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STRATEGIC ALLIANCE PORTFOLIO DIVERSITY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

Establishment of an appropriate level of diversity in an alliance portfolio has emerged as an important issue for managers if they have to steer business units in the unpredictable operating environment. This implies that firms that wish to leverage their competitive advantages through cooperation with other firms pursue strategic alliances as one of the viable options since it has been argued that a firm competitiveness level is influenced by the alliance that it forms. However, alliance formation among firms should generate the necessary synergy and towards this end, the diversity of the portfolio partners comes out prominently. The research sought to establish the relationship between strategic alliance portfolio diversity on firm performance of commercial banks in Kenya. The portfolio diversity practices investigated include embeddedness, reciprocity and status similarity. The study adopted a cross-sectional descriptive survey design with the population of the study being the 42 commercial banks operating in Kenya. Primary data was collected using semi-structured questionnaire. The findings were that bank embeddedness reduced the level of information asymmetry among the partners and consequently enabling the alliance bank partners to create a common problem solving approaches. It was found that that reciprocity among the banks is manifested by their willingness to share proprietary knowledge among the alliance partners to limit their tendencies to pursue opportunistic behaviour. The findings also show that alliance portfolio characteristics are significant moderators of the alliance portfolio diversity-performance relationship. Reciprocity positively moderates the relationship while status similarity is expectedly found to positively moderate this focal relationship. The study concludes that strategic alliance portfolio diversity practice is much necessary in any organization for better functioning of all of its categories and makes effective management of commercial banks.

Key words: Strategic alliances, portfolio diversity, embeddedness, firm performance

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Introduction

Over the last two decades, the business environment and the consumer market demands have been changing at unprecedented rate. With these changes; there has been need for firms to establish full solutions rather than individual products or services. One of the ways in which firms respond to the market demands is to establish inter-firm collaboration which has become an essential component in the pursuit of firm competitive advantage (Grant & Baden-Fuller, 2012). Efficient management of organizational alliances creates pooling together of resources among the firms which to create a synergy and therefore becoming an integral part of competitive advantage and vital to the success of the business firm.. Maguire and Philips (2010) point that when entering an alliance; each organization provides some of its rights and benefits others through either explicit or implicit contracts.

Norris-Tirell and Clay (2010) define strategic alliance as an intentional collective approach to address problems or issues through building of shared knowledge, designing innovative solutions and forging consequential change. Alliances building facilitate the sharing of information among firms on the best practices and other knowledge, to collaborate on joint problems, and to develop joint competencies. However, a new strand of study has been the realisation that it is not enough to just develop an alliance for increased organization performance but rather there is need to establish the optimal level of alliance portfolio diversity since it is seen as a driver of the type and extent of knowledge transferred and overall firm performance of the firms in the alliance (Vasudeva & Anand, 2012).

Alliance portfolio diversity has been operationalized as the need for heterogeneity of alliance type, technical knowledge, industry gel and partner nationality (Koka & Prescott, 2008). However, studies have shown both positive and negative effects of partner alliances in the sense that, while for example, Beckman and Haunschild (2012) found positive effects and attributed this to improvement in information accuracy and in innovativeness and creativity resulting from diverse knowledge. Goerzen and Beamish (2005) found that diversity, beyond very low or moderate levels, contributed to poorer performance and attributed this to coordination and integration costs that outweighed the benefits of diversity.

, Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. On his part, VanWeele (2016) suggests that organizational performance is the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action.

The common measures of organizational performance for profit oriented firms are profits (or net income), return on investment and return on shareholder equity. The non-financial measures that are commonly used include public image and goodwill, quality of services and efficiency of operations. Kaplan and Norton (1996)

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developed the balanced score card as an integrated performance tool that assesses the performance of a firm from four different perspectives that include both financial and non-financial measures.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. Kenya's financial landscape has considerably changed over the period 2006-2016 and the financial sector has grown in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' products. Among these innovations include moving from the traditional decentralized banking to one branch banking that has been enabled by integration of various business functions.

