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Master Dissertation-Maintaining Competitiveness Through Strategic Alliances

Case Study of Equity Bank Kenya

Master of Science in Business Administration

Strategy and Management in International Organizations

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Abstract

Title: Maintaining Competitiveness Through Strategic Alliances-Case Study of Equity Bank Kenya

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Background: The Kenyan financial sector has recently been growing at high rate due to the inclusion of individuals who previously were unable access banking services. This has led to a competitive situation where banks and micro finance institutions are searching for ways to manage in this competitive sector. In addition, mobile phone companies are now considered as a competitive threat.

Aim: This study will look into how strategic alliances between banks and mobile phone companies can be used to overcome these challenges with a specific focus on the recent alliance between Equity Bank (Kenya), and Safaricom Ltd. The study will also focus on the management of strategic alliances within different industries.

Method: The analysis of this study is based on qualitative research including the use of interviews with members of both organizations and secondary data which includes written documentation and analysis of previously recorded discussions about the alliance with different members of both organizations.

Results: The authors found strategic alliances can be used as a tool which enables firms to overcome threats from their competitors while gaining additional benefits. In terms of alliance management, the use of separate teams was found to be an effective management tool in cross industry alliances.

Key words: Strategic Alliances, Cooperation, Strategic Alliances Formation and Management, Partner Selection, Cross-Industry Cooperation

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Chapter 1 Introduction

This chapter will focus on the background of the Kenyan banking industry, problem statement, purpose of the study and scope of the study so as clearly present the area of interest as well as justify the relevance of this study.

1.1 Problem Background

Kenya is a country located in East Africa, and was a British colony until 1963 when it gained independence and became self governed. During this time, there were a total of 9 commercial banks operating in the country, the earliest bank being Kenya Commercial Bank which was licensed in 1896. The following two decades (1963-1983), saw the number of commercial banks increase to 19 while currently the number of licensed commercial banks in Kenya is 44 in total (Central Bank of Kenya, Official Homepage, 2011) serving a population slightly over 40 million (Central Intelligence Agency, World Fact Book, 2011). Furthermore, the majority of the banks formed after 1983 were local banks. In this context, a local bank will be defined as a bank originating from Kenya with the majority of ownership being held by Kenyans. Despite the increase in the number of licensed banks in recent years, 32.7% of the population still does not have access to banking facilities though this figure has decreased from 40% (FinAccess, 2009). Due to this, several local banks included a focus on the unbanked population in their corporate strategies and this in turn has lead to their growth and expansion. The definition of unbanked is ‘customers, usually the very poor, who do not have a bank account or transaction account in a formal financial institution’ (Mobile Money for the Unbanked, Official Homepage, 2011). The introduction of financial services for the unbanked has attracted numerous competitors which include several local banks, foreign banks' as well as deposit taking microfinance institutions (MFIs). However, an unexpected competitor in this sector was mobile phone companies. Several mobile phone companies have recently implemented a money transfer system that enables users to store money on their phones. Due to the relative ease in obtaining a mobile phone as well as their portability, there has been an increase in the number of people who store money in their phone as opposed to in a bank due to the costs involved. This has lead to mobile phones being a threat to traditional banking methods in Kenya. Due to these factors, it is therefore necessary for local banks to search for innovative ways through which they can fight competitors while maintaining their focus of providing banking facilities to those without access to them.

1.2 Statement of the Problem

As both local and foreign banks as well as micro finance institutions are placing a focus on the unbanked, it will be necessary for local banks to strategically find a way to beat the competition as though focusing on the unbanked is a largely untapped market, there exist several competitors. Furthermore, as mobile phone companies grow their customer base through the ease of access of mobile phones as well as the ability for customers to store their money on their phones, the banks will therefore have a problem attracting new customers. Based on the above information, the following research question was developed:

"How will local banks focused on banking on the poor be able to use strategic alliances with mobile phone companies as a tool through which they could overcome their current challenges?"

An additional research question will include:

"How are these strategic alliances formed in terms of partner selection; and how they managed?"

1.3 Research Gap

The research gap is based on the lack of literature describing the collaboration between two companies of this nature i.e. banks and mobile phone companies in developing countries. There exist numerous studies based on strategic alliances in emerging and developed countries in terms of the benefits accrued through these alliances, their management and their ability to overcome challenges. However there is a shortage of studies with similar content in developing countries.

1.4 Relevance of the Study

The problem and its consequent solution will be relevant for banks and other financial institutions looking to target the unbanked who are currently estimated to be 2.5 billion people worldwide (Daley-Harris et al., 2009). Furthermore, the majority of the unbanked live in developing countries that lack sufficient availability of conventional banking infrastructure that is available in developed countries. It will also be relevant to look into innovative ways through which banks can increase their competitiveness through the use of innovative technology and strategies for the benefit of their customers.

An additional beneficiary in this research may include organizations that are looking into entering strategic alliances with partners who operate in unrelated businesses so as to overcome competitive challenges. The research outcome will focus on factors that should be considered in the alliance formation and management so as to build an alliance that meets the set objectives despite the fact that their respective organizational objectives are not related.

Finally the research may be beneficial for those with an interest in strategic alliances and would like to observe how different alliances are formed and the reasons behind their formation and choice of management.

1.5 Scope of the Study

There are several banks and micro finance institutions in Kenya both foreign and local that have introduced the service of banking for the unbanked. However, our study will focus on one bank that targets the unbanked, as well as analyze how they manage to overcome the challenges experienced through the use of strategic alliances. The study will focus on *Equity Bank (Kenya)* and *Safaricom (Ltd)* which is one of several mobile phone companies in Kenya. It will focus on the strategic alliance formed in 2010 as well as how it is managed. In addition to this, the main focus will be on consumer/retail banking as this is the area in which banking for the unbanked lies.

1.6 Research outline

This thesis is divided into the following sections: introduction, research design, theoretical frame of reference, case study description, analysis of empirical information, conclusion and references.

Introduction

This section focuses on the problem background and states the research questions as well as the relevance and scope of the study.

Research Design

The research design describes the research process used to carry out this study. It involved the description of methods carried out in during the research as well as explains the choice in using particular methods and methodology.

Theoretical Frame of Reference

This chapter focused on the academic literature on which we based the research. It outlined various aspects of strategic alliance literature such as cooperation in strategic alliances, the main stages within strategic alliances, strategic alliances as a form of organizational learning as well as factors to be considered during alliance formation and motivation for entering strategic alliances.

Description of the Case

The case study includes the background of the companies in focus- Equity Bank (Kenya) and Safaricom (Ltd). It also includes an analysis of competition within the financial services industry in the unbanked sector, development of the strategic alliance, and characteristics of the alliance.

Empirical Analysis

The analysis focused on similarities and differences based on the theoretical frame of reference and the empirical data collected. It further aimed to identify areas where this type of alliance may be appropriate and the additional benefits that may be attained as well as focusing on delimitations when forming an alliance similar to the one studied.

Conclusion

The conclusion focused again on the initial research questions and summarized our research findings. In addition, we highlighted areas that may be interesting for further research.

Chapter 2 Research Design

This section will highlight the methods that will be used to analyze the proposed research questions. It will also focus on the methodology that was selected and provide reasons made for particular choices of methods and methodology and any impact it made on the research process. Finally we focused on the limitations experienced and actions taken to overcome them.

2.1 Case Study Research

The analysis of this study is based on qualitative research which will be relevant in this case as it aims to explain the means through which strategic alliances can be used to overcome competitive challenges within the Kenyan banking sector. As previously mentioned in the 'scope of the study', the focus is going to be a single case study of a Equity Bank (Kenya), and Safaricom (Kenya) who formed a strategic alliance in 2010.

2.1.1 Choice of Case Study

Due to the rarity of this type of alliance i.e. between a mobile phone company and a bank in a developing country, it will be an interesting area to analyze. Though it has been said that one cannot generalize from the information obtained from a single case study (Flyvbjery, 2006) there exist several benefits. Examples of these benefits are that there may exist new information that can be learned from a single case and existing theories can be tested through case studies (Flyvbjery, 2006) both of which are factors relevant to our research.

In considering the case to analyze we chose to further focus on 'information-oriented selection' to select the case as it focuses on 'maximizing utility of information in single cases' (Flyvbjerg, 2006, p.27) as opposed to 'random-selection'(Flyvbjery, 2006, p.27). We further narrowed down to a critical case within the field of information-oriented selection as critical cases are described as 'having strategic importance to the general problem' (Flyvbjery, 2006, p.27).

2.2 Type of Research Method

In terms of explaining and understanding the research process, we carried out a descriptive study. The choice of using a descriptive study is because descriptive studies illustrate rare occurrences and the actual circumstances in which it happened (Yin, 2003). This will ensure that a clear understanding of the case and the context in which it was developed can be clearly understood. Additionally, the use of a descriptive study is useful in case study research as according to Baxter & Jack (2008) use of a case study in research 'takes into consideration how a phenomenon is influenced by the context within which it is situated' (2008:p.13) and therefore will be relevant for the case study as it was highly influenced by the context in which it was set.

2.3 The Research Journey

The research journey involved a wide literature study of strategic alliances as this was the field that the case was based. This was followed by the collection of relevant empirical information after which we proceeded to carry out an analysis of the empirical information based on our theoretical frame of reference, and we further drew out conclusions based on the research that was done. A description of the research journey is carried out in the following section.

2.3.1 Collection of Literature and Analysis

Our initial task after developing the research problem involved carrying out a thorough literature review which was mainly done through the use of Linköping University Library database, as well as internet search engines. As the field of strategic alliances is wide and consists of different ideas, thoughts and opinions we further narrowed it down to focus on certain aspects within strategic alliances that were relevant for our study and could be analyzed within the time limit that had been set. It involved an analysis of the types of strategic alliances, motives behind alliance formation, aspects to be considered during the selection of alliance partners as well as aspects to be considered in alliance management. As one of the writers had a general understanding of the case to be examined, the literature selected was chosen based on relevance to the writer's prior knowledge of the case as well as information about the case that was obtained while in the process of conducting the literature review. The literature review and analysis was carried out throughout the research process as the writers would at times come across new relevant literature that had not be analyzed which would be used to further build the research study.

2.3.2 Case Perspective

The empirical data collected in this study is mainly focused on the perspective of Equity Bank in the strategic alliance. The reason for this is that the authors wanted to get an understanding of how the bank was able to benefit from the alliance and the resulting product. We also wanted to assess what factors the bank took into account when choosing a partner and how they are able to run the alliance. Furthermore the focus on the bank's perspective is deemed relevant as they are out to fulfill a service that is largely lacking in Kenya.

Nevertheless, there exists empirical information about Safaricom so as to provide a balanced view of events that took place. However, the main focus and analysis is on how Equity Bank benefited from the strategic alliance and what factors led to this and how they manage the alliance.

2.4 Methods of Empirical Data Collection

This section focuses on the particular methods of data collection used as well as the benefits obtained from particular data. The data used in the case consisted of both secondary and primary data. The secondary data focused on the collection of written documentation, as well as the interviews about the alliance that were available online. The primary data collected was through interviews carried out with Equity Bank as well as Safaricom representatives.

2.4.1 Written Documentation

The search for and analysis of empirical material that would be needed to write the background of the case we were studying initially focused on the analysis of documented materials. The analysis of documented materials is an unobtrusive method of analysis which is also defined as a no intruding research strategy (Berg, 2001). The focus was the analysis of secondary data with specific attention on documented materials about the organizations being studied. The use of this data was relevant as it would build a background as to how and why both parties in the case came into existence thereby creating a base for the research. This information would also be relevant when analyzing the formation of the strategic alliance. The documented materials used included company websites, newspaper reports, annual reports and organizational memos available online. In order to avoid bias and to ensure that the information chosen is a true representation of the case, the documented materials were gauged in terms of authenticity, credibility, representativeness and meaning (Scott, 1990) and this was done by analyzing who published the documents, where they were published and well as why they published.

2.4.2 Use of Alternative Media Sources

Further empirical data was collected through the use of secondary data where we observed previously recorded interviews. The recorded interviews were between the Director of Shared Services of Equity Bank- John Staley, as well as Safaricom's M-Pesa Marketing Manager-Waceke Mbugua. The interview was carried out by Mobile Money for the Unbanked (MMU) which is an initiative funded by GSMA Development Fund on 5th Oct 2010, shortly after the launch of the alliance. The availability of these interviews is due to the novelty of the alliance which further led to it being of interest to mainstream media as well as organizations looking into strategic ways into which poor people can be included into the banking system. Furthermore, we deemed the use of these videos relevant and credible as they involved a member of top management in Equity Bank and additionally the discussion focused entirely on the strategic alliance that we were analyzing. As these interviews were not our property, we sort to ask for permission from MMU who allowed us to use the information they had made available.

