

**DRIVERS OF STRATEGIC ALLIANCE BETWEEN SAFARICOM AND KENYA
POWER AND LIGHTING COMPANY IN MOBILE TELEPHONY PAYMENTS**

BY

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Declaration

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

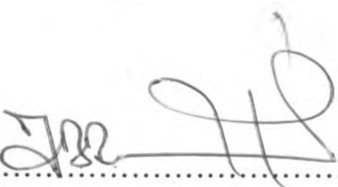
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This project has been submitted for examination with my approval as university supervisor.

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Dedication

I wish to dedicated this project to my wonderful family for their support.

Acknowledgement

I would like to acknowledge my family for the support they have offered me in the course of this study. I also acknowledge my supervisor Dr. Zack Awino who gave insight into this research, Indeed the contribution was worth. My fellow MBA students who shared in the experience of the course are also acknowledged. Finally, I thank God the Almighty for life.

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Abstract

User demand for convenient and intelligent ways in which to make payments for goods and services using the mobile phone is creating exciting opportunities for those organizations that are part of the mobile payment ecosystem. The ecosystem includes mobile operators, banks, retail merchants, handset manufactures, and other variants as necessary. The telecommunications industry in Kenya has become pivotal in day to day life owing to its reach and convenience. As such it has found application in the financial services sector more so in the settling of transactions. This has created a host of opportunities and new business structures where various organizations are organizing into alliances to take advantage of this capability. This study was keen to follow on these developments by looking at mobile telephony payments using M-Pesa of Kenya Power & Lighting Company (KPLC) electricity utility bills. This study was conducted as a survey within Safaricom and KPLC organizations. Primary data was collected through questionnaires administered to the management at both organizations involved in setting up of the alliance. Analysis of the data collected was conducted using descriptive statistics where mode was the preferred method. This was used to determine whether the driver was key to either of the two organizations in setting up the alliance. As per the findings, both organizations had different key drivers for engaging in the alliance though a few were shared i.e. to enhance customer value and advancement of technology in the telecommunications sector providing new opportunities. For Safaricom this was mainly driven by competition and need to guard against declining Average Revenue per User (ARPU). KPLC was mainly driven by the need to enhance customer value and with time as subscription grows it is expected the organization will enjoy benefits arising out of efficiencies associated with technology mainly in form of improved revenue collection. The symbiotic fit in setting up the alliance studied is enhanced by the fact that both organizations are likely to offer different services to the same set of customers. This creates an opportunity from which new business models can be formed. Further research can be conducted in terms of looking at other mobile telephony payment solutions and also looking at the mobile payments ecosystem in Kenya as a whole.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

User demand for convenient and intelligent ways in which to make payments for goods and services using the mobile phone is creating exciting opportunities for those organizations that are part of the mobile payment ecosystem. The ecosystem includes mobile operators, banks, retail merchants, handset manufactures and other variants as necessary.

The telecommunications industry in Kenya has become pivotal in day to day life owing to its reach and convenience. As such it has found application in the financial sector more so in the settling of transactions. This has created a host of opportunities and new business structures where various organizations are organizing into alliances to complete various value chains in this fast-paced growing market.

Technology push, through maturing wireless networks and market pull via pervasive adoption; have paved the way for several innovative applications on the mobile phone platform. One fascinating prospect is to use the mobile phone in order to initiate, activate, and/or confirm a payment, explicitly termed by Karnouskos (2004) as Mobile Payments. Mobile money transaction alliances are usually between the technology available and subscriber base of telecom operators coupled with eligibility to carry out transactions by various service providers, persons, financial institutions etc.

This study identified the key drivers of the strategic alliance arising out of the M-Pesa product in relation to electricity utility bill payments. The symbiotic fit in setting up the alliance studied is enhanced by the fact that both organizations are likely to offer different services to the same set of customers. This creates an opportunity from which new business models can be formed. The study lays out a foundation on which to carry out further research on mobile payments.

1.1.1. Strategic Alliances

Strategic alliances are inter-organizational relations that are formed through mutual agreement between two or more independent firms to serve a common business objective (Mandal, Love & Irani, 2003; Greenhalgh, 2001; Hanson, Dowling, Hitt, Ireland & Hoskisson, 2005). Strategic alliances are relationships based on trust, empathy and a win-win philosophy, where these words are over used and misunderstood and many managers do not know what an alliance really is (Spekman, Isabella & MacAvoy, 2000).

However, there are also a lot of corporate managers who view strategic alliance as a key element in their company's growth strategies, like accelerating company revenue opportunities, leveraging skills of partners to develop and introduce new products or services, entering new market segments, and focusing corporate attention on activities that are core to the business for example securing cost advantage or filling a lack of expertise technologically or skill-wise (Spekman et al. 2000; Das, 2004).

Ryan and Morris (2005) equate strategic alliances to strategic partnerships. According to Hill and Jones (1998:291), 'strategic alliances are long-term co-operative relationships between two companies'. However, alliances could range from relatively short-term project-based cooperation to more inclusive long-term equity-based cooperation or joint venture concepts (Lorange & Roos, 1993:1). Thompson and Strickland III (1998:160) and Greenhalgh (2001:111) describe 'strategic alliance as a cooperative relationship with other companies to complement their own strategic initiatives and strengthen their competitiveness' and 'each party having something to offer the other which makes a difference' (Newman & Chaharbaghi, 1996:851). Hanson et al. (2005:343) believe that strategic alliance is important in the consolidation of industries and is a partnership between firms where firm's resources, capabilities, and core competencies are combined to pursue mutual interest to develop, manufacture, or distribute goods or services.