Kenyan commercial banks have increasingly faced competition among themselves and mobile phone firms that have encroached to their traditional line of business such as settlement of payments and government capping of interest rates. In addition, the customers have become more enlightened and therefore aware of the availability of different options that they can transact without necessarily visiting the bank. One way by which banks can pursue in order to remain competitive is through forming of strategic alliance with other banks or non-bank actors. However, it is not enough to establish such a relationship but rather, a portfolio of alliances that will lead to the formation of optimum synergy.

Several studies have been done both locally and internationally on the aspect of organization strategic alliances. Cardilohn (2005) researched on collaborative commerce in Ho Chi Minh City and found that for firms struggling with inefficient practices forming alliances with other cities in the developed countries is one of the strategies that they can pursue to improve their service delivery. Though the study delved into alliance formation and its benefits, it did not consider the diversity of the alliance partners. Mohammed and Bilkis (2010) researched on inter-firm value creation: conceptualizing for the success and sustainability of strategic collaboration. The findings were that inter-firm value creation requires proper implementation of value creating methods such as information sharing, electronic collaboration, joint programs and joint cost management.

Locally, Chepsiror (2016) researched on the role of inter-organizational strategic alliance as a source of competitiveness among the major seed companies in Kenya and found that strategic alliance among the seed companies maximizes profit, reduce uncertainties of company internal structures and external environments as well as enlarge their market share. On his part, Kimani (2016) researched on the strategic collaboration and performance of small and medium enterprises in Nairobi central business district. The findings were that collaboration between the SMEs and other organizations was influenced by conflict resolution mechanisms between partners, partner resources, mutual trust and level of commitment of partners.

From the above studies, it can be concluded that the studies have focused on inert-firm alliances without giving

attention to the diversity of the firms' portfolio. Further, while the existing body of research that investigated the relationship between alliance portfolio diversity and firm performance provided interesting insights, the limited and conflicting empirical evidence suggested that there are important moderators of the diversity-performance relationship that have not been studied The current study sought to determine how strategic alliance portfolio diversity affects performance of commercial banks The research objectives were:

i. To determine the extent to which strategic alliance portfolio diversity is practiced among commercial banks in Kenya
ii. To determine the effect of strategic alliance portfolio diversity on firm performance of commercial banks in Kenya

Literature Review

This study was anchored in the in the resource based view theory and stakeholder theory.

Resource-Based View recognizes that the fundamental drivers to firms' competitive advantage and superior performance are attributes to the resources and capabilities which reside in the organization and are valuable and costly-to-copy (Peteraf & Bergen, 2003). According to Barney (1991), for a resource residing in a firm to be a source of competitiveness, then it needs to be unique and the combination of different organization uniqueness through formation of an alliance will create much higher level of competitiveness. The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (White & Lui, 2015).

As Barney (1991) opine, the basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature and the more diverse these capabilities are, the higher the level of competitiveness.

On the other hand, stakeholder theory which was advanced by Freeman (1994) and suggests that firms possess both explicit and implicit contracts with various constituents and are responsible for honouring all contracts if it has to realise its objectives. Consequently, the capacity of firm to manage organizational relationships is a firm's very important resource which in absence of the same, it cannot acquire the supplies it needs, solve customer problems and generate revenue. As recognized by Hsiao, Tsai, & Lee (2012) in today's competitive environments firms should increasingly focus on the creation of valuable knowledge to remain competitive and because a single firm has limited set of resources in its possession to create such knowledge, it is imperative that it develops appropriate alliances with other firms to leverage on each other's strengths. Therefore, it may benefit from collaborating with other actors to create unique knowledge during the innovation process, for example.

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Business firms are expected to benefit from portfolio diversity since in the initial stages, diversity results in increased benefits as alliance become diverse and this benefit will be more when the alliance partnerships are marked by frequent and intense interactions (White & Lui, 2015). Therefore, certain alliance portfolio characteristics are noted to moderate the effect of portfolio diversity and firm performance. Embeddedness, the extent to which exchanges between partnering firms are shaped by social relations, directly influences the amount and quality of knowledge available via these partnerships. The common features of portfolio diversity that influence firm performance are the degree of embeddedness, reciprocity and extent of status of similarity.

