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THE MODERATING INFLUENCE OF REGIONAL INTEGRATION ON STRATEGIC ALLIANCES AND PERFORMANCE OF KENYAN MANUFACTURING FIRMS IN THE EAST AFRICAN COMMUNITY MARKET

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Abstract:

The specific objective of this study was to determine the influence of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market. The study was anchored on Resource dependency theory, theory of integration and the Open system theory. The positivism philosophical paradigm and a cross sectional descriptive survey design guided the study. The population of the study was 160 Kenyan manufacturing firms in the EAC market. Primary data was collected using a semi-structured questionnaire. A response rate of 81.88% was realized. Secondary data was collected from financial statements of the respective firms. Data was analysed using descriptive and inferential statistics. Hypotheses was tested using Baron and Kenny model of stepwise regression analysis to test for moderating effects. From the research findings, regional integration was found to have a statistically significant moderating influence on the relationship between strategic alliance and firm performance. These results are consistent with propositions in the resource dependence and open system theories. In a regional integration framework, firms depend on each other through strategic alliances to gain competitive advantages as envisaged in resource dependency theory. The study recommends that policy makers in EAC partner states should encourage complementarity and competitive advantage approaches while promoting skills transfer and information sharing amongst the firms.

Keywords: Strategic Alliances, Regional Integration, Firm Performance, Kenyan Manufacturing Firms in East African Community Market

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Introduction

Contemporary business environment, characterized by a global market place and fierce competition, accentuates the importance of strategic alliances “(Parise & Casher, 2003). Globalization and rapid technology change are some of the main challenges faced by organizations today, this necessitates organizations to constantly examine their strategies to enhance their innovative capabilities as a means to stay current in their field and enhance performance (Hitt, 1998).

The purpose of many alliances, supported by Todeva and Knoke (2005), is to: fuse their combined resources; complement each company’s expertise; market seeking; acquiring means of distribution; gaining access to new technology; converging technology, learning and internalization of tacit, collective and embedded skills; obtaining economies of scale; developing products, technologies and resources; achieving competitive advantages, cooperation of potential rivals, or preempting competitors; overcoming legal/regulatory barriers, legitimization, and bandwagon effect following industry trends. The strategic alliances and firm interface are mainly anchored by Resource Dependency theory (Pfeffer & Salancik, 1978), which has postulations of resource interdependency. The Resource Dependence Theory (RDT) contends that the motivation of other firms depending on another firm is the possession of the critical resources that is required for the said firms to gain competitive edge (Pfeffer & Salancik, 1978). RDT recognizes the influence of external factors on firm’s behaviour and, although constrained by their context, managers can act to reduce ecological uncertainty and dependence. Central to reduction of these environmental happenings is the concept of power, which is the control over vital resources (Ulrich & Barney, 1984).

Regional integration (RI) is a worldwide phenomenon of territorial systems that increase the interactions between partner states and create new forms of organization, co-existing with traditional forms of state-led organization at the national level. In addition to the global economic regime based on the GATT and IMF systems, which has sustained the world economy since World War II,” regionalism, through which neighbouring countries seek to strengthen their economies by entering into some form of “regional integration” has become a major trend (Iapadre, 2006). This trend was triggered by the EU market integration. In both developed and developing countries, customs unions and free trade areas (FTAs) continue to increase and expand. It has generally been argued that regional integration supported by trade agreements (RTAs) among developing countries may affect trade patterns among RTA members and between them and third countries. On the other hand, in the Americas, certain countries in Latin America initiated the Southern Common Market Treaty (MERCOSUR) in January, 1995. One of the trends that have recently been observed is to create mechanisms for broader regional co-operation. Africa's current integration landscape contains an array of regional economic communities, including eight recognized as the building blocks of the African Union. These eight are namely: AMU, CENSAD, COMESA, EAC, ECCAS, ECOWAS, IGAD and SADC (Tavares, 2009).

Regional integration in this study is measured by policies on customs union, common market protocol (harmonization of trade and market policies), monetary union and political goodwill and stability (Mwasha, 2011). The member countries within regional integration embrace the idea of investing in both their domestic and cross-border markets within the region as a result of the benefits associated with the integrated market. These benefits

include efficiency and effectiveness in all sectors, varieties in production, technological advancement, broader markets, harmonized trade and market policies, harmonized tariffs and minimization of formalities associated with cross border trade (Mlenga, 2012). Performance of Kenyan manufacturing firms is now depended on how they remain competitive and hence are creating strategic alliances in the EAC region for value addition to enhance local content through partnership with each other rather than competition, which in turn will provide great opportunities for industries in EAC (Mwasha, 2011).

