THE LINKAGES OF STRATEGIC ALLIANCES AND THE PERFORMANCE OF TELECOMMUNICATION COMPANIES IN KENYA

Bernard Momanyi* and John Mihas**
*Moi University, **Corresponding Author, Horizon Business Solutions Ltd.

ABSTRACT
The telecommunications industry has evolved steadily over the past couple of decades to become a common denominator for economic development, regional and global integration and ultimately a tool for enhancing lifestyles as well as supporting scientific enquiry. Expenditure on telecommunications has the unique characteristic of driving significant economic growth without being inflationary or affecting the balance of trade. The diffusion of telecommunications services has defied economic circumstances to provide a platform for financial inclusion and betterment of livelihoods by breaking down the barriers to affordable, real-time, effective, efficient and inclusive communication especially in the developing nations. The proliferation of the industry has not been without challenges. One of the obvious challenges is the influx of telecommunications service providers into an already crowded space to cash in on what was seen as the unending fortunes of the industry. With this came a near natural separation of the fast movers and the strugglers. A select group of elite have super performers have emerged in nearly all global telecommunications markets with the rest to playing second fiddle raising fundamental questions about the drivers of inter-firm performance differences within the industry. Kenya has become a global case study in the telecommunications industry with revolutionary innovations like mobile money products. One outstanding feature of the telecommunications industry has been a series of mergers and acquisitions aimed at consolidating gains and therefore this paper explores the linkages of the strategic alliances and the performance of telecommunication companies in Kenya.

KEYWORDS: Telecommunication, Economic, Strategic Alliance, Market, Research, Industry, Performance

Background to the Study
The field of strategic management is concerned with why some firms are more successful than others and how firms can improve their performance to achieve sustainable competitive advantage over its competitors (Placeholder1)The telecom industry, due to its dynamic nature has been witnessing a continuously changing business and technology environment over the past half century. Telecom operators strive to provide seamless and high-quality voice, data and multimedia services in a multi-device, mobile environment. Traditionally the principal revenue streams for telecom operators have been voice and messaging (SMS) with data coming in at a far third till recently. However, the attractiveness of the industry has also led to increased competition leaving a few elite companies doing well while a host of others struggle to stay afloat.
Performance is a recurrent theme in management. Shareholders and investors are keen to monitor the performance of a firm to determine its profitability, impact and its future prospects. There has, however, been little consensus on how best to define performance though some authors view business performance as a subset of the overall concept of organizational effectiveness (Venkatraman & Ramanujam, 1986). Telecommunication industry has seen increasing competition as the industry shifts from major monopoly players to the entry of more players, due to privatization and liberalization, both at a local level and global level.

The introduction of new technologies has forced telecommunication companies to reconsider their strategies and product portfolios. Companies that lacked desired internal capabilities have resorted to mergers, acquisitions and partnerships in order to develop the needed competitive advantage (Pennings, Kranenburg, & Hagedoorn, 2005). Strategic alliance, economic contextual distance and performance arguments and discussions will be anchored by the Resource Based Theory (RBT) and Strategic Alliance Dynamism Model (SAD) while discussion on churn will be anchored by the relationship marketing theory.

**Strategic Alliance Dynamism Model (SAD)**

Tan (2000) discussed the importance of strategic in the advent of increased global free trade due to the trading block in North America, Europe and Asia. One response to these conditions has been the formation of various types of collaborative ventures and strategic alliances (Sasaki, 1993; Perl mutter and Henan, 1989). The paces of technological change and market shifts have forced organizations to reconsider their strategies for creating sustainable competitive advantage. Also, strategic alliances focused on destabilizing market values are currently the most effective source of sustainable competitive advantage. Indeed, strategic alliances are often used as the next step for survival. That is, if the organisation cannot compete effectively, then it has to become partner dependent (Newman and Chaharbaghi, 1996).

