CHALLENGES FACED BY SAFARICOM IN THE ACQUISITION OF ONECOM

BY

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university

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DEDICATION

I dedicate this research paper to my father, Eng. W.J. Odhiambo, who has tirelessly urged me to further my education as the pillar to success, respect and self gratification, my mother Mrs M.C. Odhiambo, who always encouraged me never to give up no matter what the challenges were, my sisters, Christine, Mary, Linda, Jacqueline and Maureen, who gave me the inspiration and encouragement that saw me through, my MBA classmate Linda Koyonzo who I persuaded to join the program and has been a great source of encouragement and inspiration all the way through.

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ABSTRACT

The acquisition strategy is a growing phenomenon in Kenya today, this has been embraced by many financial and technical based firms as a strategy of choice, it is however still not a popular strategy as many firms seem to tread in care and may take time to pursue the strategy, however, for those firms that have taken the risk, many have succeeded in growing their market share as well as their revenue. This research project was based on a study of the acquisition strategy used by Safaricom Ltd, and a synopsis of how Safaricom acquired Onecom Ltd. It also established the reasons for the acquisition strategy by Safaricom, the process of the acquisition as well as the challenges faced in the realisation of the strategy.

The study established that the acquisition strategy was necessary for the firm to make an immediate impact into the data market hence a competitive edge in its competition with local Internet service providers, It was also found that the acquisition was the best way forward in getting to launch different options of the service and have direct product based competition with the Internet service provider firms. The research findings indicate that the strategy if pursued for the right reasons can not only add value to the acquiring firm, but also to the target firm, this is so because the target firm employees could benefit from the expertise of the acquiring firm and learn new ways of doing things. According to this study, findings indicate that the acquisition strategy if correctly pursued can not only increase revenue streams of the mother company or organisation, but also benefit the Kenyan citizens by empowering them from the use of the products produced as a result of the acquisition, a good example is cited in the Safaricom acquisition of Onecom which saw the emergence of cheaper fixed data solutions that lowered the entry barrier for many small businesses and single owned businesses, this therefore improves the country’s economic growth in one way or another by empowering the smaller businesses to enjoy the benefit of such services.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In today's competitive market, companies seem to be appreciating the role of acquisitions in a bid to stay relevant and maintain market share, however, it may be possible that firms may opt to go it alone and still be successful, this however may not be sustainable as at a certain point in the growth of a firm, it will meet stiff competition and may need a partner with whom to join hands in a strategic partnership of sorts. For the industry giants and ambitious start-ups alike, no company can go it alone, according to Yoshino and Ragan (1995), strategic alliances are formed to facilitate entry into new markets and to reduce operational costs. Acquisitions have therefore been seen as an effective strategy for entry into foreign markets by multi nationals. An example of an acquisition strategy is cited in Hewlett Packard, better known as HP, which is an international firm that specialised in the production of printing technology, it ventured into the PC production sphere and realised that for it to make effective impact in the market, it needed to change its production strategy, it therefore acquired Compaq, a well known brand that specialised in the production of IT servers and computers, this strategy made HP one of the leading server, desktop and printing brand names in the world after the successful acquisition. This goes to show the impact of the acquisition strategy in the business world today hence the importance of studying the phenomenon.

1.1.1 Acquisition Strategy

Acquisitions can be seen as an alternative to strategic alliances, according to Doz and Hamel (1998), an acquisition is a blunt tool often leading one to acquire more for a higher price than one needs. It may also be noted that the possible reasons for one going into acquisitions is to enjoy close government relationships, that is in most cases for insiders within the country so as to shield oneself from harsh governmental regulations by having partnered with a local company. Doz and Hamel (1998) further argue that as companies also seem to focus around core competencies, it makes less sense to acquire only part of a business disconnected from its supporting competencies; this may lead to acquisitions, even when it is not feasible to do so.

Acquisitions are a significant part of corporate strategy with both regard to the economy as a whole and the individual business in question, it is estimated that recently, acquisitions have accounted for between one-quarter and one half of business growth respectively in the UK economy (Howe, 1986), he further goes to state that acquisitions are a means of achieving corporate goals. This statement by Howe could also be interpreted to mean that it is through acquisitions that firms can achieve corporate goals while holding control of the firm. It has also been seen that the skills and resources essential for a firms existence are sometimes in existence from the outside of the firm thus out of management control and reach, as a result, in this world we live in today, networks, coalitions, alliances, strategic partnerships are no longer an option but the norm and sometimes a necessity for survival (Doz, et al.,1998). This seems to suggest that given the high competitive nature of business today, businesses need to think quick and make decisions without delay on their new strategies that they plan to adopt so as to stay ahead of the game, it is in doing so that the thought acquisitions come into play as other firms are bound to add value into the competitiveness of a given firm in the enhancement of its product portfolio or service offering.

However, while acquisitions can create wealth for firms, they can also become black holes for management time and resources, this is so because few managers do understand how to move beyond the deal (herein being the acquisition), hence unable to actively manage the acquisition for its intended value creation, and as a result we end up with a failed relationship (Doz. Etal,.1998), strategic acquisitions are therefore a logical and timely response to the volatile changes in the economic environment that the businesses operate in, this has cast a situation whereby businesses are in a rat race to compete in two races, one for competition, and the other for its futuristic existence. Given the above explanations, a strategic acquisition can be described as a link to specific facets of business of two or more firms; this link is seen as a trading partnership that enhances the effectiveness of competitive strategies in the competing firms with one of the firms having the majority shareholding in the venture (Yoshino,1995).

Some of the characteristics of acquisitions include; the creation of greater uncertainty and ambiguity in the firm after the acquisition as a result of confusion of leadership; the manner in which value is created vis-a viz the way in which partners capture it is not pre-ordained; also from the fact that today's acquisitions may be tomorrows rivals or even a current rival in the market, this may pose challenges in having employees holding onto allegiances that may work against the strategy; managing the relationship is usually more important than crafting the initial formal design, hence the challenge is to have a management team that understands the challenges encountered in acquisition setups; and lastly from the fact that over time, the initial agreements have less to do with success than does the adaptability to change (Doz,1998).

Acquisitions are therefore described as an organisations quest to develop its core competencies by taking over other firms, this may however introduce changes to the mode of operation as well as factors that touch on operational efficiency within the two firms and within departments, all in a bid to support the acquisition objectives. These may turn out to be positive or negative effects. Previous studies by Wesonga (2006), Saruni (2006), Owuor (2004) and Koigi (2002) have brought out the issues and challenges of acquisitions as a strategy and have important pointers on salient issues worthy of consideration in this research, it will be noted however that these studies have mostly concentrated on financial and economic issues.

