

**STRATEGIC INNOVATION MANAGEMENT  
PRACTICES AND PERFORMANCE OF SAFARICOM  
PUBLIC LISTED COMPANY IN KENYA**

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## **DECLARATION**

This research project is my original work and has never been submitted for examination to any other University.

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This research project has been submitted with my authority as the university supervisor.

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## **DEDICATION**

This project is dedicated to my parents for their love and support.

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## **ABBREVIATIONS AND ACRONYMS**

<b>BSC</b>	Balanced Score Card
<b>CA</b>	Communications Authority of Kenya
<b>GSM</b>	Global Systems for Mobile Communications
<b>KP&amp;TC</b>	Kenya Posts and Telecommunications Corporation
<b>SIM</b>	Strategic Innovation Management
<b>SIMP</b>	Strategic Innovation Management Practices

## ABSTRACT

The world is changing swiftly and firms are striving to cope with these changes to remain relevant competitive and continuously meet evolving needs of the customers. Strategic innovation management practices (SIMP) is instrumental in shaping key decisions on innovation and performance of the firm. The objective of this study was to determine the influence of strategic innovation management practices on performance of Safaricom PLC in Kenya. This research was set out to determine the influence of SIMP on firm performance of Safaricom PLC in Kenya. A case study design was employed to enable the researcher to conduct an in-depth investigation of Safaricom PLC through establishing the influence of SIMP on firm performance. An interview guide was applied to collect primary data by interviewing five Heads of Departments: Finance, Customer Management, Operations Management, Marketing and Strategy and Innovation and data analysis was done using content analysis. It was concluded that allocation of funds, resources and facilities, adoption of an accommodative culture and recognition and reward including continuous training and development programmes were the most commonly utilized strategic innovation management practices by Safaricom PLC. This provided a conducive environment for Safaricom PLC to successfully implement strategic innovation management practices. Use of SIMP by Safaricom PLC formed strong bonds with the customers, developed a positive customer perception of their products and services, minimized customer complaints and added value to products and services offered. It would be important for Communication Authority of Kenya to regulate innovations by telecommunication firms to ensure consumer protection and to promote fair competition among telecommunication firms. Most of the target interviewees requested their assistants to get interviewed on their behalf however, this might impact negatively on the quality of the findings since these interviewees (Heads of Departments) are directly involved in making decisions and strategy setting and thus are more exposed and have the most accurate and reliable information unlike their deputies. The researcher was limited to scope because of constraints of time and resources that led to an investigation of only one telecommunication firm, Safaricom PLC. It would be more helpful for future researchers to consider doing similar research that will cover all telecommunication firms in Kenya so as to compare findings, and then more detailed and reliable findings can be drawn on the basis of facts.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

The environment in which firms operate is facing a dramatic change emanating from technology, competition and customer needs. To survive in this environment, organisations are adopting innovation as a strategy to achieve competitive edge advantage against their rivals (Strickland, Gamble and Jain, 2008). Firms adopt strategic innovation to offer solutions to problems that they face although many risks are involved. Mair and Christian (2012) note that adoption of strategic innovation enables a firm to provide value adding products and services that appeal to a wide range of customers. This increases sales and market share and contributes to overall firm performance.

This study was guided by three theories; Disruptive Innovation Theory (DIT), Knowledge-Based View (KBV) and Dynamic Capability Theory (DCT). DIT is based on the understanding that natural laws that utilize disruptive technologies to create new markets and product is critical in achieving success. KBV focuses on the economic aspects of the firm operations. Both intangible and tangible resources are essential firm assets that are used in achieving corporate goals (Nickerson & Zenger, 2004). DCT holds that the environment is uncertain. Therefore, organisations need adequate resources to build dynamic capabilities that will enable them to survive (Pisano & Elena, 2012).

Telecommunication industry in Kenya is facing immense competition from its rivals, changes in technology and environment uncertainty. This is forcing telecommunication firms to develop approaches to deal with this kind of competition.

Strategic innovation is considered to be an ideal tactic for organisations to deal with this problem. Safaricom PLC is one of the leading Telecommunication firms that offer converged communication services to customers. This company has a research and development department that carries out research on customer learning, products and services. This is aimed at understanding customer wants, improving value for products and services and enhancing customer satisfaction (Ongweni, 2015).

### **1.1.1 Strategic Innovation Management Practices**

SIM is defined as a set of innovation practices which entails analyzing competition mechanisms. It entails crafting business strategy, working towards that strategy to include all corporate levels, market tendencies, technologies and acts of competitors (Sanchez, Lago, Ferras & Ribera, 2011). Dankbaar (2013) posit that strategic management practices adopted by organisations include top management support, rewards and recognition, adequate resource allocation and adoption of a flexible organisational culture. The top management play a central role in influencing employees in implementation of strategic innovation management practices; they set targets and motivate the employees to work towards achieving those targets. Top management engage employees in key decisions by consulting them before making decisions and encouraging them to give feedback upon decisions made. Rewards and recognition are considered as critical components in the implementation of strategic innovation management practices (Frankelius, 2009).

An organisation can use rewards and recognition to motivate employees to work harder in achieving their targets. It develops a positive attitude towards change and impacts positively on the implementation of strategic innovation management practices.

Organisation should make adequate allocation of resources to support implementation of strategic innovation management practices. This will enable the organisation to engage in constant research and development so as to have an understanding of customer wants and thus tailor the products or services to meet those specific needs (Popova, 2012). With adequate funds, an organisation can remunerate its employees well and give them bonuses as a way of persuading them to actively participate in the implementation of strategic innovation management practices (Godin (2014) Organisational culture plays a significant role in influencing implementation of SIM practices. A supportive culture unites the employees and directs them to work towards achieving similar goals and objectives. The shared values, beliefs and principles play a unifying role in aligning the employees and resources towards implementation of change. Organisational cultures define employee behaviour and the manner in which they conduct themselves in the organisation (Sanchez et al., 2011).

### **1.1.2 Firm Performance**

There are broadly two aspects of measuring the performance of a firm: operational performance and business performance. Operational performance relates to organisational ability to produce and deliver products to customers (Green, Zelbst, Meacham & Bhadauria, 2012). Chadzoudes and Chadzoglou, (2011) point out some of the indicators as cost reduction, lower lead times, higher inventory turnover, customer satisfaction, and quality among others. This aspect of firm performance results into increased firm competitiveness. On the other hand, business performance relates to marketing and financial performance as compared to the industry average (Green, et al., 2012). Chatzoudes and Chatzoglou, (2011) list the marketing measures such as market share for new products and increase in sales volumes for new products for financial measures they consider return on investment and return on assets.

