

**STRATEGIC ALLIANCE BETWEEN SAFARICOM
AND EQUITY BANK IN THE MONEY TRANSFER
SERVICE**

BY

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DECLARATION

I the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than University of Nairobi for academic credit.

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Approval

This project has been presented for examination with my approval as the appointed supervisor.

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ABSTRACT

Since the introduction of liberalization in Kenya and the world becoming a global village, stiff competition among firms has increased to high levels forcing companies to devise ways of staying relevant in the market. Companies in Kenya have formed strategic alliances both locally and internationally so as to be able to compete successfully in a market that keeps on changing. Competition has been seen increasing from one period to another especially in the service industry. This has been attributed by increase in technology, improved innovations and high demand for efficient and effective services by customers. Equity bank has been seen growing very fast and increasing the market share rapidly. This has been successive through the introduction of various services that suit the low income earners. But the bank has been facing competition from other banks especially; Co-operative bank and Commercial bank of Kenya. Thus the bank projected that to be viable in the market, they need to partner with Safaricom Ltd- a mobile service operating company to facilitate easier way of money transfer.

Safaricom Ltd also, has stayed in the Kenyan market for the last ten years. It has the largest market share of over 14 million customers. With its introduction of M-PESA- a money transfer service through the phone, it has attracted many customers all over the country and have shown loyalty over the service as being cheaper and efficient. In relation to this also the company faces competition from other mobile operators especially *Zain Kenya* and *Orange Telecom* that offer the same services. This has therefore generated price wars between the companies hence resulting to lowering of prices in the market. In regard to this Safaricom Ltd projected its viability by partnering with other financial institutions like the equity bank to facilitate easier way of money transfer. In this study I will find out the factors that determine the start of an alliance between Safaricom Ltd and Equity bank and the challenges that face the alliance.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The business environment in which organizations are operating has over the years witnessed drastic changes. The changes are both complex and 'chaotic' and organizations have found it difficult to cope with increasingly complex environments from internal resources and competences alone. Sometimes, firms can operate alone without formal relationship with others and remain successful. Certain developments in the environment are however making it attractive for firms to enter into collaborative arrangements. They may see the need to obtain materials, skills, innovation, finance, or access to markets, and recognise that these may be as readily available through cooperation through partnership. Channon (1999), defines strategic alliances as coalitions and cooperation agreements formed between a corporation and others in order to achieve certain strategic goals.

The growing integration of the global market place since the 1970s to the new millennium termed as globalization has seen the emergence of all sorts of corporate relationships and linkages from alliances, mergers and acquisitions, partnerships and joint ventures. Strategic alliances have been formed to facilitate entry into new markets and to reduce operation costs. These inter-firm relationships may involve two or more firms from the same industry or from varied parts of the world and cover a range of activities and functions (Yoshino and Rangan, 1995). 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). Accordingly, managers must think outside these boundaries in order to remain competitive. Therefore, relationships that tend to give a firm these competences that are outside its current tangible and intangible assets are important.

1.1.1 Strategic alliances

A great deal of literature exists regarding strategic alliances, most of it dealing with partnerships between businesses sharing the same profit motive. In this paper definitions from various scholars are discussed to give the reader the various approaches authors have taken in discussing alliances. According to Johnson et al (1995), a strategic alliance is where two or more organizations share resources and activities to pursue a strategy. This kind of development of joint strategies has become increasingly popular because organizations cannot always cope with increasingly complex environments (such as globalization) from internal resources and competences alone. They may see the need to obtain materials, skills, innovation, finance or access to markets, and recognize these may be readily available through cooperation as through ownership.

Gulati (1999), defines strategic alliances as voluntary arrangements between firms involving exchange, sharing or co – development of products, technologies and services. A strategic alliance is where two or more companies collaborate by sharing resources and activities to pursue a common strategy. It is a coalition or cooperation agreement formed between a company and others to achieve certain strategic goals. Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages (Somers, 2005). From the above definitions it is evident that strategic alliances are formed with the aim of making companies better placed in the market in terms of competition. Companies are able to acquire strengths from partners that they didn't possess on their own. For instance because of such alliances some are able to penetrate markets they could not access initially, others are able to acquire technical expertise they did not possess among other benefits. Companies enter into strategic alliances for several strategically beneficial reasons (Thompson et al 1995). The three most important are to gain economies of scale in production and/or marketing, to fill gaps in their technical and manufacturing expertise, and to acquire market access. They however posit that strategic alliances are more effective in combating competitive disadvantage than gaining competitive advantage

1.1.2 Money Transfer service

According to the World Bank report, money remittances from migrant workers and expatriates to their friends and relatives back home far outweigh foreign aid and are key pillars of the growth of the gross domestic products in the developing economies of Africa, Latin America and the Caribbean. M-Pesa was first envisaged as a money transfer service that would simply allow Kenyans to transfer money using their mobile phones. It now promises to generate millions of dollars in profits and earnings for international operators and banks as people use their mobile phones to manage bank accounts and receive funds from abroad.