1.1.2 Background of Safaricom and Onecom

In the Telecommunications Industry in Kenya, acquisitions have also been seen as strategy of choice for some firms, examples are cited in the acquisition of Econnet wireless, which is the third mobile company by the Essar group of companies to form the new company called Yu. According to Kometsky (1985), acquisitions are accompanied by high levels of complexity, multiple transitions and uncertain future states. According to Wesonga (2006) in her unpublished MBA project on a survey of the factors that determine the choice of mergers and acquisitions partners in Kenya, strategic relationships are a necessity and no longer an option, synergies need to be created through collaborative efforts with other firms, she further goes on to mention that most strategic acquisitions were as a result of the economic slowdown in the years of 1929 and this saw the emergence of the phenomena in the USA. These statements seem to justify the existence of acquisitions as it suggests that they have become a necessity for today's business in very competitive markets within the Telecommunications industry in Kenya.

Safaricom is one such Telecommunications industry in Kenya that has embraced the acquisition strategy, it is a mobile telephony network provider company based in Kenya, it was originally a department of the former Kenya Posts and Telecommunications Corporation, it launched its operations in 1993 based on a British standard analogue ETACS (Extended Total Access Communications Network) telephony network and later upgraded to a GSM (Global System for Mobile communications) network in 1996 with the GSM operator license being formally awarded in 1999. Safaricom Ltd was incorporated on the 3rd of April, 1997 under the Companies Act as a private limited liability company and later converted into a public limited liability company on the 16thMay 2002 by virtue of the government having a 60% shareholding and the rest by Vodafone PLC from the UK, this made Safaricom a State Corporation based on the State Corporations Act (Chapter 446) of the laws of Kenya which defined a state corporation to include a company incorporated under the Companies Act which is owned or controlled by the Government. This however changed in March 2008 when the Government issued a sale offer of its 25% shareholding to the public, hence the ceased to be a majority shareholder. At this time Vodafone PLC from the UK took majority shareholding in the firm with the Government now owning only 35% of shareholding of the firm. Today, the firm has an employee base of approximately 2,700 employees and occupies three buildings as office space, one building as a complete state of the art call centre situated along Mombasa road, and various outlets as retail shops in Nairobi, Mombasa, Kisumu, Nakuru, Eldoret, Meru and other towns.

One communications on the other hand was a limited liability company incorporated in the year 2006 as a Kenyan holding company; it provided various data communication services including WiMax access and Internet Service Provider (ISP) services. It was originally a section of Comtec Ltd, a Kenyan company that is an ICT networking firm, and later broke off to form One Communications, better known as Onecom which was later acquired by Safaricom.

Safaricom Ltd acquired Onecom on 21st August, 2008 in a partnership that saw Safaricom own 51% and the Onecom shareholders retaining 49%, the deal was sealed at a value of ksh 185 Million with Safaricom being enthusiastic that the deal will help increase the market broadband penetration from the mere 2% at the time, the CEO of Safaricom Michael Joseph mentioned that the move to acquire Onecom was facilitated by the positive changes in the regulatory environment hence improving Safaricom's commitment to invest in new technologies enabling the provision of exciting and innovative products. The acquisition came shortly after the market regulator; Communications Commision of Kenya (CCK) changed the licensing regime to issue unified licenses that allowed for operators to offer multiple services that are not tied to their technology. This license became critical in the execution of Safaricom's new business strategy that required the firm to move into the data market as it had captured majority of the voice market in the country. As a result of the success in the company's revenue growth, it would be worthwhile to study the challenges faced by Safaricom in it's implementation of the strategy, given its market share in the Telecommunications industry, as it is considered a benchmark for most Telco's in the East and Central African business sphere.

1.2 Statement of the Problem

The acquisitions phenomena is becoming a trend in the Telecommunications Industry globally, as a result, there has been some activity on the same in the Kenyan context with major players such as Access Kenya Ltd buying majority shares in OpenView Systems hence seen as an acquisition strategy in the growth of its market share, Essar group of companies taking over the Econnet wireless firm to form the Yu mobile telephony network, and many others. These takeovers have brought along with them challenges in the operations of such arrangements which have either stifled performance and growth, or improved the same thus either positively or negatively contributing to the general business objectives of the firm. A similar study has been done by Jyrki Ali-Yrkko in his publication Mergers and Acquisitions, Reasons and Results. Yrkko (2002) in his study benchmarked Merger and Acquisition activity in Finland as compared to other countries, this research however only dealt with investment strategy impacts of the phenomenon and was based on the Finland market as compared to other European Nations, the study mostly was concentrated along revenues explored as a result of the strategy, this research will also look into the challenges of the acquisition strategy as experienced by Safaricom in its acquisition of Onecom Ltd, this was a factor that was not covered well in the study as it concentrated on the aftermath of the acquisition with heavy concentration on the financial elements, hence seen as a knowledge gap in as far as the acquisition strategy is concerned (Jyrki Ali- Yrkko, 2002).

There has been little documented and published research done in the area of acquisition in the Kenyan context, hence the possible challenges in carrying out this research. However, the unpublished work of Owuor (2004) on "Strategic Alliances" shed some light on the challenges and issues underlying the strategy in Kenya, he found that clash in cultures of the partner firms, lack of trust between partners as well as lack of clear goals and objectives are some of the challenges that stand out in mergers and acquisitions in Kenya. Chesang (2002) also found that some mergers and acquisitions did not take off as a result of incompatibility of organisational cultures and overall logistical challenges. Other works of Wesonga (2006), in his paper, "The factors that determine the choice of mergers and acquisition partners in Kenya," seemed to concentrate heavily on determinants of the acquisition strategy; it however touched little on the challenges of the same. Saruni (2006) had a very interesting thesis paper on the perception of acquisition: the case of Barclays bank of Kenya employees, where he mentioned some challenges of the strategy, this points out in brief some of the key challenges, however from a banking perspective. Kitonyi(2007) in his unpublished MBA project on "Response Strategies to the External Environment; A case study of Postal Corporation of Kenya (PCK)," was the one paper I came across that seemed to cover many issues in the Telecommunications Industry in Kenya, however, it did not touch on the challenges that firms in the Industry undergo in the implementation of the acquisition strategy, this research therefore calls to fill this gap as it dwells on the challenges of the strategy faced by Safaricom in it's pursuit of the same.

