STRATEGIC ALLIANCES IN THE HOTEL INDUSTRY: A CASE STUDY OF SAROVA GROUP OF HOTELS.

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 dear husband Mr. Daniel Lekolool and our lovely new born baby Michelle Naitore Lekolool.

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ABBREVIATIONS

SGH   -   Sarova Group of Hotels

KNBS -   Kenya National Bureau of Statistics

KTB   -   Kenya Tourism Board

GDP   -   Gross Domestic Product

WTTC -   World Travel & Tourism Council

RDT   -   Resource Dependency Theory

TCT   -   Transaction Cost Theory

ISA   -   International Strategic Alliance

MOU   -   Memorandum of understanding

SSLGL-   Sarova Saltlick Game Lodge

STHGL-   Sarova Taita Hills Game Lodge

ABSTRACT

Strategic alliance is flourishing in the hospitality industry. However, the pace of research has not kept up with this evolving phenomenon. Past studies on alliances focused mainly on manufacturing and high technology industries and predominately in Western countries. There has been little attempt to explain and understand the strategic alliances formed in the hospitality industry in Kenya. The objective of the study was to establish the motivation for the formation of strategic alliance and to establish the factors that determine the success rate in strategic alliances by the Sarova Group of Hotels. The research methodology used was a case study. The study sought to have a thorough understanding of the phenomenon from the perspective of Sarova Group of Hotels. The data was gathered through interviews with three respondents who were involved in the formation and management of the alliance. Content analysis was used to analyze the information gathered. The findings revealed that SGH realized that they could not cost cut their way into growth and prosperity, because there is a limit to how much you can grow earnings by improving margins. As such, alliance was seen as one of solution for accessing those capabilities. The alliance was formed with an aim of entering the two properties Saltlick Game Lodge and Taita Hills Game lodge into an alliance with Sarova Group of Hotels. The findings of this study revealed that the success rate of alliance formation is found to be positively impacted by pre and post alliance formation factors. The study also revealed the motive that lead to the formation of strategic alliance: transaction-cost motives; resource-based motives; strategic motivations with regard to competitive position of the firm; learning objectives; and motives relating to risk reduction, new market entry, and first-mover advantage. The research findings show that the highest ranked motive of strategic alliance are "knowledge sharing; cooperative learning and embedded skills", followed by "improving performance. This fact leads to some interesting findings with the lowest ranked being "adjusting to environmental changes", followed by "reduced financial and political risk", and followed by "entering new markets". The major challenges faced by the alliance are; conflict management among the employees who were not ready for change, differences in target market, image, culture, pace of work and management styles. The study recommends that organizations need to adopt strategic alliances as a policy to strengthen their competitiveness and increase their efficiencies. For hotels which do not have the experience of strategic alliance formation, understanding the motives for alliance formation found in this study may arouse their appreciation of adopting alliances as one of their business strategies and help them enjoy the benefits which alliance may provide.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The increased competition arising from the fast changing global market has resulted in a situation where companies are finding it difficult to go it alone. More than ever before, many of the skills, capacities and resources that are essential to a firm's current and future prosperity are to be found outside the firm's boundaries and outside the management's direct control (Doz and Hamel, 1998). Therefore, relationships that tend to give a firm these competences that are outside its current tangible and intangible assets are important.

According to Drucker (1992), the greatest change in corporate culture and in the way business is being conducted may be the accelerating growth of relationships based not on ownership but on alliances of all sorts. One of the fastest growing trend for business today is the increasing number of strategic alliances that are sweeping through nearly every industry and are becoming an essential driver of superior growth (Booz-Allen & Hamilton, 1997). Strategic alliances, a manifestation of inter-organizational cooperative strategies, entails the pooling of specific resources and skills by the cooperating organizations in order to achieve common goals as well as goals specific to the individual partners (Varadarajan and Cunningham, 1995).

The development and management of alliances is a critical strategic skill in hospitality and tourism (Crotts & Wilson, 1995). Not much can happen in these sectors without multiple firms working collaboratively with one another to serve the consumer. The resultant synergies flagged off its initial popularity in tourism, in

a fragmented marketplace (multiple players, unique separately governed destinations), where resources were limited (state-controlled budgets, limited means to reach a global marketplace), and the industry that was heavily regulated (Crotts et al, 1998).

Many companies now find themselves thrust into two very demanding competitive races, the global race to build a market presence in many different national markets and join the ranks of companies recognized as global market leaders, and the race to seize opportunities on the frontiers of advancing technology and build the resource strengths and business capabilities to compete successfully in the industries and product markets of the future. Even the largest and most financially sound companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expansive skills, resources , technological expertise and competitive capabilities than they can assemble and manage alone (Thompson et al, 2004).

1.1.1   The Concept of Strategic Alliances

The concept of strategic alliance has become widely used in business language to refer to the different types of partnership agreements between two or more companies that pursue clear strategic collaborative objectives with different levels of possible integration among the members (Elmuti and Kathawala, 2001). Gomes-Casseres (2003) presents his definition of alliance as any governance structure to manage an incomplete contract between separate firms and in which each Partner has limited control. The author states further that an alliance is a way of sharing control over future decisions and governing future negotiations between the firms. Strategic alliance is a coalition or cooperation agreement formed between a company and others to achieve certain strategic goals. This

happens when two or more companies collaborate by sharing resources and activities to pursue a common strategy (Johnson et al 2005).

Wheelen and Hunger (2000) states that a strategic alliance is an agreement between firms to do business together in ways that go beyond normal company to company dealings, but fall short of merger or a full partnership. Ernest and Bramford (2003) define an alliance as an agreement between two or more separate companies in which there is shared risk, returns and control as well as some operational integration and mutual dependence.

Strategic alliances are becoming more and more prominent in the global economy. Drucker (1996) states that "The greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnership". Strategic alliance are a partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. The potential of strategic alliances strategy is enormous. If implemented correctly, some authors claim it can dramatically improve an organisation's operations and competitiveness (Brucellaria, 1997). According to a survey conducted by coopers & Lybrand, 54 percent of firms that formed alliances did so for joint marketing and promotional purposes (Coopers and Lybrand, 1997). Companies are forming alliance to obtain technology, to gain access to specific markets, to reduce political risk, financial risk, to achieve or ensure competitive advantage (Wheelen and Hunger, 2000).

