STRATEGIC ALLIANCES AND COMPETITIVE ADVANTAGE:

A CASE STUDY OF SAFARICOM LIMITED

By

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DECLARATION

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

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(D61 - 71263 - 2008)

Signature ………………………… Date ……………………………….

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

MUINDI, FLORENCE

Signature ……………………… Date ……………………………….

DEDICATION

To the most important people in my life: my mum and dad for all the support they gave towards my education.

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It would have not been possible for me to write this research project if it were not for the support, encouragement and guidance of many people.

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DEFINITION OF TERMS

ATM-Automated Teller Machine

EFT-Electronic Money Transfer

ETACS-Extended Total Access Communication System

GPRS-General Packet Radio Service

GSM-Global System for Mobile Communication

IP-Internet Protocol

IPO-Initial Public Offer

ISP-Internet Service Provider

IT-Information Technology

JTL-Jamii Telecommunications Limited

KCB-Kenya Commercial Bank

KPLC-Kenya Power and Lighting Company

One Comm-One Communications Limited

TEAMS-The East African Marine System

WiMAX-Worldwide Interoperability for Microwave Access

ABSTRACT

This was a case study of Safaricom limited, analysing strategic alliances adopted and competitive advantage gained by Safaricom ltd. The research objectives of the study were to establish the strategic alliances that Safaricom engaged in and to establish the extent to which these strategic alliances were sources of sustainable competitive advantage for Safaricom. The study adopted a case study design so as to undertake an in-depth and comprehensive inquiry. The study interviewed six senior managers (Chiefs of divisions and a head of department) in the Company. Content analysis was used to analyse the data and generate relevant results.

The key findings from the study were that Safaricom engaged more in equity alliances as compared to joint venture alliances and no instances of contractual alliances were noted. Some of the most notable alliances were; Strategic alliance with Vodafone PLC which led to the innovation of M-PESA. M-PESA has been a constant revenue steam for Safaricom, contributing 8% of Safaricom's annual revenue. It has also given banking services to the rural and many un-banked Kenyans and has been hailed worldwide as the greatest Mobile service innovation of the decade. Strategic alliance with One Comm Ltd has helped Safaricom get a 79.6% data market share in the emerging data industry in the country. Data is expected to be the greatest revenue stream for Safaricom in years to come, primarily because marginal revenues in the traditional voice services have been decreasing over the years. An alliance with JTL helped Safaricom realize significant savings in capital and operational expenditures when Safaricom opted to replace its Micro-wave infrastructure with the fibre system provided by JTL. Fibre is much cheaper

that micro-wave and has got great scalability and resilience when used to transport network traffic. Other key alliances were the alliances with commercial banks and several utility firms in the country.

The study therefore concluded that Safaricom had gained a sustainable competitive advantage as a result of entering into strategic alliances. Had the company not engaged in the above mentioned alliances, it would not have gained the market share and the market leadership that it currently has. The recommendations of the study is that similar studies be replicated across all other mobile telephony providers in order to be able to access whether strategic alliances can lead to competitive advantages to the telecommunications industry in Kenya as a whole. Another recommendation was to have a similar study to evaluate if the firms that have partnered with Safaricom have realized any competitive advantages.

CHAPTER ONE

INTRODUCTION

1.1 Background

Globalization has been one of the main reasons for the growing popularity of strategic alliances. Due to increased globalization of businesses, strategic alliances are gaining importance worldwide for various reasons which range from market access to reduction of risk. Collaboration among competitors has therefore become increasingly popular due to environmental complexities such as globalization and shortfalls in internal resource competences.

Chesbrough (2003) argues that in order to stay competitive, even the most capable and knowledge intensive companies have to identify and leverage knowledge produced beyond the borders of their own organizations as part of the innovation process. A prominent view of strategic alliances suggests that inter-firm collaboration is a mechanism by which a firm can leverage its skills, acquire new competencies as well as learn (Doz, Hamel, and Prahalad, 1989). For the partnering firm, alliances represent interfaces with its environment that provide access to valuable external information and knowledge. As such, these arrangements can provide opportunities for firms to assimilate information, internalize skills, and develop new capabilities. Moreover, research has suggested that social networks, competencies and the relative configuration of skills and organizational practices of the partnering firms can influence the level of learning through alliances (Hamel, 1991). Strategic manoeuvrability in this revolutionized millennium requires collaboration.

Strategic alliances value creating potential makes them an important source of competitive advantage (Das and Teng, 2001; Larsson et al., 1998). The firm that can effectively cope with environmental uncertainty and ambiguity, proactively reposition in competitive markets and minimize transaction costs through strategic alliances increases the probability of maintaining competitive advantages. Strategic alliances are an important value creating option in markets that are more efficient because of the increasing symmetry of information flows between firms and their suppliers and customers (Oliva, 2001).

1.1.1 Strategic Alliances

Strategic alliances are cooperative arrangements that are formed between two or more firms in order to improve the competitive position and performance of the firms by sharing resources (Jarillo, 1988). Varadarajan and Cunningham (1995) define strategic alliances as 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. Parkhe (1993) defines strategic alliances as enduring inter-firm cooperative arrangements involving flows and linkages that use resources and or governance structures from autonomous organizations. He points out that this is for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.

Strategic alliances are inter-organizational cooperative structures formed to achieve strategic objectives of the partnering firms. Smith and Smith (2003) observe that strategic alliances are broad ranging relationships and can encompass joint ventures, franchises,

joint research and development, joint marketing ventures, long-term supply arrangements, and outsourcing relationships.

Effective alliances can be growth and profitability engines in both domestic and global markets (Ernst, Halevy, Monier and Sarrazin, 2001). Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages. The alliance can be within the same market or across different markets. Strategic alliances facilitate easier and cheaper access to required resource inputs and also quick entry into new markets. In a competitive market where there are various uncertainties, and where firms need to gain fast access to knowledge that is not available in-house, companies sometimes find it necessary to form strategic alliances. Strategic alliances allow such knowledge to be acquired faster and more efficiently.

Strategic alliances can be placed on a continuum where contractual agreements lie on one end of the continuum, representing low control and low resource commitment, whereas joint ventures lie on the other end of the continuum, representing high control and high resource commitment (Hill, Charles, Hwang, Peter, and Kim, 1990). The decision to enter a strategic alliance should be taken seriously by management because history has shown that alliances tend to be unstable and prone to failure (Berquist et al. 1995). This is because firms that enter into strategic alliances often focus on the benefits that the alliances will provide without considering costs involved in the formation and maintenance of the alliance. Despite the clear identification of the potential benefits, the

costs incurred are often both substantial and often difficult to predict (Morris and Hergert, 1987).

1.1.2 Competitive Advantage

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. When two or more firms compete in the same market, the firm that possesses a competitive advantage over its rival returns a consistently higher rate of profit. Competitive advantage is the ability of the firm to outperform rivals on profitability. Competitive advantage depends on how a firm is able to create for its customer's value that exceeds the firm's cost of creating a product. Value is what the customers are willing to pay, and superior value stems from offering lower prices than competitors or from providing unique benefits (Narayanan, 2001). Competitive advantage can be defined as resource heterogeneity that gives one firm superior value creation and hence a greater flow of profits.

Porter (1985) argues that the concept of competitive advantage relates to the ability of an organization to discover and implement ways of competing that are unique and distinctive from those of their competitors and that can be sustained over time. The fundamental basis of an organization’s performance is called sustainable competitive advantage (Porter, 1996). Organizations with sustainable competitive advantage have

capabilities and competences that enable them to produce services and products the market is willing to buy. Porter distinguishes three generic strategies for sustainable competitive advantage. These strategies are lowest costs, differentiation, and focus. Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs (Porter, 1998).

Strategic alliances value creating potential makes them an important source of competitive advantage (Das and Teng, 2001; Larsson et al., 1998). The firm that can effectively cope with environmental uncertainty and ambiguity, proactively reposition in competitive markets and minimize transaction costs through strategic alliances increases the probability of maintaining competitive advantages. Strategic alliances are an important value-creating option in markets that are more efficient because of the increasing symmetry of information flows between firms and their suppliers and customers (Oliva, 2001). The standard approach to the sustainability of competitive advantage focuses on identifying the resources that underlie the competitive advantage and analyzing the extent to which they will remain scarce (Barney, 1991). Scarcity requires that competitors cannot readily acquire the resources on factor markets and that there are barriers to competitors developing the resource internally (Barney, 1986).