Strategic alliances can also take an offensive form, particularly in fast-moving markets. Offensive alliances are driven both by speed and by the need to integrate disparate knowledge resources to create new market values where the resulting product has to combine different forms of knowledge, which could not possibly be owned by a single organization. In other words, it is a necessity (Newman and Chaharbaghi, 1996). In the 1990s, in a response to avert such dysfunctional head-to-head competition, there is an increasing awareness in academics, business consultants and corporate strategists on the merits of establishing strategic alliances. It was realised that co-operation and/or collaboration on a global scale, not only act as a defensive mechanism, but also enable flexibility and responsiveness to changes in the global business environment - a source of important competitive advantage in meeting global competition. Tan (2000) therefore proposed a conceptual framework that could be used to study the growth of strategic alliances between companies.

The author came up with a 3 D framework called the strategic alliance dynamism (SAD). In order to understand the factors that determine the growth of the strategic alliances between companies, the SAD model can be used. Here, various elements that define alliances between companies are used. The first model discusses the passive, the friendly or the hostile alliance...
strategies between companies. By analyzing the alliances using the three elements, it is possible to come up with a list of factors that determine their successes. According to this category, an alliance can be more successful if it takes place in a friendlier environment. It is thus of essence that companies look for partners that enable them have a friendly rather than a hostile working relationship. If hostility is developed during the partnerships, the growth would reduce or even fail.

A passive relationship between the partners would undermine the success of the strategic alliance. It is important for the organizations to ensure that they pursue proactive measures in order to improve the relationships (Tan, 2000). The second model in this theoretical framework is the loose, tight or amalgamated structure of operation between the players. In a loose relationship, the level of the difficulty in exiting from the alliance is very low. Here, the partners would leave the relationship when and as they wished. In a moderate relationship, the level of the difficulty in leaving the relationship is moderate. In this arrangement, the partners will work harder to ensure that the relationship works because leaving would equally be costly. The poor, satisfactory or excellent strategic alliance performance can also be used to analyze the factors that affect the growth of the strategic alliances. The most difficult drawback in the alliance development is the search for the right partner. This is critical because the wrong match would yield 'Poor' or negative results. (Tan, 2000)

Figure 1: Alliance structure
The three 'Stages' are identified in the 3-D framework above, and in accordance with the iterative and asymmetrical nature of the 'Strategy, Structure and Performance' paradigm. It can be described that, the “Rationalization stage” correlate to a 'Passive, Loose and Poor- Satisfactory' matrix; the “Formation stage” correlate to a 'Friendly, Tight and Satisfactory/Excellent' matrix; and the “Failure stage” correlate to a 'Hostile, Amalgamated and less than Excellent' matrix. 
However, all three stages are mutually exclusive to each other. Although before the players were to 'Fixed' their structure, it is still conceptually possible to move down, or up one stage. However, once the business 'structure' has been fixed, the alliance will experience greater 'inter-dependency, vertical-integration' and inflexibility (Tan 2000).

Firm Performance Measurement

The existing literature on international strategic alliances covers a vast range of different approaches towards measuring alliance performance. While some scholars focus on financial and economic measures, such as return on assets (ROA) or productivity (Goren and Beamish, 2005; Koki and Prescott, 2008), others emphasis non-accounting criteria, such as innovation (Shan, Walker, and Kaput, 1994; Deeds and Hill, 1996). Goren and Beamish (2005) argue that even though firms pursue multidimensional goals economic results dominate their interests. This dominance of economic success measures is also reflected in the literature on strategic alliances. Screening over 70 studies, they find that three measures are generally accepted, namely ROA, return on sales, and return on capital. However, in order to avoid bias due to distinctive asset valuation and local tax treatment Goren and Beamish (2005) base return on sales and return on capital on operational profits and not on net, after tax returns.

This dependent variable is operationalized by multiplying the number of common shares outstanding by the firm’s stock price. However, the firm’s market value is a very volatile performance measure. In order to tackle the volatility issue Lave (2007) averages the end-of-month daily values of the relevant year. First, they discount firm’s intangible assets. Second, firm level factors intervene and confound alliance success (Hagedoorn, 1993 cited in Lave, 2007). A similar approach to investigate international strategic alliances performance from a financial standpoint is by focusing on changes in the focal firm’s stock market value following alliance announcements (Kale, Dyer, and Singh, 2002).