While strategic alliances have a great variety of forms, many researchers agree that the basic forms of alliance include joint ventures, minority equity alliances, and contractual alliances (Das and Teng, 1998; Gulati and Singh, 1998; Yoshino and Rangan, 1995). Joint ventures refer to separately incorporated entities jointly owned by partners. Minority equity alliances include an acquisition of equity shares by either one or more partner firms, while contractual alliances involve no equity transaction or creation of a new entity in the agreement.

The potential of strategic alliances strategy is enormous. If implemented correctly, some authors claim it can dramatically improve an organizations operations and competitiveness (Brucellaria, 1997). An alliance can overcome shortcomings, inadequacies, or the lack of resources of any single group. More so, results in more creative solutions which result from a cooperative effort, generates more creative solutions to problems. In some cases, groups may be more likely to take risks because the responsibility for failure does not rest on any one individual. Alliances also permit a sharing of responsibilities so that no one individual or group has "to do it all." The formation of an alliance often increases public awareness of the conservation program or project being undertaken. Companies are forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk, to achieve or ensure competitive advantage (Wheelen and Hunger, 2000)

1.1.2   The Hotel Industry in Kenya

Many nations in sub-Saharan Africa are identifying the development of hospitality industries as an important source of economic diversification. As a consequence, the

analysis of hotel and restaurant businesses in these nations is becoming a significant research issue. For instance, in Kenya Tourism earnings which are a key source of foreign exchange earnings rose by 32.8 per cent from Ksh.73.7 billion in 2010 to Ksh.97.9 billion in 2011 (KNBS, 2012). International visitors mainly on holiday resulted in a 13.3 per cent rise, in the volume of arrivals. Total arrivals grew from 1.6 million in 2010 to 1.8 million in 2011.

Accommodation in Kenya is of a high standard and unique, hence guests can absorb the real flavours of Africa. For those on safari, the lodges, tented camps, bush homes and home stays can handle a wide range of group size. On the coast, the hotels offer a variety of accommodation fronting the white sandy beaches. For business tourists, the city hotels are classic are numerous offering good meeting facilities. According to a study done by Kenya Tourism board in 2009, there are 2228 licensed hotels with 72665 beds within the country, a greater majority of which are privately owned and managed. About 6% of all licensed hotels are 3 star and above with 46% of the total beds and are of very high standard. The other 54% bed capacity comprises of budget and economy class hotels most of which are in the outskirts of major towns, but are all the same of average to good quality and offer very reasonable rates for the not-so-much-of a high spender tourist (KTB, 2009).

20 % of all hotels in Kenya are found in the Coastal region accounting for 39% of total beds due to the traditional beach product, which led to the rapid development of tourism infrastructure and beach resorts in the late 70's and early 80's. About the classified hotels, 46% of those above 3 star are located in the coast accounting for 55% of the bed capacity. Majority of the hotels are privately owned and this has led to an improvement in the

quality of service as investment in upgrading the stock follows from competition. A few international hotel chains which offer high quality service such as Hilton International and Intercontinental Hotels, among others have hotels in Kenya (KTB, 2009)

A study carried out by World Travel & Tourism Council in 2013 found out that the direct contribution of Travel and Tourism to GDP in 2012 was Kes.450bn (12.5% of GDP). This is forecast to rise by 4.5% in 2013. The direct contribution of travel and tourism to GDP is expected to grow by 4.5% per annum to ksh.700bn by 2023. Further, the sector is a major source of government revenue in the form of taxes, duties, license fees, entry fees among others (WTTC, 2012). Due to tourism's linkage with other sectors, it has a very high multiplier effect on the economy, and as a result the capacity to stimulate demand for locally-produced goods and services, provide a wide market for agricultural products, promote regional development, and even create new commercial and industrial enterprises.

In the current competitive environment where firms strive to become world class competitors, the motivation to partner, in one or all of these forms, is great (Domke-Damonte, 2000). In order to serve the increasing growth in tourism worldwide, emerging collaborative forms of strategy have been forced to evolve. In tourism, alliances fall in the category of strategic alliances at one end of the spectrum, such as a co-branded product and code-sharing which is demanding on resources, and a time-bound tactical promotion at the other end (Buhalis, 2000). Each segment has a valid reason for an alliance, objectives being clearly etched out by the partners, benefitting customers and bringing out economic benefits to the parties. The development and management of alliances is a critical strategic requirement in travel, tourism and hospitality. It is evident

that most hotels are developing partnerships within their industries to form consortiums, in order to not only fight competition but also to survive the turbulent times anticipated ahead.

1.1.3 Sarova Group of Hotels

Sarova Hotels, Resorts and Game Lodges, set up over 30 years ago, are the owners and operators of a unique collection of hotels, resorts and lodges. With an inventory of over 1000 rooms, Sarova Hotels is the leading player in Kenya's hospitality industry. Sarova Hotels, Resorts & Game Lodges is not only one of the largest chains of hotels and lodges in Kenya and East Africa, it is also one of the most innovative, offering guests diverse experiences that are simply unforgettable. The Sarova Group comprises of 8 properties (Sarova Hotels, 2012).

Sarova Whitesands Beach Resort & Spa is situated in Mombasa on one of the longest beachfronts protected by the Mombasa Marine Park. The resort is set amongst 22 acres of tropical gardens with 338 hotel rooms of different categories. Sarova Whitesands is an ideal place for relaxation, excitement, business and pleasure. The Sarova Stanley Hotel is a significant and luxurious landmark in the center of Nairobi city. The Hotel offers 217 luxurious rooms - the largest in Nairobi. Another property in Nairobi is Sarova Panafric which is situated in a quiet suburb of Nairobi, 18 km from Jomo Kenyatta International Airport. It features 162 hotel rooms, 2 restaurants, a bar and a swimming pool (Sarova Hotels, 2012).