Today, the world of telecommunications is changing technologically, accelerating rapidly (Horrocks & Scarr, 1993; Brock, 1981; Picot, 2006), and becoming intertwined with other industries. Technology makes it possible to supply telecommunications services in a wide variety of ways. Mobile money transfer has become popular in formation of strategic alliances between Mobile Network operators and other organizations that require transfer of funds from one party to another to facilitate their running. The mobile network operator

would provide a platform over which the technical aspect of the mobile transfer will be managed in addition to its existing subscriber base. On the other hand the other partner in the alliance provides a business application for use of the mobile money transfer platform. In this case, this would be settling of Kenya Power & Lighting company electricity bills. The mobile operator benefits by engaging in the alliance through finding a business use for its technology. This would be against the backdrop of competition and declining revenue from the traditional voice calls. Mobile payments can be seen as enhancing the telecoms operator competitive position and creating an additional revenue stream. The other partner seeking to use mobile payments in its operations is able to cost-effectively take advantage the mobile operator's infrastructure and existing customer base in carrying out its operations.

Mobile money transfer can be largely viewed as a producer-driven chain where the producer leverages on technology in delivery of products to their consumers. In the case of using mobile money transfer in settling of utility bills, the utility company incorporates mobile network operators through the mobile money transfer technology in providing their utility consumers a more efficient method of settling their bills. As such a strategic alliance between the utility company and a mobile network operator serves to complete the value chain in delivering an efficient payment system to the utility consumer and serves to benefit all actors in the value chain.

1.1.2. Mobile Payment of Utility Bills in Kenya

Safaricom, Limited is a leading mobile network operator in Kenya. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and management responsibility for the company. Following an Initial Public offering in 2008, the shareholding structure for Safaricom is; Government of Kenya 35%; Vodafone 40%; Free Float 25%. Safaricom is in the business of Provision of mobile telecommunication services namely voice, messaging, data and fixed broadband.

Declining average revenue per user (ARPU) and increased competition in the telecommunications landscape in Kenya requires innovation to maintain a competitive edge in the market and sustain revenue required to sustain operations. Safaricom has had various

initiatives among which is mobile money transfer known as M-Pesa which can be adapted for various applications. The main mobile payment solutions in Kenya at present are M-Pesa from the dominant telecoms player – Safaricom – and Zap from Zain Kenya. There is also a mobile payments system known as Posta-pay among others. M-Pesa is a mobile money transfer product where the money is in electronic value and is stored and conveyed through mobile phones. It is a product of Safaricom Kenya Limited in a joint venture with Vodafone. The continuing success of M-PESA, in Kenya, has been due to the creation of a highly popular, affordable payment service with only limited involvement of a bank which has been the traditional financial institution. The platform is currently operationally run by Sagentia on behalf of Vodafone with Safaricom providing the network access.

The electronic transactions are conducted over the Safaricom network and individual account transactions and records are managed by Sagentia in Europe on behalf of Vodafone. Within Safaricom M-Pesa is supported by a wide range of staff covering most aspects revolving around it. These include Technical, Sales and Marketing, Legal, Customer Support, Financial Controls, Information Technology among others. The popular form of transactions on M-Pesa are remote payments for goods and services by taking advantage of the convenience of network coverage as an alternative to travelling long distances or achieving faster response from a transaction. M-Pesa is run through a subscriber identity module (sim) toolkit application that is enabled on Safaricom subscribers' sim-cards. The application makes use of the Short Messaging service which is a store and forward technology.

Kenya Power and Lighting Company (KPLC) is a utility power company providing electricity to the Kenyan population which is billed on a monthly basis. The organization manages the transmission and distribution of electric power. The consumer is identified by a registered meter hence the bill is paid against the meter and its readings and this could range from domestic to industrial premises. Traditionally KPLC has mailed bills on hard copy to their customers who have had to present themselves to the various cash offices to make payment in cash or through a cheque. This requires shop floor space and is quite inconvenient to the customers especially towards the end of the month when the queues tend to be long.

Recently the organization has adopted more ways in which to collect revenue on bill payments. These include; payment through Postal Corporation offices, Use of supermarkets like Uchumi, Payment through Automated teller Machines, Bank payments and Cheque drop off payments at various designated places. More recently bill payment through the mobile phone has come on board where this can be done from Zain on their Zap money transfer service or safaricom on M-Pesa. This paper aims focuses on the strategic alliance of Safaricom with KPLC to facilitate mobile payments for electricity bills through M-Pesa.

1.2 Statement of the Research Problem

Strategic alliances have become of key interest in the present day in order for organizations to gain a competitive edge in the market and streamline their operations. This involves bringing together strengths of different organizations to achieve a common goal. There have been previous studies conducted on strategic alliance. Musyoki (2003) studied the creation and implementation of strategic alliances among non-governmental organizations with a case study of Gedo health consortium. Mutinda (2008) investigated factors considered by firms when entering into strategic alliances with a case study of the Kenya Institute of Management. Kavele (2007) surveyed strategic alliances with a case of money transfer services.

This study while based on a similar conceptual argument as noted in above local studies is differentiated in the sense that it fuses strategic alliance with evolving telecommunications technology with a focus on payment of KPLC electricity bills using M-pesa. It is based on the drivers of the alliance similar to the study conducted by Mutinda, (2008). However, this study (Mutinda, 2008) was based on non-governmental organizations. Kavele, (2007) did a study on strategic alliance in Mobile money transfer as relates to the banking industry. This study (Kavele, 2007) focused on the core product of mobile money transfer, while the study was based on an application of mobile money transfer as a value addition. In this case mobile payment is built upon mobile money transfer technology. In addition, while the focus is strategic alliance between the telecoms industry and the banking industry (Kavele, 2007), the study focused on the alliance between telecommunication companies and utility companies. This is as an evolution of the basic money transfer service with a keen look into the payment of electricity utility bills using M-pesa.