According to Porter (1985), a firm develops its business strategies in order to obtain competitive advantage and increase profits over its competitors. It does this by responding to five primary forces. The threat of new entrants, rivalry among existing firms within an industry, the threat of substitute products and or services,the bargaining power of suppliers, and the bargaining power of buyers.

1.1.3 Safaricom Limited

Safaricom Ltd is the leading telecommunications company operating in Kenya. The Mobile subscriber base for Safaricom has grown steadily to a record high of 15 Million which represents 78% of the total market share in just nine years of operation. Safaricom Ltd started as a department of Kenya Posts and Telecommunications Corporation. Telkom Kenya launched operations in 1993 based on an analogue ETACS network and was upgraded to GSM in 1996. Safaricom Limited was incorporated on 3 April 1997 under the Companies Act as a private limited liability company. It was converted into a public company with limited liability on 16 May 2002.

The Government of Kenya held a 60% shareholding at the time of incorporation. Safaricom was thus a state corporation within the meaning of the State Corporations Act. The remaining 40% shareholding was owned by UK based Vodafone group Plc. Until 20 December 2007, the GoK shares were held by Telkom Kenya Limited, which was a state corporation under the Act. The Government of Kenya transferred 25% of the shares it held in Safaricom to the public in March 2008 through an Initial Public Offering (IPO). The Government of Kenya thus ceased to have a controlling majority in Safaricom.

In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunication market by having strategic business associations. These associations add value and help in meeting the dynamic challenges of the modern mobile telecommunication world.

Some of the most notable alliances that Safaricom has formed over the years are: A strategic alliance with Jamii Telecommunications Limited (JTL), a technology firm that deals with fibre infrastructure in Kenya. Its main business is providing bandwidth capacity and it has the largest footprint in the country. Safaricom has also entered into a key strategic alliance with Vodafone PLC, the world's largest telecommunications company based in Europe. Vodafone has vast experience in the telecommunications industry. Another strategic alliance is with One Communications Limited (One Comm). One Comm is a Kenyan company that has interest in the data market and also other emerging technologies. Safaricom also has partnerships with various commercial banks in Kenya such as Kenya Commercial bank (KCB) and equity bank. Other key partnerships are those with cellular dealers like SAMCHI and MobiCOM.

1.2 Problem Statement

The dawn of the 21st century was coincided with globalization, liberalization and internet revolution as three phenomena that have metamorphosed international business (Najmaei and Sadeghinejad, 2009). Traditional competition has been abolished by a rising tide of fierce hypercompetitive challenges in a global scale. In wake of this situation and under these tough circumstances, all companies irrespective of the industry and scope of operation are seeking ways to hone their competitive edge and develop more sustainable

competitive advantages. Many firms have come to rely on strategic alliances as necessities for sustaining competitive advantage and creating customer value.

The telecommunications industry in Kenya had been expanding rapidly and fierce competition was witnessed in the sector. Safaricom found itself in a very competitive market where customers were demanding more value for their money. As the Kenyan people got more and more educated, they were demanding more quality services, especially in the data segment of the market. As a technological firm, Safaricom had to look at how to get more skilled expertise, better and cheaper ways of acquiring inputs, ways of acquiring the most recent and sophisticated technology in order to avoid being obsolete in the market as well as ways to reach wider geographical areas. The firm realized the need to leverage on economies of scale so as to keep its operating costs lower. The question however, was how to achieve these objectives. Safaricom found itself in a position where it had to form alliances with other organizations in order to be able to compete effectively in the telecommunications market. Das and Teng (2001), argue that strategic alliances have value creating potential that makes them an important source of competitive advantage.

Researchers have frequently analyzed issues related to strategic activities in the telecommunications industry. Hudson (2004) studied the regulatory environment of the telecommunications industry in specific countries. He concentrated on strategic alliances conducted by telecommunication firms. In Kenya, Owuor (2005) looked at strategic alliances in major oil companies and concluded that the major challenge in the industry

was to sustain the alliance. Other scholars with similar studies include Koigi (2002) who looked at implementation of strategic alliances in the Kenya Post Office and Savings Bank. Wachira (2002) analyzed strategic alliances in Pharmaceutical drugs development. None of the researchers analyzed the Telecommunications industry in Kenya. The study therefore aimed to breach the gap by analysing strategic alliances and competitive advantage in Safaricom limited. The study will help in answering questions such as the kinds of strategic alliances that Safaricom has entered into and whether or not strategic alliances have been a source of competitive advantage for Safaricom Limited.

1.3 Research Objectives

The research objectives of the study were

i. To establish the strategic alliances that Safaricom engaged in.

ii. To establish the extent to which these strategic alliances were sources of competitive advantage for Safaricom.

1.4 Importance of the Study

The study would help strengthen the telecommunications industry by providing information on what makes other companies develop positive perceptions to alliances. The industry would use the information in improving their mode of delivery of services in order to strengthen their stand against possible competition. The study would be invaluable to the Safaricom management in that it would provide an insight into the various approaches towards strategic alliances and how they could be used to help the company gain competitive advantage.

The study would be useful to the government in policymaking regarding alliances and other regulatory requirements of the telecommunications industry in Kenya. The Telecommunication sector in Kenya is currently undergoing reforms that are aimed at formulating policies and regulations. The study would therefore provide an insight into the policy making process. The study would also help improve on literature on the telecommunications sector in Kenya, which would be used by other scholars in the future. Scholars who would be interested in doing research in not only strategic alliances but also telecommunications would find this study to be of great importance to them.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategic Alliances

The concept of strategic alliances has become widely used in the business language to refer to the different types of partnership agreements between two or more companies that pursue clear strategic collaboration objectives, with different levels of possible integration among the members. Strategic alliances may be driven by both firm and environmental characteristics such as uncertainties concerning product markets, changing barriers to foreign trade and investment, technological volatility, market turbulence and rapidly changing economies of scale (Varadarajan and Cunningham, 1995). In a conventional sense, an organization's environment consists of actors and forces outside the firm, which affect the company's attitudes, actions and outcomes (Kotler et al. 2001).

Globalization and international markets uncertainties and challenges have made strategic alliances a strategic necessity that is no longer considered as an option (Parise and Henderson 2001). In literature survey it has been unearthed that, strategic alliances are planned and conducted to share organizational resources especially knowledge-based ones in order to create more advanced competencies. These competencies are valuable, rare, inter-transferable, inimitable and non-substitutable. Therefore, alliances are aimed to create cumulative value that exceeds the value created individually by each firm. Firms combine some of their resources and capabilities in strategic alliances in order to create a competitive advantage. Competitive advantage created by cooperative strategy is known as collaborative or relational advantage. Such an advantage is pursued in a mutual basis

by participating firms and can outline the way through which this advantage is achieved from organizational resources.

The motives to enter into alliances are compelling and often explicit. They include gaining access to specific markets or distribution channels, acquiring new technologies, leveraging on economies of scale and scope, and enhancing new product development capabilities (Parkhe 1991; Varadarajan and Cunningham 1995). Another crucial intention is to learn from the alliance experience. Learning is a difficult and lengthy endeavor; however, it is a subtle and important aspect of alliances. Learning is strategically relevant and learning skills may provide the greatest long-term benefits to firms (Stata, 1989). Learning provides the key ability to synergistically exploit the capabilities firms bring into an alliance. More and more firms have resorted to strategic alliance partnerships in recent times as a means of creating customer value. These hybrid, inter-organizational structures are becoming essential features for sustaining advantage in today's intensely competitive marketplace. The various types of alliances include joint ventures, strategic partnerships, supply chain relations, joint marketing and promotions, joint selling and distribution, joint production sharing, design collaboration, technology licensing, research and development contracts, and other outsourcing relations (Smith and Smith, 2003).

2.2 The Strategic Gap Framework

Osland and Yaprak (1993) state that organizations have strategic goals which at times are not realistic by the organization's standards. The desired goals and actual goals have a strategic gap which can be closed by forming an alliance with other companies. The

strategic gap can be expressed as a gap between what companies would like to achieve and what they are able to achieve. In this case, the motive for forming the strategic alliance is to reduce the strategic gap. The size of the strategic gap imposes pressure on the firm to take action in order to reduce the gap. The greater the size of the gap and the perceived importance of filling it, the more likely the firm will desire to form an alliance with another firm (Osland and Yaprak, 1993, p.86). These needs of the firm can be classified using the resource dependency model. These needs are market power, efficiency and competencies.

