya will apply the findings to evaluate crucial partnerships for enhanced performance. The study offers valuable direction for policy makers and owners of food and beverage manufacturing companies. Areas for further research has been recommended at both contextual and conceptual levels.

**Key Words:** Strategic Alliances and Firm Performance

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## INTRODUCTION

Present economic hard times and scarce resources have necessitated alliance formations among enterprises operating in the same industry. If an organization has a corporate strategy that is well executed, it will have limited or no challenge in managing external variations (Ilori, 2015). Therefore, Strategic alliances facilitate a firm's method of fulfilling the customer needs, acquiring an aggressive advantage and assuming market leadership. According to Bowman and Toms (2010), corporate performance is directly stimulated by the strategic choices executed within the company permissible to register high profits. This study sets out to validate this notion in food and beverage manufacturing companies in Kenya.

Gulati (1998) defined strategic alliance as the voluntary agreement of partnership among companies that include exchange of products, expansion of expertise or services. Strategic alliances are the combination of explicit capabilities and talents by the cooperating enterprises targeted at realizing shared goals along with specific objectives to the individual associates (Varadarajan & Cuningham, 1995). Traditionally, it has remained easier to establish new ventures through cooperation, new projects and alliances. FBMC operates under a very competitive surrounding and there is a need to understand if partnerships can influence their success.

Xie and Johnston (2004) advocated the lack of universally acceptable classification of strategic alliance. However, considering the definitions and

typology of planned unions used in empirical studies, three forms of alliances can be highlighted as product, market and innovation alliances. Partnerships are essential component of a functional Total Quality Management program (TQM) and of firm's progression (Cante, Calluzo & Ryan, 2004). According to Jussila, Mainela & Natti (2016), the situations for network creation in a megaproject environment are quantified with an emphasis on the indicators of uncertainty. Strategic alliances as a firm-level strategy are argued to boost firm's benefits from large-scale production.

Strategic alliance is an official contract between firms to supply goods or services and to mutually expand understanding, commercialize new product, advance applications, increase rights of co-ownership, and profitable manipulation of the innovations inside the confines of the individual specifics (Dafar, Dahlgard, Brege & Arzaghi, 2013). Coalition associates work collectively to serve the ultimate consumer by doing together what each partner could not do alone (Cante et al., 2004). Strategic alliances are contractual partnerships amid companies that contribute to skills and expertise. Strategic collaboration is a win-win formation between companies in a monopolistic market competition. Firms usually agree to share information about markets, new commodities and admission to specific resources (Glaister, Huusan, & Burckley, 2006).

*Kavanamur and Esonu (2011) advocates that culture has a direct bearing on co-operation and success. Therefore, it should not be relegated to the backstage as being merely a portion of the remote*

macro-environment. Cante et al (2004) argued that grouping agreement between companies should include supply chain, technology, intellectual property, legal obligations and disengagement sub-contracts. Research in social science has strived to comprehend why some companies hitherto functioning in similar contextual setup to achieve high standards of performance than others (Parnell, Long & Lester, 2015). This variations in organizational performance could be attributed to strategic linkages adopted by the firms.

Glaister, et al (2006) posit that organizations have an alternative of selecting strategy encompassing product, process, market or organization (simple strategies). However, recent proof indicate that a good proportion of innovative firms select a fusion of strategies simultaneously (Tavassoli & Karlsson, 2016). Consequently, a strategy is an intimation of how the firm relates with the surrounding and retain the input-output cycle to bring forth a match with its environment. The study probed strategic alliances as a firm-level strategy construct that mitigates environmental challenges. Fearne (1994) observed that the dissimilar landscape of food demand and the predominance of family-owned enterprises had hindered the growth of the main food processors and argued that for the European food industry to survive, both national and worldwide conglomerations had to be rapidly forged. The picture is not different from the current situation in FBMC sector in Kenya.