Sarova Mara Game Camp is located in the heart of the Maasai Mara Game Reserve South West Kenya, 260 km from Nairobi. Sarova Mara Camp has 75 luxury ensuite tents while

Sarova Lion Hill Game Lodge is located on a hill side bordering Lake Nakuru with expansive views of the Lake in the heart of Lake Nakuru National Park in the Rift Valley Province of Kenya. The Lodge is 160 kms from Nairobi with 64 standard rooms. Sarova Shaba Lodge is situated in the Shaba Game Reserve. It is a 5 hours drive or a 45 minutes flight from Nairobi. Sarova Shaba Lodge has 85 chalets that offer splendid view of the Uaso Nyiro River (Sarova Hotels, 2012).

Sarova Taita Hills Game Lodge is located at the main entrance to the Taita Hills Sanctuary in South Eastern Kenya, 400 km from Nairobi and 200 km from Mombasa.The Lodge offers 62 luxurious rooms. Another property that is in the heart of Taita Hills Wildlife Sanctuary is Sarova Saltlick Game Lodge. The lodge has 96 rooms all overlooking the waterhole and are interconnected by suspended walkways (Sarova Hotels, 2012).

1.2 Research Problem

Powerful forces are driving the formation of strategic alliances between firms in the world today. The movement towards globalization has opened many new opportunities and competition at the same time. No organization can make it on its own, it is evident that organizations are increasingly turning to alliances to help them successfully compete in the market place. Industry giants and ambitious start up firms have realized this and strategic partnerships have become central to competitive success in fast changing global market. For them to do that they must have ability to conceive, shape and sustain a wide variety of strategic partnerships. For the purpose of this paper, strategic alliances can be seen as purposive tactical arrangements between two or more independent organizations

that form part of, and is consistent with participants' overall strategy, and contribute to the achievement of their strategically significant objectives that are mutual beneficial.

The development and management of alliances is a critical strategic requirement in travel, tourism and hospitality. Most hotels in Kenya are developing partnerships within their industries to form consortiums, in order to not only fight competition but also to survive the turbulent times anticipated ahead. There has been a shift in the mode of conducting business from reliance on governance to emphasis on collaborations based on information sharing, commitment and trust. In recent years there has been an increase in the number of hotels forming alliances to obtain technology, to gain access to specific markets, to reduce political risk, financial risk, to achieve or ensure competitive advantage.

Past studies on alliances focused mainly on manufacturing or high technology industries and predominately in Western countries. There has been little attempt to explain and understand alliances formed in the hospitality industry in the Kenyan region. Lameck (2010) carried out a research on strategic alliance between Safaricom and Equity Bank in the money transfer service. Jesse (2010) carried out a study on Strategic alliances between Jomo Kenyatta University of Agriculture and Technology (JKUAT) and middle level colleges in Kenya. The most recent one is a study carried out by Aggrey (2011) on Impact of Strategic Alliances between Banks and Insurance firms in Kenya. The study therefore seeks to fill the gap by providing answers to the following research questions: what is the motivation for the formation of strategic alliance by the Sarova Group of Hotels? And what are the factors that determine the success rate in strategic alliances by the Sarova Group of Hotels?

1.3 Research objective

The study has the following research objectives:

    (i)   To establish the motivation for the formation of strategic alliances by the Sarova Group of hotels.

    (ii)   To establish the factors that determines the success rate in strategic alliance by the Sarova Group of hotels.

1.4 Value of the study

The research will have a lot of benefits to the various stakeholders in the society. Given the dynamism and increasing competitiveness of the business environment, organizations need to remain competitive for them to survive in the long run. This study is crucial in understanding the motivation for the formation of Strategic alliances and factors that determine the success rate in Strategic alliance by the Sarova Group of Hotels.

The research study will be significant to the scholars because they will get to know more about the concept of strategic alliances in the hotel industry in the Kenyan context and help them identify areas requiring further research. The proposed study can also add to the existing literature in the field of Strategic alliance.

In practice the study can give more insight to the hoteliers in the formulation and implementation of strategic distribution channels of their services and help the industry further penetrate both the domestic and international market. The study can assist the hotel industry with ideas of product diversification by opening up ideas on the possibility of introducing innovative products for their customers. This will further enhance

customer satisfaction and increased revenue to the sector. The Government through the Ministry of Tourism and Kenya Association of Hotel Keepers can also use this study in identifying the areas of support by coming up with policies and regulations that can provide conducive economic environment.

CHAPTER TWO: LITERATURE REVIEW

2.1   Introduction

This chapter presents a review of literature as follows; first, a review of strategic alliance theories. The theories reviewed are; resource dependency theory, transaction cost theory, strategic behavior theory and organizational learning theory. The chapter also reviews empirical studies on factors influencing strategic alliances. These includes both pre and post alliance formation factors.

2.2   Strategic Alliance Theories

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

2.2.1   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 organizations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This therefore poses a problem of organization 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 organizational goals, and ultimately threaten the existence of the focal organization (Scott, 1998). Confronted with the costly situation of this nature, management actively directs the organization to manage the external dependence to its advantage.

Organization success is defined as organization maximizing their power (Allaire and Firsirotu, 1989; Ulrich and Barney, 1984). Within this perspective, an organization 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 operate.

2.2.2   Transaction Cost Theory

People begin to organize their production in firms when the transaction cost of coordinating production through the market 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

organization 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 (maladoption, haggling, establishment, operational and bonding costs). Williamson (1985) argues that two human and three environmental factors lead to transactions cost arising. The two human factors are bounded rationality and opportunism. The three environmental factors are uncertainty, small numbers trading and asset specificity.

2.2.3 Strategic Behaviour Theory

Strategic behavior 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 behavior 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 behavior. The firm recognizes its interdependence and need to take into account other firms' reactions when making its own decisions; but it also recognizes 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 behavior 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 behavior, 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 behavior, and if they have all 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).

2.2.4 Organizational 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 filled 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.