Market power can be achieved by developing new markets for present products, developing new products for present markets, and entering new product-market domains (Varadarajan and Cunningham 1995). Alliance formation allows companies to achieve market power, in case they do not possess the capability to achieve those results. Efficiency is important, especially for the high technology industries (Rai et al., 1996). Forming alliances allows firms to gain access to resources that make them more efficient. Alliances with large firms are particularly beneficial to smaller firms that lack resources to invest in R & D and new product development (Varadarajan and Cunningham 1995; Slowinski et al., 1996).

Competencies, the third need in the strategic gap framework, relate to the organizational learning process. Firms use alliances to gain access to other firms' capabilities and attempt to build their knowledge base with their partner's information (Inkpen and Beamish, 1997). Organizational knowledge provides firms with a competitive advantage

and is therefore critical to the survival of the firm. Such knowledge creation often results in increasing the longevity of such alliances. However, organizational climate plays a big role in the creation of knowledge. The organizational climate of the firms in the alliance should facilitate the effective implementation and utilization of the knowledge (Inkpen 1996).

2.3 Formation of Strategic Alliances

Today, organizations operate in a global environment characterized as diverse and unstable. These characteristics make collaboration a fundamental pillar of maintaining competitive advantage (Gummesson, 1995). Dickson and Weaver (1997) argue that organizations are increasingly recognizing that an individual firm is insufficient to deal with rapid changes in the environment. Similarly, Drucker (1996) identified relationships based not on ownership, but on partnership as the greatest change in corporate culture and the way business is being conducted in the global economy. Three principal theories have been identified that can be used to explain the formation of strategic alliances. Kogut (1988) identifies these theories as transaction cost economics, organization theory and business strategy.

Transaction cost economics was developed by Williamson (1975), who suggested that firms chose alternative arrangements that minimize the sum of production and transaction costs. According to Kogut (1988), transaction costs refer to the expenses incurred for writing and enforcing contracts, for haggling over terms and contingent claims, for deviating from optimal kinds of investments in order to increase dependence on party or

stabilize a relationship, and for administering a transaction. Transaction cost theory predicts that strategic alliances are designed to achieve a minimum cost arrangement. The second approach suggested by Kogut (1988) was the organization theory approach, specifically the resource dependency approach. The resource dependency approach reckons that organizations depend on other organizations within their environment to acquire needed resources (Pfeffer and Salancik, 1978). The formation of strategic alliances is a means for stabilizing the flow of resources that a company needs and for reducing the uncertainty confronted by the company. Resource dependency theory states that firms have specific resources but that few companies are self sufficient in these resources. Therefore, Glaister (1996) argues that companies must depend on others for these important resources. A deficiency in one or more strategic resources is seen as the driving force for collaboration and a means of reducing uncertainty and managing this dependency.

Business strategy theory addresses the issue of a firm's behaviour from a managerial, rather than a marketing approach. Companies are expected to form cooperative agreements if they believe that these arrangements will better enable them to meet their strategic objectives with the focus being on maximizing profits (Kogut 1988). Business strategy theory proposes that firms form strategic alliances as a means of acting proactively and in so doing, altering their environment. This approach to strategic alliances deals with competitive strategies of firms. Horaguchi and Toyne (1990) argue that the strategy to form an alliance is not just reactive; it is also proactive in that it creates new products, new markets, new organizations, new management techniques, and

new technology. Based on the competitive strategies approach, Kogut (1988) points out that alliances are formed as a defensive mechanism in order to hedge against strategic uncertainty. Varadarajan and Cunningham (1995) suggest that the three conceptual frameworks of transaction cost approach, the organization theory approach, and the competitive strategy approach mentioned above should be considered as complements, rather than as rivals.

2.4 Motives for Strategic Alliance Formation

The reasons for getting into an alliance are mainly for market growth and or profit growth. Varadarajan and Cunningham (1995) argue that the competitive approach gives the greatest motives for formation of strategic alliances. However, Kogut (1988) argues that the motives for formation of strategic alliances can be classified under each of the three approaches discussed above.

2.4.1 Transaction Cost Approach

The two main motives for the formation of strategic alliances based on the transaction cost approach are the enhancement of resource use efficiency and resource extension (Kogut, 1988). Enhancement of resource use efficiency is another compelling motive. Alliances allow firms to lower their manufacturing costs, achieve efficiencies in the production process, and allow them to gain experience effects. Resource extension is another reason for firms that lack the resources. Such firms, mostly small firms often enter into alliances in order to acquire research and development resources, which could be capital or equipment.

2.4.2 Organizational Theory Approach

The motives under this classification are mainly acquisition of new skills and entry into new product market domains (Kogut, 1988). Entry into new product market domains is another compelling factor. Firms that operate in stagnant or mature industries often enter alliances to gain a foothold in emerging industries. This move helps such industries to increase the market share for their products.

The acquisition of new skills is another motive. Knowledge acquisition is an important element in formation of alliances. Partners in an alliance often attempt to learn as much as possible from the other partner while guarding their distinctive skills. An organization that endeavours to learn gains a unique competitive advantage. This is because such an organization is able to regenerate it from within and produce ideas that can spur the firm into great success. Senge (1990) defined learning organizations as those that are continually expanding their capacity to create the results they truly desire and continually discovering how they can create reality and how they can handle change in a rapid environment.

2.4.3 Competitive Position Approach

Market entry in the international arena is one of the main reasons for entering into strategic alliances. Due to increase in global competition, firms tend to enter foreign markets in order to improve their profitability as well as their market share. Strategic alliances benefits firms that seek complementary resources in a foreign partner. Firms that want to evade trade barriers also find it appropriate to form strategic alliances. New

international markets, especially developing markets, are often difficult to enter due to government regulations regarding full ownership of a subsidiary. Strategic alliances can be helpful in circumventing these barriers to enter new international markets.

Protection of the home market's competitive position is another major motive of formation of strategic alliances. By entering international markets through alliances, firms force foreign competitors at home to divert their resources away from expansion into the international markets, thus protecting the home market. There is also the need to broaden product line or fill product line gaps. Firms often enter alliances to increase the product line or fill gaps in the existing product line. Lack of technology or high cost of production may force a firm to seek a foreign partner to fill their product lines.

The need to reduce the potential of future competition is another motive that makes firms form strategic alliances. By entering into an alliance with another organization, firms tend to reduce potential future competition of that organization. Another major reason is to raise entry barriers for the particular market. Raising entry barriers by joining forces with other organizations is a powerful motive to enter into alliances. However, firms have to be careful not to violate the anti-trust laws of other nation.

The motives discussed above can be classified under the three approaches defined by Kogut (1988). Table 1 lists the motives and their classification in each one of the three approaches.

Table 1: Classification of Motives for Formation of Strategic Alliances

Transaction Cost Approach	**Organization Theory Approach**	**Competitive Position Approach**
Enhance resource use efficiency	Acquire new skills	Entry into new markets
Resource extension	Entry into new product market domains	Circumvent barriers to enter new markets
		Protect competitive position in home market.
		Broaden product lines/fill gaps
		Entry into new markets
		Reduce threat of future competition
		Raise entry barriers

Source: Kogut, B. (1988, p319) Joint Ventures: Theoretical and Empirical Perspectives, Strategic Management Journal, 9.

2.5 Types of Strategic Alliances

Gomes (2003), states that alliances may be structured as complex equity joint ventures or they may be looser arrangements for cooperating agreements. There are a variety of types of strategic alliance; some may be formalized inter-organizational relationships or at the other extreme, there can be loose arrangements of cooperation and informal networking between organizations with no shareholder or ownership involved. 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, 2001).

2.5.1 Joint Ventures

Joint ventures are the most integrative form of alliances. A joint venture represents a new entity, that is, equity creation that combines partner firms in a selected area. Not only do firms have shared equities, but their operation is also combined in the selected area. Centralized control and collaboration are the hallmark of joint ventures. Joint ventures refer to separately incorporated entities jointly owned by partners. It is a project in which two or more parties invest. A joint venture agreement results in the formation of a new company in which the parties have shares. The partnering firms shares both in the ownership and management of the resultant firm.