Firm-to-firm embeddedness facilitates reciprocity in which firms will act in a way that is consistent with expectations while not receiving any direct benefit in return. According to Uzzi,., & Gillespie,. (2012), reciprocity is the act in which partnering firms make "quid pro quo exchanges within the group" (p. 449). If reciprocity exists, the risk of opportunistic behavior is lowered significantly, coordination costs are reduced, and the likelihood of cooperation is enhanced. In an environment where parties in an alliance, violate an existing partnership norm, other firms have a reciprocal retaliation right to demand payment of injurious or otherwise undesired acts by one partner.. Reciprocity increases a firm's willingness to incur short-term disadvantages since they are confident that future opportunities to recoup any concessions will result (Uzzi, 2006).

In terms of Status Similarity, a portfolio partners tend to pursue partnership that differ in some dimensions, but are similar in others. Differences in technologies, knowledge and other capabilities between organizations can provide complementarities that create significant value (Hamel, Doz, & Prahalad, 2009). With increased diversity among partner firms, it becomes difficult to realize increased synergy because of communication and coordination difficulties. As a result, firms have a tendency to also seek partners who are similar on some dimensions, as these similarities encourage social bonding, build trust and facilitate knowledge sharing. Thus, portfolio are most successful when partners possess some complementary resources and capabilities, yet are similar enough to facilitate the social bonding necessary for effective coordination (Kim & Higgins, 2014). Consequently, high-status firms tend to form alliance with firms of similarly high status and this has been attributed to the fact that firms of similar status assume that knowledge acquired is accurate and relevant, encouraging more exchanges of more fine-grained knowledge, depends further the partner ties. On the other side, knowledge from firms with a lower status position is frequently less trusted and valued by other firms (Westphal & Zajac, 2014

The debate on the nature of portfolio partners has been varied. Ahuja (2010) posit that, portfolio partners with similar knowledge enjoy greater success in learning, innovation, and performance than those with diverse knowledge. The argument is that partner homogeneity reduces conflict, enhance trust, and

facilitate knowledge sharing and assimilation. Some research on individual alliances has provided support for this perspective, finding that as similarities increase, partners are more likely to share knowledge and to improve their innovation performance. However, Hitt, Bierman, Shimizu & Kochhar (2011) are of the view that homogenous partners may be less able to take advantage of new opportunities and to generate innovative ideas and new capabilities because sharing similar knowledge and resources may be limiting. Portfolio partners having varied knowledge, perspectives, technologies, and experiences can potentially learn more from each other, have a broader perspective, and be more innovative and creative, resulting in better performance than firms with more homogenous portfolios. These arguments have also been confirmed by empirical research that found that firms with a wide range of partners outperform those with more homogenous portfolio partners (Baum et al., 2000).

Rodan and Galunic (2014) point out that as the number of portfolio diversity increase, firms should experience improved performance due to the benefit of having access to complementary stocks of knowledge. This knowledge can be combined in meaningful ways with a firm's existing knowledge, enabling the firm to capture new operational efficiencies, redesign their products and processes, and enhance product/service features.

Research Methodology

The study adopted a cross-sectional descriptive survey design. A survey is deemed appropriate as it enabled the researcher to collect data by obtaining opinions, attitudes, behaviours, beliefs or answers from selected respondents in order to understand the group or population represented. In addition, this research design is deemed appropriate for this study because it allowed the researcher to draw conclusions about the variables under the study without the respondent being manipulated and thus allow the measurements to be fully controlled. . The population of the study comprised of all commercial banks operating in Kenya. According to Central Bank of Kenya (2016) there are 42 commercial banks operating in Kenya (Appendix 1). Since the number of commercial banks is small, then the study was a census survey.

The study used primary data which was collected using semi-structured questionnaire. The target respondent in the banks were Business Development Managers and Marketing managers. These respondents are deemed to be involved in the establishment of various forms of alliances and also its implementation.. The questionnaire was administered through the "drop and pick" latter strategy and target the business development and strategy managers, marketing managers and finance managers of the commercial banks.

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.The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance).In particular mean scores, standard deviations, percentages and frequency distribution was used to summarize the responses and to show the magnitude of similarities and differences. Descriptive analyses was conducted to provide the mean and standard deviation. Regression analysis was used to test on the relationship between the variables of the study.