Theories contribute some of the material necessary to construct a viable understanding of the drive to alliance formation, management and of alliance evolution. The Resource based view suggests that the rationale for alliances is the value creation potential of firm resources that are pooled together. Certain resource characteristics such as imperfect mobility and substitutability promise accentuated value creation and thus facilitate

alliance formation. Knowledge creation often occurs in turbulent and discontinuous environments associated with the tension between alliance partners of different cultural origins. Learning can be seen as an efficient assimilation of knowledge a process in which a firm imitates its partner's skills and routines and replicates its technology. Strategic behavior theory proposes that firms form strategic alliances as a means of acting proactively and in so doing, altering their environment. Transaction cost theory suggests that companies form alliances in order to minimize their costs and risks. Thus forming an alliance represents one way a firm adapts to an uncertain world.

2.3   Factors Influencing Formation of Strategic Alliances

The following discussion of the determinants of performance in ISA separated into two categories; pre alliance formation factors and post alliance formation factors pertaining to different stages during the relationship development. Pre-alliance formation factors refer to variables pertaining to the time before the alliance is formed; the partner selection process. Once the alliance is formed and operating, post alliance formation factors are hypothesized to determine the performance of post alliance.

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

2.3.1   Pre-alliance Formation Factors

Prior experience with partner; the desire and willingness to expand resources in the development of long- term relationships in 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 firs 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" (Fundernberg 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 products/ services etc. Hence, the concept of reputation is closely related to Mayer et al (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 at al., 1993). Larson (1992), found credibility and a positive reputation of business performance to be important attribute for her sample of

entrepreneurial firms. Saxton (1997), found reputation to be positively related to alliance outcome in his study of dyads.

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 understanding 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 (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 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, experience at cooperating becomes essential to management of collaborative ties in order to benefit from the resulting interdependencies (Powell et al., 1996). Alliances are often viewed as vehicles to acquire knowledge and learn new skills and the experience gained from prior international collaboration may influence subsequent strategic decisions. 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 (e.g Powell at al., 1996), 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)

Literature suggests that one of the most critical factors determining alliance performance is the degree of trust between the partners (Das & Teng, 1998; Madhok, 1995). 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, 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). Trust among partners in alliances is obviously important, as it is in all relationships. However in the extent literature, trust is treated as a residual term for the complex social-psychological processes necessary for social action to occur (Koza and Lewin, 1998).

Despite the 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. 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).

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. Williamson maintains that contracts must recognize conditions, which promote opportunism and provide appropriate safeguards, such that contractual commitments become credible (Williamson, 1993).

2.4   Empirical Evidence of Strategic Alliances.

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" (Baugh 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 argues 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 effect 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. 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 partner's 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 technology transfer between alliances.

An empirical study carried out by Nielsen (2002), 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.

In a world of imperfect options, strategic alliances are often the fastest, least risky and most profitable way to go global. Properly managed alliances are among the best mechanism that companies have found to bring strategy to bear challenges. Although Strategic Alliances reduces risks, managing these alliances entails difficulties. Moreover this strategic alliance has some peculiarities of its own especially where there are significant cultural differences between the partners. Under these circumstances, partner selection, inter-firm trust and transparency become critical factors for a successful Strategic alliance. The balance between contributions each company will bring to the partnership and the difficulties they will face in managing their relationship need to be considered.

The literature has also posited theories addressing the reasons why firms enter into closer business relationship. For example; resource dependency theory, transaction cost theory, strategic behavior theory and organizational learning theory each make predictions about when partnerships will be formed. Implicit in this research is the assumption that when

used under the appropriate circumstances and environmental conditions, partnerships will be successful. Yet a large percentage of these strategic partnerships do not succeed. Given this inconsistency, the study seeks to fill the research gap by addressing the motivation for the formation of strategic alliance and establish the factors that determine the success rate in strategic alliances by the Sarova Group of Hotels.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

A case study research design was the most ideal as it would allow an in depth examination of the problem and also because the study was of qualitative nature. This helped the researcher to find the underlying principles as it provided a systematic way of looking at the events, collecting data, analyzing information and reporting results. This research design was used by Kinyua (2011) and Ogega (2010) among others with good results.

3.3 Data Collection

Both primary and secondary data were collected in the study. Primary data was collected through surveys, interviews, documentation review, observation, focus group discussions from Sarova Group of Hotels. This design was deemed appropriate since it gave an opportunity for an in depth probing of an issue. An interview guide was used by the interviewer. This is a set of questions that the interviewer asks when interviewing .The interview guide comprised of three parts as follows; Part A covering the background information about the interviewee, Part B covering the factors that determine the success rate in Strategic alliances and Part C covering strategic alliance assessment by the Sarova

Group of Hotels. The informants interviewed were those involved with formulation and implementation of organizations strategies. They consisted of the functional heads in charge of finance, marketing and research division.

Secondary information was also gathered from the organization to provide additional information. This included information on the organization's performance in terms of total revenue, expenses, total payroll and contracted services and gross operating profit pre and post alliance, number of staff and any other document that was found to contain the required information.

3.4 Data Analysis

The data collected was analyzed using content analysis. Content analysis aims at identifying patterns that account for particular behavior of a given unit and its relationship with the environment. This method allowed the respondent to give a wide range of ideas about the issue in much detail. According to Cooper and Schlinder (2003), content analysis is used to identify the intensions, focus or communication trends of respondents, describe attitudinal and behavioral responses to communications and to determine psychological or emotional state of persons or groups. Repeat interviews was done be to gather additional data to verify key observations or check a fact.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.0   Introduction

This chapter presents the findings from data analysis. The study determined the motivation for the formation of strategic alliance and established the factors that determine the success rate in strategic alliances by the Sarova Group of Hotels. The findings were based on the response from the interview guide and information gathered through surveys, interviews, documentation review, observation and focus group discussions.

The research objective was to establish the motivation for the formation of strategic alliance and to establish the factors that determine the success rate in strategic alliances by the Sarova Group of Hotels.

