Assessing the Effect of Strategic Alliances on Organizational Performance of Commercial Banks in Nigeria

[1]. Dr. Edewhor, Vincent O
vincentedewhor@yahoo.com

[2.]Okoh Lucky Okuwa
GSM: 08037919609
E-MAIL: luckyokoh811@gmail.com
[1,2] Department of Entrepreneurship
Delta State University of Science and Technology, Ozoro Nigeria.

Abstract

. This study was carried out to examine the effect of Strategic Alliances on Organizational performance of commercial banks in Nigeria. The study adopted a cross-sectional survey design with primary data generated through self-administered questionnaire. The population for this study was five (5) commercial banks in South-South, Nigeria. The study however focused mainly on their regional offices located in Asaba, Delta State, Nigeria. Six regional managers for each bank were used as the study respondents giving a total of 30 respondents. Census sampling was adopted since the study sample was small. The reliability of the instrument was achieved by the use of the Cronbach Alpha with all the items scoring alpha coefficient above 0.70. The hypotheses were tested using the spearman rank order correlation co-efficient with the aid of statistical package for social sciences (SPSS). The tests were carried out at a 95% confidence interval and a 0.05 level of significance. The study findings revealed that there is a significant relationship between strategic alliances on revenue performance, cost efficiency performance and on the profitability of commercial banks in South-South, Nigeria. The study recommends that commercial banks should invest in modern technologies to effectively integrate all the banks functions and activities to minimize operational costs. The top management team should invest more on financial innovations so that customers will have a wide scope of banking products to choose from leading to customer satisfaction and improve value addition which in turn enhances financial performance.

NG Journal of Social Development

Vol. 14 Issue 2 (2024)
ISSN(p) 0189-5958
ISSN (e) 2814-1105
Home page
https://www.ajol.info/index.php/ngjsd

ARTICLE INFO:
Keyword:
Strategic Alliances, Organizational Performance, Strategic Alliances and Organizational Performance.

Article History
Received: 10th August, 2024
Accepted: 30th September 2024

DOI:
https://dx.doi.org/10.4314/ngjsd.v14i2.10

1.Introduction

The problems of managing business globally in the 21st Century entails the use of dynamic strategies or approach for businesses to remain highly competitive and to generate adequate returns for shareholders. Strategic alliances which is also referred to as agreements between companies, partners to reach business objectives of common interest and those strategies that organizations can utilize for competitive advantage.

Soares (2019) states that strategic alliance is a strategy or condition where two or more organizations come together or collaborate in certain activities but remain independent. Research has shown that most of strategic alliances end up being out of business and high failure rate of most strategic alliances. This increase failure rate of most strategic alliances has placed high concern on developing a formidable alliances template and processes as well as seeking to identify various types of firms form strong alliances and the underlying rationale Cravens, 2018. The growing interest for strategic alliances as a necessary step to cope with the modern dynamic business environment and its effect with organizational performance or growth is very necessary because the attendant effect informs the necessary direction that the partnership agreement can follow.

Gaspersz (2017) opined that in today's fast growing dynamic business environment, strategy must become dynamic. They emphasize that competition has become a necessary ingredient of movement in which success rely on anticipation of market trends and urgent response to meet changing customer needs. In such an environment, the importance of strategy is not the structure of the organization products and markets but the necessity of its behavior that influences the organization's success. Due to changes in the operating environment, commercial banks, have had to align their operations in mutually agreed terms where the institution of banking do business jointly. Brito, et al, 2018). Some of the factors put forward for those partnerships is to satisfy the increasing market demand and competition, diversity to international markets, employment of modern emerging new and expensive technologies in the banking sector (Kitchinji and Waweru, 2017).