The paper adopted Strategic Balance Score Card (SBSC) measures of corporate performance which include financial, customer, operational excellence and learning and development (Kaplan & Norton, 1992; Hubbard, 2009). The paper was anchored on Industrial Organization

Economics (IOE) theory (Mason, 1939; Bain, 1951). The IOE theory will immensely benefit from the arguments on strategic alliances and performance. The findings will assist the Kenyan government in formulating policies aimed at improving performance in the sector. This will have a significant bearing on the national employment index and aid in the realization of Vision 2030 goal of transforming Kenya into a middle class economy. A review of literature indicate existence of conflicting results on how strategic alliances and performance are connected.

## LITERATURE REVIEW

Theoretical explanations of firm-level strategy was based or used the ideas and abstract principles of IOE as expounded by Mason (1939) and Bain (1951). The IOE theory informs that making long-term economic firm decisions are imperative for competitive edge and higher performance (Bowman & Toms, 2010). Empirical studies have been utilized as they apply to the research that establishes how premeditated groupings influenced corporate performance rather than the practical aspect or uses. Governance scholars have distinguished two basic sets of strategic motivations of association's formation. The initial group is commercial motives; enterprises form strategic associations so as to accomplish strategic goals and gain profit. The second group is for social reasons; organizations form strategic linkages through individual's social contacts, values, commitment and trust (Eisenhardt & Schoonhoven, 1996). The attention of this study was on the first motive of relations which is for commercial advantages.

Strategic collaborations for corporate success has been broadly studied in the area of management science with diverse conceptual and contextual frameworks (Ulrich, Pierre & Marcel, 2010; Kavanamur & Esonu, 2011; Kim, 2015; Muage & Maru, 2015). In the current competitive marketplace, firms cannot completely rely on internal competencies to boost performance (Giudici & Reinmoeller, 2013). They must partner with other companies to obtain necessary information, skills, expertise, assets, and technologies and thus leverage their internal weakness. Consequently, superior integration through collaboration amid firms improves the aggressiveness and could have an affirmative aftermath on corporate performance (Ogutu & Samuel, 2012; Chowman, Pries, & Sara, 2017).

Firm innovations are gradually becoming inter-organizational and yet companies find it challenging to decide on suitable form of alliances: with competitors or with business partners (suppliers, customers or universities). Partnerships are frequently considered to be uncertain endeavour which may premise to the deduction that strategy is not the most suitable option for increasing a firm performance (Le Roy, Robert & Lasch, 2016). Selection of alliance strategy hinge on the nature of the strategic companion (competitor or non-rival), or on the nature of invention (incremental or radical) and on the physical locality of the competitor (Le Roy et al., 2016). The study concentrated on competitor corporations with incremental creativity among FBMC.

Empirical proof in management demonstrate that strategic agreements in SME continues to remain a risky ventures,

requiring a rigorous effort of all participants to initiate suitable alleviation actions to avert monetary losses resulting from alliance failure (Rambo, 2012). Development of cross-cultural governance abilities boosts the alliance of management systems, public-private sector partnerships. Special challenges occur when there are wide cultural gaps and organizational structure variations, as culture affect alliance execution and performance than firm-level strategy execution while cultural values among firms are easily actualized where there are common tenets (Kavanamur & Esonu, 2011). Nevertheless, the study did not investigate organizational culture and top management characteristics as the drivers of tactical associations and factory performance.

Strategic alliances endeavour to create benefit from opportunities, obtain new or opposite expertise and/or know-hows, counter rivalry, enter new marketplaces and reduce operational costs. Nonetheless, to reap these paybacks, firms must approach collaborations in a structured and comprehensive manner (Ulrich et al., 2010). Zhang and Pezeshkan (2016) contend that foreign firms suffering from a low network may uniquely find it easier to enhance their collaboration position if they have industry experience. According to Muage and Maru (2015), the combined marketing collaborations, procurement-supplier alliances, joint automation and technological advancement coalitions have a productive stimulation on corporate performance.