Joint ventures (JVs) are defined as legal arrangements where ownership and management of an organization are shared by more than one organization. Interactions between organizations can take many forms; from market transactions to relationships so close that it is difficult to distinguish where one organization ends and the next begins. Lorange and Roos (1993) examined inter-firm relationships along two dimensions; first, as a continuum ranging from vertical integration, or hierarchies, at one end to free market transactions at the other, and second, by the degree of interdependence. The coordination of partner firms through dense communications and administrative systems can be called operational integration. When partnering firms work together in a joint venture, their behaviour can be directly observed and measured. Centralized procedures and policies

can also be developed, which provide a uniformed standard for all parties. Thus, joint ventures are preferred in more complex types of collaborations (Garcia-Canal, 1996).

2.5.2 Equity Alliances

Minority equity alliances, by comparison, have a modest level of structural integration. When one firm owns a meaningful portion of another firm, the two are partially integrated through ownership. However, the equity arrangement is partial because only a limited portion of equity is involved. Minority equity alliances include an acquisition of equity shares by either one or more partner firms. Equity arrangements are believed to help align the interests of partner firms (Gulati, 1995). When there is shared equity, partner firms realize that their interests are intertwined and hence opportunistic behaviour tends to be discouraged. In addition, shared equity serves as a mutual hostage for partners to retaliate and punish an opportunistic party (Kogut, 1988). Since equity arrangements are not easily terminated, it is difficult for an opportunistic party to quickly exit the alliance after taking advantage of the other party. In sum, an equity arrangement can ease partners' concern over opportunism in alliances. Shared equity often facilitates the coordination and control of the collaborative effort.

According to Gulati (1995), although joint ventures and minority equity alliances have the common characteristic of shared ownership, they ought to be separated along the dimension of hierarchical control. As compared to joint ventures in strategic alliances which all equities for the new entity are shared, minority equity alliances feature limited equity exchange and thus represent a lower level of equity exchange. In addition, in contrast to joint ventures, minority equity alliances usually do not have integrated

processes and centralized control. Without forming a new entity, partner firms carry out their cooperative activities separately.

2.5.3 Contractual Alliances

Contractual alliances involve no equity transaction or creation of a new entity in the agreement. Contractual alliances have the lowest degree of structural integration among the three alliance types. The partner firms do not have an integrated entity to carry out the joint activities, nor do they have any equity arrangements. According to Gulati (1995), contractual alliances are operated merely based on the agreements for the partner firms to work together in a certain way, such as in pursuing joint research and joint marketing. Again, such tentative structures lack centralized control that come with a joint venture.

2.6 Strategic Alliances and Competitive Advantage

Organizations might have many reasons to enter into strategic alliances, but the most important is to achieve a sustainable competitive advantage. Porter (1985) introduced the concept of competitive advantage and it relates to the ability of an organization to discover and implement ways of competing that are unique and distinctive from those of their competitors and that can be sustained over time. According to Porter, a business should adopt a competitive strategy that will enable it to secure a competitive advantage. Competitive advantage is anything which gives one organization an edge over its rivals in the products it sells or the services it offers.

According to Porter (1980), the nature and degree of competition in an industry hinge on five forces. They are threat of new entrants, the bargaining power of suppliers, the

bargaining power of buyers, the threat of substitute products and rivalry among firms. Porter (1980) provided three generic strategies namely cost leadership, product differentiation, and focus. These generic strategies are used in conjunction with the five forces in order to outperform competitors. The competitive position of an organization can be measured by their capacity of creating value. In competitive terms, as stated by Porter (1985), value is the amount buyers are willing to pay for what a firm provides them. A firm assures its profitability if it has the capacity of generating sufficient value that exceeds the costs involved in creating the product, and this creation of value shall be the goal of any generic strategy.

Strategic alliances value-creating potential makes them an important source of competitive advantage (Das and Teng, 2001). The firm that can effectively cope with environmental uncertainty and ambiguity, proactively reposition in competitive markets and minimize transaction costs through strategic alliances increases the probability of maintaining competitive advantages. Beyond this, alliances are an important value-creating option in markets that are more efficient because of the increasing symmetry of information flows between firms and their suppliers and customers (Oliva, 2001).

In the global economy, a well developed ability to create and sustain fruitful collaborations gives companies a significant competitive leg up. The ability to form and manage strategic alliances more effectively than competitors can become an important source of competitive advantage (Dyer et al., 2001, p. 37). Strategic alliances are a fast and flexible way to access complementary resources and skills that reside in other

companies. Cooperating to compete in any form gives participants greater opportunity for growth and a stronger competitive edge. According to Barney (1991), a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously implemented by any current or potential competitors. The reason such a strategy is not ordinarily implemented by competitors is that they may not possess the appropriate resources. This therefore leads to the importance of evaluating the resource dependency approach as a means of gaining a sustainable competitive advantage.

The resource based view suggests that valuable firm resources are usually scarce, imperfectly imitable, and lacking in direct substitutes (Barney, 1991). Therefore, the trading and accumulation of resources becomes a strategic necessity. When efficient market exchange of resources is possible, firms are more likely to continue alone and rely on the market. However, efficient exchanges are often not possible on the spot market. Certain resources are not perfectly tradable, as they are either mingled with other resources or embedded in organizations (Chi, 1994). The resource based view considers strategic alliances as strategies used to access other firms' resources, for the purpose of garnering otherwise unavailable competitive advantages and values to the firm.

To develop and exploit a competitive advantage, firms must possess capabilities that can be used to create valuable, rare and imperfect imitable resources (Barney, 1991). Researchers and practitioners of this idea attribute sustainable competitive advantage to the possession of valuable, non-substitutable and inimitable resources. Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic

agenda of action. This model focuses on the external side of strategy, helping firms analyze the forces in an industry that give rise to opportunities and threats. According to Barney (1991), firms that use their internal strengths in exploiting environmental opportunities and neutralizing environmental threats, while avoiding internal weaknesses, are more likely to gain competitive advantage than other types of firms.

Firm's resources consist of all assets both tangible and intangible, human and non-human that are possessed or controlled by the firm and that permit it to devise and apply value-enhancing strategies (Barney, 1991; Wernerfelt, 1984). Wernerfelt (1984) indicated that resources are tangible and intangible assets that are tied semi permanently to the firm. Examples of resources are brand names, in-house knowledge of technology and capital. Resources and capabilities that are valuable, uncommon, poorly imitable and non substitutable comprise the firm's unique or core competencies (Prahalad and Hamel, 1990). They therefore present a lasting competitive advantage. Intangible resources are more likely than tangible resources to generate competitive advantage (Hitt et al., 2006). Specifically, intangible firm-specific resources such as knowledge permit firms to add up value to incoming factors of production. Such an advantage is developed over time and cannot easily be imitated.

Alliances improve the strategic position of firms in competitive markets by providing resources from other firms that enable them to share costs and risks. Such resources give firms a cushion to withstand business downturns and other setbacks, and ensure more even and predictable resource flows. This buffering and cost sharing eases profit pressures, which are particularly intense in highly competitive industries. It gives firm

partners the slack they need to ride out difficult times and to learn better ways to compete. Core competencies are the collective learning in the organization (Prahalad and Hamel, 1990). Knowledge is one competitive advantage that is difficult and time consuming to imitate. It must be encouraged and developed as part of organization learning and organization memory as it is used. Knowledge is a core competence that does not weaken nor is it consumed with use.

2.7 Benefits and Limitations of Strategic Alliances

The benefits of strategic alliances are derived from the motives for formation of strategic alliances. Lower cost of technology, sharing of risk in high-risk projects, ability to accrue economies of scale and scope in value-added activities, access to partner's technology, knowledge, proprietary processes and a basis for future competition in the industry involved in terms of sustained competitive advantage are all benefits of strategic alliances (Varadarajan and Cunningham, 1995).