2.4.3 Interviews

To further gain a deeper understanding of the strategic alliance we sort out to contact a member of Equity Bank, and a member of Safaricom who could provide us with further information. Before conducting the interviews we formulated several interview questions based on our research questions, as well as from the literature review we had carried out and the empirical materials collected thus far. The interviews consisted of open-ended questions, and were carried out in a semi-structured format so as to allow for flexibility to ask additional questions if the need arose. (See Appendix D and E for Interview Questions)

The Equity bank representative interviewed (Mr. Norman Boku[1]) worked in the agency banking department which is in charge of the strategic alliance. This department creates the policies and procedures that are to be adhered to based on the set alliance structure and design and he was well acquainted with various aspects of the alliance. Furthermore he was involved in training Bank Branch Managers on various aspects of the alliance as well as updating them with current information while ensuring that they adhere to policies and procedures set by the bank concerning the alliance.

[1] The name is an alias due to the desire to express and use opinions given freely.

The Safaricom representative interviewed (Mr. Paul Okayo [2]) worked as the sector relationship manager for Finance, Insurance and Services. The job description entailed overseeing relationship managers who were in charge of finance and service institutions such as banks etc that collaborated with Safaricom. Part of his responsibility involved overseeing the relationship between Equity Bank and Safaricom.

The interviews were carried out and recorded via mobile telephone and were conducted in English. The choice of English as the mode of conversation was that it is the official language in Kenya and is therefore the *lingua franca* in the country; furthermore there exists terminology that does not have an equal equivalent in the Kenya's national language Kiswahili, therefore making English the most fitting option. The interviews lasted approximately one hour each at which time all questions were discussed and any reconfirmation needed was obtained. The interviews were then transcribed in preparation for analysis.

The empirical information discussed above was collected and analyzed based on the time line show in the following table.

[2] The name is an alias due to the desire to express and use opinions given freely.

Table 1: Empirical Information Used and Time Frame For Collection

Time Frame	Gathering of Empirical Information
2011-02-03 to 2011-02-17	Written Documentation
2011-02-18 to 2011-02-25	Search and Transcribing of Interviews from Secondary Sources
2011-03-20	Interview with Bank Representative
2011-04-05	Interview with Safaricom Representative
2011-03-21 to 2011-05-20	Compilation and Analysis of Primary and Secondary Data

Based on the empirical material collected through interviews, written documentation and information from about the alliance from alternative sources, we divided the presentation of the case study information as follows:

- The first section focused on the background of Equity Bank and Safaricom.
- The second section focused on strategic alliance formation as well as the specific characteristics within the strategic alliance.
- The third section focused on the conclusion of the findings.

2.4.4 Use of Authentic Quotes

The research study used authentic quotes that had been taken both from the interviews we carried out as well as the empirical material taken from other sources. The quotes used have not been adapted in terms of the actual words spoken so as to give a true representation of the thoughts and opinions of the respondents.

2.5 Research Analysis and Conclusion

After the collection of data, we proceeded to analyze it based on our theoretical frame of reference. The analysis was based on a comparison of the similarities and differences that the case had with the literature collected and a discussion of interesting findings that could be beneficial for companies looking into strategic alliances within different industries. The research conclusion involved examining the main findings of our research. We once again focused on the research purpose and research questions and then proceeded to examine our main research results and conclusions. This was followed by a discussion into the areas of future research that were identified through the research study.

2.6 Limitations

There existed several limitations in terms of data collection. The first limitation involved the inability to gain access to an interview from a member of top management who was involved in actual negotiations during alliance formation. This led us to the use of secondary sources of information. The secondary information however consisted of information from a top member of management who had knowledge of the alliance.

Another limitation was that due to confidentiality reasons we were unable to access the full discussion from Mobile Money for the Unbanked (MMU) about the strategic alliance. This led to a situation where the secondary material used was partly edited therefore affecting the interpretation of results. However we sort to overcome this hurdle through the interviews with the Equity Bank and Safaricom representatives that provided additional information that was further relevant to the case.

The final limitation in terms of data collection was based on the use of a single interview with an Equity bank representative though the study is based on the bank's perspective. To address this limitation, we supplemented the information given with the information from a member of top management from the bank through mobile money from the unbanked forum. This enabled the availability of more opinions from the banks perspective. Additionally, the information collected was supplemented through the interview that was carried out with the Safaricom representative so as to give a balanced view to the study.

In terms of the literature review, there exists a large amount of literature in the field of strategic alliances. Therefore the literature analyzed in this study only focused on the topics related to the research questions and does not purport to include all academic literature available within this field.

2.7 Research Design Summary

In summary, the research study involved the use of a case study that was specifically chosen due to its characteristics. The study was conducted using an inductive approach and was descriptive in nature. In order to develop the case both primary and secondary sources of empirical data were used and analyzed based on the frame of reference. The main findings, relevance of the research, and areas for further research were then presented.

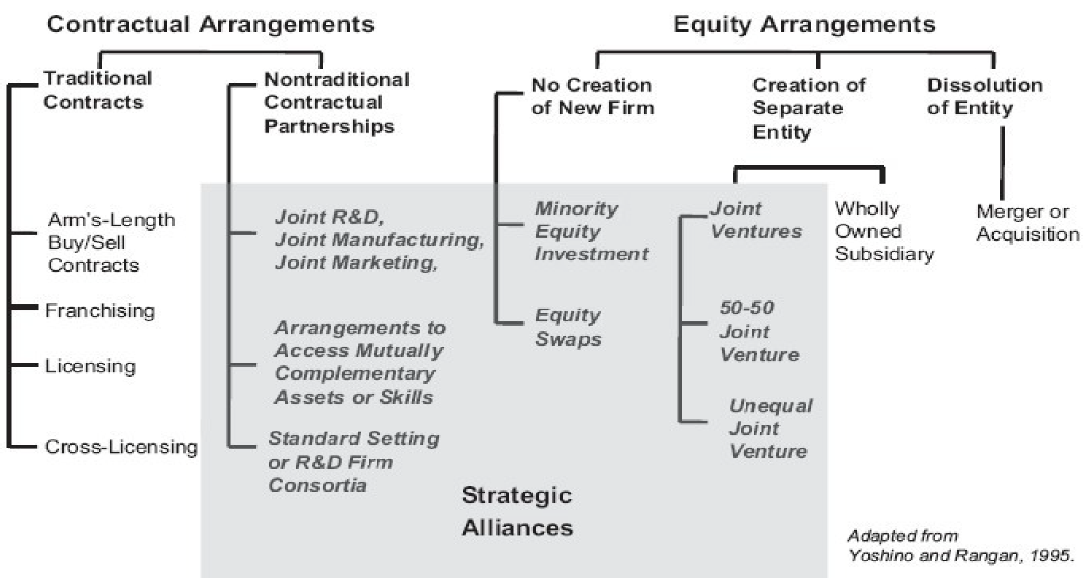
Chapter 3 Theoretical Frame of Reference

The theoretical frame of reference from which the thesis will be grounded focuses on inter-firm relationships, strategic alliances and their various forms, strategic alliances as forms of organizational learning, factors to be considered when entering strategic alliances, alliance management and finally the motivation behind strategic alliance formation.

3.1 Inter-Organizational Relationships

There exist several inter-organizational arrangements which come in several forms and can encompass various parts of the value chain (Rothaeramel 2001). The inter-organizational arrangements can be categorized in terms of equity sharing and contractual agreements (Kale & Singh, 2009). The range of inter-firm relationships based on their contractual agreements and their equity arrangements is shown in figure 1.

Figure 1
Scope of Interfirm Relationships



(Source: Kale & Singh, 2009, p. 47)

As there exist a large variety of inter-firm relationships as per figure 1, the focus will be narrowed down to strategic alliances on which the case is based.

3.2 Strategic Alliances

There exist several academic definitions of strategic alliances. According to Gulati (1995), a strategic alliance is defined as “a purposive relationship between two or more independent firms that involves the exchange, sharing, or co-development of resources or capabilities to achieve mutually relevant benefits” (1995; p.619) while Ireland et, al (2002) describe strategic alliances as “cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resources”.(2002, p.413) Similarly, Wittmann, et al. (2009), look at strategic alliances as “collaborative efforts between two or more firms in which the firms pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone” (2009; p.743) which is the same definition used by Lambe et al. (2002). Despite the numerous definitions, one can view similarities between them in terms of having two or more parties who are cooperating with each other, looking to share their resources so as to mutually improve their performance either through learning and knowledge sharing, or through creating opportunities to build competiveness.

As per Figure 1 (Kale & Singh 2009, adapted from Yoshino & Rangan 1995), strategic alliances have different structures based on the type of relationship between the firms in the alliance (Kale & Singh, 2009). They can be divided into contractual agreements which can be further broken down in terms of traditional contracts and nontraditional contractual partnerships where nontraditional contractual partnerships consist of several examples of strategic alliances such as joint R&D, joint marketing, joint manufacturing, arrangements to access mutually complementary assets or skills and standard setting. Alternatively, there are equity arrangements which can be sub-divided into no creation of new firms, creation of separate entity which are the two areas where equity based strategic alliances fall. These areas can further be subdivided into minority equity investment and equity swaps in terms of no creation of new firms. In terms of the creation of separate entities, they can be divided into joint ventures, 50-50 joint ventures and unequal ventures (Kale & Singh, 2009).

To summarize, strategic alliances exist in several forms and are created in a manner that will be advantageous to the companies involved. This includes the use of either contractual arrangements or equity arrangements and they are further categorized based on the particular characteristics of the alliance.

3.3 Cooperation in Strategic Alliances

In order for strategic alliances to take place there should exist a certain level of cooperation between alliance partners. Gnyawali, D.R. et al. (2006) defined cooperation "as a relationship in which individuals, groups and organizations interact through the sharing of complementary capabilities and resources, or leveraging these for the purpose of mutual benefit."(2006; p.508) Therefore we can view cooperation as a necessary factor in strategic alliance strategy which has a pre-condition that requires two or more parties' involvement based on exchange or sharing of complementary resources or skills. When partners in a strategic alliance create a relationship based on cooperation, it leads to a case where different resources are combined to create a new set of resources that can be difficult to imitate (Fink M. and Kessler A., 2009). The bundling of different resources through cooperative relationships can therefore lead to firms acquiring and maintaining competitiveness through their new and unique resources. This is supported by Dyer et al., (1998) who state that "firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate will achieve a competitive advantage". (1998; p.660) Furthermore, Faems et al., (2010) state that "working together with other organizations might encourage the transfer of codified and tacit knowledge, resulting in the creation of resources that would otherwise be difficult to mobilize and develop". (2010; p.3) Cooperation gives rise to several gains for the firm which include the division of cost of new product development between the firms that are working together, shortened lead times as well as contribution of core competences by the various partners involved (Bengtsson and Kock, 2000).

Strategic alliances therefore contain different forms of cooperation which should be beneficial to both parties in the alliance as it leads to acquisition of new knowledge and/or resources that help to develop a company's competitiveness.

3.4 Stages within Strategic Alliances

As regards to how one can achieve successful cooperation within a strategic alliance, Osarenkhoe (2010), emphasized that "successful cooperation is based on trust, commitment, and voluntary and mutual agreement that can be set out in a formal and documented contract or an informal contract aimed at achieving common goals"(2010; p.205).

Additionally, Bengtsson & Kock (2000) include mutual objectives, complementary needs, shared risk and trust as relevant factors required for alliances to function well. Finally, firms have to consider several factors in relation to the operational process of cooperation which have been divided into three phases according to Kale and Singh (2009). The three phases include the formation phase; the design phase; and post formation phase, respectively. For example, before establishing a strategic alliance, firms have to take a closer look at the factors which motivate them to seek alliances e.g. through cooperation with others, firms can obtain critical capabilities which could help them maintain a leading position in a particular market (Kim & Mauborgne, 2000). In the second phase, firms have to come up with new business model or new organizational structure in relation to strategic fit. The final post formation phase involves analysis and if necessary reformation of the alliance so as to ensure it long term success (Kale and Singh, 2009). The following table depicts the various stages in strategic alliances and the critical factors that are to be considered at each stage.

Figure 2: Stages within Strategic Alliances and Critical Factors Considered (Adapted from Kale and Singh, 2009)

Different stages in strategic alliances	Critical factors considered
Formation stage	1. Firms' motivations 2. Partners selection based on partner resources, strategic fit etc
The design stage	1. Agreement between partners 2. Organizational structure
Post-formation stage	1. Managing the strategic alliance 2. Analysis and if necessary, reformation

3.5 Strategic Alliances and Organizational Learning

There exist several reasons for strategic alliance formation, one of which is their final learning goal (Koza and Lewin, 1998). The explanation of strategic alliance formation based on their learning goals takes its point of departure from the theory of exploration and exploitation developed by March (1991).