Strategic alliance is a crucial victory element and the energetic power ahead of enterprise performance in

multinational settings (Ogutu & Samuel, 2012; Aun, 2014). Companies need to launch a balanced method for weighing the worth of an association. Analytical factors for potential special alliance include; the production units to be finished by combining means and skills, access to unexploited markets and/or technologies and diminutions in cut-throat rivalry and allied costs. The costs includes alliance formation, coordination, and operational costs, competencies transmission and knowledge exchange among partners (Ulrich et al., 2010). Liberalization has made the world become an international global village and hence management of FBMC should prudentially enter into alliances to benefit from economies of scale and performance improvement.

The second assessment before submitting to a long-term alliance is the preservation of novel corporations on other strategic profitable ventures. It is important to guarantee being of a benefit for the entire firm or group from the potential alliance (Kale & Singh, 2009). First prerequisite is to outline if the potential partner's capabilities, technologies, and finances will blend well with those of the group of companies and empower it to produce novel products or services (Wasmer, 2010). Therefore, management of firms should undertake an in-depth synthesis of the possible partner's strength, weakness, opportunities and threat (SWOT) of the before signing alliance contract.

Strategic alliance among firms has developed to a common concept of interfirm affiliation management. However, elucidating the precise nature and levels of strategic alliance-

performance link in FBMC remains a hypothetical and pragmatic challenge for management scholars. For instance, Robson, Katsikaes and Bello (2008) found out that interfirm trust becomes stronger when alliances size declines. Lin, Yang and Demirkan (2007) advocate for strategic coalition formations that focuses on firm features, its industry limitations or the dynamic associations wherein firms are entrenched, enhances organizational performance. On the other hand, Goerzen (2007) argues that entities that enter into repeated equity-based alliances experience poor commercial performance.

The success or growth of organizations is critical to fiscal progression and to the grasp of wealth and engagement (Ilori, 2015). It is commonly anticipated that cooperation could be a valuable strategy for competing businesses that can enable attainment of a competitive supremacy (Ritala, Hallikas & Sissonen, 2008). Performance improvement of FBMC in Kenya is vital to the fiscal growth of the country as this will ensure increased incomes and employment to the rural population (KIPPRA 2013). It is on this premise that factories performance continues being a key priority to the central regime of Kenya, Strategic management practitioners and Researchers. Despite of previous inquiries on the liaison of tactical coalitions and performance in FBMC (Cante et al., 2004; Kim, 2015; Muange & Maru, 2015), the connections of the variables still remains an area of interest as there is lack of consensus among scholars on how this concepts are connected.

The paper endeavours to offer solution on the research question as to whether

strategic alliances inspire performance of FBMC in developing countries. This query still remains unclear in available literature. Therefore, constructed on this limitation in scholarly works, the objective of this study was to examine the effect of strategic alliances and performance of FBMC in Kenya. The research hypothesis that has been pinched from reviewed empirical studies on strategic alliances and organizational performance to be tested is as follows:

*H<sub>1</sub>. Strategic alliances has a significant influence on firm performance.*

## METHODOLOGY

To assess our hypothesis, we have conducted an empirical study covering all 178 large-scale FBMC in Kenya was conducted (KAM, 2016). The study applied cross-sectional survey design. Cross-sectional survey employs quantitative methods in their evaluation. The justification of the methodological approach was driven by the aim of the study. The study's goal was to establish relation amongst strategic alliances and performance. Study sought response on three measures of firm long-run agreements on corporate structure, conversion processes and production costs in components and materials of existing products. The data was collected through a census of 178 large-scale firms that are active members of Kenya Association of Manufacturers (KAM) 2016. With 125 participating in the research.

A census sampling was justifiable owing to the decline in total population. The study was for a three year period running from January, 2015 - December, 2017. The key respondents were the Chief Executive

Officers/Managing Directors of sampled companies. These strategic executives were chosen for the study because firm attributes to be tested are best known to them. In Kenya, FBMC are classified under the manufacturing sector which is a fundamental to the economy contributing about 10% of Gross Domestic Product (GDP) with agro-processing accounting for 3% (KIPPRA, 2014). Manufacturing sector employ nearly 300,000 people which accounts for 13% of the Kenyan employment index.