The Postal Corporation of Kenya entered the money transfer business aggressively. Other competitors range from unlicensed envelope couriers to Western Union. The hope is that access to secure electronic funds and cash at a lower cost will help to drive the Kenyan economy and provide a partnering model for mobile operators, banks and institutions like the postal service in other developing regions. The traditional post office faces the real prospect of extinction. Its revenues, largely derived from Postal Corporation of Kenya, or Posta, has had to rethink its products and is adopting new business strategies to remain afloat. With more than 900 outlets in Kenya, the Posta hopes to be a dominant player in the roughly \$100 million local money transfer market through its PostaPay instant money transfer system. PostaPay is promising customers a turnaround time of no more than two minutes between the time the money is sent and received. This would represent a major improvement on existing substitutes. Conveying money in Kenya through the Posta has always been akin to snail mail, with a turnaround of one week as the fastest. PostaPay is luring the vast Kenyan diaspora living and working in the United States to send money to friends and family from the PostaPay website using their credit cards. The firm is linked up with U.S.-based Afripayments LLC, which has provided the Internet-based technology for PostaPay.

The M-PESA to ATM service that was started as a joint service between Safaricom Ltd – a mobile communication company and Equity bank, it targeted Safaricom’s eight million M-pesa customers. Users of the service only require to be registered as M-PESA

customers to enable them withdraw amount ranging between Ksh 200 and Ksh 35,000 from any Equity Bank ATM. The service is available to both customers and non customers of Equity Bank. Customers wishing to withdraw money will initiate a withdrawal from their M-PESA menu on their phones and receive an authorization code. They then input this code into the ATM followed by their Safaricom phone number and the amount they wish to withdraw. The Equity Bank will dispense the required cash and a receipt. The new service would not only lay a strong base for low cost banking, but also enable many un-banked. Kenyans access money using mobile phone technology. The beauty of the new service is that one does not have to have an account with Equity Bank to withdraw money from the Bank's ATMS. The service was also part of the Bank's commitment to reach more Kenyans through mobile Banking, allowing them to access financial services with ease.

Safaricom Chief Executive Officer Michael Joseph said that, with this partnership, M-PESA customers can enjoy faster processing of withdrawals at Equity's 550 Auto Branches spread all over Kenya and an obvious improvement similar to the partnership with Pesa-point. He said that this partnership would increase the number of access points where M-PESA customers can withdraw money, citing that it is presented a novel way of dealing with the float challenges experienced by customers when withdrawing money from the M-PESA agents, given the countrywide and 24 hours availability of the Equity's ATMs. The inter-linking of the M-PESA system, the world's first mobile Banking product with conventional Banking infrastructure like Equity's presents a ground-breaking innovation that is a fitting platform for the development of new services in line with M-PESA'S Bigger- Than- Cash positioning. The Partnership has seen the two firms use the mobile platform to offer M-PESA to paybill for Equity bank loan repayments.

1.1.3 Equity Bank

Equity bank commenced business in 1994. It evolved from a building society, a microfinance institution to all inclusive Nairobi stock exchange and Uganda securities. Equity bank is the largest bank in the Kenya in terms of customer base, with over 4.1million accounts accounting for over 52% of all banks accounts in Kenya. The solidness of equity bank is underpinned by its shareholders funds base over 19 billion making one of the most capitalized bank in Kenya. Equity is the holder of the 2007 global vision award in microfinance for initiating a concept of the future that will shape the global economy. The world renewed super brands recognize Equity as the only banking super brands in East Africa. Equity offers financial services through its wide network of branches in Kenya, Uganda and Sudan supported by Alternative Delivery Channels which include :Visa branded ATMs in Kenya

1.1.4 Safaricom Ltd.

Safaricom limited is the leading mobile operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone the largest mobile telecommunication in United Kingdom acquired a 40% state and management responsibility of the company. Safaricom has over 1500 staff mainly stationed in Nairobi and other big cities like Mombasa, Nakuru and Eldoret in which it manages retail outlets. Currently it has nationwide dealerships to ensure customers across the country have access to its products and services.

In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunication scenario by having strategic business associations; associations which add value to the global mobile telecommunication initiative and which help in meeting the dynamic challenges of the modern mobile telecommunication world. The strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market today. Safaricom Ltd range of products and services include: M-PESA, Instant Internet, Short Message Services, Voicemail, Directory Service, various tariffs, 24 hour customer service, Roaming service, ATM top-up, Emergency numbers, and community phones, Get-it sports scores, Safaricom online, Mobile Office, Third Party top-up, Emergency Top-up.

1.2 Statement of the problem

During the past decade, companies in all types of industries and in all parts of the world have elected to form strategic alliances and partnerships to complement their own strategic initiatives and strengthen their competitiveness in domestic and international markets. (Thompson et al 2004). However as the number of strategic alliances continues to surge we also see companies getting out of such relationships quickly a trend that indicates that there intricate issues that have to be handled very well in alliances if they are to grow to maturity to achieve the initial objectives set for them. Spekman et al (1994), argues that although the characteristics of strategic alliance formation have been well explored in literature, little has been written about the factors associated with strategic alliance success and failure. Moreover, many of the research studies on strategic alliances have not been specifically concerned with the relationship and the interplay of specific factors to be considered by firms entering strategic alliances and the factors contributing to success and failures in such activities.