Study Findings

A total of 42 questionnaires were issued out. Of the 42 questionnaires distributed, 32 were returned. The returned questionnaires' represented a response rate of 76% and this response rate was deemed to be adequate in the realization of the research objectives (Mugenda & Mugenda, 2003).

Demographic Characteristics

Table 1 presents the demographic characteristics of the commercial banks studied.

Table.1: Commercial Banks Demographic Information

Length of commercial Banks Operation	**Frequency**	**Percentage**	**Cumulative Percentage**
10-20 yrs	11	34.4	34.4
20-30 yrs	4	12.5	46.9
Over 30 yrs	17	53.1	100.0
Total	**32**	**100.0**	
Number of Employees			
200-500	16	50.0	50.0
500-1000	6	18.8	68.8
Over 1000	10	31.3	100.0
Total	**32**	**100.0**	

Source: Research Data (2017)

As indicated in Table.1, (53.1%) of the banks had been in operation for over 30 years while 34.4% had been in operation b for between 10 - 20 years and the rest of the banks having operated between 20-30 years.. With regard to the banks workforce, the findings shows that majority (50%) of the banks had between 200 and 500 employees while a third of all the banks had over 1000 employees. The medium size workforce could be as a result of the adoption of information

technology by the banks which leads to downsizing of the banks staff levels.

. The researchers sought to establish the extent to which different forms of alliance portfolio diversity had been implemented by the banks. The results are presented in Table.2.

Table 2: Forms of Alliance Portfolio Diversity

Diversity Characteristic	Mean	Std. Deviation
Reciprocity meaning that firms will behave in a consistent manner that meets the expectation of partnering firms	4.156	.574
Status similarity in that firms with different competencies are pursued	4.156	.987
Degree of Embeddedness which implies how the firms social interaction determine the alliance	3.375	1.207

Source: Research Data (2017)

The results as presented in Table 2 show that the act of reciprocity whereby banks will behave in a consistent manner among themselves in meeting their mutual was agreed to a large extent to be a dominant characteristic in the alliance (M= 4.156, SD=0.74). The low standard deviation implies that there was a concurrence among the respondents to the position that reciprocity takes in the bank alliances. Similarly, the bank status similarity in which banks with diverse competencies formed alliance was to a large extent a common characteristics among the banks (M=4.156). To a moderate extent, the results show that the banks form alliances based on their social interaction (M=3.375, SD=1.207).

This section sought to determine the operationalization of the various portfolio diversity practices namely; embeddedness, reciprocity and status similarity. The range was 'Not at all' (1) to 'very great extent' (5).

The respondents were requested to indicate the extend to which they agreed with various statements about embeddedness .The results are presented in Table.4.

Table 1: Embeddedness of Alliance Partners

Statement	Mean	Std. Deviation
Information asymmetry among the bank partners has been Reduced	4.368	1.040
The banks have created common problem definitions and solving approaches	3.938	.801
Ability to enter into future alliances among the banks is enhanced	3.906	1.689

Increased opportunity of retaliation to a partner if they pursue opportunistic behaviour ensures that alliance members cooperate	3.206	1.177
Repeated exchanges among the banks built the level of trust and hence improve the stability of the relationship	2.750	1.603
Overall Mean	**3.634**	

Source: Research Data (2007)

The findings in Table 4 show that the bank embeddedness reduces the level of information asymmetry among the bank partners (M=4.368, SD=1.040) and consequently enabling the alliance bank partners to create a common problem solving approaches (M=3.938, SD=0.801). The low standard deviation that is lower than 1.0 implies that the respondents concurred on the role of bank embeddedness in improving the partnering banks problem solving capacity. . However, the findings shows that the repeated exchanges among the banks had, to a low extent, built increased level of trust among the alliance partners (M=2.750, SD=1.603). However, the high standard deviation that is greater than 1.0 implies that there was less agreement among the respondents.

The respondents were requested to indicate the extent to which they agreed with various statements about reciprocity. The results on the existence and practice of reciprocity among the banks are presented in Table .5.