Statistics designate that the industry's share to the GDP recorded a dropping trend of 13.9% in 2008, to 9.2 % in 2012. The sectors proportion to the wage employment has also gradually declined from 13.9% in 2008 to 12.8 % in 2012 (KIPPRA, 2014). The degeneration in growth of this sector is attributed to a fusion of many factors like, high rising costs of food, wage bills, increased establishment costs, competition from industry players of Common Market for Eastern and Southern Africa States (COMESA) and tightened bank loan requirements.

For data analysis, the paper utilized simple regression analysis and presented the results using inferential and descriptive statistics. The hypothesis of the study was framed as *H<sub>1</sub>. Strategic alliances has a noteworthy effect on performance of FBMC in Kenya.* The overall planned coalition composite index was regressed on financial performance. The relationship of Firm Performance (FP) and Strategic Alliances (SA) is as follows. Model:  $FP = \beta_0 + \beta_1 X_1 + \epsilon_2$ . Where  $\beta_0$  is the constant and  $\beta_1$  is the (coefficient slope or gradient for SA) and  $\epsilon$  is the error term.

**FINDINGS**

The results of the inspiration of premeditated partnerships on financial performance are revealed in Table 1.

**Table 1: Strategic Alliances and Financial Performance**

Model	Unstandardized Coefficients		Standardized					
	B	Std Error	Beta ( $\beta_0$ )		T	Sig.	Tolerance	V.I.F.
1 (Constant)	.02	.02			.15	.25		
Strategic Alliances	-.01	.01		-.06	-.82	.41	.37	2.69

a) Dependent variable: Financial Performance.

The results for strategic alliances were not statistically significant to financial performance ( $p \geq 0.05$ ). The statistical test of the beta coefficient ( $t = 4.76$ ; Std. Beta=0.0) for firm-level strategy, the beta coefficient was equal to -0.6 and

hence the hypothesis on presence of a significant relationship between strategic alliances and performance of FBMC in Kenya was not supported. The results on return and return on investment are exposed in Table 2.

**Table 2: Regression Coefficient of Strategic Alliances on Return on Investment**

Model	Unstandardized		Coefficients		Standardized	
	B	Std Error	Beta ( $\beta_0$ )		T	Sig.
1 (Constant)	.01	.03		.04	.134	1.56
Strategic Alliances	-.03	.04		-.05	-.79	1.15

Dependent variable: Return on Investment.

Table 2 indicate that the coefficient of strategic alliances on ROI was negatively interconnected and hence not statistically significant ( $P \geq 0.05$ ). Hence, the regression model could not be offered from the constructs. The non-existence of significance shows that firm's choice of strategic alliances does not stimulate

immediate returns on investment. Initially, the cost of executing a strategy outweighs returns. The significance values of ( $P=1.15$ ) for the variable was more than 0.05 which explains that all the independent concepts were not noteworthy in elucidating return on investment. The findings of strategic groupings on return on assets are offered in Table 3.

**Table 3: Regression Coefficient of Strategic Alliances on Return on Assets**

Model	Unstandardized		Coefficients	Standardized	
	B	Std Error	Beta ( $\beta_0$ )	t	Sig.
1 (Constant)	.04	.04	.035	.35	1.46
Strategic Alliances	-.04	.04	-.05	-.58	1.24

a. Dependent variable: Return on Asset.

Table 3 shows that the coefficient of strategic alliances on ROA is not statistically significant ( $P \geq 0.05$ ). The significance values of (1.24) for the construct was more than 0.05 which infers that the variable was not momentous in clarifying return on assets. This

designates that the choice of strategic associations as a firm-level strategy is informed by the anticipated future returns on assets. The benefits of signing strategic partnerships are only realized in the long-run. The results of strategic collaborations on internal business process are depicted in Table 4.

