FACTORS INFLUENCING STRATEGIC ALLIANCES BETWEEN MOBILE TELEPHONY SERVICE PROVIDERS AND COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for examination in any other University.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

To my family who continue to inspire me.

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ABSTRACT

Despite the advantages of strategic alliances, they do not always achieve desired results. There have been some strategic alliances in the telecommunications industry in Kenya but the problem is that these partnerships differ as far as their performance in the market is concerned. The purpose of this study was to establish the factors that influence performance of strategic alliances between telecommunication firms and commercial banks in Kenya.

This was a descriptive survey design. The population of the study was all mobile telecommunication firms in Kenya. Primary data was collected using questionnaires designed based on 5-point Likert scale. These were administered to managers of strategy, IT, marketing, HR and finance departments using drop and pick later method. The analysis was done using descriptive analysis.

The study found that pre-alliance formation factors accounted for between 74.1% and 70.2% in influencing alliances; post-alliance formation factors accounted for between 69.5% and 52.7% in influencing alliances; and that strategic fit accounted for between 69.1% and 63.2% in influencing alliances respectively. It was further noted that strategic fit moderated the relationship between pre and post-alliance formation factors.

The study recommends that more studies be done to establish other factors other than strategic that may significantly explain the strategic alliance within the telecoms industry; need for firms wishing to engage in alliances to take note of the pre-alliance formation factors; need for firms to be mindful of how they manage the alliances once they are entered into; and need for companies that would like to engage in a strategic alliance to take cognizance of whether their strategies fit.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategic alliances are innovative and interesting forms of relationships between organizations (Parkhe, 1993). Kanter (1994) suggests that organizations create alliances in their quest to compete against fast and nimble competitors. Tully (1993) provides some evidence to suggest that companies relying on strategic alliances are more profitable than their vertically integrated counterparts. In effect, strategic alliances provide an effective means to improve both the economies of scale and scope offered by traditional modes of organization. Consequently, there has been a dramatic increase in the number of strategic alliances (Gulati, 1995).

1.1.1 Strategic Alliances

In the last two decades, alliances have become a central part of most companies' competitive and growth strategies. Alliances help firms strengthen their competitive position by enhancing market power (Kogut, 1991), increasing efficiencies (Ahuja, 2000), accessing new or critical resources or capabilities (Rothaermel and Boeker, 2008), and entering new markets (Garcia-Canal, Duarte, Criado, and Llaneza, 2002). By the turn of this century many of the world's largest companies had over 20% of their assets, and over 30% of their annual research expenditures, tied up in such relationships (Ernst, 2004).

A study by Partner Alliances reported that over 80% of CEOs believed that alliances would account for almost 26% of their companies' revenues in 2007–08 (Kale, Singh, and Bell, 2009). Nevertheless, alliances also tend to exhibit high failure rates (Dyer, Kale, and Singh, 2001). Studies have shown that between 30% and 70% of alliances fail; in other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide (Bamford, Gomes-Casseres, and Robinson, 2004). Alliance termination rates are reportedly over 50% (Lunnan and Haugland, 2008), and in many cases forming such relationships has resulted in shareholder value destruction for the companies that engage in them (Kale, Dyer, and Singh, 2002).

Due to the fierce market competition, fast technological upgrade, high R&D cost, and shorter product life cycle, the growing number of firms is fully aware that single firm resources are not enough to build a competitive advantage. Cooperation becomes a common practice to gain vital resources. Most scholars believe the driver of inter-firm cooperation is fast technological upgrade and globalization, especially for hi-tech firms. Arrifield (1989) argued strategic alliance was often built in such industries as semi-conductor, auto manufacture, computer, and telecommunication.

Strategic alliance is based on the hybrid mechanism, which stands between arms-length market transaction and hierarchical structure. Alliance has the advantage of integrating partners' resources and abilities; however, inter-firm communication and culture play a key effect on alliance operation. While there are lots of successful alliance operation, failing cases are not rare, such as the alliance between General Motors and Daewoo Motor Company ended in the unhappy situation. Some scholar thought it was partners' cultural difference, communication and trust that broke their marriage (Ernst and Bleeke, 1993; Mohr and Spekman, 1994).

Building on theory about organizational capabilities (e.g. Teece et al., 1997), recent research proposes that companies need to build up an alliance capability in order to become successful with strategic alliances. As suggested by De Man (2005) "learning-by-doing is the first step for building an alliance capability [but], it is not sufficient. Companies also need to focus on mechanisms that formalize lessons learned and transfer alliance best practices inside companies". Alliance capability is a growing research stream, but has not yet received attention from alliance scholars focusing on start-ups. This literature gap is surprising, since companies with limited experience of strategic alliances – such as new ventures – tend to be less successful in alliance management (Anand and Khanna, 2000), and should therefore invest systematically in the build-up of an alliance capability.

1.1.2 The Mobile Telephony Sector in Kenya

The mobile telephony sector in Kenya is still in growth phase, with organic subscriber expansion remaining solid, as seen from the entry of two new players in the market in 2008: France Telecom and Econet joining the already existing players Safaricom and

Zain. The Kenyan mobile content industry is characterised by deteriorating marginal revenue, stiff price competition, and dominant market leader among others. On the flip side, the opex environment is one of Africa's most favourable, making it possible for operators to push the boundaries of the mobile business model (Research and Markets, 2008).

Safaricom, founded in 1997, is a leading provider of converged communication solutions, operating on a single business driver that has a peerless understanding of voice, video and data requirements. Its products and services include Pre and Postpay phone services, M-pesa money transfer, 3G Data Bundle Packages, Corporate Advantage Hybrid, Corporate Direct Connectivity, Dedicated APN, Multiple Top-Up, Safaricom Broadband 3G, Safaricom Virtual Office, Vehicle Tracking, WiMAX Broadband, Postpaid BlackBerry Offer, and Toll Free Service. Safaricom is currently a public company operating in the telecommunications industry with 2000 employees (Research and Markets, 2008).

