A STUDY OF THE STRATEGIC RESPONSES BY TELKOM KENYA LIMITED IN A COMPETITIVE ENVIRONMENT

BY

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DECLARATION

THIS PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN SUBMITTED FOR A DEGREE IN ANY OTHER UNIVERSITY

SIGNED.. DATE. 24th october 2001

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THIS PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS THE UNIVERSITY SUPERVISOR

SIGNED.. DATE. 25/10/01

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DEDICATION

THIS PROJECT IS DEDICATED TO MY BELOVED WIFE RUTH KANDIE AND TO MY CHILDREN SHEILLA KANDIE, SAMSON KANDIE, MIKE KANDIE,AND TIMOTHY KIBET KANDIE FOR THEIR ENCOURAGEMENT, PATIENCE AND UNDERSTANDING DURING MY ABSENCE AND TO MY PARENTS FOR THEIR ENCOURAGEMENT

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ABSTRACT

The study was conducted by carrying out in-depth interviews with senior managers (respondents) of the company. The study intends to identify the strategic challenges facing Telkom Kenya Limited (TKL) and the responses TKL is using to cope with these challenges.

Historically, Telecommunication Industry was dominated by the defunct Kenya Posts and Telecommunications Corporation, which remained a monopoly until its dissolution in 1999.

Globalization and economic reforms in Kenya, which commenced in the 1990's, has led to the liberalization of the Telecommunication Industry. This shift of paradigm has created steep competition for TKL from experienced, newly licensed operators, providing close substitutes to telephony services offered by TKL.

This study has confirmed that the company has put in place strategies to position itself ahead of competitors, but implementation of these strategies has been hampered by the following;

(i) Lack of financing to continuously renew its Technological base and reduce staff to a level commensurate with the network size (the Government suspended any loaning from capital markets and banks pending completion of the privatization process).

(ii) Bureaucratic processes and procedures have hampered the speed of doing things, which is not in line with the running of private sector businesses. The processes and procedures in place encourage the entrenchment of a civil service culture.

(iii) The attitude and culture of the employees has not changed from the public sector to a Private sector culture and the company is still government-controlled.

(iv) The Pension Scheme liability has weakened the financial base of the Company.

(v) The management is not allowed to make strategic decisions and therefore, regardless of the strategies put in place, implementation presents a serious problem. The Company therefore cannot perform as well as expected.

In view of these findings, the following would be the recommendations for Management consideration:

i. There is need to lobby for the privatization of the Company so as to de-link the operations of the company from government in order to empower management to run the company on a commercial basis.

ii. There is need to reduce staff to a level commensurate with the company size in terms of number of lines and revenue.

iii. There is need for a culture transition program in order to sensitize staff on the change to a private sector environment.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Ansoff (1987) notes that the environment is constantly changing, and so it makes it imperative for organizations to continuously adapt their activities in order to succeed. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with the emerging environmental challenges. The Kenyan business environment has been undergoing drastic changes for sometime now. Some of the changes include the accelerated implementation of economic reforms, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organizations in jeopardy (Aosa, 1998).

Economic reforms in Kenya commenced in the 1990's and covered the entire economy including gradual decontrol of prices, liberalizing the interest rate and the foreign exchange rate and privatization of state-owned enterprises. The Government policy on liberalization and privatization was articulated in the sector policy paper (government of Kenya (GOK), l996/8). This policy document outlined the reform measures to be undertaken in all sectors of the economy in order to stimulate growth and development, specifically through the privatization of state owned enterprises.

For some time, the telecommunications industry was dominated by Kenya Posts and Telecommunications Corporation (KPTC). This was primarily because the range of services was few and capital requirements were high so that only the government could provide these services cost effectively. With rapid technological change, the capital requirements for investment in telecommunications have come down tremendously and the range of service has increased. In addition, the current trend of breaking trade barriers and the adoption of a private sector-led development paradigm has resulted in the need to implement economic reforms consistent with these developments.

It is against this background that the government issued the Communications sector Policy Paper covering reforms in the postal and telecommunications sector. The policy paper spelled out the reform programme for the sector consisting of the following main elements: -

(a) Restructuring K.P.&T.C. which would involve separation of Postal and Telecommunication operations into two distinct legal entities and the creation of an autonomous commission to handle regulatory functions. In this framework, the Postal corporation of Kenya (PCK) would remain a statutory body providing postal service in Kenya. Regulatory functions would be vested in the Communications Commission of Kenya (CCK). Telkom Kenya Limited (TKL) would be a registered company providing telecommunication services alongside other licensed companies.

(b) Liberalization, which would involve authorizing new participants in different market segments of the sector to increase customer choice and accelerate investment.

(c) Establishment of a new regulatory framework which upon legislation, would provide for a multi-operator environment, thus promoting competition.

Economic reforms in Kenya and globalization of the telecommunication industry have exposed TKL to steep competition with experienced newly-licensed operators. The environment in which TKL is operating has fundamentally changed.

These changes have brought pressure on TKL to adapt its operations to meet the new challenges facing it. We expect that such internal adaptations are taking place in the company.

1.2 STATEMENT OF THE PROBLEM

TKL is an important public telecommunication utility curved out of the now defunct KPTC. The nature of services provided by TKL requires intensive capital investment, which only the government had the resources to make in the past. The company has been a monopoly since inception and has not experienced any competition until recently. The government and powerful politicians primarily influenced decision making in the company.

The management of the company was not in a position to make critical decisions without the approval by the government. The company is currently undergoing fundamental changes emanating from the onset of competition.