Table 5: Reciprocity Characteristic

Statement	Mean	Std. Deviation
Banks in the alliance are more willing to share proprietary knowledge among the group members	3.935	1.116
The risk of opportunistic behaviour among the partnering banks is lowered	3.474	.751
Alliance partners are hesitant to damage their reputation because they are aware of the retaliatory action by the other banks in the partnership	3.375	1.393
The risk of opportunistic behaviour by some members is low in the alliance group because of a retaliation from other members	2.644	.919
Cooperation by a partnering bank is met by cooperation by other banks	2.615	.870
Overall Mean	**3.209**	

Source: Research Data (2017)

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In reference to Table 5, reciprocity among the banks is manifested by their willingness to share proprietary knowledge among the alliance members (M=3.935, SD=1.116) due to the ability of the diversified alliance members limiting their tendencies to pursue opportunistic behaviour among the partnering banks is lowered and alliance partners are hesitant to damage their reputation because they are aware of the retaliatory action by the other banks in the partnership (M=3.375, SD=1.393). However, the results also show that the cooperation by partnering banks is, to small extent, met by cooperation by other banks in the alliance (M=2.615, SD=0.87).

The findings on the extent of status similarity practice in the bank alliances are presented in Table 6.

Table 2: Status Similarity

Statement	Mean	Std. Deviation
The knowledge acquired by the banks within the alliance is accurate and relevant	3.875	.793
Differences in knowledge and technology capabilities among the partnering banks create important complementary	3.750	.9504
A necessary social bonding result from the effective coordination alliance diversity	3.286	.8206
Alliance partnership lessens the power differential between partners and thus promotes mutual dependence	3.056	.486
There is increased status within a bank by belonging in an alliance grouping	2.965	.759
Overall Mean	**3.386**	

Source: Research Data (2017)

From the finding respondent believed that the knowledge acquired by the banks within the alliance is accurate and relevant (M=3.875), differences in knowledge and technology capabilities among the partnering banks create important complementary (M=3.750) and a necessary social bonding result from the effective coordination alliance diversity (M=3.687). The result also indicated that alliance partnership lessens the power differential between partners and thus promotes mutual dependence (M=3.656). The respondent further indicated that there is increased status within a bank by belonging in an alliance grouping (M=3.563). From the finding, it can be concluded that knowledge generated by the commercial banks in line with alliance is of accuracy and vital.

Table 7 shows the mean score of various statements regarding the effect of alliance

portfolio diversity and performance of commercial banks, on the basis of the respondents extent of agreement with the statements. The range was 'strongly disagree' (1) to 'strongly agree' (5).

Table 3: Effect of Alliance portfolio Diversity on Organizational Performance

	Mean	Std. Deviation
The level of the banks innovation has been enhanced due to the alliance portfolio diversity	4.094	.734
The banks have been able to acquire technology transfer from the alliance	4.000	1.372
Repeated exchanges within the alliance has built trust and improved both the stability of relationships and knowledge sharing among the partnering banks	3.969	.740
Foreign market entry is made easier due to the partnering banks sharing business opportunities	3.881	.757
The banks managers are able to gain access to timely and relevant knowledge beyond what their firms can obtain alone by establishing communication conduits	3.750	1.322
Alliance diversity formation among the banks create a greater industry bargaining power	3.750	.622
Overall Mean	**3.907**	

Source: Research Data (2017)

The banks innovation was strongly perceived by the respondents to have improved as a result of the alliance portfolio diversity (M=4.094, SD=0.734) and this was attributed to the banks being able to acquire appropriate technology transfer from other alliance partners. Examples of the technology transferred that was identified recently to have been introduced in many banks is the customer queuing management system. In addition, the repeated exchanges within the alliance have built trust and improved both the stability of relationships and knowledge sharing among the partnering banks. The improvement in the bank's operations was identified as an ingredient to the increased performance of the banks as measured by customer level of satisfaction, quality of service and profitability. To a moderate extent, the results show that alliance portfolio diversity among the banks and other partnering organizations lead to had created a greater industry bargaining power and improved the capacity of the banks to gain access to timely and relevant knowledge beyond what their firms can obtain on their own.

To determine the relationship between alliance portfolio diversity and the performance of the banks, the researcher adopted a regression analysis approach. To determine the same, the relationship between the overall mean of each of the three alliance portfolio diversity practices namely; embeddedness, reciprocity and status similarity was regressed with the resultant mean from the bank performance

measure. The result is presented in Table 8.