Studies by Koigi (2002), Chesang (2002), Owour (2004), focused on different aspects other than the determining factors in the choice of strategic alliance partner. Koigi looked at the implementation of strategic alliance experience of Kenya Post Office Bank and Citibank; Chesang (2002), looked at the relationship between merger restructuring and financial performance in commercial banks in Kenya; while Owuor (2002) studied the relationship between strategic alliances and competitive advantage within the major oil companies in Kenya. Owuor (2002), found out that there exists some form of arrangement in the petroleum industry, whereby independent companies have formed a lobby consortium that petitions the Ministry of Energy on a number of issues that are seen to be prohibitive. He also noted that independent petroleum dealers operate at the mercy of the majors who offer them hospitality where they pay throughput fees.

Chesang (2002), found out that restructuring policy need to be adopted to solve the banking crisis in the banking sector through the merger approach. It was observed from his study that most merged banks and those who were on alliances recorded improvement

in terms of performance indicators within minimum statutory requirements. Hence mergers and strategic alliances can still be a considered option in the case of medium sized banks. This therefore is indicative that additional research is required to establish the factors that firms need to consider in entering strategic alliances and those that contribute success and failure of such alliances, and the study will narrow in to the alliance between Safaricom and Equity Bank in the money transfer service.

1.3 Research Objective

The objectives of this study are;

- i) To establish the key factors that led to the formation of the alliance between Safaricom and Equity Bank
- ii) To find out the challenges facing Safaricom and Equity Bank in managing the strategic alliance.

1.4 Importance of the study

The study will help managers in various organizations understand the subject of strategic alliances in strengthening competitiveness in the service industry. The study will also highlight what is expected of each partner if an alliance is to succeed and what factors will lead to success and those that lead to failure. The study will be quite enriching to researchers, academic institutions and scholars. This is because it will add to their knowledge and enable them to be more informed when considering forming strategic alliances thus make informed decisions and choices. This is mainly so because the study aims to highlight factors unique to strategic alliances in the service industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategic Alliances

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). As the world becomes a global village, companies are faced with many challenges that they cannot address on their own and therefore find themselves reaching out to their counterparts to form an alliance that will help them counter these challenges. Companies continue to succeed in building strategic alliances and successful relationships with customers, suppliers, competitors among other partners. Increasingly, strategic alliances and industry partnerships are becoming more important to success in almost all economic sectors. For instance alliances with customers provide companies with valuable systems and application know how and access to markets for key products, while allowing its customers to share some of the risks of product development and to gain access to the company's process technologies and manufacturing infrastructure.

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). The most common reasons why companies enter into strategic alliances are to collaborate on technology or the development of promising new products, to overcome deficits in their technical and manufacturing expertise, to acquire new competences, to improve supply chain efficiency, to gain economies of scale in production or marketing and to acquire or improve market access through joint marketing agreements.

2.2 Reasons for the formation of alliances

Strategic alliances are formed for a variety of reasons, which include entering new markets, reducing manufacturing costs, and developing and diffusing new technologies

rapidly. Alliances also are used to accelerate product introduction and overcome legal and trade barriers expeditiously. In this period of advanced technology and global markets, implementing strategies quickly is essential. Forming alliances is often the fastest, most effective method of achieving objectives. Companies must be sure the goal of the alliance is compatible with their existing businesses so their expertise is transferable to the alliance.

2.2.1. Entering New Markets

Often a company that has a successful product or service has a desire to introduce it into a new market. Yet perhaps the company recognizes that it lacks the necessary marketing expertise because it does not fully understand customer needs, does not know how to promote the product or service effectively, or does not understand or have access to the proper distribution channels. Rather than painstakingly trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills.

Then, by capitalizing on the product development skills of one company and the marketing skills of the other, the resulting alliance can serve the market quickly and effectively. Alliances may be particularly helpful when entering a foreign market for the first time because of the extensive cultural differences that may abound. They may also be effective domestically when entering regional or ethnic markets.

2.2.2 Reducing Manufacturing Costs

Strategic alliances may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs. Many companies are driven to sell in more than one region or country because domestic sales volume is not large enough to fully capture manufacturing economies of scale or learning – curve effects and thereby substantially improve a firm’s cost competitiveness.

A company with the manufacturing capacity therefore forms a strategic alliance with another with access to larger markets therefore making manufacturing a lot cheaper because of the newly acquired large customer numbers. Alliances have also been formed by companies with limited resources in terms of capital. A pool of resources between the two firms makes it easier to acquire the necessary machinery and in puts required enabling production in large scale and in effect reduction of production costs. By joining forces in components production/and or final assembly, companies may be able to realize cost savings not achievable with their own small volumes – Volvo, Renault, and Peugeot formed an alliance to make engines together for their larger car models precisely because none of the three needed enough such engines to operate its own engine plant economically. (Thompson et al 2004).

2.2.3 Developing and Diffusing Technology

Alliances may also be used to build jointly on the technical expertise of two or more companies in developing products technologically beyond the capability of the companies acting independently. In today's rapidly changing world, a company that cannot position itself quickly misses important opportunities. As a consequence, more and more enterprises, especially in fast changing industries, are making strategic alliances a core part of their overall strategy. Alliances are so central to Corning's strategy that the company describes itself as a 'network of organizations'.