3.5.1 Exploration and Exploitation as forms of Organizational Learning

According to March (1991) it is necessary for companies to explore different possibilities as well as to exploit old certainties. In this context, exploration is defined through the use of words such as "variation, risk taking, search, experimentation, play, flexibility, discovery and innovation", while exploitation is defined as "refinement, choice, production, efficiency, selection, implementation, and execution".

Levinthal and March (1993) went on to further define exploration and exploitation as "exploration involves pursuit of new knowledge" (1993; p. 105), while "exploitation involves the use and development of things already known" (1993; p.105). Following similar lines, Vermenulen and Barkema (2001), described exploration as the "search for new knowledge" (2001; p.459) and exploitation as the "ongoing use of a firm's knowledge base." (2001; p. 459) More specifically, Baum et al., (2000) explained that "exploitation refers to learning gained via local research, experiential refinement, and selection and reuse of existing routines. Exploration refers to learning gained through processes of concerted variation, planned experimentation and play" (2000; p.768) Drawing on these definitions we treat exploration as exploring and developing something completely new either in tangible or intangible form. On the other hand, exploitation focuses on capitalizing on existing knowledge or products. Notwithstanding different words to describe exploitation and exploration Gupta et al., (2006) found some common characteristics between the two which were based on previous scholars' findings. These characteristics further explain that "learning, improvement, and acquisition of new knowledge are central to both exploration and exploitation" (p.694), thus showing there exist similarities between the two.

It is necessary to maintain a balance between exploration and exploitation as companies that focus only on exploration while excluding exploitation may incur large costs and expenses without being able to gain from their exploration activities, while companies that focus mainly on exploitation will find themselves in a precarious position where they are unable to find new territory in which to operate (Levinthal & March, 1993). Additionally, due to scarce organizational resources, explicit and implicit choices should be made as to how the company needs to maintain the balance between exploration and exploitation (March, 1991). The ability of firms to explore and exploit is also important in maintaining their success as firms who explore are able to search for potential avenues from which to gain revenue in the future, while firms that exploit are able to ensure that a firm's success is maintained in the present (Levinthal & March, 1993).

In summary, organizations need a balance of exploration and exploitation to survive, and it is necessary for them to decide the optimal balance so as to ensure they do not incur unnecessary costs, or miss opportunities through which they could gain competitiveness.

3.5.2 Strategic Alliances as a form of Organizational Learning

Based on the above analysis of exploration and exploitation, Koza & Lewin (2000) divide strategic alliances into exploration alliances and exploitation alliances depending on their learning goals. Exploitation alliances are those that come about when different parties combine their respective resources together so as to gain increased revenue, while exploration alliances focus on "accomplish learning of unknown technologies, new geographic markets or new product domains which can be seen as prospecting strategies" (2000; p.257).

Beckman et al., (2004) further describe exploration and exploitation alliances in different ways explaining that exploration entails experimenting with new options, and consequently exploration leads to the creation of relationships with new partners so to acquire new resources while increasing their knowledge base. On the other hand, they describe exploitative alliances as a way through which a company can refine and expand on their current knowledge. This leads to a case where in order for exploitation to occur, the relationships formed are not with new partners but with previous partners through which they can expand their knowledge base (Beckman et al., 2004)

However, Rothaeramel (2001) adds a different angle to exploration and exploitation alliances by describing exploitation alliances as focusing on activities downstream of the value chain which are closer to the customer, while exploration alliances focus on activities upstream of the value chain.

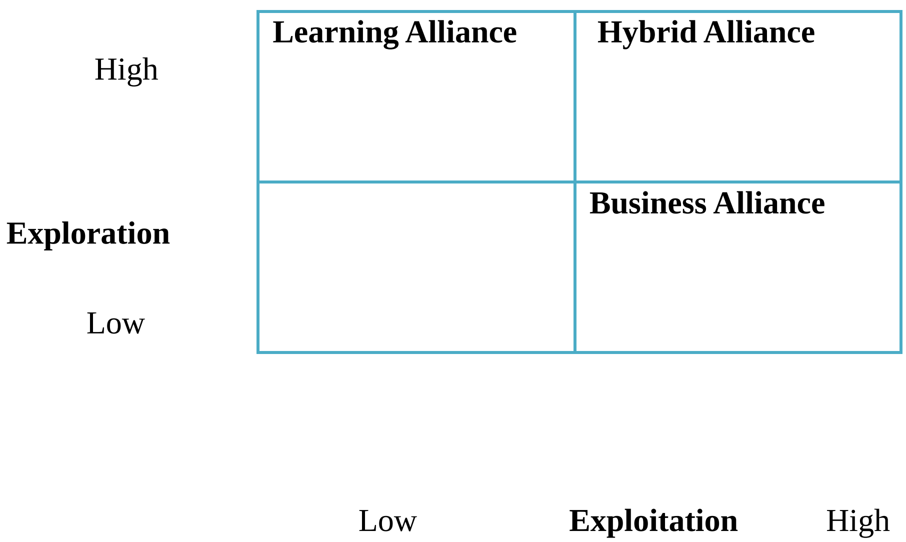
In summary, strategic alliances as a form of exploration or exploitation can be viewed in terms of either whether creation of the alliance is to increase revenue or to develop new learning opportunities for the organizations; whether the partners in the alliance are new partners, or whether they have collaborated previous; and finally on which area of the value chain the strategic alliance will focus on. These three descriptions of strategic alliances in relation to exploration and exploitation can consequently but used as to analyze strategic alliances through different aspects.

3.5.3 Choice of Exploration or Exploitation Alliances

Based on the above described characteristics of exploration or exploitation strategic alliances, there exist several reasons through which a company can choose which alliance to be involved in. Yamakawa et al., (2010) describe the motivations of entering into a exploitation strategic alliances as "to leverage existing firm resources and capabilities with a goal of joining existing competencies with complementary assets that exist beyond a firm’s boundary”(2010: p.289), while the motivations for entering an exploration strategic alliance include “the discovery of new opportunities through the acquisition of knowledge, skills, and capabilities which are novel to the firm, with an aim of creating new resources and competences to adapt to the new environment” (2010: p.289). Consequently, knowledge-generating R&D alliances can be viewed as exploration alliances, while knowledge-leveraging marketing alliances can be viewed as exploitation alliances. Therefore, before firms seek to enter into strategic alliances they should evaluate their own value chain to find out weak areas and thus to cooperate with alliances who have complementary resources which can compensate firms’ weaknesses.

The choice between an exploitation alliance and an exploration alliance can also be based on their final learning goals. Strategic alliances based on exploration and exploitation theory can result in three different types of alliances based on their final learning goals and these include learning alliance, business alliance and hybrid alliance all of which require different strategies and critical success factors (Koza & Lewin, 2000). These three alliances are furthered described in figure 3 according to the different combinations in terms of either high or low levels of exploration and exploitation needed to form a particular alliance.

Figure 3: Types of Strategic Alliances



Adapted from Koza & Lewin (2000)

According to Koza and Lewin (2000), learning alliances are those that focus on exploration while having a low degree on exploitation in terms of alliances. Their strategy is to find out new information about the markets in which they operate, core competences of the organization (Prahalad & Hamel, 1990) as well as new technology. Their main aim is to create new knowledge between the companies that will be relevant to their success (Koza & Lewin, 2000). On the other hand, business alliances have a strategy that focuses mainly on exploitation and hardly on exploration. Their goal is to create a new position in the market for themselves through which they can increase their revenue through combining resources between the companies in the alliance (Koza & Lewin, 2000). The final alliance based on the exploration and exploitation logic is the hybrid alliance where the strategic intent (Hamel & Prahalad, 2005) of the company has a strong focus both on exploration and exploitation. Consequently exploration and exploitation have two different foci which are to learn and create new knowledge for their own benefit, and to increase their competitiveness through the combination of their resources respectively (Koza & Lewin, 2000). The levels of exploration and exploitation experienced will therefore lead a firm to undertake in a particular alliance that could be beneficial for its organizational goals.

3.6 Factors To be Considered in Strategic Alliance Formation

There exist several endogenous and exogenous factors that need to be considered in strategic alliance formation so as to ensure their success. To obtain an overall understanding of strategic alliances, Parkhe (1993) argues that the motives behind the alliance, selection of partners, control and performance of the alliance need to be taken into consideration. Previous academic research has shown the factors to be analyzed include organizational fit, cultural fit, operational fit and human fit (Douma et al., 2000), while Hitt et al., (2000) develop the factors considered in terms of emerging markets and developed markets which consequently leads to a focus on organizational resources, capabilities and assets, as well as unique competencies and market knowledge. Additionally, according to Das and Teng (1999), strategic alliance formation also needs to focus on risk reduction while Yamakawa et al., (2011) also place priority on organizational fit and environmental fit. This case analysis will primarily focus on strategic alliance formation and management in terms of motives behind the alliance as well as partner selection and strategic fit. The consideration of partner selection is based on the fact that success of an alliance heavily relies on the choice of the right partner in terms of core competences, capabilities as well as tangible and intangible assets. Strategic fit is highlighted in this case as the organizations in an alliance should be compatible in terms of strategy. This is based on the strategic intent of the organization (Prahalad & Hamel, 1989) and should be considered as compatibility in strategy, or lack therefore affects strategic alliances' success or failure in the long run.

3.6.1 Partner Selection

Partner selection is an important factor to be considered before going into a strategic alliance. As Lambe and Spekman (1997) argue, alliance success is influenced mainly by smart partner selection. It is therefore necessary to thoroughly analyze potential partners, as the choice of partner may affect the benefit a firm gains from the alliance (Holmberg & Cummings, 2009). Shah and Swaminathan (2008) highlighted four key factors which have a large influence on partner selection and subsequent strategic alliance performance, they include "trust, commitment, complementarity in terms of skills and resources, and value or financial payoff" (2008;p.472). The focus of the case however will concentrate on partner resources and strategic fit.

3.6.2 Partner Resources

Lambe et al., (2002) described complementary resources as "the degree to which firms in an alliance are able to eliminate deficiencies in each other's portfolio of resources (and, hence, enhance each other's ability to achieve business goals) by supplying distinct capabilities, knowledge, and other entities."(2002: p.144). According to Shah and Swaminathan (2008), complementary resources are mandatory in strategic alliances and are therefore a basic requirement to be considered during alliance formation. Additionally, Kale and Singh (2009) addressed the fact that the greater the complementarity in resources among alliances the greater the likelihood of alliance success. Eisenhardt and Schoonhoven (1996) further support the need for complementary resources arguing that the reason firms form strategic alliances is high payoff for cooperation particularly when firms are in a vulnerable strategic position or difficult market situation. They further state that "[…]in such cases, strategic alliances can provide critical resources, both concrete ones such as specific skills and financial resources as well as more abstract ones such as legitimacy and market power that improve strategic position" (Eisenhardt and Schoonhoven, 1996: p.137). Furthermore, Eisenhardt and Schoonhoven (1996) using the resource-based view to analyze the reasons firms form strategic alliances argued that resources provided both the needs and the opportunities for alliance formation. Complementary resources play an important role during the whole process of strategic alliances, thus before entering strategic alliances firms have to thoroughly evaluate partners' resources in terms of both tangibles and intangible resources.

According to Wittmann et al., (2009) firms can incorporate important skills or knowledge by either "(1) developing them; (2) acquiring them; and (3) gaining access to them" (2009; p.744). Thereby, in the case of strategic alliances, firms can ally with others who already have the critical resources which are needed. In doing so, firms have to carefully select future partners otherwise it may affect alliance success. This is particularly important for firms that are in emerging markets where "the winning technology and appropriate distribute channels are often unclear as is the eventual direction of the market" (1996: p.139).

In summary, firms tend to seek alliance partners with rich, complementary resources to compensate or strength their own capabilities and thus enable them to gain new competences which may be either tangible such as financial assets, technology etc, or intangible such as reputation, brands, managerial skills etc. It can therefore be said that these resources should be aligned with the needs of the alliance partner. Complementary resources are critical for organizational learning and gaining new knowledge or competences which thus can help firms' long-run development

3.6.3 Strategic Fit

Another factor to be considered during strategic alliance formation is that the corporate strategies of the firms as well as the alliance objective are aligned before entering into the alliance as this will provide clarity between firms as they continue their business relationship (Holmberg & Cummings, 2009). In this case, the focus is on the word "fit" which according to Douma et al, (2000) refers to concepts such as "complementary balance, mutual benefits, harmony and dependency"(2000: p.581) Venkatramen(1989) cited in Nielsen (2010) further extended definition of fit as "a match between the underlying strategic motives of the two alliance partners"(2010: p.683) Strategic alliances should have strategic fit between the organizations as it is helps determine the level of compatibility between alliance partners in terms of their purpose in the partnership therefore reducing risk (Das & Teng, 1999). Moreover, Douma, et al., (2000) stressed that forming great strategic fit is a precondition for any alliance. In order for this to occur, it is also necessary that the firms have strategic intent which focuses on creating ambitious yet focused organizational goals (Hamel & Prahalad, 1989).