None of the studies above concentrated on the challenges of the strategy within the telecommunications industry hence a gap of opportunity for study as it is most relevant at a time when the country is undergoing a lot of technological metamorphosis occasioned by the arrival of the undersea fiber cable by Seacom and TEAMS ltd. It is expected that there will be a spur of activity within the industry in Kenya hence the onset of heavy competition, especially among Internet Service Provider firms and Mobile Telephone service providers, as a result, this competition may bring with it possible acquisitions among players in a bid to win the growing internet market as a result of data growth being seen as the next big revenue earner for firms within the Industry.

The Research will therefore look to establish the reason for the acquisition, the process of the acquisition and finally the challenges faced by Safaricom Ltd in its acquisition of Onecom. It therefore seeks to answer the questions: “What was/were the reasons for the acquisition? What was the acquisition process followed in the strategy? And finally what challenges have been faced by safaricom Ltd in its acquisition of Onecom Ltd?”

1.3 Research Objectives

The study therefore aims to establish the following:

i) What was the motivation for the acquisition of Onecom Ltd?

ii) What were the processes followed in the implementation of the acquisition strategy?

iii) What challenges were experienced by Safaricom Ltd. in its acquisition of Onecom Ltd.

1.4 Significance of the Study

With the advent of the growing acceptance of acquisitions in the Telecommunications Industry in Kenya, it seems that little attention has been given to the effects of the phenomenon within the Industry in the country, this is so because as more and more multinational firms acquire local firms, there is growing possibilities of these firms turning into Multinationals as well, this is usually as a result of an acquisition or takeover of the firm, or a majority stake holding into the local firm, meaning that most of such firms end up under the ownership of foreign firms hence diversion of profits back to their home country, thus affecting the country’s net balance of trade, hence the need to understand the possible impacts of the acquisition strategy.

The above scenario has necessitated the need by players in the market to re-look at this strategy and find ways of making their firms succeed as a result of the same, this research is therefore necessitated by the fact that the Kenyan Telecommunication firms do not seem to have documented and published the challenges faced in undertaking an acquisition after having gone through one, this research will therefore be a reference to the Kenyan firms within the Industry so as to help add to the body of knowledge when reference is needed, especially so when it comes to evaluating the overall role the strategy plays in the achievement of the firms objectives as well as services offered by the firm.

The research is also necessitated by the fact that there are many upcoming firms in the industry, this brings along with it stiff competition as the market has realised that demand is not only based on services offered but also in value added services, this therefore may necessitate the need for acquisitions amongst Information Technology (IT) based firms, hence the need to have a reference document from which they can research and evaluate the possible impacts of pursuing such strategies, this research paper would be a starting point for many such firms who would be interested in knowing how to succeed in an acquisition strategy from knowing the inherent challenges and putting in pre-emptive measures to mitigate against them, this is especially so for multinationals that would be seeking to invest in local firms using this strategy. This would also ensure that the IT Industry, especially for upcoming firms, make informed decisions when in pursuit of the strategy.

The research will also help in adding to the body of knowledge within the IT sector in Kenya, given the growing IT awareness drives that are currently being undertaken by organisations such as Information Technology Service Management Forum (itSMF), ICT Village and the Kenya Computer Society under the name ICT Board, this research can be used as a reference guide for IT firm directors, shareholders and other stakeholders within Kenya who are contemplating this strategy, so as to factor in the process of going through it, potential risks and advantages, as well as an addition to the body of knowledge to the already existing literature on strategic management in the acquisition area, hence a basis of further research.

1.5 Scope of the Study

The study will be a case study of Safaricom Ltd, which is a mobile telephony provider in Kenya with a 70% market share. Safaricom acquired Onecom Ltd, which is the abbreviation for the company called One Communications Ltd that is privately owned and deals in WiMax Wireless connectivity, it provides internet access to home users as well as small enterprises with a customer base of about 10 connected clients, this will obviously also provoke the need to know why the takeover of the firm by Safaricom. The study will be based on information collected from the Safaricom head offices in Nairobi, in addition, website information and Telecommunication publications will be used to gather information relevant to the research. It will also be limited to the management staff members as they hold the relevant information required for this study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks into the concept of strategy, types of acquisitions and definitions, motives of acquisitions, challenges encountered in acquisitions, acquisition guidelines as well as the impacts of acquisition.

2.2 The Concept of Strategy

Strategy is a concept that many have defined in different ways, according to Mintzberg (1994), strategy is seen as a stream of decisions and actions; he further defines strategy as a plan, ploy, pattern and perspective. It is therefore seen as the process of deciding a future cause for a business and therefore organising and steering that business to success by achieving its key objectives. According to Wesonga (2006)'strategies point out decisions on acquisitions that are made at corporate level, therefore, decisions made at this level are concerned with the overall purpose and scope of an organisation, as well as how value will be added to the organisation. Such decisions include the choice of business, dividend policies, sources of long term financing and growth priorities (Mintzberg, and Quinn, 1996). It is out of these factors of corporate strategy that we see the importance of acquisitions in the corporate world, especially in emerging African markets that are characterised by stiff competition from multinational firms.

Acquisitions are strategies that are quickly gaining acceptance in many business organizations and firms, in today's business setups, many managers and business owners view the strategy as an alternative method of strategy development. According to Scholes and Johnson (1999) there are three main types of development of the firm; these include Internal Development, which involves the development of strategies by building up the organisations own resource and competence base, also known as organic development. Such strategies are usually pursued by firms that are pursuing new ventures in a market as they are in most cases unable to develop by acquisitions.

Acquisitions as a strategy is another of Scholes and Johnson's models for the development of a firm, it is used in business growth; this is a situation where an organisation develops its own competence and resource base by taking over other organisations, the attraction to this phenomenon is from the speed at which it allows a company to enter new products or market areas (Scholes and Johnson, 1999). Sometimes, environmental turbulence is so high that the business gets stiff competition from competitors; hence the only way to enter new markets most of the time is by acquisition given that most of the time, the quickest way to gain internal competence and resources is by acquisition. The biggest challenge with acquisition lies in getting the parent company with the activities of the old company; this mainly causes a problem with cultural fit where acquisition is being used to acquire new competencies, this is something that is notable in Safaricom in its acquisition of Onecom.

2.3 The Acquisition Strategy

The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its majority assets, the firm that is purchasing is usually referred to as the bidder and the firm being acquired is known as the victim firm. This strategy is employed by many firms as a strategy for growth, market entry, diversification, improved operating efficiency and profitability of many firms (Howe, 1986). The three main types of acquisitions are vertical acquisition; horizontal acquisition and conglomerate acquisitions.