1.2 Statement of the Problem

Several studies have been carried out on the impact of strategic alliances on the performance and growth of commercial banks in Nigeria. Several authors have highlighted potential problems and challenges that might lead to failure and setback in strategic alliances. Bambford and Fubini (2018) have stated various factors militating against strategic alliances and these include: Wrong strategies, mistrusts, incompatible partners, inequitable or unrealistic deals, weak management, inadequate launch planning and execution and a host of others. Harrigan (2018) stated that numerous strategic alliances failures can be linked to compatibility issues between the firms that are seeking strategic alliances. These might be due to partners of unequal size, collaboration experience or the style of management adopted etc. other factors may include staffing errors and the lack of participatory management. Spranger (2021) states that most strategic alliances are liable to failures from their formation due to insuffient planning, insufficient capitalization, problem of leadership, lack of commitment, ideological and cultural differences.

Several researches have been carried out in the area of strategic alliances and the outcomes found from the researches have proven to be inconsistent. Kavale (2019) carried out a study on strategic alliances in a mobile money transfer as it relates to the banking industry. This study while based on a similar conceptual argument as noted in the above local study is differentiated in the sense that it looked at strategic alliances in postback financial partners. It was based on drivers of the alliances that is similar to the study conducted by Muterida (2018). The study incorporates the factors which encouraged banks to strategic alliance and the problems they are experiencing. This work intended to address the following research questions. What is the effect of strategic alliances on organizational performance of commercial banks in Nigeria.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of strategic alliances on organizational performance of commercial banks in Nigeria.

Specifically, the major objectives of the study are;

i. To investigate the effect of strategic alliance on revenue performance of commercial banks in Nigeria.
ii. To examine the relationship between strategic alliance on cost efficiency performance of commercial banks in Nigeria.
iii. To determine the relationship between strategic alliances on the profitability of commercial banks in Nigeria.

1.4 Research Questions

Based on the above objectives of the study, the following research questions emanated

i. Is there any significant effect between strategic alliance on revenue performance of commercial banks in Nigeria?
ii. Does strategic alliance has any significant effect on cost efficiency performance of commercial banks in Nigeria?
iii. Is there any relationship between strategic alliance on the profitability of commercial banks in Nigeria?

1.5 Statement of Hypotheses

From the specific objectives, the following hypotheses are posited;

Ho1: Strategic alliances have no significant effect on revenue performance of commercial banks in Nigeria.

Ho2: Strategic alliance has no significant effect on cost efficiency performance of commercial banks in Nigeria.

Ho3: Strategic Alliance has no relationship on the profitability of commercial banks in Nigeria.

2. Review of Related Literature

- Conceptual Clarifications

- **Concept of Strategic Alliance:** Strategic Alliance is a perceived arrangement or agreements between two companies or partnership agreement between two companies to venture into a mutually beneficial project or business while each retains its independence (Mockler 2019). An alliance in business is an agreement between two persons, or a group of people who come together to achieve a common objective or goal and the parties involved or engaged in the strategic alliance are expected to obey the rules of the contractual agreement (Ponomarenko, 2018). A strategic alliance is a type of partnership agreement that fosters a company's core business strategy encourages competitive advantage and prevents other rivals firms from entering a monopoly market, a company may enter into a strategic alliance to venture into a new market, expand its product line or improve and have an edge over a competitor. The strategic alliance agreement enables two businesses to work together towards a common objective which is of beneficial interest to the companies.

- **Types of strategic Alliances**

The following are types of strategic alliances Abbah (2017)

- ➢ Joint Ventures

A joint venture is a mutual agreement or arrangement between two or more parties to form a single entity in order to venture into a certain business or project. Each of the businesses has an ownership agreement in the business and share revenues, overhead expenses and accruing profits or gains made in the course of the business venture.

- ➢ Research and Development

This is a type of strategic alliance whereby two or more businesses decide to engage on a research venture by way of forming a new entity.

- ➢ Distribution Relationships

This is a situation whereby a strategic alliance ventured into because the businesses involved want to attract additional customers.

- ➢ Technological Licensing

This is a contractual undertaking whereby trademarks, intellectual property and trade secrets are licensed to an existing external firm. It is engaged mainly as a low cost strategy to enter international markets.

- ➢ Product Licensing

This is a situation in strategic alliance practice whereby the license provided is only used to manufacture and sell a certain product. Each of the licensee will be allowed an exclusive geographical area to which they can market their products.