Bierly and Gallagher (2007) argued that strategic fit is a source of motivation to cooperate through alliances. These motivations can be divided into two parts which are, first, an alliance may provide a firm with access to resources that are not available within the firm in terms of capital, technology, capabilities or firm-specific assets, and are critical resources in relation to success in a certain industry. Second, firms may decide to establish alliances to get fast access to new geographic or product markets which could lead risk sharing and new knowledge acquisition.

Drawing on above, strategic fit can be viewed as an important factor for firms to form strategic alliances. It relates to firms intent to ally with others and to look for external quick access to resources and skills that can help them to improve themselves. Additionally, forming good strategic fit should include several drivers such as, alliances partners' should share strategic vision on development in the alliance environment, corporate strategies should be compatible, mutually dependency for achieving common goals as well as added value for both parties and the customer (Douma, et al., 2000).

In conclusion, partner selection based on specific partner resources, which includes both tangible and intangible assets, as well as strategic fit need to be scrutinized before entering into a strategic alliance. The selection of an alliance partner based on these factors is facilitated by the motivations that companies have before entering into a strategic alliance and these are discussed below.

3.7 Motivation for Entering Strategic Alliances

There are several advantages of entering into strategic alliances. This is seen, for example, when various firms combine their resources, they may be able to obtain additional revenue that neither partner would have been able to obtain if they were not interested in developing a particular resource (Koza & Lewin, 2000) This is even more important as due to rapid technological advances, it will be difficult for companies to be in possession of all skills and resources necessary for them to maintain their competitive advantage and succeed on their own (Doz & Hamel, 1998).

Doz and Hamel (1998) also include the need to build critical mass in a specific market as the reason for strategic alliances which in turn can be viewed as the use of strategic alliances to build economies of scale. Moreover, through strategic alliances, a company can adapt itself so as to cope in turbulent environments therefore blocking competition (Koza & Lewin, 2000). According to studies mentioned in Kale & Singh 2009, alliances are formed as they help firms “strengthen their competitive position by enhancing market power, they increase efficiencies, help access new or critical resources and capabilities, and help enter new markets”. (2009: p.45) Dyer and Singh (1998) also explain the sources of competitive advantage through inter organizational relationships such as strategic alliances can be obtained through “relation specific assets, knowledge sharing routines, complementary resources and effective governance” (1998: p.660) as firms enter into strategic alliances so they can leverage the resources provided by the partner firm (Hitt et al. 2000).

Child and Faulkner (1998, cited in Holmberg and Cummings 2009) provide additional motivations behind firms entering into strategic alliances such as the ability of firms to realize transaction cost economies, the need to learn through the alliance, as well as minimization of risk and uncertainty.

Therefore in order to manage in a competitive environment firms can utilize strategic alliances to strengthen their own core competences, to access complementary resources and tacit knowledge and strength market position in a certain industry while reducing costs and risks that would occur had they decided to work alone.

3.8 Strategic Alliance Management

Effective strategic alliance management is a crucial challenge for alliances to survive and achieve common goals. Dyer, et al., (2001) argued that through effective creation and management of strategic alliances, companies can then use the strategic alliance as a source of competitive advantage. This is further supported by Shreiner et al., (2009) who argue that strategic alliances impact firms' performance and therefore their ability to manage them effectively can be a source of competitive advantage. It is therefore necessary that alliance management is carried out effectively so as to ensure the success of the alliance in the long run. In order for this to be done, it is necessary to development an alliance management capability.

3.8.1 Alliance Management Capability

The development of an alliance management capability can also be beneficial in alliance management. According to Schreiner et al., (2009) alliance management capability is defined as 'a multidimensional construct that comprises skills to address three main aspects in managing a given alliance and these include "coordination, communication and bonding". (2009: p. 1400)

Coordination focuses on the creation of specific tasks and responsibilities for alliance partners so as prevent conflicts within the alliance. Communication focuses on the ability to clearly relay any necessary information as soon as it is required, while bonding focuses on an "attraction or psychological linkage that arises between alliance partners when one partner is about to receive some instrumental value from its partner." (2009: p. 1401). Developing an alliance management capability is important as it helps partners manage their interdependencies, while establishing clear communication between them which is necessary to ensure that that alliance is successful in the post-formation stage and beyond. In order to further develop strategic alliance capabilities it is essential that the alliance partners clearly state specific roles and tasks and which partner should carry them out which further avoids conflicts and misunderstanding. Alliance partners should also have a clear feedback mechanism so as to ensure proper flow of relevant information which can lead to the development of interdependencies within the alliance (Kale & Singh, 2009). Finally, bonding includes various tasks such as "providing reliable and timely responses to a partners work-related needs, being proactively responsive to its concerns, spending time on connecting with a partner and remaining in frequent contact" (2009: p. 1402). Alliance management capability has a critical impact on strategic alliances success since it has been viewed as a source of competitive advantage and it is therefore necessary for firms to develop alliance management capability which is especially useful in the post formation stage of the alliance (Schreiner et al., 2009).

Dyer et al., (2001) further advocate for the use of a dedicated strategic alliance function so as to co-ordinate all alliance interests and therefore spreading the know-how from the alliance throughout the company. They further suggest that the position 'chief alliance manager' be created so as to ensure the alliance runs smoothly.

In summary, the effective management of an alliance to ensure its success is dependent on the development and application of the alliance management capability through communication, coordination and bonding.

3.9 Theoretical Conclusion

Despite the numerous definitions of strategic alliances provided (Gulati, 1995; Ireland et.al, 2002; Wittman et.al, 2009), they all have commonality in terms of having two or more parties, looking to share their resources so as to improve mutually improve their performance either through learning and knowledge sharing. Strategic alliances can be formed and focus on being an exploration alliance, an exploitation alliance or a hybrid alliance that balances exploration and exploitation depending on the reasons for firms partnering together. (Koza & Lewin 2000) Furthermore, for the alliance to carry out its required goals, it is necessary for firms to select the most appropriate partner for their needs, and this can be analyzed through partner selection in terms of partner resources and strategic fit between the organizations so as to reduce risk and to ensure the motives for establishing the alliance can be achieved. Finally to ensure their success, alliances need to be managed effectively. This can be done by the use of an alliance management function, and the development of an alliance management capability.

Chapter 4 Case Background

The following section will focus on the background of the two companies in this strategic alliance which are Equity Bank (Kenya), and Safaricom which is a Kenyan mobile phone company. It will highlight the past events and circumstances that led to the formation of the strategic alliance as well as focus on the current state of the alliance, the resulting product developed as well as organizational management within the alliance.

4.1 Introduction to Equity Bank

Equity Bank (Kenya), is a national bank whose primary goal is to provide financial services to those who have difficulty accessing it. Their initial market was in Kenya but they have recently expanded into Uganda and Southern Sudan so as to further fill this niche market. Though their business model focuses on providing convenient, accessible and affordable banking to those at the bottom of the pyramid, they also provide retail banking to a large variety of consumers from various social and economic backgrounds. In addition to this Equity Bank also carries out corporate banking, and business banking as well as several other financial services that serve different levels of society (Equity Bank Official Homepage, 2011).

4.1.1 History of Equity Bank

’..to be the preferred microfinance services provider contributing to the economic prosperity of Africa..’ Equity Bank Vision (Equity Bank Official Homepage, 2011)

Equity bank was originally registered as a building society in 1984 and was known as Equity Building Society (EBS). Its main purpose was to provide mortgage financing to the poor among Kenya's population. However, during the 1990's EBS changed its strategy from focusing primarily on mortgage financing, to also adding microfinance services that would cater to the needs of the bottom of the pyramid in Kenya (Equity Bank Official Homepage, 2011). Microfinance is defined as 'the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income households and their micro enterprises (Asian Development Bank, Official Homepage, 2011). Eventually due to increased business performance the Central Bank of Kenya converted it into a commercial bank in December 2004 therefore becoming Equity Bank Limited.

Equity bank has been successful in its goal of providing banking services to the poor, and this is seen by the fact that though it is a fairly new bank in terms of inception, it holds over 57% of bank accounts in Kenya and is the largest bank in the East African region in terms of customer base due to its focus on the unbanked population. Consequently, due to its popularity and success it is one of the most recognized brands in Kenya and has received several awards because of its success in providing banking facilities and services to those who lack them (Equity Bank Official Homepage, 2011).

4.1.2 Equity Bank Delivery Channels

> *"It is not sustainable for the bank to focus on traditional banking using the brick and mortar as it will cost too much plus the value of the transactions being*

carried out will not be enough to support this business model." (Quotation from interview with Norman Boku-Agency Banking, Equity Bank)

Due to the rapid growth of Equity Bank there was a problem in terms of congestion of banking halls with people waiting to be served. This is mainly because Kenya is a cash based society[3] and there existed a large number of individuals who needed to deposit and withdraw funds in the banking hall. As a result, there was a need to look for alternative ways through which the bank could transact with its customers. The traditional method of expanding through increasing the number of bank branches was not feasible as though there were a large number of customers carrying out a large number of transactions, the value of these transactions were low. It would therefore take an extensive amount of time for the bank to gain a return on its 'brick and mortar' investments and this lead them to focus on the development of alternative delivery channels that would cost less. This included use of non retail outlets such as supermarkets, kiosks and hospitals which the bank could collaborate with so that customers could carry out selected transactions such as cash withdrawals known as 'cash back services'. It also included bank account management through a mobile phone platform developed by Equity Bank known as 'Eazzy 24 7'. As Eazzy 24 7 is an Equity Bank product, the mobile phone company which one used to access the service was not a relevant factor as the service was available on all phones after application and registration within the bank (Equity Bank Official Homepage, 2011). Through these services, Equity Bank became one of the first banks in Kenya to utilize

[3] The majority of transactions are carried out using cash as opposed to credit cards or alternative means.

alternative delivery channels which was one of the factors that led to its popularity among Kenyans as this increased the accessibility of banking services. However these outlets did not take cash deposits and therefore there was a need to further develop the bank's mode of transacting with its customers which was done through the use of the agency banking model explained in the following section.

4.1.3 The Agency Banking Model

According to the Central Bank of Kenya, agency banking is defined as 'business carried out by an agent on behalf of an institution', while the agent is defined as 'an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution' (Central Bank of Kenya Official Homepage, 2011). This model allows the majority of transactions that are normally carried out within the banking halls to be also carried out through agents and this includes both cash deposits and withdrawals. The ability to withdraw and deposit money using agents is known as 'cash in and cash out transactions'. The main premise behind the use of this model was also based on the same reasons for the development of Equity banks delivery channels. The popularity of Equity bank led to an increase in congestion of banking halls due to the increase in customers who needed to carry out simple transactions such as checking bank balances as well as deposit and withdraw money[4] but were unable to do so through

[4] Equity Bank ATMs carry out cash withdrawals and bank account balance checks but are unable to carry out cash deposits which are one of the main reasons that customers go to the banking halls.

alternative means. Moreover, Equity Banks delivery channels (see section 4.1.2) focused only on cash withdrawals. In addition to this, though the bank actively set out to increase the number of automated teller machines (ATM) so as to carry out certain transactions, it was not financially feasible to locate ATMs in every area of the country. Consequently the agency model was initially introduced so as to solve these problems which enabled the use of agents countrywide. Mobile phone companies have also recently been included as a part of the agency model. Furthermore, the agency banking allowed agents to send and receive bank account applications therefore making the accessibility of bank accounts easier to unreachable masses (Equity Bank Official Homepage, 2011).

4.1.4 Summary of Equity Bank's Strategy

Equity Banks popularity led to the need to develop different strategies through which they could transact with customers which led to the development of alternative delivery channels such as supermarkets etc and the use of the agency model. These services ensure that banks are able to support their customers in places with poor infrastructure or unavailability of an actual 'brick and mortar' establishment and ATMs. Agency banking would help banks use effective delivery channels that have already been tried and tested by various business establishments thereby helping the banks reach a broader customer base. Prior to the creation of the agency banking regulations, Equity bank had mainly used agents as a way through which customers could withdraw money without having to go to the bank. However, the new law included the ability of other retail outlets and mobile phone agents to also take cash deposits on behalf of the bank in addition to allowing customers to withdraw money and open bank accounts.

4.2 Introduction and History of Safaricom Ltd (Mobile Telephone Company)

Safaricom Ltd is one of four mobile phone companies operating in Kenya. It originally was created as a department of the government run 'Kenya Posts and Telecommunications Corporation', but became a private liability company in 1997, and was further converted into a public company with limited liability in 2002. Vodafone Group Plc also owns a 40% share of the company. Safaricom is currently the largest mobile phone operator in Kenya controlling approximately 80% of the mobile phone market. (Safaricom Official Homepage, 2011). A great factor that led to their growth in the market is their launch of one of the first mobile phone money transfer services in the world, M-Pesa.