Regional Integration is anchored by theory of integration (Schmitter, 1970). The theory of integration argues that countries cooperate to realize their national interest (Schmitter, 1970). Financial performance in the study is measured by Return on Assets (ROA), Return on Equity (ROE), dividend yield. ROA measures how much profit a firm can achieve using one unit of assets. It helps to evaluate the results of managerial decisions or use of assets. ROE measures the earnings generated by shareholder's equity of a period usually one year. Dividend yield compares relative attractiveness of various dividends paying stock.

The EAC integration process shows the efforts that have been put towards the realization of cooperation aiming to attain the common good of the East African people. From pre-independence time, cooperation for the region has been at the forefront. The progress made so far points to the firm belief of the people and the leaders of region of taking charge of their own development (Hartzenberg, 2011).

Kenyan manufacturing firms in the EAC market face upheavals and challenges occasioned by changes in the external

environment. Activities such as globalization, free trade agreements, political decisions, social cultural changes cheap imports and exchange rates have direct bearing on performance of these firms (Were, 2016). Indeed, manufacturing firms that rely on farm inputs have their performance impacted by availability of raw materials due to ecological factors (Kenya Industrial Research and Development Institute (Ondiek & Odera 2012). However, to mitigate on the occurrences of external environment, these firms choose different strategic responses ranging from adoption of automated manufacturing technologies, diversification, restricting, strategic alliances as well as market development. This notwithstanding, the choice of any or a set of responses could be influenced by each firm's strategic choices leading to variations in performance (Ojah, Gwatidzo & Kaniki, 2010)

The EAC regional integration framework which include Customs union and Common market protocol provides opportunities for manufacturing firms in all member countries for policies, laws, procedures of customs and tariffs which are uniform and attractive (Farole, & Mukim, 2013). This therefore subjects Kenyan manufacturing firms in EAC market to variations that directly affect their performance goals. Manufacturing is the backbone of the economy in most countries, especially in fast growing markets and is one of the key flagships of the Kenya's vision 2030 aimed at delivering the growth and development that Kenya aspires to achieve (Farole, & Mukim, 2013). The main reason for studying the manufacturing firms is because manufacturing is key pillar of economic transformation through contribution to the Gross Domestic Product (GDP) and creation of jobs which are critical factors in the growth of the Kenyan Economy. The manufacturing sector in Kenya grew at 3.5% in 2015 and

3.2% in 2014, contributing 10.3% to gross domestic product (GDP) (Were, 2016).