Zain was launched in Kenya in 2004 as Celtel and rebranded to Zain in 2008. It is part of the Zain Group. The company offers a host of value added services including: Prepaid plans International roaming, Local and international text messages, 24-hour customer care centre, Internet access, Directory enquires, SMS information services, Mobile Top up, and Me2U. The company was founded in 1983. It was formerly known as Mobile Telecommunications Company KSC and changed its name to Zain in September 2007. Zain is headquartered in Safat, Kuwait. The company was recently bought by Bharti Telecoms from India and immediately focused on acquiring new customers by lowering their calling and sms charges by half.

On 17 September 2008, Orange became the commercial brand for Telkom Kenya, the country's historical operator, following France Telecom's acquisition of 51% of its capital in December 2007. Telkom Kenya therefore joined a worldwide community of 115 million Orange customers and becomes the first integrated operator in the country, proposing fixed and mobile telephony alongside Internet services (Research and Markets, 2008).

Econet Kenya is owned by a joint venture. Essar Communications has a joint venture with the Vodafone Group, called Vodafone Essar, which is one of India's largest cellular service providers, with over 55 million subscribers. Essar owns 'The MobileStore', India's largest national retail chain of mobile phone stores. It has a major presence in the telecom infrastructure space with one of the largest investments in telecom towers. Essar operates India's second largest outsourcing services business operating under the Aegis brand, with 31 centres in the Philippines, Costa Rica, USA and India. Essar Global Limited (EGL) is a diversified business corporation with a balanced portfolio of assets in the manufacturing and services sectors of Steel, Energy, Power, Communications, Shipping Ports and Logistics, Construction and Mining and Minerals. Essar employs more than 50,000 people across offices in Asia, Africa, Europe and the Americas. The company currently has 273 employees.

1.2 Research Statement

Much attention has been devoted to issues surrounding strategic alliances as organizations are increasingly turning to alliances to help them successfully compete in the marketplace (Das, 1997). Despite the advantages of these alliances, strategic alliances do not always achieve desired results. Uncertainty about the behavior of partners can be a cause for significant concern, thus leading to unstable and conflicting relationships (Hamel, Doz and Prahalad, 1989). Furthermore, many of the costs and risks of strategic alliances are indirect and long-term, and alliances initiated for short-term gains may generally lead to a loss of technological dynamism for the firm. Parkhe (1993) notes that a failure to understand the problems associated with strategic alliances can be attributed to a significant dearth of theoretical and empirical research on the topic.

There have been some strategic alliances in the telecommunications industry in Kenya. For instance, Airtel (formerly Zain) entered into a partnership with Standard Chartered Bank where the customers of the bank could access their bank accounts using their mobile phones through the money transfer service, Zap. Safaricom and Equity bank followed suit and launched M-KESHO where bank customers could use their phones to access the bank account and even borrow loans. More recently, Orange launched Orange Money in which they partnered with Equity Bank to operate the money transfer service. These partnerships differ as far as their performance in the market is concerned. This has not been studied. This study seeks to identify critical factors that affect strategic alliances performance among the telecommunication firms in Kenya. This industry is chosen not only because most worldwide strategic technology partnerships exist in this area, but also because of its enormous growth potential.

Koigi (2002) did a study on implementation of strategic alliance experience of KPOB and Citibank. Musyoki (2003) studied creation and implementation of strategic alliances among NGOs. Wachira (2003) did a study on strategic alliances in pharmaceutical drug development. Owuor (2004) studied strategic alliances and competitive advantage with a focus on major oil companies in Kenya. Kamanu (2005) studied strategic alliances among development NGOs in Kenya. Kavale (2007) studied strategic alliances with a specific focus on money transfer services in Kenya. Mutinda (2008) investigated factors considered by firms when entering into strategic alliances with a specific focus on the Kenya Institute of Management. Chepkwony (2009) did a survey of strategic alliances in the banking industry in Kenya. Kibera (2009) studied implementation of strategic alliances at Access Kenya Group. Masila (2009) studied drivers of strategic alliances between Safaricom and Kenya Power and Lighting Company in mobile telephone payment. A number of studies have also been done on the telecommunications industry in Kenya. The most recent ones include Elman (2009) on strategic planning in telecoms industry, Kharemwa (2009) on customer loyalty in mobile telecom operators, Mutunga (2009) on employee engagement in Zain (Kenya), Njuguna (2009) on foreign direct investment in the telecoms industry, Mwai (2010) on strategic alliances and competitive advantage of Safaricom, Kinyua (2010) on the alliance between JKUAT and middle level colleges in Kenya and Ogega (2010) on the alliance between Safaricom and Equity Bank in the money transfer service. As can be seen from the enumerated studies, little has been done on strategic alliance between mobile telecommunication firms and commercial banks. This is the gap the present study will address. The study therefore poses the question: what are the factors that influence strategic alliances between mobile telephony service providers and commercial banks in Kenya?

1.3 Research Objective

The objective of the study is to establish the factors that influence performance of strategic alliances between mobile telecommunication firms and commercial banks in Kenya.

1.4 Value of the study

This study is useful to various stakeholders. First, the telecommunication firms will find this study useful as a source of information on what factors influence performance of the various strategic alliances.

Other firms that are engaged in strategic alliances as well as those seeking to engage in strategic alliances will find this study useful in so far as identification of the factors that affect performance of strategic alliances is concerned.

The study will also be useful to other scholars interested in strategic alliances as far as carrying out more studies on the subject is concerned or debating on the issues of strategic alliances in technology-based firms or other firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. The chapter is organized as follows: first, a review of strategic alliance theories is made. The specific theories reviewed are transaction cost theory, resource dependency theory, organisational learning theory, and strategic behaviour theory. Lastly, the chapter reviews empirical studies on factors influencing strategic alliances. These include both pre- and post-formation factors.