Toyota has forged a network of long-term strategic partnerships with suppliers of automotive parts and components. Microsoft collaborates very closely with independent software developers that create new programs to run on the next – generation versions of windows. A recent study indicates that the average large corporation is involved in around 30 alliances today, verses fewer than 3 in the early 1990's (Thompson et al 2004)

2.2.4 Improved Customer Service

Companies also enter into strategic alliances in an effort to improve attitude toward customer service. This starts from top management on down the chain of command. Many manufacturers are partnering with their dealers and retailers. When the dealer makes a long-term buying commitment to the manufacturer, the manufacturer helps the dealer in customer service tools and training. Through alliance relationships, many businesses have found strategies to provide better and quicker customer service while keeping their costs manageable.

Competitive companies look for other companies that have a similar customer base and enter into a discussion about how to work together. Strategic alliances allow partner firms to learn new ways to improve customer service from the one another as well as enabling them solve their customer's problems faster because of the newly acquired larger base of customer service people. This means that keeping the customers loyal to the organization enhances stable running of the business even in times of stiff competition and recession.

2.2.5 Financial stability

One of the reasons why companies find themselves walking towards forming strategic alliances is the need to eliminate the weaknesses that come with financial instability. Smaller organizations forming alliances with larger ones seek to access to capital. More potential is generally the out cropping of shared resources. For instance when a university collaborates with a medium level training institution to offer degree programmes in new markets, both institutions depending on the agreement reached upon is required to contribute a certain percentage towards the acquisition of necessary resources.

Alliance relationships allow partners to share the financial risks associated with developing new products and entering into new markets. Ultimately the benefit to developing strategies alliances with others is for solutions through mutually beneficial efforts. Together firms can solve their problems, those of their customer's suppliers and employees. Companies should know what they want to get out of the alliance relationships they establish. Alliances will get the company much closer to their goals

than without these valuable relationships. These will in turn lead to improved quality, productivity and profitability through cooperation and collaboration of the companies involved.

2.3 Ingredients of successful strategic alliances

Intense competition in the market place is forcing organizations to examine different ways by which they could enhance or retain their competitive edge. Strategic alliance is one such option through which an organization can leverage its resources to emerge as an effective competitor. Alliances have continued to grow globally but as the same time reports are on the increase on failed strategic relationships. This highlights the need for considering some key factors before embarking on strategic alliance.

2.3.1 Partner congruence

An alliance should have a clearly defined strategy that is closely tied to the corporate strategies of the partners. It must include goals for the relationship and milestones for attaining those goals. Strategy development must meet the needs of all partners to ensure long-term success. Difficulties may arise because partners are not in complete agreement about the purpose of an alliance and the process by which its goals can be achieved.

It is also possible that the short and long-term objectives of partners are misunderstood, so the direction of the alliance may be rather fuzzy. Mutual agreement on the purpose of the alliance is important because it provides institutionalized direction, which acts as a legitimate mechanism both among and within the parent organizations. This therefore generates cohesiveness and mutual coordination that leads to achieving the common goal of the alliance.

2.3.2 Partner Evaluation

The choice of a partner has a significant impact on the performance of an alliance since that choice determines the mix of skills and resources available to the alliance. It is crucial to determine if the resources of a likely partner have the potential to match the requirements for which the alliance was initiated. Without the proper partner, a company should never undertake forming the alliance, even for the right reasons.

Each partner should bring the desired complementary strength to the partnership. Ideally, the strengths contributed by the partners are unique, for only these strengths can be sustained and defended over the long term. The goal is to develop synergies between the contributions of the partners, resulting in a win-win situation for both, or all. Moreover, the partners must be compatible and willing to trust one another.

2.3.3 Blending the culture

The third key principle in managing an alliance, the blending of a culture, is undoubtedly the most complicated and the most often ignored. An organization's culture is the set of values, beliefs, and conventions that influence the behavior and goals of its employees. Thus, developing a shared culture is central to the success of the alliance. Partnering is inherently very people-oriented. To the extent that the cultures of the partners are different, making the alliance work may prove difficult. To blend or integrate the culture of the alliance, management must have a clear vision of what the culture should look like.

Cultural norms should be consistent with management's vision of the alliance's ideal culture. This may entail creating norms as well as nurturing those that already exist. The key to developing a culture is to acknowledge its existence and to manage it carefully. Bringing two organizations together and letting nature take its course is a recipe for failure. Thus everybody from each organization has the mandate to learn from one another, in terms of likes and dislikes, common nature of operation and the common vision that blends them together.

2.3.4 Mutual Trust

According to Johnson et al (2005) trust is probably the most important ingredient of success and a major reason for failure if absent. But trust has two separate elements. Trust can be competence based in the sense that each partner is confident that the other has the resources and competences to fulfill their part of the alliance.

Trust is also character based and concerns whether partners trust each others motives and are compatible in terms of attitudes to integrity, openness, discretion and consistency or behavior. Trust is the core value for a sustainable alliance. It guides each individual to play his or her part with an aim of achieving a common goal.

2.3.5 Clear Performance measures

From the onset of the alliance performance measure should be outlined. This should be in line with the expected performance outcomes and the extent to which these would be in line with the expectations of stakeholders. Clear performance measures will help the partners in the alliance is identifying weakness in the alliance and therefore put an extra effort to turn them around so as to achieve the set objectives.

The presence of clear performance measures also makes it to identify very early when the alliance is not meeting the partner expectations and therefore helps the members decide whether to dissolve or re- evaluate the whole alliance. This therefore acts as the cornerstone for every individual from both organization aim at achieving the stipulated goals thus improving performance and consistence.