4.2.1 Development and Operation of Money Transfer Services (M-pesa)

M-pesa is an innovative money transfer solution that was launched by Safaricom in March 2007. M-pesa is defined as 'mobile money[5]' and it was the first mobile phone money transfer service launched in Kenya, though all Kenyan mobile phone companies currently offer this service to their customers.

The primary reason for M-pesa's creation was to provide a way through which people without bank accounts would be able to send, receive and withdraw money via their mobile phones through the use of short message service (SMS). It originally was intended to act as an aid for individuals who did not have access to traditional banking services. This service thus eliminated the need to keep money at home as banks were either out of reach in terms

[5] M stands for 'mobile', while Pesa means 'money' in Kiswahili.

of distance, or they did not accommodate the needs of customers within this particular segment (Hughes & Lonie, 2007).

M-pesa requires users to register with mobile phone company agents who are located countrywide. The agents in turn enter the customers' identity details as well as their mobile phone numbers into Safaricom's database and from this point customers are able to send, store and receive money via their mobile phones. Customers are also able to use the services of company agents who are responsible for receiving monetary deposits as well as dispensing cash withdrawals. Furthermore, opening an M-Pesa account does not require minimum account balances or payment of monthly charges. However, it should be noted that money stored in the mobile phone does not earn any interest, plus there is a limit to the total amount of money that can be held at a time[6] and this is one of the differences that ensures that it is not considered to be a banking service (Safaricom Official Homepage, 2011).

4.2.2 Growth of M-Pesa

Due to the large number of unbanked persons in Kenya as well as the fact that M-pesa ensured that money was transferred safely, cheaply and efficiently, the implementation of the service was successful with the increase in users reaching over 8 million within three years of its launch. The number of M-pesa agents who are responsible for carrying out the different transactions with the customers has also steadily grown since inception and there are currently over 17, 000 agents countrywide making the service widely accessible to a

[6] The maximum amount held is Kshs. 50,000 (USD 642)

large number of individuals. Furthermore, though the service targeted the unbanked, it has been adopted by a large cross section of Kenyans from different economic, demographic and educational backgrounds (Jack & Suri, 2011).

As of 2010, the number of people who used M-pesa as a financial service was 11.89million which is approximately 30% of Kenya's population and this could be contrasted to the approximately 8 million customers in Kenya's banks. Furthermore, though the cash transactions within the system are largely small in amount, the total volume of the transactions has led to growth and profitability of this service (Ondiege, 2010).

In summary, M-pesa has changed Kenya's financial landscape enabling a large number of the population to access financial services consequently changing their way of life. Despite the fact that all mobile phone companies in Kenya currently provide this service, due to Safaricom's first mover advantage it has been able to attain a large amount of the market share therefore making Safaricom profitable through this venture.

4.3 Competitor Analysis in the Unbanked Sector

Due to the increased focus and consequent success of Equity Bank in developing financial service solutions for the unbanked, there has been increased interest by various organizations which would like to transact in this sector.

International banks as well as national banks who previously focused on individuals within the higher economic bracket have decided to also focus on the unbanked. Furthermore, banks looking to operate in Kenya are now targeting the unbanked as an entry strategy further increasing competition (Kapchanga, 2009).

Microfinance institutions (MFIs), have been considered as an alternative to accessing financial services by the poor. In the past, MFI's only focused on providing low interest loans to individuals and businesses at the bottom of the pyramid i.e people with low incomes. However, regulatory changes introduced by the Central Bank of Kenya have seen them become a potential threat to banks focusing on the unbanked. The changes introduced by the Central Bank allowed eligible MFI's to apply for permits from the Central Bank that would allow them to take deposits from customers, therefore leading them to be act like banks (Juma, 2009). As they are now able to take cash deposits from customers, MFIs offer the unbanked a different alternative for storing their money therefore posing as a threat to banks.

Finally with the development and use of mobile money transfer solutions, there was a tendency of individuals to use their mobile phone to store money, though it does not earn interest. This was seen as a preferable option than keeping cash at home which many individuals would do previously (Jack & Suri, 2011). Therefore, the mobile phone began to be used as an alternative to a bank account and was therefore a threat to banks.

The increase in the number of competitive threats in this sector therefore required a change in business strategy by Equity Bank to ensure that the success it had obtained thus far would be maintained.

4.4 Development and Implementation of the Strategic Alliance

> *"In 2003 Equity Bank tried to roll out a mobile banking service very much like the M-pesa model in which they were to roll out a cash in, cash out service for*

> *customers. It didn't work as they were perhaps ahead of their time. However, in 2007 M-pesa came along*." (Quotation from John Staley, Director of Shared Services, Equity Bank.)

The success of mobile phone money transfer systems in the country led to a situation where many Kenyan banks considered mobile phone companies a threat to their business, despite the fact that mobile phone services did not act as a bank, nor did they store any received funds within the company but deposited them into a conventional bank (Davidson, 2011). The following factors therefore led Equity Bank to partner with Safaricom so as to try and effectively manage the changes in the banking sector.

4.4.1 Choice of Safaricom as a Strategic Partner

Equity Bank collaborated with Safaricom as they realized that their M-pesa service had several features that they could use to encourage more people to open bank accounts. In addition, through a strategic alliance they would be able to target more customers while overcome the competition that this particular area of the industry was experiencing.

> "*The bank (Equity) wanted to transfer M-pesa users to become bank account holders. […] The bank went to Safaricom because of the (customer) numbers as the banks' strategy is driven by numbers and Safaricom had the numbers through M-pesa*." (Quotation from interview with Norman Boku-Agency Banking, Equity Bank)

> *"Safaricom was the first mobile company to introduce financial services that is mobile money transfer […] the high number of customers, and of course that*

> *service, as of the time we were signing that contract there was no one else and the fact that we were targeting mostly the unbanked population in Kenya."* (Quotation from interview with Peter Akeyo- Sector Relationship Manager, Safaricom)

As Safaricom was the first mobile phone company to introduce the money transfer service in Kenya, it had a large number of customers and held approximately 80% of the mobile phone money transfer market due to its first mover advantage. Furthermore, approximately one third of M-pesa users did not own bank accounts but used M-pesa to store their money.

Secondly, due to popularity of M-Pesa, Safaricom ensured that it registered a large number of agents countrywide who would carry out all M-pesa transactions and this led to deep market penetration that would be relevant to Equity Bank who was trying to further penetrate the market. Furthermore, Equity Bank has a strategy that is solely based on numbers as their aim is to enlarge their customer base and Safaricom had the appropriate numbers due to the popularity of M-pesa.

> "*If the bank went to another mobile phone company with less than 3 million customers but who were mainly account holders it would not have been successfu*l" (Quotation from interview with Norman Boku, Agency Banking Equity Bank)

During the initial stages of alliance formation, Safaricom had approximately 8 million customers while its closest competitor had approximately 3 million. These factors made Safaricom a more viable alternative as approximately one third of its customers did not hold bank accounts. Furthermore, the closet competitor though having also implemented a mobile money transfer system focused on individuals with higher net worth who consequently had bank accounts and would not use their mobile phones to store money. Therefore they were not an attractive option as an initial partner.[7]

Another relevant factor is that the majority of Safaricom's ownership and management is Kenyan[8] . This was beneficial as the other mobile phone companies had their majority of ownership and top management abroad. Consequently it may have been complicated and time consuming to negotiate with Equity bank and come up with an alliance that they could both be satisfied with.

Finally, Safaricom had a fully developed mobile money platform which would ensure that Equity Bank did not have to build a new mobile phone platform as it had already been unsuccessful during attempts in this field. The choice of Safaricom as an initial partner was somewhat obvious as the other mobile phone companies did not have similar characteristics in terms of customer numbers and popularity of their money transfer system.

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[7] Prior 2008, Zain (Kenya) which was Safaricom's closest competitor did not focus on targeting low income individuals. However, this strategy changed after 2008 and despite a change in management to Airtel (Kenya) in 2010, they still continue targeting different customer brackets including low income earners.

[8] The majority of top management and ownership is Kenyan, however Vodaphone Group Plc owns 40% of Safaricom's shares.

As a strategic alliance between a bank and mobile phone company had never occurred before, it took 18 months for top management in both organizations to come up with a successful compromise which ensured testing the product to ensure functionality. Additionally, as both company CEOs were committed to extending the products to the market, there was a high level of commitment to ensure that the development and implementation of the alliance was a success.

4.4.2 Description of M-Kesho[9]

> *"The bank wanted to transfer the Mpesa users to become bank account holders. Instead of using Mpesa as a deposit account, through their M-pesa account they could link it to their bank account thereby enable them to access credit based on their bank account turnover, insurance, and save, and earn interest instead of using it as a deposit account."* (Quotation from interview with Norman Boku, Agency Banking, Equity Bank)

> *"M-Kesho targeted mostly the unbanked Kenyans. […] these are people with low incomes that most banks would not actually have interest in"* (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

> *"They had been in negotiation with Safaricom about M-pesa for a long time and they wanted to get the most out of the deal. Negotiations to get M-Kesho up and*

[9] M stands for 'mobile', while Kesho means 'tomorrow' in Kiswahili.

running took 18 months." (Quotation from John Staley, Director of Shared Services, Equity Bank)

The M-Kesho bank account was launched in May 2010 in partnership with Equity Bank and Safaricom. The bank account aimed to link a traditional bank account to M-pesa service so as to provide a way through which account holders would transfer money via their mobile phones while at the same time have the benefits that come with holding a bank account. The aim of this account was to encourage customers who store money in their mobile phones to be able to deposit money stored on their phones into their bank accounts therefore encouraging saving, as well as ensuring that interest is earned through their bank account which is a service that M-pesa did not provide. In order to do this, the M-Kesho account would need to use the M-pesa platform.

Furthermore, the services provided by M-Kesho would include additional features that were not available to customers in this particular segment which included:

- Microsavings that earned interest when the deposited money was one dollar and above.

- Microcredit between one dollar and 100 dollars which was payable within 30 days and accessible after 6 months of creditworthiness.

- Microinsurance which could be issued after paying an annual fee.

M-Kesho aimed to go a step further and provide financial instruments to the unbanked that would help them develop their standard of living. In order to encourage this, M-Kesho accounts have no opening or monthly charges, as well as minimum or maximum account limits.

It should be noted that Safaricom has partnered with 6 other Kenyan banks[10]. However the service is a paybill account in which case, customers who already had bank accounts are eligible to sign up for an 'M-pesa paybill' service from which they could access the funds in their bank accounts. The service enables customers to pay utility bills using funds available in their bank account via the M-pesa user interface on their handset. In this case, the collaboration between Safaricom and the 6 banks can be seen as a channel extension which is a different way through which customers can interact with their banks. It is as complementary channel to bank branches and internet banking (Davidson, 2011), however it does not lead to the creation of new bank accounts but is instead a supplementary service therefore not an obvious threat to M-Kesho.

4.4.3 Opening and Operating an M-Kesho Account

" It (account opening) can be done in two ways. Go to an M-Pesa agent with original i.d (identification card) or you can go to an Equity agent, or go to any Equity Bank Branch. The account opening process is done electronically.[…] This ensures that account opening is done at even remote locations with the only requirement being that the customer has an original Kenyan i.d." (Quotation from interview with Norman Boku, Agency Banking, Equity Bank.)

[10] The banks are Family Bank, KCB, Citibank, Co-operative Bank, Eco-Bank and Post Bank.

An individual is able to open an account either through Equity Bank branches, Equity bank agents or through Safaricom agents who work together with Equity Bank representatives to open an account. Additionally, potential customers require an M-pesa account as bank transactions are done via the M-pesa user interface on their mobile phones. However, working together with Safaricom has ensured the potential clients are not obligated to go to a bank branch to open an account. This increases accessibility of the bank account as though Equity Bank has a branch network of over 70 branches countrywide, the number still limits its accessibility as several regions within the country are still uncovered. (See Appendix A: Equity Branch Network) Additionally, the target customer cannot easily access means through which to constantly travel to the nearest bank branches if they need to do so.

Furthermore, the availability of 17,000 M-pesa agents countrywide would increase the convenience of transacting as it could be done through their M-pesa agents who are spread countrywide. (Appendix B: Safaricom Agent Network)

In summary, this account would enable customers to deposit, receive and send money via their mobile phones. The actions of depositing and saving money would be beneficial for the bank as it would ensure that it gains a large amount of funds through savers deposits. The action of sending and receiving money on the other hand would be done through the bank account, but via the M-pesa interface available on the mobile phone thus ensuring that Safaricom also gained from the transactions.

4.5 Characteristics of the Alliance

Product design and Development: In terms of the product M-Kesho, the bank account is issued by Equity Bank but the management of the bank account by the customer can be done through one's mobile phone using the M-pesa interface. This limits the necessity of going to an actual banking hall. This in turn requires that customers have to hold an M-pesa account in order to have an M-Kesho account.