There are three kinds of performance measurement systems: performance prism, performance measurement matrix and the Balanced Score Card. Neely et al. (2001) pointed out that performance prism had adequate stakeholder orientation. This form of performance measurement system encourages decision makers to see all the stakeholder needs in the organisation. The second performance measurement is the matrix that was put forth by Keegan et al. (1991), which just like the prism. All the activities of this tool are ranked in a matrix form. The third measurement system was first described in the works of Kaplan and Norton (1992) that put forward the BSC to assess performance using 4 different perspectives: the financial, the internal business process, the customer, and the learning and growth.

BSC keeps score of different sets of items which maintain a balance in both short-run and long-run goals, and amid financial and non-financial measures. BSC can be applied to align the firm to strategies that lead towards achieving set goals and objectives. It identifies weaknesses and improves internal firm operations through developing innovation through use of IT. When correct

When the right measurement tools are identified, measurement is carried out, and this is assessed to monitor performance and ensure the organisation is in the right track. Weak areas are identified and corrective actions are taken. Both non-financial and financial measures are applied in performance evaluation even though most organisations do not embraced a balanced framework (financial and non-finance measures) (Hudson, Smart & Bourne, 2011).

### **1.1.3 Telecommunication Sector in Kenya**

The split of Kenya Posts and Telecommunication Corporation (KP&TC) took place in 1999; this gave an opportunity for reforms in this sector.

This was intended to allow competition and growth of the sector (Okuttah, 2016). In 1994-2004, the number of mobile subscribers increased tremendously in the country. In year 2006, usage of mobile phones increased 6 million people in a population of 37 million Kenyan used mobile phones. This has a detrimental effect on the use of landlines which were previously used. In 2009, costs of mobile services rose up to 27% of monthly income in Kenya (Dholakis & Kshetri, 2005). In 2012, the country attained a mobile penetration of 75.4% which was greater than the average in Africa, which was 65%. The rise and usage of mobile phones in Kenya's economy was felt even at the lower end whereby Kenyans living on less than \$ 2.5 USD per day, 60.5% used mobile phones (Arunga & Kahora, 2007) Kenya has 37.8 million active mobile phone users consisting of internet-cum-data market. This translates to a tune of 21.6 million users (Scott, Batchelor, Ridley & Jorgensen, 2007).

Telecommunication industry consists of 3 key players. This includes Safaricom Limited, Airtel Kenya and Orange. So far, Communications Authority of Kenya has licensed four mobile phone operators, they are Safaricom Limited, Airtel Kenya and Essar (Yu) ; whereby all of them are international operators) including internet service providers such as Wananchi and Jamii Telkom. This has taken place in duration of 15 years (Omae, Langat & Ndung'u, 2015). The emergence and use of mobile phones led to liberalization of the Telecommunications sector; whose two main players were Telkom Kenya (the former state-owned monopoly) and Safaricom Limited (Toili, 2010). Telecommunication industry adopts radical and incremental innovations. Incremental innovation is interspersed when necessary with radical and transformational change. An example is Safaricom Limited that have upgraded the speed of the internet to 4G which is much faster compared to 3G and the introduction of MPESA that has enabled money transfer using a mobile phone.

Although Telecommunication industry in Kenya operates in a competitive market, the firms have constantly recorded incredible growth in terms of increase in customer numbers and asset growth. Thus, for these firms to survive in the market they must devise innovative strategies to effectively cope with environmental dynamics and remain competitive (Letangule, 2016).

#### **1.1.4 Safaricom PLC in Kenya**

Safaricom Limited commenced its Global Systems for Mobile Communications (GSM) operations on 16<sup>th</sup> of May, 2002 when it was publicly listed. The company is partly owned by the government of Kenya (35 percent), Vodafone 40% and 25% which is in the hands of a multitude of independent investors. Safaricom is a leading provider of converged communication solutions that includes voice, video and data requirements (Omae et al., 2015).

According to Toili (2010), the company offers a broadband and high-speed data to its clients through 3G network. Other products and services include Mpesa and internet. Over time, Safaricom subscribers have increased from 856,000 in 2003 to an estimated 23 million in August 2015. The company's market share has increased from 56% in 2001 to 80% in 2015. The key factors that has led to this form of growth is innovation, a high coverage, quality network and a broader distribution channels including a competent management team and a robust brand.

Safaricom Limited's network is approximately 80% with over 550 dealers whom are exclusive to the firm and an additional 36,000 sub-dealers who only deal with Safaricom products. The company's capability to understand different needs of their customers and to offer products and service that cater for their market segments is instrumental in enhancing their sales and performance (Odeon & Aligula, 2006).



Safaricom has invested hugely in information communication technology to provide a platform for the company to participate in research and development that plays a critical role in innovation.

## **1.2 Research Problem**

Organisations operate in an environment that is complex and uncertain this necessitates the need to respond to environmental challenges so as to survive in the business environment (Grant, 2007). Organisation is adopting strategic innovation management practices to survive and remain competitive in the market. Godin (2014) avowed that the use strategic innovation management practices enables a firm to respond to customer needs efficiently by outdoing competitors. Such a firm is able to provide quality products and services at cheaper prices than its competitors (Salim & Sulaiman, 2011).

Due to severe competition in the Telecommunication industry in Kenya, firms have resulted into innovation as a strategy to distinguish themselves in the market by providing distinct services and products to cater for emerging customer wants. Firms are investing largely in technology and research and development to get accurate and reliable information concerning their customers and competitors. This information is useful in helping firms to tailor services and products to satisfy customer desires (Njagi, 2016).

Salim and Sulaiman (2011) examined the link between strategic innovation practices and firm performance of Malaysia and the results showed a positive association between strategic innovation and firm performance. Collins and Porras (2011) found that adoption of innovation practices (adequate resource allocation, technology and top management support) contributed to improved quality of products and services.

Muller, Valikangas and Merlyn (2013) tested the link between innovation and bank performance in the US. The results found that innovation led to improved bank performance. Burkus (2013) found that strategic innovation practices; culture, organisation structure and technology improved performance.