2.3.6 Coordinated Commitment

Commitment in strategic alliances stems from two bases. One form of commitment, referred to as instrumental, can be thought of as rational, the other as attitudinal (Becker, 1960; Mowdy et al 1982). As in all business dealings, commitment to the strategic alliance relationship must have an instrumental base. For a relationship to continue there must be a positive benefit cost analysis for the partners. Managers must see a potential for returns and/or a need to avoid switching costs. This is the rational and economic of commitment. It is called calculative commitment. Commitment has an emotional and effective component. In this regard, commitment means that partners, in a sense, internalize the alliance relationship.

The alliance assumes a position of status and importance; the partners are willing to nurture and care for it. There is fairly a deep psychological identification with the relationship and a pride of association with the partner and with the alliances. This type of commitment is called attitudinal commitment. It means giving extra effort to make the venture work and a willingness to go beyond mere contractual obligations. Committed partners dedicate resources and effort and face risks to make the venture work.

2.3.7 Open Communication

To develop a strategy that is consistent with the strategies of the partners, each partner must be willing to share strategic information which is an early test of the trust and commitment of the parties. The operational responsibilities of each party must also be clearly defined. Specifying responsibilities up front reduces role ambiguity. Sherman (1992) recommends giving one partner sole authority to run the joint venture or establish the alliance as a completely autonomous operation to avoid management gridlock frequently caused by shared decision making. Details regarding objectives and resource commitments should be clearly stated and fore realized in an alliance agreement.

Flexibility should be built in to allow for renegotiating or restructuring the alliance if the need arises, especially in a dynamic environment. It is critical when the alliance becomes operational that open communication between partners takes effect. Each partner should have access to information on all aspects of the alliance and be able to express dissatisfaction when apparent. Both partners should be open to each others opinion. None of the partners should dominate all decision making process, unless agreed among them that one will manage the alliance of which the other partner should be kept abreast of the alliance performance.

2.4 Factors leading to strategic alliances failure

More and more companies undertake strategic alliances to improve their business, but many of them fail. The risks and problems facing strategic alliances should be identified so that the companies can improve the performances.

2.4.1. Clash of cultures

Cultural clash may be one of the biggest problems for the companies in strategic alliances. Kilburn (1999) pointed out “These cultural problems consist of language, egos, chauvinism, and different attitudes to business can all make the going rough. Problems can be particularly acute between a publicly quoted Western holding company, keenly focused on shareholders value and Japanese partners who have different priorities. Language barrier may be the first thing that can cause problems. It is important for the integration of the staff from each of the partner into a coherent team. They should be able to communicate and understand each other well before they work together.

In addition, there are many other barriers that could cause misunderstanding and conflicts, such as customs, habits, and personal relationship networks and so on. Besides the national culture, the organization culture inside the company can also cause problems. The firms face the problems with different ways of operation or management style. Businesses are run in different ways because of the cultural distance. There may be lots of conflicts when they work in a team.

2.4.2 Lack of trust

Risk sharing is the primary bonding tool in a partnership. What will happen if one company is successful and the other experiences a failure? A sense of commitment must be generated throughout the partnership. In many alliance cases one company will point the failure finger at the partnering company. Shifting the blame does not solve the problem, but increases the tension between the partnering companies and often leads to alliance ruin (Lewis, 1992). Building trust is the most important and yet most difficult aspect of a successful alliance. Only people can trust each other, not the company.

Therefore, alliances need to be formed to enhance trust between individuals. The companies must form the three forms of trust, which include responsibility, equality, and reliability. Many alliances have failed due to the lack of trust causing unsolved problems, lack of understanding, and despondent relationships (Lewis, 1992).

2.4.3 Lack of clear goals and objectives

In today's business world, many strategic alliances are formed for the wrong reasons. This will surely lead to disaster in the future. Many companies enter into alliances to combat industry competitors. Corporate management feels this type of action will deter competitors from focusing on their company. On the contrary, this action will raise flags that problems exist within the joining companies. The alliance may put the companies in the spotlight causing more competition.

Alliances are also formed to correct internal company problems. Once again, management feels that an increase in numbers signifies a quick fix. In this case, the company is probably already doomed and is just taking another along for the ride (Kilburn, 1999). Many strategic alliances, although entered into for all the right reasons, do not work. Dissimilar objectives, inability to share risks, and lack of trust lead to an early alliance demise. Cooperation on all issues is the key to a successful alliance. Many managers enter into an alliance without properly researching the steps necessary to ensure the basic principles of cooperation (Lewis, 1992).

2.4.4 Lack of coordination between management teams

Action taken by subordinates that are not congruent with top-level management can prove particularly disruptive, especially in instances where companies remain competitors in spite of their strategic alliance. If it were to happen that one company would go off on its own and do its own marketing and sell its own product while in alliance with another company it would for sure be grounds for the two to break up, and

they would most likely end up in a legal battle which could take years to solve if it were settled at all.

It is therefore vital for every individual from both organizations to have continuous communication from all levels of departments. The innovations that one company may come up with must be discussed first, so that an analysis can be done to forecast on its impact to both companies. Thus efficient coordination between management teams eradicates conflict of interest among the staff that may lead to the downfall of the whole alliance, leading to a big loss for the financial efforts invested.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

The study adopted exploratory case study design. This entailed detailed investigation of individuals from both organizations on reasons for the start of the alliance and challenges experienced. The case study was suitable for the study because it allowed for gathering relevant information with an in-depth approach.