Rapid changes are taking place in the telecommunication industry in Kenya which has enviable customer numbers and is still growing providing a platform on which innovative products have been developed among which is mobile money transfer. This has facilitated mobile payments through alliances between the telecom operators and service providers like utility companies. Traditionally banks have been the main channels to facilitate payments however owing to their limited reach; an opportunity to develop a payment system for the mass market existed. Mobile phone companies in Kenya exploited this opportunity by developing mobile payment systems that have greater penetration among the population than earlier payment systems. The study focused on the drivers of strategic alliances in mobile payments by answering the following research question: What are the drivers of strategic alliance in mobile payments between Safaricom and Kenya power & Lighting Company?

1.3 Research Objective

To identify the key drivers of strategic alliance in mobile payments between Safaricom and Kenya Power & Lighting Company.

1.4 Scope of the Study

The study was conducted in Kenya. It involved Safaricom and Kenya Power & Lighting Company and the focus was on key drivers in the strategic alliance formation. The study only focused on the drivers of the particular alliance of payment of electricity utility bills through M-pesa as a solitary unit and did not look at the individual organizations.

1.5 Significance of the Study

The study is useful as it comes at a time when innovations in the telecommunications industry are having a great impact especially in developing countries. It will be of key interest to various stakeholders. For scholars, it provides a base on which to study the current developments in the mobile payments sector. For investors, it provides a platform on which to evaluate future business opportunities within Kenya around mobile payments. For mobile phone operators, this research will act as a feedback mechanism on the alliance and provide a platform on which to improve on the same.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

Alliances or linkages between business organizations today are growing rapidly. Some are successful and others unsuccessful (Parke, 2001; Taylor, 2005). Alliances are faced with ongoing challenges in the coming together of alliance partners. Industry alliance relationships are described as especially prevalent in the telecommunications arena (Housel & Skopec, 2001:41). Firms usually enter into strategic alliances, joint ventures, equity investment, or mergers and acquisitions for the purpose of strengthening their ability to compete. They choose one or more of these alternatives depending on their strategic purposes, market environment, products, and technological capabilities (Doz & Hamel, 1998).

The motivations and structures of alliances are often explained by the resource-based view (Das & Teng, 2000; Harrison, Hitt, Hoskisson & Ireland, 2001). This explains an alliance as a means of obtaining additional resources that extends the capability of an organization. Previous studies on strategic alliances point out that turbulent external environments (Emery & Trist, 1965) have heightened the need for strategic alliances. Grant and Baden-Fuller, (1995) argue that firms form alliances mainly to use external resources so that they can concentrate on developing their existing capabilities. The demand put on organizations by actors in the value chain system i.e. customers, suppliers and changes in the organizations environment leads to strategic alliances (Gebrekidan and Awuah, 2002).

2.2. Strategic Alliances

Strategic alliances are not a recent concept because they have existed in a military sense (Snyder, 1997). However, strategic alliance popularity is quite recent, taking hold in the 1980s and now capturing centre stage in the business world (Taylor, 2005). The origin of alliances involved formal agreement (Small & Singer, 1969:257). Informal agreements can take place as well where the alliance remains tacit and implied, instead of formal and written (Crosbie, 1974:234). Non-equity based alliances can become non-formal when some form of working arrangement relationship takes place between or among firms through social relationship means (Caniglia, 1999).

A strategic alliance must be based on mutual cooperation among the parties involved as noted by Lorange & Roos (1993:19). Pyka & Windrum (2003:245) posit that a strategic alliance is a cooperative agreement between two or more autonomous firms pursuing common objectives or working towards solving common problems through a period of sustained interaction. Organisations usually become involved in strategic alliances because of some mutual advantage for the organizations involved that would be difficult if each acted alone' (Hanson et al. 2005:343).

'Strategic alliances are also referred to often as long-term cooperative relationships' (Hill & Jones, 1998:291) and 'cooperative linkages between companies to pursue common goals' (Beamish & Killing, 1997:95). Joshi, Kaslak and Sherman (1998:542) also view these cooperative linkages pursuing a common goal as a revolutionary business vision of the 21st Century. Deering & Murphy (2003:11) state that strategic alliance is the dominant strategy for growth and market development in e-business. Carlson (1996) observed that alliances are more operational and commonly understood as strategic and also the alliance can be a 'long-term relationship where participants cooperate and willingly modify their business practices to improve joint performance according to Frankel & Whipple (1999:55). The hottest sectors for alliances are 'airlines, telecommunications, computer hardware and software, biotechnology, and medical services' (Harbison & Jr Pekar 1998:25).

Hergert and Morris (1988) defined alliance formation as a cooperative agreement/linkage between companies to pursue common goals.

The purpose of many alliances is to: fuse their combined resources; complement each company's expertise; market seeking; acquiring means of distribution; gaining access to new technology; converging technology; learning and internalization of tacit, collective and embedded skills; obtaining economies of scale; developing products, technologies and resources; achieving competitive advantages, cooperation of potential rivals, or preempting competitors; overcoming legal/regulatory barriers, legitimization, and bandwagon effect following industry trends (Todeva & Knoke, 2005).

Today, organizations at all levels of the supply chain (vertical and horizontal) are embarking on partnership alliances and forming a vital part of today's business environment (Pyka & Windrum, 2003). Lendrum (1995) tends to differentiate strategic partnering from strategic

alliances. Strategic partnering is about fundamentally altering the way we manage our relationships with customers and suppliers (Lendrum, 1995:23) and partnership alliances is about picking long-term winners (Lendrum, 1995:75) whereas strategic alliances are relationships between two or more suppliers servicing the same customer/customer base or different customer (Lendrum, 1995:22). Strategic alliances essentially involve coordinating two or more partners to pursue shared objectives and satisfactory cooperation is vital to their success (Kanter 1994; Thompson & Strickland III, 1998).