Maina (2016) establish a positive link between innovation strategies and firm performance of insurance firms. Njagi (2016) revealed that product innovation and financial performance of manufacturing firms. Production costs were significantly linked to financial performance. Ongweni (2015) showed that product innovation had a significant association with performance of commercial banks. Although researches (Maina, 2016; Njagi, 2015; Ongweni, 2015) have been done, a limited focus has been given to strategic innovation management practices and performance particularly, Safaricom Limited. For that reason, this research sought to find an answer to the question: what is the influence of strategic innovation management practices on performance of Safaricom PLC in Kenya?

### **1.3 Research Objective**

The objective of this study was to determine the influence of strategic innovation management practices on performance of Safaricom PLC in Kenya.

### **1.4 Value of the Study**

The telecommunications sector in Kenya will find this study valuable since they will learn strategic innovation management best practices to adopt to improve their level of performance. Safaricom Limited will understand how SIMP contributes towards improved performance including the challenges that face them in the implementation of SIMP and ways of dealing with these challenges.

Communications Authority of Kenya (CA) will set policies that encourage Telecommunication firms to embrace strategic management innovation practices to boost their performance and promote fair competition among industry players. This will enhance consumer protection by making sure that telecommunications firms engage in health competition as well as providing products and services that address evolving customer needs.

The study outcome will be worthwhile to researchers. It will add knowledge on the effectiveness of SIM and how it relates to performance. In addition, future academicians will understand the theories that support this research, their applicability and relevance in strategic management. The results of this study might be utilized for future investigation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter gives a detailed coverage of three sections that include the theoretical basis, strategic innovation management practices, the link between SIM practices and organisational performance and a summarized review of the literature and knowledge gaps. The significance of this chapter is that it will enable the reader to internalize the relevance and originality of the research problem and thus justify the adopted research methodology.

#### **2.2 Theoretical Foundation**

The theories discussed below include Disruptive Innovation Theory, Resource-Based Theory and Dynamic Capability Theory. The discussion entails a development of the theories by the proponents and critics, significance of the theories and some of the arguments that have been raised regarding the theories that predict the relationship between strategic innovation management practices and performance.

##### **2.2.1 Disruptive Innovation Theory**

The basis of this theory is that innovations change an existing market by enhancing accessibility, convenience, cost effectiveness and simplicity in a market where products and services are offered at a high price. Christensen (1997) argues that disruptive innovation is most appropriate in an unattractive market whereby the new products and services redefines the market later. Kostoff, Boylan and Simons (2004) posit that the most successful route that leads to success involves understanding the natural laws that use disruptive technologies in creating new markets and products. In addition, understanding how the dynamics of disruptive technologies grow and

whether managers can be able to respond effectively to take advantage of available opportunities. According to Christensen, Baumann, Ruggles and Sadtler (2006), at first firms target the lower end customers who are neglected in the market (lower level customers) by providing goods and services that they can afford in the market.

Baumann, Ruggles and Sadtler (2006), assumes that with disruptive innovation a customer is able to afford a product or access services that they could not afford previously due to lack of enough money. This might not be the case; there are factors that enable clients to afford products and services that were previously unaffordable to them for example government regulations, politics and competition in the market. Kostoff et al. (2004), the theory further assumes that firms that sustain innovation only targets the high-end customers in order to enhance their performance, this might not always be the case, the most innovative organisations in the world target all classes of customers. This way, they can widen the scope of their market segments, increases sales and boost performance.

### **2.2.2 Knowledge-Based View**

Resource-Based View focuses on the aspects of an organisation. The theory holds that both tangible and intangible resources of the firm are critical components of the organisation. This theory lays much emphasis on the significance of knowledge as a significance resource in strategic innovation. Nickerson & Zenger (2004) identified two major schools of thought in developing resource-based view. These schools of thought include modern school of thought and the classical. The classical school of thought holds that to realize competitiveness over rivals companies must develop core competencies through maximum utilization of available resources.

Impalpable resources are elements for example corporate image which are developed by establishing relationships between customers and the firm. A reputable organisation is trusted and respected by customers and investors. Consumers prefer such an organisation over its competitors because of their uniqueness in products and service offering. Firms that record a high number of innovations adopt modern technology. Such firms are able to produce quality products and services at a reduced cost, this leads to improved performance. Firms need to invest in technology, so as to run their operations efficiently at a reduced cost. Thus, the firm is able to save a lot of money which is allocated for research and development. This enables the firm to participate in customer learning, which involves understanding customer wants, widening the scope of the market segment and adding value to products and services. In so doing, the firm attracts new customers and retains existing ones which eventually results into increased sales and performance (Nickerson et al., 2004).

### **2.2.3 Dynamic Capability Theory**

This theory was put forward by Andrews (1971); he noted that the firm needs to develop capabilities to survive in the environment. Adoption of innovation is one of the strategies a firm can utilize to achieve dynamic capabilities over its rivals. Investing in innovation enables an organisation to explore new markets by providing access to products and services that were previously unavailable or underserved to customers. Innovating firms make use of advanced technology and new approaches to do things. This way, the firm can effectively utilize its resources to produce superior services and products that are of value to customers. Pisano and Elena (2012) contend that building dynamic capabilities calls for the organisation to invest adequate resources to conduct environmental analysis in order to familiarize to the environment.

At this point, the organisation can be able to understand customer needs while taking into account environmental changes. Then, the top management can decide on the kind of innovation to make based on the needs of the customer. A strategic innovation is meant to reach out to new markets, enhance value to products and services and satisfaction. Although firms have benefitted from strategic innovation, some firms view it as an unnecessary expense that might expose the firm to losses especially in cases where the firm invests in a wrong innovation. Others such as Porter (2008) have argued that most organisations that survive in the dynamic environment invest largely on innovation and thus, they have dynamic capabilities that enable to survive in the long-run.

### **2.3 Strategic Innovation Management Practices**

There are several strategic innovation management practices adopted by organisations to contribute towards successful innovation. However, this study will discuss the following strategic management practices considered as the most popular among organisations: top management support, rewards and recognition, adequate resource allocation and adoption of a flexible organisational culture.