In Kenya, the contribution of telecommunication services to GDP has been increasing over the years rising from 1.8% in 1984 to 2.6% in 1991 and 4.4% in 1996. The increasing share of telecommunication revenue as a percentage of GDP implies that the telecommunications sector has been growing at a much faster rate than other sectors of our economy as a whole. In addition, it provides a critical supportive role to all other industries.

Liberalization and privatization of telecommunication industry has exposed TKL to steep competition resulting in the loss of substantial market share to private telecommunication firms such as KENCELL and SAFARICOM. This negative trend could continue if no steps are taken to stem the tide. In an attempt to survive, one would expect that TKL is adapting its operations to meet the needs of the new environment.

It is against this background that the researcher seeks to identify the challenges facing TKL and establish how the company is responding to these challenges.

1.3 OBJECTIVES OF THE STUDY

This study addresses two objectives. These are: -

i. To identify challenges affecting TKL in a competitive environment.

ii. To establish strategic responses TKL is using to cope with the competitive environment.

1.4 SCOPE OF THE STUDY

This is a case study on TKL. It aims at identifying strategic challenges and establishing the strategic responses of TKL to these challenges. In order to operationalise the concept of strategy and capture strategic responses the following elements will be looked into:

- Planning and strategy
- markets
- technology
- Formation of joint ventures (alliances)

1.5 IMPORTANCE OF THE STUDY

The findings of the study is expected to be beneficial to:-

- The Government for formulation of policies relating to the deregulation, liberalization and privatization of state controlled corporations.

- Scholars, for further research in the area of strategic responses.

- The telecommunication industry who are directly affected by changes in the turbulent environment.

- The stakeholders who will be interested to know what is going on in the telecommunication industry, especially when they are making decisions to buy shares in the company.

- Financial institutions who are the main financiers of the telecommunication industry. This will help them to make good investment decisions.

1.6 STRUCTURE OF THE PAPER

This dissertation is structured as follows:

Chapter One : Introduction

This chapter contains a background, statement of the problem, objective and importance of the study.

Chapter Two: Literature Review

This chapter contains a literature review on strategic management.

Chapter Three: Research Methodology

This chapter contains the scope of the study, population, sample, data collection, and data analysis.

Chapter Four: Data Analysis and Interpretation

This chapter contains research findings and the interpretation of the results.

Chapter Five: Summary, Limitations and Recommendations

This chapter contains the summary of results, limitations of the study, recommendations for future research.

Appendices

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CHAPTER 2
LITERATURE REVIEW

2.1 STRATEGIC MANAGEMENT

Strategic management may be defined as a process, directed by top management, but engaged in throughout the management structure, aimed at determining the fundamental aims or goals of the organization, including those concerned with satisfying customers legitimate needs and ensuring the attainment of those fundamental aims and goals through the adoption of adequate decision making mechanisms and the provision of adequate resources in support of a planned direction for the organization over a given period of time (Cole, 1997). It is clear from this statement that line managers should be involved in the formulation, implementation and evaluation of strategies.

Since resources are scarce, managers must decide which alternative strategies will benefit the firm most. For any organization to succeed it will be necessary for top management, managers and employees to work as a team to achieve the company goals and objectives.

Drucker (1974) says that the prime task of strategic management is thinking through the overall mission of a business. That is, asking the question, "What is our business?" This leads to the setting of objectives, development of strategies, and making of today's decisions for tomorrow's results. This clearly must be done by a part of the organization that can see the entire business, that can balance objectives and the needs of today against the needs of tomorrow, and that can allocate human and financial resources to key results. The right formulation of the mission statement will guide the company to set objectives and goals which will provide the basic direction and framework within which all the activities of the company will take place.

David (2001) noted that strategic management can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives. These definitions imply that strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and computer information systems to achieve organizational success.

Hunger and wheelen, (1999) define strategic management as a set of managerial decisions and actions that determine the long-run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation, strategy implementation, evaluation and control. The study of strategic management, therefore, emphasizes the monitoring and evaluation of external opportunities and threats in light of a corporation's strengths and weaknesses.

Pearce & Robinson, (1997) noted that strategic management is the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization. It involves attention to planning, directing, organizing and controlling of the strategy-related decisions and actions of the business. Since the decisions will involve long-term, future-oriented, complex decision making necessitating top-management action because of the resources required to formulate an environmentally opportunistic plan.

The strategic management process is dynamic and continuous. A change in any one of the major components in the process can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission. Therefore, strategic management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed (David,2001).

Thus although strategic management has been defined in different ways by different authors, the common thread running through these definitions is that a firm must build sufficient internal capabilities to match the environmental changes and strategy to exploit opportunities presented by the environment.

2.2. THE CONCEPT OF STRATEGY

Central to the strategic management process is the concept of strategy. Strategy may be defined as the broad program of goals and activities to help a company achieve success. Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purposes it wishes to accomplish (Schendel & Hofer, 1979). This statement emphasizes that the environment is constantly changing and so it is imperative that an organization has to constantly adapt its activities to reflect the new environmental requirements. Having a strategy enables you to ensure that day-to-day decisions fit in with the long-term interests of an organization. Without a strategy, decisions made today could have a negative impact on future results (Bruce & Langdon, 2000).

In the context of the modern business organization, the editor of the Harvard business Review described strategic decision-making as follows:
"Agreements reached by the top management about the companies ability to outdo its competitors, as a result of having investigated market opportunity, appraised the distinctive competence and total resources of the company, and combined opportunity and resources, consistent with the economic goals, personal values, and ethical aspirations that define the character of the company" (Andrews, 1981,p180). Therefore strategy can be expressed as a game plan to outdo competitors.

Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry where forces are weakest (Pearce & Robinson 1997).

Porter (1980) also noted that strategy is all about competition and trying to gain competitive advantage.

Batemand and Zeithaml (1990) assert that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. The decisions and actions taken will lead to the development of an effective strategy which will help to achieve organizational objectives (Jauch & Glueck, 1988).

The major tasks of managers is to assure survival and success of the companies they manage. In order to achieve success the companies have to adequately adjust to meet environmental challenges. Failure to do this will cause the company to experience a big strategic problem. This problem arises out of the mismatch between the output of the company and the demand in the market place. Strategy is useful in helping managers tackle the potential problems that face their companies (Aosa 1998). Strategy is a tool which offers significant help for coping with turbulence confronted by business firms. Strategy requires to be taken seriously as a managerial tool, not only for the firm but also for a broad spectrum of social organizations (Ansoff & Mcdonnell, 1990).

2.3 STRATEGY TYPES

In order to analyze the level of competitive intensity within a particular industry, it is useful to characterize the various competitors for predictive purposes.

According to Snow and Miles (1978), competing firms within a single industry can be categorized on the basis of their general strategic orientation into one of four basic types. This distinction helps explain why companies facing similar situations behave differently and why they continue to do so over a long period of time. The four basic types are:

- **Defenders** are companies with a limited product line that focus on improving the efficiency of their existing operations.

- **Prospectors** are companies with fairly broad product lines that focus on product innovation and market opportunities.

- **Analyzers** are corporations that operate in at least two different product-market areas, one stable and one variable. In the stable areas, efficiency is emphasized. In the variable areas, innovation is emphasized.

- **Reactors** are corporations that lack a consistent strategy-structure-culture relationship. Their responses to environmental pressures tend to be piecemeal strategic changes.

The division of competition into these four categories helps the strategic manager to monitor and effectively change strategic orientation to fit the environment.

2.4 STRATEGIC DECISION MAKING

Strategic decision making in any organisation is very important because it distinguishes the characteristics of strategic management. According to Henry Mintzberg (1973) the most typical approaches, or modes, of strategic decision making are:

- **Entrepreneurial mode.** Strategy is made by one powerful individual. The focus is on opportunities; problems are secondary.

- **Adaptive mode.** Sometime referred to as "muddling through," this decision-making mode is characterized by reactive solutions to existing problems, rather than a proactive search for new opportunities.

- **Planning mode.** This decision-making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy.

In Kenya, it looks like all these approaches are applicable in public institutions and sometime it is referred as logical incrementalism, while in private institutions entrepreneurial mode and planning mode are often used.

2.5 STRATEGY, ENVIRONMENT AND COMPANY CAPABILITY

Organizations are environment-dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thompson & Strickland, 1993). Failure to do this will lead to serious strategic problem characterized by the maladjustment of the organization's output and the demands of the external environment (Ansoff, 1984). Ansoff and Mcdonnel (1990) noted that strategic responses involve changes in firm's strategic behaviors to assure success in the transforming future environment.

Strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in the environment. Illustration in fig 1 explains that when there is a shift in environment E_1 to E_2 this requires a shift in the firm's strategy from S_1 to S_2. A shift in strategy will be possible only if the organizational capability is shifted from capability C_1 to C_2.

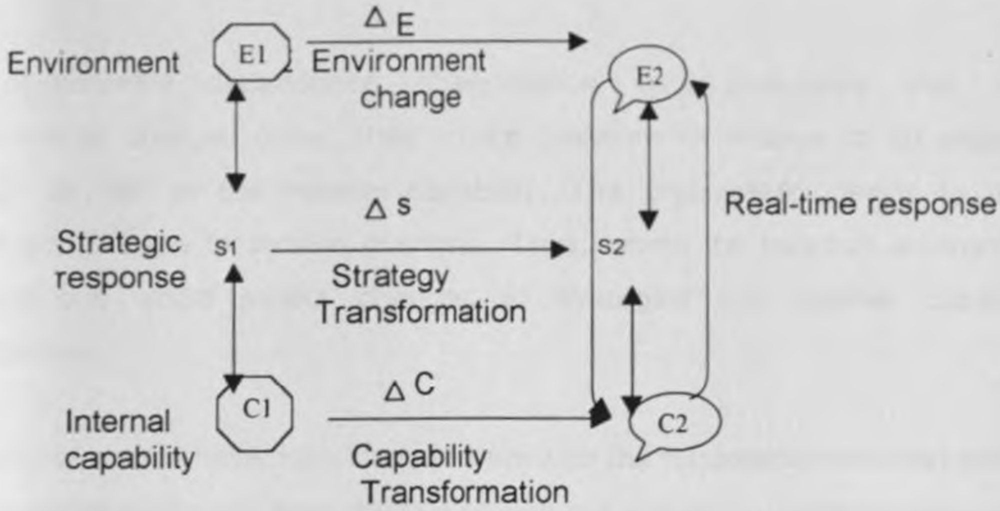

Fig 1: Relationship among the environment, strategy and company capability (source, Ansoff & Mcdonnel, 1990, pg 40).

The key to fig 1 is as indicated below:

E_1 --- ---- present environment

E_2--------- future environment

Δ_E -------- shift in environment turbulence

S_1---------- present strategy

S_2---------- future strategy

Δ_S ---------- strategic transformation

C_1------------ present internal capability

C_2 -------- future internal capability

Δc -------------capability transformation

The environment dependence phenomenon thus postulates that whenever environmental changes occur, they create pressure for change in an organization's strategy as well as the internal capability. The organization needs to make this adjustment if it has to survive overtime. Thus, where the external environment has changed one would expect changes in strategies and internal capabilities of organizations.