Successful alliances are between firms that achieve their goals and the motives for formation of the alliance. Management decides to enter into an alliance after conducting an environmental analysis, both internal and external, and finding discrepancies in their goals. These discrepancies are filled with capabilities of other firms by forming an alliance. These capabilities are termed as motives before the alliance is formed and benefits after the alliance is successful. Several limitations and drawbacks of alliance formation, however, may accompany the benefits of forming a strategic alliance. Day (1995) argued that one of the greatest costs to a firm is the liquidation cost of the alliance,

if the partners do not agree. Losing proprietary know-how is considered to be a high impact drawback of forming alliances. Control related problems are a major limitation of strategic alliances. Strategy implementation usually goes beyond the control of one party, and thus is likely to bother some companies. Dependence on partners for skills is a potential drawback to one who is dependent (Lei and Slocum 1991). There is also the issue of unequal gains. Some partners in the alliance may gain more than others which can cause discontentment for the partner getting less out of the alliance (Harrigan 1988; Slowinski et al. 1996).

Another major limitation is the differences in cultural values. There is an increase in the formation of joint ventures between partners of different cultures (Harrigan, 1988). Corporations encompassing different cultures may experience culture clashes after the formation of the alliance. These alliances often suffer due to the cultural differences between the partners. Different corporate cultures between firms of the same nationality also cause failure of strategic alliances (Vyas et al. 1995). Role ambiguity is another limitation. Uncertainty about specific roles may limit organizations from fulfilling their obligations to the alliance. Facing antitrust regulations is another limitation that can restrict the benefits of an alliance with a major partner and invite governmental intervention.

These disadvantages contribute to the failure of strategic alliances. Although the disadvantages seem to outnumber the advantages mentioned above, mutual gains from alliances can outweigh disadvantages. For the alliance to be successful, firms should

possess a change oriented corporate culture (Vyas et al. 1995), along with continuous mutual commitment and support (Kogut 1988). Firms that possess culture that allows and encourages change are usually successful in forming strategic alliances.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section sets out the research methodology that was adopted to meet the objectives stated in chapter one of this study. The research design, data collection, data analysis and presentation techniques were discussed.

3.2 Research Design

This research was a case study. A case study enables a researcher to collect in depth data on the population being investigated. It provides much more detailed information on the subject under study. A case study affords the researcher an opportunity to undertake intensive investigation of the particular study unit. Each individual case study consists of a whole study, in which facts are gathered from various sources and conclusions drawn on those facts. For this research, a case study of Safaricom was used to determine, the types of strategic alliances Safaricom is engaged in and whether these strategic alliances have helped Safaricom to gain a sustainable competitive advantage in the market.

3.3 Data Collection

In order to investigate the relationship between strategic alliances and competitive advantage at Safaricom, the researcher interviewed seven senior managers in the Company. Of these senior mangers, six of them were chiefs of divisions and one was the head of sales and marketing department. These senior managers sit at the highest decision

making body in the company and are therefore the people charged with formulation and implementation of strategic decisions within the company. They were therefore very resourceful in their responses to the issues under investigation.

The researcher personally conducted the interview. An interview guide was more appropriate in the study for the purposes of getting detailed information on the area under investigation. Open ended questions were used in the intensive interviews in order to help measure sensitivity or disapproval behaviour, discovers salience and encourages natural modes of expression. The interviewer obtained in-depth data through the use of probing which allowed collection of data relevant to the research objectives through clarifications of intended choices. The kind of documents that were used as sources of data for the study included existing case reports, administrative documents, and multimedia online resources. In the interest of triangulation the documents served as a confirmation of the evidence from other sources.

3.4 Data Analysis and Presentation

Before processing the responses, the information obtained from in-depth interviews was edited for completeness and consistency. Content analysis was used to analyze the respondents' views about strategic alliances at the company. Tables, percentages and discussions were used to present the data collected for ease of understanding and analysis. The researcher summarized the various opinions, assessed the degree of consensus or differences expressed by the respondents and synthesized the themes and patterns that emerged.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The research objectives were to establish the strategic alliances that Safaricom is engaged in and to establish the extent to which these strategic alliances have been a source of sustainable competitive advantage for Safaricom. This chapter presents the analysis and findings with regard to the objectives and discussions of the same. The data was collected from seven senior managers, six of them are chiefs of various divisions in the company and one is the head of sales and marketing department. Of the seven respondents only six were interviewed, this represent 86 percent response rate which the researcher felt was adequate. The findings were presented in percentages, discussions and tables.

4.2 Demographic Information

Demographic information covered issues relating to the respondents work station in terms of division, current position in the division and the number of years worked in Safaricom. Length of service in the organization determined the reliability of the information given by the respondents. The respondents were asked to state the length of service and their position in the organization. The results are as shown in table 4.2.1.

Table 4.2 Respondents Length of Service

Years of Service	Number of Respondents
0	0
1	0
2	0
3	0
4	2
Above 4	4

The findings presented in table 4.2 shows that all the respondents have worked at Safaricom for a period of four years and above. Specifically chief of technical, chief of risk and strategy, chief of commercial services as well as the head of sales and marketing had worked for more than four years. On the other hand, the chief of new products and innovation division and chief of information technology had worked for a period of four years. This shows that the information obtained from the respondents would be relied on as they are based on long terms of service with the organization.

4.3 Strategic Alliances

This section covers findings from the specific questions that were asked in order to determine the strategic alliances the company is engaged in, the extent to which Safaricom has used identified forms of strategic alliances, motives for the formation of alliances by Safaricom and the benefits and challenges faced by the company when engaging in the identified strategic alliances. The research found out that Safaricom has largely been involved in strategic alliances.

The findings indicate that Safaricom has engaged more in equity alliances as compared to other forms of strategic alliances. The company had only engaged in one Joint Venture and it had not engaged in any contractual alliance. This is mainly because in equity alliances, no one firm looses its identity to the other because complete integration is not a feature in equity alliances. Each firm retains its complete identity and control mechanisms unlike in joint ventures where new structures have to be formed. Equity alliances also help align the interests of partner firms. When there is shared equity, partner firms realize that their interests are intertwined and hence opportunistic behaviour tends to be discouraged.

4.3.1 Joint Ventures

Joint venture alliance was used by Safaricom to acquire 51% stake in One Communications Ltd (One Comm), a local company which provides various data communications services including fixed WiMAX access services. The alliance was made after Safaricom acquired a 3G license and therefore the partnership came on the back of Safaricom's successful entry into the broadband market. One Comm was already

involved in rolling out broad-band services in various parts of the country. It had the expertise but not the financial muscle. Safaricom had the finances, the license to operate but not the mush needed expertise. This acquisition was very strategic to Safaricom as it complimented Safaricom's current mobile broadband service offering with robust fixed broadband services especially for corporate customers. At the time of forming the alliance, One Comm had been offering WiMAX services with video, voice and data over Internet Protocol (IP). The company was also looking to handle data security, disaster recovery and business continuity, services that are not yet well developed in Kenya. The company had also set up five WiMAX base stations and was looking to expand throughout the country. Safaricom was entering the broad-band market at the time following positive changes in the telecommunications regulatory environment which allowed telecommunication companies to offer an array of services without extra licenses and was therefore seeking an established partner whereby each could leverage from the other.

4.3.2 Equity Alliances

The strategic partnership between Safaricom and the UK-based Vodafone group of companies is an equity alliance. This partnership led to the great innovation of M-PESA. M-PESA allows Safaricom clients to transfer cash using a mobile phone. It has been a great revolution throughout the country and especially among the rural population, who have no access to such facilities as a bank account or credit card. M-PESA is an innovation that has won numerous global awards for helping the poor rural un-banked Kenyan population have a way of transferring cash, transaction in businesses and paying

various bills including school fees. Vodafone provided the technical expertise needed to set up the infrastructure while Safaricom had the clientele base. The brand M-PESA is now being studied in world class institutions like Harvard and being replicated in Asian and African countries.

Safaricom has a strategic partnership with commercial banks namely Equity bank and Kenya Commercial Bank (KCB). The alliance with KCB has helped improve availability of M-PESA in the market. Under this arrangement, authorized agents can instantly access M-PESA once they make cash deposits at the bank. Agents need both M-PESA and cash to serve customers. Before this alliance, to obtain M-PESA, agents had to deposit cash into the M-PESA Holding Company bank account. In the event that they needed to convert M-PESA into cash (withdrawal) agents had to initiate a request on the M-PESA system which had to go through an internal process before the money was finally transferred to the agent's bank account through an EFT (Electronic Funds Transfer). With KCB as a super agent, M-PESA agents now have an alternative and shorter process to access M-PESA or cash at a nominal commission to the bank. Agents are therefore able to access M-PESA or withdraw money by means of e-float. This has enabled the agents, acting on behalf of Safaricom be able to serve customers more effectively and efficiently. This new service has increased M-PESA availability in the market. The partnership was a timely response to the growing need for an effective mobile telephone money transfer service. M-PESA, which has been hailed as one of the world's best financial innovations, has been a revelation in the country due to its reach and affordability facilitating transfer of funds for a growing number of mobile telephone users.