2.3. Drivers of Strategic Alliances

Various reasons lead to development of strategic alliances. These are both from the internal and external environment as noted by Howarth, Gillin and Bailey (1995). They further advance that the internal driver view is built on the perception that the organization cannot achieve its objectives alone due to a scarcity or lack of access to resources. This largely coincides with the resource based view of the firm which sees organizations as collections of heterogeneous resources. The external environment factors are forces outside the control of an organization but which have an impact on the organization and especially in relation to the strategy pursued.

Organizations may undertake strategic alliances for many reasons as Webster (1999) posits. These include enhancing their productive capacities, to reduce uncertainties in their internal structures and external environments, to acquire a competitive advantage that enables them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their outputs. In addition to achieving greater control, organizations enter into an alliance for more operational flexibility and realization of market potential. Their expectation is that flexibility will result from reaching out for new skills, knowledge, and markets through shared investment risks.

The strategic motives for organizations to engage in alliance formation vary according to firm-specific characteristics and the multiple environmental factors. Doz and Hamel (1998) advanced that cooperation between potential rivals and firms with complementary goods and services is among the most important factors in selecting partners for strategic alliances.

Zajac (1990) observed that motivations for engaging in domestic joint ventures also apply to international strategic alliances. These include: acquiring means of distribution, pre-empting competitors, gaining access to new technologies, diversifying into new businesses, obtaining economies of scale, achieving vertical integration, and overcoming legal or regulatory barriers. Generic needs of firms seeking alliance include cash, scale, skills, access, or their combinations as highlighted by Bleeke and Ernst (1993). Forming business networks and contractual or relational alliances is driven less by firms' retrospective economic rationalities than by their strategic intentions. Two or more autonomous organizations may decide to form an alliance for an emerging joint purpose. A decision to cooperate is not necessarily a responsive action, but rather is fundamentally a strategic intent, which aims at improving the future circumstances for each individual firm and their partnership as a whole.

A fundamental contrast between strategic and operational decisions is that the latter are based on transaction cost calculations, while strategic choices are determined by the perceived benefits from future activities. A firm's strategic decisions are driven not only by evaluations of its present circumstances, but also by expectations about its future outcomes. Strategic decisions involve both company policies and the resource investments necessary for their implementation, treating the perceived future benefits as expected returns on those investments. Strategic alliances are driven not by expected direct impact on costs, profits, and other tangible benefits, but by indirect positive outcomes from their accumulated intangible assets and corporate social capital.

Alliance formation is broadly shaped by general economic conditions and the institutional frameworks in countries of operation, including legal requirements, macro-economic policies, price controls, financial capital markets, distribution channels, and methods of contract enforcement. The industrial context of alliances exerts stronger direct impacts on interfirm relationships. The intensity of industry competition and the social organization of specific product markets powerfully influences whether firm decide to internalize certain activities, to compete for greater market share, to cooperate with other firms for particular strategic advantages, or to internationalize by entering foreign markets.

2.4. Types of Strategic Alliances

The major types of strategic alliances are: Joint ventures, Equity and Non-equity strategic alliance. Joint ventures are strategic alliances in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage. Equity strategic alliance is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage. Non-equity strategic alliance is an alliance in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage. In the recent past we have Global Strategic Alliance which are working partnerships between companies across national boundaries and increasingly across industries.

Firms can also form alliances at different levels in the organization to achieve various goals. In formation of these alliances it is of importance to identify the level of strategy being applied which is different at different levels in any organization. Johnson and Scholes (1993) identified three levels of strategy as noted below. Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations and add value to the different parts of the enterprise. This is where the type of business to go into is decided and business units are established to pursue this.

Business Unit Strategy is concerned with how a business competes successfully in a particular market. It mainly involves strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities etc. Operational Strategy is concerned with how each part of the business is organized to deliver the corporate and business-unit level strategic direction focusing on issues of resources, processes, people etc. Hofer and Schendel (1978) noted that the distinction between corporate and business strategy has always existed alongside the concept of strategy. Informed by the above background, business level and corporate level strategic alliances can be envisaged.

2.4.1. Business Unit Alliances

A firm would use business level strategic alliances as relevant to a specific product market. Business unit strategy as noted above is concerned with how a business competes successfully in a particular market. Thus if an organization, having conducted strategic analysis determines that combining its resources and capability with another partner will create a competitive advantage which the firm would not create by itself, then it will engage into an alliance.

Business unit alliances can be further categorized into four categories as follows. Complementary Strategic alliances in which organizations share some of their resources in a complimentary way to develop competitive advantage. Under complementary Strategic alliances there is vertical and horizontal complementary strategic alliances. In vertical strategic alliance, the organizations share their resources and capabilities at different stages of the value chain to create competitive advantage. In horizontal complementary strategic alliances, organizations share some of their resources and capabilities at the same stage in the value chain to create competitive advantage.

Competition response strategy is an alliance at the business level formed in order to respond to competitors' action or to attack the competitor. These are more strategic than tactical and are often difficult to reverse. Uncertainty reducing strategy is also a form of business level strategic alliance mainly to hedge against risk and uncertainty. These are mainly employed in development of new products. Competition reducing strategy is also used at the business level to reduce competitor action. This usually occurs when the effect of reducing competition at the business level is beneficial to competing interests more than high levels of competition.

2.4.2. Corporate Level Alliances

Organizations use corporate alliance to be able to diversify in either product offerings or markets served or to achieve both. The most common forms of corporate alliances are diversifying, synergistic and franchising. Corporate level alliances usually do not involve commitment but are mainly pooling together of resources and capabilities and may be used to test the suitability of potential partners.

A diversifying strategic alliance is a corporate level alliance where firms share some of their resources and capabilities to diversify into new product or market areas. However, high diversification can lead to poor performance by the partnering firms. Synergistic strategic alliance is a corporate level alliance where firms pool together their resources and capabilities to create economies of scope. This is quite similar to the Horizontal complimentary strategy at the business unit level the difference being that the level of application and possibility of new businesses arising from synergistic alliances. Franchising is a corporate level alliance where an organization (franchisor) grants the rights to a franchisee to sell their products or do business under their trademark for a limited period of time.

