



STRATEGIC ALLIANCES AND PERFORMANCE OF COMMERCIAL BANKS IN CROSS RIVER STATE: A CONCEPTUAL REVIEW

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ABSTRACT

The purpose of the study was to examine the strategy alliances and performance of selected commercial banks in Cross River State. The specific objectives were to: examine the effect of joint venture alliances on the performance of selected commercial banks in Cross River State; determine the impact of equity alliances on the performance of these banks; and investigate the effect of contractual alliances on their performance. This study used a conceptual review method. The major findings include: joint ventures had a significantly positive effect on bank performance in Cross River State. Equity alliances also had a significantly positive effect. Similarly, contractual alliances positively and significantly influenced bank performance. The study recommended that joint ventures are the most integrative form of alliances. Therefore, centralized procedures and policies should be developed to provide a uniform standard for all parties. Additionally, it was suggested that shared equity can help facilitate the coordination and control of collaborative efforts.

Keywords: strategic alliances, joint venture alliance, equity alliance, performance

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INTRODUCTION

Thompson et al. (2018) report that a major reason for the high failure rate of alliances is that only 31% of organizations develop and implement formal performance measures, and only one in five executives considers these measures reliable indicators of alliance success. According to Soares (2017), the lack of reliable performance indicators is likely linked to a lack of consensus on what constitutes a successful alliance and to major disagreements over suitable measures to assess performance. The growing need for strategic alliances to adapt to the dynamic business environment and their relation to organizational performance is important because the outcomes influence the direction such partnerships can take.

Gaspersz (2016) states that in today's dynamic business environment, strategy must become adaptable. He explains that competition has turned into a battle of movement, where success relies.



on anticipating market trends and responding quickly to changing customer needs. In such an environment, the core of strategy is not the structure of the organization, products, or markets, but the behavior dynamics that determine an organization's survival. Due to changes in the operating environment, commercial banks have had to collaborate on their operations under mutually agreed terms, where these institutions do business jointly (Brito, Pereira & Ribeiro, 2018).

Strategic alliances are increasingly common in the business world. To compete effectively, firms need to combine their resources and potential through a partnership called a strategic alliance. This approach is considered important for asset allocation, training, and gaining a competitive advantage in a competitive marketplace. In strategic alliances, understanding the value created to achieve a competitive advantage and managing the alliance are very important. Strategic alliances involve enterprises that engage in some level of exchange and resource sharing to co-create or distribute products (Jakarta, 2017).

According to Odoo (2020), strategic alliances have doubled in number over the past decade and are expected to grow significantly. These partnerships remain among the top business strategies due to increasing competition in the global market. However, strategic alliances can take many forms and are not limited to commercial areas alone. They can involve strong partners who are direct competitors, alliances between powerful and weaker partners, collaborations in which weaker parties aim to gain influence, partnerships between equal, complementary entities, or even mergers that create a new organization. The main objective of an alliance is to generate value by focusing on trade, skills, information/knowledge sharing, or overcoming obstacles (Samuel, 2022).

Currently, strategic alliances are a prominent phenomenon in the global economy, particularly among multinational companies (MNCs) and between firms in developing countries. Wakeam (2023) states that "the greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnerships." Strategic alliances are, therefore, partnerships between two or more corporations or business units that work together to achieve mutually beneficial, strategically important goals. These alliances present significant potential for businesses within a country or across borders. Today, strategic alliances are a prominent phenomenon among companies in developing countries and among multinational corporations (MNCs) globally.

According to Ancona (2020), the main reason for a firm's creation of strategic alliances was to help companies access larger markets, reduce costs, and lower risks, as alliances can spread risks and share resources among partners more effectively than other types of corporate strategies, thereby boosting productivity. Several studies have examined strategic alliances and competitive strategies both globally and locally, but the results have been inconclusive. Reasons for the failure of strategic alliances include poor strategies, distrust, incompatible partners, unfair or unrealistic deals, inadequate management, poor planning, and execution during launch. Its collapse can be linked to compatibility issues among organizations, including partners of different sizes, differing understandings of the alliance, or bureaucratic styles (Walekhwa, 2023). While studies have examined the impact of strategic alliances on the performance of commercial banks, little attention has been given to the practice of strategic alliances within banks. The specific objectives were to examine the effect of Joint venture alliance, equity alliance, and contractual alliance on the performance of selected commercial banks in Cross River State.