A case study is a design where data is collected from one or a few study units only. It entails intensive analysis of a single case. Hence it allows for in –depth exploration of issues in a phenomenon. Data was gathered using open ended questions that provide quotations.

3.2 Data Collection

The study targeted, Head of departments of the Safaricom Ltd and Equity Bank, in the following departments: Finance, Corporate strategy, Marketing, Risk management, Legal and Regulatory Department .The data for the research was mainly from both primary and secondary data. The primary data was in-depth oral interview with Head of departments using interview guide which allowed for detailed information.

The primary data covered on the reasons for the formation of the alliance and the challenges facing or that can face the partnership. For the information to be valid, the targeted source of information was people who have been in the organizations for a minimum of three years who may have substantial information on the history of the organization. Secondary data included management reports, organizations’ magazines and research papers on strategic alliance management.

3.3 Data analysis

Data was analyzed using content analysis. Content analysis is a qualitative research technique that enhances compressing many words into fewer content categories based on explicit rules of coding. It enabled me sift through large volumes of data with relative ease in a systematic fashion. Thus,enabled development of supportive evidence for conclusions and findings. The findings enhanced in determining answers to specific questions arose in the study.

Content analysis provided a qualitative picture of the respondents concerns, ideas, attitudes and feelings. It guarded against selective perception of content. Therefore there was improved reliability and validity. 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, Cooper and Schindler (2003).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study was designed to establish the factors that determine the choice of a strategic alliance partner and the challenges experienced in the alliance. To achieve these objectives, a total of 7 out of ten respondents from both organizations gave out the relevant information that is discussed in this chapter.

4.2 Factors that led to the alliance between Safaricom Ltd and Equity bank.

Many organizations have planned to have strategic alliances with each other, so that they can stay competitive in the industry of operation. Therefore in this study will find out the reasons for the formation of the strategic alliance between the two organizations. The two organizations have been seen as the major players in the industrial environment in which they operate, thus they also face competition from other service operators who offer related services.

4.2.1 Developing and Diffusion of Technology

In the Kenyan market now, competition has been very intense both in the telecommunication and banking sectors. All the respondents argued that for the organization to counter the competition the major target is to invest in new technology through a partnership. In relation to this the alliance was used to build jointly on the technical expertise in giving out faster and reliable services in money transfer through the phone and the ATM.

Thus, Safaricom Ltd benefits greatly from over the 550 ATMS countrywide offered by Equity bank. On the other hand Equity gets technological advice and telecommunication technology network from Safaricom, with highly experienced engineers and communication masts countrywide, that facilitate faster communication and reliable money transfer through the phone. Most of the respondents from equity bank acknowledged the efficiency and reliability of Safaricom's technical team, that shares skills and knowledge with their staff at all times to leverage on any technical hitch that may arise.

4.2.2 Improve customer Service

The strategic alliance targeted to keep the customers loyal to the organizations. Therefore this alliance was facilitated to provide better and quicker customer service while keeping the service cost minimal. Thus Safaricom customers can enjoy withdraw of cash from any Equity ATM avoiding the challenges experienced through dealer shops and agents in relation to float management. Many of the respondents said that customers are very happy with this service since they can access their cash easily even very late at night since they can access the ATMS.

On the other hand Equity bank customers have a chance to pay their loans through the phone under the pay bill option from their M-PESA menu in the phone. Therefore customers avoid long ques in the bank halls to pay their bills thus saves time and money. Also customers are protected from insecurity of carrying money physically to the bank, thus they can do their transactions without any fear. Also Equity bank customers have the chance to call the Safaricom Ltd customer care number to be assisted on queries in relation to their transactions made under the partnership; this is possible through safaricom *Jambo* Contact Centre.

4.2.3 Financial Stability

Respondents from both organizations vividly explained that the alliance was formed to share financial risk associated with developing new services and capturing a wider market. In relation to this there is more of sharing resources thus eliminating the concept of financial instability in times of recession. This alliance was to get the organizations closer to achievement of their goals, that is improved quality service delivery, profitability and increased market share.

Many of the respondents showed concern on the impact of political climate change that affects the economic and financial policies laid down by the government. Especially the 2007 election chaos brought about losses by many companies in Kenya. Many Kenyans could not be able to buy airtime or access money from their bank accounts. So the managers saw the need to give alternative ways for customers to access their money at all

times. Hence the companies will still continue operating even in times of hard times to enhance continuous running of the business. On the other hand Safaricom Ltd respondents said that the partnership can leverage them from the unexpected regulatory changes by the Communication Commission of Kenya.

4.2.4 Reducing operation cost

From the information gathered by the respondents, a pool of resources between the two organizations has made it easier to acquire the necessary machinery. By combining the resources the organizations are now able to realize saving the cost of purchasing their own systems and machinery that are quite expensive to purchase and maintain. In essence the cost of maintenance of the ATM systems and communication network is quite expensive and thus the cost is shared effectively thus avoiding the overburden of doing it alone.