The equity alliance with equity bank has helped M-PESA customers access money from the bank's automated teller machines throughout the country. The M-PESA ATM withdrawal service targets over 10 million Safaricom M-PESA customers who are now able to use their mobile phones to access money from Equity Bank's over 550 ATMs, the largest such network in the region. This alliance was necessitated by the fact that there were very few M-PESA dealers from who customers could make deposits and withdrawals. M-PESA service was characterized by long queues. By partnering with equity bank, customers started experiencing faster processing of withdrawals and other transactions. The service enables registered M-PESA customers to withdraw amounts ranging from KShs 200 to Kshs 35,000 from any Equity Bank ATM. The Equity Bank partnership increased the number of access points where M-PESA customers can withdraw money and presented a novel way of dealing with the liquidity challenges customers faced when withdrawing money from M-PESA agents. Customers now have access to their cash countrywide 24 hours a day, seven days a week. It was a breakthrough from previous ATM services because consumers of financial services do not need a bank card to access the service, making it available to many un-banked Kenyans. Since ATM withdrawal charges apply in using this service, Safaricom is able to generate more revenue and at the same time make the service available to many clients.

Another equity alliance that Safaricom has been involved in is the strategic alliance with various cellular dealers in the country who supply scratch cards and other forms of merchandise for Safaricom. These involve mobile phones, laptops, data modems and advertisement materials. The most notable dealers are SAMCHI and MOBICOM. However, Mobicom ended its alliance with Safaricom a few months ago. These cellular

dealers have large distribution network channels in all parts of the country. It was therefore necessary for Safaricom to partner with them in order to take advantage of the dealers existing distribution infrastructure.

Another equity alliance is the strategic relationship with Jamii Telecommunications Limited (JTL). The areas of cooperation would be whereby JTL became Safaricom's preferred broadband infrastructure provider, the exclusive provider of Safaricom's metro fibre requirements, the re-seller of any excess in Safaricom's capacity on TEAMS and Seacom as well as deployment of fibre by JTL at preferential discounted rates. This relationship is key to the success of Safaricom's overall data strategy and is an integral part of the company's commitment to continually enhance the value proposition for shareholders. JTL is one of Kenya's leading broadband infrastructure providers and this alliance effectively gives Safaricom access to it's over 1 000 kilometres' of state-of-the-art metro fibre network. JTL has proven technical expertise in the area of managed fibre services and the design and quality of their network. This partnership allowed Safaricom to make significant savings in both operational and capital expenses. Safaricom expected to realize these savings as a result of replacing legacy micro-wave transmission network with fibre and to exploit the time to market advantages that the JTL fibre footprint gives in terms of accessing large corporate, homes, small and medium enterprises so as to offer them cutting edge last mile communication solutions. Safaricom also realized easier and faster network expansion at lower capital expenditure, better throughput on the network and provision of a wider choice of data services on any technological platform with Safaricom's acquisition of a unified license.

4.4 Motives for Entry into Strategic Alliances

It was noted that the motives behind the entry into strategic alliances by Safaricom fell under three major categories. These three categories are the transaction cost approach, the organizational theory approach and the competitive position approach.

4.4.1 Organization Theory Motive

Acquisition of new technologies whereby 51% stake was acquired in One Comm in order to compliment Safaricom's current mobile broadband service offering with robust fixed broadband services especially for corporate customers. The move to acquire One Comm was facilitated by positive changes to the regulatory environment and it underscored Safaricom's commitment to continuously invest in new technologies that would enable it provide its WiMAX coverage in major cities to their customers. Acquisition of skilled expertise and knowledge was another major factor that led Safaricom to enter into an alliance with One Comm. The engineers at One Comm already had the know-how of setting up broadband networks and hence Safaricom leveraged from this expertise. Enhancing new product development capabilities and helping capture international markets was another key factor that led Safaricom to form alliances. The strategic partnership between Safaricom Limited and the UK-based Vodafone led to the formation of the now re-known M-PESA. Besides being one of the greatest revenue streams of the company, M-PESA has revolutionized the economy of Kenya by ensuring circulation of money in the economy. Since its inception in March 2007, M-PESA has moved a record Kshs 405 Billion within the Kenyan economy.

4.4.2 Transaction Cost Motive

Enhancing resource efficiency and cost-cutting led to a strategic alliance with JTL. JTL's fiber technology has enabled Safaricom to gradually phase out expensive micro-wave technology and take advantage of JTL's expansive infrastructure spanning over 1000 Kilometers. Fiber technology is more superior in quality and cheaper to maintain. Safaricom has therefore been able to realize huge savings in its capital expenditure as a result of this partnership. This cost saving has directly translated to higher profits and value for stakeholders. Sharing of organizational resources was a key factor that led Safaricom to enter into an alliance with KCB in order to enable more users load onto the M-PESA system. Under the deal, Safaricom would provide an avenue and channel that enables its M-PESA customers send money regularly. KCB would use this platform as part of its modernization and corporate expansion plan to improve its delivery mechanisms and improve efficiency.

4.4.3 Competitive Position Motive

Broadening of product lines was another factor. An alliance with several utility providers such as KPLC, Nairobi Water Company, Insurance firms and other service providers has helped Safaricom extend its M-PESA product from not just sending and receiving money, but also to payment of utility bills. The services charges generate a huge revenue stream for Safaricom. This also helped in creating customer value, which is a key factor motivating the formation of alliances.

Leveraging on economies of scale and scope as well as gaining access to specific markets or distribution channels was also a key motivating factor. The partnership between Safaricom and Equity Bank to launch a new mobile money transfer service that enables M-PESA customers access money from the bank's ATMs throughout the country has been based on the leverage on economies of scale. M-PESA ATM withdrawal service targeted over 10 million Safaricom M-PESA customers who would be able to use their mobile phones to access money from Equity Bank's over 550 ATMs, the largest such network in the country. Previously, customers would only be able to withdraw from designated agents who were far apart. The partnership with Equity bank has helped Safaricom take its products and services closer to the people. Safaricom has also greatly benefited from the partnership with cellular dealers such as SAMCHI because the company has been able to avail products to the rural areas by taking advantage of SAMCHI's well established distribution channels.

Entry into new market domains was another major reason why Safaricom entered into alliances especially with One Comm. For a long time, Safaricom was offering data services at low internet speeds using a technology known as GPRS. With its acquisition of the 3G license, Safaricom needed a partner who was already an established player in the data market. One Comm was already providing infrastructure to various Internet Service Providers (ISPs) and hence, under this arrangement, Safaricom would ride on One Comm's infrastructure to reach a wider data market as well as new market domains using the WiMAX technology that allows fast internet services.

Protecting competitive position in the home market was a factor that led Safaricom to launch an international money transfer service via M-PESA. In this strategy, other mobile phone operators in Kenya, who had subsequently launched their own money transfer services after observing the success of M-PESA, would also be compelled to go international with their services. Since these players are not as established as M-PESA, their divided attention in the home and international market would allow Safaricom to consolidate its home base and therefore protect its competitive position in the Kenyan market.

4.5 Dealing with Uncertainties of Globalization

Strategic alliances have contributed to Safaricom's ability in dealing with uncertainties and challenges in business posed by globalization in various ways. Globalization has led to the infiltration of many products and services in the Kenyan market and therefore posing a risk to home companies such as a Safaricom. Partnering with other firms to roll out new products and services to the market has been an effective way of dealing wit this challenge. It has helped Safaricom save on costs and therefore offer more value to customers as well as enter new markets. Strategic alliances have also helped Safaricom to respond to changes in technological environment promptly by partnering with firms like One Comm and JTL whose main business is selling technological products. This has ensured that any recent technology acquired by these firms is consequently absorbed by Safaricom and therefore, the company has been able to position itself well in the rapidly changing technological sector.