A number of studies have been done in Kenya on the relationship between strategy and the external environment. Njau, (2000) carried out a study on strategic responses used by East African Breweries Limited and concluded that a change in the competitive position would require the company to decide on strategies to adopt.

Bett (1995) found that due to the ongoing economic reforms in the country, firms in the dairy industry made substantial adjustments in their strategic variables in order to survive in the competitive environment. As a response to competition the firms made adjustments in their marketing mix components of product, promotion, place and price.

Kombo (1997) noted similar changes among the firms in the motor vehicle industry. The firms made substantial adjustments in introducing new technologies of product developments, differentiated their products, segmented and targeted their customers more and improved customer services. In addition, marketing mix variables of promotion, price and distribution were significantly changed in response to competition.

2.6 VALUE OF STRATEGIC MANAGEMENT

Strategic Management helps organizations to be more proactive than being reactive in coping with the changes in the competitive environment.

Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice (David, 2001).

2.6.1 Financial Benefits

Research indicates that organizations using strategic-management concepts are more profitable and successful than those that do not (Schwenk & Schrader,1993).
Similar studies were carried out by Ansoff et al (1970) in the U.S.A on manufacturing firms and found that formal planners who took a strategic management approach outperformed non planners in terms of financial criteria that measured sales, assets, sales price, earnings per share, and earnings growth.
It is also expected that any organization in Kenya who would apply strategic management will have favourable impact on performance as long as it is not conducted haphazardly.

2.6.2 Nonfinancial Benefits

In addition to financial benefits, strategic management offers other tangible benefits such as enhanced awareness of external threats, improved understanding of competitors' strategies, increased employee productivity, and reduced resistance to change.

2.7 TELECOMMUNICATION INDUSTRY IN KENYA

Telecommunication service in the form of telegraphy was introduced in Kenya in the 1920's. Telephony (analogue switches) was introduced in Kenya in the 1950's by the British colonial government who, within the same period, also introduced telecommunication services in Uganda and Tanzania.

After independence the three East African states, Kenya, Uganda and Tanzania formed the East African Community (EAC). During this time, the three states saw the need to form the East African Posts & Telecommunications Corporation (EAPTC) to run telecommunications and postal services in the region.

In 1977 the EAC broke up forcing each state to run its own services. The Government of Kenya established the Kenya Posts & Telecommunication Corporation (KPTC) to run internal telecommunications services. In the 1980's KPTC modernised its analogue switches with digital switches and since then there has been a lot of transformation in technology.

In 1993, mobile services were introduced in the country and this was treated as a premium service and only the rich could afford the service. The total exchange capacity now stands at 380,000 lines and it is expected with the opening of the market, that this capacity will triple. International telecommunication services were managed by Cable and Wireless (UK) till the break up of EAC in 1977, at which time the international network was nationalized and taken over by the Kenya External Telecommunications Company (KENEXTEL).

KPTC and KENEXTEL subsequently merged in 1982, marking the beginning of KPTC's total monopoly of both regulation and provision of telecommunication and postal services in Kenya (teletec,1996). The population of the employees is 19,000 and by 1999/2000 the turnover was Ksh21.584 billion. This monopoly ended in 1999 with the liberalization of the telecommunication sector. KPTC split to give three organizations; Postal, TKL, and the regulatory commission (CCK).

The CCK is expected to discharge the following major functions: issue licenses to telecommunication firms and postal operators, oversee price regulation, manage the radio frequency spectrum, and type approved telecommunication equipment.

PCK has exclusivity in only stamp provision and private letter boxes but competes in all other market segments.

TKL became the company to provide telecommunications services alongside other licensed organizations. TKL have been granted exclusivity of service provision in Nairobi for five years. Other market segments that have not been liberalized for the time being are provision of international services, internet backbone services and local trunk network, These services are still under the monopoly of TKL till the government liberalizes them.

The British Telkom (BT) world communications report 1998/9 provided an insight into the changing shape of the communications industry and outlined how businesses can use technology to gain competitive edge. The world that we are entering is neither simple nor predictable. But business must understand that communications technology is critical to survival and understanding technology is key to success.

The three forces which has transformed the telecommunication industry are technology, competition and demand for change. BT world communication report almost coincides with the findings of Porter (1980), in his competitive model. This model identifies five industry forces that managers must consider in order to successfully formulate and implement strategy that will lead to organizational effectiveness. They include the threat of new entrants, bargaining power of suppliers, bargaining power of customers, threat of substitutes, and the nature of competitive rivalry among organizations in the industry.

Porter (1998) asserts that a change in the competitive position will require a company to decide on which generic strategy to adopt. The three potential successful strategic types that managers can implement against other organizations in the industry are overall cost leadership, differentiation and focus. In effect Porter (1998) is supporting the notion that environmental changes precipitate change in organizational strategy.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 METHODOLOGY

The research problem posed can best be studied using the case study method. This method can give in-depth account of the challenges TKL is facing in a competitive environment and in-depth account on how the company has been responding to the challenges.

Kothari (1990) defined a case study as a very powerful form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit a person, a family, an institution, a cultural group or even the entire community. It is a method of study in depth rather than breath.

According to Odum and Katherine (1929, p229), "The case study method is a technique by which individual factor whether it be an institution or just an episode in the life of an individual or a group is analysed in its relationship to any other in the group".