Under the respondents from Safaricom Ltd , the company started a policy of a Project called *project mavuno* that aims at cutting cost to reasonable value. This means that the company targets to reduce its operation cost and maximize on profit accumulation each financial year. Under the partnership Safaricom Ltd is hoping to gain more profit and reduce its operation cost at large. And this has been the major target of every organization to keep itself at pace in generating more income and accumulating more profit.

4.2.5 Brand Reputation

A brand name is the cornerstone for successive marketing and consistence loyalty of customers. The respondents from equity bank appreciated the fact that Safaricom is brand name that many Kenyans associate with in relation to telecommunication companies are concerned. Therefore this partnership was a major boost for the bank to be associated

with the major player in the mobile industry, to sell and advertise its products effectively and easily.

On the other hand Safaricom Ltd appreciates the fact that Equity bank has targeted many middle and low level income earners all over the country. Therefore this partnership was a major channel for Safaricom Ltd to capture and encourage many customers to register and use the M-pesa Service hence increase customer base and dominate the market. Many Kenyans regard Equity bank as the bank that caters for low level and middle level citizens who appreciate that it gives them the services and products that satisfies their needs. Safaricom Ltd on the other hand is regarded as the best mobile telecommunication company in Kenya, this can be seen through a variety of services that it offers at a lower rate compared to its competitors. On top of it, M-pesa service crowns it all as the best and unique way of transferring money that many citizens are attached to, thus it has facilitated loyalty in both organizations.

4.2.6 Gain Competitive Advantage

Many respondents from Equity bank and Safaricom Ltd gave out the view that there is a lot of competition in the mobile banking service in Kenya. This therefore gave them a chance to partner with Safaricom Ltd as it has a bigger market share in the telecommunication industry, hence to capture and encourage many Safaricom customers to use Equity services and thus get more knowledge of the banking industry.

On the other hand Safaricom Ltd projected that for them to stay abreast in the mobile service competition; they saw a need to partner with Equity bank to open up more services apart from voice service alone. The Safaricom Ltd managers gave the view that there is more that can be done with the phone apart from calling, hence the company can

increase its services in the market to enhance itself have a competitive edge compared to its competitors in the mobile industry, like *Zain Kenya* and *Orange Telecom* companies.

4.3 Challenges Facing the Strategic Alliance

Many strategic alliances in the world have been growing but there have been reports of increased failure after some time of operation. This can be attributed by recession, political interference or financial crippling of the one of the partner. Therefore there is need to consider the challenges Safaricom and Equity bank face in relation to maintain their alliance alive.

4.3.1 System Failure

From the technical point of view the respondents blamed the system breakdown especially from equity bank. It came to their concern that the system delays all the transactions done by customers hence discouraging them. Safaricom Ltd managers pinpointed the slowness of equity bank system to relay faster information to Safaricom Ltd system in relation to any transactions a customer had done through the ATM.

Therefore many customers call Safaricom customer care complaining on inefficiency of the system to allow them enjoy better services. Some customers started having a negative attitude towards the services offered by both organizations especially when systems fail. But the managers explained that when system issues arise, customers get feedback through short messages to their mobile phones that there is a technical hitch but will be solved soon. Thus this gives confidence to the customers.

4.3.2 Competition from other Service Operators

Competition has been the major game in both the banking and mobile industry in the Kenyan market as explained by many respondents. Change of customer needs and

improved technology has brought all about new services thus competition. Many banks have also partnered with other mobile service operators to offer the same services. For instance the major competitors of Equity bank include Co-operative bank and Commercial bank who offer related services.

On the other hand respondents from Safaricom Ltd said that their major target is to stay on top in the competition from Zain Kenya and Orange telecommunication companies, who are trying to offer same services. The major issue under this market is that they try to offer services at a lower cost to discourage safaricom customers from using that service. The price wars as explained by the respondents have generated lower revenue for the last six months as compared to previous years that experienced a boom. But the respondents insisted on consistence and better quality service to maintain the current customers.

4.3.3 Different key performance indicators (KPIS)

The key performance indicators are the targets that need to be fulfilled in a certain task at specific period.90 % of the respondents gave out the view that every organization has got its own goals and objectives, thus even the mode of appraisal and the targets for the employees differ from one organization to another. For instance the performance of Safaricom employees is recorded every month with half year appraisal and the overall appraisal done at the end of every financial year. On the other hand appraisal is done once in a financial year in the Equity bank. The respondents explained vividly the way different organizational objectives and goals interfere with the common operation of an alliance. This is because the organization changes its objectives time and again to suit into different market needs.

Safaricom Ltd for instance targets to maintain its market share and continue dominating in the competitive and innovative telecommunication market. On the other hand Equity bank targets to open up and reach as many customers as possible to enhance its stability in operation. I observed that the KPIS formulated by Safaricom Ltd were quite higher as

compared to the Equity bank as explained by the managers thus Safaricom Ltd was seen as the major player in the alliance compared to its partner. The issues tackled by safaricom Ltd ranges from handset functionality, system maintenance and money transfer queries that are solved through the Safaricom Ltd contact centre, while Equity bank checks on dispensing money to customers and customer education.