2.2 Strategic Alliance Theories

Several theories of firm behavior can be used as a basis for explaining strategic alliance formation: transaction cost theory, resource dependency theory, organizational theory, relationship marketing, and strategic behavior theory. These theories are explained as follows.

2.2.1 Transaction Cost Theory

People begin to organise their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm (Coase, 1937). Coase (1937) set out his transaction cost theory of the firm in 1937, making it one of the first (neo-classical) attempts to define the firm theoretically in relation to the market. One aspect of its 'neoclassicism' is in presenting an explanation of the firm consistent with constant returns to scale, rather than relying on increasing returns to scale (Archibald, 2008). Coase (1937) concludes by saying that the size of the firm is dependent on the costs of using the price mechanism, and on the costs of organisation of other entrepreneurs. These two factors together determine how many products a firm produces and how much of each.

Transaction cost theory has been developed to facilitate an analysis of the "comparative costs of planning, adapting, and monitoring task completion under alternative governance structures" (Williamson, 1985). The unit of analysis in TCT is a transaction, which "occurs when a good or service is transferred across a technologically separate interface" (Williamson, 1985). Transactions costs arise for *ex ante* reasons (drafting, negotiating, and safeguarding agreements between the parties to a transaction) and ex post reasons (maladaption, haggling, establishment, operational, and bonding costs). Williamson (1985) argues that two human and three environmental factors lead to transactions costs arising. The two human factors are bounded rationality and opportunism. The three environmental factors are uncertainty, small numbers trading, and asset specificity.

2.2.2 Resource Dependency Theory

Resource dependency theory (RDT) posits that power is based on the control of resources that are considered strategic within the organization (Pfeffer and Salancik, 1978) and is often expressed in terms of budgets and resource allocations (Pfeffer and Moore, 1980; Mudambi and Navarra, 2004). RDT has its origins in open system theory as such organisations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This therefore poses a problem of organisation facing uncertainty in resource acquisition (Aldrich, 1999) and raises the issue of firm's dependency on the environment for critical resources (Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 1978). Often, the external control of these resources may reduce managerial discretion, interfere with the achievement of organisational goals, and ultimately threaten the existence of the focal organisation (Scott, 1998). Confronted with the costly situation of this nature, management actively directs the organisation to manage the external dependence to its advantage.

Organisation success is defined as organisations maximising their power (Allaire and Firsirotu, 1989; Ulrich and Barney, 1984). Within this perspective, an organisation can manage increasing dependency by adapting to or avoiding external demands, by executing the following RDT strategies; 1) "altering organizational interdependence" through integration, merger and diversification, 2) establishing collective structures to form a "negotiated environment"; and 3) using legal, political or social action to form a "created environment" (Pfeffer and Salancik, 1978). Much of RDT is fixed upon Emerson (1962)'s insight that power and dependency are intimately related as such, Pfeffer and Salancik (1978) suggested and argued for specific sets of strategies to manage the external environment and discuss the conditions under which they are appropriate.

2.2.3 Organisational Learning Theory

Organizational learning theory states that, in order to be competitive in a changing environment, organizations must change their goals and actions to reach those goals. In order for learning to occur, however, the firm must make a conscious decision to change actions in response to a change in circumstances, must consciously link action to outcome, and must remember the outcome. Organizational learning has many similarities to psychology and cognitive research because the initial learning takes place at the individual level: however, it does not become organizational learning until the information is shared, stored in organizational memory in such a way that it may be transmitted and accessed, and used for organizational goals (Cha et al., 2008).

Organizational learning theory parallels models of individual learning grounded in cognitive and social psychology and defines learning as organizational change. Researchers agree that an organization learns through the individual learning of its members (Schein, 1996). From a cognitive perspective, individual learning involves storing, retrieving, transforming, and applying information; such information processing relies on memory as "a storage device where everything we perceive and experience is filed away" (Kim, 1993). Memory is not simply a static storage device but changes as it accommodates new information. Memories exist in individuals, and, when individuals have shared knowledge and experience, such as that evolving from participation in an organization, they may also have shared memories. Collections of memories that guide responses and are interconnected around specific experiences are called mental models.

2.2.4 Strategic Behaviour Theory

Strategic behaviour refers to actions which a firm takes to improve its competitive position relative to actual and potential rivals, in order to gain a permanent commercial advantage, thereby increasing its long-run profits. Carlton and Perloff (1994) refer to actions 'to influence the market environment and so increase profits'; while Martin (1993) refers to 'investment of resources for the purpose of limiting rivals' choices'. Strategic behaviour thus refers to conduct which is not economically inevitable, but which is the outcome of a conscious attempt to shape the firm's market environment to its own lasting advantage and to the competitive disadvantage of rivals.

It is primarily under oligopolistic market conditions that a firm has an incentive to alter its relative position through strategic behaviour. The firm recognises its interdependence and the need to take into account other firms' reactions when making its own decisions; but it also recognises that it is free to make decisions to alter its commercial environment. These strategies are revealed over time through investment and through tactical moves and countermoves. Strategic behaviour can be manifested in (Smith and Round, 1998): entry deterrence; advertising and brand proliferation; RandD and technology choice; tying consumers in various ways where switching costs are significant; and various long-term contracting devices.

To engage in successful non-cooperative strategic behaviour, a firm must have some market power or advantage; it must be able to act before its rivals; and it must demonstrate credibly that it will follow its strategy regardless of the actions of its rivals (that is, it should be able to deter potential rivals by changing their beliefs about how aggressively it will behave in future). Such conduct may not cause long-term damage to the competitive process if continual opportunities exist for all firms to initiate new bouts of strategic behaviour, and if they all have equal opportunity to initiate such actions. There is nothing wrong with a firm seeking to get ahead of its rivals by developing a sustainable commercial superiority over them by, for example, developing better production techniques or introducing new and better products (Smith and Round, 1998).