#### **2.3.1 Top Management Support Practices**

To achieve success, the top management play a significant role in inspiring and motivating the employees to participate in the change process. They do this through leading employees in the implementation of change and encouraging them to take part in the change process. They must ensure that employees have an enabling environment to work towards realizing their set goal and targets (O'Regan, Ghobadian & Galleary, 2005).

Powel (2008) argues that top management commitment is a critical component towards adopting innovation. Top management must define the processes and procedures and set standards to realize customer requirement while minimizing operational cost. Thus, the management has to set measurable objectives that are realistic for each process. Goodstein and Burke (2002) argue that performance targets are essential components in driving change such as innovation since they boost objectivity and focus towards implementation of change. This promotes unity among top management and staff in working towards similar direction and having similar goals and objectives. Song and Montoya-Weiss (2011), posits that the executive management act as a role model by representing interest of stakeholders; they act as change agents by leading by example and acting as a guide to employees in execution of their tasks (Lendel & Varmus, 2011).

### **2.3.2 Rewards and Recognition Practices**

According to Miller, Droge and Toulouse (2008) rewards and recognition practices make a significant contribution towards implementation and adoption of strategic innovation. Employees are a strategic resource to any organisations since they make significant contribution in enabling an organisation to accomplish its goals and objectives (Lendel & Varmus, 2011). Rewards and recognition are meant to motivate the employees to effectively execute their roles and realize full potential. Sometimes top management might feel that the employees would be more productive if they are committed, while employees might feel overworked and undervalued. Rewards and recognition are accorded to employees who record exemplary performances especially in creativity and innovation. It is worth noting that staff get motivation by intrinsic and extrinsic rewards, thus an reward system that is effective appreciates these motivational sources.



In ensuring that the system of reward achieves the intended purpose and cultivates the desired behaviour, rewards must be linked to performance in order to encourage employees to work hard in the implementation of strategic innovation and enhance their level of creativity (Wu & Lin, 2011). Rewarding and recognizing creativity is critical in successful implementation of strategic innovation. This cultivates a culture of competition between employees in participating in strategic innovation and their commitment in its implementation (Pfeifer, Schmitt & Voigt, 2005).

### **2.3.3 Adequate Resource Allocation Practices**

Organisational resource allocation is a practice that is being embraced by most organisations to facilitate adoption of strategic innovation. In this case, organisational resource allocation involves allocating adequate finances to invest in advanced information communication technology and research and development (Cerulli, 2014). Use of advanced information technology enables organisations to effectively participate in research and development through easy access to customer information and the market. According to Sobanke, Ilori, and Adegbite (2012) research and development helps organisation to understand customer needs, this information is important in designing products and services that can address specific customer needs.

Terece, Pisano and Shuen (1997) insist that employees require constant training and development programmes to shape their ways of thinking and to boost their level of creativity.

Sobanke et al. (2012) insist that engaging employees in regular training programmes impacts positively on their level of creativity and self-reliance.

Cerulli (2014) contends that strategic innovation requires the top management to allocate adequate resources such as high-speed internet resources, quality computers, furnishers, well-organised offices, and stationers among others to create an enabling environment for employees to participate in strategic innovation.

#### **2.3.4 Adoption of a Flexible Organisational Culture**

Organisational culture plays a significant role in strategic innovation adoption. The manner in which people conduct themselves and the values enriched in the organisation plays a critical role in successful adoption of strategic innovation. Culture represents the shared values, beliefs and principles of organizational members. It is a product of other factors that include strategy, the type of employees and management style.

It also includes organizational vision, values, norms, symbols, systems, language, assumptions, beliefs and habits. A supportive culture unites and encourages employees to work towards set goals (Terziovski, 2010). An organisational culture plays a vital role in organising and aligning organisational activities and employees towards change implementation. Participative decision making is part of effective communication that is perceived as an essential tool in sharing information and facilitating decision making by the executive management. Culture plays a supportive role in cultivating norms and values that motivates and encourages employees to work in the same direction. Culture defines appropriate behaviour on how employees and the top management cooperate when implementing change. A supportive culture unites and encourages the employees to work towards similar goals (Spender, 2011).

## **2.4 The Relationship between Strategic Innovation Management Practices and Performance**

Frankelius (2009) investigated the link between strategic innovation practices and performance of service firms in Asia. A descriptive survey was utilized and primary data was gathered using questionnaires and the study concluded that many innovations were aimed at enhancing customer value for goods and services. The use of modern technologies has improved the speed of business processes and procedures. This has minimized the cost of production and hence improved performance. Rosenberg (2004) did an investigation on the link between strategic innovation management practices and performance of state banks in U.S. The study employed a cross-sectional research design of 65 banks, both primary and secondary sources of data were used and analysis was done using descriptive statistics and regression analysis and the findings showed that some customers would be more comfortable to pay higher premiums for high-quality goods, services, and efficient services. On the other-hand, some customers might find this too expensive for them to afford and might opt for fewer quality goods and services.

Kemoli (2012) explored innovation management practices and performance of textile management practices and performance of textile manufacturing firms in Turkey. An explanatory design was employed in a sample of 25 manufacturing firms. Both primary and secondary sources of data were used and analysis was done using descriptive statistics and correlation analysis. The results discovered a strong and positive correlation among the combined impact of strategic innovation indicators and performance indicators.

Lilly and Juma (2014) examine the effectiveness of strategic innovation on bank performance in Thailand; a descriptive research design was used in a sample of 30 banks. Data analysis was done using descriptive statistics and correlation analysis and the results showed that strategic innovation measures implemented by banks greatly influenced bank's performance. A positive link was found to exist between aspects of costs management of strategic innovation, continuous quality improvement, innovative measures and performance. Kalay and Lynn, (2015) evaluated the effectiveness of strategic management innovation on performance of services firms in Asia, the study used a descriptive survey and both primary and secondary sources of data were used. Analysis was done using descriptive statistics and findings showed that innovation strategy, structure of the organisation, innovation culture improved innovation performance.