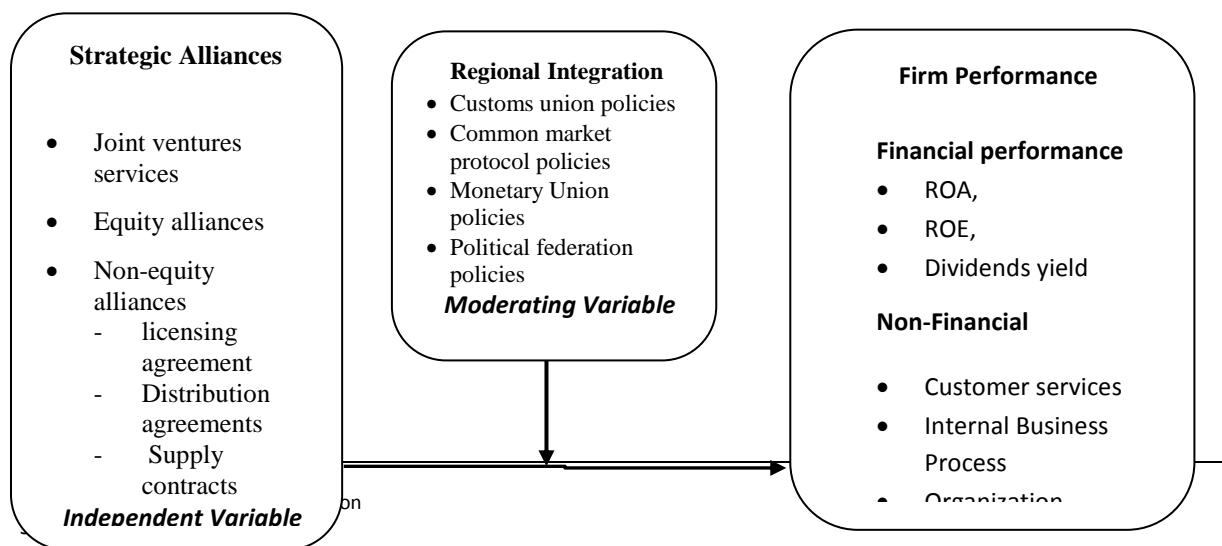
The following are the notable research gaps guiding this study. Several studies on how regional integration influences performance have been done in different sectors and geographical regions (Mlenga, 2012; Timothy & Teye, 2008; McIntyre, 2005; Maruping, 2005) with very few of them focusing on Kenyan manufacturing firms in the EAC region. The current study therefore sought to address this empirical gap by empirically testing the effect of regional integration on the relationship between strategic alliances and performance. Research works have put emphasis on how regional integration is important in determining how strategic alliances can foster organizational performance (Hill, 2008). According to McIntyre (2005), trade integration is key in fostering performance of firms in strategic alliances along regional integration with recommendations for organizations to take advantage of customs union to enjoy competitive advantage and growth. Mlenga (2012) also assessing the Progress of Africa’s Economic Integration in Light of the Establishment of the African Economic Community found that African Economic Community enhances the flow of factors of production which

results to better performance in strategic alliances.

Lesser and Moisé-Leeman (2009) argued that regional integration is key in determining the success of cross-border trade. This is as a result of organizations taking advantage of integration and forming alliances to share key factors of production and competencies necessary for performance to be boosted. The focus of the current study is therefore on how regional integration influences the relationship between strategic alliances and performance of Kenyan manufacturing firms in East Africa Community market. Consequently, in an effort to address the above gaps the study sought to answer the question; what is the influence of regional integration on the relationship between strategic alliances and performance of Kenyan Manufacturing firms in the East African Community Market? The general objective of this study was to determine the influence of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market.

The conceptual model in figure 1 below is in support of the arguments raised from literature review.

Figure 2.1: Conceptual Model



H₁:Regional integration has a significant moderating effect on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market;

Sub hypotheses:

H_{1a}: Regional integration has a significant moderating effect on the relationship between strategic alliances and financial performance of Kenyan manufacturing firms in the East African Community market; and

H_{1b}: Regional integration has a significant moderating effect on the relationship between strategic alliances and non-financial performance of Kenyan manufacturing firms in the East African Community market.

Methodology

This study was based on a positivist philosophy. The main reason for the study to adopt the positivist philosophy was based on the argument that positivism approach is focused on theory testing as opposed to epistemology which is theory building. The positivist orientation enabled hypotheses testing, acceptance or rejected based on the tested results thus leading to further research (Ravitch & Riggan, 2012). Positivism seeks to unveil the fact or causes of social phenomena. The study sets to empirically and objectively analyze the relationships existing among the variables in question. This particular study adopted a descriptive cross-sectional survey design. The population of the study was the Kenyan manufacturing firms in the EAC market. According to the East African Business Council (EABC, 2017) there are 160 Kenyan manufacturing firms formally operating in the EAC region.

Primary data was collected by using semi-structured questionnaires. Secondary data

was extracted from the documents of the published Kenyan manufacturing firms operating in the EAC market including past financial statements, customer satisfaction survey reports, Internal business, learning and growth manuals and policy documents kept under custody of the KAM and EABC. All other documents which have a bearing on the topic being studied were used to complete the answers given in the questionnaires. The main respondent from each company was the CEO or their departmental heads dealing with functions related to strategy and regional markets. This is because they were deemed to have good knowledge about the issues being studied (Campbell, 1995). To enhance the completion rate, an email or text message reminder was sent after every five days to the yet to receive respondents till the response rate was deemed satisfactory. The research questionnaires were also distributed using the drop-off and pick-up later survey method and email communication. This survey method has been suggested by scholars as an effective alternative to the post mail or telephone methods “(Cooper & Schindler, 2014). The questionnaire had been designed on a five-point Likert-type scale and ranged from (1) -not at all to (5) - a very large extent. Likert-type scale is the most frequently used tool of the summated rating scale and consists of statements that express either a favourable or unfavourable attitude towards the object of interest and the respondent will be asked to agree or disagree with each statement (Cooper & Schindler, 2006).