**Table 4: Regression Coefficient of Strategic Alliances on Internal Business Process**

Model	Unstandardized		Coefficients	Standardized	
	B	Std Error	Beta ( $\beta_0$ )	t	Sig.
1 (Constant)	.03	.02	.06	.12	1.39
Strategic Alliance	-.03	.04	-.04	-.71	1.84

a) Dependent variable: Internal Business Process.

The results on the linkages of strategic alliances and internal business process are offered in Table 4. The results specify that the beta coefficient ( $\beta = -0.04$ ,  $P \geq 0.05$ ) indicate that strategic alliances is not significant to internal business processes. This implies that the selection of firm-level strategy is based the extent of development

of its internal business processes. The t-values were significantly lower an attestation of absence of multicollinearity. The results on strategic coalitions and customer focus are shown in Table 5.



**Table 5: Regression Coefficient of Strategic Alliances on Customer Focus**

Model	Unstandardized		Coefficients	Standardized	
	B	Std Error	Beta ( $\beta_0$ )	T	Sig.
1 (Constant)	.02	.04	.08	0.23	1.56
Strategic Alliance	-.05	.05	-.06	-0.65	1.56

a) Dependent variable: Customer Focus.

The results reveal that strategic alliances are not significant to customer focus ( $P \geq 0.05$ ). This infers that the choice of strategic partnerships is not pegged on the degree of customer satisfaction. The significance levels and t-values ( $P= 1.56$ ;

$t= -0.63$ ) were significantly higher, a suggestion of presence of multicollinearity. The results of strategic alliances on knowledge and growth are shown in Table 6.

**Table 6: Regression Coefficient of Strategic Alliances on Learning and Development**

Model	Unstandardized		Coefficients	Standardized	
	B	Std Error	Beta ( $\beta_0$ )	T	Sig.
1 (Constant)	.23	.20	.05	.20	1.21
Strategic Alliance	.24	.05	.04	-.46	1.98

a) Dependent variable: Learning and Development.

The results indicate strategic unions effect on learning and growth was not statistically significant ( $p \geq 0.05$ ). The p-values for the variables fluctuated from ( $P$ -values = 1.98). This shows lack of connection amongst firm-level strategies and learning and development of a firm. This denotes that firms may select a cooperation strategy when there is capacity initiatives or not. The t-values were significantly lower a demonstration for absence of multicollinearity.

## DISCUSSION

In the paper, the scholars conceptualized the variable of strategic alliances to have the independent empirical role. Firm performance which was tested five indicators had a dependent function. The findings on test of the hypotheses depicted in section four are compared with earlier empirical and theoretical propositions from extant literature laying bare areas of agreement and disagreements. Descriptive and inferential statistics were applied to explain the regression analysis results. The discussion draws upon theory and findings

of previous studies to interpret and position results of the study in the discourse of strategic alliances and enterprise performance.

Results of simple regression analysis established that the CV value ranging from 0.16 to 0.72. This an indication of 16% to 72% diverse opinions among respondents on the characteristics of strategic alliances contributions to factory performance. The results (P value ranging from 1.15- 1.98) showed an insignificant effect of strategic collaborations on all the indicators of performance (p-value>0.05). The interaction of strategic alliances as a firm-level strategy and performance was not statistically significant to factory performance. Henceforth, failed to back the study hypothesis.

The results on the test of the power of strategic alliances on performance of FBMC were negative and statistically insignificant (Std. Beta = .03; t-value = - 0.79; p-value>0.05). In a key departure from majority of previous studies, it was established that strategic alliance characteristics was not statistically momentous in elucidating variations in performance (p-value>0.05). The findings support the arguments of (Muthoka & Oduor, 2014; Goerzen, 2007) who post that there is no significant connection amid strategic partnerships and performance. In contrast, the results run contrary to Chowman et al (2017) and Muange and Maru (2015) who maintains that superior integration and alliances between firms can have a constructive consequence on innovation and associations with other businesses improves general firm performance.