- ➢ Reasons for venturing into strategic Alliances

Bernadette (2017) stated a number of possible reasons for strategic alliances formation and they include;

- ➢ Ease of Market Entry

The cost of entering a foreign market may be beyond the capabilities of a single firm but by venturing into a strategic alliance with a foreign firm, it will achieve the advantage of quick entry while lowering the cost of entry.

- ➢ Sharing of Risks

Risk sharing is one of the reasons for going into strategic alliance when a particular market has just started and there is much uncertainty and a particular market is not stable and sharing of risks becomes imperative.

- ➢ Sharing of Knowledge and Expertise

Some firms are well off in some technical know how in certain areas and forming a strategic alliance can pave way to new knowledge and become competent in an area that a company is less competitive.

- ➢ Collaboration and Competitive Advantage

Achieving effective collaboration and a competitive strength is also a reason why most firms enter into a strategic alliance agreement.

- Increase in a company's revenue base

Strategic alliances is also a strategy to boost a company's revenue base and to create a way to reduce company's financial risk. Risk is reduced with the aid of the strategic alliance entered into.

- To enlarge business areas and seek for new sales outlets to check or control market saturation.

- **Conditions necessary for a successful strategic alliance plan.**

The following factors influence the successful implementation of strategic alliances among firms. Conditions relating to structure sharing of power, control forces and trust play a significant part in the success of strategic alliance practices, modern scholars inform strategic alliance managers to create a business environment where mutual trust exists, uphold broad strategic vision and have a good feeling for others and even those who are competitors in other areas. Daniels and Radehaugh, (2021) view strategic alliance progress an successful outcome as depending on the imperative of communication, implementation of the strategic alliance and financial and strategic analysis. Strategic alliance effort to make the desired result depends greatly of the structure created, how to manage the relationship and the cultural influence of the parent company regarding the integration of the firms.

- **Organizational Performance**

The term organizational performance is based on the idea that an organization is seen as a voluntary association of useful productive assets which includes human, physical, technological and capital resources for the purpose of achieving a definite goal (Barney 2019). According to Richard et al (2018) organizational performance consists of three broad areas of firm results; financial performance, market performance and shareholder return. Firms performance is the measure of standard or established indicators of effectiveness, efficiency and environmental responsibility such as cycle time, productivity, waste reduction, and regulatory, compliance. Performance can also be seen as the factor relating to how a particular case is handled or the act of successfully doing something. Organizational performance is viewed as an organization's effort to its scarce resources and other valuables for the purpose of its operational goals.

- **Theoretical Framework**

This study is anchored on resource based theory. The resource-based theory consider strategic alliances, mergers and acquisitions as necessary strategies used to access other organizations resources, for the aim of gaining unavailable competitive advantages and values to the organization, According to Mas and Kumar (2018) posited that banks are recognizing the importance of reaching out to numerous customers, particularly the rural population that have no access to banking service. The rural commercial banks network is not developed. However, mobile banking to have access to mobile telephone, mobile banking could encourage the rural population to have access to financial institutions. This theory applies in cost management. For financial institutions, the main benefits of the partnership with mobile phones service providers lie in managerial wealth of experience acquired in forming partnerships and taking advantage of the competing technology provided by mobile providers because of the advantages it possess to reach everywhere.

- **Empirical Review**

Several studies have been carried out on the effect of strategic alliances on organizational performance. Akewushola and Tijani (2018) view a strategic alliance as the agreement between two or more organizations to come together in a particular business activity so that each gain from the strengths of the other and gain a competitive advantage from the business.

Goerzen (2017) examine the impact of strategic alliances on Business performance. The objectives of the study include to establish the relationship between technological, production, and performance of supermarkets and their alliances in Kenya. The study employed a correlational research design method for the research design. The sample of the study consists of all five big supermarkets which are (Nakumatt, Ukwala, Nawas, Tuskys and Uchumi). The data used for this study was collected from the various head offices of the firms in question with the use of a questionnaire method. The analysis of the data was done with the use of multiple regression model in order to test the impact of independent strategic alliances and the dependent variables performance, independent one-way ANOVA test and independent t-test (one tailed) were used to determine the level of significance. Data was presented with the aid of figures and tables. The empirical findings of the study revealed that there was a strong negative correlation between technological strategic alliances and performance among supermarkets under study and their alliances in Nairobi CDB. The correlation results reveal that there was weak, negative effect between production strategic alliances while for supermarket alliances, there was a medium positive correlation between marketing strategic alliances and performance.