This research study adopted the Cronbach's alpha coefficient test for internal consistency. Nunally (1978) and Gliem and Gliem (2003) recommends a Cronbach's alpha value of 0.7 and above as desirable, whereas, Cooper and Schindler (2014) suggest a range of 0.7 to 0.9 Cronbach's alpha coefficient to be good for reliability test. The current study had a reliability cut-off point coefficient of 0.7.

In order to test the research instrument for internal reliability, a pilot study of ten (10) firms were required to respond to the research questionnaire and report any ambiguous questions, identify any defects in the questions or lack of clarity in the instructions as well as suggest any changes. The results from the pilot study indicated that a number of variables had accepted levels of alpha values. From the outcome of the pilot study, the research questionnaire was revised and used in collecting the survey data for the study.

Pre-testing for validity of the questionnaire initially involved a few respondents from the study population to improve the instrument. Construct and criterion validity were carried out on the instrument by randomly pilot testing 10 senior managers dealing with cross border business from different associations of the manufacturing firms to establish if the respondents could answer the responses. The final survey did not consider these pilot groups. The outcome of the pilot test was better review of the instrument, clear instructions and clarification on the measures to be captured that avoided unreliable results.

Factor analysis was applied to test validity construct. In extracting the factors, Principal Component Analysis was used and Varimax rotation method applied to rotate the factors. The factors attributed to the variables were all uni-dimensional thus considered valid measurement of the study constructs.

Results

The study was a descriptive cross-sectional survey of 160 manufacturing firms operating in the EAC Market. Each manufacturing organization is believed to exhibit uniqueness in relation to the strategic alliances practices embraced, regional integration, strategic leadership characteristics and performance. The questionnaires were self-administered with the help of well-trained research assistants. The study targeted 160 respondents; however, the researcher received response from 131 respondents forming 81.88% response rate, which was considered adequate for analysis. This represented a response rate of 81% as indicated in Table 4.1.

Table 4.1: Distribution of Response Rate

Responses	Frequency (N)	Percentage (%)
Total Response	131	81.88
Non-Response	29	18.12
Total	160	100

Source: Research Data, 2019

Therefore, this study's response rate is considered very good for survey research as recommended by Punch (2003) who proposes a score of 80-98% as good response rate, whereas Mugenda and Mugenda (1999) suggest a 50% response rate is adequate, 60% good and above 70% very good. The response rate further is

supported by Fowler (1984) suggests that a response rate of 60% is representative of the population of the study.

Cronbach coefficient, which was used to assess the internal consistency or average correlation of items within the test. Alpha equals zero when the true score is not measured at all and there is only an error component. Alpha equals 1.0 when all

items measure only the true score and there is no error component. If the values are too low, either too few items were used or the items had little in common (Nunnally, 1998). His suggestion is that of a value of not less than 0.7 to be acceptable while Sekeran (2003) posits that any values between 0.5 and 0.8 are adequate to accept internal consistency. Table 4.2 presents the alpha values of the questionnaire items.

The results of the reliability tests carried out in Table 4.2 show that strategic alliances had the lowest coefficient ($\alpha = 0.714$). Nunnally (1978) recommends

Table 4.2: Reliability Tests

Cronbach's alpha coefficient of 0.7 as the cut-off point for reliability, Davis & Bruin (1964) suggests 0.5 as the minimum reliability coefficient. While Sekeran (2003) posits that any values between 0.5 and 0.8 are adequate to accept internal consistency firm performance had the highest reliability coefficient ($\alpha = 0.880$). Regional integration had a reliability coefficient score of 0.832. The results for all the variables are above the 0.7. This was confirmation of reliability and validity of the data used to draw conclusions from theoretical concepts.