LITERATURE REVIEW

The following theories related to strategic alliances and the performance of commercial banks are reviewed in this study. These are discussed below:

Resource Dependence Theory

This theory was advanced by Pfeffer and Salancik (1978), who argued that a firm's control over critical resources can make other firms or organizations dependent on it. It further assumes that, although firms operate in similar industries, they differ in the quality of their assets and capabilities. This means that firms are not always fully self-sufficient regarding the resources needed for their continued viability. Therefore, they need to engage in exchanges and interactions with other organizations to acquire essential resources for survival. This creates the possibility of strategic partnerships, which form a feasible system of inter-organizational relationships that can reduce fears and improve access to vital resources. A firm's competitive advantage stems from strategies that leverage its unique resources and expertise. Incorporating the resource dependence model enhances our understanding of the resources that founder industries choose to manage and how they control them. The resource-based theory (RBT) of organizations traces its roots to the work of Penrose in the mid-20th century (1959), who conceived organizations as administrative entities and collections of productive resources, both physical and human.

Strategic alliances are a valuable option for creating value in markets that are becoming more efficient as information flows among firms, their suppliers, and customers. They are cooperative arrangements formed between two or more firms to enhance their competitive position and performance by sharing resources. These alliances involve pooling specific resources and skills by the collaborating organizations to achieve common goals as well as objectives unique to each partner. Bleeke (2021) defines strategic alliances as enduring inter-firm cooperative arrangements involving flows and linkages that utilize resources and governance structures from autonomous organizations. He emphasizes that these arrangements are designed to achieve individual goals aligned with each company's mission jointly.

Joint ventures are the most comprehensive form of alliances. A joint venture creates a new entity—an equity partnership that combines partner firms in a specific area. Not only do the firms share equity, but their operations are also integrated in that area. Centralized control and collaboration characterize joint ventures. They are separately incorporated entities jointly owned by the partners. It is a project where two or more parties invest. A joint venture agreement results in the formation of a new company in which the parties hold shares. The partnering firms share ownership and management of the resulting company. Joint ventures (JVs) are defined as legal arrangements where ownership and management are shared by more than one organization (Wittmann et al, 2019). Interactions between organizations can vary widely—from market transactions to relationships so close that it is hard to tell where one organization ends and another begins.

Jakarta (2016) examined inter-firm relationships along two dimensions: first, as a continuum ranging from vertical integration, or hierarchies, at one end to free market transactions at the other; and second, by the degree of interdependence. The coordination of partner firms through dense communication and administrative systems can be called operational integration. When partnering firms work together in a joint venture, their behavior can be directly observed and measured. Centralized procedures and policies can also be developed, providing a uniform standard for all.

parties. Therefore, joint ventures are preferred for more complex collaborations.

Equity arrangements are believed to help align the interests of partner firms (Niemela, 2015). When shared equity exists, partner firms understand that their interests are connected, which tends to discourage opportunistic behavior. Additionally, shared equity acts as a mutual hostage, allowing partners to retaliate and punish an opportunistic party. Because equity arrangements are difficult to terminate, an opportunistic party cannot quickly exit the alliance after exploiting the other party. In summary, an equity arrangement can reduce partners' concerns about opportunism in alliances. Shared equity often encourages the coordination and control of collaborative efforts (Wohlstetter et al, 2015).

Contractual alliances do not involve equity transactions or the creation of a new entity. They have the lowest level of structural integration among the three alliance types. The partner firms do not establish a unified entity to conduct joint activities, nor do they arrange for any equity sharing. According to Samuel (2020), contractual alliances are based on agreements that specify how the partner firms will work together, such as in joint research or marketing efforts. These tentative structures also lack the centralized control that a joint venture offers.

Competitive Advantage

A competitive advantage is the edge a company has over its competitors by offering consumers more value, either through lower prices or by providing greater benefits and service that justify higher prices. It exists when a firm's product or service is perceived by its target customers as better than competitors'. When multiple firms compete in the same market, the one with a competitive advantage consistently earns higher profits. Competitive advantage is the firm's ability to outperform rivals in profitability. It depends on how well a firm can create value for its customers that exceeds the cost of producing the product. Value is what customers are willing to pay, and superior value comes from offering lower prices or providing unique benefits (Diakses, 2022).

Competitive advantage is defined as resource heterogeneity that enables a firm to create superior value and, consequently, higher profits. The core foundation of an organization's performance is known as sustainable competitive advantage. Organizations with sustainable competitive advantage possess capabilities and competencies that allow them to produce services and products the market is willing to purchase. Competition influences the suitability of a firm's activities that enhance performance, such as innovations, a cohesive culture, or effective implementation. Strategic alliances, due to their potential to create value, become an important source of competitive advantage. A firm that can effectively manage environmental uncertainty and ambiguity, proactively reposition itself in competitive markets, and reduce transaction costs through strategic alliances increases its chances of maintaining a competitive advantage.