2.4.3. Summary

Having gone through the various types of strategic alliances, it is worth noting that it may be difficult to uniquely identify a particular perceived alliance as belonging to one group or another. This is because an alliance can take various forms within its course. Nonetheless the review on types of strategic alliances helps in giving the study a basis on which to evaluate and categorize a relationship.

2.5. Mobile Payments

Electronic payment channels in general offer relative advantages in terms of accessibility, convenience, speed, privacy and control for conducting financial transactions (Birch & Young, 1997; Daniel, 1999; Ramsay & Smith, 1999). Mobile payments are a form of electronic payments. Mobile payments are payments for goods, services, and bills/invoices with a mobile device using wireless communication technologies. Mobile devices can be used in a variety of payment scenarios which includes services bill and invoice payments. Payments for physical goods are also possible, both at vending and ticketing machines, and at manned Point-of-Sale terminals. Typical usage entails the user electing to make a mobile payment, being connected to a server via the mobile device to perform authentication and authorization, and subsequently being presented with confirmation of the completed transaction (Antovski & Gusev, 2003; Ding & Hampe, 2003).

2.5.1. Types of Mobile Payment

According to Portio Research (2008), Mobile payment can be categorized in various ways as discussed. It could be based on payment mode from which it can be Short Message Service (SMS) based, Near Field Communication (NFC) based or through mobile web. The SMS based makes use of the SMS service in carrying out transactions. The NFC mode uses an embedded chip in the mobile handset that acts as the mode of payment. It enables for contactless communication between devices within a specified limited range of distance. The chip is read by an NFC device to complete the transaction. Also mobile web pages can be used for making payments in the mobile web mode.

Mobile payment can also be categorized according to the transacted value under which we have micro and macro payments. Micro payments are considered to be those below One United States Dollar (USD) and usually involve payment for items such as ringtones, wallpapers etc. Macro payments are those whose value is over 10 USD and usually involves payment for bills, fund transfer etc. Mobile payments could also be viewed in terms of location where the payment can be remote or local. Also they could be viewed in terms of the charging method where post-paid, pre-paid and real time charging are possible methods.

Further, mobile payments can also be based on relationship models. Business to Consumer (B2C) is one of these models that mainly provides an alternative to cash transactions and is highly popular. The consumer pays for goods and services in this model. Consumer to consumer (C2C) is another model where end to end transactions between consumers are conducted through a third party business platform. Person to Person (P2P) mobile payments involve private mobile transactions between two parties either directly or through a third party. Remittance Mobile Payments is similar to P2P only that in remittance the transaction is carried out in a single direction.

2.5.2. Drivers of Strategic Alliances in Mobile Payments

Jayawardhena and Foley (2000) proposed that changes in technological, cultural, commercial and legal factors together with the competitive forces of financial services market drive financial services development. It has been predicted that m-Payment will become a successful mobile service for the reason that in addition to the necessity support services, the growth of mobile commerce relies vitally on effective payment solutions provided by m-Payment services and vice versa (Constance, 2001; Lee and Benbasat, 2004).

The first mobile payment efforts originated from the fact that the mobile phone is especially well suited for payment activities due to its specific properties, its wide distribution in the population, and its consumers' behavior (Herzberg, 2003). The need and opportunity for mobile money are shared by businesses and their customers. For businesses across industries, the mobile channel offers the opportunity to reach new customers as well as to provide better service to existing customers. In particular industries, such as telecommunications, software, and even retail, it offers the chance to develop whole new business lines. For customers, the advantages of mobile money include affordability, security, and convenience. The mobile channel may open access to financial services and other markets to many, mostly low-income, customers who are currently excluded altogether (Jenkins, 2008).

2.5.3. Key Determinants of Mobile payment Systems

What gives mobile network operators the impetus and ability for leadership in developing mobile money ecosystems is their reach across customers in all income segments (Jenkins, 2008). As a result, mobile network operators are able to provide not only the infrastructure and a large pool of potential users for mobile money, but also advisory services to other companies – banks, insurers, utilities, and so on – seeking to develop their own mobile money models. Jenkins (2008) further moves that the advice is especially critical for companies seeking to use the mobile channel to reach out to new customers beyond their traditional markets. Jenkins (2008) posits that the role of government in developing mobile money ecosystems cannot be overstated. Government regulators are responsible for providing environments that enable ecosystem development to happen.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

The business arrangement around mobile payments in Kenya is gaining momentum among which is this study. This particular study identified the key drivers into mobile payment arrangements involving utility bills. It was conducted in Kenya within Safaricom and Kenya Power & Lighting organizations. It was a survey type of research where data was collected through questionnaires with likert type of questions. Mode was used to uncover the key drivers from analysis of the questionnaires administered. The main respondents were the managers involved in setting up of the alliance in the respective business units of the two organizations. For Safaricom this was the M-Pesa department and at KPLC this was the Finance Department.

3.2. Research Design

The study was a survey of the strategic alliance in mobile payments between Safaricom and Kenya Power and Lighting Company. This was with reference to payment of electricity utility bills. This study is intended to be a foundation of further studies in future centered on mobile payments.

3.3. Data Collection Method

Primary data was collected through questionnaires administered to the management at Kenya Power & Lighting Company and Safaricom involved in setting up of the alliance. The questionnaires included self administered questionnaires that contain open-ended, closed – ended and likert type of questions. The closed – ended questions were used to gather factual information regarding the two organizations in the alliance. The set of questions in likert format was used to determine the factors leading to the alliance and their importance. In addition an open ended section was included to capture other factors not considered in design of the study or to discredit some of the above identified factors in terms of their relevant significance. The open ended questions were also meant to collect additional information like the involvement of third parties in the alliance.