2.3.1 Types of Acquisition

Vertical acquisitions are one of the types of acquisitions, they do arise when firms are in different stages of production operation and the market is very competitive with suitable potential buyers (Weston et al., 1999). Because of the potential rivalry between buyers, opportunistic behaving parties can be avoided at contract renewal (Saruni, 2006) this is so because some firms buy out others for ulterior motives, only later to exploit their business potential for selfish reasons. An example of this is cited in the acquisition of Access Kenya and Openview systems ltd, these are IT based companies that went through the vertical acquisition process as Access Kenya has got more clout in the deal to buy out Openview.

Horizontal acquisitions are the other type of acquisition; they involve a firm purchasing two or many firms that are in the same industry running the same business activities (Weston et al, 1999) this type of acquisition is also noted to have the advantage of the bidder firm enjoying economies of scale for the purchase of raw material or services. It therefore seems that with the increased number of horizontal acquisitions, it may be paramount for the government to take control of this strategy as there are possibilities of the bidder companies buying off other competing firms, hence reducing the level of standards by reducing competition and potentially creating monopolies (Saruni, 2006).

Conglomerate acquisitions are those whereby the target company and the bidding company are in no way related to the products and services they sell (Winston et al.,1990) such acquisitions may not have any competitive biases once the acquisition is complete, given the un-related areas of business they seem to represent..

2.4 Motives of Acquisitions

According to Corporate Strategy (Howe, 1986), it is feasible to use acquisitions as a means of achieving several possibilities of business objectives, these include growth, market entry, diversification, improved operating efficiency and profitability.

Acquisitions are mostly attractive in growth strategies because of the fact that they are quick to achieve this through acquisition of existing businesses in comparison to internal option of building internal capacity by the purchase of assets, it also allows for firms to gain access to scarce raw material access as well as to distribution networks. It has also been though that businesses in the low growth markets are the ones that would be particularly interested in such a strategy, however businesses operating in the newer fast growing and profitable markets may not prefer to grow by acquisition. It is however not surprising that most large enterprise seem interested in the pursuit of such strategies and end up acquiring other victim businesses with the intention to control the market by the fact that the acquisition may allow for inheriting a more competent management team, thus the attraction to increase size of the business market share and management resource. (Howe, 1986);

Market entry is the other motive that leads to the pursuit of acquisition as a strategy, this would be most appropriate in cases where the market is growing slowly, this is especially so where the demand is inelastic with respect to price reduction by individual firms. According to Corporate Strategy by Howe (1986), market share is strongly entrenched behind patronage entry barriers sustained by product differentiation, advertising and where competitors are characterised by high level of operating efficiency hence capability to respond to price competition, this allows for entry into various markets by the adoption of acquisition as a strategy into the market.

Increased speed to market is the other trigger to acquisitions, this is a scenario whereby the firm decides to quicken the process of product development by acquisition of another firm that is already good at the product and include it as its own. According to Saruni (2006), new business acquisitions allow for the firm to enter into new markets more rapidly as compared to situations whereby they develop the same in-house. It is because of this reason that many foreign firms partake of acquisitions of local firms in a bid to gain quick entry into the market, good examples include the Subaru brand from the Fuji Heavy industries group of companies that acquired ECTA motors in Kenya so as to solely distribute Subaru Vehicles in Kenya, Toyota Japan Ltd which acquired a majority shareholding into the Lonrho group of companies to be the sole distributor of the Toyota brand in Kenya is yet another example.

Operating efficiency is another factor that leads firms to go the acquisition way, according to Howe (1986), "one of the most publicised advantages of a large number of proposed acquisitions is the projected increase in operating efficiency of the combined business." This aspect can be brought out better by the fact that acquisition of a firm that has a great sales volume and customer base as well as a good brand would be a competitive advantage to the bidding firm, hence cost of new products are reduced drastically compared to the competitors products.

Entry barriers are another challenge for firms hence driving their attentions towards this strategy, this is so because with an acquisition in place, a given firm that was experiencing a barrier in to the given market will use the acquired firm as a yardstick to gain entry in to the market, a good example is cited in Kenya back in the year 2000, where Kencell and Vodafone were bidding to get in to the Kenyan market for the one available mobile phone operator license, Kencell won the bid and this saw Vodafone UK resort to merge with Telkom Kenya to form Safaricom with Vodafone owning 35%, Telkom 60% and other shareholders owning 5%. Once launched, Safaricom became an acquisition where Telkom (government) was the victim firm later owning, 35% and Vodafone UK owning the majority share of 40% and the public owning 25%. In this example, Safaricom is an acquisition company that consists of various stake holders that have a role to play in the engagement. Barriers to entry are common with a market that is currently operating and there exists certain challenges that prevent the traders to acquire firms in the market, examples include well established firms being targeted by potential entrants into an industry so as to benefit from customer loyalty from the existing brand (Saruni, 2006). It has been noticed that the higher the entry barriers into a market, the more the likelihood of an acquisition (Hitt, Ireland, and Hoskisson, 2001).

2.5 The Process of Acquisition

With the potential challenges of the acquisition strategies mentioned above, guidelines for success can be drawn from the learning's in the above section, some of these would include, but not limited to the following;

Planning for an acquisition must start with a review of the firm as well as stating the objectives of the same, there is evidence that firms that have planned for an acquisition in terms of predefined policies, opportunities, evaluation and integration of acquisitions have in most cases significantly performed better across a range of financial variables (Howe, 1986). An analysis of the firms strengths, weaknesses, opportunities and threats (SWOT analysis), which is part of both internal and external environment, allows for comparison of the business objectives as well as external challenges and opportunities (Howe, 1989). SWOT analysis will indicate the possible direction and approach to undertake, the analysis will also guide the managers on major issues to be sought in the acquisition, such as revenue growth, stability of earnings and market growth among others. A good example of the use of the SWOT analysis is in the conversion of product-market characteristics into appropriate corporate strategies hence making it possible for acquisition objectives to be drawn as referenced by the Boston Consulting Group Matrix (Howe, 1986). The table 3.2 shows this relationship between product market characteristics and acquisition criteria.

