

Assessment of Effects of Strategic Partnership on Performance of Mobile Industry in Kenya

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Abstract: *The ease of communication provided by mobile phones has led to the growth of mobile services in Kenya. However, with the overall growth of mobile services, performance in the mobile industry varies from one operator to the other. The study sought to understand the effects of strategic partnership on performance of mobile industry. It sought to determine the effect of risks associated with strategic partnership on performance of mobile industry. The target population for this study was thirty Essar Telecom Kenya Limited senior and mid-level managers. Descriptive research design was used and Essar Telecom Kenya Limited taken as the case. Data collection was done by use of well-structured questionnaires. After that, data was analyzed using SPSS and inferential statistics undertaken for purposes of finding out correlation and associations between variables. Findings from the analysis indicate that, risks associated with strategic partnership mainly result from poor implementation. It also indicates that performance of the mobile industry was largely influenced by the risk tolerance of the industry players when considering forming strategic partnerships. The study therefore recommends that, risks should be managed well so as to seamlessly transfer services to the advantage of the subscribers.*

Keywords: Mobile industry, performance, risks, strategic partnership, Essar Telecom

1. Introduction

History has it that people spend their entire lives within a 15 mile radius of where they were born. As such they did not speak to people who were beyond the range of mouth and ear. With time advancement in transport and communication changed all this. Telecommunication began with the invention of a telephone back in 1877 by Alexander Graham Bell. It later grew and continued to transform especially with the invention of a mobile phone back in 1975 by Martin Cooper. The telecommunication industry is believed to be one of the hottest sectors in the market place. The industry is experiencing a wave of new technology and competition as a result of regulations set in place. It is now moving from being a safe and conservative industry to one that is risky and dynamic [23]. The world has experienced changes in the way it communicates and operates especially due to technologization of communication. Mobile phones are being used for electronic funds transfer in the banking and financial markets. They are also being increasingly used in the retail and business to business platforms [8]. It is further added [17] that, mobile telephony has enabled man to live his dream of wanting to be everywhere at the same time. He notes that this fulfillment is achieved through the artificial extension of hearing and speech. He also notes that the mobile phone is a tool that enables people to reorganize their time so as to make it more profitable.

In Kenya, the telecommunication industry has been undergoing dynamic changes over time. It has not only brought economic benefits but social benefits as well. Gone are the days when mobile phones were seen as luxury. They have now become a necessity of day to day lives. People need phones to communicate not only with family and friends but business associates as well. It has become a tool of trade for many. They have helped save time and money. Distance is no longer a barrier as people are just a phone call away and as such one keeps in touch with their loved ones and business associates. This is the social benefit of the telecommunication industry. The economic benefits of this

industry can be looked at in terms of the employment opportunities to many Kenyans, market efficiency as well as the tax paid by the various players in the industry [11].

Telecommunication services in Kenya dates back to 1888. Connections to outside world were the submarine cables linking Zanzibar, Mombasa and Dar es Salaam. The telecommunication services were managed as part of the East Africa Community (EAC) regional network with Tanzania and Uganda up to 1977. In 1977, the Kenya Government established the Kenya Posts and Telecommunications Corporation (KPTC) to run telecommunications services after the collapse of EAC. KPTC undertook this mandate for twenty two years until 1999 when the government launched telecommunications sector reform, introducing competition in certain market segments and disbanding KPTC. Reforms in the sector came about due to global trends in the telecommunication industry, inability of monopoly to satisfy demand and demand for advanced services [13].

Mobile services were commercially launched in Kenya in the late 1990s. During this time growth was slow because of the high price of handsets and high tariff structure of mobile telephones because the market was monopolized. Back in 2004 the industry had 2.2 million subscribers [14]. The sector has had a good time in terms of subscriber additions and revenue growth and this has helped to improve the Country's economy. As at December 2013, the total number of mobile subscribers had risen to 31 million (CCK, 2014). This translates to a big impact on the Kenyan economy.