However, the two tailed tests showed that there was a statistically insignificant relationship between the variables. The results from the multiple regression analysis showed that strategic alliances had a positive strong relationship with supermarket performance. In another outcome, supermarket alliances regression analysis revealed a weak relationship between strategic alliances and business performance. The ANOVA test result revealed that the relationship between strategic alliances and performance was not statistically significant for the supermarket alliances but significant for the supermarkets. The t-test analysis revealed that the relationship between strategic alliances and performance was statistically significant between the supermarkets and their alliances.

Oloda (2017) investigated a study relating to the impact of vertical integration strategy on organizational growth with reference to selected manufacturing firms in Rivers State, Nigeria. The research or study used a sample of 205 managers from 6 selected firms. Data for the study was collected by means of the questionnaire methods while the rank-order correlation coefficient was used to test the relationship between the variables under review. The results from the study revealed that there is a positive significant relationship between the dimensions of vertical integration strategy applied for the purpose of the study forward and backward integration strategy and organizational survival and growth. The results of the study shows a positive and significant relationship between vertical integration and organizational survival and growth. From the findings, the study further concluded that vertical integration improves organizational survival and growth.

3. Methodology

The study however adopted a cross-sectional survey design. The primary data was generated through the use of the questionnaire. The population of study consists of five commercial banks in Asaba, South-South of Nigeria in Delta State. Six regional managers of the Banks namely First Bank Plc, Zennith Bank Plc, Guaranty Trust Bank, Union Bank Plc and Unity Bank Plc were used as the respondents for the study, making it a total of 30 respondents. Census sampling was used since the study sample was small. Strategic alliances was measured by revenue performance (4 items), cost efficiency performance (4 item) and profitability (4 items), revenue Performance was measured using (4 items) on a 5 point likert scale ranging from 5 = strongly agree; 4=agree; 3=undecided; 2=disagree; 1=strongly disagree. The hypotheses formulated were tested using the spearman rank order correlation coefficient and multiple regression to test the impact of the dimension on the dependent variable 95% confidence interval and a 0.05 level of significance.

4. Test of hypotheses

The null hypotheses stated in this study were statistically tested in this section. The result of the statistically testing was used to make conclusions on whether to accept or reject the hypotheses. The hypotheses were tested using the spearman rank order correlation coefficient and multiple regression via SPSS.

Hypothesis I

Ho1: There is no significant relationship between strategic alliances on revenue performance of commercial banks in Nigeria.

H1: There is significant relationship between strategic alliances on revenue performance of commercial banks in Nigeria.

Table 1: Correlations for strategic alliances and revenue performance

			Strategic Alliance	Revenue Performance
Spearman's rho	Strategic Alliance	Correlation Co-efficient	1.000	798
		Sig. (2 tailed)	-	.000
		N	30	30
	Revenue Performance	Correlation Co-efficient	798	1.000
		Sig. (2-tailed)	.000	-
		N	30	30

Correlation is significant at the 0.01 level (2-tailed)

Source: SPSS output.

From the result in the table above, the correlation co-efficient (rho) shows that there is relationship between strategic alliances and revenue performance. The correlation co-efficient 0.789 confirms the relationship and it is a strong correlation between the variables. The correlation represents is significant at p 0.000<0.01 therefore , arising from the findings of the study, the null hypothesis is rejected and the alternative hypotheses is accepted. Thus, there is a statistical significant relationship between strategic alliances and revenue performance of commercial banks in Nigeria.

HO2: Hypothesis 2

There is no significant relationship between strategic alliance and cost efficiency performance of commercial banks in Nigeria.

H1: There is significant relationship between strategic alliance on cost efficiency performance of commercial banks in Nigeria.

Table 2

Correlations for strategic alliance and cost efficiency performance.