4.1   Profile of Sarova Group of Hotels

According to the findings of the study, Sarova Group of Hotels is a private limited company in Kenya, whose prime business is the operation of Hotels and Lodges. According to the sales and marketing manager, "for the leisure traveler, Sarova offers a host of diverse experiences; game drives, sports and water sports, health clubs and cultural as well as contemporary entertainment. For the visiting executive, Sarova Group of Hotels provides up-to-date business facilities as well as conference and seminar venues. Sarova Hotels is "The Preferred Choice" for a Kenyan Safari".

Table 1: Sarova Group of Hotels.

	PROPERTY	BED CAPACITY	LOCATION	RANGE OF SERVICES
1.	Sarova Stanley	217	Nairobi	• Shopping arcade • Thai chi restaurant • Thorn tree café • The exchange bar • Pool deck restaurant • Conference and banqueting
2.	Sarova Panafric Hotel	153	Nairobi	• Curio shop • Conference & banqueting facilities • 42 apartment facilities • Flame tree restaurant & bar • Pool garden restaurant
3.	Sarova Whitesands Beach Resort and Spa	340	Mombasa	• Pavilion restaurant • Minazi cafe • Lido seafood grill • Cocos beach bar • Tulia health bar • Tulia spa • Shopping arcade
4.	Sarova Mara Game Camp	75	Maasai Mara National reserve	• Isokon restaurant • Oloip bar • Ewaso pool bar • Game drives • Conference facilities
5.	Sarova Shaba Game Lodge	85	Shaba National Reserve	• Surpelei restaurant • Chemi chemi bar • Game drives • Conference facilities
6.	Sarova Lion Hill Game Lodge	67	Lake Nakuru	• Flamingo restaurant • Rift valley bar • Game drives • Conference facilities
7.	Sarova Salt Lick Game Lodge	96	Taita Hills wildlife sanctuary- Tsavo West	• Bura restaurant • Vuria bar & lounge • Conference • Gift shop • Day/ night game drives
8.	Sarova Taita Hills Game Lodge	62	Taita Hills wildlife sanctuary- Tsavo West	• Chala restaurant • Gift shop • Conference facilities • Day/ night game drives

4.2   Strategic alliance in the Sarova Group of Hotels

According to the findings of the study, SGH realized that they could grow their revenue and increase their market share through relationships that are deeper and much more strategic than traditional customer vendor arrangements. The partner would bring equal value to the table, each contributing its knowledge, customer base and resources.

The organization SGH realized that they cannot cost cut their way into growth and prosperity, because there is a limit to how much you can grow earnings by improving margins. As such, alliance was seen as one of the solution for accessing the capabilities. Pollman's tours and travels entered into an alliance with SGH with an aim of having their two properties Saltlick Lodge and Taita Hills Lodge join the Sarova Group of hotels chain. This was based on the SGH to manage the two properties while Pollman's tours and travels would in turn source tourist for the SGH.

The findings revealed that Pollman's tours and travels presented their request for collaboration to SGH directors in 2006. This was received by the chairman who is also a director of SGH. This was later to be shared with the managing director, director of operations, director of sales and marketing and director of human resource. They then formed a committee comprising of the director of operations, director of human resource, director of food and beverage, director of projects and director sales and marketing.

Communication was then made to the group sales manager, group marketing manager, group revenue manager and research division manager to visit the two properties in Taita hills and carry out an assessment. A report was then presented to the committee based on the findings. After receiving the report, the collaboration committee held sittings and

discussed the report. The request was then approved by the committee which led to drafting an MOU (Memorandum of Understanding). The duration of the alliance was agreed among the partners SGH and Pollman's tours and Travels to be seven years.

According to the sales and marketing manager at SGH other types of alliances that the hotel has entered into are selective alliance arrangements with specific channels that involve collaboration like travel agents which transfer clients to the hotel. Another one is related diversification alliance whereby the hotel has partnered with international airlines such as Rwanda air, Ethiopian airline. Some of the domestic airlines are Kenya airways, safari link and air safari. Findings revealed that marketing alliance has been the most prevalent in the case of airlines and travel agents. According to the sales and marketing manager, "we cooperate in programs including advertising and marketing, sharing customers and financing activities designed to maximize the hotel occupancy. The main purpose of having a business strategy is to achieve competitive advantage over other firms offering similar products or services mix within the same competitive environment".

Based on an in –depth interview, one common reason for alliance formation was the desire to gain mutual beneficial goals. This motive was manifested in the formation of frequent flyer program – Sheba miles with Ethiopian airline. According to the sales and marketing manager, "Sheba miles adds value to their membership, so that their members staying in our hotels can get miles. We found that partnership is very strong for us because the people who are actually flying, they need to stay at a hotel. Obviously we want to increase the number of guest to our hotel. We want to make our group a preferred choice for their travelers. So we join with airlines which visit our destination, and the

guests who fly to the city will stay in our hotels to get more points". The findings revealed that the services provided by airlines and hotels are complementary in nature as the people who fly to another destination may often need accommodation. Faced with potential customers with similar needs, both hotels and airlines have mutual goal of sharing and reaching these targeted customers.

Sales and marketing manager further said, "We can't do all promotions on our own, it's too costly and its difficult to organize. We have to do jointly with the travel agents. No hotel chain has enough money to consider running a global advertising campaign to reach all the people we would want to target. This is a targeted way to reach the customers of hotels. I don't want the whole database, I want to breakdown the database into the customers who visit our destination." This is with a motive to overcome the lack of resources in organizing marketing programs and activities.

4.3   Findings

The findings show an analysis of the motivation for the formation of strategic alliance, factors influencing the formation of strategic alliance and challenges encountered in the strategic alliance by SGH.

4.3.1   Motivation for the formation of strategic alliance by SGH

The researcher identified the following motives reported by SGH that led to the formation of strategic alliance: transaction-cost motives; resource-based motives; strategic motivations with regard to competitive position of the firm; learning objectives; and motives relating to risk reduction, new market entry, and first-mover advantage. What came out strongly is that SGH entered the partnership in order to gain access to the

resources and competencies owned by the potential partner. For instances, lack of an hotel operated by the Sarova group of hotels in Tsavo National Park motivated the formation of alliance between SGH and Pollman's tours and travels.