Currently there are four mobile service providers in Kenya i.e Safaricom, Airtel, Yu Mobile and Orange. Safaricom started as a department of the former Kenya Post and Telecommunication back in 1993. It was later incorporated as a private limited liability on 3rd April 1997. It was later converted to a public company on 16th May 2002 with the government owning 60% of the shares. 25% of the shares were later sold off on the Nairobi Stock Exchange in 2008.

Airtel started as Kencell back in 2000 and was owned by local entrepreneur Naushad Merali and his French partner Vivendi. Merali sold it to Celtel which later sold it to Zain and finally Airtel. Telkom Kenya was established as a telecommunications operator under the Companies Act in April 1999. They partnered with Orange in 2008. Yu Mobile was launched in November 2008.

Essar Telecom Kenya is Kenya's fourth mobile cellular network under the brand "yuMobile", launched in December, 2008. Its roots are in India and it is owned by three siblings; Shashi Ruia – Chairman, Ravi Ruia – Vice Chairman and Prashant Ruia- Group CEO of Essar Group. Yu-Mobile achieved the fastest network rollout speed in the region, by achieving countrywide coverage in approximately 10 months from launch and currently, the network has a base of 2.6 million subscribers and offers best in class rates. It was initially owned by Econet Wireless but was sold to Essar Group in mid2003. It originally started with the brand name Yu in 2008 but later changed its name to Yu- Mobile in 2012.

The services that Yu-Mobile offers include; prepaid plans, postpaid plans, international roaming, internet access, Yu Cash and mobile portability. It is noted [22] that, Yu-Mobile target markets are low and middle income people, thus the employment of low cost strategy that is meant to increase their subscriber base, in turn increasing its market share and profits. It is further asserted that, industry dynamics, especially competition and regulations are Yu Mobile's biggest nightmares. Yu Mobile's plan was to use a low cost model based on several pillars. They planned to outsource as well as share infrastructure which would in turn lower their operational costs. It is pointed out that this was not the case as even outsourcing was expensive such that they had to let go of Aegis a subsidiary of Essar Group that was contracted to handle call center services and hire Horizon, a local business process outsourcing firm to offer call center services. He also notes that they found out that sharing of infrastructure was not going to be as easy as they had thought.

As at June 2013 Yu Mobile had 3,052,220 subscribers [6]. Between October and December 2012 the company had registered a 7.5% growth in its subscriber base. This was higher than the average industry growth of 1% in the same time period and thus placing Yu-Mobile as a number 3 operator in the market with a market share of 10.5% (CCK, 2014). The company then registered a 0.4% decline from the previous quarter (July-September 2013) thus getting a market share of 8.5% .As at September 2013, Safaricom had a market share of 67.9%, Airtel 16.5% and Orange 7.2%. Safaricom and Orange experienced growth from the previous quarter (July-September 2013) while Yu Mobile and Airtel experienced a decline. Yu Mobile's subscriber base as at March, 2014 was 2,557,630 of which 2,556,110 were prepaid subscribers and 1,520 were postpaid subscribers (CAK, 2014).

The telecommunication industry is dynamic and as such it requires operators to keep up with the changing trends. Strategies also have to be modified from time to time so as to remain relevant. The aim of this study is to conduct an

assessment of the effects of strategic partnership on performance of mobile industry. Effects of the strategic partnership are independent variables while performance of mobile industry is the dependable variable since performance is dependent on the effects.

2. Statement of the Problem

It is indicated [5] that, the mobile penetration between January and March 2014 was 78.2%. It grew by 1.3% from the previous quarter (October- December 2013). During the January- March 2014 quarter the industry in general experienced a marginal increase in the number of mobile subscriptions i.e. from 31.3 million to 31.8 million subscribers. This signifies increased uptake of mobile telephony services albeit slow growth. However, it is noted [5] that, despite there being an increase in subscriptions there was a decline in local mobile voice and SMS traffic. They also noted that Safaricom and Essar (Yu Mobile) lost 0.1% and 0.5% respectively of their market shares, Orange recorded a 0.5% increase in market share while Airtel maintained its former market share of 16.5%. As of March 2014, Safaricom had a market share of 67.8%, Airtel 16.5%, Yu Mobile 8% and Orange 7.7%.