Variable	Variable constructs/Indicators	No. of Items	Cronbach's alpha value	Decision
“Strategic alliances	<ul style="list-style-type: none"> • Joint ventures services • Equity alliances • Non-equity alliances <ul style="list-style-type: none"> - licensing agreement - Distribution agreements - Supply contracts 	17	0.714	Reliable
Regional integration	<ul style="list-style-type: none"> • Customs union policies • Common market protocol • Monetary Union policies • Political goodwill and union 	30	0.832	Reliable
Firm performance	<ul style="list-style-type: none"> • Financial • Customer services” • Internal Business Process • Organization learning and growth 	28	0.880	Reliable

Source: Research Data, 2018

Table 4.3: Test of Normality

Study Variables	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Strategic Alliances	.096	131	.005	.969	131	.204
Regional Integration	.102	131	.002	.914	131	.100
Firm Performance	.086	131	.019	.978	131	.232

a. Lilliefors Significance Correction

Source: Research Data, 2018

Normality was tested using the Shapiro-Wilk test and the results showed that all the variables were above 0.05 ($p > 0.05$) hence confirming data normality. Normality assumes that the sampling distribution of the mean is normal. As

shown in Table 4.2, p-values for the Sharipo-Wilk tests were 0.204 for strategic alliances, 0.100 for regional integration, 0.400 for macro environment and 0.232 for firm performance.

Table 4.4: Test for Multicollinearity

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
	Strategic Alliances	.954	1.049
	Regional Integration	.825	1.212

a. Dependent Variable: Firm Performance

Source: Research Data, 2019

As shown in Table 4.4 the results revealed no problem with multicollinearity. The variables of the study indicated VIF values of between 1.049 and 1.212 which is less than the Figure recommended by the rule of thumb. This indicated that the data set displayed no multicollinearity.

Homoscedasticity was measured by Levene's test. This test examines whether or not the variance between independent and dependent variables is equal. If the Levene's Test for Equality of Variances is statistically significant $\alpha = 0.05$ this indicates that the group variances are unequal. It is a check as to whether the spread of the scores in the variables are approximately the same.

Table 4.5: Tests for Test of Homogeneity of Variances

Study Variables	Levene Statistic	df1	df2	Sig.
Strategic Alliances	2.495	20	103	.071
Regional Integration	3.833	20	103	.120

Source: Research Data, 2019

From the results in Table 4.5, P-values of Levene’s test for homogeneity of variances were greater than 0.05. The test therefore was not significant at $\alpha = 0.05$ confirming homogeneity.

The study sought to determine the influence of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market. A moderation or interaction effect states that the effect of regional integration on Y_2 (firm performance) depends on the magnitude of strategic alliances. The most significant indicators of $(X*Z)$ were *Equity Alliances*Political goodwill and stability* (new dummy variable for *Strategic Alliances * Regional Integration*). Hence, the need to test whether the interaction effect exists where this variable gives a significant value for firm performance through stepwise regression analysis.

To test this hypothesis, Baron and Kenny (1986), Norton et al., (2004) and MacKinnon (2011) procedures were explored in testing the main and sub hypotheses as below.

The main second hypotheses that was tested hypothesized that:

H_{AI}: Regional integration has a significant moderating effect on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market.

From the results in Table 5.1, it can be observed that as one moves from stepwise model number one to four, the standard error of the estimate keeps decreasing from 0.69948 to 0.60924 as so does the F values. The adjusted R^2 also keeps on improving from 0.450 to 0.583. Although all models are significant, the stepwise model number four is a good predictor of the significant moderating effect by regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market.

Table 5.1: Model Goodness of Fit of Strategic Alliances, Regional Integration and Overall Firm Performance

Model Goodness of Fit					ANOVAa		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Mean Square	F	Sig.
1	.674 ^b	.454	.450	.69948	52.480	107.261	.000 ^b
2	.736 ^c	.541	.534	.64371	31.280	75.490	.000 ^c
3	.763 ^d	.582	.572	.61701	22.416	58.882	.000 ^d
4	.772 ^e	.595	.583	.60924	17.208	46.360	.000 ^e

a. Dependent Variable: InFirm Performance (Final Index)

b. Predictors: (Constant), Equity Alliances

c. Predictors: (Constant), Equity Alliances, Joint services and cooperation

d. Predictors: (Constant), Equity Alliances, Joint services and cooperation, Equity Alliances*Political goodwill and stability

e. Predictors: (Constant), Equity Alliances, Joint services and cooperation, Equity Alliances*Political goodwill and stability, Monetary Union

The stepwise regression model number 4 shows a moderately strong significant moderating effect by regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market, implying that the strategic alliances and regional integration explain 58.3% of the changes in overall firm performance. Although the strategic alliances alone are able to explain 53.4% of the variance in the overall firm performance, when combined with the regional integration they explain 58.3% of

the variations in the overall firm performance. The magnitude of regional integration's moderating effect on the relationship between strategic alliances and overall firm performance is 4.9% (58.3% -53.4%).