> "*They had been in negotiation with Safaricom about M-pesa for a long time and they wanted to get the most out of the deal. They had the facility where they could send money via M-pesa to the bank, and the bank to M-pesa but they felt it was not good enough and they felt they needed something more concrete.*" (Quotation from John Staley, Director of Shared Services, Equity Bank)

> *"M-Kesho was developed in conjunction with Equity Bank and our technical team. Safaricom's technical team. We did tests together before we could agree."* (Quotation from Peter Akeyo, Sector Relationship Manager, Safaricom)

As previously said the product development in terms of negotiation, design and testing took 18 months. This stage involved a collaboration of representatives from both companies as each company would focus on its strength while trying to bring the mobile phone system and the banking system together. However, the design of the actual bank account was the responsibility of Equity Bank while Safaricom was responsible for the money transfer system and the software.

Marketing:

> *"Marketing is done together. Our (Safaricom) marketing team has to go through it and say fine this is ok, and Equity's marketing department also. Both of them sit together and endorse the work that it is ok."* (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

The product is marketed as an Equity bank account that is run using the M-Pesa transactional platform. In this way, it shows that Equity bank is focused on its strategy of ensuring that more Kenyans get bank accounts, while Safaricom is focusing on being a money transfer service which they did in the past. The difference is that now they are working together to provide a new product.

> *"M-Kesho is a shared product from which is seen in the brand logo. It is neither an Equity product nor is it a Safaricom product. It's a joint product with the Mpesa logo, and Equity logo.*" (Quotation from interview with Norman Boku, Agency Banking, Equity Bank.)

Both parties decided that it was beneficial to launch M-Kesho as a co-branded product. Equity Bank and Safaricom are two well known companies in Kenya and despite their partnership they wanted to ensure that one brand would not dominate over the other. Consequently both companies incorporated aspects of their individual logos into the M-Kesho logo. In this case, they used a green letter M, to denote money and to associate the mobile side of the alliance to Safaricom whose primary colour is green, while the word 'Kesho' is written in brown denoting Equity Bank. To further emphasis the point of cobranding, the M-Kesho logo also describes the account as an 'M-pesa Equity Account'.(See Appendix C: M-Kesho Logo)

Finance:

> *"In terms of financing of the product/partnership. It was collective especially in terms of marketing. It was 50-50. ".(*Quotation from Norman Boku, Agency Banking, Equity Bank)

> *"We share the costs on a given ratio. In terms of financing it is done depending on the ratio" (Quotation from Peter Akeyo, Sector Relationship Manager, Safaricom)*

As the two companies saw this as a partnership, they both financed the alliance in terms of research and development, as well as marketing[11]. However, in terms of finances that was related to management e.g staffing, both companies focused on their own financing.

Management:

> *"In terms of staff, they both have separate project teams. Equity has permanently dedicated staff to M-Kesho, while Safaricom has also dedicated one so it is just a matter of transfer of funds. For transactions to be completed, they must work together. It is teamwork. […]Both parties deal with their own side of*

[11] Due to the sensitivity of this information, the actual figures in terms of finance were unable to be obtained.

the problem, however if one side has a problem things must stop" (Quotation from interview with Norman Boku, Agency Banking, Equity Bank.)

'We (Safaricom) have bi-weekly meetings where we try and review what has been going on […] we also look in terms of the management of the whole process, because from time to time we learn. […] because both of us have accepted the system, it's not something that we are going to argue or bargain about. Automatically, everyone knows what their role is." (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

In terms of management and IT, both Safaricom and Equity Bank handle the transactions pertaining to their ends of the account separately. Safaricom hosts the M-pesa system on their end, while Equity Bank hosts the M-Kesho bank accounts within the banks system. The two accounts are then linked through a gateway such that when a customer transacts on their mobile phone, Safaricom handles the transaction via M-pesa and any necessary confirmation is then sent to the bank. Conversely, when a customer transacts on their M-Kesho account in an actual banking hall or carries out bank transactions via their mobile phone, Equity Bank will handle the transaction and the necessary confirmation is then sent to Safaricom. Both companies also possess their individual records of customer transactions.

Furthermore, as each company hosts their system individually they are therefore responsible to ensure that it is running smoothly and any problems that occur must be handled individually. In this case, if Equity Bank has a problem with the system through which M-Kesho is carried, it will need to inform Safaricom immediately and ensure that any necessary repairs are carried out as fast as possible. Conversely, if Safaricom has a problem with their system it will be their responsibility to fix it and inform the other party. Both systems are then linked through a gateway to ensure that there is seamless flow of information. However, Equity Bank relies on Safaricom to convey any problems associated with M-Kesho to the customers via text message as this is their area of expertise.

In addition to this, both companies have separate customer service call centers to deal with any problems that the customers may experience. As the customer does not know there is a separation between the management of the systems, it is possible for customers to call either Equity Bank or Safaricom if they have a problem with M-Kesho whether the problem is caused by the bank or whether it is because of the phone company. The companies have therefore created a seamlessly transfer between both customer service centers as though a problem may occur that has to do with one of the parties, both companies would like to give an impression that it is actually one entity that handles all problems related to M-Kesho.

Commissions:

> *"They are equal partners but in terms of commission collection is where the difference emerges. Both parties collect commissions in the accounts they hold. Equity Bank holds the M-Kesho account, while Safaricom holds the M-pesa account." (*Quotation from interview with Norman Boku, Agency Banking, Equity Bank.)

> *"It's an automated process that the system just calculates their (Equity Bank's) commission and automatically sends it to their account."* (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

As described above, the two companies have separate systems to handle customer transactions. Consequently, all commissions earned on transactions are handled separately. For example, when a customer transacts from their M-Kesho account at an Equity Bank branch, the cost of the transaction will be the banks commission. On the other hand, if a customer transacts on their mobile phone via M-pesa the charges incurred will be Safaricom's commission. The cost of all transactions were also developed separately depending on which transaction is carried out via which service, therefore there was no conflict between the companies in terms of commissions to be earned. However, as it was a service targeting the low income earners or those without income, both parties ensured that the costs were within the financial limits of the individuals with low net worth.

As a result of the separation of charges of transactions as well as the separation of back office operations, both Equity Bank and Safaricom handle their final financial results separately.

Company Rights:

> *"Because of costs of negotiation, Equity Bank insisted on exclusivity. So they have 12 months of exclusivity. It has been difficult, other banks are not happy. But Equity Bank felt it was a commercial transaction and they needed to get most*

out of the deal." (Quotation from Director of Shared Services, John Staley, Equity Bank.)

"We gave them exclusivity, exclusive rights when we were going in." (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

Due to the uniqueness of this product, both Equity Bank and Safaricom came to the decision that they will have an exclusive agreement for twelve months. This ensured that Equity bank gained a first mover advantage while other banks would be unable to develop similar products with Safaricom thus helping the bank build a stronghold in the market. However, M-pesa is still being used as a form of channel extension with other banks through the use of M-pesa paybill service.

Risks:

"*The reputation risk arises as the two partners are working together. If one partner is down which happened when one of the partner systems was below par to the other, then there was a reputational risk.*" (Quotation from interview with Norman Boku, Agency Banking, Equity Bank.)

"We cannot say we have a perfect system. We have system failures here and there. One or two things did not work well, it's either people issues or system issues from time to time." (Quotation from interview with Peter Akeyo, Sector Relationship Manager, Safaricom)

One of the main risks within the alliance was the risk of damaged reputations among customers. Equity bank was in possession of a complex IT system that was able to store customer transactions and information safely and securely. However, Safaricom though having a superior IT system had to constantly undergo several upgrades to be at par with that of Equity Bank. Due to this, M-pesa would have to be shut down in order for system upgrades to occur. This affected Equity bank negatively as though the system upgrades were within Safaricom, customers considered them to be one and the same thing and therefore would blame Equity Bank when transactions were delayed therefore damaging the reputation that the bank had strived to create as being effective and accessible.

> *"The account opening process is done by third party-an agent. Though they have legal contracts between themselves and the agents, the law requires that the actions of the agent are 100% the actions of the bank. So if an agent was to perpetrate fraud it will never be taken by the regulator as the fraud perpetrated by the agent, but it will be looked at as the fraud perpetrated by the bank i.e. the appointing institution."(* Quotation from Norman Boku, Agency Banking, Equity Bank.)

There also exists the risk of fraud among agents. Due to the large numbers of agents, it was necessary that the bank effectively manages them to ensure fraud is discouraged. Furthermore, the Central Bank's rules on agency banking state that any fraud committed by agents will be seen as fraud committed by the bank. Due to this the bank established strict rules that have to be adhered to when selecting agents, and bank representatives also regularly visit agent locations to ensure that the agents comply with set rules and regulations.

4.6 Alliance Performance

> "*We have currently opened about 600,000 accounts and in Equity's view it is considered to be successful. […] To put it into perspective 600,000 is considered successful as there are 46 banks in Kenya but only 8 million banked. So other banks don't have too many accounts."* (Quotation from John Staley, Director of Shared Services Equity Bank.)

> *"At the time of signing this (agreement), we were hoping that by that time half or more (M-pesa customers) would have it (M-Kesho accounts) by now. So there have been successes, and there have been failures and there are lessons we have learnt in between.*" (Quotation from Peter Akeyo, Sector Relationship Manager, Safaricom)

Between the launch of M-Kesho in May 2010, and December 2010 the account was able to get approximately 600,000 new account holders. Currently, the number of M-Kesho account holders stands at approximately 750,000. In addition to this the total number of deposits as of end of last year was approximately 600 million Kenya shillings which is 7.5 million U.S dollars. (Davidson, 2011). This shows that the alliance is popular among its target market, and the numbers of new M-Kesho account holders continues to grow. Furthermore, Equity Bank recently released its annual financial results that saw their profits grow by 71% prior to 2010 and this has partly been attributed to their convergence with

Safaricom, as well as the introduction and use of the agency banking model (Equity Bank Annual Report, 2010). Though their initial target of reaching half of M-Pesa customers has not been achieved the fact the alliance is functioning and continues to grow in terms of customer numbers could be seen as a positive sign.

4.7 Summary of strategic alliance implementation and traits

Equity Bank chose Safaricom to enter into a strategic alliance based on several particular characteristics that Safaricom had which were mainly based on its success with M-pesa mobile money transfer. The development and management of the alliance further ensured that both parties benefitted from the alliance especially Equity bank who have further reached their goal of targeting the unbanked population in Kenya. The alliance is therefore considered a success by Equity bank due to the large number of customers that they managed to attract. However, based on their initial goal of attracting a majority of M-pesa account holders, the alliance has not achieved its expectations.

Chapter 5 Empirical Analysis

This section will focus on similarities and differences between strategic alliance concepts and the case study analyzed. The focus will be on motivations of entering alliances, type of alliance, partner selection as based on the theoretical frame of reference. Through the case, one is able to see relevance in named concepts. Furthermore, the analysis focuses on characteristics that may occur in strategic alliances between different industries, which will be referred to as cross industry cooperation.

Below is a table comparing the strategic alliance concepts studied and the empirical material obtained

Table 2. Comparison between Strategic Alliance Literature and Case Study Findings.

Theoretical Framework for Strategic Alliances[12]	Findings From Case Study
Motivations for entering alliances range from obtaining additional resources, achieving economies for scale, and surviving dynamic markets.	The bank's motivations for entering into the alliance included accessing Safaricom's technology, their network, competency in telecommunication as well as their large customer base thereby surviving competition while creating an innovative product to suit the target market.
Partner selection, partner resources and strategic fit are important factors to be considered when searching for a strategic partner.	The bank considered partner selection focusing on partner resources and strategic fit as factors when looking into Safaricom as a partner. This included financial resources,

[12] Beckman et al., 2004; Chin et al., 2008; Douma et al., 2000;Doz & Hamel, 1998; Dyer & Singh, 1998; Eisenhardt & Schoonhoven, 1996; Faems et al., 2010; Fink & Kessler, 2009; Gnyawali et al., 2006; Hitt et al., 2000; Kale & Singh, 2009;Koza & Lewin, 1998; Osarenkhoe, 2010; Parkhe, 1993; Rothaeramel, 2001; Rusko, 2010; Schreiner et al., 2009; Shah & Swaminathan, 2008; Yamakawa,2010.

	core competency i.e. money transfer service, and customer base. The alternative partners were not considered due to lack of these factors.
Alliance management function and alliance management capability i.e. bonding, cooperation and communication need to be developed during alliance management.	The alliance partners did not develop a combined alliance function but carried out tasks in separate projects teams. The alliance management capability included cooperation but less communication and bonding as this mainly occurred when there was a problem within the system.
Strategic alliances can be classified into a business alliance, learning alliance or hybrid alliance depending on the goals they want to achieve.	The alliance was a hybrid alliance as it focused on obtaining increased sources of revenue as well as obtaining knowledge that could be perhaps utilized during alliances with other organizations. However, it had more characteristics of a business alliance in terms of the alliance goals than that of a learning alliance as its main goal was to increase the number of customers thereby increasing revenue.