Based on the market shares Safaricom has dominated the market followed by Airtel. Essar Telecom has continued to experience a decline in market share. Prior to the increment in market share Orange too had a series of drops in market share as indicated in the CAK report. This study sought to assess effects of strategic partnership on performance of mobile industry with the aim of providing workable solutions to the mobile operators as well as the regulatory. This is in regards to infrastructure sharing, innovation strategies and how to improve performance in strategic partnerships despite the existence of risks.

3. Objectives

3.1 General Objective

To assess effects of strategic partnership on performance of mobile industry in Kenya

3.2 Specific Objective

To assess the effect of risks associated with strategic partnership on performance of mobile industry in Kenya.

4. Research Question

What is the effect of risks associated with strategic partnership on performance of mobile industry in Kenya?

5. Conceptual Framework

Figure 1 shows that the performance of mobile industry is dependent on risks associated with strategic partnership (independent variables). The interaction between the independent and dependent variables is influenced by the Communication Commission of Kenya's (CCK's) regulations as exemplified by the conceptual framework.

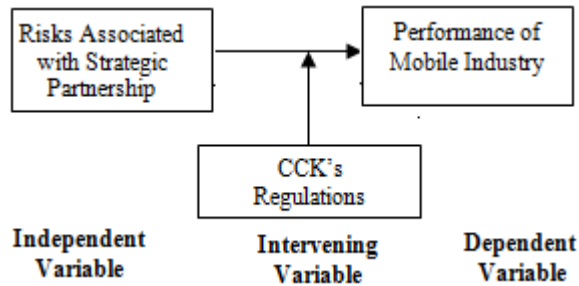


Figure 1: Conceptual Framework

6. Literature Review

This section presents a literature on the subject matter under study. It covers previous researches that have been done to establish the gap for further study. It reviews literature on risk associated with strategic partnership with a keen interest on the performance of telecommunication industry.

6.1 Theoretical Framework

Mobile network sharing can be found in both mature and developing markets, with 3G providing an additional impetus to assess the commercial and regulatory viability of network sharing. This is mostly due to commercial considerations, rather than regulatory mandates [10]. It is further pointed out [12] that, infrastructure sharing among telecom companies fosters competition and leads to optimization of investment. They further note that although the operators can have autonomous collaborations, it is important to have a clear regulatory policy to ensure successful infrastructure sharing. According to them involvement of the regulatory authorities is key in successful infrastructure sharing.

It was noted that for industries in the service sector to achieve superior performance they need to have technical and managerial innovations in their organizational structure [20]. The study looked at innovation as a management design that does not come by a random approach but rather by design. It entails focusing on the organization's mission, searching for unique opportunities, determining whether they fit the organization's strategic direction, defining the measures for success, and continually reassessing opportunities. They point out that it requires total dedication in pursuit of a unique opportunity.

Strategic partnerships are viewed as entrepreneurial ventures whereby there is an association of interest [21]. It is pointed out [1] that, such strategic partnerships are complex to formulate, implement as well as manage. It is, therefore, warned that, managers need to be clear on what the strategic partnership process entails. He further notes that professional management of the entire process is key if the partnership is to work. He however notes that entering into a strategic partnership leads to enhanced skills, reduces costs as well as add value to the organization.

6.1.1 Michael Porter's Analysis of Industries and Competitors

Competition in an industry is said to depend on the following five forces; rivalry among existing firms, threat of

new entrants, threat of substitute products or services, bargaining power of suppliers as well as bargaining power of buyers [24]. He believes that the collective strength of these forces determine the ultimate profitability of an industry.

It is explained [24] that, new entrants bring with them new capacity, competition for market share and more often than not substantial resources. This can lead to reduced prices and thus reduced profitability. He goes on to say that the threat of new entry depends on existing barriers to entry as well as expected reaction from existing competitors.