4.3.4 Different financial year dates

The financial years in different organizations differ. They help in the evaluation of the organization performance over a specific period. Thus they are the major indicators on how the organization is fairing on. The finance managers from both organizations said that they experience a challenge while compiling the financial reports and how profits are shared since the organization do not share a specific financial year results date. For instance Safaricom Ltd announces its annual results on March every year, Equity announces its results on December. So the respondents said that what may be included in their annual report do not really reflect the exact value of the shared profit since the other organization has not completed its business in that financial year.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study was carried to determine the key factors that led to the formation of a strategic alliance between Safricom Ltd and Equity bank and the challenges the two organizations face while facilitating the alliance operation. From the study it was seen that there are more advantages than disadvantages realized from the strategic alliance. Thus the managers suggested that the partnership should continue since it enhanced future sustainability of both organizations. In general the major aim of the strategic alliance

between Equity bank and Safaricom Ltd was to gain competitive advantage in the market. This is because competition has really been high both in the telecommunication industry and also in the banking industry. This has been brought about by change in technology and more demand by customers to get efficient and effective services at a lower cost.

On issue with diffusion of technology and improve customer service more than half of the respondents gave out the view that the alliance really target to tackle the two issues so as to retain more customers at a cheaper cost. Also financial stability was to be realized if technology was invested and also operation cost was to be minimized thus a synergy to increased revenue for both companies. Brand reputation is a psychological element that every player in the market has to invest in. The name Safaricom is a brand name that many Kenyans know as the company with the best telecommunication services and endowed with consistent innovations and a culture of new technology that it invests into. Thus those organizations that partner with it are recognized as most innovative and better placed in the competitive market, the way Equity bank did.

On the other hand few loopholes have been identified in relation to that affect the alliance negatively. But the major problems is the system failure that need to give consistent and reliable data of all the transactions done under the alliance, thus its failure becomes a hindrance to convince the customers to use service offered by both organizations. The negative attitude that the customers may have really affects the loyalty that they have for the organizations; hence the customer must be given efficient services and if any problem arises apologies must be taken to the customers and issue resolved amicably. Different Key Performance Indicators and different financial year date reports also bring about disparity since the organizations do not run at the same lanes. Also as the organizations have different goals and objectives the uniformity of the operation under the alliance also gets affected since they aim at achieving different goals.

5.2 Conclusion

In the current competitive market, many organizations cannot operate alone without partnering with others. The main agenda is bringing together the resources available from both organizations that enhance synergy for better operation in the volatile business environment. Technological changes coupled with increased in demand for better services at a cheaper cost by customers has generated more competition. Innovation and consistent research is the only way forward for an organization to prosper in the competitive market.

Therefore the partnership that Safaricom Ltd and Equity bank had entered into is the solution to the competition that both organizations face in their respective industrial environment. For instance Equity bank faces competition from other banks like Co-operative bank and Kenya Commercial bank that also are trying to partner with other mobile telecommunication companies to offer money transfer service using the phone. On the other hand Sfaricom Ltd face stiff competition from other mobile survive providers majorly *Zain Kenya* and *Orange Telecom*. Therefore this has manifested to price wars in mobile industry that has enhanced lowering of calling rates up to less than half the rate that was there before and also lowering of the rates in the money transfer service. This therefore has generated less revenue especially for those companies with smaller market share and few innovations in the changing market. It is therefore prudent for an organization to partner with others to enhance synergy that can enhance stability and sustainability in operation in this competitive market.

5.4 Recommendations

This study therefore recommends that strategic alliances are the major ways in which organizations can survive and sustain their operations in the competitive environment. This is because an organization cannot be able to acquire all the resources need for its operation at the same time. Because of this stiff competition in the mobile industry I recommend Safaricom Ltd to continue partnering with other service providers in relation to paying bills using M-pesa service, especially the Nairobi water company and Kenya power and lighting company and other financial institutions through loan payments.

Therefore this will continue boosting the M-pesa service to stay viable and facilitate loyalty of customers to the leading mobile service provider.

On the other hand for Equity bank prosperity, they need to invest a lot on new technology and innovations to prevent any system breakdown that irritates many customers especially during the end of the month. The bank also has really invested in capturing a bigger market share, therefore it is recommended for maintaining the existing customers through provision of better services so that it can maintain its competitive advantage in the banking industry. Also it will be quite effective for the bank to partner with other mobile service providing companies that offer unique money transfer services so as it can continue staying abreast from its competitors through offering of unique and efficient services thus maintaining loyal customers.

5.5 Suggestions for Further Research

The study looked at the factors that led to the strategic alliance between Safaricom Ltd and Equity bank and also the challenges that face the alliance. The results showed that the strategic alliance really helps an organization to have a competitive advantage than those ones that go alone. There is need therefore for more study to be done how the organization need to be prepared if an alliance breaks up and what will be strategies that the organization will take to sustain itself after the break up.

On the other hand more research need to be done on the strategies that one of the partners may pursue if the partner engage in partnering with other competitors in the same industry of the former partner. And this will entail how the two partners try to manage the alliance.

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Interview Guide

1. Which Position do you hold in the organization?

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2. How long have you worked with the company?

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3. What are the main reasons why your organization entered into this strategic alliance?

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6. In your opinion what has led to the success of the strategic alliance between Safaricom and Equity Bank?

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7. What are the factors that negatively affect or hinder the operation of the alliance? .

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8. How do you evaluate your partner on his performance?

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9 .What is the level of consistence in terms of performance by your partner?

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10. In your opinion how long do you think this alliance will last?

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11.What are the future plans you have in relation to this alliance in the changing market ?

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