Once the direction in which business is to move is decided upon, the next stage in the acquisition process is to search for possible candidates for acquisition as well as the application of criteria based on the findings of the SWOT analysis, this is called the “search and screen” process (Howe, 1986). The screening process involves the establishment of criteria and applications of the selected businesses, the criteria will be relative to each other and vary according to objectives that they are designed to achieve, the criteria illustrated in table 3.3 should be considered. The table shows that in the first set of criteria labelled “performance criteria,” if the purpose of an acquisition is to increase return on capital, employed or expansion, then an acquisition will satisfy the criteria; The second set of criteria labelled “company characteristics,” shows that it is important to consider an acquisition based on size, too large an acquisition can cause problems of corporate acceptance and digestion whereas too small an acquisition can result in heavy management costs of the acquisition (Howe, 1986). Geographical location with relevance to the mother company may impact on the ease with which control can be exercised in an acquisition scenario; Finally, the third criteria labelled “management” is considered to be a vital part of the acquisition. According to Howe (1986), “if the process of acquisition itself places a strain upon the acquiring company management, then it is bound to have difficulties in its operations as a firm. It is therefore essential that the acquired firm is well managed, and that the management will remain with the firm after the acquisition.” This essentially shows that the management team needs to be the same that was involved in the acquisition process so as to ensure that the strategy is carried through to its end, this is a major challenge for many firms as some immediately change management after a successful sign off in an acquisition or takeover, hence the management characteristics of the mother firm are not taken with the seriousness they deserve, hence potential failure of the acquisition.

It is therefore clear that the acquisition criteria should reflect the needs of the acquiring firm based on gap analysis or SWOT analysis. Some examples of a company’s acquisition criteria may include the following; “Any company we buy must have good management, we do not have unlimited management resources, and our capabilities largely lie in handling problems in our unique business area; The products or services acquired must have significant growth potential; the financial arrangements necessary for acquisition should not cause our shareholders serious earnings dilution or weaken their dividend safety.” These are based on findings from Brooke Bond in the UK in its analysis and consideration to acquire a firm, upon which it went through an acquisition criteria process (Howe, 1986).

2.6 Challenges encountered in Acquisitions

In as much as growth by acquisition is highly acclaimed by most firms in the United Kingdom, there are certain challenges that do apply, one of the key challenges would be in the availability of competent managers capable of running the firm through an acquisition process, further more, it is essential for an expanding business to find an acquisition that clearly fulfils its strategic needs in terms of the desired size of the planned increase in terms of output, the range of products being sought, the technology to be used, functional strengths needed as well as management style to be used. These conditions are not easy to satisfy hence a great challenge to many organisations undertaking this strategy (Howe, 1986). According to Saruni (2006), "Financial success in an acquisition requires careful combinations of complementary or otherwise related resources, coupled with appropriate gearing, a friendly negotiation climate, organisational fit as well as managerial actions that help the combined firm realise its potential synergies." Here, the author seems to suggest that many acquisitions fail as a result of the lack of co-ordination of all these factors, this is seen to be true because in most cases, as companies go into joint ventures, there is bound to be many differences in culture, perception, work ethics and many other aspects that if left unchecked or catered for would probably be the down fall of the acquisition. The following are some of the key factors that are seen as challenges in the implementation of an acquisition exercise as well as maintenance of the same;

Every organisation has its culture, this is a way of life for the members of staff and how they do things in the organisation, this can be a challenge in most acquisition exercises because of the fact that two different organisations will most likely have different cultures, i.e a different way of doing things, this challenge is mostly faced by global firms who wish to invest in local firms, after an acquisition, one notices that the resources from the overseas firms work in a very different manner as compared to those of local firms. According to Ramu (1998), the cultural systems which includes values, attitudes, assumptions and beliefs may affect many a management function to the extent of impacting on key issues such as planning, controlling and organizing functions of management are impeded upon. This goes to show that both parties to an acquisition bring along with them unique cultures that could affect the firm negatively or positively, hence one of the most difficult aspects of acquisitions for many managers involved in the process.

The other key challenge is from the fact that prior to an acquisition, the target firm is expected to disclose all its assets, liabilities, management profile and worth as well as resources to the bidding firm, however, this may not be done with all honesty in a bid to gain more than the firm is worth by the targeted firm, this brings about the issue of due diligence hence referred to as the due diligence problem. This may sometimes however occur due to the ignorance of the acquiring firm's ability to acquire this information before the actualisation of the acquisition process; the end result is sometimes a wrong decision in an acquisition strategy being pursued with the wrong firm. According to Hitt, et al (2001), due diligence is often overlooked as a result of the management team being in a rush to "seal the deal" in an acquisition exercise, hence an inappropriate decision.

In the telecommunications and information technology industry, the issue of integration challenges is a key factor to consider when acquiring a firm, this is so because the bidding firm may be interested in a victim firm, yet the services offered by the victim firm are not compatible to the exiting ones within the bidding firm, this therefore means that technical compatibility issues arise hence slowing down the process acquisition. The purchase of a company whose products and services are based on a different technology may benefit the acquisition but also slow down implementation of essential services responsible for meeting the main objectives of the business partnership. According to Saruni (2006), acquiring an older more mature firm can offer proven competencies as well as optimised processes, but pose great integration challenges due to the entrenched work routines and cultures as well as cumber some tasks.

Other reasons for the potential failure of acquisitions include; "the failure to establish objectives for an acquisition that is in sync with the firms corporate strategy, failure to compare acquisitions with alternative means of achieving corporate objectives, ignoring financial dimensions of acquisitions, insufficient familiarity on the part of the acquiring firm management with the business of the firms and finally insufficient attention to post acquisition planning" (Howe, 1986). In general, acquisitions are difficult to implement as well as manage, hence the pointers above help keep tabs of the key trouble areas that may arise as a result of pursuit of this strategy

2.7 Impact of Acquisitions

Acquisitions are corporate strategies that are important to any firm that is looking to grow in today's competitive market, according to Howe (1986), both individual firms and the economy, it is important that acquisition decisions are made on a rational basis and effective implementation. When we narrow down to acquisition, Howe (1986), puts more emphasis on this strategy and mentions that it can be appropriate for achievement of certain corporate goals but with a lot of caution, he emphasises on the need to plan in the context of overall corporate strategy, consider the merits of acquisitions, develop clear acquisition criteria which are adopted in choosing corporate partners as well as invest in managerial resources.

Acquisitions have been known to create value when competitive advantage of a firm is improved through the transfer of strategic capabilities (Saruni, 2006), he further argues that firms can obtain a competitive advantage by accessing resources and capabilities from the acquired firm, which turn out to be an asset for the acquisition, hence they have to be rare, imperfectly imitable and without equivalent substitutes and most of all, have to be of value when they are applied to the market.