Table 2: Correlations for strategic alliance and cost efficiency performance

			Strategic Alliance	Cost efficiency performance
Spearman's rho	Strategic Alliance	Correlation co-efficient	1.000	.809
		Sig. (2-tailed)	-	.000
		N	30	30
	Cost Efficiency Performance	Correlation co-efficient	.809	1.000
		Sig. (2-tailed)	.000	-
		N	30	30

:- Correlation is significant at the 0.01 level (2-tailed):

Source: SPSS output

From the result in the table above, the correlation co-efficient (rho_ shows that there is relationship between strategic alliance and cost efficiency performance. The correlation coefficient 0.809 shows the magnitude and strength of this relationship and is a very strong correlation between the variables. The correlation is significant at p 0.000<0.01. Based on the result, the null hypothesis stated is hereby rejected and the alternative hypothesis.

Hypothesis 3

Ho3:

There is no significant relationship between strategic alliance and the profitability of commercial banks in Nigeria.

H1: There is significant relationship between strategic alliance and the profitability of commercial banks in Nigeria.

Table 3: Correlations for strategic alliance and profitability

			Strategic Alliance	Profitability
Spearman's rho	Strategic Alliance	Correlation co-efficient	1.000	.879
		Sig. (2-tailed)		.000
		N	30	30
	Profitability	correlation co-efficient	.879	1.000
		Sig. (2-tailed)	.000	
		N	30	30

Correlation is significant at the 0.01 level (2-tailed)

Source: SPSS Output

From the result in the table above, the correlation co-efficient (rho) shows that there is relationship between strategic alliance and profitability. The correlation co-efficient 0.879 reveals that magnitude and strength of this relationship and is a very strong correlation between the variables. The correlation is significant at – 0.000<0.01. Based on the result, the null hypothesis stated is rejected and the alternative hypotheses is accepted. Thus there is statistically significant relationship between strategic alliance and profitability of commercial banks in Nigeria.

5. Discussion of Findings

The following findings emanated in this study. First, there is significant positive relationship between strategic alliance and revenue performance of commercial banks in Nigeria. This finding corroborates with the findings of Wayne (2017), whereby it was found that there exists a significant positive relationship between strategic alliance and revenue performance of commercial banks in Nigeria. Furthermore, the study reveals a significant positive relationship between strategic alliance and cost efficiency performance of commercial banks in Nigeria. This finding is in agreement with the findings of Samer (2019) who established that there was a strong correlation relationship between strategic alliance and revenue performance of commercial banks. Lastly, the findings of this study reveal that there is significant relationship between strategic alliance and the profitability of commercial banks in Nigeria. The finding is in support of the work of Ngunjiri (2018) who found that strategic alliance was strongly correlated with profitability of financial institutions.

6. Conclusion

The study examined the effect of strategic alliances on organizational performance of commercial banks in Nigeria. Based on the findings, this study concludes that strategic alliance through its dimension of revenue performance, cost efficiency performance and profitability significantly influence the organizational performance of commercial banks in Nigeria.

7. Recommendations

1. Commercial banks in Nigeria should invest in modern technologies to effectively integrate all the banks functions and activities to minimize operations and activities to minimize operational cost of banking. With better revenues, staffs will be well motivated in terms of better salaries and in turn impact positively on bank financial performance.

2. The top management team should invest more on modern technologies and financial innovation to boost efficiency and minimize operational costs. As a result of financial innovations, customers will have a wide scope of banking products to choose from leading to customer satisfaction and improve value addition which in turn enhances financial performance.
3. It also became apparent that while less than satisfactory levels of success have been recorded globally the high rate of strategic alliance failure should concern stakeholders, especially in this era of globalization and liberalization of economics.
4. It is hoped that the realm of the strategic alliance will provide unprecedented opportunities for organizations to collaborate among different industries, countries, and scales, to propel mutually beneficial progress
5. It is recommended that commercial banks desirous of growth and expansion should make alliance decisions to vertically integrate by either offering a percentage of their business or acquiring a percentage of certain business, this is to ensure uninterrupted operations and also ensure effective and profitable business.

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