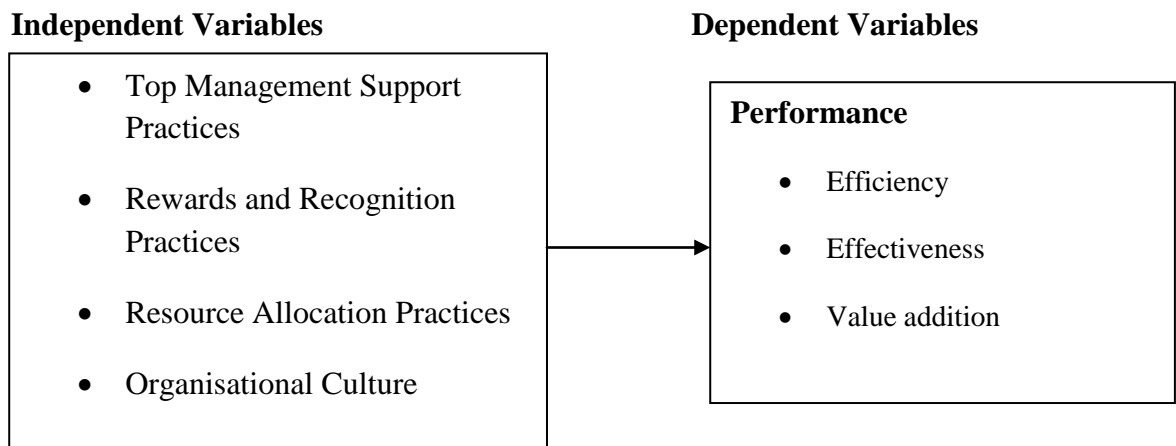
A study was conducted in Europe by Karlsson and Tavassoli, (2015) on the impact strategic innovation practices on performance of telecommunications firms; a correlational research design was utilized in a sample of 15 telecommunication firms. Data was collected using questionnaires and secondary sources of data were derived from the company repository. Analysis was done using descriptive statistics and content analysis, the study found a positive contribution towards firm performance. Osuga, (2016) found a positive link between strategic innovation and performance. New product innovations improved performance.

## **2.5 Summary of the Literature Gaps**

It can be deduced that strategic innovation management practices contributes to performance in terms of efficiency, reduction of cost and value addition. Studies have demonstrated that most firms that succeed in innovation; get adequate support from top management, give rewards and recognition to the employees, allocate adequate resources for innovation and a flexible culture to support innovation. However, failure to embrace one or more of these practices has shown a negative impact on success of innovation and firm performance (Burkus, 2013; Mair & Seelos, 2012; Frankelius, 2009; Pisano & Teece, 2011). Studies that have been done in Europe, Asia and U.S have showed existence of a strong association between strategic innovation practices and firm performance. On the other hand, local studies have revealed that most firms fail to successfully innovate due to several factors such as lack of resources, lack of top management support and rigid organisational culture. These studies (Njagi, 2015; Ongweni, 2015; Maina, 2016) have largely focused on innovation strategies and product innovation and their effect on firm performance, and completely ignored strategic innovation management practices. Secondly, these studies have limited their focus on commercial banks, insurance companies and manufacturing firms and disregarded telecommunication firms in Kenya.

## 2.6 Conceptual Framework

The conceptual framework showed the relationship between strategic innovation management practices (independent variables) and firm performance (dependent variable) as shown below.



**Table 2.1: Summary of Empirical Studies on Strategic Innovation Management Practice and Performance**

<b>Author(s)</b>	<b>Research topic</b>	<b>Major findings</b>	<b>Research gaps</b>
<b>Salim and Sulaiman (2011)</b>	The impact of strategic innovation on performance of Malaysian-Based ICT firms	The results showed a positive association between strategic innovation and firm performance	The research was carried out in a global setting which is different from our local set up and ways of doing things
<b>Kemoli (2012)</b>	Strategic innovation and performance of commercial banks listed in the Nairobi securities exchange	The study revealed that there was a strong positive relationship between the combined effect of the strategic innovation indicators and all performance measures	The study constrained itself to listed firms
<b>Lully and Juma (2014)</b>	Influence of strategic innovation on performance of commercial banks in Kenya: The case of Kenya commercial bank Nairobi	It was revealed that SI measures utilized by banks greatly influenced banks performance. A positive association was found to exist amid cost management aspects of SI continuous quality improvement and performance innovation.	The study restricted itself to commercial banks
<b>Keley and Lynn (2015)</b>	The impact of strategic innovation management practices on firm innovation performance in the manufacturing industry in the RTB2 zone of Turkey	The analysis showed that innovation strategy, organizational structure and innovation culture improved firm innovation performance	The research study was executed in a global environment whose ways of doing things are different from the local setting
<b>Karlsson and Tavassoli (2015)</b>	Innovation strategies and firm performance	Innovation was found to have a positive contribution towards firm performance.	The study was conducted in a global set-up which is different from our local setting and way of doing things
<b>Osuga (2016)</b>	The effects of strategic innovation on the performance of SMES in Nairobi county	The findings showed a positive link between strategic innovation and performance. New product innovations improved performance of the SMEs	The study limited itself to SMEs

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter discusses the research methodology that was adopted to address the research question. Research methodology can be described as a process used to collect data and information for purposes of making business decisions. The sections that have been discussed include the research design, how data will be collected, and data collection tools and procedures and data analysis.

#### **3.2 Research Design**

This study adopted a case study research design. Creswell (2009) contends that a case study research design is an in-depth assessment of an organisation. This form of research design aimed at establishing existing relationships between variables that lead to the behaviour in question. This design is suitable when a study is focusing on one organisation since the researcher can analyse information in a systematic manner to reach at a logical conclusion.

A case study is bounded in a discrete way by examining a set of organisations, departments or individuals. It provides data that is collated by a variety of means including but not limited to interviews, observations, audio and video data and document collection. The choice of Safaricom Limited was because it consisted of a research and development department that engaged in market research and competitor analysis. It invests largely in innovation and technology being the market leader in Telecommunication sector in Kenya. Also, the stiff competition present in the telecommunication industry requires the market players to innovate in order to survive.



### **3.3 Data Collection**

The study used primary data that was collected using an interview guide. An interview guide is a data collection tool that allows an interviewee to respond to open-ended kind of questions. One-on-one interviews were conducted with the Heads of Departments at Safaricom Limited. These included the Head of Strategy and Innovation, Head of Finance, Head of Customer Management, Head of Operations Management and The Head of Marketing.