Strategic Alliances and firm performance

Oscine & Rangan (1995) provide a specific definition of strategic alliances by three conditions: the firms pursue a set of agreed upon goals and remain independent after forming the alliance; the benefits of the alliance as well as control over the performance of the assigned tasks are shared; and strategic alliances are contractual, temporary relationships, for a specific project, that allows the pooling of resources and the coordination of efforts. Alliances may also involve the exchange or co-development of products, technologies or services (Duoma, 1997). Strategic alliances could take the form of joint ventures, mutual service consortia, licenses, long-term supply agreements and other forms of inter-firm relationships.

On average two-thirds of strategic alliances are international strategic alliances compared to only a third that are domestic partnerships (Kang & Sakai, 2000). Successful strategic alliances aim at enhancing productivity and profitability of the partners. Strategic alliances help firms to enter new markets tactically while overcoming barriers such as high cost of research and production (Aldakhil & Nataraja, 2014). Research shows positive effects of strategic alliances in terms of
firm performance and profits as well as social benefits. Firm level benefits vary among allied partners with larger partners deriving more profits than smaller partners (Kang & Sakai, 2000). while non-equity alliances are contractual agreements between two or more firms in which each partner agrees to share some of its resources or capabilities, examples include; Research and Development alliances, franchising, licensing, supplier partnerships, marketing agreements, and joint production.

Strategic networks are characterized by a set of relationships composed of inter organizational ties that are enduring and of strategic significance and interdependence among network members who share resources and information, technology and access to markets. Strategic alliances can be classified based on different criteria. On the one hand, there are strategic alliances based on the areas of collaboration (Serna, 2007). Serna (2007) also indicated that, strategic alliances are classified depending on the level of integration in the collaboration process.

Gomes-Casers (2003) stated that alliances may be structured as complex equity joint ventures or they may be looser arrangements for cooperating. Johnson et al. Their expectation is that flexibility will result from reaching out for new skills, knowledge, and markets through shared investment risks.

Yuk (2013) observes that strategic alliances offer four kinds of benefits namely; economies of scale and economies of scope; quick and easy access to knowledge and markets; the reduction of the capital requirements and the risks involved in the development of new kinds of products or technologies; and the possibility of influencing the structure of competition in the relevant markets. Strategic alliances aim at achieving organization objectives better through collaboration than through competition. Alliances help firms to undertake projects beyond one company’s capacity, increase speed to market while stating the major development costs and provide access to larger markets.

Isolate (2009) argues that alliances help firms to share knowledge and expertise as well as increasing synergy and competitive advantage. Companies form alliances in order to expand their knowledge portfolio there by increasing competitive advantage. Empirical research supports a positive relationship between the number of alliance formations and firm performance. Many alliances increase the profitability of the members (Wheelen & Hunger, 2012). SMEs have been driven into strategic alliances with other enterprises in order to achieve competitive advantage due to resource limitations and their size restrictions. Hung et al. (2015), established cost efficiency, product quality, flexibility, and better delivery are four dimensions of competitive advantage.

Alliances support the acquisition of strategic resources and network sources, resulting in the entrance of SMEs into competitiveness and ultimately, they bring long-term benefit leading to the superior performance of these firms. Competitive advantage is achieved through the acquisition of tangible resources (manpower, equipment, financial resources, and production capacity) and intangible resources including knowledge, organizational learning, market image,
and innovative capabilities (Zhao, 2014). Innovative and entrepreneurial capability of SMEs is another aspect of strategic alliance. Ireland et al. (2002) stated that it is the tracking of innovations with high economic value through sharing the information and knowledge among companies which stimulates the decision to form strategic alliance (Zhao, 2014; Franco and Hessen, 2013).

Furthermore, networks are an increasing component of entrepreneurship; they strengthen the ideas, pursue better opportunities, have access to a wide variety of information, and they propose an option to companies so that they can expand their current capabilities (Hokinson et al., 2011). Alley, the former CEO of P&G, said that in today's competitive world, no single company is able to innovate and grow fast. Innovation is rarely achieved through internal resources; however, it can be achieved through relations, knowledge, and external information. So external networks strengthen the collective capabilities and acquiring knowledge and various ideas which are a source of innovation (Baker et al., 2015). Cooperation arrangements can be a way to improve the international performance of family businesses through having access to information and reducing uncertainty when entering international market. Cooperation with other companies, clients, or customers in local market provides useful information about business opportunities, international market characteristics, barriers and problems, as well as the risk of entering international market. Small firms can develop their innovation through forming strategic alliance, and on the other hand, they can facilitate their entry into the foreign market by having access to financial resources and complementary partner resources (Heinlein and Refer, 2004).