Table 4: Simple regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.053	.985		-0.054	.452
	X_1	.187	.166	.162	1.122	.272
	X_2	.644	.166	.559	3.869	.001
	X_3	.238	.149	.213	1.596	.122

a. Dependent Variable: Bank performance

b. Predictor Variable: (constant); X_1 = Embeddedness; X_2 = Reciprocity; X_3 = Status similarity

From the model summary above, the resultant regression equation becomes;

$Y = -0.053 + 0.162X_1 + 0.559\ X_2 + 0.213X_3$

The value of the intercept (B_o) indicates that the value of bank performance when all the explanatory variables are zero is -0.053. This implies that were the banks to withdraw from their existing alliances with other partners, then the current performance level will reduce by 0.053%. The coefficient of independent variables is positive, and this implies that strategic alliance diversity by the banks positively increases the overall performance level. A regression coefficient of 0.559 for the reciprocity variable, for example, results in an average increase in the bank performance by 0.559%. On the other hand, a unit increases in the embeddedness will result in 0.162% increase in the level of bank performance while status similarity practice will result in an increase of 0.213% in bank performance. This means that bank performance is affected by the form of alliance portfolio diversity established. However, the embeddedness and status similarity variable is not significant at 5% significance level because the p-value is greater than 0.005.

To determine the combined effect of embeddedness, reciprocity and status similarity on the overall bank performance, a model summary was determined as presented in Table 9

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.558	.492	.61679

a. Dependent Variable: Bank performance
b. Predictor Variable: (constant); X_1 = Embeddedness; X_2 = Reciprocity; X_3 = Status similarity

Table 9 indicates the model summary of the simple regression equation that predicts bank performance in totality. The correlation coefficient (r) value of 0.747 indicates existence of a strong positive relationship between bank alliance portfolio diversity and its performance. The coefficient of determination (r^2) value of 0.558 explains the proportion of variation in the bank performance attributed to alliance portfolio diversity. This means that 55.8% of the bank performance is explained by the form of alliance portfolio diversity entered by the banks. However, the coefficient of determination (r^2) often overstates the true value of explanations due to the unadjusted degrees of freedom and to eliminate such, the adjusted r^2 value of 49.2% shows the actual variation in the bank performance attributed by alliance portfolio.

Summary Discussion of the Findings

In a competitive economy with the banking sector customers being faced with abundant choices, a bank can only win by fine-tuning its alliance characteristics with an aim of increasing the synergy from the collaboration. The dominant alliance portfolio diversity practices that was investigated, and propagated by Collins and Riley (2013) include embeddedness, reciprocity and status similarity characteristics.

Firm embeddedness is concerned with the ability of the partnering firms to mutually operate and have the capacity to seamlessly combine their operations with a resultant high performance than if they operate in isolation. The findings were that the bank embeddedness reduced the level of information asymmetry among the partners and consequently enabling the alliance bank partners to create a common problem solving approaches. To a moderate extent, the findings showed that bank embeddedness improves the capacity of the alliance partners to enter into future collaboration among them. The need for an alliance partners to be strongly embedded is explained by Uzzi and Gillespie (2012) to facilitate the exchange of high quality, complementary stocks of knowledge. Further Cowan and Jonard (2009) posit that being highly embedded leads to close and detailed interactions, enabling firms to create common languages, problem definitions, and problem solving heuristics. Hence, the study findings that alliance diversity reduces the level of information asymmetry supports the position held by the above researchers.

Reciprocity was the second portfolio diversity characteristic discussed and was found to be the expectation that partnering firms will make “quid pro quo exchanges within the group” and in the process take actions that are to the benefit of all the partners in the alliance. The findings were that the act of reciprocity among the banks is manifested by their willingness to share proprietary because of their ability of the alliance partners to limit their tendencies to pursue opportunistic behaviour. In addition, the alliance partners are hesitant to damage their reputation because they are cognizant of the retaliatory action by the other banks in the partnership if one deviates from the expected norm. This finding supports the position held by Westphal and Zajac (1997) who found that opportunistic behavior by one party in the current period can be met by opportunistic behavior by the other party in the next. Similarly, cooperation can be met with cooperation. Consequently, reciprocity increases a firm’s willingness to incur short-term disadvantages since they are confident that future opportunities to recoup any concessions will exist (Artz & Brush, 2000).