The findings indicated that, learning was also regarded to be one of the major motives for strategic alliances by the organization. This was achieved through sharing of information and knowledge. It was further noted that the organization developed cooperative relationship which facilitated mutual learning within the organization. The organization, SGH also recognized continuous improvement as one of the major principles of quality management in the organization.

The researcher noted that the organization generally undertook strategic alliance for many reasons: to enhance their productive capacities, to reduce uncertainties in their internal structures and external environments, to acquire competitive advantages that enables them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their outputs.

The researcher found out that among other reasons for the formation of strategic alliance by SGH were mutual benefits and goal, economies of scale, image and reputation and ability and competence. Based on the content analysis of the in-depth interviews, one common reason by SGH for alliance formation was the desire to gain mutual beneficial goals and benefits such as to complement the lack of subsidiary hotel in Tsavo and to access the partner's distribution channel. The findings also revealed that SGH entered into the alliance to reap economies of scale in terms of capital and other type of resources. Access to customers' data base at lower cost, lower marketing cost by utilizing

partners resources like promotion cost. Expand exposure to customers at a lower cost as well as avoid overlapping marketing resources between the hotel and the partner by leveraging advertising.

Demonstrating and improving the reputation, image and prestige of the organization is another category of motives for forming an alliance. All the evidence of the interviewees showed that increasing the awareness and exposure to a particular type of customers was the main reason to form the alliance. In addition, improving the image and market position of the hotel as well as building customer loyalty was very critical in the formation of the alliance. Another reason that motivated the formation for the alliances is the desire of a firm to increase its ability and competence in terms of their competitiveness. The informants agreed that alliance cannot make much profit for hotels. It is a mechanism which people use to stimulate the market, to be perceived as doing something and to offset cost when there is no budget for advertising.

The research findings show that the highest ranked statements regarding the motive of strategic alliance are "knowledge sharing; cooperative learning and embedded skills", followed by "improving performance. This fact leads to some interesting findings with the lowest ranking being "adjusting to environmental changes", followed by "reduced financial and political risk", and followed by "entering new markets".

4.3.2   Factors influencing the formation of Strategic Alliance

The findings revealed that Sarova Group of Hotels has a number of strategic partners. The major partnership being an alliance between SGH and Pollman's tours and travels. The alliance was formed with an aim of entering the two properties Saltlick Game Lodge

and Taita Hills Game lodge into an alliance with SGH. The strategic alliances were found to be suitable because of circuit preferences by the tourist who visit Mombasa region and want to combine beach and bush experience. This relationship was also found to be collaborative and reciprocal.

The study noted that partnership came about due to the guest itineraries. Thus most of the guest's itineraries were going through Tsavo National Park which is where the two properties are based thus complement the lack of a subsidiary hotel in Tsavo and to access the partner's distribution channel. The alliance objectives and procedures were formed by a mutual agreement and each partner was seen to contribute its strength and resources to be shared in the alliance. An MOU (Memorandum of Understanding) was entered into between Sarova Group of Hotels and Pollman's tours & travels binding each partner. The MOU is well detailed on the goals and objectives of the partners and stipulates the SOPs (Standard of operation) and how revenue generated would be shared.

4.3.2.1 Pre alliance factors

According to the findings, strategic alliances were seen to operate under shared managerial control. In the case of SGH and Pollman's tours and travels there is a board committee which encompasses of the directors and unit heads that governs the alliance. From the study it was noted that long term relationship contributed to the desire and willingness of the partners to enter into an alliance. Pollman's tours & travels approached SGH to form an alliance.

The findings revealed that SGH entered into strategic alliance with Pollman's tours and travels and the motive was to expand the SGH tourist circuit, mutual benefits and goal,

economies of scale, image and reputation and ability and competence. In this case, partner selection was found to be a critical step in alliance formation.

Learning and mentorship was found to be taking place among the partners. The informants acknowledged that the organization SGH has a potential to learn from the alliance new business ideas and improved staff interaction.

4.3.2.2 Post Alliance factors.

The findings revealed that strategic alliances were seen to operate under shared managerial control. The informants pointed out that there was a lot of understanding between SGH and Pollman's tours & travels. SGH held meetings with the partner on a quarterly basis to ensure they were in the same page. This is where performance of the two properties would be reviewed in terms of revenue, room nights achieved and staff welfare. All issues that were raised during the meeting would then be addressed.

According to the findings the alliance goals and objectives were found to be established with clarity and focus of purpose. There was also freedom to deliver targeted benefits and to carry the contingent risks. SGH was found to be in charge of the linkages and collaboration. It was noted that they were in charge of general running of the two properties (SSLGL & STHGL). Personnel with strategic alliance knowledge and experience were usually picked to manage the alliance. Results of the study revealed that trust does indeed rank highly in the alliance success.

The informants pointed out that during the formation of the alliance, partners experienced culture difference, there was difference in pace of work and management style. The partnering organization which is Saltlick & Taita Hills Game Lodges lacked brand

standards and it took sometime before they could adapt to the Sarova Standards. It was noted that conflicts that arose in the alliance were managed amicably through board meetings and the exit option was clearly stipulated in the MOU which enabled termination of the alliance.

The informants agreed that they collaborated well with equity. In terms of communication, there was clear flow of information which was mainly done on quarterly basis during the meetings and reports. It was noted that there was cooperation in the alliance and partners were more protective and committed to the alliance. The informants also agreed that they were technically competent to carry on the alliance. Further, they thought that the alliance structure and type was favourable to their organization.

4.3.3 Challenges encountered in the strategic alliance

The findings revealed that every partner was seen to be satisfied with the formation of the alliance at the formation stage. However after sometime there were challenges that came up like conflict management among the employees who were not ready for change. There were signs of dissatisfaction or inefficiency in management for the two properties (SSLGL & STHGL). Choosing good personnel to manage the two properties was found to be critical for alliance success. However the partnering company which is Pollman's tours & travels was reluctant to employ new managers thus making management system and procurement difficult. One of the conditions that they gave was to retain the managers who were initially there before the alliance. This took sometime before they could catch up with the other SGH properties hence delaying the implementation of standard of operation to match what is across the board.