2.3 Factors Influencing Strategic Alliances

This section reviews both pre-alliance formation factors and post alliance formation factors as follows:

2.3.1 Pre-alliance Formation Factors

The desire and willingness to expend resources in the development of long-term relationships is closely linked to a firm's prior experiences with that partner and the extent to which positive or negative expectancies have been fulfilled (Larson, 1992).

Experience earned from prior engagement serves as evidence to justify subsequent risky steps beyond the accumulated evidence (Das and Teng, 1998). That is, faced with a situation in which one can be taken advantage of, a natural response is to restrict one's transactions to those who have shown themselves to be trustworthy. Hence, a benefit of prior affiliation is that it allows the partner firms to know each other better thus facilitating a greater understanding of the respective capabilities and resources they are seeking to access and combine (Saxton, 1997). In addition, prior relationships indicate a history of repeated interaction, which may lead to relational advantages and stability. Thus, from a game-theoretic perspective, giving incumbents an advantage in the next round serves as a signal to the partner that the focal firm is playing a long-run "repeated game" (Fundenberg and Levine, 1998).

Another pre-alliance factor is reputation. Reputation refers, in this study, to the knowledge held by individuals about the potential partner in terms of this partner's behavior in prior network relationships in addition to more traditional attributes of reputation, such as innovativeness, quality of management, employee talent, financial soundness, use of corporate assets, social responsibility, quality of product/services etc. Hence, the concept of reputation is closely related to Mayer et al.'s (1995) concept of integrity, since among the biggest concerns of firms entering into alliances is the predictability of their partner's behavior. In lack of prior experience with a particular partner, the next logical step is to rely on the reputation of that firm, which is a direct consequence of prior relational behavior (Granovetter, 1985). Research suggests that most firms are embedded in a social network of prior alliances through which they are connected with one another either directly or indirectly (Kogut et al., 1993). The concept of structural embeddedness focuses on the informational role of the position an organization occupies in the overall structure of the network (Gulati, 1998; Uzzi, 1996).

A firm with a reputation of being honest, fair, and trustworthy gives one the first piece of evidence to take some initial risk (Barney and Hansen, 1994). Alternatively, once a firm has acquired a reputation for not being trustworthy in collaborative relation-ships or in general, future partners will perceive this firm as a greater liability in terms of inter-firm collaboration. Hence, following Burt and Knez's (1996) argument, the historical trustworthiness of parties in previous interaction with others is important, and that it is the social context (e.g. networks) that makes reputational effects possible. Therefore, locating a partner with a good reputation seems to be an early indicator of successful collaboration.

As alliances increasingly become a fact of life in the business environment, exploiting the learning potential of alliances will become more important. By bringing together different firms with unique skills and capabilities, alliances can create powerful learning opportunities. However, without active management of the learning process and an under-standing of the nature of alliance knowledge, many of these opportunities will remain un-exploited. The acquisition of new organizational knowledge is increasingly becoming a managerial priority. As the global competitive environment continues to intensify, this priority takes on new significance. New knowledge provides the basis for organizational renewal and sustainable competitive advantage. In various studies, knowledge acquisition has been linked with operational performance as well as with the performance of specific organizational tasks (e.g. Epple et al., 1991; Doz, 1996). In bringing together firms with different skills and knowledge bases, alliances create unique learning opportunities for the partner firms. By definition, alliances involve a sharing of resources. In some cases, the shared resources are strictly financial, limiting partner learning opportunities, while in others access to knowledge is more profound. This access can be a powerful source of new knowledge that, in most cases, would not have been possible without the formal structure of an alliance. Partner firms that use this access to knowledge as the basis for learning have the opportunity to acquire knowledge that can be used to enhance partner strategy and performance. Despite the logical notion that alliances create learning opportunities, and although organizations often talk in glowing terms about their alliances' learning potential, research suggests that learning through alliances is a difficult, frustrating, and often misunderstood process (Inkpen, 1996; Inkpen and Crossan, 1995).

The formation of an alliance represents a strategic initiative that has the potential to create experiences, actions, and strategic choices that provide the basis for learning. However, the formation of the alliance cannot ensure that its learning potential will be realized. Accessibility is not sufficient for effective learning, however, the conscious efforts of management in the formation stage of the alliance to assess the potential for learning by targeting partners with complementary skills and resources improves the likelihood of knowledge development during latter stages of the alliance. Moreover, if the initial motivational intent behind the alliance includes explicit attention to knowledge development and learning and this intent is later manifested in considerable resource commitment to knowledge development and internalization for commercial purposes through absorptive capacity (Cohen and Levinthal, 1990), one would expect a high potential for learning to have a positive impact on alliance performance.

2.3.2 Post-alliance Formation Factors

Once the alliance has been formed, prior experience at cooperating becomes essential to the management of a diverse portfolio of collaborative ties as well as to accumulate the capability to benefit from the resulting interdependencies (Powell et al., 1996). The importance of collaborative know-how in relation to alliance performance is evidenced by Lei and Slocum (1992), who attribute alliance failure to lack of collaborative experience and understanding. Moreover, Simonin (1997) empirically found support for the emergence of a distinct form of collaborative know-how, which emerges from past experience, and which helps achieve greater benefits in subsequent alliances. As suggested by Simonin (1997) and others, this collaborative know-how affects the ability of firms, engaged in strategic alliances, to understand and adopt proper procedures and mechanisms for knowledge accumulation, transfer, interpretation, and diffusion. Key routines that help facilitate learning in the extended enterprise include the establishment of on-site consulting, supplier learning teams and problem-solving teams as well as employee rotation and elaborate systems for performance feedback and process monitoring (Dyer, 2000).