Empirical review

Studies on this topic were carried out in Nigeria and other countries. Muiruri (2015) investigated strategic alliances and Equity Bank's performance in Kenya. This study employed a descriptive research design. Primary data were collected through an interview guide administered to managers at Equity Bank and partner organizations. The results indicated that strategic alliances between Equity Bank and its partners improve staff capacity, allowing the bank to address challenges better.



and improve service delivery. The study also found that partnerships help attract new customers by creating portfolio funds in which customers can take out loans and repay them.

Ngamau (2015) aimed to determine how strategic partnerships affect the performance of insurance organizations. The research involved a survey of operations managers from the 51 insurance companies licensed by the IRA to operate in Kenya. Primary data was collected using a questionnaire. The data was analyzed through descriptive statistics, and multiple linear regression was used to examine the combined effect of the independent variables (strategic partnerships and their effectiveness) on the dependent variable (organizational performance). The findings indicated that strategic partnerships contributed to improved organizational performance among Kenyan insurance companies. Outcomes such as higher profitability, broader distribution of insurance products, and increased customer retention were identified as benefits resulting from partnerships between insurance organizations and various partners. The results concluded that each independent variable positively influenced the dependent variable, assuming other independent variables remained constant.

Onje (2016) assessed the importance of final financial performance for commercial banks in Kenya. The study was guided by three variables: the influence of costs on financial performance, the synergy of these factors on the financial outcomes of commercial banks, and the impact of bank size on financial performance. Primary data was collected through questionnaires, while secondary data was obtained from bank statements of financial performance and statements of comprehensive income for the period 2013 to 2014. Data analysis was conducted using Statistical Package for the Social Sciences (SPSS) version 23. Regression and correlation analyses were employed to examine the nature and strength of the relationships between the independent and dependent variables. The findings reveal a negative relationship between banks' operational costs and leverage and performance, while banks' market share, efficiency, asset base, and number of branches showed positive relationships with income.

Kabuiya (2015) aimed to determine the influence of strategic partnerships on the performance of cooperative banks and Safaricom Limited. The study used a case study design to conduct a thorough and detailed inquiry. It interviewed senior managers from Safaricom Limited and the Cooperative Bank. Content analysis was employed to analyze the data and produce relevant results. This study found that mobile phone organizations benefit more in terms of costs and products compared to other benefits, while banks gain more market-related benefits than other types. Another key conclusion was that mobile banking services should pay more attention to those benefits that well address their needs.

Kibiego (2014) examined the impact of strategic partnerships on KICC's performance. In this regard, the study sought to identify the strategic partnerships used by KICC and assess their effect on its performance. The research was conducted as a case study involving selected managers at KICC. Primary data was collected using an interview guide. The study found that partnerships help attract and retain new conference customers, increase sales turnover, and lower procurement costs. Additionally, it showed that partnerships improved Internet connectivity at KICC, reducing outages and downtime. The deployment of the Enterprise Resource Planning (ERP) system automated financial data processing, improving efficiency and accountability. The study also revealed that hotels, as partners, are hesitant to share important convention research, theses, and



studies with KICC because they see it as a potential competitor.

METHODOLOGY

This study adopted a desk-based conceptual review method to gather relevant information from textbooks, journal publications, and internet resources.

FINDINGS

Summary of findings

The significant findings of the study include:

1. Joint ventures have a significant effect on the performance of banks in Cross River State.
2. Equity Alliance has a significant effect on the performance of banks in Cross River State.
3. Contractual alliance has a significant effect on the performance of banks in Cross River State.

CONCLUSION AND RECOMMENDATIONS

The study examines the impact of strategic alliances on the performance of banks in Cross River State. It reveals that joint ventures have a significant positive effect on bank performance in the area. Similarly, equity alliances and contractual alliances also positively and significantly influence bank performance. A strategic alliance is a key strategy for improving performance. It has become crucial as organizations compete for survival by reducing costs and strengthening their market position. Strategic alliances are vital because they can enhance business performance both directly and through innovation. They are viewed as an important method for asset allocation, training, and gaining a competitive edge in the highly competitive business environment. In strategic alliances, understanding value creation to achieve a competitive advantage and effective management are essential. The significance of strategic alliances has become a frequent topic of discussion in academia amid current business conditions. Additionally, strategic alliances are increasingly prominent in the global market and are rapidly becoming a common pattern in corporate strategies.

Recommendations

The following recommendations were proffered:

1. Joint ventures are the most integrative form of alliances. Therefore, centralized procedures and policies should be developed that provide a uniform standard for all parties.
2. Shared equity should facilitate the coordination and control of the collaborative effort.
3. Contractual alliances should be operated based on the agreements for the partner firms to work together in a certain way.

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