Substitute products or services limit an industry's returns since they set a limit on the prices firms in the industry can profitably charge. It is cautioned that firms should be wary of substitute products that are likely to beat the industry's products price-wise as well as substitutes that are produced by industries earning higher profits. Other than substitute products, Porter explains that buyers also compete with the industry by bringing prices down. Buyers bargain for higher quality, play competitors against each other and all this affects the industry's profitability.

Suppliers can exert their bargaining power by threatening to raise prices or reduce the quality of purchased goods and services. This in turn affects profitability of the industry especially if the industry is unable to recover cost increases in its own prices. Porter also pointed out that rivalry among existing players in an industry can either make an industry better than it was or worse off. He cautioned against price competition since it leaves the industry worse off. When one firm reduces prices, the other firms will also reduce prices so as to be competitive. This in turn reduces revenue for all the firms in the industry leaving the industry worse off. He opted for competition based on advertising since it enhances demand as well product differentiation leaving the industry better than it was.

On competition among industry players, it was noted [24] that it is rooted in the underlying economic structure and goes beyond the behaviour of current competitors. It is pointed out that competitors need to understand the sources of competitive pressure as this will show them where the industry promises to hold the greatest significance as either opportunities or threats. He acknowledges that there are different forces that shape competition in each industry. Competition should therefore not be looked at as a matter of coincidence or bad luck.

Porter further notes that all the five forces jointly determine the level of competition as well the industry's profitability. He also notes that each industry is shaped by the different forces that take prominence. He further indicated that the strength of the forces should be distinguished from other short run factors that affect competition and profitability so as to set a competitive strategy. He finally notes that the starting point of strategic analysis should be the understanding of the industry structure.

6.2 Empirical Review

This part reviews literature by other scholars on industry performance, and risks associated with strategic partnership.

6.2.1 Performance of Mobile Industry

Modern technology in the contemporary life is a common factor; people are willing to use advanced technology in their daily lives. They are now moving away from the traditional communication systems to advanced technologies [15]. People connect with each other more easily than before due to advanced mobile technologies that are ubiquitous, portable and can be used to receive and disseminate personalized and localized information throughout the world [19]. Mobile services are no longer what they used to be. They now include internet access, digital imaging, mobile banking, and financial instrument trading and shopping [15].

It is posited that, mobile phones are used as status symbols, life symbols, they state an owner's identity, and they are used for internet access and entertainment such as music and games [4]. It is indicate that [2] that, there are three types of possible consumer groups within the mobile environment, that is,. children and teenagers, business users and young adults. The children and teenagers use mobile phones mainly to access the internet and play games. Business users use the mobile phone primarily for communication, news and weather information. Young adults utilize their phones mainly for internet access. Each group has it unique characteristics which in turn determine how they use mobile services. Kenya's household phone ownership has increased at an average rate of 30% per year since 2005 [28].

Businesses need to understand the external factors beyond their boundaries that influence their ability to survive in their environment as well as remain competitive. It is observed that, strategically relevant influences from the macro environment can sometimes have a significant impact on a company's business situation as well as the company's direction and strategy [26]. Other than the five forces put forward by Michael Porter, other scholars have come up with other factors that equally affect the performance of an industry.

6.2.2 Risks Associated with Strategic Partnership in the Mobile Industry

Strategic partnership/alliance occurs when two or more parties stand to gain when they combine resources [29]. It is argued that to realize the full potential of the partnership they must share information as well as make investments that are specific to the agreement. It is also opined [3] that, strategic partnership enables companies to intercept the technology of other companies as well as close skill gaps faster than internal development would allow. It is further pointed out that strategic partnership enables transfer of knowledge among members.

It is noted that collaboration structures and relationships need to be formed and managed throughout the project. It is further suggested that the strategic partners need to have strategic, organizational and cultural compatibility. They argue that the selection and engagement of strategic partners is crucial to the success of the partnership. As such the

search for a strategic partner should be systematic and should take into consideration competition, market situation and existing knowledge base. It is further asserted [3] that trust and reliability should also be considered.