The negative results on effect of strategic coalitions and performance of FBMC in Kenya are not consistent with the arguments of Ogutu and Samuel (2012) that strategic alliances, joint collaborations and amalgamations back multinationals to manage competition. However, the findings support Ritala et al (2008) who scrutinised the upshot of strategic alliances among main competitors on performance of international telecommunication industry and contended that strategic alliances among a cluster of company's crucial competitors contributes negatively to enterprise performance. Further, the results backs Rambo (2012) argument that strategic co-operations in Small and Medium Enterprises (SME) continues to remain a risky venture that requires a rigorous effort of all participants to initiate suitable alleviation actions to avert monetary losses resulting from alliance failure.

Secondly, the findings also contradict Kim (2015) who argued that engagement in collaborative projects and growth of international intra-industry alliances has an affirmative bearing on firm productivity. In addition, the results conflicts findings of (Robson et al., 2008; Aun, 2014) who argued that strategic co-operation has a sizeable effect on performance of manufacturing companies and that enterprise productivity is driven and influenced by confidence in strategic alliances through distributive equality and mate similarities. Nonetheless, this thinking may be true when built on the context of the studies.

On a theoretical perception, the inquired evidence on corporate strategy and theories of the enterprise have

concentrated on the overall firm-level strategy and organizational performance while neglecting the casual effect of the sub-variable of strategic alliances (Awino, Ogaga & Machuki, 2017). On policy making perspective, the present paper represents a helpful tool when making between providing government support to corporations vs privatization, to which the magnitude of firm development vs partnership of prevailing firms and how such financing should be molded to yield maximum earnings to the nation. From the results it can be concluded that success in firm strategic treaties is only real in a monopolistic or duopolistic competition but not a pure competition environment like FBMC in Kenya. The results are inconsistent with the IOE theory which holds that corporate strategy influence firm performance through decision making (Mason, 1939; Bain, 1951).

## CONCLUSION

The main objective of the research was to establish the effect of strategic alliances on performance of food and beverage manufacturing companies in Kenya. The findings shows lack of a positive numeric values in strategic networks are associated with firm performance. Consequently, the alternate hypothesis on availability of a significant linkage between strategic alliances and performance of FBMC in Kenya was rejected. The study fails to validate IOE theory whose key paradigm is Structure-Conduct-Performance by establishing lack of significant relationships between strategic co-operations and company performance. IOE theory which posits that the strategies of a company are essential determinants of general performance.

The results supports arguments of (Goerzen, 2007; Ritala et al., 2008;

Muthoka & Oduor, 2014) that strategic alliances and organizational performance have no significant relationship. In contrast, the result differs from previous studies (Aun, 2014; Ogutu, & Samuel, 2012; Kim, 2015; Chrowman et al., 2017) that tested the concepts in manufacturing entities and established that planned partnerships results in superior enterprise performance. This could be allied to the conceptual, methodological and contextual differences to the study which applied hierarchical regression analysis. In Kenya, FBMC is a very competitive industry and strategic collaborations is not among the preferred strategies for high productivity.

The paper did not utilize secondary data based on its paradigm. Cross sectional research design lacks the rigor to test causality among variables. Firm performance requires a longitudinal design in order to test causality for a five to ten year term. Although linear regression analysis is a dominant tool for testing relational hypotheses, the regression analysis used in testing combined effect is sensitive to the sequence in which the concepts were entered in the regression model. A purely qualitative approach would also provide a rich insight on inspiration of strategic alliances and performance of FBMC in Kenya.

Future studies should also consider the entire FBMC sector in Kenya permissible to capture data for small and medium size firms on a regional basis. Additionally, Researchers should consider introducing other corporate strategy concepts such as the strategic planning, diversification, internal restructuring, market development and product development and establish guidance of firm performance. Equally,

Scholars could consider using other statistical tools such as Tobin Q or logistic regression for data analysis.

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