Young (1960, p247) described case study as "a comprehensive study of a social unit be that unit a person, a group, a social institution, a district or a community".
In general, case study is a form of qualitative analysis where study is done in institutions or situations and from this study data generalisations and inferences are drawn.

The advantages of using a case study include enabling an in-depth understanding of the behaviour pattern of the concerned unit, facilitating intensive study of concerned unit which is not possible with different methods and possibility of obtaining the inside facts from the experienced employees. In addition, the use of the case study method enriches generalised knowledge and makes it possible for the researcher to use one or more methods depending upon the prevalent circumstances e.g in-depth interviews, questionnaires, etc.

The limitations of the case study include the danger of false generalisation which might be experienced because of lack of set rules to follow in collection of information, it is time consuming and expensive, the research might be subjective and it is used in a limited sphere, not in a big society.

In conclusion, despite the above stated limitations, my study was based in Nairobi and the persons interviewed were nine in number, therefore it was not expensive. In structuring the questionnaire, closed ended questions which could limit the respondents answers, have been avoided in an effort to minimise the risk of subjective answers. The dominance of TKL in telecommunication industry in Kenya implies that the study of TKL is very close to the study of the industry itself. Therefore, no dramatic generalization of the results are required for the study of the industry. Consequently, serious errors of generalization are unlikely to occur.

3.1 POPULATION

Being a case study, the focus will be on TKL. The company will constitute the population. Efforts were made to interview senior officers of the company (TKL) ranging from general managers and the managing director (respondents). They are nine in total. The chosen respondents are holding key departments and therefore they are the ones who are spearheading the company.
While changes continue, most fundamental changes have taken place for the last 10 years.

3.2 DATA COLLECTION

In-depth interviews were carried out to determine the challenges that have affected the company and strategic responses used to respond to these changes.

The researcher used both primary and secondary data. A questionnaire (see appendix 2) with closed and open-ended questions were used to collect the data.

The researcher conducted personal interviews with the senior managers (respondents). A letter of introduction (appendix 1) were issued to the respondent prior to the interview.

3.3 DATA ANALYSIS

The data analysis will seek to establish the challenges experienced and strategic responses applied by TKL. Before the data is processed the filled questionnaires were edited for completeness and consistency and the data coded.

The data were analyzed using content analysis. The reason for choosing this methodology is that it does not restrict respondents on answers and has potential of generating more information with much detail.

CHAPTER 4

PRESENTATION OF RESULTS AND ANALYSIS

4.1 THE ORGANIZATION

The ownership structure of the organization has not changed in the last 10 years. The Government of Kenya owns 100% of the company.

4.1.1 NETWORK DEVELOPMENT

Over the years the Telecommunication infrastructure in Kenya has evolved from analog to digital technology in both switching and transmission.
In the early 1970s, East Africa Postal & Telecommunication Corporation (EAPTC) installed the first automatic switching system based analog technology paving the way for customer controlled call set up without the need for operator assistance for both local and national long distance communications. At about the same time, East Africa External Telecommunication Company introduced Satellite Communications, replacing the unreliable high frequency Communications Systems of the day.

In 1984, KP&TC installed the first Digital Exchange to provide International Communication Services without operator intervention (ISD). At about same time, the Corporation started the long journey towards network digitalization.
In 1990, KP&TC unveiled its packet switched data service dubbed KENPAC for its corporate customers. In 1995, the organization introduced a leased line digital data service called KENSTREAM, enabling the early introduction of Internet service by pioneering Internet Service Providers(ISPs). In 1998, KP&TC introduced its Internet backbone service called Jambonet.

By 1996 KP&TC had digitalised about 45% of its switching infrastructure and about 50% of its transmission infrastructure. To-date (2001) Telkom has a network that is 67% digital on the switching infrastructure and 86% digital on the transmission infrastructure, with the international network 100% digital in both switching and transmission. Telkom Kenya is in the process of introducing intelligent network services such as account calling card services, free phone service and itemized billing. The digitalisation effort has slowed down in recent years due to the credit squeeze the firm has experienced since the onset of the privatization process.

4.1.2 FINANCIAL PERFORMANCE

The company's performance is summarised in the chart below.

Table 2: Turnover in millions of KShs.

Years	2001/01	2000/99	1999/98	1997/98	1996/97	1995/96	1994/95	1994/93	1992/93
Turnover	26,258	21,585	19,391	20,540	18,291	17,008	15,147	14,491	14,212

The company's turnover has grown from Ksh14,212 Million in the 1992/93 financial year (FY) to Ksh26,258 million for FY 2000/2001. Turnover has increased because of the expansion of the network.

The total employees of the company are 19,337 which consists of 4,746 technical staff and 14,591 non-technical staff. In 1993 the total employees of KPTC was 31,000 and in 1994 a retrenchment program was implemented which reduced staff by 7,000 to 24,000.

In 1998 KPTC absorbed casuals, raising the staff levels to 26,000.

After the split, CCK took 80 staff while PCK took 5,000 staff, with 21,000 staff remaining in TKL. About 1,500 staff are accounted for by natural attrition.

4.2 CHALLENGES FACING TKL AND RESPONSES TO THEM

The respondents identified the key challenges facing TKL after liberalization of the telecommunication sector as follows:

- Lack of Financing
- Technology change
- Overstaffing and staff turnover
- Bureaucratic processes and procedures
- Poor Attitude and culture
- Pension scheme liability

4.2.1 FINANCING

The government has stopped any borrowing of funds from banks since the process of sale of 49% shares to a partner commenced in 1999. The company now relies on surplus generated from operations, which the respondents feel it is not adequate to meet the company's ambitious investment programs. This problem is expected to be addressed immediately the company shares are sold. The respondents feel that the company will then be expected to be autonomous and will be in a position to access funds from the capital markets.