The informants noted that finance and procurement had caused disagreement among the partners. Thus reconciliation was at time a problem and there were claim and counter claim from the partners. This came about at the implementation stage whereby refurbishment of the properties (SSLGL & STHGL) and new linen was needed. It was not very clear about who was to pay for this. As a result this delayed the operation in the two properties. The informants however said that they did not experience major disagreement. The MOU being the guiding and binding document helped in sorting out many challenges.

4.3.4 Post and Pre alliance performance

According to the financial controller, the occupancy and average room rate of the two properties SSLGL & STHGL increased substantially because of the formation of the alliance. He further said that, "SGH gained higher ability to compete with other chain of hotels through the new circuit. There was an increase in market share, decrease in marketing and advertising cost. There was growth in the hotels reputation together with greater economic strength".

The findings revealed that strategic marketing alliances adopted offered SGH considerable opportunity for synergy as well as the ability to respond to the pressures of global competition. According to the sales and marketing manager, the alliance benefited the organization in enhancing its market coverage, greater economies of scales in advertising, sales and distribution as well as complementary strengths in marketing.

From the findings, the formation of joint promotion between the hotel and the travel agents offered the hotel an opportunity to access customer databases with records on

millions of individual customers at a lower cost which the hotel would have been unable to access by itself.

The findings revealed that the fact that a large portion of the customers are repeat individual and corporate travelers the hotel was able to build long term relationship with its customers through the frequent flyer program(Sheba miles). According to the sales and marketing manager, "it is relatively more cost effective for a hotel to keep an existing customer who is likely to practice repeat patronage rather than finding a new customer".

4.4   Discussion

According to the findings of the strategic alliance between SGH and Pollman's tours & travels was seen to be collaborative and mutual. SGH motive of forming strategic alliance was to exploit the niche market, build its brand in the market by making its presence felt across the board and to grow its revenues. Maintaining high standards was highly emphasized by the sales and marketing manager. Being the owner of the brand, SGH took upon itself to maintain standards.

According to the findings of the study, the pre alliance factors that influence strategic alliance formed by SGH 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 alliance in SGH are trust, cooperation within the alliance, conflict management, communication and favorability of the alliance to the firm.

Previous empirical studies explored the variation of motivations of alliance formation based on different countries and industries. Glaister & Buckley (1996) conducted

research on the strategic motives for international firms in the United Kingdom with partner firms in Western Europe, United States and Japan and examined the relationship between motives and background of the companies. The result showed that 'gain presence in new market'. 'Facilitate international expansion', 'compete against common competitors' and 'maintain market pooling' were the top five strategic motives for strategic alliance formation. The findings are consistent with the study as the results implied that alliance was used as a competitive weapon in the battle of global market share.

While a study done by Hall & Eppink (1992) discussed the driving forces of strategic alliance in the alliance industry. The findings were the motives of the airline industry are similar with other industries in gaining access to markets; sharing risk; splitting investment cost; keeping up with the speed of competitors; and increasing market coverage. Yet, the motives of reducing cost structure in order to position the airline in the market and optimizing the utilization of available capacity are distinct in the airline industry. The findings are consistent with the study in that the alliance benefited the organization in enhancing its market coverage, greater economies of scales in advertising, sales and distribution as well as complementary strengths in marketing.

Previous studies exploring the time scale of alliances offered different findings. Forrest (1992) conducted a study on the role of alliance in the process of technology innovation. Results revealed that the average age alliance is 6.7 years. Bleeke & Ernst (1995) agreed that the median life span of alliance is about seven years. Another study which investigated alliances formed by different industry sectors found that the duration of an alliance as even shorter. The average life span of an alliance was 3.5 years with a

standard deviation of 5.8 years. A total of 6.6 percent of the alliances lasted one year or less after formation. The results of the study are also consistent in that the duration of the alliance was agreed among the partners SGH and Pollman's tours and Travels to be seven years.

According to the findings, learning was regarded to be one of the major motives for strategic alliances by the organization. In a recent study of strategic alliances in construction management firms, Lo and Yeung (2004) argued that continuous improvement played an important role in strategic alliances. Johnson & Scholes (2002) argue that learning is one of the motives of alliances and where partner forms a coalition with partners who have expertise it needs to learn. From the study, it was also noted that good reputation was a key influencer in the pre- alliance formation decision. Kimathi (2011) asserts that learning and mentorship are key influencers in the pre-alliance formation decision.

The results of the study are also consistent with Hamel et al. (1989); who asserted that alliances can be used to learn the skills of the other partner. Similarly, Inkpen, (2005) reported that leaning has been regarded as one of the major motives for strategic alliances. In the same vein, Jones et al. (2003) indicated that leaning is achieved through sharing information and knowledge within individual and organizations. In fact, firms enter alliances to get knowledge 'knowledge transfer', information and other sources (Elmuti and Kathawala; 2001; Mellat-Parast, 2007).

The findings suggested that reaping economies of scale is one of the important motives for the alliance formation. This finding corroborates the transaction cost theory which

proposed that the choice between market and hierarchy for complementing transactions depends on the relative efficiency of each mode (Williamson, 1975).

The findings further pointed out that differences in target market, image, culture, pace of work, management styles between the partners tended to impede the alliance from forming. However they perceived these barriers as a must in doing business and attempted to solve these difficulties.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0   Introduction

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

5.1   Summary of Findings

The purpose of this study was to establish the motivation for the formation of strategic alliances by the Sarova Group of hotels and to establish the factors that determine the success rate in strategic alliance by the Sarova Group of hotels.

The study sought to establish the pre alliance formation factors together with Post alliance formation that influence strategic alliances in SGH. The strategic gap between the desired objectives and current situation of the firm can be identified as the result of the situational analysis and may stimulate the firm into formation of alliance. The findings from the study suggest that competence and image enhancement are motives which significantly influenced the success rate of alliance formation.