The choice of this category of interviewees was because they were directly involved in formulating SIMP and implementing these practices and hence had a deeper understanding of how they improved organisational performance. The interview guides consisted of three parts that included: Section A covered questions on the demographic information about the interviewees and the company. Section B covered questions on strategic innovation management practices adopted by Safaricom Limited and Section C covered questions on strategic innovation management practices and performance. Prior arrangements were made through appointments with the supervisor to ensure that the interviewees availed themselves for the interviews and ensured there was ample time for the interviews.

### **3.4 Data Analysis**

Content analysis was utilized for data analysis. Stake (1995) defines content analysis as an approach that is used to replicate and make references by interpreting and coding textual data. By assessing texts such as thoughts and graphics systematically, quantitative data was easily converted into qualitative form. The advantage of using content analysis is that it allowed social interaction by reviewing communications

made through text transcripts and thus allowed qualitative operations. This form of analysis gave cultural insights through text analysis over a given period of time.

The main limitation for this approach is that it is descriptive in nature since it explained the current situation and conditions but it was not able to establish the underlying motive of some of the patterns observed. This form of approach applied a simple way to analyse interactions and provide insights into complex models of human thoughts and use of language. With the help of content analysis, the researcher was able to detect the presence of some words or concepts within texts of a set of texts. This was also used to determine the emotional state of a group of people or individuals and to describe their attitudes and the way in which interviewees responded to various forms of communication (Creswell, 1994).

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

The chapter gives a summary of findings that have been achieved using content analysis. The underlying objective of this study was to determine the influence of strategic innovation management practices on performance of Safaricom Limited in Kenya. The sections that have been discussed in this chapter include background information on SIMP used by Safaricom PLC and how these practices influence on firm performance.

#### **4.2 Demographic Information**

The interviewees were requested to indicate their management position, it was established that two of the interviewees were assistant managers in Marketing and Strategy and Innovation. Three of the interviewees were Operation manager, Finance managers and Customer Management manager. Choice of this category of interviewees was because were directly involved in implementation of strategic management practices.

With regard to the highest level of education that the interviewees had achieved, it was discovered that three of the interviewees' were holders of first degree while the other two were masters' graduate. This was an indication that the interviewees were in a better position to understand the questions and provide accurate and reliable responses.

The interviewees were requested to indicate the duration which they had served in Safaricom PLC. One of the managers had worked for 16 years, the three managers were in their 13th year and the other two were clocking their 12th and 11th years. The remaining one had worked in Safaricom PLC for 15 years. These implied that the interviewees garnered a relevant experience on implementation of SIMP and thus had acquired a deeper understanding of how SIMP enhanced firm performance.

The interviewees were asked to indicate the period that they had served in their present capacity, two of the interviewees were in their 8th year, the other three were in their 7th year and the last one was in the 6th year. Thus, interviewees were presumed to have a deeper understanding of SIMP practices and firm performance.

#### **4.3 Strategic Innovation Management Practices adopted by Safaricom PLC**

Regarding the most popular strategic innovation management practices used by Safaricom PLC, the interviewees unanimously agreed that huge allocation of funds, rewards and recognition and adoption of a flexible culture was the most commonly utilized SIMP. Interviewees further indicate that Safaricom Limited allocated a huge budget for innovation and research and development to facilitate innovation of new products and development of existing ones. The interviewees agreed that these efforts were put in place to ensure that Safaricom PLC offered products and services that met evolving customer needs. These findings are consistent to the views of Kalay and Lynn, (2015), who found that allocation of funds; organisational culture and rewards were popularly, used SIMP practices by Asian service firms.

Regarding the best SIMP utilized by Safaricom PLC, the interviewees concurred that the best strategic leadership practices employed by Safaricom Limited was huge allocation of funds for innovations, organisational culture and rewards and recognition. Interviewees agreed that innovation was an integral part of their strategic goals in maintaining competitive advantage and sustaining growth. All the interviewees agreed that innovation was part of the company's short-term development goals (2017), the company integrated its efforts with towards developing product and services that are innovative while targeting to satisfy specific customer needs. Safaricom PLC seeks to partner with its employees, some business units and stakeholders in ensuring that the innovations are in line with set goals and objectives.

The interviewees further came to a consensus that Safaricom PLC fostered a culture that value and rewards innovation. For example Safaricom PLC transformed lives through social innovation and social innovation initiatives. The interviewees pointed out that Safaricom PLC was committed to social innovation initiatives which were aimed at empowering and uplifting people and communities through sustainable and value-adding commercial products and services.

Interviewees further concurred that Safaricom PLC recognized and rewarded innovators and entrepreneurs. For example Safaricom PLC gave an award to 6 early-stage mobile technology firms with a cash prize of KES.3.7 during Safaricom AllwizDevelopers' Challenge in 2013.

When asked about the least strategic innovation management practice adopted by Safaricom PLC, the interviewees pointed out that even if funds were allocated, rewards and recognition offered as well as top management support without cultivating a culture of innovation among employees and other stakeholders, it is difficult to achieve success in innovation. This is because, as agreed by all the interviewees; organisational culture defines company policies, management style and corporate goals. Other essential ingredients of culture that influence innovation include attitude, rules, norms, values and codes of ethics. This is an indication that organisational culture was the basis of innovation and the success of other SIMP greatly relied on the culture inculcated in the organisation.

On whether modern technology was utilized to improve strategic innovation management practices by Safaricom PLC, the interviewees concurred that Effective use of technology has enabled Safaricom PLC to realize their strategic goals, maintain competitive advantage and ensure growth of the company. The interviewees further agreed that utilisation of technology enabled the company to innovate products and services that addressed evolving customers' needs resulting into increased revenues and growth of market share.

When asked about customer response mechanisms utilized by Safaricom PLC to boost customer satisfaction, the interviewees agreed that the mechanism used by Safaricom PLC to enhance customer satisfaction was continuous innovation of products and services for example the company recently launched a dynamic voice biometrics system that allows customers to easily access services efficiently through a less intrusive vetting procedures.

Through 'Jitambulisho' customers can utilize their voices to authenticate before getting access to services like re-setting MPESA PIN and PUK requests, this eliminates the steps that customers follow before they get assistance. Usage of a unique voiceprint to enrol customers' helps to minimize fraud and theft of identify. This also ensured security and safety of customers and enjoying the company products and services.