3.4. Data Analysis

Data collected was verified to ensure that it has been accurately captured and correctly entered. The general information questions identified the respondents. Organizational information in Part A of the questionnaire, (Appendix One) was used to fit the organizations in focus into their respective industries and determine their scale of operations. The questions in Part B, Question 1 of the questionnaire, (Appendix One) were used to gauge the relevance of the identified drivers to the formation of the alliance. Question 2 in the same part was meant to capture additional variables not considered in the design of the study in form of a likert scale as in question 1.

Data obtained from the likert scale was analyzed as per the identified factor using descriptive statistics where mode was chosen to identify the significance of the identified factors. The results which were considered key in formation of the alliance were to be further analyzed using inferential statistics. Pearson's Chi Square was to be used to gauge their importance in formation of the alliance. However, noting that the respondents were the parties involved in forming the alliance, Mode was adequate enough to determine the importance of the drivers. Part C of the questionnaire, (Appendix One) was used to gather additional information concerning the alliance under study. It served to capture the general information regarding the alliance and also to reinforce some of the findings from the analysis of the likert type questions.

CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS

4.1. Introduction

The objective of this study was to identify and examine the key drivers of strategic alliance in mobile telephony payments between Safaricom and Kenya Power & Lighting Company. The study being a survey was conducted among the senior managers both at Safaricom and Kenya Power & Lighting Company that were involved in the arrangement for the payment of electricity utility bills through M-Pesa.

4.1.1. Demographic Information on the Respondents

Table 1: Job Responsibility of the Respondents

Title	Frequency	Valid Responses
Head Of Department	2	0
Senior Manager	2	2

Table 1 above displays the job titles of the respondents in both organizations, Safaricom and Kenya Power & Lighting Company. The survey focused on the specific business units that were involved in formation of the alliance and the key business drivers in the formation process. As such the respondents were the respective heads of departments and the relevant managers in the process. It is the senior managers who filled in the questionnaires. At Safaricom the study was done within the M-Pesa Department and at Kenya Power & Lighting Company the study was carried out in the finance department.

4.1.2. Organization Classification

Table 2: Organization Classification

Organization	Classification Parameter	Value
Safaricom	Period Of Operation	5 – 15 years
	Ownership Structure	Public
	Number of Employees	500 – 5000
	Number of Subscribers	Over 5,000,000
	Type of Organization	Mobile Network operator
Kenya Power & Lighting Company	Period Of Operation	Over 50 years
	Ownership Structure	Public
	Number of Employees	500 – 5000
	Number of Customers	500,000 – 5,000,000
	Type of Organization	Utility Company

Table 2 above profiles the type of organizations involved in the alliance. Safaricom is a Public company that has been in operation for over 5 years in Kenya. It currently employs over 2,000 people and has a subscriber base of over 5 Million and is classified as a Mobile Network Operator within the Telecommunications industry. Kenya Power & Lighting Company is a Public company that has been in operation for over 50 years in Kenya. It currently employs around 5,000 people and has a customer base of about 1 Million and is classified as a utility company within the energy industry.

4.2. Drivers of the Alliance

Table 3: Key Drivers in Formation of the Alliance – General Responses

Identified Driver	Frequency Of The Score					Mode
	1	2	3	4	5	
Advancement in technology	0	0	0	2	0	4
Gain Market Advantage	0	1	0	0	1	2,5
Offer Greater Customer Value	0	0	0	0	2	5
To Reduce Operational Costs	0	2	0	0	0	2
To Increase Revenue	0	1	0	0	1	1,5
To reach out to a new market segment	0	1	0	0	1	2,5
To Counter Competition	1	0	0	0	1	1,5
Alignment With The Organizations Strategy	0	0	2	0	0	3
Customer Feedback	0	0	1	0	1	3,5
Alignment of needs in the two organizations	0	0	2	0	0	3

In general, the key factors driving the alliance of mobile telephony payments for electricity utility bills were as shown in the table 3. Mode was chosen as an identifier of the key factor with factors whose mode was greater than or equal to 4 being considered as key factors. The results representing importance of the identified factors in setting up the alliance generally were; Advancement in technology was a key factor, gaining market advantage was not a key factor, offering greater customer value was a key factor, reducing operational costs was not a key factor, increase in revenue was not a key factor, reaching out to new customer segments was a not key factor, countering competition was not a key factor, alignment with the organizations strategy was not a key factor, customer feedback was not a key factor, alignment of needs in the two organizations was not a key factor.

Table 4: Key Drivers in Formation of the Alliance – Safaricom Responses

Identified Driver	Frequency Of The Score					Mode
	1	2	3	4	5	
Advancement in technology	0	0	0	1	0	4
Gain Market Advantage	0	0	0	0	1	5
Offer Greater Customer Value	0	0	0	0	1	5
To Reduce Operational Costs	0	1	0	0	0	2
To Increase Revenue	0	0	0	0	1	5
To reach out to a new market segment	0	0	0	0	1	5
To Counter Competition	0	0	0	0	1	5
Alignment With The Organizations Strategy	0	0	1	0	0	3
Customer Feedback	0	0	0	0	1	5
Alignment of needs in the two organizations	0	0	1	0	0	3

At Safaricom, the key factors driving the alliance of mobile telephony payments for electricity utility bills were as shown in the table 4. Mode was chosen as an identifier of the key factor with factors whose mode was greater than or equal to 4 being considered as key factors. The results representing importance of the identified factors in setting up the alliance generally were; Advancement in technology was a key factor, gaining market advantage was a key factor, offering greater customer value was a key factor, reducing operational costs was not a key factor, increase in revenue was a key factor, reaching out to new customer segments was a key factor, countering competition was a key factor, alignment with the organizations strategy was not a key factor, customer feedback was a key factor, alignment of needs in the two organizations was not a key factor.