It is emphasized [1] that, the ability of partners to manage the partnership depended on the planning process. It is outlined three stages of developing a strategic partnership, that is, foundation, formulation and formulation stage. In the foundation stage is whereby partners look at the benefits they stand to gain by getting into a strategic partnership. They also do an internal analysis as well as identify what they need in a strategic partner. In the formulation stage, the respective companies get to select partners, sign into an agreement and train and align staff in accordance with the agreement. In the final stage, implementation of the agreement takes place.

A successful strategic partnership is not easy to pull off as has been noted by several writers [1], [9], [29]. It is further noted that inter-firm conflicts sometimes arise due to competing interests, incompatible goals, disagreements regarding resource allocation, and opportunistic behaviour. When strategic partners pursue self-interest they undermine the benefits of strategic partnership in two ways. Partners avoid being held up by their counterpart by under-investing in alliance specific assets and skill and this in turn leads to collapse of the partnership. Secondly, partners may learn each other's skills and apply them in other areas outside the partnership. This has dire consequences especially if the partners are competitors. To avoid this, partners become overprotective on their contributions blocking information that might be necessary for partnership.

It is noted [27] that, uncertainty in partnership sometimes makes it difficult for one partner to evaluate the intentions of the other partner. Though the other firm may not be having any opportunistic thoughts one firm may misinterpret the intentions of the other firm. This can lead to blocking of information that may be useful in the partnership. It is pointed out [29] that, partners will be less likely to cooperate if they have a low level of identification with the partnership and if they perceive there is competition within the partnership.

Strategic partnerships are already complex as they are [1]. Employees of the firms in partnership pose a risk to the partnership as well especially if they feel that the partnership could lead to redundancies that strategic partnerships collapse when each process of the partnership is not well laid out. He emphasized the importance of tackling each phase very well and to the satisfaction of all partners. It is, however, notes [16] that at times the process may be flawless but other factors arise in the course of execution that may not have been captured in the initial contract. This can cause friction if the issue is not well handled.

7. Research Methodology

This section looks at how the researcher systematically solved the research problem [18]. It is indicated [25] that research design is the general plan of how the researcher goes about answering the research questions. For this study,

descriptive research design was used. Descriptive research portrays an accurate profile of persons, events or even situations. It describes characteristics of individuals or groups. It is noted that there are different research strategies in descriptive research design, one of them being case study. The case study was used since it enables the generalized knowledge to get richer.

The target population was 30 managers from the senior and mid management level of Essar Telecom Kenya Limited. For this study the census method was used. It is noted that a census requires a researcher to examine all the elements in the target population [7]. For data collection questionnaires were used. The questionnaires were pilot tested to assess their reliability and validity. Reliability was tested using the Cronbach alpha coefficient while validity was determined through consultation with the University’s research supervisors

7.1 Data Processing and Analysis

Data processing involved editing, coding, classification and tabulation of collected data so that they were suitable for analysis [18]. Data was coded and entered into Statistical Packages for Social Sciences (SPSS) for analysis. Both descriptive and inferential statistical analyses were conducted. The findings of the study were presented in descriptive and inferential statistical tables.

7.2 Research Findings

The response rate was 100% and resulted from the method of administration of the questionnaires. The researcher emphasized the significance of the research to the respondents. Respondents’ queries concerning clarity were also addressed during data collection. The foregoing explained the high response rate.