Trust has been included in numerous relationship studies conducted in both domestic (see Anderson and Weitz, 1989; Morgan and Hunt, 1994) and international (see Johnson et al., 1996; Larson, 1992) settings. Most studies concentrate, however, on two key components of trust; a cognitive component, derived from confidence in the reliability of a partner, and a behavioral component, derived from confidence in the intentions, motivations, honesty, or benevolence of a partner. Despite this attention to trust in alliance literature, the majority of research on trust is anecdotal, with little evidence of economic benefits.

Trust among partners in alliances is obviously important, as it is in all relationships, however, in the extant literature; trust is treated as a residual term for the complex social-psychological processes necessary for social action to occur (Koza and Lewin, 1998). Since trust is a social phenomenon, both national culture and institutional arrangements have an impact on trust and the perception of trust. Hence, applying a single definition of trust is unlikely to capture the complexity of this concept, which might be the reason why useful measures of trust are lacking in the literature. Recognizing the problems of trust as a useful concept in terms of research, some authors have attempted to develop non-trust explanations for non-opportunistic behavior in strategic alliances, arguing that trust is nothing more than an emergent and epiphenomenal property of successful alliances (Madhok and Tallman, 1998).

Despite these difficulties of defining and operationalizing trust, the importance of this factor, as it relates to alliance performance in international strategic alliances, is evident. For any strategic alliance to be formed and function, a minimum of inter-firm trust must exist. In fact, as argued by Arrow (1972): 'Virtually every commercial transaction conducted has within itself an element of trust'. The literature suggests that one of the most critical factors determining alliance performance is the degree of trust between the partners (Bleeke and Ernst, 1993; Buckley, 1992). Trust has been shown to increase cooperation, improve flexibility, lowering the cost of coordinating activities, and increasing the level of knowledge transfer and potential for learning (Smith et al., 1995; Simonin, 1999). However, according to Sherman (1992), 'the biggest stumbling block to the success of alliances is the lack of trust'. Moreover, the need for trust seems particularly important for any transaction conducted over a period of time and across organizational and national boundaries, where the level of complexity makes it virtually impossible to monitor in detail all aspects of exchange.

Another factor is protectiveness. Transaction cost economics assumes that agents are opportunistic, demonstrating self-interest and guile (Williamson, 1985). Williamson

(1985) asserts that opportunism does not pose the same difficulties for transactions within firms as it does for transactions between firms. He provides three reasons: 1) common ownership of assets limits incentives for individuals within firms to be opportunistic, 2) internal organization is able to use authority to direct behavior, and 3) individuals within firms are likely to be better informed about conditions or be better able to monitor behavior than those in different firms. Hence, the lesson of opportunism, Williamson maintains, is that contracts must recognize conditions, which promote opportunism and provide appropriate safeguards, such that contractual commitments become credible (Williamson, 1993).

Strategic collaboration has been advanced - from a traditional Williamson-like transaction cost standpoint – as an intermediate form between market and hierarchy, in order to explain the existence and economic justification of these networks. As mentioned earlier, knowledge exchanged in a collaborative arrangement may be proprietorial and thus provide important elements of a firm's defining competence and competitiveness. Therefore, consistent with the resource-based view of the firm, knowledge protectiveness is often seen as an appropriate safeguard against opportunistic behavior in strategic alliances. Because of inter-partner asymmetry of knowledge demand and supply, it is expected that partner protectiveness and accessibility to its knowledge will be correspondingly asymmetrical. Hence, in general, international alliance partners are likely to be more protective of their knowledge resources when their competitive advantage relies on them. Consequently, in a situation of high competitive overlap between partners (for instance in a horizontal alliance), the firms will strive to restrict knowledge sharing because of the risk of knowledge spillover (Yan and Luo, 2001).

As argued by Doz, Hamel, and Prahalad (1986), the transparency or permeability of the organizational membrane between partners can be regulated through the adoption of strict policies or the development of shielding mechanisms, such as "walling off" (Baughn et al., 1997) proprietary technology. In addition, gatekeepers can be assigned to filter information access and disclosure across organizational boundaries. However, the ability to learn through joint ventures does not simply rest on the firm's internal absorptive capability and willingness to learn; it also depends on the willingness of external sources to cooperate (i.e. minimize protectiveness) (Pisano, 1988). Reciprocity suggests that accessibility to a partner's knowledge depends, to a large degree, upon the extent to which the focal firm is open with its own knowledge to the partner. Protectiveness not only reduces the amount of information exchanged but also leads to uncertainty and distrust. Hence, Simonin (1999) found in his study of knowledge transfer in strategic alliances that protectiveness was positively related to ambiguity, and hence negatively related to knowledge transfer, suggesting that protectiveness acts as a barrier to effective knowledge exchange. This argument is supported by Madhok and Tallman (1998), who argue that safeguarding may hinder learning (performance) in strategic alliances. Lyles and Salk (1996) furthermore suggest that when disruptive to the operation of the alliance, protectiveness will contribute to the escalation of cross-cultural and other conflicts between partners. Protectiveness, then, hinders the effective exchange of knowledge and resources, suggesting that in order for successful collaboration to take place in international strategic alliances, the level of protectiveness should be at its lowest.

By their very nature, international strategic alliances are affected by differences in national cultures (Barkema and Vermeulen, 1997; Park and Ungson, 1997). The adverse affect of cultural differences between IJV partners on alliance performance has been suggested by several scholars (Mjoen and Tallman, 1997). This is consistent with the traditional internationalization perspective, which suggests a negative relationship between national cultural distance and performance. In fact, as argued by Meschi (1997), most problems encountered in international joint ventures can be traced back to cultural factors, be they national or organizational. Lyles and Salk (1996) report that not only conflicts but also cultural misunderstandings rooted in cultural differences can minimize flows of information and learning. Hence, the partner's national or organizational culture has the potential to affect in depth all aspects of the collaboration, including performance.