The other justification of acquisition, which may be selfish to the shareholders of the firm, is the acquisition of power, prestige as well as reduction of competition in industry by acquiring major players in the firm, according to Saruni (2006), an increase in the market power or influence in the external environment leads to the motivation for an acquisition to take place, so as to keep up with the hostile competitive environment. This means that value is in most cases created when the assets of the target and biding firms are used more efficiently by the combination of the two firms than if they were to do so alone (Haspeslagh, and Jenism, 1991)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter dwells on the research methodology with emphasis on the research design, the respondents of the study, data collection technique and data analysis method.

3.2 Research Design

This study was based on a case study of Safaricom Ltd . The research design was selected because case studies are best for the collection and organisation of data as well as determine patterns from the collected data so as to come up with information that will lead to a conclusion. According to Kombo and Tromp (2006) a case study seeks to describe a unit in detail; it is a way of organising educational data and looking at the object to be studied as a whole. He further goes to mention that a case study design can be used if one intends to analyse an issue in detail. A case study is also seen to allow for an intensive study of a single entity, in this case Safaricom Limited, hence the decision to perform a case study.

3.3 The Informants

The respondents are the people who were the subject of the case study, the unit of analysis here was Safaricom Ltd, the respondents are the people who were interviewed so as to get the required information (Kombo, and Tromp, 2006) The respondents included senior level management of Safaricom that were relevant to the acquisition process; the respondents were therefore heads of the departments/ divisions of Human Resources, Corporate Strategy, Technical Division, Regulatory and Information Technology Division. Safaricom has got approximately 2700 employees, as at August 2009 based on information from the Human Resource Division at Safaricom. The senior management from the sections mentioned above were considered to be the best for the study as they have the relevant information required for the study, they are also well informed on most aspects required hence less time was taken to gather the required data.

3.4 Data Collection

This is the part of the research that involves the gathering of data, here; the decision was to use interviews as a data collection tool, the interviews were done with the aid of an interview guide as shown in appendix 1. This was used to collect primary data that was later analysed using content analysis method. The decision was to interview top level management in the sections of Safaricom mentioned above as well as the chief executive officer given the fact that this is a strategy chosen by Safaricom. The respondents were subjected to structured interviews with the use of an interview guide as explained earlier, (see appendix 1) the interviews were personally conducted by the researcher. Structured Interviews were selected because the reliability of information selected is high as a result of asking the same questions to the various respondents, It is time saving because the informants only respond to the questions asked hence avoid ambiguity and also from the fact that the collected data is comprehensive and systematic (Kombo, and Tromp, 2006)

3.5 Data Analysis

This case study is qualitative in nature; hence data was analysed using content analysis method. According to Kitonyi, S.W (2007) content analysis is a technique for making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. According to Nachmias and Nachmias (1996) content analysis is a technique used for making inferences by systematic and objective specific characteristics as well as messages, and using the same to relate trends. The analysis was focused on the objective of the study, which was to establish the challenges faced by Safaricom in its acquisition of Onecom, It is from the data collected that the results were analysed out of which findings and conclusions were drawn.

CHAPTER FOUR: DATA ANALYSIS AND INTERPETATION

4.1 Introduction

This Study entailed analysis and interpretation of findings of the study as set out in the research objectives, the data collected was analysed using content analysis method given the nature of the data collection method used. Key heads of departments formed the bulk of the people interviewed; this ensured that only those relevant to the acquisition of Onecom were involved in the interview, this allowed for an in-depth analysis of the information collected by further probing in within the questions asked.

4.2 Profile of the Respondents

The respondents of the study were top management staff members, this was because they were considered to have the best strategic view to the reasons for the strategic option chosen, and would best articulate why the acquisition strategy was preferred. Most of the respondents had been with the firm for over six years, with others having been in the firm for as long as it had existed in Kenya, their roles are to drive their respective departments to deliver the firms objectives, they are tasked with the mandate to recommend strategies and act on the same strategies hence their relevance in the interviews, The chief officers were also interviewed. Other staff members that were directly involved in the acquisition implementation were also interviewed so as to capture aspects of the implementation as well as planning of the same, they proved quite an important part of the study as they helped form a verification of facts as stated by the top level management on the strategy.

4.3 Data Analysis

The data collected was in interview form with the assistance of an interview guide, this had a number of challenges and complexities as will be mentioned later, based on the data collected, the following sub headings are a representative of sections of the interview that form the objectives of the study, the questions therefore captured detail on the reasons for the acquisition strategy, the challenges faced by the firm in the acquisition and implementation of the strategy and lastly the process of the acquisition strategy implementation.

4.3.1 Motivation for the Acquisition

This section looked at the reasons for the acquisition strategy, the interview had questions that provoked inquiry on the reasons for the acquisition, it was established that the key objective of the acquisition was to allow for Safaricom to acquire the WiMax spectrum frequency which was in short supply, the best way was therefore to approach a firm that had the license and frequency and acquire the firm, this would effectively make the license and frequency be part of Safaricom's assets and competitive tool that would be used in the tough and competitive telecommunications industry in Kenya, It was also considered to be a get to market strategy that would allow for Safaricom to enter the fixed data space with little effort by the acquisition of the assets and resources of Onecom Ltd, which was a firm that sold WiMax connectivity services to customers, this was not offered by any other mobile telephony operator and Safaricom saw the opportunity here and seized it. Other schools of thought also saw the acquisition as a way of offering an additional last mile solution to the customers hence more flexibility of choice for any given customer who would either choose to connect to Safaricom data services using Fiber, 3G or WiMax connectivity solutions. The statements above therefore presuppose that the main motive for pursuing the acquisition of Onecom Ltd was to acquire the WiMax frequency spectrum so as to use it to propel Safaricom into the fixed data market ahead of its competitors Zain and Orange, hence gain competitive advantage in the market.

4.3.2 The Acquisition Process

This section established the process that was followed in the achievement of the acquisition of Onecom Ltd, One of the respondents who was heavily involved in the process from a strategic view point mentioned that the process went through the following steps; The first step was that Safaricom approached Onecom ltd and commenced discussions into a possible acquisition of the firm, this was done after identification of the license and spectrum owned by Onecom and its potential to help Safaricom enter the fixed data market space; the next step was to ensure that due diligence was done on the target firms financial, technical and commercial aspects, this was an important step as it was crucial in the determination of the firms assets, this was done with the help of consultants; the third step was the business valuation stage, this was done to derive the value of Onecom Ltd, hence the sale value; the fourth step was the drafting of the legal agreements, this captured the purchase price of the target firm; the fifth step was the approval of the strategy by the board of directors of Safaricom ltd, this step is important in that it helped drum support from top management; the sixth part involved the final signed agreement between the two parties; the seventh step involved the liaison with Communications Commission of Kenya to authorise the license spectrum move over as well as authorise the acquisition; finally, the announcement of the acquisition was the final step, this was done in pomp and glory in the month of November, 2008.