On whether use of strategic innovation management practices had improved customer database, the interviewees agreed that through innovation of numerous products and services by Safaricom PLC, the company had improved on its database by gathering customer information on usage of products and services, buying patterns, trends and behaviours, number of customer complaints registered. This helped the company to forecast and make budgetary allocation. All the interviewees unanimously agreed that prior to the introduction of a product or service in Safaricom PLC, the company examined its database to establish the pressing needs of the customers, customer preferences and tastes as well as buying behaviours this was essential in decision making.

#### **4.4 Strategic Innovation Management Practices and Performance of Safaricom PLC**

The interviewees were asked to explain how the adoption of strategic of strategic innovation practices by Safaricom PLC improved their relationship with customers; the interviewees were in agreement that use of SIMP enhances the company's relationship and interactions with their customers. Thus, this has enabled Safaricom PLC to establish and maintain sustainable relationships with its customers.

It has also shaped management efforts in managing business interactions with customers through modelling business processes to satisfy stakeholders' needs. These findings abide by the views of Rosenberg (2004) who established the strategic innovation played an instrumental role in building the relationship between the organisation and the customers. Stronger bonds between the organisation and the customers ensured that stakeholders' interests were well represented.

On whether use of SIMP by Safaricom PLC changed the perception of customers on the company's products and services, the interviewees averred that SIMP influenced customers' behaviours, trust and commitment about the products and services offered and quality of the brand. These results are in line with a study by Kemoli (2012), who found that innovation management contributed positively in shaping customer's perception on the products and services offered. Adoption of innovation practices enhanced customers' trust and confidence that the organisation was conscious about their evolving needs and this influenced their perception on the quality of products and services offered by the organisation.

The interviewees were asked to explain whether use of SIMP minimized customer complaints, the interviewees were in consensus that SIMP enabled the company to handle customer complaints and queries efficiently. The interviewees observed that Safaricom PLC used phone calls, short messages, social media platforms; Facebook and Twitter as well as online chats to resolve customer complaints. Three of the interviewees reported that the company via its customer care department identified, and gave priority on all matters touching on the customers by making follow-ups on customer queries, documentation of customer interaction based on standard operating procedures as well as complying with the set out standards and guidelines.



Two of the remaining interviewees pinpointed that customer care personnel demonstrated empathy, established a rapport and trust with customers. This was realized by answering questions and enquiries, handling customer complaints and solving problems.

When asked whether the adoption of SIMP improved value addition for products and services, all the interviewees agreed that use of SIMP enabled the company to practice differentiation of products and services. The company tailors its products and services to match the needs of different classes of customers based on their specific needs. Safaricom PLC transfers its economies of scale to customers by offering quality products and services at competitive rates. As such, Safaricom PLC is able to reach out to all classes of customers since all can enjoy these products and services. Safaricom PLC embraces cost leadership for instance; the company introduced a product that costs KES. 5 for 20 SMS, KES. 20 for 500 SMS and KES.10 for 200 SMS. The company has recently introduced 4G network which is so far the fastest and the strongest network. This way, the company is able to maintain its competitiveness against its rivals. These findings are consistent to Maina (2016) who found strategic innovation was positively related to value addition.

The interviewees agreed that greatest achievements realized through use of innovation management practices included growth of subscribers from 29.4 million to 29.5 million. Being the leading telecommunication firm in Kenya, it commands a market share of 69.1% and this is largely attributed to use of SIMP. These findings are consistent Maina (2016), who attributed Safaricom PLC market share on use of innovation strategies.

## **4.5 Discussion of Findings**

### **4.5.1 Strategic Innovation Management Practices adopted by Safaricom Limited**

Regarding the most popular SIMP adopted by Safaricom Limited, interviewees concurred that the most commonly used SIMP comprised of recognition, rewards, huge allocation of funds, and adopting a culture which is flexible. Furthermore, the interviewees claimed that these efforts were introduced with a purpose of ensuring that the company offered products and services that catered for the evolving clients' needs. These findings are in line with those of the previous researchers Kalay and Lynn (2015), who revealed that Asian service firms were popular in relying on funds allocation, rewards, and organizational culture as SIMP practices.

The interviewees were in agreement that the best SIMP utilized by Safaricom Limited was reward and recognition, organization culture, and allocating funds for innovations. There was a general agreement among the interviewees that a critical aspect of the firm's strategic goals is to maintain a competitive advantage as well as sustainable growth. To the interviewees Safaricom Limited focuses on partnering with some units, its employees, and other stakeholders to ensure that the innovations adhere to the set goals and objectives. In view of this, Kemoli (2012) found that rewards, organisational culture and finances were the most effective strategic innovation practices.

There was a consensus among the interviewees that Safaricom Limited fostered a culture that values and rewards innovation. For instance, the company transforms lives through social innovation initiatives. Evidence on Safaricom Limited support on innovative practices is well explained through the following example: Safaricom AllwizDevelopers Challenge in 2013; the company gave cash prize of KES 3.7 million.

All the interviewees unanimously claimed that effective use of technology greatly helped Safaricom Limited to realize its strategic goals, achieve growth and maintain a competitive edge. Interviewees further pointed out that use of technology led to successful innovation of products and services to meet evolving customer needs and thus leading to market growth and increase in sales revenues.

Regarding the mechanisms for customer response used by Safaricom PLC, the interviewees noted that the company used innovation to achieve and sustain customer satisfaction. A notable example as pointed out by the interviewees was “Jitabulishe,” it created a platform that enabled customers to use their voices to authenticate prior to accessing services like MPESA PIN as well as PUK requests.

Through a consensus, the interviewees highlighted that use of SIMP improved Safaricom PLC’s customer database. This is achieved through gathering customer information relating to their purchasing patterns, use of provided products and services, and the number of registered customer complaints.

#### **4.5.2 Strategic Innovation Management Practices and Performance of Safaricom PLC**

The interviewees indicated that use of SIMP improved the firm's relationship and interaction with the customers. As a result, this helped the company to establish and maintain sustainable relationships with its clients leading to increased sales. These results are consistent to Keley and Lynn (2015), who found that innovation management practices improved customer interaction with the firm.

The interviewees highlighted that use of SIMP by Safaricom PLC influenced the perception of the customers about the firm's products and services, the interviewees highlighted that customer perception influenced behaviours, trust and commitment by the customers.