Table 5: Key Drivers in Formation of The Alliance – KPLC Responses

Identified Driver	Frequency Of The Score					Mode
	1	2	3	4	5	
Advancement in technology	0	0	0	1	0	4
Gain Market Advantage	0	1	0	0	0	2
Offer Greater Customer Value	0	0	0	0	1	5
To Reduce Operational Costs	0	1	0	0	0	2
To Increase Revenue	0	1	0	0	0	2
To reach out to a new market segment	0	1	0	0	0	2
To Counter Competition	1	0	0	0	0	1
Alignment With The Organizations Strategy	0	0	1	0	0	3
Customer Feedback	0	0	1	0	0	3
Alignment of needs in the two organizations	0	0	1	0	0	3

At Kenya Power & Lighting Company, the key factors driving the alliance of mobile telephony payments for electricity utility bills were as shown in the table 5. Mode was chosen as an identifier of the key factor with factors whose mode was greater than or equal to 4 being considered as key factors. The results representing importance of the identified factors in setting up the alliance generally were; Advancement in technology was a key factor, gaining market advantage was not a key factor, offering greater customer value was a key factor, reducing operational costs was not a key factor, increase in revenue was not a key factor, reaching out to new customer segments was not a key factor, countering competition was a not key factor, alignment with the organizations strategy was not a key factor, customer feedback was not a key factor, alignment of needs in the two organizations was not a key factor.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The objective of this study was to identify and examine the key drivers of strategic alliance in mobile telephony payments between Safaricom and Kenya Power & Lighting Company. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data. Focus will be on the key drivers as identified in chapter four whose score on the likert scale is 4 or above.

5.2. Discussion

From the findings of the study it can be observed that both organizations had their own key drivers in engaging in the alliance however they shared a number of key drivers. With reference to Table 3, it can be noted that advancement in technology served as a key driver to both firms in engaging in the alliance. This can be attributed to an informed population and also efficiencies associated with advanced technology. Safaricom can be considered a technology leader in the Kenyan Telecommunications landscape and as such the alliance would serve to affirm this. Another shared driver was customer value referring to the different customers both organizations serve. For the M-Pesa subscriber this would represent added value in addition to the M-Pesa capability. Likewise for the power utility customer, the value would be a more convenient way of settling their bills.

Safaricom had its key drivers from the study as displayed on Table 4. Apart from advancement in technology and greater customer value as noted above, it was highly driven by other factors in engaging into the alliance. Gaining market advantage was identified as a key driver into the alliance. The arrangement enables Safaricom to gain market advantage by offering a service that is both timely and innovative. This ensures that it has greater retention power of its subscriber base as per the figure in Table 2. Another driver was to increase revenue collection. It can be noted that average revenue per user is declining owing to increased competition in the traditional voice market hence innovative solutions like mobile telephony payments help to maintain the organization's bottom line.

This also provides an opportunity for Safaricom to reach out to a new market segment which could mean various things. This could be mobile payment users who are already Safaricom subscribers thus this enables Safaricom to grow its existing market. Subscribers on other networks which do not run mobile payment solutions can be churned into Safaricom subscribers owing to the convenient solution of mobile payments. Competition as well was a key driver into setting up the arrangement under study. M-Pesa payment of electricity utility bills can be viewed as a counter measure to what the competition had launched earlier on the Zap money transfer service operated by Zain. Another key driver was customer feedback. It is the customer that defines many businesses and success or failure is in part determined by responses to customer wishes. In tandem with the wants of its subscribers, Safaricom was driven to engage in the alliance.

On the other hand, Kenya Power & Lighting Company can be considered a monopoly and from the results as expected it is mainly internal environment related drivers that led it to this alliance. The study only identified the general drivers noted above as key in influencing Kenya Power & Lighting Company to engage in the alliance. With advancement in technology, the organization adapted to fit in with the changes as driven by technology. In addition, this offers utility customers greater value in that they can settle their bills more conveniently which could imply improved revenue collection not necessarily increased revenue collection as noted by the study. Improvement in revenue collection is vital especially in management of operations and cash flow in the organization.

The study was inspired by the unconventional nature of the alliance bringing together partners from different industries. Safaricom is in the telecommunications industry and Kenya Power & Lighting Company is in the energy industry. What comes out from the study is that Technology drivers are shaping up the business environment paving the way for creation of new models as noted in this study. Another emergent factor is that there were people who were both Safaricom subscribers and power utility customers that created a symbiotic fit enabling establishment of the arrangement under study.

5.3. Conclusion

As per the findings, both organizations had different drivers for engaging in the alliance though a few were shared. From the study it can be noted that developments in the telecommunications industry are lining up new business models. This provides a platform over which different organizations can work together in achieving their various interests. It is likely that future alliances involving telecommunication companies at least in part will be driven by technology. Enhancing customer value as well creates a need for various partners to come together. In this case it has brought together a telecommunications company and a utility company. The symbiotic fit in setting up the alliance studied is enhanced by the fact that both organizations are likely to offer different services to the same set of customers. Future alliances as well are likely to be informed by the scenario as observed here.

5.4. Recommendations

The main reason for Kenya Power & Lighting Company for engaging in the alliance was to offer greater customer value and to keep pace with technology changes. I would recommend that customer feedback as well be a key driver in sustaining the alliance as this provides reinforcement to the need to offer greater value to the customer that was a key driver in setting up the alliance. In addition the revenue collection for Kenya Power & Lighting Company from its periodic utility bills can be enhanced owing to the efficiencies in payments through technology. As such the organization could explore this alliance as a means of improving on its collection of revenue. In addition the arrangement only involves settling of bills which is quite similar to what the competitor, Zain is doing. Safaricom could enhance this product by incorporating other transactions e.g. connection fee payment that would make it an all inclusive solution to the utility customer.