It was also noted that some of the heads of department only knew of the acquisition after it had been announced, on further analysis, it was found that most of the acquisition strategy plans were shared within a steering committee, hence the possible hoarding of information to the other staff members was evident until after the announcement. It was however agreed that the process indicated above was the process undertaken for the implementation of the same.

4.3.3 The Challenges faced by Safaricom

The study established that there were many varied answers as to what the main challenges were, however the respondents went ahead to list these as accurately as they could. One of the key challenges was getting Onecom Ltd to agree to the deal, this was seen as crucial because Onecom Ltd management was originally sceptical of the deal and it took quite a while for Safaricom management to convince Onecom board of directors to pursue the acquisition strategy, this finally was settled by the offer of an acceptable price that saw Onecom board agree to the deal based on the offer price for the acquisition, this then brought about the key challenge of negotiating the value of the firm, this was particularly difficult for Safaricom because of the fact that there weren’t any optional deals to compare costs with and benchmark the transaction.

The other key challenge was from the regulator Communications Commission of Kenya, It was a known fact that the CCK opposed any monopolistic tendencies in the industry and

Safaricom had to ensure that the acquisition did not reflect as such, Safaricom therefore engaged the CCK in talks to make them understand the reasons for the acquisition and what role and or value it would have in the Industry as a whole, it is believed that this was done successfully given the fact that CCK ascent to the request.

Culture was also noted to be a challenge but in quite a small way, one of the heads of departments who has been with the firm since inception mentioned that culture had very little to do with the acquisition success, this view was informed by the fact that according to him, culture had a minimal role in the negotiations of the deal, however, one of the respondents who is a senior manager that was directly involved in the integration process mentioned that Safaricom being the mother company forced a situation whereby the Onecom employees had to adopt the Safaricom work ethics, this saw a few members of Onecom lose their jobs as a result of the integration of the two firms because of the fact that some roles were replicated across the two and had to be amalgamated into one function, whereas those who could not deal with the change also may have opted to leave the firm.

The other challenge that was noted by some of the heads of the technical departments was that of integration, it was noted that Onecom did not have a proper billing system for its clients, this posed a great challenge as Safaricom has an advanced enterprise resource planning tool also abbreviated as an ERP, running on the stable Oracle database system, it took quite a while to have the existing WiMax clients migrated to this billing system, this created major challenges as it became evident that technological integration was of great importance to the success of the acquisition. It was also established that the processes of Safaricom were already in place and ISO standardised given that the firm is ISO 9001 certified, this was however non existent in the Onecom team who had very basic processes that were mostly operational and not business oriented, the integration of these processes took more than six months to achieve, hence a great challenge to the implementation of the strategy. On the other hand, It was also established that some of the former Onecom staff felt that the Safaricom employees were not specialised on the WiMax technology and hence believed that their ways of operation was best for the product, this obviously caused quite a bit of internal friction given the fact that Safaricom technical staff understood that the importance of the product is not in the technology but in the relevance it brings to the customer, in short, the Safaricom team were already aligned to be customer centric hence had their operational procedures centred along customers preferences and needs.

The respondents from the business and commercial side of the business also noted that Safaricom has had to increase its expenditure in growing the WiMax network as well as additional resourcing of the same; this is a challenge in that the acquisition would have been seen to have added immediate value as the target firm, but instead, because of the reasons of the acquisition, the value to Safaricom would not be immediate as capital and operational expenditure had to be invested into the firm.

CHAPTER FIVE: SUMMARY, DISCUSSION AND CONCLUSIONS

5.1 Introduction

This chapter deals with the summary of the study as was carried out within safaricom, discussion and conclusions of the study based on the data that was collected from the interview sessions with respondents, it further looks into the limitations of the study where the challenges were captured and documented, recommendations for further research that will be useful for future researchers so as to assist in getting further areas of study, and finally the recommendations for policy and practice that can be added as policy guidelines for future users in industry.

5.2 Summary, Discussions and Conclusions

The first objective of the study was to establish the motivation of the study, the study revealed that the main reason for the acquisition of Onecom Ltd was to acquire the WiMax spectrum; this was a necessity for Safaricom because the Communication Commission of Kenya which is the authority that manages frequency spectrum allocation in Kenya has limited spectrum to issue, it was therefore a strategy for Safaricom to acquire the spectrum by acquiring a firm that already had the license to use the frequency for its service provision, this was considered the main reason for the acquisition. In addition, other subsequent reasons were from the fact that by the acquisition of spectrum for WiMax connectivity, Safaricom wanted to attain competitive advantage over its competitors Zain and Orange networks by having a unique fixed data service, this proved to be a last mile solution that enabled small to medium enterprises, also referred to as SME, and small office and home users, also referred to as SOHO businesses who found it expensive to tap into the fiber option of fixed data solutions, but instead pursued the WiMax solution offered by Safaricom, this strategy therefore increased Safaricom's fixed data clientele as it now catered for more than one market class. It was also established by one of the respondents that the overall strategy was built around the firms objective to push the provision of data given the fact that voice revenues were beginning to drop as a result of price wars and competition.

The second objective of the study was to establish the acquisition process that was used by Safaricom. The study established that there was a process oriented and procedural structure that was used to document this process, one of the respondents from a strategy based department that was heavily involved in the process took the researcher through the whole process in a step by step manner as was documented in chapter four. Findings of the research seemed to align to the objectives showed that in the case where there is an pre-established process, most of the key issues are bound to be covered in an acquisition exercise and there is less likelihood of scope creep during the process, it also came out that having a pre-defined process would help the board members as well as those concerned stick to the objectives of the acquisition and avoid sideshows that may usually crop in for such a process to be successful, the challenge was to remain objective and state the facts as they were, this was key in determining the real value of Onecom thus an important step in making the offer.

The third objective of the study was to establish the challenges of the acquisition planning, discussions and implementation. The study established that there were challenges that were identified to cut across the board within the firm, however other challenges seem to be concentrated along technical integration areas, It would then seem that for technical oriented firms, integration would be a key factor to pay attention to and would need to tie in with contributing to the objectives of the acquiring firm. The respondents identified the fact that most of the challenges were mainly built around variables that could be captured at an earlier stage and resolved either immediately or planned for action as the firm acquisition implementation would start, the study was therefore able to successfully identify the challenges through the respondents were well articulated in this document.