4.6 Benefits and Challenges of Engaging in Strategic Alliances

The benefits realized by Safaricom as result of alliances include improved profitability whereby costs have been reduced hence pushing up profits. Partnering with JTL allowed Safaricom to make significant savings in both operational and capital expenses. Safaricom realized these savings as a result of replacing legacy micro-wave transmission network with the cheaper and more efficient fiber transport system. Ensuring effective satisfaction of customer needs has been realized as a result of diversifying products and services and devolving infrastructures to the grassroots. Allowing many service providers to hook up to the M-PESA system helped to diversify the M-PESA service. This has helped customers gain greater value for their money. Timely delivery of products and services to customers has been realized as a result of partnering with banks and other firms that have facilities in both rural and urban centers.

Ability to accrue economies of scale has been realized after partnering with firms that have huge resources such as in case of national fibre systems, cellular distributors and commercial banks. Access to partners' in house knowledge is one of the greatest benefits that Safaricom has realized after entering into strategic alliances. This was evident in the joint venture between Safaricom and One Comm Ltd where Safaricom provided the financial resources and One Comm provided their expertise in the data market. The partnership between Safaricom and JTL also brought in proprietary knowledge to Safaricom about how to set up an efficient and resilient fibre network.

The research found out that various challenges were experienced by Safaricom as a result of entering into strategic alliances. One of the challenges is responding to changes in technology by partnering firms whereby Safaricom has to up-grade its systems if the partner firm has upgraded theirs in order for systems of both firms to work efficiently. When JTL adopts new transmission equipments, Safaricom has to upgrade too. Another challenge is discontentment for some partners who feel they are getting less out of the alliance. This was the case with MobiCom dealers who felt discontented resulting into dissolution of the alliance. This was a very big loss for Safaricom because MobiCom was the biggest cellular dealer for Safaricom airtime and other services. They owned distribution channels in various parts of the country and hence, their withdrawal from the partnership meant that availability of services to customers was delayed to a large extent.

Control related problems are another major challenge especially in the use of commercial banks ATM outlets. Safaricom does not have control for use of commercial banks ATMs to access money through M-PESA services and as a result, customers are forced to bear with commercial banks ATM down times. If the ATMs are not loaded with cash, M-PESA customers cannot make withdrawals and Safaricom does not have control over that problem.

4.7 Competitive Advantage and Strategic Alliances

This section covers findings on whether entry into the identified forms of strategic alliances by Safaricom had helped the company to effectively deal with competition in the telecommunication industry as well as gain a sustainable competitive advantage. The

research found out that Safaricom has been able to deal effectively with serious competition in the telecommunications industry as a result of forming strategic alliances. Some of the best ways that Safaricom has been able to deal with competition are development of new products and services as well as development of key performance indicators that have been brought about by entry into strategic alliances.

4.7.1 Development of New Products and Services

It was noted that Safaricom has benefited from strategic alliances by developing new products and services to keep it ahead of its competitors. Some of these new products and services include M-PESA, M-KESHO accounts with Equity bank, cash transfers to and from bank accounts with various commercial banks as well as utility bill payments. This has made it easier for Safaricom customers to transact almost all their businesses through the mobile phone. The service charges attracted by these services are a great revenue stream for Safaricom. These services have also been received well by customers because it's easy to pay almost all bills through the mobile phone, and therefore, as a result of these strategic alliances, Safaricom has helped improve livelihoods of many Kenyans. M-PESA has been and is expected to be a leading revenue stream for safaricom for quite a long time to come.

Data services related to fast internet speeds were realized as a result of partnering with JTL (Which provides the backbone infrastructure to transport data quickly) and also One Comm (which provides base stations capable of fast internet technologies such as WiMAX). Data services are now the greatest revenue streams for Safaricom. Going into data services was a key strategic move because revenues from voice services had been

decreasing marginally over the years. Therefore, in order to be competitive in the lucrative data market, Safaricom had to seek a partnership with One Comm and JTL. The data market in Kenya had for a long time been dominated by Internet Service Providers (ISPs), but Safaricom has now become the market leader in data services with a leading 79.6% of market share. The data services growth rate has been phenomenon with over 2.64 Million users actively using the service just 3 years after its launch.

Safaricom has also derived competitive advantage as a result of increased market share through alliance with cellular dealers who have large distribution networks which always ensure that airtime and other services are available and accessible in most parts of the country.

4.7.2 Key Performance Indicators Resulting from Strategic Alliances

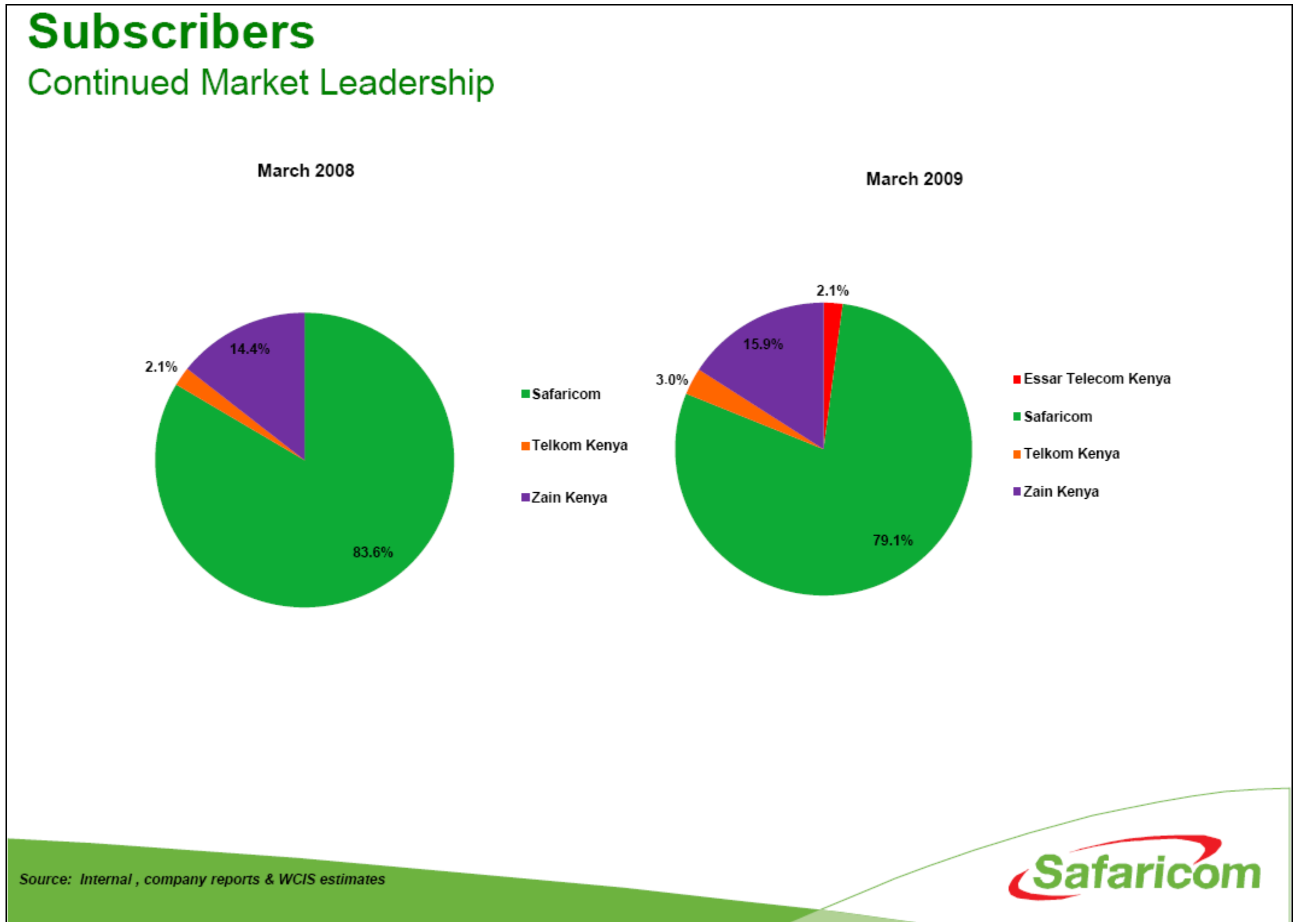
The study found out that Safaricom had identified key performance indicators that have given the firm a sustainable competitive advantage as a result of entering into strategic alliances. These key performance indicators have become great revenue streams for Safaricom. They are M-PESA, data services, continued market leadership and an upward trajectory growth in profitability.