Hongbin (2009) did a study based on 68 bio-tech firms in Xinjiang region and focused on the impact of cultural difference and communication on strategic alliance performance through Structural Equation Model (SEM). Empirical test proved although the cultural difference between strategic partners makes no difference on strategic alliance performance, their communication quality has a positive effect on trust between partners. The study found that trust between partners does not only impact on the evaluation of alliance performance, but shows a significant effect on the willingness of further cooperation. Meanwhile, the study revealed that alliance performance has a positive effect on partners' future cooperation.

Wolf (1994) in Hongbin (2009) found communication is essential to establish mutual trust between alliance partners based strategic alliance of US firms. Grounded on the alliance of manufacturer and distributors, Kumar (1997) in Hongbin (2009) proved that good and frequent communication would positively promote the mutual understanding between alliance partners, which is the critical factor to enhance partners' trust. Simpson & Mayo (1997) thought the agreement and shared value derived from inter-firm communication is likely to increase alliance partners' trust. Morris & Hegert (1987) argued that the number and quality of communication between alliance partners would have a positive impact on alliance success. Smilor & Gibson (1991) found communication plays a key role in technologic transfer between alliances.

While access to external resources represents the strategic rationale for alliance making, the possession of valuable resources – in terms of intellectual, social, and reputational capital – are the primary enablers of alliance implementation. In a way, alliance making presents an inherent paradox for new ventures, since strategic alliances are set up to access external resources, yet internal resources are needed to set up strategic alliances. In this regard, Ho Park et al. (2002) showed that technology start-ups endowed with valuable resources are better able to bring about strategic alliances, and to get access to external resources needed to cope with market uncertainties. Therefore, the foremost determinants of alliance formation in new ventures are a combination of strategic necessities, internal resources, and social opportunities.

Nielsen (2002) considers the relationship between subjective measures of international alliance performance and a set of variables, which may act as predictors of success before the alliance is formed (pre-alliance formation factors), and a set of variables which emerge during the operation of the alliance (post-alliance formation factors). The empirical study, based on a web-survey, investigates a sample of Danish partner firms engaged in 48 equity joint ventures and 70 non-equity joint ventures with international partners. The results show a significant relationship between alliance performance and partner reputation preceding alliance formation as well as strong relationships between collaborative know-how, trust, and protectiveness and alliance performance during the operation of the alliance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents how the study was carried out. The subsections discussed here are the research design, the target population, data collection tools and procedure, and data analysis and presentation.

3.2 Research Design

The design for this study was a survey design. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables (Mugenda and Mugenda, 2003). Mugenda and Mugenda (2003) give the purpose of a survey research as seeking to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. Given that the objective of the study was to determine the factors that influence performance of strategic alliances in Kenya, a survey design was found to be the best to fulfill the objectives of the study.

3.3 Population of Study

The population of the study was all the mobile telephony firms in Kenya. According to Communication Commission of Kenya (2011), there were four firms in the industry as at August 2011. These are Safaricom Ltd, Essar Telecoms Ltd, Bharti Airtel Ltd, and Telkom Orange. This was therefore a census survey.

3.4 Data Collection

Primary data was collected in this study. These were collected using structured questionnaires. The questionnaires were based on the literature review and the conceptual framework which has the variables that the study was interested in. The questions on the factors were scaled on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). A measure of reliability and validity was guaranteed by ensuring high precision and minimal errors in the data entry. The questionnaire respondents were two strategic level managers, four tactical level managers and four operational level managers from each of the four firms. These were mainly drawn from the following departments/divisions: strategy, information technology (IT), marketing, human resources, and finance. These are the instrumental departments as far as shaping the alliances are concerned. The questionnaires were administered using drop-and-pick later method as well as through e-mails.

3.5 Data Analysis

The collected data through questionnaires was entered into the Statistical Package for Social Sciences (SPSS) analysis software as well as into the MS Spreadsheets. The analysis was done using descriptive statistics (percentages, mean scores and standard deviations) and factor analysis. Percentages were calculated for the profile data as well as for the type of alliances in the industry. This showed the number of respondents that relate to the stated variable. The percentages were used to show the number of respondents who agree or disagree with various statements relating to the variables. Given that the Likert scale ranges from 1-5, the factor mean scores were calculated for each of the statements relating to various factors (pre-alliance factors, post-alliance, and strategic fit) and interpreted as being a significant factor (if mean score is 3 or above) or not (if mean score is less than 3).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, results and the discussion of the results.

4.2 Data Analysis

Primary data was collected using a questionnaire. The respondents were two strategic level managers, four tactical level managers and four operational level managers from each of the four telephony service providers. These were drawn from the following departments/divisions: strategy, information technology (IT), marketing, human resources, and finance. The analysis was performed on the 32 questionnaires received out of the total 40 that were administered to the respondents. This shows that the response rate was 80%, a rate considered high in the study. Thus, the results can be generalized to the industry.

The collected data was entered into the Statistical Package for Social Sciences (SPSS) analysis software as well as into MS Spreadsheets. The analysis was done using descriptive statistics. Percentages were calculated for the profile data as well as for the type of alliances in the industry. This showed the number of respondents that relate to the stated variable. The percentages were used to show the number of respondents who agree or disagree with various statements relating to the variables. Given that the Likert scale ranges from 1-5, the factor mean scores were calculated for each of the statements relating to various factors (pre-alliance factors, post-alliance, and strategic fit) and interpreted as being a significant factor (if mean score is 3 or above) or not (if mean score is less than 3).

4.3 Results

The results show an analysis of the factors influencing strategic alliances between mobile telephony service providers and commercial banks in Kenya.

4.3.1 Pre-alliance Formation Factors

The respondents were asked to state the extent to which they agreed with the statements relating to pre-alliance formation factors that might have influenced the strategic alliances. The results are shown in Table 1.