Firms tend to pursue alliance partners that differ in some dimensions, but are similar in others (Kim & Higgins, 2007). From the findings the knowledge acquired by the banks within the alliance is accurate and relevant; and differences in knowledge and technology capabilities among the partnering banks create important complementary and a necessary social bonding result from the effective coordination alliance diversity. Status, which is determined by patterns of affiliations and previous exchanges, strongly influences how potential partners view a firm’s capabilities, quality, and reputation (Podolny, 1994).

The findings here added evidence to the growing number of studies that have examined the relationship between alliance portfolio diversity and overall firm performance. The findings of this study support the position that alliance portfolio diversity and firm performance are in line with Sampson (2007), despite the fact that her study used and innovative performance measure, post-alliance patents, and the focal study used a financial performance measure. Another significant contribution of this study is that the findings showed that alliance portfolio characteristics (reciprocity and status similarity), were significant moderators of the alliance portfolio diversity-performance relationship.

Conclusion

Strategic alliance portfolio diversity in commercial banks is a key for the functioning of the organization. From the findings, it was established that alliance portfolio diversity practices in commercial banks reduce the information asymmetry among the bank partners and enables problem definitions and solving approaches. Any commercial bank that enters the market must practice strategic alliance portfolio diversity effectively to enable good performance and meet the expected demand of the customers.

The management of commercial banks should adopt the reciprocity characteristics which contribute to share proprietary knowledge among the group members and reduction to risk of opportunistic behaviour among the partnering banks. In addition, status similarity facilitates the accurate and relevant knowledge within

the bank. On other hand, the commercial banks have improved on level of innovation as a result of alliance portfolio diversity. Therefore, strategic alliance portfolio diversity practice is much necessary in any organization for better functioning of all categories which makes effective management and high performance in the commercial banks.

Limitations of the Study

One limitation of this study is the lack of control for technological complexity of the banks covered in the study. Certainly the nature of the knowledge utilized within a given alliance can vary greatly. Further, the study focused on alliances with local banks while forming alliances with other firms in foreign markets (third-country or home-country firms) would also provide the banks with access to certain resources, thus potentially reducing resource dependency. However such alliances might have only a limited impact in helping the banks overcome liabilities of foreignness because such ventures provide less country-specific knowledge.

The study used different multidimensional measures of firm performance and although they are based on previous research and provide an improvement on past studies, additional work could still be done. Developing better measures of firm performance would help gain greater insights about how these performance measures can be measured most effectively.

Recommendations for Policy and Practice

The study established that the commercial banks that have to adopt the strategic alliance diversity in order to have good performance and achieve their goals. The study found out that the commercial banks that have adopted alliance portfolio diversity practices which have resulted in improved performance of the banks. It is therefore recommended that the study adds greater comprehensiveness of the strategic alliance portfolio diversity and their impact on performance. The study further recommends that the management in commercial banks should develop further its ability to marshal resources needed to support its strategies.

Suggestion for Further Research

Based on these contributions to the alliance literature, several suggestions for future research can be made. Future work could further the understanding of factors that positively and negatively impact alliance portfolio diversity. In addition to variables such as number and strength of social capital connections held by a firm's key executives, it also would be worthy of study to test whether specific governance mechanisms, organizational structure, or resource configurations have an impact on alliance portfolio diversity. The organizational context within which firm-level choices are made surely has an influence on firms' alliance partner selections and will therefore be worth undertaking. Therefore, examining that context could provide an even richer understanding of alliance portfolios.

Future work could also further the understanding of factors that positively and negatively impact alliance portfolio diversity. In addition to variables such as number and strength of social capital connections held by a firm's key executives, it also would be worthy of study to test whether specific governance

mechanisms, organizational structure, or resource configurations have an impact on alliance portfolio diversity.

The study was undertaken on the strategic alliance portfolio diversity and performance of commercial banks in Kenya. It is recommended that future research studies can examine on the strategic alliance portfolio diversity and performance. A similar study should therefore be done on other sectors to compare the findings. The study recommends that a further study should be carried out to establish the challenges facing the adoption of strategic alliance portfolio diversity in organization.

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