4.2.2 TECHNOLOGY

The respondents feel that the company response to technological change has been minimal as technological change has been so rapid that the company is faced with the following challenges:

- Recouping of investment before the expiry of the equipment life (the life span of equipment has fallen from 15yrs in 1970's to 5yrs in 1990's)

- Re-training of staff for new technologies

- Reduced barriers of entry into telecommunication business

In recouping its investment, the company has adjusted its tariff structure to encourage customers make international calls and trunk calls . The respondents expected that this move will reduce a particularly serious form of network fraud called "callback" which allows customers of unscrupulous operators utilize TKL network without making payment. A program for modernizing the aging equipment is in place but due to lack of funds, progress in this area has been slow, thus leaving many customer needs and demands largely unmet. The respondents also stated that a program for re-training staff on new technologies is in place and a few staff have been trained on new equipments. In comparison with new operators e.g. Safaricom and Kencel, the respondents feel that TKL still lags behind in technology.

4.2.3 OVERSTAFFING AND STAFF TURNOVER

The total employees of the company are 19337 which consists of 4746 technical staff and 14591 non-technical staff. According to the international Telecommunication Union (ITU) recommendation, 47 subscriber lines should be maintained by 1 employee. The total subscriber lines of TKL are 400,000 and dividing by 47 it implies that the company should have 8511 employees. In Latin America 1 employee maintain 100 lines and if this standard is used then TKL should have 4000 employees. In the developed world the ratio of lines to employees are 1:250.

The respondents expressed their concern that overstaffing is a big problem, which TKL is unable to address now because of lack of funding to finance a retrenchment program.

Overstaffing has contributed to multiple problems e.g. low remuneration of salaries, low morale with the best staff leaving to join new operators.

Respondents believe that the company requires to reduce its staff by half, and pay the remaining staff well and motivate them in order to reduce the high turnover of technical staff. This can only be implemented after the sale of the company shares or if the TKL management is empowered by the government to source funds from capital markets and make decisions on commercialization of the company.

4.2.4 BUREAUCRATIC PROCESSES AND PROCEDURES

Respondents other concern is that TKL is 100% government owned and controlled and therefore key management decisions must be vetted and approved by the government. The processes and procedures were spelled out by the government in the 1960's during the colonial period and since then they have not been changed to meet the changing environment of doing business. For example, procurement procedures are so tedious that acquiring materials for urgent jobs takes an unnecessary long time, thus contributing to the company's inability to meet customer demands in a timely manner.

These processes and procedures cannot work well in the private sector, especially in a competitive environment where companies compete for customers. Respondents feel that the re-engineering of the processes and the procedures is expected to be done when the 49% shares of TKL is sold to a partner and the company is given autonomy to operate as a private firm.

4.2.5 ATTITUDE AND CULTURE

Respondents feel that the culture in TKL, inherited from KPTC, is characterised by laxity in employees towards their duties, indifference to customer needs and interdepartmental walling. This culture has developed over many years of monopoly in the provision of telecommunication services.

Respondents observe that the attitude and culture of the staff has not changed from the KPTC environment (public sector) to a private sector environment. This is because no significant organisational change occurred in the transition from KPTC to TKL.
Respondents expressed concern that the existing culture and attitude in TKL is inappropriate or even detrimental in a competitive environment. In a such situation, the company needs to change its culture. Respondents believe this challenge can be addressed only when the firm shifts from a public organization to a private firm.

4.2.6 PENSION SCHEME LIABILITY

Previously KPTC invested the pension funds by rolling its Network, but after the establishment of Retirement Benefits Act, the law requires that the pension scheme be a separate entity and also be fully funded. This calls for the company to divest part of its investments to ensure that its pension fund is fully funded. So far the company has surrendered its newly constructed 28-floor building on Kenyatta Avenue, called Teleposta Towers to the pension fund in order to reduce its liability. This building was constructed in the 1980's as KPTC headquarters and completed this year (2001). The building is valued at around Ksh 3 billion. This was the best option TKL could use to reduce its liability, which is more than 5 billion Kenya shillings.

Respondents expressed their concern that the level of pension liability will weaken the company's financial position. Their concern is that during the split, TKL was vested with the responsibility of meeting the liability of the pension fund on the assumption that TKL would have enough funds. So far this has proved not to be true, as this is the time TKL requires a lot of capital to expand its network and replace the obsolete technology. The respondents feel that this liability could affect the value of the company.

4.3 PLANNING AND STRATEGY

4.3.1 KENYA POSTS & TELECOMMUNICATION CORPORATION

The respondents stated that before the split of KPTC, the corporation had no written mission statement. The corporation used the development plan to guide its day to day business. The development plan is developed between 3-5 years. The goals of the corporation were to provide telecommunication services country wide, to regulate the usage of radio frequency spectrum and play an advisory role to the government on telecommunication issues.