Table 1: Pre-alliance Factors

	Total	
Pre-alliance Factors	**%Agree**	**%Disagree**
We have had prior relations with Equity	69	9.4
Equity has a good reputation in the banking industry	78	6
We had a potential to learn from the alliance	78	6
We had the control rights in the alliance	72	9

Generally, the study noted that 69% of the respondents were in agreement that their companies had prior relations with the bank, 78% agreed that the bank had a good reputation in the industry, 78% agreed that that they had a potential to learn from the alliance and 72% were in agreement that their respective companies had control rights in the alliance with the bank.

4.3.2 Post-alliance Formation Factors

The respondents were asked to state the extent to which they agreed with the statements relating to post-alliance formation factors that might have influenced the strategic alliances. The results are shown in Table 2.

Table 2: Post-alliance Factors

	Total	
Post-alliance Factors	**%Agree**	**%Disagree**
We have collaborated well with Equity	79	0
We communicate well with Equity	94	0
We have been cooperating well in the alliance	97	0
There is trust between us and Equity	100	0

We are more protective of the alliance	53	22
There is a culture difference between us and Equity	6	82
We have the technical capabilities to carry on the alliance	84	0
The alliance structure is favourable to us	63	15
The alliance type is favourable to us	94	0
We are committed to the alliance	90	0
We manage conflicts that arise in the alliance better	97	0

Generally, 79% of the respondents agreed that they collaborated well with equity. In terms of communication, 94% of the respondents agreed. On cooperation, it was noted that 97% of the respondents agreed that they cooperated in the alliance. On trust, all the respondents agreed that there was trust between them and the bank. On protectiveness, the study noted that 53% of the respondents agreed that their firms were more protective of the alliance. On culture differences, only 6% of the respondents noted that there were culture differences in their alliances.

On technical capabilities, it emerged that 84% of the respondents agreed that they were technically competent to carry on the alliance. On the structure of the alliance, the study found that 63% of the respondents thought that the alliance structures were favourable to their firms. Further, 94% of the respondents noted that the alliance type was favourable to their firms. On commitment, the results showed that 90% of the respondents noted that they were committed to the alliances.

4.3.3 Strategic Fit

The respondents were asked to state the extent to which they agreed with the statements regarding strategic fit between their firms and commercial banks. The results of that analysis are shown in Table 3 in terms of percentages.

Table 3: Strategic fit

	Total	
Strategic Fit	**%Agree**	**%Disagree**
Our mission statement supports alliance formations	75	9
The alliance has helped shape the mission of the company	41	53

We engaged in the alliance because we shared the same vision	84	9
Our strategy supports the idea for strategic alliances	84	6
We only engage in alliances with firms that share in the same strategy	81	13

The results show that 75% of the respondents agreed that their companies' mission statements supported alliance formations. On whether the alliances helped shape the mission of the companies, the study found that only 41% of the respondents agreed that the alliances helped shape the mission of their firms. On whether the alliances were engaged because of shared visions, 84% of the respondents agreed. On whether the firms' strategies supported the idea for strategic alliances, 84% of the respondents agreed so. Finally, on whether the firms only engaged in alliances with firms that shared in the same strategy, 81% of the respondents agreed.

4.4 Discussion

According to the findings of the study, the pre alliance factors that influence strategic alliances between mobile telephony service providers and commercial banks in Kenya are reputation, potential to learn from the alliance, control rights in the alliance and prior relations and experience. The findings also show that the post alliance factors that influence strategic alliances between mobile telephony service providers and commercial banks in Kenya are trust, strategic fit of the firms in the alliance, cooperation within the alliance, conflict management; communication; and favourability of the alliance type to the firm.

According to the literature review, the desire and willingness of firms to expend resources on development of long term relationships is closely linked to a firm's prior experience with the other firms. The extent to which positive or negative expectations have been fulfilled is closely linked to a firm's desire and willingness to enter into strategic alliances. The literature review also points to reputation and learning opportunities as key influencers in the pre-alliance formation decision.

According to literature review, factors that influence post-alliance formation include trust, protectiveness, willingness to learn, and the strategic fit of the firms in the alliance. In the literature review, trust is ranked highly in alliance success. Results of the study reveal that trust does indeed rank highly as a key ingredient of alliance performance. This is derived from confidence in the reliability of partners in the alliance as well as from confidence in the intentions, motivations and honesty of a partner.

The results of the study lead to a conclusion that pre and post alliance factors have a significant impact on influencing the strategic alliances. The literature review posits that strategic fit moderates the relationship between pre- and post-alliance formation factors and hence influences decision of firms to get into strategic alliances.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, the conclusions of the study, the recommendations for policy and practice, and suggestions for further research.

5.2 Summary of Findings

The purpose of this study was to establish the factors that influence performance of strategic alliances between mobile telephony service providers and commercial banks in Kenya. The study sought to establish the pre-alliance formation factors that influence strategic alliances between the mobile telephony service providers and commercial banks in Kenya. Results revealed that Pre-alliance formation factors accounted for between 74.1% and 70.2% in influencing alliances.

The study also sought to establish the post-alliance formation factors that influence strategic alliances between the mobile telephony service providers and commercial banks in Kenya. These factors accounted for between 69.5% and 52.7% in influencing alliances. The results also showed that there was a high positive impact of strategic fit on influencing alliance. The results revealed that indeed strategic fit moderated the relationship between pre- and post-alliance formation factors in influencing alliances.

5.3 Conclusions

Given the results of the study, the following conclusions are drawn. First, the failure to find significant difference for post-alliance factors, strategic fit, and most of the pre-alliance factors between the companies studied shows that alliance formations in the telecoms industry in Kenya are not difference from each other.