5.5. Limitation of the Study

The study was specifically targeted to parties involved in setting up the alliance. Responses from senior managers in their departments were used in the study. The advantage is that the senior managers were specifically involved on the project. However the limitation is that there is no data available for comparison from a variety of respondents as the response set was specific and limited.

5.6. Suggestions for Further Research

The study was only conducted in payment of electricity utility bills using M-Pesa. The research could be extended to include mobile telephony payments integration with other industries as well. In addition competitive strategies employed in mobile payments can be explored as well as a look into the mobile payments ecosystem in Kenya.

5.7. Implications to Policy and Practice

For regulatory Authorities, the study serves as a wholesome view of the strategic alliance arrangements centered on mobile telephony payment technology thus assisting in drafting appropriate legislation for the same. It helps to express the interest of various stakeholders in the whole arrangement and as such the study will inform policy formulation and practice in the same wavelength.

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4. How many subscribers (Safaricom)/customers (KPLC) does your organization serve?

- Less than 50,000 ()
- 50,000 – 500,000 ()
- 500,000 – 5,000,000 ()
- Over 5,000,000 ()

State the approximate number of subscribers/ customers.....

5. How is your Organization Classified?

- Mobile Network operator ()
- Utility Company ()
- Other ()

If other please specify.....

6. How Many Customers are register to pay Electricity Utility Bills through M-Pesa?

- Less than 50,000 employees ()
- 50,000 – 500,000 employees ()
- 500,000 – 5,000,000 employees ()
- Over 5,000,000 employees ()

State the approximate number of customers.....

PART B: ALLIANCE DRIVERS

For each of the questions below, kindly indicate the relevance of the identified factors in the alliance.

1. In formation of the alliance to enable mobile payments for electricity bills, indicate the importance of the identified factors?

5; - to a very large extent

4; - to a large extent

3; - to some extent

2; - to a small extent

1; - to no extent at all

	Least extent			large extent	
	1	2	3	4	5
Advancement in technology	()	()	()	()	()
Gain Market Advantage	()	()	()	()	()
Offer Greater Customer Value	()	()	()	()	()
To Reduce Operational Costs	()	()	()	()	()
To Increase Revenue	()	()	()	()	()
To reach out to a new market segment	()	()	()	()	()
To Counter Competition	()	()	()	()	()
Alignment With The Organizations Strategy	()	()	()	()	()
Customer Feedback	()	()	()	()	()
Alignment of needs in the two organizations	()	()	()	()	()

2. In addition to the stated factors kindly stated any other and their relative significance in the alliance.

5; - to a very large extent

4; - to a large extent

3; - to some extent

2; - to a small extent

1; - to no extent at all

	Least extent			large extent	
	1	2	3	4	5
.....	()	()	()	()	()
.....	()	()	()	()	()
.....	()	()	()	()	()
.....	()	()	()	()	()
.....	()	()	()	()	()

PART C: FEEDBACK AND ADDITIONAL INFORMATION

1. What is the future of the alliance?

2. What feedback have you received from the roll-out of the service?

Appendix Two: Letter of Introduction To The Respondents



UNIVERSITY OF NAIROBI.

Date:.....

School of Business,

P. O. Box 30197,

Nairobi – Kenya.

Tel: +254 (020) 732160.

To Whom It May Concern:

The bearer of this letter:

Registration number.....Telephone.....is a master of Business administration (MBA) student at the University of Nairobi.

The student referred to above is required to undertake research on an identified problem on the key drivers of strategic alliances in mobile payments to focus on payment of electricity utility bills using M-Pesa.

We would therefore appreciate your assistance in enabling the student to collect data. The results of the report will be used solely for purpose of academic research and in no way will your organization be implicated in the research findings.

A copy of the report would be availed to the interviewed organization(s) on request.

Thank you,

The coordinator, MBA program.

Appendix Three: Approval From Safaricom to Collect Data

Appendix Three: Letter of Introduction To The Respondents



UNIVERSITY OF NAIROBI

School of Business

P. O. Box 30197

Nairobi - Kenya

TEL: +254 (0)20 7721515

To Whom It May Concern

Dear Sir/Madam,

[Signature]

Reference is made to your letter of the 11th/10/2011 regarding the request for a letter of introduction to the respondents of the University of Nairobi.

The respondents listed in the attached list are the respondents for the study of the impact of mobile banking on business performance of small and medium enterprises in Nairobi.

I would appreciate your assistance in enabling the students to collect data. The collection of the data will be used solely for the purpose of academic research and no commercial or promotional purposes will be involved in the research findings.

Your kind attention is kindly requested to the supervision of respondents as required.

Yours faithfully,

The Head of the MBA program

SAFARICOM LIMITED
IN FULL COMPLIANCE WITH
APPROVED
11/10/2011
P. O. Box 1111-10101
Nairobi, Kenya

Appendix Four: Approval From KPLC to Collect Data



The Kenya Power & Lighting
Co. Ltd.

Kenya Power & Lighting Co. Ltd.
P.O. Box 420, Nairobi, Kenya
Tel: 254 20 2200000
Fax: 254 20 2200000

Dir/HR KPLC/MSA/42D/KK/90

13th October 2009

TO WHOM IT MAY CONCERN

RESEARCH APPROVAL - ANDREW NGULI MABILA

Reference is made to the subject matter mentioned above

Faculty of Law Andrew Nguli Mabila who is doing his MBA from University of Nairobi to carry out a research project in the Company on *"mobile payment of electricity utility bills"*

This authority not withstanding discretion must be exercised in the use of company information including business analysis and policy documents.

The Research Project should also not disrupt normal working hours and Company's flow of work.

Yours faithfully,

KENYA POWER & LIGHTING CO. LTD.

Merey Muchira (Mrs)

For HUMAN RESOURCE DEVELOPMENT MANAGER