However, as noted by Thompson and Strickland (1993), organisation objectives are part of the strategic plan that are most often written and circulated among managers and employees. KPTC's strategic framework was encapsulated in the following four Objectives (KPTC Development plan 1994/96):

(i) expansion, modernisation and diversification of services;

(ii) consolidation and rehabilitation including exploitation of the network to enhance optimum utilisation;

(iii) enhancement of quality, flexible and independent management;

(iv) vertical integration where feasible to produce essential equipment, plant and materials for achieving self-sufficiency and maximising forward and backward linkages;

The respondents feel that the implementation of the first objective was pursued vigorously and attained upto about 70%. Unfortunately the follow up on the implementation of the second and third objective has been relatively low. The fourth objective was implemented upto about 30%. The main reasons for partial implementation was due to lack of capital. Normally the cost of purchasing cables and doing rehabilitation exercise is extremely expensive and since the company is not in a position to borrow, this made it difficult to carry through the full implementation. Objective three could not be fulfilled since the management was not the final decision-maker as the organisation was 100% government.

4.3.2 TELKOM KENYA LIMITED

Respondents noted that the liberalization of the telecommunication sector has brought new entrants to the industry and for TKL to survive in business, it had been forced to focus on new ways of doing business. The company recognized the need to utilize the strategic management tools early. A multi-disciplinary team was constituted to perform a Strength, Weakness, Opportunity and Threats (SWOT) analysis on the newly formed company. Following the SWOT analysis the team developed the following mission and vision statements.

The company adopted the following mission statement; " --- to be a world class telecommunications operator providing efficient, affordable, sustainable and cost effective modern services of the highest level of quality and reliability".

The vision statement is " to be a market leader in the provision of communication solutions". In line with the above mission and vision statements respondents identified the goals of the new company as survival, profit, growth of market share and improvement of public image. Respondents stated that the changes of the company goals were necessitated by the steep competition caused by the newly licensed operators, change of technology and customer demands.

The objectives of the new company are profitability, Human Resource development, improvement in technology, improvement in market share, improvement in customer satisfaction and enhancement of competitive position. Following the above mentioned objectives the company developed strategic framework comprising of marketing strategy, operational strategy, organisation and management strategy and financial strategy.

The first of these strategic plans were developed in 1999 and they are reviewed annually. The implementation of these strategic plans has not progressed well because managers are not empowered to make strategy decisions for the company. All the decisions on strategic matters are vested on the Board of directors and the chief executive. The strategic plans of the company are not effectively communicated to staff.

Respondents believe that when TKL is fully liberalized, then the management will appreciate the need to effectively communicate the strategic plans of the company to all the staff (TKL master plan 2000/15). When the company shares are sold, it is expected to operate as a private firm. In private firms each employee must justify the position he/she occupies and as a result every employee must know the goals and objectives of the firm. Private firms are interested in making profits and that is why every employee is tuned to know why the firm exists. Frequently, employees are given intensive training in order to function well in the firm.

4.4 MARKETING

TKL offers a wide range of telecommunication products as sumarised in the table 2.

Table 2: Products offered by TKL (source:TKL master plan 2000-15)

NO	PRODUCT/BRAND	DESCRIPTION	MAJOR TARGET CUSTOMERS
1	Voice telephony over PSTN	National & International voice traffic	Business and residential users
2	Telex Telegrams	Telegraphic communication	Banks, Postal Administrations, News agencies and Government.
3.	Kenpac	Switched packet data 9.6 Kbps to 64 kbps	Corporate bodies and NGOs
4	Kenstream	Digital leased circuits 64 Kbps to 2Mbps	Corporate bodies and ISPs
5	Analogue leased circuits	Analogue data transmission over PSTN	Govt. Departments and Corporate bodies
6	Safarisat	Inmarsat –satellite based services	Multinationals in remote areas
7	Kensat	V-SAT-based communications	Multinational branch networks
8	Jambonet	Internet backbone services	Internet Service Providers (ISPs)
9	Telcard	Public payphone pre-paid cards	Customers who use card-phones
10	Safaricom	Mobile services on GSM and ETACs networks	Businessmen and Executives
-11	Public payphones	Coin-phones, combi-phones and Card-phones	Occasional users of telephone
12	Instafon	Fixed Wireless telephony	Business located in areas with rough terrain and prone to vandalism
13	Telemart	Customer premises equipment supplies and installations	New businesses and individuals

Respondents observed that in spite of the wide range of products offered as above, voice telephony account for over 70% of the company's revenue base.
Respondents noted that prior to the onset of liberalization, KP &TC made little use of the marketing mix of product, place, promotion and price.

Promotion, in form of participation in public shows and exhibitions was the only discernible marketing tool used by KPTC.
One reason for this was that KPTC operated in unsaturated markets where it was thought the product sold itself. KP&TC used to call its customers "subscribers" referring to the fact that they came to subscribe to the service and hence there was no need for spending money in marketing. The upshot of this is that on the creation of TKL, very little marketing experience was available within the ranks of TKL staff.

One of the structural changes in the organization in last days of KPTC was the creation of fully fledged marketing department in recognition of the essential role of marketing in the preparation for the impending competition.
In its three year existence the department has endeavored to use the marketing strategy to define its role, develop suitable processes and procedures for use of a wider range of the marketing mix.

Consequently promotion has been extensively expanded to the use of both print and electronic media, use of billboards in addition to shows and exhibitions and public relations. At present, only minimal use of place in form of customer care centers in the marketing mix is being utilized.

4.5 JOINT VENTURE/ALLIANCES

The government is in process of selling 49% of TKL to a partner and currently they are negotiating with Mt Kenya consortium which consists of various companies (International and Local) who have combined forces to purchase 49% of TKL. The respondents believe that the joint venture will be beneficial to TKL and the country at large. It will be expected that the management will have autonomy to make all the decisions pertaining to the company and get access to funds from capital markets. This will enable the firm to modernize its network, re-engineer its processes and procedures, meet customer needs and demands and provide quality service.