When the level of competence desired by the intending partner increases, the success rate of alliance formation in a particular hotel company will also increase. As a profit making entity, the hotel's main purpose is to generate revenue. Formation of any strategies so as to enhance its competence and in turn increase its competitiveness matches the main purpose of a hotel business. The formation of strategic alliance helped SGH to offset their

competitive disadvantages and enhanced their competence to develop new strategic resources and compete effectively.

Image enhancement was a second dimension which drove the organization to form an alliance. This was elaborated by increasing the awareness, image and exposure and market position of the hotel. In addition due to the intangible nature of services provided by hotels, customers tend to make buying decisions depending on word of mouth and emotional appeals. As enhancing image was crucial to its survival, SGH contributed more time and effort in forming the alliance.

From the study, the major challenges faced during the formation of the strategic alliance are differences in target market, image, culture, pace of work, management styles between the partners tended to impede the alliance from forming. The MOU being the guiding and binding document helped in sorting out many challenges. The MOU is well detailed on the goals and objectives of the partners and stipulates clearly the procedures of operation and sharing of income by the partner.

5.2   Conclusions

The alliance was seen to be collaborative and reciprocal in nature which was bound by a contract (MOU). Owing to stiff competition in the hospitality industry, the alliance was formed with clear goals and objectives that would give SGH a competitive edge over its competitors.

The alliance was coupled with challenges however a well crafted MOU helped to solve most of them. Quarterly meetings by the committee came in handy in sorting out problems and disagreements encountered. A well established and effective governance

structure helped in maintaining a suitable balance between the partners. The study also shows that pre alliance and Post alliance formation factors generally have a positive effect on the alliance provided they are well managed.

The results of this study are consistent with the literature which explicitly mentions that the most critical factor determining alliance performance is the degree of trust between the partners (Das & Teng, 1998; Madhok, 1995). Gulati et al. (2000) indicated that strategic alliances promoted trust and reduced transaction costs; therefore, trust directly influence the performance of the alliance.

From the view of theoretical contribution, this study confirmed the argument of Vardarajan & Jayachandran (1999) which proposed that no one single perspective is sufficient to explain the intricacy of alliance formation and viewing different perspectives on the motive for alliance formation from a complementary rather than competing approach is more meaningful and comprehensive. This study incorporated the transaction cost theory developed by Williamson (1975), resource dependency theory by Pfeffer & Salancik (1978), resource – based view by Varadarajan &Cunningham (1995).

5.3   Limitations of the study

This study depended on interviews and discussions with management of the organization. Only three respondents were interviewed in the study. More could have been interviewed to gather more information but this was not possible because of the limitation of time.

The researcher also feels that it would have been of value to obtain views of those served by the organization or other stakeholders in the firm. The depth of the study was also limited by the time factor which put the researcher under immense time pressure.

5.4   Recommendations

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

5.4.1   Recommendations for policy and practice

The study recommends that organizations need to adopt strategic alliances as a policy to strengthen their competitiveness and increase their efficiencies. Strategic alliance is vital for hotels as a way of expanding their presence. The study suggests that there is need for organization planning to engage in alliances to take note of the pre alliance and post alliance formation factors for the alliance to be successful.

For hotels which do not have the experience of strategic alliance formation, understanding the motives for alliance formation found in this study may arouse their appreciation of adopting alliances as one of their business strategies and help them enjoy the benefits which alliance may provide. Basically, formation of alliances may benefit hotels in increasing their competence, enhancing their image, reaping economies of scale and promoting mutual benefits between partners.

The study further recommends that organizations need to come up with governance structure that governs Strategic Alliance. This will guarantee the success of strategic alliance once entered into.

5.4.2 Suggestions for further Research

The study confined itself to strategic alliance employed by SGH similar studies may be done to other group of hotels operating in Kenya. This may be an area that scholars of strategic alliance can carry out a study.

The researcher would have wished to carry out a survey from SGH and the alliance partner being Pollman's tours so as to get the views of all partners. This however was not undertaken and may be an area of further study.

This study can be extended from the process of alliance formation to alliance management and implementation as there may also be driving and restraining forces impacting the outcome of alliance. Further research can be conducted in other settings such as tours & travels, airlines and agricultural sector in East Africa.

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APPENDIX I: INTERVIEW GUIDE

The interview guide will seek to achieve the following objectives;

1.   To establish the motivation for the formation of strategic alliances by the Sarova Group of hotels.
2.   To establish the factors that determines the success rate in strategic alliance by the Sarova Group of hotels.

The information to be gathered from this interview will be treated confidentially and will not be used for other purpose other than academic.

Part 1: Background information on the interviewees

1. What is your level of education
2. What is your designation
3. For how long have you been holding the current position
4. For how long have you been working in this organization

Part 2: Factors influencing the formation of Strategic Alliance

1. How many strategic partners has the organization entered into?
2. How was a suitable partner selected?
3. How did the idea of partnership come about?
4. Which organization have you partnered with to implement this concept?
5. Who approached the other?

Pre- alliance factors

1. To what extent did the organization know about the partner?
2. Does your company have a good reputation in the hotel industry?
3. Does the company have a potential to learn from the alliance? Please explain
4. Is your company influential on the partner?

Post Alliance factors

1. How would you define collaboration with your partner?

2. Do you communicate well with your partner?

3. Were the goals and objectives communicated with clarity to your partner?

4. Is there trust between your organization and your partner?

5. Is the alliance structure favourable to you?

6. Is the type of alliance favourable to you?

7. Is there a culture difference between you and your partner? Please explain

8. Do you have the technical capabilities to carry on with the alliance?

9. Are you protective of the alliance? Please explain

10. Are you committed to the alliance?

11. Do you manage conflicts that arise in the alliance? Please explain how

Part 3: Motivation for the formation of Strategic alliance.

1. Does the organization support strategic formation?

2. What strategic goal and objective did you anticipate to achieve by forming the alliance?

3. To what extent is your organization satisfied with the overall result of the strategic alliance?

4. How has your organization benefited from the alliance? Please explain

5. Did you experience any challenges during the formation and implementation of the alliance? Please name them

6. How did you resolve them?

7. What other issues relating to this partnership do you consider important to share?