The coefficients of this predicative model aimed at addressing the regional integration's moderating effect on the relationship between strategic alliances and overall firm performance in model number four of the data analysis are given as in the Table 5.2 .

Table 5.2: Model regression Coefficients of Strategic Alliance, Regional Integration and Overall Firm Performance

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1	(Constant)	3.523	.530	6.650	.000
	Equity Alliances	1.523	.147	10.357	.000
2	(Constant)	2.473	.532	4.648	.000
	Equity Alliances	1.169	.153	7.634	.000
	Joint services and cooperation	.677	.137	4.932	.000
3	(Constant)	1.801	.545	3.306	.001
	Equity Alliances	1.972	.272	7.256	.000
	Joint services and cooperation	.637	.132	4.825	.000
	Equity Alliances*Political goodwill and stability	.162	.046	3.509	.001
4	(Constant)	2.867	.746	3.845	.000
	Equity Alliances	1.815	.279	6.510	.000
	Joint services and cooperation	.653	.131	4.994	.000
	Equity Alliances*Political goodwill and stability	.126	.049	2.582	.011
	Monetary Union	.282	.137	2.064	.041

a. Dependent Variable: lnFirm Performance (Final Index)

The regional integration's moderating effect on the relationship between strategic alliances and overall firm performance thus can be written as:

$$Y_2 = 0.803 EA + 0.322 JSC + 0.312 X*Z + 0.126 MU$$

Where:

- Y₂ = Firm performance
- EA = Equity alliances
- JSC = Joint services and cooperation

X*Z = Equity
 Alliances*Political goodwill and stability
 MU = Monetary Union

The product variable of regional integration and strategic alliances (Equity Alliances*Political goodwill and stability) is the measure of whether regional integration is a significant moderator on the relationship between strategic alliances and overall firm performance. Given that the dummy product variable of Equity Alliances*Political goodwill and stability is included in the model which has the net positive magnitude ($\beta=0.312$, $t=2.582$, $P<0.001$) of 4.9% , then study therefore accepts the hypothesis (H_2) that regional

integration moderates the effect of strategic alliances on performance of Kenyan manufacturing firms in the EAC market.

The first sub hypothesis of hypothesis 1 is shown as:

H_{1a}: Regional integration has a significant moderating effect on the relationship between strategic alliances and financial performance of Kenyan manufacturing firms in the East African Community market.

Table 5.3: Model Goodness of Fit of Strategic Alliances, Regional Integration and Financial Performance

"Model Goodness of Fit					ANOVAa		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Mean Square	F	Sig.
1	.447b	.199	.193	1.85300	110.308	32.126	.000b
2	.507c	.257	.245	1.79198	71.105	22.143	.000c
3	.545d	.296	.280	1.75063	54.676	17.840	.000d

a. Dependent Variable: LnFinancial Performance (Final Index)

b. Predictors: (Constant), Equity Alliances

c. Predictors: (Constant), Equity Alliances, Joint services and cooperation

d. Predictors: (Constant), Equity Alliances, Joint services and cooperation, Equity Alliances*Political goodwill and stability

Also from the model above in Table 5.3, it can be observed that as one moves from stepwise model number one to three, the standard error of the estimate keeps decreasing from 1.85300 to 1.75063 as so does the F values from 32.126 to 17.840. The adjusted R² also keeps on improving from 0.193 to 0.280. Although all models are significant, the stepwise model number three is a good predictor of the significant moderating effect by regional integration on the relationship between strategic alliances and financial performance of Kenyan manufacturing firms in the East African Community market.