Research has shown that firms enter strategic alliances in pursuit of social capital. Firms are looking for partners with significant social capital so that they can have access to network resources. On one hand, evidences show that success is a function of the quality of the relationships between partners. Achieving social capital increases the probability of the success of strategic alliance due to trust and the tendency to share resources among partners (Ireland et al., 2002). Social relations create opportunities through deep awareness, trust, and commitment among partners leading to personal relationships, and awareness of situation and reputation of key people in firms (Eisenhardt and Schoonhoven, 1996). Other scholars have associated alliance formation with pursuit of opportunity. For instance, research has shown that SMEs form alliances with Multinational companies to identify and exploit opportunities.

On identification level, alliances try to identify new knowledge. Entrepreneurial activity includes not only innovation of new product but also identification of new opportunities and market such as the needs of our customers. Since the strategic alliance includes the relationship among large companies and SMEs, so SMEs form alliance with big companies to identify new customers and markets as well as to exploit these markets and new markets (Joshi and Dixit, 2014). The advantages of an alliance, as compared with a single firm, depend on the need for integration among parts of the value chain and the need for scale and specialization in each of the parts (Chesbrough and Teece, 1996).

Firms enter into alliances based on their needs at that time or future considerations. A study by Cooper & Lybrand found that firms involved in strategic alliances had 11% higher revenue and
20% higher growth rate than did companies not involved in alliances (Segil, 1998). Wheelmen & Hunger (2012) however, note that overtime conflicts over objectives and control may arise in a strategic alliance. Thus, almost half of all alliances, especially joint ventures, perform unsatisfactorily.

Globally, a number of studies have been conducted that are related to the effects of strategic alliances on organizational performance. De Varies (2008), examined a relationship of diminishing returns between a firm’s number of alliances and performance. The study found out that absorptive capacity also shows a positive significant effect on firm performance.

A greater capacity to value and apply knowledge will thus stimulate firm performance. Finally large firms filed more patent applications over the period of 1999 to 2002 compared to small firms. A possible explanation could be that because of their size and visibility in a market, larger firms can attract more potential partners, selecting the most promising alliances from these companies. Also larger firms who have shown their survival skill in the market may have better employees in R&D compared to smaller companies. Margarita (2009) investigated on the importance of strategic alliances in company’s activity. The study adopted a survey research design since it focused on commercial banks in South Africa. It made use of secondary data that was partly collected from the published agreement statements of commercial banks in South Africa while the rest of the data was obtained from marketing departments of the banks.

The researcher managed to collect data from 35 commercial banks. Regression analysis was used to establish the importance of strategic alliances and banks performances. The paper explains Strategic alliances as an indispensable tool in today’s competitive business environment. Locally Gatwiri (2014), conducted a research on effects of expansion strategies on performance of selected commercial banks in South Nyanza Region, Kenya. Five commercial banks were evaluated which included Co-operative Bank, Equity bank, Barclays bank, Kenya Commercial bank and Diamond Trust Bank.

47 respondents who are employees of these banks were used in data collection. The study revealed that through agency banking commercial bank were able to reach most people in the rural areas in Kenya and thus expand their banking activities. The study found that mobile banking positively influenced the performance of commercial bank to a great extent. The study utilized both primary data collected through the use of questionnaires as well as secondary financial data. In terms of alliance management, the use of separate teams was found to be an effective management tool in cross industry alliances.

Conceptual Model
The conceptual model in Figure 2.1 forms a foundation for addressing the research gaps that were made apparent from the interrogation of existing literature on the core conceptual variables. The model proposes a direct primary linkage between strategic alliances which are defined as the independent variable and firm performance which is the dependent variable.
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