5.1 Underlying Motivation Between Strategic Alliances

The motivations for entering into the strategic alliance included increased competition from competitors, acquisition of new resources while focusing on core competences, and increased market penetration which contributed to the bank accessing more clients. These are comparable with strategic alliance literature that presents greater value and benefits, risk reduction by obtaining complementary resources, and increased market share as reasons for considering alliances (Chin et al., 2008 ; Wittman et al, 2009; Rusko, 2010; Osarenkhoe, 2010) Furthermore, it strengthens the case of focusing on core competences while obtaining additional competences and resources from the alliance partners. The alternative option of developing similar resources as the alliance partner could lead to undesirable results as it would involve acquisition of several new competences which if not successful could lead to a waste of time and resources.

5.2 Choice of Partner

The choice of alliance partner is based on factors such as strategic fit and partner resources. (Douma et al, 2000; Nielsen 2010). The choice of Safaricom is seen as relevant in terms of strategic fit as well as partner resources. Strategic fit can be seen in their goal of focusing on a similar customer bracket and having similar goals in terms of the alliance formed. Partner resources can be seen in terms of their ability to share financing and telecommunication resources that could be used within the alliance to create new products and services. The choice of alliance partner is therefore an important factor to take into consideration as the ability to form an alliance and create new products and services is based on this decision. As the core competences of the alliance partners are in different areas it leads to a situation where the available partner resources can be exploited for the benefit of the alliance.

5.3 Organizational learning within cross industry cooperation

The alliance between the two organizations can be seen as a hybrid alliance (Koza & Lewin, 2000) as it consists of factors seen in a business alliance as well as a learning alliance therefore containing characteristics of both exploration and exploitation. The factors leading to this included the development of a product (M-Kesho) that they would have been unable to undertake without Safaricom's expertise, and also through the additional business revenue received after the alliance. There was also learning within the alliance as this was the first alliance of its kind therefore knowledge was obtained on how to negotiate and deal with the alliance partner. However, the alliance seemed to be more of a business alliance as the bank did not seek to venture into the telecommunications market. It can therefore be seen that companies operating within different industries are likely to be involved in an alliance that has more characteristics of a business alliance if they seek to obtain complementary resources that will increase their revenue. There will be less learning as their main aim is not to develop similar competences as their alliance partner. This presents a situation where there is more exploitation than exploration within the alliance.

Based on the choice of partner, motivations and learning goals, the following table could be relevant for partner selection in strategic alliances with partners from different industries.

Table 3. Factors to be considered by organizations collaborating in cross industry alliances. (Authors Compilation)

Partner Requirements Strategic Motives	Tangible resources	Intangible resources
Risk and cost reduction. Ability to cope with uncertainty and in a competitive environment	Financial assets, available technologies that are core assets.	Ability to cope in dynamic, competitive environment.
Search for an exploration alliance with research and development abilities	Abundant resources to support innovation, human, financial and technological resources through which the alliance partner can gain knowledge.	Ability to carry out research and development. Accesses to both tacit and codified knowledge which can help sustain competitiveness.
Quick access to new complementary resources and search for an exploitation alliance	Complementary resources that will aid in new product development and obtaining additional revenue.	Complementary skills, reputation, brands.

5.4 Cross Industry Alliance Management

Alliance management literature stresses the need to develop a combined alliance function as well as alliance management capability to ensure effective alliance management. However, the case implies the development of an alliance function may not be necessary. This can be done by creating a clear division of all tasks during alliance formation. Additionally, it involves informing alliance partners immediately concerning problems and difficulties that are being experience. This enables partners to solve problems that may arise as fast as possible so as to limit partner and customer dissatisfaction. The clear structures set out will aim to ensure that separate tasks are coordinated effectively therefore avoiding conflict. However, technical problems may be unavoidable especially during the initial period therefore it is necessary for both parties to focus on their core competences where their strength lies.

Based on the alliance structure and management through separate teams in the different organizations it will be paramount that communication is carried out between alliance partners. However, the difference arises depending on the level of communication. In this case, communication tends to increase mainly when technical problems arise based on interdependence of systems to fulfill customer needs. However alliances with this form of structure and management can manage these challenges through the rapid relay of information to each other in case of system failure, as well as the ability to rapidly inform customers of the same. Effective feedback mechanisms assist in alliance management and help deal with challenges experienced when alliance partners work in separate project teams.

Bonding which is included as part of alliance management capability is reduced in alliances of this nature once again due to clear roles and management structures established by alliance partners. Each project team works on its own and communicates mainly in case of problems leading to a situation where bonding is limited. This can be seen of an alliance between companies in different industries who have developed an ability to manage the alliance without intertwined involvement between alliance partners on a day to day basis. The partners are able to concentrate on their respective competences and therefore work on their strengths without having to focus on gaining in-depth knowledge in an area in which they are not familiar.

5.5 Delimitations

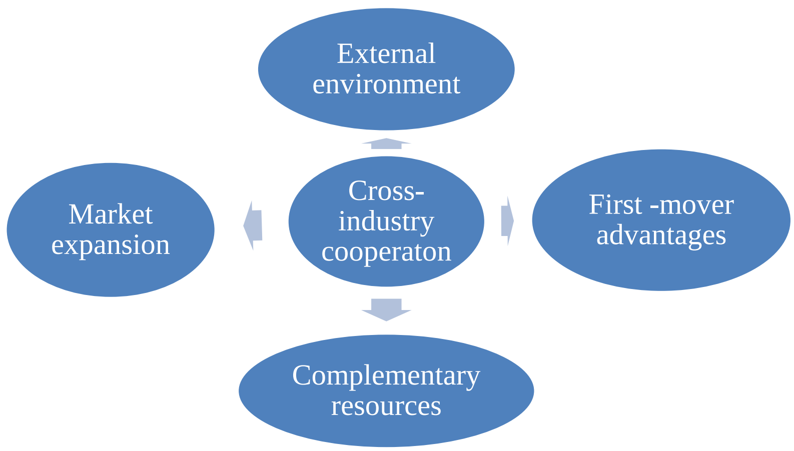
The ability to use these methods of management in cross industry alliance may be most appropriate for firms that are able to form an alliance that can be managed through separate organizational teams and separate systems. It perhaps would be challenging for strategic alliances which cannot fully separate the running of the alliance and whose level of communication may be higher therefore leading to the creation of a separate alliance management function consisting of members from both parties.

Furthermore, the formation of an alliance with separate project teams and management may provide difficulty for companies whose main goal in alliance formation is to learn skills and new competences. This particular type of alliance is more inclined towards a partnership whose main goal is increased growth and revenue. The learning goal may therefore require that selected members of both organizations spend a large amount of time in each other's presence so as to acquire the relevant skills from each other. This may be difficult if they choose to work separately.

5.6 Advantages of Cross Industry Cooperation

Based on the analysis of the discussion, it can be seen that specific gains can be made in strategic alliances specifically between cross industry alliances. The following model was developed so as to present the various ways that a firm may gain an advantage through cross industry cooperation.

Figure 4. Cross Industry Cooperation Model (Authors Compilation)



External environment bears reference to Porter's five forces model which consists of the threats of new entrants, the threats of substitute products or services, bargain power of customers, the bargain power of suppliers and the intensity of competitive rivalry (Porter, 1985). These five factors affect industry profitability. Due to an increase of these factors, competition in a particular industry could become fierce thus leading to reduced prospects of profitability and growth. This will eventually lead firms to look for new strategies such as cooperation with firms in different industries to create more opportunities to grow and be profitable. Firms which employ this particular approach i.e. cooperation with firms from different industries may be able to fulfill customer needs through creation of innovative products which when managed appropriately can lead a firm to overcome competition.

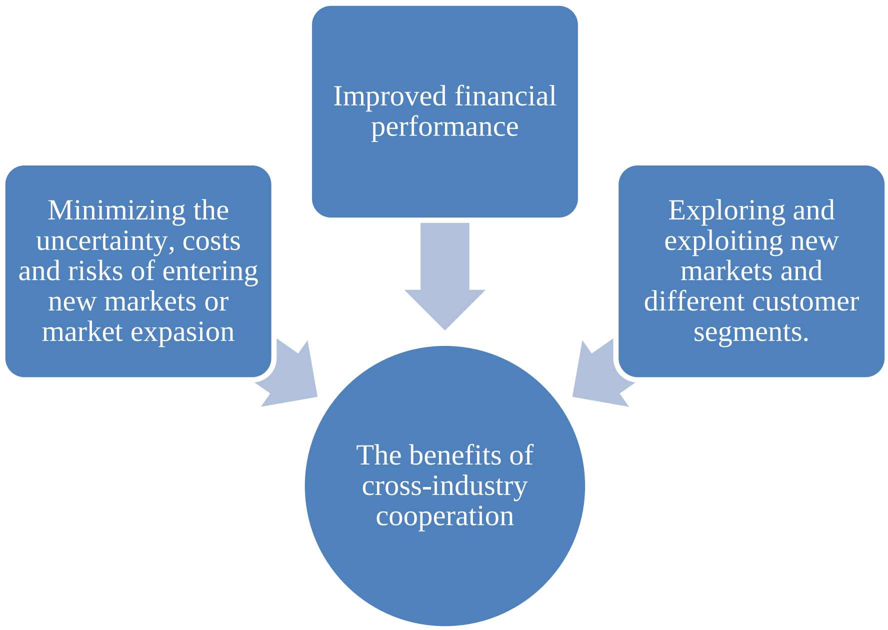
Bang and Joshi (2009) defined market expansion strategy as "a strategy of increasing primary demand for product category by converting non-customers into customers of an industry and/ or by increasing the usage rate of an industry's existing customers"(2009; p.59) They argued that market expansion is an important strategic option in untapped markets. Thus, cross-industry cooperation can be treated as a tool which enables firms to expand market and access untapped markets. It can increase customer base and create new market demands through new products and thus to improve firms' financial performance. The reasons for firms' expansion can be categorized into (1) shrinking of profit in current industry, (2) improving firms' financial performance. Consequently, cooperation between organizations in different industries can be used as a method to achieve both goals.

Gassmann, et al., (2010) emphasized that no single firm can have all capabilities and resources or develop new technologies alone. Therefore alliances are formed to gain appropriate complementary resources such as knowledge, markets, or physical assets to ultimately improve the firm's competitive position. In new and untapped markets, firms need other firms' complementary resources both in terms of tangible or intangible resources that compensate for the firm's weaknesses and thus reduce risks and cost in exploring new markets. Expanding to a new and untapped market can entail development and promotion of new products to new target customers. Therefore, a new product can combine partners' core competences and resources which can satisfy new target customers with new functions obtained from complementary resources. In this case, complementary resources may include technological know-how, patents, tacit knowledge and which when combined with an organizations core competences may be difficult to imitate. This in turn may supplement the strength of the alliance partner.

According to Mueller (1997), as a first-mover a company can experience several advantages which are "learning-by-doing cost reductions, scale economies in both output and R&D, network externalities and buyer inertia due to uncertainty over quality and habit formation"(1997; p.837-839) Therefore, through cooperation with different industries firms can access new markets and establish a pioneer position in untapped markets. Being a pioneer in a certain market means a firm could create a value chain which could set the business rules and the market structure therefore putting it a superior advantage as opposed to late competitors.

In summary, the model of cross-industry cooperation provides information about alliances between companies in different industries. It enables firms to evaluate and discover reasons to enter into new markets and the advantages that could be realized by working together with firms in different industries. Furthermore, there exist several benefits for cross industry cooperation as depicted in Figure 5. If successful, cross-industry cooperation can increase firms' customer numbers and market share as well as lead to access of new and untapped markets while reducing costs and risks of developing new competences. Additionally, cross industry cooperation may lead to increased financial performance, and the ability to gain access to different customer segments.

Figure 5. Benefits of Cross Industry Cooperation (Authors compilation)



5.7 Summary of Empirical Analysis

Strategic alliances can be used to gain additional complementary resources thus enabling market expansion and reducing competition. In order for this to be effective, there should be communication and cooperation between alliance partners. Furthermore, a choice of alliance partners needs to be taken into consideration as well as strategic fit and resources that the partner possesses. The management of the alliance through clear separation of tasks between alliance partners and use of separate project teams is also a possible option between alliances with firms in different industries.

Additionally, cross industry cooperation has been seen to provide a way through which organizations can benefit from alliances with firms that are not part of their industry leading to additional gains by companies who pursue them.

Chapter 6 Conclusion

6.1 Conclusion

In concluding we refocus on the research questions that were originally posed as well as briefly describe the results obtained. The research questions were

"How will local banks focused on banking on the poor be able to use strategic alliances with mobile phone companies as a tool through which they could overcome their current challenges" and

"How are these strategic alliances formed in terms of partner selection; as well as how are they managed."