The stepwise regression model number three shows a moderately strong significant moderating effect by regional integration on the relationship between strategic alliances and financial performance of Kenyan manufacturing firms in the East African Community market, implying that the strategic alliances and regional integration explain 28.0% of the changes in financial performance. Although the strategic alliances alone are able to explain 25.1% of the variance in financial performance, when combined with the regional

integration they explain 28.0% of the variations in the financial performance. The magnitude of regional integration's moderating effect on the relationship between strategic alliances and financial performance is 2.9% (28.0% -25.1%). The coefficients of this predicative model

aimed at addressing the regional integration's moderating effect on the relationship between strategic alliances and financial performance in model number three of the data analysis are given as in Table 5.4.

Table 5.4: Model regression Coefficients of Strategic Alliance, Regional Integration and Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	10.044	1.404		7.156	.000
	Equity Alliances	2.208	.390	.447	5.668	.000
2	(Constant)	8.175	1.481		5.520	.000
	Equity Alliances	1.578	.426	.319	3.703	.000
	Joint services and cooperation	1.205	.382	.272	3.152	.002
3	(Constant)	6.725	1.546		4.351	.000
	Equity Alliances	3.309	.771	.669	4.293	.000
	Joint services and cooperation	1.119	.375	.252	2.985	.003
	Equity Alliances*Political goodwill and stability	.349	.131	.395	2.668	.009

a. Dependent Variable: LnFinancial Performance (Final Index)

The regional integration's moderating effect on the relationship between strategic alliances and financial performance thus can be written as:

$$Y_{1a} = 0.669 EA + 0.252 JSC + 0.395 X*Z$$

Where:

Y_{2a} = Financial performance

EA = Equity alliances

JSC = Joint services and cooperation

$$X*Z = \text{Equity}$$

Alliances*Political goodwill and stability

The product variable of regional integration and strategic alliances (Equity Alliances*Political goodwill and stability) is the measure of whether regional integration is a significant moderator on the relationship between strategic alliances and financial performance. Given that the dummy product variable of Equity Alliances*Political goodwill and stability is included in the model which has the net positive magnitude ($\beta=0.395$, $t=2.668$, $P<0.009$) of 4.9% , then study therefore accepts the hypothesis (H_{2a}) that regional integration moderates the effect of strategic alliances on financial

performance of Kenyan manufacturing firms in the EAC market.

H_{1b}: Regional integration has a significant moderating effect on the association between strategic alliances and non-financial performance of Kenyan manufacturing firms in EAC market.

The second sub hypothesis for the second main hypothesis is shown as;

Table 5.5: Model Goodness of Fit of Strategic Alliances, Regional Integration and Non-Financial Performance

Model Goodness of Fit					ANOVA ^a		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Mean Square	F	Sig.
1	.199b	.039	.032	1.61374	13.780	5.292	.023b

a. Dependent Variable: LnNon-Financial Performance (final Index)

b. Predictors: (Constant), Joint services and cooperation

Also from the model in Table 5.5, it can be observed that only one model is significant. The adjusted R² is 3.2%. This is an indication that regional integration regional is a weak moderator on the relationship between strategic alliances and non-financial performance of Kenyan manufacturing firms in the East African Community market.

The coefficients of this predicative model aimed at addressing the regional integration's moderating effect on the relationship between strategic alliances and non-financial performance are given as in Table 5.6.

Table 5.6: Model Regression Coefficients of Strategic Alliance, Regional Integration and Non-Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.579	1.050		6.268	.000
	Joint services and cooperation	.700	.304	.199	2.300	.023

a. Dependent Variable: LnNon-Financial Performance (final Index)

The regional integration's moderating effect on the relationship between strategic

alliances and non-financial performance thus can be written as:

$$Y_{2b} = 0.199JSC$$

Where:

Y_{2b} = Non-Financial
Performance

JSC = Joint services and
cooperation

The absence of the product variable of regional integration and strategic alliances (Equity Alliances*Political goodwill and stability) with a negative increase in R^2 indicates regional integration is a weak moderator on the relationship between strategic alliances and non-financial performance.

Results for hypothesis H_{A1} established that there is a statistically significant moderating effect of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the EAC market. (Adjusted $R^2 = 0.583$; Sig. = 0.000b). Given that the dummy product variable of Equity Alliances*Political goodwill and stability is included in the model which has the net positive magnitude ($\beta=0.312$, $t=2.582$, $P<0.001$) of 4.9% (0.583 - 0.534)

The results for sub hypothesis (1a) confirm that regional integration moderates the relationship between strategic alliances and financial performance (Adjusted $R^2 = 0.280$; Sig. = 0.000d) as opposed to sub hypothesis (1b) on non-financial performance (Adjusted $R^2 = 0.032$; Sig. = 0.023b). The results therefore support the strategic alliances concept and the regional integration theory. The study therefore rejects the hypothesis (H_{1b}) that regional integration moderates the effect of strategic alliances on non-financial performance of Kenyan manufacturing firms in the EAC market.