Regarding whether SIMP helped in minimizing clients complaints, there was consensus among the participants that SIMP helped Safaricom PLC to handle customer complaints together with queries in an efficient manner. They pointed to the use of short messages, phone calls, and social media platforms in resolving customer complaints. These views are supported by the observations by Karlsson and Tavassoli (2015), who argued that service firms utilized innovation practices to deal with complaints from customers.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter gives a summary of major study findings which have been discussed in line with the research objective which is to determine the influence of SIM practices on performance of Safaricom PLC in Kenya. Other sections covered include conclusion and recommendations and an online of limitations and areas for further investigation.

#### **5.2 Summary of Findings**

Regarding the most popular strategic innovation management practices used by Safaricom PLC, the interviewees unanimously agreed that huge allocation of funds, rewards and recognition and adoption of a flexible culture was the most commonly utilized SIMP. Interviewees further indicate that Safaricom Limited allocated a huge budget for innovation and research and development to facilitate innovation of new products and development of existing ones. The interviewees agreed that these efforts were aimed at ensuring that the company was able to address evolving customer needs.

The findings showed that the interviewees agreed that reward, organization culture, allocation of funds for innovation, and reward and recognition were the best SIMP used by Safaricom PLC. Maintaining a competitive edge and ensuring sustainability was regarded by all the interviewees as the most important aspect of the company's strategic goals.

Interviewees reported that Safaricom PLC inculcated a culture that valued and rewarded innovation. Four of the interviewees pointed out that the company was involved in social innovation initiatives meant to transform lives of the less fortunate in the society. Regarding the least adopted SIMP by Safaricom PLC; all the interviewees claimed it was cultivation of an innovation culture. The interviewees claimed that organization culture plays a critical role in determining the overall success and management of an organization.

The interviewees came to an agreement that effective use of technology played an integral role in driving Safaricom PLC to achieve a competitive advantage, growth and realize set goals. As pointed out by the interviewees, use of technology a key ingredient in innovation. Further, the company put in place response mechanisms to boost response mechanisms and efficiency among its customers.

The findings as indicated by interviewees established that Safaricom PLC recorded an increase in customer database. Use of SIMP resulted into innovation of products that required customers to give their personal information and track spending patterns and customer behaviours. This aided the company to collect huge amounts of data that was later used for forecasting, strategy formulation and decision making.

On the influence of SIMP on firm performance, the findings showed that Safaricom PLC was able to establish and build strong bonds with its customers: by providing products and service that add value and satisfying unmet needs of the customers. With the help of SIMP, Safaricom PLC was able to change the perception of the customer about their products and services by building trust and confidence. Use of SIMP helped to minimize customer complaints to maintain and sustain customer satisfaction.

Interviewees universally agreed that SIMP played an instrumental role in overall management of customer complaints and queries; they contended that customer complaints were resolved through use of phone calls, text messages and social media platforms.

### **5.3 Conclusion**

The study concluded that SIMP commonly used by Safaricom PLC included huge allocation of funds and resources, adoption of a flexible organisational culture, rewards and recognition and sponsoring employees to a continuous training and development programs. This created an enabling environment for Safaricom PLC to practice and embrace innovation. The company invested in modern technologies and research and development. Effective use of technology enabled Safaricom PLC to produce superior products and services that met specific customer needs and develop a customer database.

The study further concluded that use of SIMP improved the company's relationship with its customers. Provision of quality products and services at competitive rates shaped customer's perception on the products and services offered. It also contributed positively towards in minimizing customer complaints and increased value addition for products and services offered.

## **5.4 Recommendations**

Safaricom PLC should sponsor their employees to a continuous training and development program so as to develop skills and knowledge on SIMP. This will boost employees understanding of SIMP and its impact on firm performance. Top management should offer adequate support in form of resources and policies. And provide an environment that is conducive for employees to participate in the implementation of SIMP.

Finally, CA should set policies that create an environment where telecommunication firms can practice and uphold ethics in their business dealings. This will promote healthy competition among telecommunication firms and boost overall firm performance.

## **5.5 Limitations for the Study**

The researcher has no control over data collection. Few respondents failed to complete filling up the questionnaires and few others completely declined to fill in the questionnaires citing busy work schedules as the main reason.

This study was limited to a case study design; a descriptive research design could have enabled the researcher to conduct a factor analysis and establish the main strategic innovation management practices used by Safaricom PLC. This would have been useful in determining the strategies that are not effectively utilized and those that are not effective in driving firm performance. Moreover, a descriptive research design could have enabled the researcher to test the link between variables using inferential statistics: example regression analysis or correlation analysis.



This research was limited to open-ended questions only. A combination of open and closed questions could have enabled the researcher to get more detailed information for more reliable findings. This may have improved the quality of the findings realized under this study.

## **5.6 Suggested Areas for Further Research**

Researchers should do a replica of this study involving all telecommunication firms in Kenya. Thus, the researcher can compare and establish some of the best strategic innovation management practices used by telecommunication firms. This will give a detailed review regarding the nature of the relationship established in a study.

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## **APPENDIX: INTERVIEW GUIDE**

### **Goal of the Interview process**

The objective of this study is to determine the influence of strategic innovation management practices on performance of Safaricom Limited in Kenya.

### **Section A. Background Information**

- i. Which department do you belong to?
- ii. What is the highest level of education you have achieved?
- iii. How long have you worked for this organization?
- iv. How long have you worked in your current position?

### **Section B. Strategic Innovation Management Practices adopted by Safaricom Limited.**

- i. In your view, what are some of the most popular strategic innovation management practices adopted by your company?
- ii. In your view what is the best strategic innovation management practice implemented by your company?
- iii. In your view which is the least strategic innovation management practice adopted by your company? Please explain in details.

- iv. Please explain how modern technology has been utilized to enhance strategic innovation management practices by your company?
- v. What are some of the customer response mechanisms used by your company to enhance customer satisfaction?
- vi. In your view explain whether the use of strategic innovation management practices has improved customer database in your company?

**Section C. Strategic Innovation Management Practices and performance of Safaricom Limited.**

- i. In your view how have the adoption of strategic innovation management practices improved your relationship with customers?
- ii. Please tell me how the adoption of strategic innovation management practices changed customers' perception about your services and products?
- iii. Please tell me whether the adoption of strategic innovation management practices has minimized customer complains?
- iv. In your view, has the adoption of strategic innovation management practices improved value for products and services offering?
- vii. In your view, what are some of the greatest achievements that the adoption of strategic innovation management practices have made to your company?