It can therefore be concluded that the acquisition strategy is recommended for firms that have set objectives and understand the competitive advantage they stand to gain as a result of its pursuit. It can also be concluded that the strategy worked for Safaricom despite a few hitches, this is evident from the increased data products in the market offered by Safaricom as captured in the interview sessions, and hence the firm gained competitive advantage over its competitors. It can also be said that the strategy has got challenges and it is in capturing the potential challenges at the planning stage that these can be dealt with objectively to the benefit of the firm as well as in alignment with the acquiring firm's objective. Hence acquisition as a strategy is a good strategy to adopt but needs a lot of analysis and planning before the decision can be made to do so, Safaricom is a good example of a firm that planned well for the strategy and implementation was a success as a result of the good planning.

5.3 Limitations of the Study

The study was conducted within Safaricom Ltd, which is a firm that has very busy staff members who are ever under pressure to meet their key performance indicators; it is for this reason that Safaricom is the market communications leader in East and Central Africa. As a result of this, it has been difficult to get senior management availability to participate in the interviews; hence not all the targeted respondents were available for the same. On the other hand, it was also noted that some of the respondent preferred to delegate the interviews to their direct reports, this therefore may have brought about some element of lack of current information on the latest to do with the strategy as seen by the board of directors, the reason for this Is that top level management usually interact with the board and would be in a better position to articulate the position of the board in such strategic matters. It was also noted that information, especially secondary data was not readily available on the telecommunications industry in Kenya as well as on this study, it was therefore a challenge to get some of the information that has been documented in this study.

5.4 Recommendations for further Research

This study was qualitative in nature, hence an interview guide was used to collect data from respondents, this could be improved upon by having a study on the acquisition strategy in comparison with mergers within the telecommunications industry, this would help users of the information know which of the two strategies to pursue based on certain variables that could be documented, this could be made quantitative in nature hence the use of questionnaires to achieve the advantage of comparative statistics. Another recommendation for further research could be on the effects of the acquisition strategy implementation on the firms revenue growth, such a study could dwell on Safaricom's acquisition of Onecom and look to establish whether the firm has increased its revenue streams in the fixed data products or not as a result of the acquisition. Lastly, a study on the effects of acquisitions on human resource performance in Safaricom could be a topic for research, this is because such information would help interested firms gauge the level of performance they would expect from the victim firms staff members as well as from the acquiring firms staff, this is important in that it would help clear the notion that in most acquisitions, many have to expect job losses as a result.

5.5 Recommendations for Policy and Practice

This study is of great significance to the telecommunications industry because of the fact that many firms are in a hurry to acquire other firms in a bid to gain competitive advantage over each other, especially at this time in Kenya when we have just received the undersea fiber infrastructure into the country, this study would help add value in policy formulation by regulatory authorities like the Communications Commission of Kenya, in that the study goes to show that not all acquisitions are for competitive advantage, but also to improve technical capacity of the citizens of a country as well as awareness, the acquisition of Onecom by Safaricom has seen major growth in the data service acquisition by small businesses, this plays a major role in the contribution to data content that will be a major factor for the fiber infrastructure that we are just beginning to experience in the country, this is because without content, the fiber may end up being nothing but just a tool for internet indulgence for overseas content, this is one of the major concerns of the Permanent Secretary in the ministry of information and communications Dr. Bitange Ndemo. This study can therefore contribute in helping to formulate policies that revolve around the acquisitions strategy in the telecommunications industry in Kenya and maybe contribute to the vision 2030 within the ICT sector.

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APPENDICES

APPENDIX 1: INTERVIEW GUIDE

1. What is your position in Safaricom/ Onecom?
2. How long have you worked in the organisation?
3. Why do you think Safaricom so it necessary to acquire Onecom Ltd?
4. What percentage of Onecom did Safaricom acquire?
5. In your opinion, was the acquisition necessary?
6. Briefly describe the process of the acquisition, what steps were followed?
7. How would you describe the data business in Safaricom after the acquisition of Onecom?
8. In your opinion, what was the most challenging aspect of the acquisition of Onecom by Safaricom
9. Has there been any change in the products offered by Safaricom since the acquisition
10. Has the acquisition had any impact on the competitive nature of Safaricom?, Please explain.
11. In your opinion, how quick was Safaricom able to operationalize the takeover.
12. what aspects of the acquisition do you think may need more attention
13. Have there been any changes in the firm's expenditure trends as a result of the acquisition?
14. Did corporate culture have any role in the acquisition? if so, please explain.
15. Have there been any changes in the sales targets of Safaricom as a result of the acquisition?

16. Has the Safaricom staff been supportive in the acquisition of Onecom Ltd? Please explain
17. In your opinion, has the acquisition strategy been effective in meeting Safaricom’s objectives?
18. What lessons do you feel have been learnt as a result of the acquisition strategy used by Safaricom, please explain.

APPENDIX 2: TABLES

Table 2.1: Types of Strategic Alliances and their motives

	Loose (Market) relationships	Contractual Relationships	Formalise Ownership/ relationship	Formal Integration
FORMS 0R ALLIANCES	Network Opportunistic alliances	Subcontracting license and franchises	Consortia joint ventures	Acquisitions and Mergers
INFLUENCES				
-Asset Management	Assets do not need joint management	Asset management can be consolidated	Assets need to be jointly managed	
-Asset Separability	Assets cannot be separated	Assets/ Skills can be separated		Assets cannot be separated
-Asset Appropriability	High risk assets being appropriated	Low risk of assets being appropriated		High risk of asset appropriation

Source; scholes and Johnson, (1999).

Table 2.2: Acquisition Objectives.

	High market share	Low market share
High Growth	Product/market reinforcements, Acquire funding resources as needed, Foothold to new growth areas	Reported earnings cash flow, Stand by debt capacity
Low Growth	Acquire number two company in a growth industry and, Fund aggressive market penetration	Sale or merger on best terms possible

Source; W.S. Howe, “Corporate Strategy,” P185.

Table 2.3: Acquisition criteria

Performance Criteria	Return on capital employed Sales margin Sales growth Market share
Company Characteristics	Size Geographical location Product range Marketing or R&D strengths
Management	Quality of management Compatibility between organisations

Source; W.S. Howe, “Corporate Strategy,” P186.