Discussion of the Findings

The objective of the study was to the influence of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing

firms in the East African Community market. A moderation or interaction effect states that the effect of regional integration on Y_2 (firm performance) depends on the magnitude of strategic alliances. The most significant indicators of ($X*Z$) were *Equity Alliances*Political goodwill and stability* (new dummy variable for *Strategic Alliances * Regional Integration*).

In order to achieve this objective, a corresponding hypothesis H_2 which states that regional integration has a significant moderating effect on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the East African Community market was stated and tested. Given that the dummy product variable of Equity Alliances*Political goodwill and stability is included in the model which has the net positive magnitude ($\beta=0.312$, $t=2.582$, $P<0.001$) of 4.9% , then study therefore accepts the hypothesis (H_2) that regional integration moderates the effect of strategic alliances on performance of Kenyan manufacturing firms in the EAC market. These results are in consistent with several studies and research works that have put emphasis on how regional integration is important in determining how strategic alliances can foster organizational performance. Lesser and Moisé - Leeman (2009) argued that regional integration is key in determining the success of cross - border trade. This is because of organizations taking advantage of integration and forming alliances to share key factors of production and competencies necessary for performance to be boosted.”

The results for sub hypothesis (1a) confirms that regional integration moderates the relationship between strategic alliances and financial performance (28.0%) as opposed to sub hypothesis (1b) on non-financial performance (3.5%). The weak relationship with non-financial

performance is because of the absence of the product variable of regional integration and strategic alliances (Equity Alliances*Political goodwill and stability) with a negative increase in R^2 which is a clear indicator that regional integration is a weak moderator on the relationship between strategic alliances and non-financial performance. The results for sub hypothesis (1a &b) implies that the effects associated with regional integration can be well understood when analyzing the benefits derived to the member states and any other expected benefits as outlined in the policy papers (Mwasha, 2011). It is important to note that regional integration can be an important milestone in overcoming small economic blocs through resource mobilization, combining markets and enabling organizations in the member countries to take advantage of bigger markets for economies of scale and enhanced competitive advantage.

In Conclusion, the hypothesis testing the significance of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in in the EAC market was confirmed. It was established that there is a statistically significant moderating effect of regional integration on the relationship between strategic alliances and performance of Kenyan manufacturing firms in the EAC market. The findings imply that regional integration strengthens the effect of strategic alliances on performance. The interaction between strategic alliances and regional integration had an influence on performance to support the moderating relationship. The results implies that strategic alliances and regional integration have significant influence on performance.

This study has advanced frontiers of knowledge from the study findings. It lends support to strategic management theories that strategic alliances, regional integration and macro environment

concepts influence firm performance (Wiklund and Shepherd, 2005). This study has confirmed the contributions by the various theories and lends support for the hypothesized relationships. These are Resource Dependence Theory (Pfeffer and Salancik, 1978) augmented by Resource Based Theory (Penrose, 1959) and (Peteraf and Barney, 2003) and further by Transaction Cost theory (Ronald Coase, 1937 ;Williamson , 1979) . The result contributes to the strengthening of the literature by confirming the postulations of these theories including the transaction cost theory that supports the economic pillar of common markets integration. The results indicate that regional integration contributes more to performance by supporting the strategic alliances dimensions.

Suggestions for Further Research

This study used regional integration as moderating variables respectively, strategic alliances as independent variable and firm performance as dependent variable. Future research should therefore focus on applying longitudinal approaches in future empirical studies. Although costly, difficult and time-consuming, this is more likely to provide additional insights into the dynamic aspects of the strategic alliances and firm performance than cross-sectional studies. Future studies should also focus on other regional blocs of Africa. Further, future studies should focus on other sectors of the economy such as Trade in services, SMEs, Agriculture, Energy and infrastructure. Also future studies should focus on adaptability and change management and dynamics for new entrants in the cross border markets.

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