7.2.1 Descriptive Findings for Risks associated with Strategic Partnership in the Mobile Industry

The specific objective of the study was to establish the risks associated with partnership in the mobile industry. The respondents were given the option to choose more than one risk from the available options. Concerning this objective, it was first imperative to establish the risks first and afterwards the effects on mobile telephone industry. The results of the former are presented in Table 1

Table 1: Risks associated with Strategic Partnership in the Mobile Industry

	Min	Max	Mean	S.D.
Risks that lead to challenges in cooperation	1	2	1.37	.490
Risks that lead to challenges in competing interests	2	4	2.32	.646
Risks that lead to challenges in incompatible goals	3	6	3.47	1.007
Risks that lead to challenges in mistrust	4	4	4.00	0.000
Risks that lead to challenges in poor formulation	5	5	5.00	0.000
Risks that lead to challenges in poor implementation	6	6	6.00	0.000

The results in Table 1 reveal that, the major risks in strategic partnerships were poor implementation of the terms of associations (mean = 6, SD = 0.00) probably resulting from poor formulation of the terms of engagement (mean = 5, SD = 0.00) and mistrust (mean = 4, SD = 0.00). These could be attributed to the presence of incompatible goals (mean = 3.47, SD = 1.007) and competing interests (mean = 2.32, SD = 0.646). These findings generally imply that the risks associated with partnerships in the mobile industry were high owing to the competition for subscribers.

7.2.2 Descriptive Findings for Performance of Mobile Industry

Table 2: Performance of the Mobile Industry

	Min	Max	Mean	Std. Dev
How would you rate the increase in market share among mobile operators in the telecommunication industry in the last 5 years?	2	4	2.53	.629
How significant were (political, technological and economic factors) to performance of mobile industry?	1	4	1.70	.837
Has management of mobile firms have contributed to the changes in market share in the telecommunication industry in the last 5 years?	1	2	1.03	.183

According to the results in 1, the increase in market share among mobile operators in the telecommunication industry in the last 5 years was average (mean = 2.53, SD = 0.629) and could be attributed to political, economic and technological factors that have led to changes in the telecommunication industry which were rated as significant (mean = 1.70, SD = 0.837). The management of the firms also contributed to their performance (mean = 1.03, SD = 0.183) especially through aggressive marketing policies.

7.2.3 Correlational Analytical Findings

In this subsection the findings of the correlation analysis are presented. The findings illustrate the degree of association between the independent and dependent variables. These results are shown in Table 3.

Table 3: Correlation between Risks associated with Strategic Partnership and Performance of Mobile Industry

		Performance of Mobile Industry
Risks associated with strategic partnerships	Pearson Correlation	.752*
	Sig. (2-tailed)	.000
	N	30

**Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis indicated that, there exists a significant relationship between risks associated with strategic partnerships and the performance of the mobile industry shows that a relationship exists (r = 0.752, p < 0.05). The Pearson’s product moment coefficient of correlation r = 0.752 is very high and suggests that a very strong positive relationship exists between the two variables. These findings imply that navigating the risks associated

with strategic partnerships could significantly improve the performance of the mobile service industry

8. Summary, Conclusions and Recommendations

This section provides a detailed summary of the major study findings. It then draws conclusions and discusses implications emanating from the findings. Finally, it makes some recommendations pertinent to the study objectives.

8.1 Summary

Challenges most of the partnerships were having were poor implementation of the terms of associations probably resulting from poor formulation of the terms of engagement and mistrust. These could be attributed to the presence of incompatible goals and competing interests. These findings generally imply that the risks associated with partnerships in the mobile industry were high owing to the competition for subscribers. In addition the change in performance due to risks in strategic partnerships in the telecommunication industry within the last 5 years was rated as significant. The partnerships stretched between the mobile service providers and the banks due to money transfers and also other institutions. The performance in the mobile industry based on the existing strategic partnerships in the last 5 years was good.

8.2 Conclusions

Risk tolerance of the industry players when considering forming strategic partnerships was largely influencing performance of mobile industry. This is indicated by the significant change in performance due to risks as well as good performance in the industry based on the existing strategic partnership. This can also be seen from the strong positive relationship between risks associated with strategic partnerships and performance of the mobile industry.

8.3 Recommendations

There is need for the industry players to manage risks that arise from strategic partnership. They also need to carefully evaluate the risks associated with their joint ventures and also ensure seamless transfer of services to the advantage of the subscribers.

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