This led to a study of the strategic alliance between Equity Bank and Safaricom, as well as how it could use the alliance to overcome competitive challenges. It was discovered that the selection of the alliance partner and the management of the alliance were important factors to overcome the challenges that were being experienced by Equity Bank. The increase in competition led it to collaborate with a mobile phone company thereby accessing complementary resources. Through this they were able to focus on their core competence which was providing financial services, while accessing additional resources to accomplish the goal of increasing their target market.

The choice of partner also involved analysis of strategic fit so as there would be limited conflict in terms of the aims of the strategic alliance. This involved choosing a company with customers focusing on the same target group that Equity Bank targeted i.e. the unbanked and consequently this saw them attaining their goal of increasing their number of customers. The management of the alliance in separate teams and the separate collection of revenues also could be seen as a method from which to ensure that relations are carried out as smoothly as possible without domination of one partner over another.

This alliance further brings into focus the benefits of cross industry alliances which include market expansion, acquisition of complementary resources, first mover advantage and the ability to handle one's external environment. These factors may help lead to company growth and the ability to beat competition. Additionally, cross industry alliances may lead to the ability to explore and exploit different customer segments, reduce uncertainty and reduce costs of expansion while improving financial performance.

6.2 Further Research

One of the areas that may be interesting to look into is the different forms of management in cross industry alliances. It could highlight whether different forms of management in terms of whether a combined management team is created, or whether separate organizational teams are used to manage the alliance or perhaps a combination of both. It would be interesting to see the advantages and drawbacks of different methods, as well as which method has been most effective in alliance management.

Another research area may include the analysis of the alliance based on the other party's perspective i.e. the mobile phone company. This could be in terms of the benefits they are gaining through this alliance and perhaps whether they are able to exploit the alliance further to gain more than financial resources. A focus on their relationship with different banks and how these relationships affect each other would also provide and interesting view on alliance portfolio management.

Finally, as the case was based on a recently formed strategic alliance, it would be interesting to see whether the alliance in truly successful in the long term. It has only been in existence for approximately one year and though there are claims of its success, a review of this in the long term would be able to gauge the truth.

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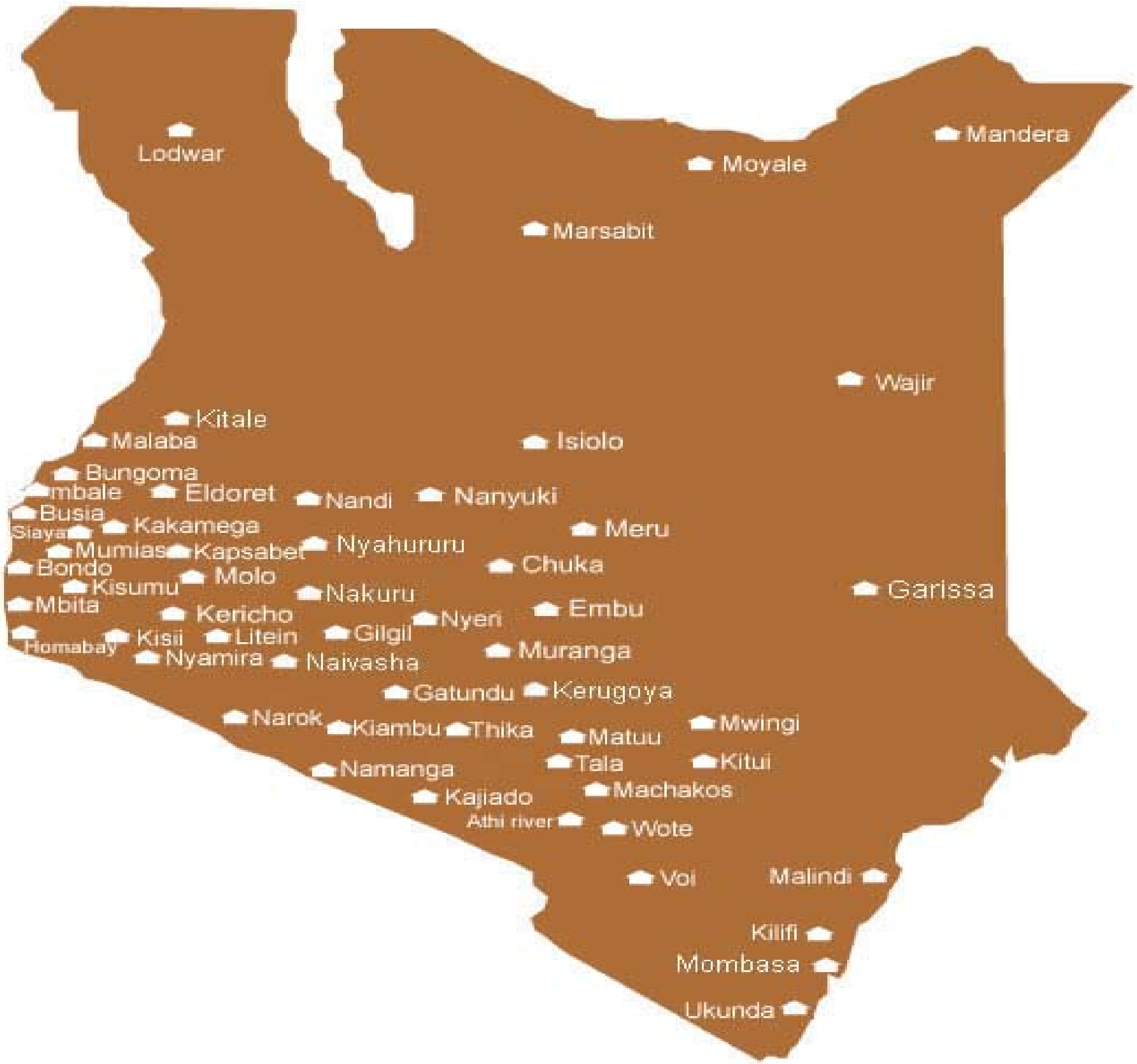
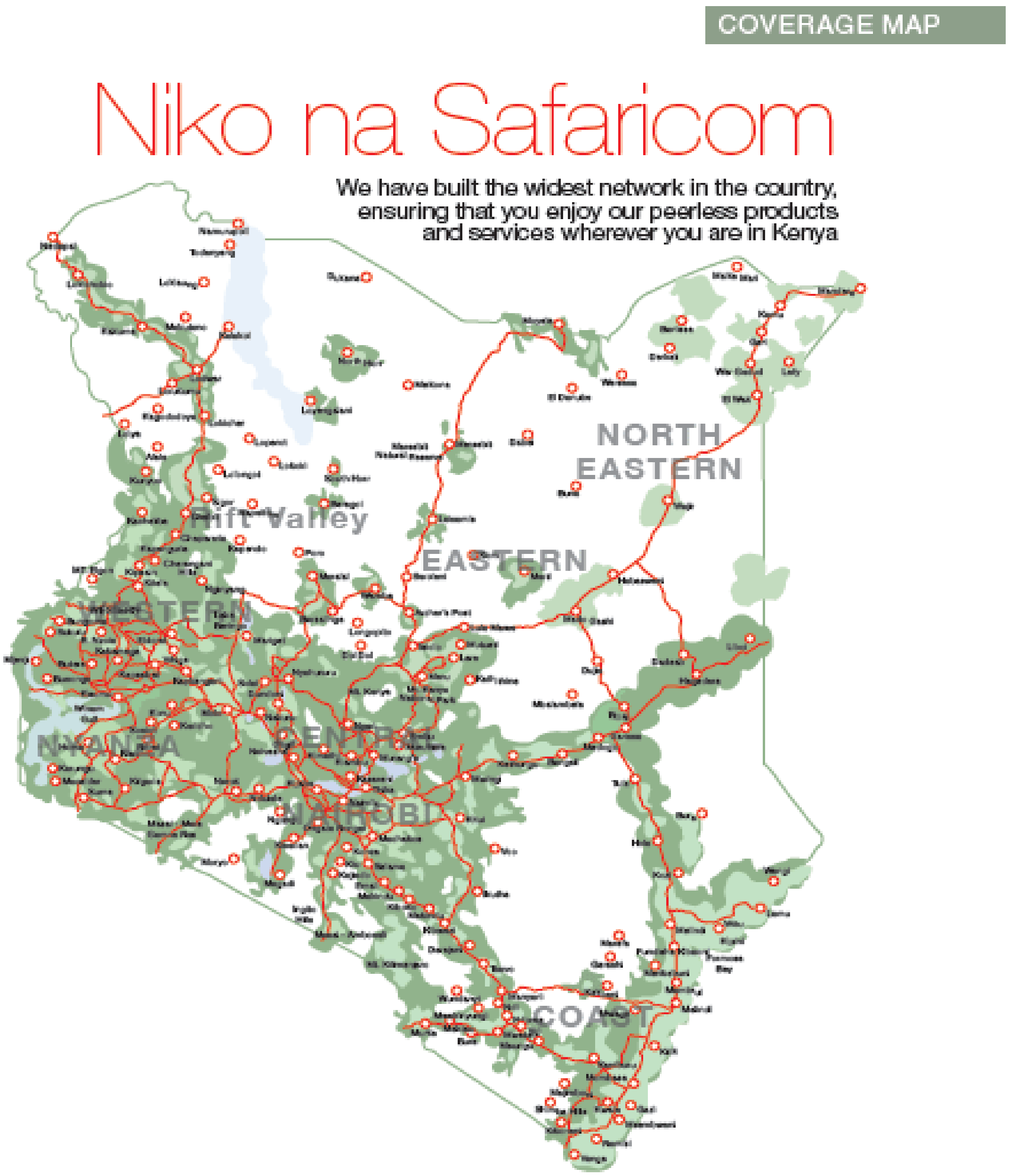
Appendix

A: Equity Bank Branch and ATM Network



Source :Equity Bank Official Homepage, 2011

B:SafaricomAgentNetwork



Source: Safaricom Official Homepage, 2011

C: M-Kesho Logo

Source: Equity Bank Official Homepage, 2011

D: Interview Questions with Equity Bank Representative[13]

- Why did Equity Bank decide to enter into an alliance with a mobile phone company, particularly Safaricom? What was its aim?
- What factors were considered when choosing Safaricom as opposed to other mobile phone companies when looking for partners.
- Were organizational goals a factor during alliance formation? If so, what were they? And were they in alignment i.e. the goals between the organizations?
- Please describe M-Kesho, and how it works- i.e how to open it, where? what is needed? What are the characteristics of this account? What are the advantages of this account as opposed to other accounts in Equity? What are the advantages over other banks and MFI’s? If so, please describe. If not, why?
- What are the internal management/organizational structure of the alliance. Which activities are divided and how are they divided? E.g. finance, marketing, management, back office, product development, IT, regulatory engagement, R&D etc
- How is the M-Kesho product run between the two companies i.e. was there a separate company created (i.e. a joint venture)? If so, please describe it. If not, how is it run and managed.
- How are organizational resources shared between the two organizations in terms of finances, technical expertise, marketing, intangible assets (brand).

[13] The interviews did not follow this specific structure however, all questions were answered.

- How is the distribution of revenue carried out?
- Is that product/partnership considered as successful? How many accounts holders are there?
- Has M-Kesho altered Equity banks competitiveness in Kenya's financial landscape? If so, how?
- Does there exist any competition between Equity bank and Safaricom? If so exist, in which particular activities
- Would you consider M-pesa and M-Kesho competitors? If so, please describe in what terms they are competing and how is Equity managing this competition though they also work together. What precautions, rules or structures have they put into place to ensure that it works? If not, why?
- What are the advantages of this alliance for equity bank?
- How are risks and profits shared between the two?
- What kind of critical resources does Safaricom have which Equity Bank considers it can be complementary resources?
- Equity currently focuses on agency banking. What does that mean? How did the new law implemented in April 2010 affect Equity Bank in terms of agents. What are its advantages.
- What is the role of Eazzy banking in this? How many people have registered for Eazzy as of 2011? Why wasn't it successful i.e. challenges in implementation?

E: Interview Questions with Safaricom Representative

- Why did Safaricom enter into a strategic alliance with Equity Bank? What was its aim?
- What factors did Safaricom have that would have been considered attractive as opposed to other mobile phone companies?
- Were there organizational goals during alliance formation? If so, what were they?
- What was the internal management of the alliance? Which activities were divided and how were they divided egg finance, marketing, back office management, research and development.
- How is M-Kesho run between the two companies.
- How is the product managed by customers.
- How are organizational resources shared between the two organizations e.g. in terms of finance, technical expertise.
- How are transactions carried out between alliance partners?
- Would the partnership be considered a success? If so, why?
- Which critical resources does Safaricom have which Equity Bank considers to be complementary resources (in relation to the alliance)