M-PESA has been a key performance indicator for the company. Specifically, 10 million registered users as at 31st March 2010, with a distribution network of 17,653 retail outlets countrywide. The service is now registering an average of 11,580 users per day and has 51 Pay bill partners including KPLC, Old Mutual, Nairobi Water Company, commercial banks, Micro finance Institutions, fuelling stations and the Youth Enterprise

Development Fund. Since its inception, M-PESA has moved a massive Kshs 405 Billion in the Kenyan economy with person to person transfers valued at Kshs 28.59 Billion. Safaricom's revenue in the 2009/2010 FY was Kshs 80 Billion, of which M-PESA contributed 10 billion, representing an 8% share in the company's revenues.

As a result of engaging in a strategic alliance with One Comm, Safaricom has set-up 400 3G enabled base stations in Nairobi, Mombasa, Naivasha and Eldoret, with roll-out in other parts of the country on-going. WiMAX rollout is also ongoing with focus on corporates' branch networks, up-market residential areas and medium-sized companies. The service now has 2.64M users of the 3.5M data users in the country. This represents 79.6% of the total data market share. In the 2009/2010 financial year, data services contribute Kshs 2.94 Billion to Safaricom's revenue. The service profitability is growing at an average rate of 54% annually, and is deemed to be one of the biggest revenue streams for Safaricom. The study found out that the firm has continued to experience a strong subscriber growth of 18% per year fuelled by quality and product innovation. The subscriber base stands at 15.36 million subscribers which represented a market share of 79.1% in 2009, against the closest rival Zain Kenya at 15.9%.

Figure 1: Safaricom's Continued Market Leadership



(Source: Research Data, Annual Financial report for the year 2008/2009)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The ultimate purpose of every business should be to satisfy the customer expectations. Increased levels of competition require greater strategies to gain competitive advantage. The study shows that Safaricom has been involved in strategic alliances. Specifically, Safaricom has used equity alliances most of the times and only one Joint ventures alliance. There was no noted instance of contractual alliance.

The study noted that factors that led Safaricom into entering in strategic alliances with other firms were; Acquisition of new technologies, means of creating customer value, leveraging on economies of scale and scope, gaining access to specific markets and distribution channels, enhancing new product development capabilities, capturing international markets as well as sharing organizational resources. The study therefore agrees with Kogut (1988) on the motivations which lead any firm into seeking strategic alliances. It was further noted that strategic alliances have contributed to Safaricom's ability in dealing with uncertainties and challenges in business posed by globalization as follows; Rolling out new products and services to the market, improved profitability, effective satisfaction of customer needs, ensuring all logistics and other control measures are in place, ensuring timely delivery of products to customers and responding to changes in technological environment promptly.

The research found out that Safaricom had gained a sustainable competitive advantage due to formation of strategic alliances. This was as a result of increased market share and profitability. M-PESA and data services are now the leading revenue stream for Safaricom after voice services. This means that the company will continue to realize marginal profitability a long as these services are growing. Alliances with cellular dealers have ensured that Safaricom's market share is large because these dealers have distribution networks throughout the country. A large market share is one of the greatest competitive advantages that firm can have. Safaricom has also been able to generate huge revenue streams as a result of partnering with commercial banks and several utility firms in the country. Subscribers opt to make their bank and other transactions through M-PESA, and the services charges attached to these services have been generating huge profits for Safaricom.

5.2 Conclusion

The study found out that Safaricom had gained a sustainable competitive advantage as a result of entering into strategic alliances and therefore, telecommunication firms in Kenya should engage in strategic alliances because these alliances have value creating potential which leads to sustainable competitive advantages. These advantages were derived from the benefits such as; Leveraging on economies of scale of cellular dealers, new products innovation as in the case of M-PESA and data, product and services extension as in the case of using M-PESA to pay utility bills, cost saving operations by replacing expensive micro-wave technologies with JTLs fibre infrastructure as well as timely delivery of products as a result of partnering with large cellular distributor. Had the company not engaged in the above mentioned alliances, it would not have gained the 79% market

share and the market leadership that it currently has. These findings are in line with the literature that exists on strategic alliances. Das and Teng (2001), argue that strategic alliances have value creating potential that makes them an important source of competitive advantage.

5.3 Recommendations for Policy Makers

The study drew various recommendations both to policy makers and researchers. It was recommended that regulators and players in the telecommunications industry should embrace strategic alliances because not only do such alliances help a firm get a competitive advantage, but they also impact positively on the livelihoods of many citizens.

5.4 Recommendations for Further Research

The study confined itself to Safaricom. This research therefore should be replicated in other mobile phone service providers in the country and the results of the findings be compared for more accurate generalization. A study should be conducted in order to find out the kind of alliances that other mobile telephony service providers have engaged in and whether they have been a source of any competitive advantage. A similar study should also be carried out in the firms having strategic alliances with Safaricom in order to find out if these alliances have been a source of competitive advantage for them or not.

5.5 Limitations of the Study

One of the major limitations was lack of adequate co-operation from the respondents. This research was carried out at a time when there were serious price wars in the telecommunications industry, and therefore, industry players were repositioning themselves in order to make appropriate strategic moves. The respondents, who were in the senior management team of Safaricom, were therefore very cautious with the information they gave. The interviewer felt that some information was being withheld. It was also difficult to collect and analyse information on all the alliances that Safaricom had entered into because the alliances were very many. Another limitation of the study is the time allocated to the entire project. The time allocated for the completion was little in relative comparison to the amount of research work that had to be done. Resources for the research were scarce. These resources include money for travel and stationery work.

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APPENDIX I

LETTER OF INTRODUCTION

Evalyn W. Mwai
P. O Box 25840-00100
NAIROBI,

Safaricom Ltd
P.O BOX 46350-00100
NAIROBI.

Dear Sir/Madam,

RE: Collection of Data

I am a postgraduate student at the University of Nairobi, at the School of Business. As part of my course work assessment, I am required to submit a management research project. In this regard, I am undertaking a research on engagement of your firm in strategic alliances and the competitive advantages gained as a result of the alliances.

This is to kindly request you to assist me collect the data from your organization on the same. The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidentiality. A copy of the final paper will be availed to you upon request. Your assistance will be highly appreciated.

Thank you in advance.

Yours Faithfully,

Evalyn W. Mwai

(MBA Student)

APPENDIX II

INTERVIEW GUIDE

Instructions

Please provide the answers as correctly and honestly as possible.

Section 1: Demographic Information

i) In which department/division do you work?

____

ii) What is your position in the department/division?

____

iii) How long have you worked with Safaricom.

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Section 2: Strategic Alliances

i) Has Safaricom Limited been involved in Strategic Alliances?

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ii) If your answer in (i) above is Yes, what forms of Strategic alliances has Safaricom Limited been involved in? Please explain

iii) If your organization has been involved in more than one form of strategic alliance as in (ii) above, which form is more common than the other? Why?

iv) Explain the factors that have led your Company into entering in strategic alliances with other firms. List other factors that Safaricom considers as important and can lead into formation of alliances.

v) How do the formation of alliances by Safaricom help to deal with uncertainties and challenges in business posed by globalization?

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vi) Explain the benefits that Safaricom has gained as a result of entering into Strategic alliances.

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vii) What challenges has Safaricom experienced as a result of entering into strategic alliances with other firms.

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Section 3: Competitive Advantage

i) In your opinion, has the formation of alliances by Safaricom helped the company to effectively deal with competition in the Telecommunication industry? Explain

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ii) Has Safaricom developed new products or services through strategic alliances? If yes, please name the products/Services.

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iii) If your answer in (ii) above is yes, explain how these new products/services have enabled the company gain a sustainable competitive advantage?

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iv) Other than developing new products/services, explain other ways in which Safaricom has been able to get a sustainable competitive advantage as a result of having strategic alliances.

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v) Of all the factors that led the organization to enter into strategic alliances, name and explain the factors that have helped the company get tangible benefits and hence to gain a sustainable competitive advantage. Please give illustrations where possible.

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