The growth of the telecommunication sector in the developed world is much faster than other sectors of the economy. It is therefore, expected that when TKL becomes more efficient and effective it will boost the growth of the economy and the government will benefit from taxes and the Kenyans standard of living will improve.

From the respondents answers to the questionnaire, the impact on TKL of the intended sale of 49% shares to a partner could be summarized as follows:

- Improvement of operation efficiency in utilizing resources
- Investment injection in terms of capital and expertise to guide in marketing and strategy formulation
- It will finance retrenchment and reduce staff to manageable level
- It will delink the operation of the company from politics and government
- Good company governance is expected .
- Market share expansion is expected
- Meeting customer needs and demands is expected
- Enhance quality service to the customers

CHAPTER 5

SUMMARY, LIMITATIONS AND RECOMMENDATIONS

5.1 SUMMARY

5.1.1 CHALLENGES

The first objective of the study was to identify the challenges facing TKL in a competitive environment. The findings of the study indicate that the challenges facing TKL are as follows:

- Lack of Financing
- Technology change
- Overstaffing and staff turnover
- Bureaucratic processes and procedures
- Poor Attitude and culture
- Pension scheme liability

5.1.2 STRATEGIC RESPONSES

The second objective of the study was to establish strategic responses TKL is using to cope with the competitive environment. Results of the study show that, in general, TKL response to the identified challenges have not been significant due to the unavailability of capital, caused by the government freeze on credit pending the conclusion of the sale of the company and lack of managerial autonomy to make strategy decisions.

In view of the analysis, it is evident that although the onset of liberalization has forced TKL to respond to the challenges emanating from its new environment, financial constraints and lack of managerial empowerment has considerably limited the company's capacity to respond.

5.2 LIMITATIONS

The limitations of this study could be summarized as follows:

(i) Information on the company is not well documented hence not readily available and therefore the researcher had to struggle to get pieces of information from various departments in order to derive useful information.

(ii) The culture of the organization is such that information is not freely released to the public and therefore it was difficult to obtain information even that information belonging to the public domain.

(iii) The time for the research was short and it was not possible to cover the entire scope and the depth of the research.

5.3 RECOMMENDATIONS

The formation of a strategic alliance with a suitable partner is seen as providing a promising solution to the financial and empowerment problems plaguing the company. Since the joint venture/ alliance is expected to come into effect in February 2002, it will be too late for this study to investigate its impact. Therefore, I recommend that:

(i) a further study be carried out after the joint venture/ alliance has been set up in order to assess its impact in comparison with the findings of this study.

(ii) Telkom Kenya Limited should maintain a well managed information system for external and internal use.

(iii) The scope of the study be expanded to cover mobile operators for the purpose of comparison with this study.

APPENDIX 1

LETTER OF INTRODUCTION

JULY 2001

Dear Respondent,

MBA RESEARCH PROJECT

This questionnaire is designed to gather information on the effects of environmental changes and the strategic responses used by TKL.

This study is being carried out for a management project paper as a requirement in partial fulfillment of the degree of master in Business Administration, University of Nairobi.

Your responses will be treated strictly confidential and in no instance will your name be mentioned in the report.

Your cooperation will be highly appreciated.

Yours Sincerely

KANDIE .P.Y
MBA STUDENT

Prof E.AOSA
SUPERVISOR

APPENDIX 2

QUESTIONNAIRE

Please answer the following questions.

A. **COMPANY DATA**

1. What is the size of the company in terms of annual turnover for the last 9 years?

2. How many employees does the Company have by the year 2001?

   Technical---------

   Non- Technical (support)----------

3. How long have you worked in the Company? ----------

B. OVERRALL ISSUES

4. Has the structure of the company changed within the last 10 years and If yes, what could be the main causes of these changes?

5. What are the challenges, in order of importance, facing TKL after the liberalization of the telecommunication industry?

6. Can you please explain in detail how you have responded to the challenges identified.

7. If there are some challenges that you have not responded to, then why?

8. What are you intending to do in future about the challenges that you have not responded to?

9. How do you assess the response of the company now?

10. How aggressive is the firm's behavior in response to the challenges?

11. What areas have improved in the company?

12. Does the company have standardized Performance measures of departmental/section, or regions? Yes ( ) No ( )

If yes, list the measures used.

B. PLANNING & STRATEGY

13 (a) What is the Company's mission statement?

(b) Has the mission changed within 10 years? Why did it change?

14. What are the goals of the company before and after competitive environment?

Explain if there have been changes?

15. What are the objectives of the company before and after competitive environment?

Explain if there have been changes?

16. Does the company develop strategic plans and when was the first such plan developed?

17. Are managers empowered to make strategy decisions in the company?
Yes ( ) No ( )

If yes, what are the limits?

18 Does management effectively communicate the strategic plan of the company?
Yes ( ) No ( )

If yes, what form of communication is used and how regularly?

19. What internal challenges have you faced and what responses have you made?

20. Do you feel the responses have been adequate?

C. TECHNOLOGY

21. What challenges does the company face with the rapid changes in technology?

22. How does the company respond to changes in technology?

21. Do what extent does the company utilize technology as a competitive tool?

22. In terms of adopting new technologies, does the company lag or lead its competitors?

D. JOINT VENTURE/ALLIANCES

23. What will be the impact on TKL of the intended sale of 49% shares to a partner?

24. Do you think the joint venture is beneficial to TKL? Explain

E. MARKETING ISSUES

25. Explain in details the company marketing strategies.

26. How has the onset of competition affected the company's marketing strategy?

27. Explain the impact of CCK on the company's marketing strategy.

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