From the results, despite some of the firms enjoying more contacts with the banks before as well as rating it better than the others in terms of reputation, these contacts do not necessarily influence the entering of alliances. This suggests the existence of exogenous factors other than the ones studied here that explain the factors influencing the strategic alliances. The study though still concludes that pre-alliance formation factors generally have a positive influence on alliance making. When these factors are available they generally influence the strategic alliances and the reverse is true.

Secondly, post-alliance formation factors generally have a positive effect on influencing alliances. This means that when the post-alliance relations are managed better, they lead to more strategic alliance formation. The reverse is also true.

Thirdly, strategic fit has a positive influence on alliance formation. This indicates that if there is a fit between the partners undertaking a strategic alliance in terms of their strategies, then the outcome or success of that alliance formation is higher. The converse is also true.

Lastly, the study has shown that strategic fit also enhances or moderates the relationship between alliance factors (pre-and post-alliance formation factors) and success of strategic alliances. Thus, there is a tendency for alliance formation to be higher if the strategic fit moderates the alliance formation factors.

5.4 Recommendations

The study makes the following recommendations in regards to policy and practice and suggestions for further research.

5.4.1 Recommendations for Policy and practice

The study recommends that firms adopt strategic alliances as a policy to strengthen their competitiveness and increase their efficiencies. Strategic alliances are important especially to mobile telephony service providers as a way of accessing quickly evolving technology with alliances being vital in gaining resources that help them acquire fast technological upgrades. There is need for firms wishing to engage in alliances to take note of the pre-alliance formation factors, especially prior relations and partner ratings, if the alliance is to be successful. Prior relations are important because they reveal the extent to which the parties may have engaged in the past and this can help improve the trust issues between the partners.

The study further recommends that firms need to come up with policy and procedures of how they will manage the alliances once they are entered into. This is important for any firm in any industry. Various post-alliance formation factors may hurt an alliance if they are not managed well. Better institution of these factors will guarantee success of a strategic alliance.

The study recommends that there is need for companies that would like to engage in a strategic alliance to take cognizance of whether their strategies fit. Strategic fit is important because it allows for the smooth flow of operations. The vision, mission, and various strategic choices of partners must be congruent for the success of an alliance. Given that strategic fit also moderates the relationship between alliance formation factors and performance, it becomes very paramount for the strategies to be congruent.

5.4.2 Recommendations for Further Research

The study recommends that more studies be done on strategic alliances to establish other factors other than strategic factors that may significantly explain the variance in performance of strategic alliance within the telecoms industry. This is important for the telecoms industry because, strategically, they seem to operate on the same levels and with the same intentions.

5.5 Limitations of the Study

Due to the highly competitive nature of the mobile telephony service sector and the banking sector, most of the respondents were reluctant to participate in the research and had to be really convinced that it was only an academic exercise.

The use of descriptive statistics also tended to combine characteristics together hence, individual characteristics of the different strategic alliances of the various telephony service providers with commercial banks in Kenya did not sometimes come out clearly. The use of descriptive statistics generalised the responses of the different categories of respondents who may not necessarily share the same experience.

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APPENDICES

Appendix 1: Questionnaire

FACTORS INFLUENCING STRATEGIC ALLIANCES BETWEEN MOBILE TELEPHONY SERVICE PROVIDERS AND COMMERCIAL BANKS IN KENYA

Answer these questions are truthfully as possible. There is no right or wrong answers. The responses will be kept confidential.

Part 1: General information

1. What is your gender?

   Male [ ] Female [ ]

2. How long have you been working in this organisation?

   ………………………………………………………………………………………

3. What is your position in the organisation?

   ………………………………………………………………………………………

4. How many employees does the company have currently?

   ………………………………………………………………………………………

Part 2: Factors influencing strategic alliances

5. List the alliances the company has entered into that you are aware of.

   ………………………………………………………………………………………

6. The following statements relate to the **pre-alliance factors** that may have influenced the performance of your strategic alliance with a specific bank. Kindly use the scale below to respond to state the extent to which you agree that these issues. (Key: SA= I strongly disagree; D= I disagree; N = I neither agree nor disagree; A= I agree; SA = I strongly agree)

Factor	Statement	SD	D	N	A	SA
PRE.1	We have had prior relations with the bank					
PRE.2	Equity has a good reputation in the banking industry					
PRE.3	We had a potential to learn from the alliance					
PRE.4	We had the control rights in the alliance					

7. The following statements relate to the **post-alliance factors** that may have influenced the performance of your strategic alliance with the specific bank.

Kindly use the scale below to respond to state the extent to which you agree that these issues. (Key: SA= I strongly disagree; D= I disagree; N= I neither agree nor disagree; A= I agree; SA= I strongly agree)

Factors	Statement	SD	D	N	A	SA
POST.1	We have collaborated well with the bank					
POST.2	We communicate well in the bank					
POST.3	We have been cooperating well in the alliance					
POST.4	There is trust between us and the bank					
POST.5	We are more protective of the alliance					
POST.6	There is a culture difference between us and the bank					
POST.7	We have the technical capabilities to carry on the alliance					
POST.8	The alliance structure is favourable to us					
POST.9	The alliance type is favourable to us					
POST.10	We are committed to the alliance					
POST.11	We manage conflicts that arise in the alliance better					

8. The following statements relate to the **strategic fit** between your firm and specific banks. Kindly use the scale below to respond to state the extent to which you agree that these issues. (Key: SA= I strongly disagree; D= I disagree; N= I neither agree nor disagree; A= I agree; SA= I strongly agree)

Factors	Statement	SD	D	N	A	SA
FIT.1	The company's mission statement supports alliance formations					
FIT.2	The strategic alliance has helped to shape the mission of the company					
FIT.3	The company engaged in the alliance with the bank because we shared the same vision					
FIT.4	The strategy of the organisation supports the idea for strategic alliances					
FIT.5	The company only engages in strategic alliances with other firms that share in the same strategy					

THE END